FRANCE TELECOM
EUR 30,000,000,000
Euro Medium Term Note Programme

On 19 December, 2002 France Telecom, a French *société anonyme* (the "Issuer"), entered into a EUR 30,000,000,000 Euro Medium Term Note Programme (the "Programme") and issued an offering circular on that date describing the Programme. This Base Prospectus supersedes all previous offering circulars prepared in connection with the Programme. Any Notes (as defined below) issued under the Programme on or after the date of this Base Prospectus are issued subject to the provisions described herein. This does not affect any Notes already in issue.

Under the Programme, the Issuer may from time to time issue notes in bearer form (the "Notes") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed EUR 30,000,000,000 (or its equivalent in other currencies calculated as described herein). A description of the restrictions applicable at the date of this Base Prospectus relating to the maturity of certain Notes is set out under "*Summary of the Programme*".

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme*" and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a "Dealer" and together the "Dealers"). References in this Base Prospectus to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An Investment in Notes issued under the Programme involves certain risks. For a discussion of these see "Risk Factors" on page 14 herein.

Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme described in this Base Prospectus during the period of 12 months from the date hereof to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to list Notes on the Luxembourg Stock Exchange. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a final terms (the "Final Terms") which, with respect to Notes to be listed on the Luxembourg Stock Exchange, will be filed with the *Commission de Surveillance du Secteur Financier* (the "CSSF").

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or market(s) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "Securities Act") and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. Persons (see "*Subscription and Sale*" below).

The Notes of each Tranche will initially be represented by a temporary global Note which will be deposited on the issue date thereof with a common depositary on behalf of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg") and/or any other agreed clearance system and which will be exchangeable, as specified in the applicable Final Terms, for either a permanent global Note or Notes in definitive form, in each case upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations. The applicable Final Terms will specify that a permanent global Note either (i) is exchangeable (in whole but not in part) for definitive Notes upon request on not less than 60 days' notice or (ii) is only exchangeable (in whole but not in part) for definitive Notes, following the occurrence of an Exchange Event (as defined in "*Form of the Notes*"), all as further described in "*Form of the Notes*" below.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed on the Luxembourg Stock Exchange) a supplemental Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Arrangers

BNP PARIBAS
Merrill Lynch Capital Markets (France) SAS

Dealers

ABN AMRO
BNP PARIBAS
Citigroup
Deutsche Bank
Goldman Sachs International
HSBC CCF
JPMorgan
Merrill Lynch International
Nomura International
SG Corporate & Investment Banking

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "Prospectus Directive").

This Base Prospectus does not constitute a "prospectus" for the purposes of the Prospectus Directive in respect of any Notes (i) involving an offer to the public outside the EEA (if so specified in the applicable Final Terms) or of a type listed in Article 3.2 of the Prospectus Directive and (ii) which are not admitted to trading on a regulated market under Article 3.3 of the Prospectus Directive (any such Notes, Exempt Notes).

The Issuer (the ***Responsible Person***) accepts responsibility for the information contained in this Base Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Copies of Final Terms will be available free of charge from the head office of the Issuer and the specified office of each of the Paying Agents (as defined below), in each case at the address given at the end of this Base Prospectus.

This Base Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see "*Documents Incorporated by Reference*" below). This Base Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Base Prospectus.

The Arrangers and Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arrangers or the Dealers as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Issuer in connection with the Programme or the Notes or their distribution. The statements made in this paragraph are made without prejudice to the responsibility of the Issuer under the Programme. No Arranger or Dealer accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any information provided by the Issuer in connection with the Programme.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by the Issuer or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Base Prospectus when deciding whether or not to purchase any Notes.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or the solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this document may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which would permit a public offering of any Notes outside the European Economic Area or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations and the Dealers have represented that all offers and sales by them will be made on the same terms. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom and France) and Japan (see "*Subscription and Sale*" below).

All references in this document to "USD", "U.S. dollars", "U.S.$", "$" and "U.S. cent" refer to the currency of the United States of America, those to "Japanese Yen" and "Yen" refer to the currency of Japan, those to "Sterling" and "£" refer to the currency of the United Kingdom, those to "Swiss francs" refer to the currency of Switzerland, those to "€", "euro" and "EUR" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

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In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s) in the applicable Final Terms may over-allot Notes (provided that, in the case of any Tranche of Notes to be admitted to trading on a regulated market in the European Economic Area, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes.

SUMMARY OF THE ISSUER

This summary must be read as an introduction to this Base Prospectus and any decision to invest in any Notes should be based on a consideration of this Base Prospectus as a whole, including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area no civil liability will attach to the Responsible Persons in any such Member State in respect of this Summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Base Prospectus. Where a claim relating to information contained in this Base Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Base Prospectus before the legal proceedings are initiated.

Words and expressions defined in the "*Form of Notes*" and "*Terms and Conditions of the Notes*" shall have the same meanings in this summary.

History and development of the Issuer:

Presentation of the company

The purpose of France Telecom, with its principal subsidiaries, is to offer its consumers, business customers and other telecommunications operators, a broad selection of services ranging from fixed line and wireless telephony, data transmission, internet and multimedia services and other value-added services.

France Telecom pursues a strategy of integrated operator, which has been demonstrated notably by the acquisition of minority interests in Orange, Wanadoo and Equant, the integration of Wanadoo within France Telecom S.A., the implementation of a new organization for the Group and the introduction of new services.

In addition, there was a significant change in the France Telecom shareholder base on 7 September, 2004 and 7 June, 2005, when the French State sold respectively 10.85 per cent. and 6.2 per cent. of its France Telecom stock held directly or indirectly. Following these transactions, the French State held directly or indirectly 34.90 per cent. of the capital stock of France Telecom.

Business sectors

Since 1 January, 2005, France Telecom has changed the segmentation of its business sectors as described below:

- the Personal Communication Services segment ("Personal") is responsible for the development of all wireless telephone activities in France, the United Kingdom, Poland and the rest of the world;

- the Residential Communications Services segment ("Home") is now responsible for all residential communications services (fixed-line telephony, Internet services, operator services) and the revenues from the distribution and support functions provided by other branches of the Group;

- the Business segment is responsible for the development and sale of communications services to businesses throughout the world; and

- the Directories segment consolidates the activities of the subsidiary of Groupe Pages Jaunes.

Recent Developments: ***Preliminary results at 30 June, 2005***

On 28 July, 2005, France Telecom presented its estimated earnings for the first six months of 2005. These were produced in accordance with the usual process of compiling the six-monthly consolidated France Telecom Group accounts. The accounts have been prepared in accordance with the same principles used for the production of the adjusted consolidated IFRS accounts for the fiscal year 2004. This information remains unchanged as at the date of this document.

The key figures are provided below.

In billions of euros	***At 30 June,***		***Change (%)***	***At 31 December,***
	2005	***2004*** (historical)	***2005/2004*** (historical)	***2004*** (historical)
Revenue	23.7	22.7	4.5%	46.2
Gross operating margin	9.3	8.8	6.2%	17.9
Operating income	6.5	4.3	49.9%	9.3
Net income (Group share)	3.4	1.0	223%	3.0
Tangible and intangible capital expenditures (CAPEX) (1)	2.7	2.1	31.1%	5.1
Organic cash flow*(2)	2.9	3.3	(10.7%)	7.6
Net financial debt (in billions of euros)	46.3			49.8
Net debt/gross operation margin	2.50**(3)			2.78

(1) Tangible and intangible investments excluding GSM and UMTS licenses and excluding investments financed under leasing agreements.
*(2) Cash flow excluding sales of interests, acquisition of the minority stakes in Wanadoo, Orange, Equant and Orange Romania and the repayment of Equant CVRs.
**(3) Net debt end of period / (Gross operating margin for the 2nd half of 2004 + and Gross operating margin for the first half of 2005)

Acquisition of Amena

On 27 July, 2005, France Telecom announced that its subsidiary Orange S.A. had signed an agreement to purchase 80 per cent. of the shares of Auna S.A ("Auna"), which holds the wireless operator with the commercial name of Amena, for the amount of €6.4 billion. This transaction will be finalized after the separation of the cable activities of Auna (Auna Tlc). Following these transactions, the Group will hold 75 to 80 per cent. of the new entity.

€3 million of this acquisition will be financed by a capital increase and this transaction is in full compliance with the criteria for the utilization of cash flows defined in the NexT plan. It should have a positive impact on the "free cash flow" per share and net earnings per share before amortization of goodwill after 12 months.

Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfill its obligations with respect to Notes issued under the Programme. These are set out under "*Risk Factors*" below and include:

- risks related to France Telecom (debt level, the success of the strategic programs, the success of the integrated operator model, the successful integration of the companies acquired, the risks of the subsidiaries or joint ventures with other partners, the investments required to supply new services, the vulnerability of its infrastructure, investigations and litigation);

- risks related to the telecommunications sector (the transformation of the sector, strong competition, declining profitability of certain activities, deregulation, allegations of health risks); and

- risks related to the financial markets (fluctuations in exchange rates, changes in interest rates, the volatility of the France Telecom share and possible future sales by the French state).

In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme (see "*Risk Factors*").

OVERVIEW OF THE PROGRAMME

Description:	Euro Medium Term Note Programme
Arrangers:	BNP Paribas and Merrill Lynch Capital Markets (France) SAS
Dealers:	ABN AMRO Bank N.V. BNP Paribas CCF Citigroup Global Markets Limited Deutsche Bank AG, London Branch Goldman Sachs International J.P. Morgan Securities Ltd. Merrill Lynch International Nomura International plc Société Générale Further Dealers may be appointed from time to time by the Issuer in accordance with the provisions of the Programme Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restrictions applicable at the date of this Base Prospectus. ***Notes with a maturity of less than one year*** Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale*". Under the Luxembourg Law on Prospectuses for Securities, which implements the Prospectus Directive, prospectuses for the listing of money market instruments having a maturity at issue of less than 12 months and complying also with the definition of securities are not subject to the approval provisions of such law and do not need to be approved by the CSSF.
Issuing and Principal Paying Agent:	Citibank, N.A.
Agency Agreement:	The Agency Agreement (as defined in the "*Terms and Conditions of the Notes*") entered into in relation to the Notes principally contains provisions relating to the payment and administrative procedures relating to the Notes. In addition, it contains the forms of temporary global note, permanent global

	note, global certificate, definitive notes and certificates and provisions relating to meetings of Noteholders. The key provisions of the Agency Agreement applicable to holders of Notes are contained in the Terms and Conditions of the Notes (see also "*General Information—Documents Available*").
Programme Size:	Up to EUR 30,000,000,000 (or its equivalent in other currencies calculated as described herein under "*General Description of the Programme*") outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms).
Redenomination:	The applicable Final Terms may provide that certain Notes may be redenominated in euro. The terms of such redenomination shall be as set out in Condition 17 as amended by the applicable Final Terms.
Maturities:	Such maturities as may be agreed between the Issuer and the relevant Dealer and as indicated in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	Each Tranche of Notes will be in bearer form and will initially be represented by a temporary global Note which will be deposited on the relevant Issue Date with a common depositary for Euroclear and Clearstream, Luxembourg and/or any other agreed clearance system (including Euroclear France) and which will be exchangeable, upon request, as described therein for either a permanent global Note or definitive Notes (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms), in each case not earlier than 40 days after the Issue Date upon certification of non-U.S. beneficial ownership as required by U.S. Treasury regulations. The applicable Final Terms will specify that a permanent global Note either (i) is exchangeable (in whole but not in part) upon request upon not less than 60 days notice or (ii) is only exchangeable (in whole but not in part) for definitive Notes upon the occurrence of an Exchange Event, as described in "*Form of the Notes*" below. Any interest in a global Note will be transferable only in accordance with the rules and procedures for the time being of

Euroclear, Clearstream, Luxembourg and/or any other agreed clearance system.

Fixed Rate Notes: Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms) and on redemption such interest will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms).

Floating Rate Notes: Floating Rate Notes will bear interest at a rate determined:

(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or

(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or

(iii) on such other basis as may be agreed between the Issuer and the relevant Dealer(s), (as indicated in the applicable Final Terms).

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each Series of Floating Rate Notes.

Index Linked Notes: Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer(s) may agree (as indicated in the applicable Final Terms).

Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes: Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both (as indicated in the applicable Final Terms).

Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as selected prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates specified in, or determined pursuant to, the applicable Final Terms and will be calculated on the basis of the relevant Day Count Fraction unless otherwise indicated in the applicable Final Terms.

Dual Currency Notes: Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree (as indicated in the applicable Final Terms).

Notes may be converted from one Interest Basis to another if so provided in the applicable Final Terms.

Zero Coupon Notes: Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Redemption and Purchase: The Final Terms relating to each Tranche of Notes will indicate either that the Notes of such Tranche cannot be redeemed prior to their stated maturity (other than in specified instalments (see below), if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving not less than 30 nor more than 60 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Final Terms) to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Final Terms.

The Notes may be redeemable by the Issuer in the event of it having to pay any additional amounts (for taxation reasons) as set out in "*Terms and Conditions of the Notes*".

The Issuer or any of its subsidiaries may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts and Coupons appertaining thereto are purchased therewith) at any price in the open market as further described in Condition 6. Any purchase of Notes by the Issuer will be made in accordance with applicable regulations (including COB regulation No. 2002-04 if applicable).

The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.

Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain restrictions — Notes with a maturity of less than one year*" above.

Denomination of Notes: Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms) save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions — Notes with a maturity of less than one year in relation to which issue proceeds are accepted in the United Kingdom*" above, and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area (other than in France) or offered to the public in a Member State of the European Economic Area (other than in France) in circumstances which require the

	publication of a prospectus under the Prospectus Directive will be €1,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).
Taxation:	A summary of the French and Luxembourg tax considerations, *inter alia*, are set out on page 181 herein (see "*Taxation*").
Negative Pledge:	The terms of the Notes will contain a negative pledge provision as further described in Condition 3.
Indebtedness Covenant:	The terms of the Notes will contain a covenant as to the indebtedness of the Issuer as further described in Condition 8.
Status of the Notes:	The Notes will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 3, unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for certain debts required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.
Rating:	The Programme rating assigned by both Moody's and Standard & Poor's will be specified in the relevant Final Terms. Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.
Listing and admission to trading:	Application has been made to CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to the official list and traded on the regulated market of the Luxembourg Stock Exchange and to be listed on the Luxembourg Stock Exchange. The Notes may also be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer(s) in relation to each Series subject to the requirements and according to the rules of the relevant stock exchange or other authority. Unlisted Notes and Notes which are not admitted to trading on any market may also be issued. The Final Terms relating to each Tranche of Notes will state whether or not and, if so, on which stock exchange(s) the Notes are to be listed and/or admitted to trading.
Deed of Covenant:	The Deed of Covenant (as defined in "*Terms and Conditions of the Notes*") entered into in relation to the Notes contains provisions relating to the rights of holders of Notes vis-à-vis the Issuer for so long as such Notes are represented by a global Note (see also "*Form of the Notes*"). The key provisions of the Deed of Covenant applicable to holders of

	Notes are contained in Form of the Notes (see also "*General Information—Documents Available*").
Governing Law:	The Notes will be governed by, and construed in accordance with, English law and will be subject to the exclusive jurisdiction of the French courts.
Selling Restrictions:	There are selling restrictions in relation to the United States, the European Economic Area (including the United Kingdom and France) and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See "*Subscription and Sale*" below. For United States purposes, the Issuer is a Category 2 issuer and TEFRA D or TEFRA C will apply or TEFRA will not apply, as specified in the applicable Final Terms.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. These factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

1) FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER NOTES ISSUED UNDER THE PROGRAMME

A. Risk factors relating to France Telecom's business

a) France Telecom may not be able to reduce its debt. If this is the case, France Telecom's cash flow may be insufficient to meet its financing needs and its ability to invest in the development of its business may be reduced.

During the period from 1999 to 2002, France Telecom achieved strong external growth at a cost of approximately €100 billion, of which 80 per cent. was paid in cash. This led to a significant increase in its net consolidated financial debt, which went from €14.6 billion at the end of 1999 to €68 billion at the end of 2002.

The major priority of the Ambition FT 2005 Plan launched in December 2002 is to reduce France Telecom's net financial debt, measured by French GAAP, by at least €30 billion between the end of 2002 and the end of 2005. This is to be achieved through (i) the increase in share capital of almost €15 billion undertaken on 15 April, 2003 and (ii) France Telecom's operational performance improvement programme ("TOP Programme") which is intended to generate more than €15 billion in net cash flow over the period 2003 to 2005.

The objective of the Ambition FT 2005 plan is thus to achieve a net consolidated financial debt/operating income before depreciation and amortisation ratio of less than 2 by the end of 2005, which would enable the Group to achieve greater strategic and financial flexibility.

This ratio is to be calculated according to French GAAP and takes into account the consolidation of certain previously off-balance sheet items (Tele Invest and Tele Invest II and vehicles used in the context of receivables securitisation programmes).

The change in this ratio is shown below:

	2004	*2003*	*2002*
Ratio of net consolidated financial debt/operating income before depreciation and amortisation	2.41	2.55	4.56

In order to achieve growth and a reduction in indebtedness, France Telecom is implementing a profitable growth strategy based on an integrated operator model and strategic actions.

Nevertheless, in the future, France Telecom may not be able to generate sufficient cash flow to further reduce its indebtedness. This situation could result from negative factors such as the following:

- competition or decisions made by regulatory authorities that have the effect of reducing prices or revenues;

- the slowdown of the current growth in terms of business volume (wireless activities, data transmission, Internet services);

- the decrease in business volume of older sectors (a tendency that is already being experienced in fixed line telephony);

- the inability to achieve savings in terms of operational expenses before amortisation and depreciation and intangible and tangible investments;

- the necessity, due to competition or technological advancement or changes in regulations, to incur greater than forecast operational or investment expenses.

If France Telecom does not succeed in reducing its indebtedness, its cash flow may be insufficient to meet its financing needs, including meeting scheduled repayments of its debt. France Telecom's borrowing capacity and ability to invest in the development of its business could also be limited.

Since France Telecom's establishment of a new syndicated credit line in 2004 and the repayment in October 2004 and January 2005 of the credit facilities used in the financing of Tele Invest and Tele Invest II (representing 10 per cent. and 3.57 per cent., respectively, of the capital in the Polish operator TP S.A.), the Group no longer has any syndicated credit lines containing clauses that require certain ratios to be maintained in relation to France Telecom's net consolidated financial debt.

b) The TOP Programme may not achieve the expected results, which could have a material adverse impact on France Telecom's financial condition and results or the way these are evaluated by the financial markets.

The TOP Programme strives to achieve optimal levels of performance for each of France Telecom's activities and to generate more than €15 billion in net cash provided by operating activities less net cash used in investing activities over the period from 2003 to 2005.

In 2003, the TOP Programme made it possible to generate €6.4 billion in free cash flow, excluding asset disposals.

In 2004, the TOP Programme enabled France Telecom to generate €2.9 billion in free cash flow, excluding asset disposals.

Free cash flow, excluding asset disposals, generated in 2004 takes into account the impact of the repurchase of minority shareholdings in Wanadoo and Orange, in an amount of €2.8 billion, as well as the impact of paying an amount of €2 billion in respect of the Equant CVRs (*certificats de valeur garantie*). Moreover, the repurchase of Tele Invest (the vehicle representing 10 per cent. of the share capital in the Polish operator TP S.A.) in October 2004, for an amount of €1.9 billion, was treated for accounting purposes as a reimbursement of debt, since that company had been included within the consolidated subsidiaries as at 1 January, 2004 as a result of a change in accounting practices.

These items have not altered the goal of generating a minimum of €15 billion in free cash flow through the TOP Programme over the period 2003 to 2005.

The goals of the TOP Programme may not be achieved or may be delayed, which would have a material impact on France Telecom's financial condition and results of operations or the way these are evaluated by the financial markets.

France Telecom may encounter difficulties in the implementation of the programme. For example, reorganisation costs may be greater than the forecast of between €800 million and €1 billion that was taken into account in the TOP programme. Reorganisation costs and provisions amounted to €305 million in 2003 and €181 million in 2004, i.e. an aggregate figure over the two financial years of €486 million.

Furthermore, the implementation of the TOP Programme could lead to indirect and adverse results, particularly if tangible and intangible investments, and more generally, the investments made in growth sectors, turn out to be insufficient to maintain the Group's status as a leader, to improve networks and to develop and promote new and existing services, especially in the highly competitive sectors of wireless and Internet services.

c) France Telecom's strategy of profitable growth is based on the implementation of the integrated operator model. The core activities of this model are wireless and broadband activities, which form the basis of a multi-service offering. If France Telecom is unsuccessful in implementing the integrated operator model, particularly the full reintegration of Orange and Wanadoo, or if it only partially succeeds, its business, financial condition and results of operations could be adversely affected.

France Telecom's strategy of profitable growth is based on the implementation of the integrated operator model. The core activities of this model are wireless and broadband activities, which form the basis of a multi-service offering.

In order to implement this strategy, France Telecom launched offers in 2003 to acquire the shares in Orange S.A. that it did not already hold. As a result of these offers, since April 2004 France Telecom has held 100 per cent. of the share capital and voting rights of Orange S.A. From an operational standpoint, this transaction was justified by the creation of strong cooperation between the Group's various business activities, in key areas such as strategy, development of new services, customer approach and centralised purchasing, in order to respond to the growing needs of France Telecom's customers with regard to innovative and integrated services on a combined fixed line wireless platform.

Similarly, in order to integrate Wanadoo's access and portal services into France Telecom and improve the Group's position in the broadband market, France Telecom launched public offers in 2004 to acquire the Wanadoo S.A. shares it did not already hold. As a result of these transactions, Wanadoo S.A. became wholly–owned by France Telecom in July 2004.

Wanadoo S.A. and Wanadoo France, which principally acted as Internet access providers, were merged into France Telecom S.A. in September 2004.

The Group's strategy, strengthened by the integration of Orange and Wanadoo, essentially involves the integration of networks and services in order to offer its customers an integrated multi-service broadband service by mobilising the group's potential in the fields of innovation and R&D and also by relying on partnerships.

The success of this strategy therefore depends in particular on the following elements:

- the ability to develop, put in place and market innovative, integrated, "multi-network" and "multi-terminal" services such as: "single-sign-on", single or interoperable messaging systems and access to services irrespective of the access network or terminal;

- the ability to take full advantage of broadband service potential,

- the ability to pool the various networks, information systems, service platforms, shared service centers and call centers.

In any event, the successful complete integration of Orange and Wanadoo remains a key factor for the success of France Telecom's strategy, particularly with regard to the elements listed above. If France Telecom is unsuccessful in implementing this integrated operator model, or if it only partially succeeds, its business, financial condition and results of operations could be adversely affected.

d) France Telecom may not succeed, in whole or in part in integrating the companies that it has acquired into the Group or in achieving planned synergies.

During 2004, France Telecom continued the process of integrating the acquired companies into the group and realising anticipated synergies. France Telecom may:

- have difficulty integrating the operations and personnel of the acquired entities;

- fail to successfully incorporate networks or acquired technology into its network and product offerings;

- fail to generate anticipated synergies;

- fail to maintain uniform standards, controls, procedures and policies; or

- fail to maintain satisfactory relations with employees of acquired entities as a result of changes in management and ownership.

Successful integration of Equant and TP S.A. is particularly important for the successful implementation of the Group's strategy.

With regard to Equant, 54.1 per cent. of which was held by France Telecom at 31 December, 2004 and which has been fully consolidated since July 2001, France Telecom planned, at the time of the acquisition in 2001, to achieve certain synergies within three years that would enable operating costs to be reduced by \$300 million and savings of around \$75 million investment expenses per year. Those synergies were achieved in 2003.

In order to accelerate the implementation of the unified strategy for the corporate market that is consistent with the integrated operator model, on 10 February, 2005, France Telecom announced that it had signed a definitive agreement with Equant to acquire all of Equant's assets and liabilities. If this transaction is completed, France Telecom may not succeed, in whole or in part, in resolving Equant's structural problems through a more complete integration of Equant within the Group and the reversal of the profitability of its business.

With regard to the TP Group, the consortium led by France Telecom has held a majority of the members of TP S.A.'s Supervisory Board since the beginning of 2002. Consequently, France Telecom has fully consolidated the TP Group in its financial statements since April 2002 and has caused its standards, controls and procedures to be applied to the extent they are compatible with the governing principles applicable to TP S.A. Following the acquisition in October 2004 from its partner, Kulczyk Holding, of the TP S.A. shares held by Tele Invest (corresponding to 10 per cent. of TP S.A.'s share capital) and Tele Invest II in January 2005 (corresponding to 3.57 per cent. of TP S.A.'s share capital), France Telecom directly holds 47.5 per cent. in the share capital and voting rights of TP S.A.

Any major difficulties related to the integration of Equant or the TP Group or other businesses acquired by France Telecom could have an adverse effect on its business, financial condition and results of operations.

e) France Telecom faces risks relating to certain subsidiaries and joint ventures in which it shares control or does not hold a controlling interest.

In some of the Group's activities, especially in the "Orange" and "Other International" segments, France Telecom holds a non-controlling interest. Under the documents or agreements governing certain of these entities, certain key matters such as the approval of business plans and decisions as to the timing and amount of dividend distributions require the agreement of France Telecom's partners, and in some cases, decisions regarding these matters may be made without France Telecom's approval.

There is a risk of disagreement or deadlock or that decisions contrary to the interests of France Telecom will be made. For example, following the difficulties encountered with MobilCom, in which France Telecom held a 28.3 per cent. interest, France Telecom was obliged to depreciate the total amount of its investment in MobilCom in 2002. These risks could notably have an impact on the subsidiaries referred to below.

In the companies that are proportionately consolidated, France Telecom generally shares control with another shareholder. These companies include Mobinil, a subsidiary of Orange in Egypt, which is consolidated at 71.25 per cent., as well as operators in Mauritius (Mauritius Telecom) and Jordan (JTC), in both of which France Telecom has a 40 per cent. controlling interest. At 31 December, 2004, France Telecom had not experienced any particular difficulty in applying the agreements entered into with the other shareholder or shareholders of these companies.

With regard to the other companies, which are consolidated using the equity method or which constitute non-consolidated holdings, the main risks relating to France Telecom's non-controlling interest concern the following companies.

France Telecom holds a 20 per cent. interest in the share capital of Bluebird Participations France following its withdrawal from Eutelstat. At 31 December, 2004, France Telecom had not experienced any particular difficulty in the fulfilment of the agreement entered into with other shareholders of Bluebird Participations.

France Telecom has a non-consolidated shareholding, through Orange, in the share capital of ONE (17.5 per cent., Austria). France Telecom also holds, through Orange, a non-consolidated shareholding in the share capital of Optimus (a 20 per cent. interest, approximately 10 per cent. of the voting rights, Portugal). At 31 December, 2004, France Telecom had not experienced any particular difficulty in the fulfilment of the agreements entered into with the other shareholders of these companies or in its relations with them.

Moreover, in December 2004, France Telecom undertook to sell its subsidiary, France Telecom Câble, and its cable networks in connection with an overall agreement for the disposal of the cable activities of France Telecom, the Canal+ Group and TDF. In the event that this transaction proceeds, France Telecom will retain a 20 per cent. interest in the share capital of the resulting new company to be created.

Lastly, the following shareholdings, previously consolidated by the equity method or not consolidated, were sold in 2004: the holdings in NOOS and Radianz and Orange's interest in the share capital of BITCO (Thailand), which was reduced from 49 to 10 per cent. In the BITCO transaction, Orange was fully released from its obligations and undertakings under the revolving credit facility (*crédit relais*) entered into by TA Orange in 2002. In January 2005, the interest in the share capital of Tower Participations, which owns TDF, was sold.

The occurrence of the risks relating to certain subsidiaries and joint ventures in which France Telecom shares control or does not hold a controlling interest, the main examples of which have been mentioned above, could have an impact on France Telecom's ability to pursue its stated strategies with respect to those entities or have a material adverse effect on its financial results or financial condition.

f) The high cost of UMTS licenses, and investments and expenses necessary for the success of this technology, could adversely affect France Telecom's business, financial condition and results.

As at 31 December, 2004, France Telecom had paid over €8 billion to acquire UMTS licenses in Europe (excluding acquisition of minority interests, notably MobilCom). Under the terms of these licenses, France Telecom has agreed to make significant investments in its networks in order to be able to offer new products and services. If France Telecom decided not to pursue UMTS development in certain countries, or if it was unable to meet the costs, its withdrawal from these markets may result in significant costs and its licenses could be revoked. In addition, if Orange cannot fulfil the conditions under its UMTS licenses or obtain their modification, the licenses may be revoked and Orange may be liable for damages to the state that awarded the license, or to its partners in UMTS development in these countries, as well as to its creditors or its suppliers. All of these risks could have a material adverse impact on France Telecom's financial condition and results.

Lastly, once its UMTS network has been launched, the costs related to the development and marketing of new products are difficult to estimate and may be very high, in particular in order to promote demand for UMTS services or to subsidise UMTS-compatible handsets.

France Telecom cannot be certain that the demand for UMTS products and services will justify the related high costs. Low demand, or demand with weak growth, for UMTS products and services in markets where France Telecom offers them would adversely affect its financial results. The level of demand for UMTS products and services may be adversely affected by the launch of alternative technologies.

France Telecom will need to offset the high purchase costs of the licenses, network capital expenditures and the related amortisation costs with increased revenues from customers.

Furthermore, any delay in the provision of UMTS products and services resulting from problems with suppliers of components of the UMTS network, the roll out of the network, the unavailability of products compatible with UMTS services, the inability to comply with the requirements of UMTS licenses or any other factor may adversely affect revenues from UMTS services or the date from which such revenues are generated. If, in the future, France Telecom's current estimates relating to future cash flow generated under the UMTS licenses are not met, France Telecom's revenues could be adversely affected, and France Telecom could be required to significantly depreciate the value of its UMTS licenses and related assets recorded in its financial statements.

To the extent that France Telecom expects to generate significant cash flows from its wireless telephony subsidiaries, such as Orange and PTK Centertel, the failure by these activities to generate sufficient revenues could render France Telecom unable to meet its financing needs in relation to the development of UMTS or its other activities. Its financial condition and results may be adversely affected.

g) France Telecom recorded significant goodwill following the acquisitions it made between 1999 and 2002. Accelerated amortisation of this goodwill may be required, which could have a material adverse effect on France Telecom's results.

France Telecom recorded significant goodwill in connection with its acquisitions since 1999, particularly for the acquisitions of Orange, Equant and TP Group. Goodwill amounted to approximately €26 billion at 31 December, 2004.

Pursuant to French generally accepted accounting principles, goodwill is amortised over a period determined at the time the goodwill is recorded. The value of the goodwill is reassessed annually and, when events and circumstances indicate that a decrease in value may occur, France Telecom amortises this goodwill, particularly in the case of events and circumstances which involve lasting material adverse changes affecting the economic environment or affecting the assumptions and objectives that were used at the time of the acquisition. For example, France Telecom amortised its investments in Equant and in certain subsidiaries of Orange and Wanadoo in 2002, 2003 and 2004. France Telecom cannot guarantee that new events or unfavorable circumstances will not take place that would lead France Telecom to reassess the value of its goodwill and record additional significant exceptional amortisation, which could have a material adverse effect on France Telecom's revenues.

h) France Telecom's technical infrastructure is vulnerable to damage or interruptions caused by floods, storms, fires, power outages, war, terrorism, intentional acts and other similar events. Technical network and information technology system failures may result in reduced user traffic, reduced revenues and harm to France Telecom's reputation.

The occurrence of a natural disaster, such as the major storms in December 1999 that affected service in France at the beginning of 2000, or the flooding in southern France in 2002, and other unanticipated problems at France Telecom's facilities or any other damage to or failure of its network could result in interruptions to its service. In 2000, such damage amounted to approximately €150 million. In certain circumstances, France Telecom has no insurance for damages to its aerial lines and must finance these damages itself. Information technology system (hardware or software) failures, human error or computer viruses could also affect the quality of its services and cause temporary service interruptions. Currently, there is an increased risk of failure of the information system due to the acceleration of the implementation of new services or new applications relating to invoicing and customer relations management. In particular, incidents may occur during the course of installing new applications or new software. France Telecom detected a slowing in the transit of some telephone traffic for around twenty-four hours between 30 and 31 October, 2004 that disrupted several thousand calls. While the risk cannot be quantified, such events could result in customer dissatisfaction and reduced traffic and revenues for France Telecom.

i) The value of France Telecom's international investments in telecommunications companies outside Western Europe may be materially affected by political, economic and legal developments in these countries.

France Telecom has invested in telecommunications operators in countries in Eastern Europe, the Middle East, Asia and Africa, particularly with respect to its activities in the "Orange" and "Other International" segments.

The political, economic and legal systems of the countries in these regions of the world may evolve in an unpredictable manner, as was the case in the Ivory Coast. Political or economic upheaval or changes of law may adversely affect the operations of companies in which France Telecom has invested, and may impair the value of these investments.

j) France Telecom is involved in enquiries, legal proceedings and disputes with regulatory authorities, competitors and/or other parties. France Telecom cannot guarantee that the outcome of some or all of those proceedings will not have a material impact on its results of operations or financial condition.

France Telecom's position as the main operator and provider of networks and telecommunications services in France and one of the leading telecommunications operators worldwide, attracts the attention of competitors and French as well as European competition authorities. In addition, France Telecom is frequently involved in legal proceedings with its competitors due to its pre-eminent position in their market. France Telecom cannot guarantee that the outcome of some or all of those proceedings will not have a material adverse impact on its financial condition or results of operations.

k) The downgrading of France Telecom's debt ratings in 2001 and in 2002 by rating agencies increased the cost of its debt. Although its ratings were increased in December 2002 as well as in 2003, 2004 and 2005, the downgrading of its debt rating could limit its ability to borrow and may increase the cost of access to financial markets.

In October 2001, the rating agencies that evaluate France Telecom's debt downgraded their ratings on France Telecom's short- and long-term debt. They continued to downgrade these ratings until mid-2002. According to the rating agencies, the downgrading of France Telecom's ratings was due to doubts about France Telecom's ability to carry out its debt reduction plan, due to both the deterioration of market conditions in the telecommunications sector and the difficulties encountered by France Telecom in its asset disposal programme. The rating agencies have also expressed concern about the possible assumption by France Telecom of MobilCom's debt.

These ratings downgrades limited France Telecom's access to financial markets at a time when it needed to meet significant debt repayments in 2003, 2004 and 2005 and increased the average cost of its debt.

A significant portion of the €12.8 billion debt outstanding at the end of December 2004 includes step-up provisions, i.e. provisions that will lead to the amendment of the interest rates or margins should the ratings of France Telecom change. The deterioration in the ratings of France Telecom in June and July of 2002 led to an increase in interest rates starting September 2002 for bonds denominated in U.S. dollars or in pounds sterling, and starting in February and March of 2003 for the other bonds (annual interest payments). The deterioration in the ratings of France Telecom that occurred in 2002 had a delayed impact on interest expenses, as illustrated by the increase in interest expenses of approximately €40 million in 2002, compared to €164 million in 2003.

Furthermore, France Telecom S.A.'s securitisation programmes require, where applicable, a rating above BB-. Finally, in the event of a ratings downgrade, certain derivative contracts and certain contracts related to lease transactions with third parties may be terminated or may require cash collateral to be given. France Telecom has already been required to give additional security cash collateral for certain of these contracts.

Following the announcement of the launch of the "Ambition FT 2005" plan in December 2002, the rating agencies waited some time before re-evaluating their ratings for France Telecom, and from May 2003 they started to increase ratings..

The step-downs triggered by the successive improvements in France Telecom's ratings in May 2003 by S&P's, then in February 2004 by S&P's and in March 2004 by Moody's, made it possible to reduce interest expenses for 2004 by approximately €61 million as compared to 2003.

France Telecom cannot guarantee that its credit ratings will not be downgraded again by the rating agencies, particularly in the event that the TOP Programme does not produce the anticipated results or in the event France Telecom fails to reduce its debt.

France Telecom cannot guarantee that it will succeed in applying the measures adopted to reinforce or maintain its credit ratings. It also cannot guarantee that the rating agencies will deem the measures undertaken sufficient. In addition, factors outside France Telecom's control, including factors relating to the telecommunications industry or specific countries or regions in which it operates, may affect the rating agencies' assessment of France Telecom's credit profile.

For information purposes, France Telecom believes that a decrease of one notch in its long-term debt rating by S&P's and Moody's would automatically increase its annual interest expense by approximately €43 million, based on its current level of indebtedness, and would also adversely affect its ability to access, and the conditions of access to, the financial markets.

l) France Telecom will adopt new accounting standards in 2005 that may have a material impact on its accounts and may render a comparison between financial periods more difficult.

In June 2002, the European Union ("EU") adopted new regulations requiring all listed EU companies, including France Telecom, to apply International Financial Reporting Standards ("IFRS") (previously known as International Accounting Standards or "IAS") in their financial statements from 1 January, 2005.

The IFRS norms may have a significant impact on important items in the accounts and balance sheet of France Telecom.

m) Risks related to the acquisition of Amena.

For more information on the acquisition of Amena, see the section "Recent Developments" of this Base Prospectus.

The benefits related to the integration of the operations of the Group with those of Amena might not be entirely achieved within the currently anticipated timeframes, which could reduce or delay the expected increases in revenues, earnings, savings, cost and operating results.

France Telecom may encounter significant difficulties or delays in integrating the group's operations with those of Amena and fail to create the expected synergies, notably because of:

- the loss of key personnel;

- difficulties in installing, integrating and harmonizing the operational procedures and systems specific to the company, as well as integrated financial, accounting and other systems; and

- external factors, such as the ability to obtain and retain the necessary governmental authorizations, licenses and approvals, which are not directly under management's control.

B. Risk factors relating to the telecommunications and wireless industries

a) The profound and permanent transformation of the telecommunications industry could render existing technology obsolete. A deficiency in France Telecom's response to technological advancement could lead to the loss of customers or market share in the sectors in which France Telecom operates and could have an adverse impact on its revenues and financial results.

The telecommunications industry has experienced profound changes in recent years, and France Telecom believes that these changes will continue. If France Telecom fails to rapidly adapt, at a reasonable cost, its structure, business, networks and services to respond to the developments of the telecommunications industry and then expectations of its customers, it may be unable to compete effectively and its business activities, financial condition and results may suffer. France Telecom may be unable to appropriately anticipate the demand for certain technologies or may not be in a position to acquire or finance the necessary licenses and intellectual property rights in time. Further, new technologies that France Telecom chooses to develop may lead to significant costs and may not be as successful as planned. As a result, France Telecom may lose customers or market share or may be obliged to undertake substantial expenditure in order to retain its customers.

b) The intense competition of the telecommunications industry in Europe may strain France Telecom's resources.

France Telecom faces intense competition in all areas of its business. In addition, certain competitors constitute or form part of major international telecommunications services groups.

In the fixed line telephony business in France, which has been open to competition since 1 January, 1998, France Telecom faces competition that has created a dramatic reduction in rates, as well as a reduction in its market share. Recent regulatory changes, such as the unbundling of its local loop, the pre-selection of operators, number portability and access to the distribution frame, have increased the ease with which its customers can use the services of other telecommunications carriers instead of France Telecom's services. In particular, with the introduction of carrier pre-selection at the beginning of 2002, France Telecom lost approximately 29 per cent. of its market share in the local call sector at 31 December, 2004. France Telecom expects a further decrease of its market share and continued decreases of rates in the fixed line services in France, where it currently enjoys the greatest market share. In addition, according to France Telecom, an increasing proportion of calls that would previously have been made over the fixed line network are now being made on mobile telephones ("fixed-wireless" substitution). Similarly, telephone calls which had been carried via the switched telephone network, will increasingly be carried via Internet ("Voice over IP"), including over cable networks. The level of competition is significantly influenced by decisions of the ART, the French telecommunications regulator, which could make decisions that would lead to further rate cuts in the fixed line telephony business. France Telecom also faces competition in the market for Internet and multimedia services, particularly in France. The Internet access market is experiencing increased competition and shifting usage patterns, particularly with the strong development of broadband, which exert a pressure that may be influenced by regulation, particularly in France. In France, the main competitors in respect of general consumers' services (fixed line telephony, Internet, broadband) are Tele 2, Cegetel and 9 Telecom, and in respect of broadband Internet access, Free (Iliad Group), AOL, Tiscali and T-on-Line.

In addition, restructuring by certain competitors and overcapacity in the international transmissions sector could materially affect France Telecom's results in the international transmissions business. If these conditions continue, they could adversely impact France Telecom's results in this market. In the data transmissions market, Equant and Transpac, both subsidiaries of France Telecom, face intense competition. The success of the France Telecom group in this market will depend on the ability of Equant and Transpac to compete with the other large telecommunications operators, IP and data specialists and new entrants in this market, including operators from competing networks and suppliers of Internet services or other high value added services. France Telecom believes that the number of competitors, the vertical and horizontal concentration of this activity, the pressure on rates and the competition in terms of market share could increase in the future. The main competitors in respect of corporate customers' are Cegetel, LD COM, MCI, Colt and BT / Infonet.

In the wireless telecommunications business, France Telecom faces intense competition in all of its principal markets (particularly in France and the United Kingdom) from existing and new market participants. France Telecom's position in comparison with its competitors is mainly dependent upon rates, quality of service, variety of services offered, adaptation to customers' needs and the nature of innovation. In France, the competing wireless operators are SFR (of which Vodafone is a minority shareholder) and Bouygues Telecom. In the United Kingdom, the main competitors are Vodafone, MMO2 and T-Mobile. In addition, in certain countries, and particularly in France and the United Kingdom, France Telecom must compete with new non-traditional operators that offer wireless communications services without maintaining their own networks (known as mobile virtual network operators). Although competition based on handset subsidies has diminished in France and the United Kingdom, competition based on rates, subscription options offered, coverage and service quality remains intense. As these markets have become increasingly saturated, the focus of competition is starting to shift from customer acquisition to customer retention, which could lead to higher expenses for customer loyalty initiatives. Rates for wireless communications have been declining over the past several years and may continue to decline in France Telecom's principal markets.

PagesJaunes faces competition in the printed directories market from editors that offer regional directories in France. The market for online directories remains highly competitive with many market participants.

Competition in any or all of France Telecom's lines of business could lead to:

- price and profits erosion for France Telecom's products and services;

- an inability to increase market share or a loss of market share;

- loss of existing or prospective customers and greater difficulty in retaining existing customers;

- more rapid deployment of new technologies and obsolescence of existing technologies;

- the increase of costs related to investments in new technologies that are necessary to retain customers and market share;

- increased pressure on France Telecom's profit margins, preventing it from maintaining or improving its current level of operational profitability; and

- difficulties repaying the debt it incurred to finance its acquisitions and strategic and technological investments if it cannot generate sufficient profits and cash flow.

c) If growth in the Internet and wireless businesses slows, France Telecom's revenues may not grow as rapidly as in the past and may even decrease, which in turn could adversely affect its profitability.

In recent years, the growth in France Telecom's revenues, at a constant exchange rate, has been due in a large part to the rapid expansion in its Internet and wireless communications businesses, in line with growth in the Internet and wireless markets in Europe.

If these markets do not continue to expand, particularly in France and the United Kingdom, France Telecom's revenue may not grow or may even decrease, which in turn could affect its financial condition and results, in particular if the revenues of the "Fixed Line, Distribution, Networks, Large Customers and Operators" segment were to decrease again.

d) Despite the current trend towards deregulation in France and other European countries, France Telecom continues to operate in highly regulated markets in which its flexibility to manage its business is limited.

France Telecom must comply with an extensive range of requirements that regulate and supervise the licensing, construction and operation of its fixed line, wireless and Internet networks and the provision of its products and services. It must also cooperate with agencies or other governmental authorities that regulate and supervise the allocation of frequency spectrums and that oversee the general competitiveness of the telecommunications market. Furthermore, France Telecom faces a number of regulatory constraints as a result of its dominant position in the fixed line telecommunications market in France, including certain obligations that lead to significant costs. For example, France Telecom is required to provide interconnection services to other operators on terms that must be approved by the regulatory authority, to provide local loop access at prices approved by the regulatory authority and to have its rates for fixed line voice telephony services approved by the regulatory authority prior to implementation. France Telecom believes that, in general, it fulfils the requirements imposed by the applicable regulations, but it cannot predict the any opinions that may be expressed by regulatory or judiciary authorities, which could be asked to review or which have already been asked to review France Telecom's compliance.

Like other operators, France Telecom's activities and operating income may be impacted significantly by legislative, regulatory or government policy changes and, in particular, by decisions made by regulatory authorities and competition authorities in relation to:

- granting, modifying and renewing licenses;

- rates or the possibility of extending activities to new markets;

- network access for virtual network operators and other service providers; or

- access to third-party networks.

Such decisions could significantly and adversely impact France Telecom's financial results.

In France, following the adoption of the French law of 9 July, 2004 setting out the new provisions of the French Postal and Electronic Communications Code, there are no longer any specific provisions in respect of France Telecom as such. However, the telecommunications regulatory authority (the ART) is required to draw up a list of the relevant retail and wholesale markets in which it can enforce remedies. Pending the findings of those analyses in 2005, France Telecom continues to be subject to essentially the same regulatory obligations as before with regard to the supply of the products and services in respect of which it has been deemed to hold a dominant position. France Telecom must still therefore comply with the obligation to provide interconnection services to other operators on terms and conditions that for 2005 are still to be approved by the ART, as well as the obligation to provide local loop access at prices approved by the ART, and the obligation to submit prices for fixed line telephony services for prior approval by the ministry which oversees these matters (in consultation with the ART) before implementing such prices.

On completion of the market analysis, the ART will be able to apply a range of obligations, relating to wholesale and retail services, to operators that have been deemed to exert a significant influence on the markets analysed.

In this respect, it will be entitled to impose remedies on operators that exert a significant influence on the wholesale markets, such as the publication of a standard term offer, access to components of networks and related resources, and accounting separation for certain interconnection or access activities. With regard to retail rates, the ART will be able to prohibit bundling found to be wrongful, impose rates reflecting costs, or strictly contest the implementation of a rate. Therefore, the regulator possesses tools that could enable it to increase the burden of regulatory constraints on France Telecom.

In addition, the ART now possesses greater powers of control since it will be able to conduct on-site and document discovery (*sur pièce*) investigations in the context of carrying out its objectives, and for such purpose will have access to premises or means of transport used for professional purposes during opening hours or working hours, whereas previously these options were reserved for investigating criminal offenses only. Moreover, in the context of the exercise of its sanctioning powers, the ART will now be able to order protective measures without giving any prior formal notice. Where a breach is detected that might result in serious loss, it will be able to refer the matter to the President of the litigation division of the *Conseil d'Etat* who may order the operator to comply with the applicable rules and, where necessary, make the order subject to a penalty for non-compliance.

Overall, the regulatory, investigative and sanctioning powers allocated to the ART have been strengthened, which may have a material adverse impact on France Telecom's business and results of operations.

Furthermore, licenses are required in most countries to provide telecommunications services and operate networks. These licenses frequently impose requirements regarding the way the operator conducts its business, including, in particular, minimum service requirements, roll out completion deadlines, and network quality and coverage.

Failure to meet these requirements could result in fines or other sanctions, including, ultimately, revocation of the licenses.

e) Alleged health risks in relation to wireless communications devices could lead to decreased wireless communications usage or increased difficulty in obtaining sites for base stations or litigation, that may have adverse effects on the financial results of France Telecom.

In some countries in which France Telecom conducts its wireless telephony business, doubts have been expressed as to the possible health risks to humans caused by exposure to radio-frequency emissions or electromagnetic fields emitted by mobile telephones and wireless transmitter sites, at exposure levels lower than the existing permitted thresholds.

While to date France Telecom is not aware of any substantiation of health risks associated with wireless telephony, actual or perceived health risks may have a material adverse effect on France Telecom's results of operations or financial condition through a reduction in the number of customers, reduced usage per customer, exposure to potential litigation or other reasons. In the event that future evidence is considered to show that health risks do exist, the use of mobile phones could be subject to regulations which, for example, could limit emission levels from handsets or transmitter sites. Such regulations could have an adverse effect on France Telecom's operations and performance.

In 2002, several scientific studies were published in France. They came to the same conclusion, namely that there was no proof that exposure to radio-frequency fields emitted by mobile telephones or their base stations has a harmful influence on health. In April 2003, the *Agence Française de Sécurité Sanitaire Environnementale* (the "AFSSE") issued an opinion on wireless telephony. That opinion indicated that there was no demonstrable risk involved in living near to a base station, and that there was no cause to invoke the "principle of precaution" (principe de précaution) in such respect. With regard to the use of mobile telephones, the AFSSE considered that the "principle of precaution" should be applied and again recommended that research be continued, taking into account the existing doubts regarding the biological studies. In October 2003, the French Health Ministry required wireless network operators to provide their customers with recommendations on the use of mobile telephones and information on the existing uncertainties relating to potential health risks. In April 2004, Orange France signed, together with other wireless operators and the Association of Mayors of France, a "*Guide des bonnes pratiques*" (good practice guide) for the installation of transmitter sites.

In the United Kingdom, a study on wireless telecommunications health issues conducted by the Independent Expert Group on Mobile Phones, known as the Stewart Report, reported that to date there is no evidence that suggests that wireless phone technologies pose a health risk for the general public. The Department of Health in the United Kingdom has nevertheless required that information be made available to customers so that they can make their own informed choices about how to use mobile phones. In the United Kingdom, Orange and other wireless network operators are promoting in-depth scientific research into wireless technology through the joint financing with the United Kingdom government of a research programme. In 2004, scientific research publications continued to confirm the findings of the Stewart Report. Scientific research is still being carried out on this subject.

In 2005, publication of scientific research findings on these issues is expected. As indicated above, such publications may have a material adverse effect on France Telecom's financial results or financial condition.

France Telecom cannot be certain that medical research in the future will dismiss all and any link between radio-frequency emissions and health risks.

C. Risk factors relating to financial markets

a) France Telecom's business may be affected by fluctuations in exchange rates.

A significant portion of France Telecom's revenues and expenses are accounted for in currencies other than the Euro. Over the course of financial years 2002, 2003 and 2004, the main currencies for which France Telecom was exposed to exchange rate risk were the pound sterling, the Polish zloty and the U.S. dollar. Where appropriate, France Telecom enters into derivative instruments to hedge underlying exposures to changes in exchange rates, but France Telecom cannot guarantee that these derivative transactions will effectively or totally hedge its risks. To the extent that France Telecom has not entered into derivative instruments to cover a portion of this risk, or if its strategy of using these instruments is not successful, France Telecom's cash flow and revenues may be adversely affected.

For consolidation purposes, the balance sheets of France Telecom's consolidated foreign subsidiaries are converted into Euro using the exchange rate at the end of the period, and their income and cash flow statements are converted using the average exchange rate for the period. The impact of such a conversion on the balance sheet and shareholders' equity may be significant. From one period to another, fluctuations in the average exchange rate relating to a particular currency may significantly affect the reported revenues as well as the expenses incurred in such currency, as reflected in France Telecom's income statement, which could significantly affect its financial results. For example, based on data for 2004, the theoretical impact of fluctuations in the exchange rate corresponding to a depreciation of 10 per cent. (in relation to the Euro) of all currencies in which the Group's subsidiaries operate, would have resulted in a drop of 3.0 per cent. in consolidated revenues, 2.4 per cent. in operating income before depreciation and amortisation and 1.9 per cent. in the "TOP" indicator of operating income before depreciation and amortisation less tangible and intangible investments excluding licenses.

b) France Telecom's business may be affected by fluctuations in the financial markets, including changes in interest rates.

In the ordinary course of its business, France Telecom is exposed to financial market risks, especially changes in interest rates. Where appropriate, France Telecom enters into derivative instruments to hedge underlying exposures to changes in interest rates, but France Telecom cannot guarantee that such derivatives transactions will effectively or completely hedge such risk. To the extent that France Telecom has not entered into any derivative instruments to hedge some of that risk, or if its strategy of using such instruments does not succeed, France Telecom's cash flow and results of operations could be adversely affected.

c) The difference between governing law and governing jurisdiction under the Programme.

The Notes are governed by English law but subject to the exclusive jurisdiction of the French courts. The French courts may require certified translations into French of English language documents.

2) FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME

a) The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

b) Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

i) *Notes subject to optional redemption by the Issuer*

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

ii) *Index Linked Notes and Dual Currency Notes*

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a ***Relevant Factor***). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

(i) the market price of such Notes may be volatile;

(ii) they may receive no interest;

(iii) payment of principal or interest may occur at a different time or in a different currency than expected;

(iv) they may lose all or a substantial portion of their principal;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

(iii) *Partly-paid Notes*

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

(iv) *Variable rate Notes with a multiplier or other leverage factor*

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

(v) *Inverse Floating Rate Notes*

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

(vi) *Fixed/Floating Rate Notes*

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

(vii) *Notes issued at a substantial discount or premium*

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

c) Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

(i) *Modification, waivers and substitution*

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions of the Notes also provide that the Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

(i) any modification (except as mentioned above) of the Agency Agreement which is not prejudicial to the interests of the Noteholders; or

(ii) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

(ii) *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1st July, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

If, following implementation of this Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of this Directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

(iii) *Change of law*

The conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus.

(iv) *Trading in the clearing systems*

Although Notes which are admitted to trading on a regulated market in the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive are required to have a minimum denomination of €50,000 (or, where the Specified Currency is not euro, its equivalent in the Specified Currency), it is possible that the Notes may be traded in the clearing systems in amounts in excess of €50,000 (or its equivalent) that are not integral multiples of €50,000 (or its equivalent). In such a case, should definitive Notes be required to be issued, a holder who does not have an integral multiple of €50,000 (or its equivalent) in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of definitive Notes unless and until such time as his holding becomes an integral multiple of €50,000 (or its equivalent).

d) Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

(i) *The secondary market generally*

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

(ii) *Exchange rate risks and exchange controls*

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the ***Investor's Currency***) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

(iii) *Interest rate risks*

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

(iv) *Credit ratings may not reflect all risks*

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

e) Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

INVESTMENT CONSIDERATIONS

The Notes are governed by English law but subject to the exclusive jurisdiction of the French courts. The French courts may require certified translations into French of English language documents.

REGULATORY FRAMEWORK

The Issuer is subject to the informational requirements of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act") and, in accordance therewith, is required to file annual reports and other information with the United States Securities and Exchange Commission (the "SEC"). Such filings and other information can be inspected and copied at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, DC 20549, and at its regional offices located at Suite 1400, Citicorp Center, 500 West Madison Street, Chicago, Illinois 60661 and The Woolworth Building, 233 Broadway, New York, New York 10279 at prescribed rates. Copies of such materials can also be obtained from the Public Reference Section of the SEC at its principal office in Washington, DC at prescribed rates and from the specified office of the Paying Agent for the time being in Luxembourg free of charge. The SEC also maintains a Web site (http://www.sec.gov) from which certain filings and other information concerning the Issuer may be obtained. American Depositary Receipts representing American Depositary Shares representing the Issuer's ordinary shares are listed on the New York Stock Exchange. Reports and other information concerning securities of the Issuer can also be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published and have been filed with the CSSF shall be incorporated in, and form part of, this Base Prospectus:

- the Annual Report on Form 20-F for the financial year 2004;
- the Annual Report on Form 20-F for the financial year 2003.

Following the publication of this Base Prospectus a supplement may be prepared by the Issuer and approved by the CSSF in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg. This Base Prospectus (together with any Final Terms relating to Notes admitted to trading on the Luxembourg Stock Exchange's regulated market and the documents incorporated by reference herein) will also be published on the Luxembourg Stock Exchange's website (being www.bourse.lu).

The Issuer will, in the event of any significant new factor, material mistake, omission or inaccuracy relating to the information included in this Base Prospectus, which is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of the Notes.

CROSS-REFERENCE LIST RELATING TO HISTORICAL FINANCIAL INFORMATION INCLUDED IN THE 2003 AND 2004 FORM 20-F

I. SELECTED FINANCIAL INFORMATION	
Selected historical financial information regarding the Issuer.	2004 Form 20-F, pages 3-5 2003 Form 20-F, pages 3-5
II. INFORMATION ABOUT THE ISSUER	
HISTORY AND DEVELOPMENT OF THE ISSUER:	
The legal and commercial name of the Issuer;	Item 10.1.1 page 315 of 20-F 2004
The place of registration of the Issuer and its registration number;	Item 10.1.1 page 315 of 20-F 2004
The date of incorporation and the length of life of the Issuer;	Item 10.1.3 page 315 of 20-F 2004
The domicile and legal form of the Issuer, the legislation under which the Issuer operates, its country of incorporation, and the address and telephone number of its registered office;	Item 10.1.2 page 315 of 20-F 2004
Any recent events particular to the Issuer which are to a material extent relevant to the evaluation of the Issuer's solvency.	Item 5.7.1 page 255 and Note 33C to financial statement page 134 of 20-F 2004
INVESTMENTS	

A description of the principal investments made since the date of the last published financial statements.	Item 5.2.1.6.2 page 135 to 137 and item 5.3.1.6.3 page 193 of 20-F 2004
Information concerning the Issuer's principal future investments, on which its management bodies have already made firm commitments.	Item 5.5.2.1.(b) page 243, 244 of 20-F 2004
Information regarding the anticipated sources of funds needed to fulfil commitments referred to in the preceding section.	Item 5.4.2 page 235 and Item 5.4.3 page 239 of 20-F 2004
III. BUSINESS OVERVIEW	
PRINCIPAL ACTIVITIES	
A description of the Issuer's principal activities stating the main categories of products sold and/or services performed; and	Item 4.4 page 37 to 74 of 20-F 2004
An indication of any significant new products and/or activities.	Item 4.7 page 82 to 84 of 20-F 2004
PRINCIPAL MARKETS	
A brief description of the principal markets in which the Issuer competes.	Item 4.6 page 74 to 82 of 20-F 2004
The basis for any statements made by the Issuer regarding its competitive position.	Item 4.6 page 74 of 20-F 2004
IV. ORGANISATIONAL STRUCTURE	
If the Issuer is part of a group, a brief description of the group and of the Issuer's position within it.	Item 4.3.3 page 35 of 20-F 2004
V. TREND INFORMATION	
Information on any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Issuer's prospects for at least the current financial year.	Item 4.2.3 page 23 of 20-F 2004
VI. ADMINISTRATIVE, MANAGEMENT, AND SUPERVISORY BODIES	
Names, business addresses and functions in the Issuer of the members of the administrative, management, and supervisory bodies, and an indication of the principal activities performed by them outside the Issuer where these are significant with respect to that Issuer:	Item 6.1.2 pages 274-275 of 20-F 2004
CONFLICTS OF INTEREST Potential conflicts of interests between any duties to the issuing entity of the persons referred to in item 9.1 and their private interests and or other duties must be clearly stated. In the event that there are no such conflicts, make a statement to that effect.	Page 283 (Independence) and item 6.3.4 page 296 of 20-F 2004
VII. BOARD PRACTICES	
Details relating to the Issuer's audit committee, including the names of committee members and a summary of the terms of reference under which the committee operates.	Item 6.3.1 page 292 of 20-F 2004

A statement as to whether or not the Issuer complies with its country's of incorporation corporate governance regime(s). In the event that the Issuer does not comply with such a regime, a statement to that effect must be included together with an explanation regarding why the Issuer does not comply with such a regime.	Item 6.3 page 291 of 20-F 2004
VIII. MAJOR SHAREHOLDERS	
To the extent known to the Issuer, state whether the Issuer is directly or indirectly owned or controlled and by whom, and describe the nature of such control, and describe the measures in place to ensure that such control is not abused.	Item 7.1 page 306 of 20-F 2004
A description of any arrangements, known to the Issuer, the operation of which may at a subsequent date result in a change in control of the Issuer.	Item 7.2 page 307 of 20-F 2004
IX. FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES	
Audited historical financial information covering the latest 2 financial years and the audit report in respect of each year.	Item 18 (pages F-1 to F-136) of 20-F 2004 Item 18 (pages F-1 to F-145) of 20-F 2003
(a) balance sheet;	Page F-4 of 20-F 2004 Page F-4 of 20-F 2003
(b) income statement;	Page F-3 of 20-F 2004 Page F-3 of 20-F 2003
(c) cash flow statement; and	Page F-6 of 20-F 2004 Page F-6 of 20-F 2003
(d) accounting policies and explanatory notes.	F-8 to F-136 of 20-F 2004 F-8 to F-145 of 20-F 2003
FINANCIAL STATEMENTS If the Issuer prepares both own and consolidated financial statements, include at least the consolidated financial statements in the registration document.	Consolidated only, pages F-1 to F-136 of 20-F 2004 and pages F-1 to F-145 of 20-F 2003
AUDITING OF HISTORICAL ANNUAL FINANCIAL INFORMATION	
A statement that the historical financial information has been audited. If audit reports on the historical financial information have been refused by the statutory auditors or if they contain qualifications or disclaimers, such refusal or such qualifications or disclaimers must be reproduced in full and the reasons given.	Pages F1-F2 of 20-F 2004 and pages F1-F2 of 20-F 2003
X. SHARE CAPITAL	
The amount of the issued capital, the number and classes of the shares of which it is composed with details of their principal	Item 10.2, page 320 of 20-F 2004

characteristics, the part of the issued capital still to be paid up, with an indication of the number, or total nominal value, and the type of the shares not yet fully paid up, broken down where applicable according to the extent to which they have been paid up.	
XI. MEMORANDUM AND ARTICLES OF ASSOCIATION	
The register and the entry number therein, if applicable, and a description of the Issuer's objects and purposes and where they can be found in the memorandum and articles of association.	Items 10.1.1-10.1.5 page 315 of 20-F 2004 Exhibit 1.1 of 20-F 2004 (article 2 of by-laws)
XII. MATERIAL CONTRACTS A brief summary of all material contracts that are not entered into in the ordinary course of the Issuer's business, which could result in any group member being under an obligation or entitlement that is material to the Issuer's ability to meet its obligation to security holders in respect of the securities being issued.	Item 19 (1.1, 2.3, 4.1) page 344 of 20-F 2004

FORM OF THE NOTES

Each Tranche of Notes will be initially represented by a temporary global Note without receipts, interest coupons or talons, which will be delivered to a common depositary for Euroclear and Clearstream, Luxembourg. Whilst any Note is represented by a temporary global Note, payments of principal and interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the temporary global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent (as defined below). Any reference in this section "*Form of the Notes*" to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearance system approved by the Issuer and the Agent.

On and after the date (the "Exchange Date") which is 40 days after the date on which any temporary global Note is issued, interests in such temporary global Note will be exchangeable (free of charge) upon a request as described therein either for interests in a permanent global Note without receipts, interest coupons or talons or for definitive Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms) in each case against certification of beneficial ownership as described in the second sentence of the immediately preceding paragraph unless such certification has already been given. The holder of a temporary global Note will not be entitled to collect any payment of interest or principal due on or after the Exchange Date unless upon due certification exchange of the temporary global Note is improperly withheld or refused. Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*" below) the Agent shall arrange that, where a further Tranche of Notes is issued, the Notes of such Tranche shall be assigned a common code and ISIN by Euroclear and Clearstream, Luxembourg which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least 40 days (as notified by the Agent to the relevant Dealer or, in the case of a syndicated issue, the lead manager) after the completion of the distribution of the Notes of such Tranche.

Payments of principal and interest (if any) on a permanent global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the permanent global Note without any requirement for certification. The applicable Final Terms shall specify that either (i) a permanent global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such permanent global Note) to the Agent as described therein or (ii) a permanent global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached only upon the occurrence of an Exchange Event as described therein. "Exchange Event" means (i) an Event of Default (as defined in Condition 10) has occurred and is continuing; (ii) the Issuer has been notified that either Euroclear or Clearstream, Luxembourg has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and no alternative clearing system is available; or (iii) the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 7 which would not be required were the Notes represented by the permanent global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of any Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such permanent global Note) may give notice to the Agent requesting exchange and in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 60 days after the date of receipt of the first relevant notice by the Agent.

Global Notes and definitive Notes will be issued pursuant to the Agency Agreement.

The following legend will appear on all global Notes and definitive Notes, which have an original maturity of more than 365 days and on all receipts, interest coupons and talons relating to such Notes:

> "ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(J) AND 1287(A) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States Noteholders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of Notes, receipts or interest coupons.

A Note may be accelerated automatically by the holder thereof in certain circumstances described in "*Terms and Conditions of the Notes — Events of Default*" (Condition 10). In such circumstances, where any Note is still represented by a global Note and a holder of such Note so represented and credited to his securities account with Euroclear or Clearstream, Luxembourg gives notice that it wishes to accelerate such Note, unless within a period of 7 days from the giving of such notice payment has been made in full of the amount due in accordance with the terms of such global Note, such global Note will become void. At the same time, holders of interests in such global Note credited to their accounts with Euroclear or Clearstream, Luxembourg will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear and Clearstream, Luxembourg, on and subject to the terms of a deed of covenant (the "Deed of Covenant") dated 19 September, 2005 executed by the Issuer.

APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[Date]

FRANCE TELECOM

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the EUR 30,000,000,000

Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 19 September, 2005 [which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the ***Prospectus Directive***)][1]. This document constitutes the Final Terms of the Notes described herein [for the purposes of Article 5.4 of the Prospectus Directive][1] and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. Copies of such Base Prospectus and these Final Terms are available for inspection at www.bourse.lu and from the head office of the Issuer and the specified offices of the Paying Agents.

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under a Offering Circular with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the ***Conditions***) set forth in the Offering Circular dated [*original date*]. This document constitutes the Final Terms of the Notes described herein [for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the ***Prospectus Directive***)][1] and must be read in conjunction with the Base Prospectus dated 19 September, 2005 [which constitutes a base prospectus for the purposes of the Prospectus Directive][1], save in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus dated 19 September, 2005 and the Offering Circular dated [*original date*]. Copies of such documents are available for inspection at www.bourse.lu and from the head office of the Issuer and the specified offices of the Paying Agents.

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms]*

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[1] Delete in the case of any issue of Exempt Notes, any Notes to be listed on the unregulated market of the Luxembourg Stock Exchange or any Notes to be issued pursuant to a unitary prospectus.

[*When adding final terms or other information, consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*]

[*If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.*]

1.	Issuer:		France Telecom
2.	(i)	Series Number:	[ ]
	(ii)	Tranche Number:	[ ]
			(*If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible*)
3.	Specified Currency or Currencies:		[ ]
4.	Aggregate Nominal Amount:		
	(i)	Tranche:	[ ]
	(ii)	Series:	[ ]
5.	Issue Price:		[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*]] (*if applicable*).
6.	Specified Denominations:		[ ] [ ] [N.B. *If an issue of Notes is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive, the €1,000 minimum denomination is not required.*]
7.	(i)	Issue Date:	[ ]
	(ii)	Interest Commencement Date:	[ ]
8.	Maturity Date:		[*Fixed rate — specify date/Floating rate —* Interest Payment Date falling in or nearest to [*specify month*]]
9.	Interest Basis:		[[ ] per cent. Fixed Rate] [[LIBOR/EURIBOR] +/- [ ] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [*specify other*] (further particulars specified below)

10.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [*specify other*] *(N.B. If the Final Redemption Amount is less than 100% of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
11.	Change of Interest Basis or Redemption/Payment Basis:	[*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*]
12.	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	(a) Status of the Notes:	[Senior]
	[(b) Date of *Président's* decision to issue the Notes:	[ ]] (*N.B. only relevant to where the Notes constitute "obligations" under French law*)
14.	Method of distribution:	[Syndicated/Non-syndicated]

Provisions Relating to Interest (if any) Payable and to Index Linked Redemption

15.	Fixed Rate Note Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*) (i) Rate(s) of Interest: [ ] per cent. [per annum/*other period*] [payable [annually/semi-annually/quarterly] in arrear] (*If payable other than annually, consider amending Condition 4*) (ii) Interest Payment Date(s): [[ ] in each year up to and including the Maturity Date]/[*specify other*] (*NB: This will need to be amended in the case of long or short coupons*) (iii) Fixed Coupon Amount(s): [ ] per [ ] in nominal amount

(iv) Broken Amount(s): (*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount*)

(v) Day Count Fraction: [30/360 or Actual/Actual (ISMA) or [*specify other*]]

(vi) Determination Date(s): [ ] in each year

(*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon.*)

(*N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration*).

(*N.B. only relevant where Day Count Fraction is Actual/Actual (ISMA)*)

(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:

[None/*Give details*]

16. Floating Rate Note Provisions: [Applicable/Not Applicable]

(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

(i) Specified Period(s)/Specified Interest Payment Dates: [ ]

(ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[*specify other*]]

(iii) Additional Business Centre(s): [ ]

(iv) Manner in which the Rate of Interest and Interest Amount is to be determined:

[Screen Rate Determination/ISDA Determination/[*specify other*]]

(v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):

[Not applicable/give details]

(vi) Screen Rate Determination:

(A) Reference Rate: [ ] (*Either LIBOR, EURIBOR or other, although additional information is required if other — including fallback provisions in the Agency Agreement*)

(B) Interest Determination Date(s):

[ ] (*Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*)

(C) Relevant Screen Page: [ ] (*In the case of EURIBOR, if not Telerate page 248 ensure it is a page which shows a composite rate or amend the fallback provisions accordingly*)

(vii) ISDA Determination:

(A) Floating Rate Option: [ ]

(B) Designated Maturity: [ ]

(C) Reset Date: [ ]

(viii) Margin(s): [+/-] [ ] per cent. per annum

(ix) Minimum Rate of Interest: [ ] per cent. per annum

(x) Maximum Rate of Interest: [ ] per cent. per annum

(xi) Day Count Fraction:

[Actual/365
Actual/365 (Fixed)

Actual/365 (Sterling)
Actual/360
30/360
30E/360
Actual/Actual (ISMA)
Other]

(*See Condition 4 for alternatives*)

(xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Terms and Conditions: [ ]

17. Zero Coupon Note Provisions: [Applicable/Not Applicable]

(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

(i) Accrual Yield: [ ] per cent. per annum

(ii) Reference Price: [ ]

(iii) Any other formula/basis of determining amount payable: [ ]

(iv) Day Count Fraction in relation to Early Redemption Amounts and late payment:

[Conditions 6(e)(iii) and (j) apply/*specify other*]

(*Consider applicable day count fraction if not U.S. dollar denominated*)

18. Index Linked Note Provisions: [Applicable/Not Applicable]

(*If not applicable, delete the remaining subparagraphs of this paragraph*)

(i) Index/Formula: [*Give or annex details*]

(ii) Calculation Agent responsible for calculating the redemption amount (Index Linked Redemption Notes) and/or interest (Index Linked Interest Notes) due: [*Give name and address*]

(iii) Provisions for determining Coupon (Index Linked Interest Notes) and/or redemption amount (Index Linked Redemption Notes) where calculation by reference to Index and/or Formula is impossible or impracticable: [*need to include a description of market disruption or settlement disruption events and adjustment provisions*]

(iv) Specified Period(s)/Specified Interest Payment Dates: [ ]

(v) Business Day Convention:

[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*]

(vi) Additional Business Centre(s): [ ]

(vii) Minimum Rate of Interest: [ ] per cent. per annum

(viii) Maximum Rate of Interest: [ ] per cent. per annum

(ix) Day Count Fraction: [ ]

19. Dual Currency Note Provisions: [Applicable/Not Applicable]

(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

(i) Rate of Exchange/method of calculating Rate of Exchange:

[*Give or annex details*]

(ii) Calculation Agent, if any, responsible for calculating the principal and/or interest payable: [*Give name and address*]

(iii) Provisions applicable where calculation by reference to Rate of Exchange is impossible or impracticable: [*need to include a description of market disruption or settlement disruption events and adjustment provisions*]

(iv) Person at whose option Specified Currency(ies) is/are payable: [ ]

Provisions Relating to Redemption

20. Issuer Call: [Applicable/Not Applicable]

(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

(i) Optional Redemption Date(s): [ ]

(ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s):

[[ ] per Note of [ ] Specified Denomination/*specify other*/see Appendix]

(iii) If redeemable in part:

(A) Minimum Redemption Amount: [ ]

(B) Maximum Redemption Amount: [ ]

(iv) Notice period (if other than as set out in the Terms and Conditions):

(N.B. If setting notice periods which are different to those provided in the Terms and Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)

21. Investor Put: [Applicable/Not Applicable]

(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

(i) Optional Redemption Date(s): [ ]

(ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s):

[[ ] per Note of [ ] Specified Denomination/*specify other*/see Appendix]

(iii) Notice period (if other than as set out in the Terms and Conditions):

(N.B. If setting notice periods which are different to those provided in the Terms and Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as

		between the Issuer and the Agent)
22.	Final Redemption Amount:	[[ ] per Note of [ ] Specified Denomination/*specify other/*see Appendix] (*N.B. If the Final Redemption Amount is less than 100% of the nominal value, the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply*).
23.	Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 6(e)):	[ ]

General Provisions Applicable to the Notes

24.	Form of Notes:	[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]] [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date] [Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
25.	Additional Business Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/*give details*] (*Note that this item relates to the place of payment and not Interest Period end dates to which items 16(iii) and 18(vi) relate*)
26.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
27.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details. NB: a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*]
28.	Details relating to Instalment Notes:	
	(a) [Instalment Amount(s)]:	[Not Applicable/*give details*]
	(b) [Instalment Date(s)]:	[Not Applicable/*give details*]

29.	Redenomination applicable:	Redenomination [not] applicable [(*if Redenomination is applicable, specify the terms of the redenomination in an Annex to the Final Terms*)]
30.	French Taxation for Notes which are not *obligations*:	[Not Applicable/*insert*]
31.	Other terms or special conditions:	[Not Applicable/*give details*] [*When adding any other final terms or information, consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*]

Distribution

32.	(i)	If syndicated, names [and addresses and underwriting commitments]** of Managers:	[Not Applicable/*give names and addresses and underwriting commitments]** of Managers*] (Include names and addressees of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers)**
	(ii)	Date of [Subscription] Agreement:**	
	(iii)	Stabilising Manager (if any):	[Not Applicable/*give name*]
33.	If non-syndicated, name [and address]** of relevant Dealer:		[Not Applicable/*Name and address***]
34.	Total commission and concession:**		[ ] per cent. of the Aggregate Nominal Amount**
35.	Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable:		[TEFRA D/TEFRA C/TEFRA not applicable]
36.	Additional selling restrictions:		[Not Applicable/*give details*]
37.	Conditions of Offer:		[Not Applicable/*If applicable, set out information relating to articles 5.1.3 to 5.2.2 (as applicable) of Annex V of Regulation (EC) No. 809/2004*]

[Listing and Admission to Trading Application

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the EUR 30,000,000,000 Euro Medium Term Note Programme of the Issuer.]

Responsibility

The Issuer accepts responsibility for the information contained in these Final Terms. [[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of the Issuer:

By:

Duly authorised

[If the applicable Final Terms specify any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 4, 5, 6, (except Condition 6(b)), 11, 13, 14 (insofar as such Notes are not listed or admitted to trading on any regulated market), 16 or 18, it will not necessitate the preparation of a supplement to this Base Prospectus. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Base Prospectus will be prepared, if appropriate.]

PART B – OTHER INFORMATION

1. ***LISTING***

(i)	Listing:	[Luxembourg/other (*specify*)/None]
(ii)	Admission to trading:	[Application has been made for the Notes to be admitted to the official list and traded on the [regulated market/EuroMTF] of the Luxembourg Stock Exchange with effect from [the Issue Date/ *other*].] [Not Applicable. [*Specify "Not Applicable" either in the case of a listing on a non EU regulated market or where no listing is to occur*]] [*Where documenting a fungible issue need to indicate that original securities are already admitted to trading.*]**
(iii)	Estimate of total expenses related to admission to trading:*	[ ]*

2. ***RATINGS***

Ratings:	[The Notes to be issued have not been rated]/[The Notes to be issued have been rated: [Standard & Poor's Ratings Services, a division of the McGraw Hill Companies Inc.: [ ]] [Moody's Investors Service Limited: [ ]] [Fitch Ratings Ltd.: [ ]] [Other]: [ ]] [*Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider*.]** [*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*]]

3. [***NOTIFICATION***

The competent authority in Luxembourg has provided the [*names of competent authorities of host Member States*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

4. ***INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE***

[Save for any fees payable to the Dealer(s), so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.]

[*Amend as appropriate if there are other interests*]

5. ***ESTIMATED NET PROCEEDS AND TOTAL EXPENSES*****

(i)	[Reasons for the offer:	[ ] [(See "Use of Proceeds" wording in Base Prospectus – *if reasons for offer different from general corporate purposes and/or refinancing of current indebtedness will need to include those reasons here.*)]]
(ii)	[Estimated net proceeds:	[ ] [*If the proceeds are intended for more than one purpose, those purposes should be disclosed in order of priority. If the proceeds will be insufficient to fund all disclosed purposes, state the amount and sources of other funding.*]]
(iii)	[Estimated total expenses: [(*If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.*)]**	[ ] [*Include breakdown of expenses*]]

6. ***YIELD*** (Fixed Rate Notes only)

Indication of yield:	[Not Applicable/Applicable] [*give details*] The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

7. ***HISTORIC INTEREST RATES*** (*Floating Rate Notes only*)

[Not Applicable/Applicable]
Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Telerate].**

8. ***PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING*** (*Indexed Notes only*)

[Not Applicable/Applicable]

[*Need to include details of where performance and volatility from time to time of the index/formula can be obtained*] [*Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances in which the risks are most evident.*]** [*Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.*]

9. ***PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT*** (*Dual Currency Notes only*)

[Not Applicable/Applicable]

[*Need to include details of where performance and volatility from time to time of the relevant rates can be obtained]*

[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances in which the risks are most evident.] **

10. ***EXPLANATION OF EFFECT ON VALUE OF INVESTMENT, RETURN ON DERIVATIVES SECURITIES AND INFORMATION CONCERNING THE UNDERLYING***[1]

EXPLANATION OF EFFECT ON VALUE OF INVESTMENT

Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.

RETURN ON DERIVATIVES SECURITIES

Return on Derivative Securities:	*[Description of how any Return on Derivative Securities takes place]*
Payment or Delivery Date:	[●]
Method of Calculation:	[●]

INFORMATION CONCERNING THE UNDERLYING

The exercise price or the final reference price of the underlying:	[●]
a statement setting out the type of the underlying and details of where information on	

[1] Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies. If the Final Redemption Amount is less than 100% of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply. This pro forma has been annotated to indicate where the key additional requirements of Annex XII are dealt with.

the underlying can be obtained:	
- an indication where information about the past and the further performance of the underlying and its volatility can be obtained	[●]
- where the underlying is a security:	[Applicable/Not Applicable]
the name of the issuer of the security:	[●]
The ISIN (International Security Identification Number) or other such security identification code:	[●]
- where the underlying is an index:	[Applicable/Not Applicable]
the name of the index and a description of the index if it is composed by the issuer. if the index is not composed by the issuer, where information about the index can be obtained:	[●]
- where the underlying is an interest rate:	[Applicable/Not Applicable]
a description of the interest rate:	[●]
- others:	[Applicable/Not Applicable]
where the underlying does not fall within the categories specified above the securities note shall contain equivalent information:	[●]
- where the underlying is a basket of underlyings:	[Applicable/Not Applicable]
disclosure of the relevant weightings of each underlying in the basket:	[●]
A description of any market disruption or settlement disruption events that affect the underlying:	[●]
Adjustment rules with relation to events concerning the underlying:]	[●]
POST-ISSUANCE INFORMATION CONCERNING THE UNDERLYING	The Issuer [intends/does not intend] to publish post-issuance information regarding the underlying. [*IF THE ISSUER INTENDS TO REPORT SUCH INFORMATION, SPECIFY WHAT INFORMATION WILL BE REPORTED AND WHERE SUCH INFORMATION CAN BE OBTAINED.*]

11. ***OPERATIONAL INFORMATION***

(i)	ISIN Code:	[ ]
(ii)	Common Code:	[ ]
(iii)	Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]

12. ***Delivery***: Delivery [against/free of] payment

13. ***Names and addresses of Additional Paying Agent(s) (if any)***: [ ]

14. ***Address and contact details of France Telecom for all administrative communications relating to the Notes***:

Telephone: [ ]
Telex: [ ]
Facsimile: [ ]
Attention: [ ]

Notes:
* Delete if the minimum denomination is less than €50,000
** Delete if the minimum denomination is €50,000

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each global Note and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any), and agreed by the Issuer and the relevant Dealer(s) at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each temporary global Note, permanent global Note and definitive Note. Reference should be made to "Form of the Notes", for a description of the content of the Final Terms which will include the definitions of certain terms used in the following Terms and Conditions or specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by France Telecom (the "Issuer") pursuant to the Agency Agreement (as defined below).

References herein to the "Notes" shall be references to the Notes of this Series and shall mean:

(i) in relation to any Notes represented by a global Note, units of the lowest Specified Denomination in the Specified Currency;

(ii) definitive Notes issued in exchange for a global Note; and

(iii) any global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an amended and restated agency agreement (the "Agency Agreement") dated 19 September, 2005 and made among, the Issuer, Citibank, N.A. as issuing and principal paying agent and agent bank (the "Agent", which expression shall include any successor agent specified in the applicable Final Terms) and the other paying agents named therein (together with the Agent, the "Paying Agents", which expression shall include any additional or successor paying agents).

Interest bearing definitive Notes (unless otherwise indicated in the applicable Final Terms) have interest coupons ("Coupons") and, if indicated in the applicable Final Terms, talons for further Coupons ("Talons") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts ("Receipts") for the payment of the instalments of principal (other than the final instalment) attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions (the "Terms and Conditions") and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the "applicable Final Terms" are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to "Noteholders" or "holders" in relation to any Notes shall mean the holders of the Notes, and shall, in relation to any Notes represented by a global Note, be construed as provided below. Any reference herein to "Receiptholders" shall mean the holders of the

Receipts and any reference herein to "Couponholders" shall mean the holders of any Coupons, and shall, unless the context otherwise requires, include any holders of the Talons.

As used herein, "Tranche" means Notes which are identical in all respects and "Series" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (the "Deed of Covenant") dated 19 September, 2005 and made by the Issuer. The original of the Deed of Covenant is held by a common depositary on behalf of Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Agent and the other Paying Agents. Copies of the applicable Final Terms are available for viewing at www.bourse.lu and copies may be obtained from the head office of the Issuer and the specified offices of the Paying Agents save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be available by a Noteholder holding one or more Notes of that Series and such Noteholder must produce evidence satisfactory to the relevant Paying Agent as to its holding of Notes and as to identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the applicable Final Terms which are applicable to them.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

1. Form, Denomination and Title

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Interest Note, a Dual Currency Redemption Note or a Partly Paid Note or a combination of any of the foregoing, depending upon the Interest/Payment Basis shown in the applicable Final Terms.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer, the Replacement Agent (as defined in the Agency Agreement) and any Paying Agent may deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a global Note held on behalf of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and/or Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest or proven error) shall be treated by the Issuer, the Agent and any other Paying Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose the bearer of the relevant global Note shall be treated by the Issuer, the Agent and any other Paying Agent as the holder of such Notes in accordance with and subject to the terms of the relevant global Note and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly. Notes which are represented by a global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or of Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer and the Agent.

2. Status of the Notes

The Notes and the relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain debts required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

3. Negative Pledge

The Issuer undertakes that so long as any of the Notes remains outstanding it will not, and shall ensure that none of its Principal Subsidiaries will, create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (each a "Security Interest") upon the whole or any part of its/their respective assets or revenues of whatever nature present or future, to secure any Relevant Debt, or any guarantee of or indemnity in respect of any Relevant Debt, unless at the same time or prior thereto the Issuer's obligations under the Notes and Coupons are secured equally and rateably therewith or benefit from a Security Interest or guarantee or indemnity in substantially identical terms thereto to the extent permitted by French or other applicable law or regulation.

For the purposes of this Condition:

"Principal Subsidiary" means any Subsidiary at any relevant time of the Issuer:

(i) (a) whose total assets or operating income (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or consolidated operating income, as the case may be) attributable to the Issuer represent not less than 15 per cent. of the total consolidated assets or consolidated operating income of the Issuer, all as calculated by reference to the then latest audited accounts (or consolidated accounts, as the case may be) of such Subsidiary and the then latest audited consolidated accounts of the Issuer and its consolidated subsidiaries and

(b) whose management and control is exercised by the Issuer; or

(ii) to which is transferred all or substantially all the assets and undertakings of a Subsidiary which immediately prior to such a transfer is a Principal Subsidiary.

"Relevant Debt" means (i) any Notes issued under the Euro Medium Term Note Programme of the Issuer described herein or (ii) any present or future indebtedness for borrowed money in the form of, or represented by, bonds (*obligations*), notes or other securities (including *titres de créances négociables*) which are for the time being, or are capable of being quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter market or other securities market (but excluding present or future indebtedness for borrowed money in the form of such other securities issued by the Issuer or Principal Subsidiary in private placements that the Issuer or such Principal Subsidiary has required in writing not to be so quoted, listed or ordinarily dealt in).

"Subsidiary" means in relation to any person or entity at any time (an "Entity"), any other person or entity (whether or not now existing) more than 50 per cent. of the capital of which is held by the Entity (as set out in article L.233-1 of the French Commercial Code (the "French Commercial Code") or any other person or entity controlling directly or indirectly such person or entity by within the meaning of article L.233-3 of the French Commercial Code.

(For information purposes only, article L.233-3 of the French Commercial Code provides that an Entity would be considered to control such person or entity if it (i) holds directly or indirectly a percentage of the share capital which confers upon it a majority of the voting rights; (ii) holds alone the majority of voting rights by virtue of an agreement (which is not contrary to the interests of such person or entity) made with the other shareholders of such person or entity; or (iii) de facto, by virtue of the voting rights it holds, makes decisions at shareholders' meetings. It is presumed to exercise control if it holds, directly or indirectly, more than 40 per cent. of the voting rights and no other shareholder holds a larger percentage of the voting rights than it.)

4. Interest

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Fixed Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in these Terms and Conditions "Fixed Interest Period" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with the applicable market convention.

"Day Count Fraction" means, in respect of the calculation of an amount of interest in accordance with this Condition 4(a):

(i) if "Actual/Actual (ISMA)" is specified in the applicable Final Terms:

(a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "Accrual Period") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and

(2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(ii) if "30/360" is specified in the applicable Final Terms, the number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Terms and Conditions:

"Determination Period" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on, the first Determination Date falling after, such date); and

"sub-unit" means with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) Interest on Floating Rate Notes and Index Linked Interest Notes

(i) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

(B) if no express Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an "Interest Payment Date") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In these Terms and Conditions, "Interest Period" shall mean the period from (and including) the immediately preceding Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(1) in any case where Specified Periods are specified in accordance with Condition 4(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In this Condition 4, "Business Day" means a day which is both:

(A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and

(B) either (1) in relation to sums payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland respectively); or (2) in relation to sums payable in euro, a day on which the Trans-European Automated Real Time Gross Settlement Express Transfer (TARGET) System (the "TARGET System") is open.

(ii) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Final Terms.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), "ISDA Rate" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the "ISDA Definitions") and under which:

(1) the Floating Rate Option is as specified in the applicable Final Terms;

(2) the Designated Maturity is a period specified in the applicable Final Terms; and

(3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (LIBOR) or on the Euro-zone inter-bank offered rate ("EURIBOR") for a currency, the first day of that Interest Period; or (ii) in any other case, as specified in the applicable Final Terms.

In these Terms and Conditions, "Euro-zone" means the region comprised of member states of the European Union that accept the

Single Currency in accordance with the Treaty establishing the European Community, as amended.

For the purposes of this sub-paragraph (A), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity" and "Reset Date" have the meanings given to those terms in the ISDA Definitions.

(B) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either

(1) the offered quotation; or

(2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(iii) *Minimum and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and Calculation of Interest Amounts*

The Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at, or as soon as practicable after, each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent will calculate the amount of interest (the "Interest Amount") payable on the Floating Rate Notes or Index Linked Interest Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"Day Count Fraction" means, in respect of the calculation of an amount of interest in respect of this Condition 4(b):

(A) if "Actual/365" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(B) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(C) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365, or, in the case of an Interest Payment Date falling in a leap year, 366;

(D) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(E) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month: or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));

(F) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of an Interest Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and

(G) if "Actual/Actual (ISMA)" is specified in the applicable Final Terms, the number of days in the relevant period from and including the most recent Interest Payment Date, (or, if none, the Interest Commencement Date) to but excluding the relevant payment date divided by (x) in the case of Notes where interest is scheduled to be paid only by means of regular annual payments, the number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the next scheduled Interest Payment Date or (y) in the case of Notes where interest is scheduled to be paid other than only by means of regular annual payments, the product of the number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the next scheduled Interest Payment Date and the number of Interest Payment Dates that would occur in one calendar year assuming interest was to be payable in respect of the whole of that year.

(v) Notification of Rate of Interest and Interest Amounts

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to the Issuer and to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression "London Business Day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(vi) Certificates to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(b), whether by the Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest or proven error) be binding on the Issuer, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or (if applicable) the Calculation

Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Dual Currency Interest Notes*

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Final Terms.

(d) *Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

(e) *Accrual of Interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

(1) the date on which all amounts due in respect of such Note have been paid; and

(2) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

5. ***Payments***

(a) *Method of Payment*

Subject as provided below:

(i) payments in a Specified Currency other than euro or U.S. dollars will be made by transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or at the option of the payee by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland respectively);

(ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque; and

(iii) payments in U.S. dollars will be made by transfer to a U.S. dollar account maintained by the payee with a bank outside the United States (which expression, as used in this Condition 5, means the United States of America, including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction), or by cheque drawn on a United States bank.

In no event will payment be made by a cheque mailed to an address in the United States or by transfer to an account maintained by the payee with a bank located in the United States.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7. References to "Specified Currency" will include any successor currency under applicable law.

(b) *Presentation of Notes, Receipts and Coupons*

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph *(a)* above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest (if any) in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph *(a)* above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt. Payment of the final instalment will be made in the manner provided in paragraph *(a)* above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes or Index Linked Notes) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, 5 years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Notwithstanding the provisions of the previous paragraph, if any such Fixed Rate Notes in definitive form should be issued on terms such that, on the presentation for payment of any such Note without any unmatured Coupons attached thereto or surrendered therewith, the amount required by this paragraph to be deducted would be greater than the Early Redemption Amount otherwise due for payment, then, upon the due date for redemption of any such Note, such unmatured Coupons (whether or not attached) shall become void (and no payment shall be made in respect thereof) as shall be required so that, upon application of the provisions of this paragraph in respect of such Coupons as have not so become void, the amount required by this paragraph to be deducted would not be greater than the Early Redemption Amount otherwise due for payment. Where the application of the foregoing sentence requires some but not all of the unmatured Coupons relating to a Note to become void, the relevant Paying Agent shall determine which unmatured Coupons are to become void, and shall select for such purpose Coupons maturing on later dates in preference to Coupons maturing on earlier dates.

Upon any Fixed Rate Note becoming due and repayable prior to its Maturity Date, all unexchanged or unmatured Talons (if any) appertaining thereto (whether or not attached) will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note or Index Linked Note in definitive form becomes due and repayable, unmatured Coupons (if any) and unexchanged or unmatured Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

If the due date for redemption of any definitive Note is not a Fixed Interest Date or an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Fixed Interest Date or Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

Payments of principal and interest (if any) in respect of Notes represented by any global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant global Note against presentation or surrender, as the case may be, of such global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of such global Note, distinguishing between any payment of principal and any payment of interest, will be made on such global Note by such Paying Agent and such record shall be *prima facie* evidence that the payment in question has been made.

The holder of a global Note shall be the only person entitled to receive payments in respect of Notes represented by such global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such global Note.

Notwithstanding the foregoing, if any amount of principal and/or interest in respect of this Note is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of this Note will be made at the specified office of a Paying Agent in the United States if:

(i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;

(ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(c) Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place of presentation and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "Payment Day" means any day which is:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

(A) the relevant place of presentation;

(B) London; and

(C) any Additional Business Centre specified in the applicable Final Terms;

(ii) a Business Day (as defined in Condition 4(b)(i)); and

(iii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Business Centre and which if the Specified Currency is Australian Dollars or New Zealand dollars shall be Sydney or Auckland respectively); or (2) in relation to any sum payable in euro, a day on which the TARGET System is open.

(d) Interpretation of Principal and Interest

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(i) any additional amounts which may be payable with respect to principal under Condition 7;

(ii) the Final Redemption Amount of the Notes;

(iii) the Early Redemption Amount of the Notes;

(iv) the Optional Redemption Amount(s) (if any) of the Notes;

(v) in relation to Notes redeemable in instalments, the Instalment Amounts;

(vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 6(e)); and

(vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts (other than interest) which may be payable with respect to interest under Condition 7.

6. *Redemption and Purchase*

(a) *At Maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

(b) *Redemption for Tax Reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if:

(i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of the Republic of France or any political subdivision or any authority in, or of, the Republic of France, having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date upon which agreement is reached to issue the first Tranche of the Notes; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

The Notes shall be redeemed by the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if:

(i) on the occasion of the next payment of interest due under the Notes, the Issuer would be prevented by French law from making payment to the Noteholders of the full amount then due and payable, notwithstanding the undertaking to pay additional amounts as provided or referred to in Condition 7; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(b), the Issuer shall deliver to the Agent a certificate signed by the Chief Financial Officer of the Issuer stating that the Issuer is entitled or required to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right or obligation of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment (including as a result of any settlement agreement entered into with the applicable fiscal authorities in respect of such conditions) and/or is being prevented from paying such additional amounts, as the case may be.

Notes redeemed pursuant to this Condition 6(b) will be redeemed at their Early Redemption Amount referred to in paragraph *(e)* below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) *Redemption at the Option of the Issuer (Issuer Call)*

If the Issuer is specified in the applicable Final Terms as having an option to redeem (Issuer Call), the Issuer shall, having given:

(i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14; and

(ii) not less than 15 days before the giving of the notice referred to in (i) above and, notice to the Agent,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed ("Redeemed Notes") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Notes represented by a global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "Selection Date"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date; provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least 5 days prior to the Selection Date.

(d) *Redemption at the Option of the Noteholders (Investor Put)*

If Investor Put is specified in the applicable Final Terms upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 30 nor more than

60 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, in whole (but not in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "Put Notice") and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition 6(d), accompanied by, if this Note is in definitive form, this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If this Note is represented by a global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by a global Note, at the same time present or procure the presentation of the relevant global Note to the Agent for notation accordingly.

Any Put Notice given by a holder of any Note pursuant to this paragraph (d) shall be irrevocable except where, prior to the due date of redemption, an Event of Default shall have occurred and be continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph (d) and instead to declare such Note forthwith due and payable pursuant to Condition 10.

(e) *Early Redemption Amounts*

For the purpose of paragraph (b) above and Condition 10, the Notes will be redeemed at the Early Redemption Amount calculated as follows:

(i) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(ii) in the case of Notes (other than Zero Coupon Notes but including Instalment Notes and Partly Paid Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the Final Terms, at their nominal amount; or

(iii) in the case of Zero Coupon Notes, at an amount (the "Amortised Face Amount") equal to the sum of:

(A) the Reference Price specified in the Final Terms; and

(B) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made on the basis of a 360-day year consisting of 12 months of 30 days each and in the case of an incomplete month the actual number of days elapsed or such other calculation basis as may be specified in the applicable Final Terms.

(f) *Instalments*

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph *(e)* above.

(g) *Partly Paid Notes*

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 6 and the applicable Final Terms.

(h) *Purchases*

The Issuer or any of its subsidiaries may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise, in accordance with the applicable regulations of the relevant Stock Exchange.

(i) *Cancellation*

All Notes which are redeemed or purchased by the Issuer will forthwith be cancelled (together with all unmatured Receipts and Coupons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

(j) *Late payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph *(a)*, *(b)*, *(c)* or *(d)* above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph *(e)*(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(ii) 5 days after the date on which the full amount of the moneys payable has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

7. Taxation

(a) Interest and other revenues in respect of Notes which constitute *obligations* and are being issued or deemed to be issued outside the Republic of France benefit from the exemption provided for in Article 131 *quater* of the *Code Général des Impôts* (French General Tax Code) from deduction of tax at source. Accordingly such payments do not give the right to any tax credit from any French source. The tax regime applicable to Notes which do not constitute *obligations* will be specified in the relevant Final Terms.

(b) If French law should require that any payments in respect of the Notes, Receipts or Coupons be subject to withholding with respect to any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed or levied by, or on behalf of, the Republic of France or any authority therein or thereof having power to tax, the Issuer will, to the fullest extent then permitted by law, pay such additional amounts as may be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

  (i) presented for payment by or on behalf of a Noteholder, Receiptholder or Couponholder (including a beneficial owner (*ayant droit*)) who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with the Republic of France other than the mere holding of such Note, Receipt or Coupon; or

  (ii) presented for payment to a Paying Agent where presentation to another Paying Agent would not have resulted in such withholding or deduction or where additional amounts are payable only because Notes, Receipts or Coupons are being presented for payment at the counter of a Paying Agent; or

  (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

  (iv) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or

  (v) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day.

As used herein, the "Relevant Date" in relation to any Note means the date on which such payment first becomes due, except that if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

Any reference in these Terms and Conditions to principal or interest or both in respect of the Notes shall be deemed to include (i) a reference to any additional amounts which may be payable under this Condition 7; (ii) in relation to Zero Coupon Notes, the Amortised Face Amount; (iii) in relation to Index Linked Notes, the Redemption or Early Redemption Amounts; (iv) in relation to Dual Currency Notes, the principal or interest in the relevant Specified Currency; (v) in relation to Instalment Notes, the Instalment Amount; and (vi) any premium and any other amounts which may be payable in respect of the Notes.

8. Indebtedness of the Issuer

The Issuer hereby covenants and agrees that in the event that any indebtedness of the Issuer in respect of moneys borrowed in excess of EUR 20,000,000 or its equivalent in any other currencies, other than the Notes, is not paid when due or as the case may be, at the expiry of any applicable grace period, or any guarantee given by the Issuer in respect of monies borrowed is not honoured, all amounts payable with respect to any Notes shall forthwith become immediately due and payable at the principal amount, together with interest accrued to the date of repayment, unless the Issuer is contesting in good faith that such debt is due or that such guarantee is callable so long as the dispute is being defended and has not been fully adjudicated or such non-payment arose due to a technical failure or administrative error and is remedied within the shorter of the applicable grace period and 8 Business Days following the service by any Noteholder on the Issuer of notice requiring repayment thereof.

For the purposes of this Condition 8, "Business Day" means a day on which commercial banks and foreign exchange markets settle payment in London and Paris.

9. Prescription

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and 5 years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition 9 or Condition 5(b) or any Talon which would be void pursuant to Condition 5(b).

10. Events of Default

If any one or more of the following events (each an "Event of Default") shall occur, the holder of any Note may give notice to the Issuer that the Note is, and it shall accordingly forthwith become, immediately due and payable at its principal amount, together with interest accrued to the date of repayment, in any of the following events ("Events of Default"):

(a) if default is made by the Issuer in the payment of any principal or interest due in respect of the Notes or any of them and, with respect to any interest due, the default continues for a period of 15 days next following the service by any Noteholder on the Issuer of notice requiring the same to be remedied; or

(b) if the Issuer fails to perform or observe any of its other obligations under these Terms and Conditions and (except in any case where the failure is incapable of remedy when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by any Noteholder on the Issuer of notice requiring the same to be remedied; or

(c) prior to redemption in full of the Notes, the Issuer or any Principal Subsidiary is dissolved, wound up or reorganised (either by court order or otherwise) or merges, consolidates, amalgamates with any company unless the successor corporation assumes all of the Issuer’s obligations in respect of the Notes and the creditworthiness of such successor company is not materially weaker than that of the Issuer prior to such merger, consolidation or amalgamation; or

(d) if the Issuer or any Principal Subsidiary makes any proposal for a general moratorium in relation to its debt or applies for the appointment of a conciliator (*conciliateur*) or enters into an amicable settlement (*réglement amiable*) with its creditors or a judgment is issued for the judicial liquidation (*liquidation judiciaire*) or for a judicial transfer of the whole of its business (*cession totale de l'entreprise*) of the Issuer or, to the extent permitted by applicable law, if the Issuer makes any conveyance, assignment or other arrangement for the benefit of its creditors or enters into a composition with its creditors; or

(e) if the Issuer or any Principal Subsidiary ceases to carry on all or substantially all of its telecommunications business (which represents a substantial part of the telecommunications business of the Issuer and its Subsidiaries taken as a whole) carried on by it prior to such cessation, the result of which reduces the value of the assets of the Issuer; or

(f) the Issuer or any Principal Subsidiary stops or threatens to stop payment of, or is unable to, or admits inability to, pay its debts (or any class of its debts) as they fall due, or is adjudicated or found bankrupt or insolvent; or

(g) if (A) proceedings are initiated against the Issuer or any Principal Subsidiary under any applicable liquidation, insolvency, composition, reorganisation or any other similar laws, or an application is made for the appointment of an administrative or other receiver, manager, administrator or any other similar official is appointed, in relation to the Issuer or, as the case may be, in relation to the whole or a part of the undertakings or assets of the Issuer, or an encumbrancer takes possession of the whole or a part of its undertakings or assets (which are material in the context of the issue of the Notes), or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a part of its undertakings or assets (which are material in the context of the issue of the Notes); and (B) in any case (other than the appointment of an administrator) is not discharged within 28 days, provided that this paragraph (g) shall not apply to any proceedings against the Issuer or a Principal Subsidiary brought by a third party other than an administrative or judicial authority where the Issuer can demonstrate that that any such proceedings are being contested by the Issuer or the Principal Subsidiary in good faith, diligently and by appropriate proceedings in a competent court; or

(h) it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under the Notes.

For the purposes of this Condition 10, Principal Subsidiary shall mean any Subsidiary at any relevant time of the Issuer:

(i) whose total assets or operating income (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or consolidated operating income, as the case may be) attributable to the Issuer represent not less than 15 per cent. of the total consolidated assets or consolidated operating income of the Issuer, all as calculated by reference to the then latest audited accounts (or consolidated accounts, as the case may be) of such Subsidiary and the then latest audited consolidated accounts of the Issuer and its consolidated subsidiaries; or

(ii) to which is transferred all or substantially all the assets and undertakings of a Subsidiary which immediately prior to such a transfer is a Principal Subsidiary.

11. Replacement of Notes, Receipts, Coupons and Talons

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced free of charge at the specified office of the Replacement Agent on such terms as to evidence and indemnity as the Issuer and the Replacement Agent may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued. For the purposes of Luxembourg listed Notes, the Paying Agent in Luxembourg will act as Replacement Agent.

Cancellation of lost, stolen, mutilated, defaced or destroyed Notes, Receipts, Coupons or Talons shall be subject to compliance with such procedures as may be required by any applicable legislation, to any applicable stock exchange requirements and the procedures set out in the Agency Agreement.

12. Agent and Paying Agents

The names of the initial Agent and the other initial Paying Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

(i) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent (which may be the Agent) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority);

(ii) there will at all times be a Paying Agent (which may be the Agent) with a specified office in a city in continental Europe;

(iii) there will at all times be a Paying Agent with its specified office in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to such Directive; and

(iv) there will at all times be an Agent.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the final paragraph of Condition 5(b). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

The Luxembourg Paying Agent is:
Dexia Banque Internationale à Luxembourg, Société Anonyme
69 route d'Esch
L-1470 Luxembourg
Luxembourg

13. Exchange of Talons

On and after the Fixed Interest Date or the Interest Payment Date, as appropriate, on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 8.

14. Notices

All notices regarding the Notes shall be deemed to be validly given if published (i) in a leading English language daily newspaper of general circulation in London; and (ii) if and for so long as the Notes are listed on the Luxembourg Stock Exchange, and for so long as the Luxembourg Stock Exchange rules so require, either a daily newspaper of general circulation in Luxembourg or the internet site of the Luxembourg Stock Exchange. It is expected that such publications will be made in the *Financial Times* in London and on the internet site of the Luxembourg Stock Exchange (www.bourse.lu). The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where published in more than one newspaper or website, on the date of the first publication in each such newspaper or website.

Except in the case of Notes listed on the Luxembourg Stock Exchange, until such time as any definitive Notes are issued, there may (provided that in the case of Notes listed on any stock exchange or are admitted to trading by another relevant authority and the rules of such stock exchange or other relevant authority so permit), so long as the global Note(s) is or are held in its/their entirety on behalf of Euroclear and Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the Noteholders. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and Clearstream, Luxembourg.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a global Note, such notice may be given by any holder of a Note to the Agent via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

15. Meetings of Noteholders, Modification and Waiver

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or Noteholders holding not less than 5 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, Receipts or Coupons (including (i) modifying the date of maturity of the Notes or any date for payment of interest thereof, (ii) reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes, (iii) varying the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or Maximum Rate of Interest, Instalment or Redemption Amount is applicable, reducing any such Minimum and/or Maximum, (v) varying any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Early Redemption Amount, (vi) altering the currency of payment of the Notes, Receipts or Coupons, (vii) taking any steps that may only be taken following approval by an Extraordinary Resolution to which special quorum provisions apply or, (viii) modifying the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution) the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

(i) any modification (except as mentioned above) of the Agency Agreement which is not prejudicial to the interests of the Noteholders; or

(ii) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

16. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders, Receiptholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes. For the purposes of French law, such further Notes will be assimilated (*assimilables*) to the Notes as regards their financial service provided that the terms of such further Notes provide for such assimilation.

17. Redenomination

The Issuer may (if so specified in the applicable Final Terms) without the consent of the holder of any Note, Receipt, Coupon or Talon, redenominate all, but not some only, of the Notes of any Series on or after the date on which the member state of the European Union in whose national currency such Notes are denominated has become a participant member in the third stage of the European economic and monetary union ("EMU") as more fully set out in the applicable Final Terms.

18. Contract (Rights of Third Parties) Act 1999

The Notes shall not confer any rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Notes, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

19. Governing Law and Submission to Jurisdiction

The Agency Agreement, Deed of Covenant, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

The competent court in Paris is to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Agency Agreement, the Notes, the Receipts and/or the Coupons and that accordingly any suit, action or proceedings (together referred to as "Proceedings") arising out of or in connection with the Agency Agreement, the Notes, the Receipts and the Coupons may exclusively be brought in such court.

The Issuer agrees to indemnify any Noteholder in relation to any costs incurred by a Noteholder which are directly related to the bringing of any Proceedings in the competent court in Paris and which the Noteholder would not have incurred had the Proceedings been brought in the courts of England including, without limitation, the costs of any and all translations into French and the costs of providing expert evidence, if necessary, in order to establish the content of relevant English law.

USE OF PROCEEDS

The Issuer intends to use the net proceeds from each issue of Notes for general corporate purposes, including the refinancing of current indebtedness. If, in respect of any particular issue, there is a particular use of proceeds, this will be stated in the applicable Final Terms.

RECENT DEVELOPMENTS

1. ACQUISITIONS

Acquisition of Amena in Spain

On 27 July, 2005, France Telecom announced that its subsidiary Orange S.A. had entered into an agreement to acquire 80% of the shares of Auna ("Auna"), the owner of 97.9% of Retevision Movil S.A., a mobile operator under the trade name "Amena", for €6.5 billion. This transaction will reach final completion once the cable activities of Auna (Auna Tlc) are separated and upon the fulfillment of certain other conditions, including in particular, approval by competition authorities.

France Telecom will then proceed to merge Auna, Retevision Movil S.A. and France Telecom España (which holds the fixed and internet businesses of the group in Spain under the Wanadoo brand). Following completion of the merger, France Telecom will retain approximately 75%-80% of the newly merged entity. The balance (between 20%-25%) of the shares will be held by Santander, Union Fenosa and Endesa, as well as by the minority shareholders wishing to retain their stake, including certain Spanish savings banks. The transaction has been approved by the boards of directors of Orange S.A. and Union Fenosa.

On a comparable basis, at the end of 2005, the France Telecom group will have more than 11.8 million customers in Spain with sales of €4.1 billion and a gross operating margin of around €1.2 billion for CAPEX of roughly €750 million.

The annual growth objectives of the France Telecom group in Spain for 2006-2008 are 7% to 8% for revenues and 11% to 15% for gross operating margin with reduced CAPEX. By 2008, France Telecom España aims to have more than 14 million customers.

This transaction puts France Telecom in a position to offer convergent broadband and mobile services in a key European market with close to 10 million additional customers.

This transaction also allows France Telecom to reinforce its strategy as an integrated operator in Europe. France Telecom will now be in a position to launch convergent offers in broadband and mobile in a key European market.

Creation of a first tier operator in Spain with the merger of the number three mobile operator and the number two ADSL operator

With 9.7 million customers and a 24% market share at the end of June 2005 (five years after its launch), Amena is one of the leading number three cellular operators in its local European market. With more than 47.4% of its customers under contract and an ARPU in excess of €27, its gross operating margin rate[(1)] exceeds 30%. This merger reinforces France Telecom's leading role in one of the most attractive telecommunications markets in Europe. Spain is the number five market in Europe with an estimated growth potential for mobiles of approximately 6% per year between 2005 and 2008, better than the European average, with further potential to penetrate the mobile market. Amena's share of the market has strongly improved over the last five years.

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(1) See "Glossary".

This merger is accompanied by a strategic partnership with the current Spanish shareholders of Amena (Grupo Santander, Endesa, Unión Fenosa) and certain other minority shareholders including several Spanish savings banks. France Telecom's Spanish partners will retain 20% of Amena, and after the merger of Amena and France Telecom España Spain, they will hold between 20%-25% of the merged entity, given the more leveraged financial structure of that company. The Spanish partners have undertaken to retain their share interests in France Telecom España for a minimum period of three years. At the end of these three years, they may sell their interests to a third party or to France Telecom (France Telecom having a right of first refusal). If the sale price is less than or equal to 90% of the price per share, as at the closing date of the Amena acquisition, adjusted by simple interest at an annual rate of 4.5% compounded, Orange S.A. has undertaken to indemnify the minority shareholders for any difference.

Already active in Spain for more than seven years through several subsidiaries, France Telecom is well known in the Internet market under the trade name Wanadoo. With 1.5 million Internet customers (and 2 million voice customers on the internet), including more than 500,000 ADSL lines, France Telecom España accounts for more than 16% of the ADSL market and covers 50% of the local unbundled loop. 73% of its ADSL customers are dual-play customers. With growth in revenues in the first semester 2005 of more than 14%, France Telecom España has a strongly increasing positive gross operating margin. Joining forces with Amena and developing new integrated services will dynamize Wanadoo's Internet strategy.

In 2005 and on a comparable basis, France Telecom España will represent 17% of the Spanish telecom market. Through this acquisition, France Telecom positions itself as the most important challenger to the incumbent Spanish operator.

A major step in the roll-out of the NExT strategy: acceleration of the implementation of France Telecom's strategy of an integrated European operator

One month after the launch of France Telecom's strategy for 2005-2008 in the context of the NExT (New Experience in Telecom services) program, this transaction allows the Group to address the issue of growth in Europe. The European reach of NExT and the utilization of cash resources are presented at the outset of the program launch.

A transaction in accordance with the cash utilization criteria defined in the NExT plan

Financed in the amount of €3 billion by a capital increase, the transaction fully complies with the cash utilization criteria defined in the NExT plan. It should have a positive impact on free cash flow per share and net income per share before amortization of goodwill in less than twelve months. The objectives of the Group of a ratio of net debt to gross operating margin for 2005 below 2.5x (pro forma) and below 2x for 2008 as well as the objective for dividend distribution in 2006 are maintained.

Valuation of the transaction

The merger of Amena and France Telecom España subsequent to the acquisition has a strong logic in the industry. The transaction values Amena at €8.9 billion, prior to synergies, to which should be added more than €1.7 billion of value related to tax assets, and after giving effect to debt and minority interests of around €2.6 billion. The expected multiple of gross operating margin for 2005 before taking into account synergies is between 7.8 and 8.0x.

Tax Assets

The value of these assets (more than €1.7 billion) derives in part from tax loss carry-forwards of Auna and Retevision Movil S.A.. In addition, the operational reorganization of the France Telecom group in Spain will entail the merger of Auna, Retevision Movil S.A. and France Telecom España, which are anticipated to result in a further tax loss, utilizable over a twenty-year period. Consequently, these tax assets should be available for set-off against future profits generated by the new merged France Telecom España entity.

Synergies

Amena will benefit from the positioning of France Telecom with corporate clients, as well as from group purchasing and investment programs, which should allow additional economies of scale. France Telecom España and Amena will mutually benefit from cross-selling programs.

France Telecom believes that the following benefits will also arise:

- further economies of scale,
- a positive impact on roaming,
- Spain will become a starting point for convergent offerings,
- France Telecom will take advantage of innovations arising out of a wider base, and
- a strong brand for an integrated Spanish operator.

France Telecom has established the objective of achieving synergies of more than €1.1 billion on a present value basis with a positive impact on free cash flow[(1)] of more than €130 million per year beginning in 2008, including:

- approximately €10 million of economies of scale in purchasing and in handsets annually,
- approximately €40 million in savings due to the optimization of network and information systems costs,
- approximately €35 million in savings due to operational improvements (gains for ARPU data and churn reduction), and
- approximately €12 million in savings as a result of the development of the enterprise segment.

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(1) See "Glossary".

Financing

On the date of the transaction, the purchase price will be paid in cash, as a result of the capital increase in the aggregate amount of €3 billion announced by France Telecom on 31 August 2005 through a public offering with preferential subscription rights for existing France Telecom shareholders.

Following this acquisition, France Telecom will consolidate a supplementary net debt of €5.7 billion (estimated amount as at the end of 2005 is based on the estimated net debt of Amena at the end of 2005, and excludes possible subsequent price adjustments following the completion of the transaction.

Acquisition by France Telecom of the assets and liabilities of Equant N.V.

On 25 May, 2005, France Telecom announced that Equant N.V. shareholders approved the sale of Equant N.V.'s assets and liabilities to France Telecom. A simple majority of those attending Equant N.V.'s extraordinary general meeting of shareholders, which was held in Amsterdam on 24 May, 2005, was required to approve the transfer. The sale of Equant N.V.'s assets and liabilities for €1.26 billion (of which €578 million was ultimately allocated to the minority shareholders) will be followed by the liquidation of Equant N.V.. The distribution of the cash proceeds to Equant N.V.'s shareholders took place on 25 May, 2005, on the basis of a value of €4.30 per share in Equant N.V..

On 26 May, 2005, ENV International N.V. in liquidation (previously known as Equant N.V.) announced that its liquidator had proceeded with a liquidation distribution ("uitkering bij voorbaat") in favor of its shareholders. The distribution of €4.30 per share in circulation represents 100% of the value of the sale of the assets and liabilities of Equant N.V. to France Telecom. The holders of the shares had the right to a distribution in respect of shares held at the close of trading on 25 May, 2005. The liquidation of Equant will occur as soon as possible, although it will likely take several months to finalize.

The shares in Equant N.V. were withdrawn from quotation on the Eurolist of Euronext in Paris on 25 May, 2005 and from the New York Stock Exchange on 9 June, 2005. After its liquidation, Equant will deregister its ordinary shares in accordance with U.S. stock exchange regulations and will no longer be required to comply with related financial disclosure obligations.

The Equant group, whose parent company is Equant B.V., will undertake its activities as a wholly-owned subsidiary of the France Telecom group. The final acquisition of Equant by France Telecom confirms the interest that the group brings to the business markets and illustrates the strategy of an integrated operated service provider to customers around the world.

On 24 August, 2005, France Telecom announced the appointment of Mrs Barbara Dalibard, Executive Vice-President of France Telecom, Enterprise Communication Services, as Chairman and Chief Executive Officer of Equant B.V.

2. SALES

Sale of cable activities

On 31 March, 2005, following the announcement of the transaction on 22 December, 2004, the Canal+ Group and TDF sold their cable activities to the Ypso consortium controlled by the CINVEN managed fund, in which the cable-operator ALTIC owns a 10% holding. In the context of this transaction, France Telecom sold its subsidiary France Telecom Cable for €348 million, as well as its cable network which had been used by both France Telecom Cable and by NC Numéricable, the subsidiary of the Canal+ group. Furthermore, France Telecom invested, along with Canal+, up to 20% in Ypso for a total of €37 million. France Telecom's holding in Ypso includes a put option, exercisable in part between 31 March, 2008 and 31 March, 2009, and in whole between 31 March, 2010 and 31 March, 2011, as well as a call option exercisable by France Telecom over a year from January 2010. In the context of this transaction, France Telecom undertook not to distribute audiovisual programs by the cable network (with the exception of ADSL in particular) in France for a period of two years.

Reverse of the provision relating to the sale by MobilCom of UMTS assets

On 30 June, 2003, following the sale by MobilCom of its UMTS assets (excluding its license) to E-Plus, France Telecom recorded a provision of €50 million reflecting the risks linked to the guarantee granted to E-Plus on its obligations regarding MobilCom in respect of its vendor guarantees. The provision was written back following the expiry of the guarantee on 26 June, 2005.

Signature of a strategic partnership between France Telecom and Microsoft

On 29 June, 2005, France Telecom and Microsoft announced a strategic deal to co-develop innovative products and technologies that enable customers to benefit from the new opportunities of the digital world through innovative convergent services.

First, France Telecom and Microsoft will cooperate on a next generation service platform to enable bundling and delivery of a wide variety of services, including voice, video and data.

The second strategic initiative will be a joint collaboration bringing many countries a series of feature-rich, easy-to-use voice-over-IP (VoIP) phones developed by France Telecom and based on Microsoft software.

Delivery of STMicroelectronics securities as reimbursement of exchangeable bonds

Following the issue by France Telecom on 6 August, 2002 of bonds exchangeable for STMicroelectronics N.V. shares, France Telecom proceeded with the redemption of all bonds remaining in circulation as at 6 August, 2005 (the maturity date), by delivery on 11 August, 2005 of STMicroelectronics shares, in the exchange ratio of 1.25 STMicroelectronics shares per bond, in accordance with the terms of the bonds.

Fractional shares were not delivered and the affected bondholders were paid an amount equal to the product of the portion of the fractional share and the reference price of the share, i.e. €14.56. France Telecom sold the remainder of the STMicroelectronics shares corresponding to the fractional shares. As a result, France Telecom no longer holds any STMicroelectronics shares.

3. SHARE CAPITAL AND FINANCING

Dividends

The combined shareholders' meeting of France Telecom held on 22 April, 2005 decided to distribute €0.48 in cash per share to France Telecom shareholders as at the end of fiscal year 2004. On the basis of the number of shares on issue as at the shareholders' meeting of 22 April, 2005, and such shares having a dividend right, the board of directors noted on 27 April, 2005 that the total amount available for distribution will be €1,184,292,804. The distribution was made on 3 June, 2005.

This distribution, drawn entirely from the profits of the fiscal year, led to an adjustment of the conversion ratio of the TDIRA – Bank Tranche which, as at 3 June, 2005, increased from 3,558,959 shares to 3,633,661 shares by TDIRA.

As part of the NExT program, the board of directors indicated, on 29 June, 2005, that it would propose at the next shareholders' meeting, a dividend of €1 per share, to be distributed in 2006. France Telecom also suggested that for 2006-2008, the dividend should increase in line with the two key indicators – the increase in organic free cash flow1 and market practice.

The sale by the French State of shares in France Telecom

On 7 June, 2005, the Minister of Economy, Finance and Industry announced the completion of the sale of the securities in France Telecom undertaken by the French State. The transaction amounted to approximately €3.4 billion.

The sale related to 6.2% of the shares in France Telecom, amounting to 152,200,000 shares. As a result of the transaction, the French State holds, directly and indirectly, 34.90% of the shares in France Telecom.

Expected Sources of Financing

On 21 June, 2005, France Telecom announced the implementation of a syndicated credit line of €8 billion (maturing in 7 years) in order to benefit from improved financial conditions, replacing a syndicated credit line of €10 billion that was put in place in June 2004 but not used.

Increase in share capital

In the context of the acquisition of the Spanish mobile operator Amena (see paragraph 1 above), France Telecom decided on 31 August, 2005 to undertake a capital increase of €3 billion, including share premium, by the issue of 133 439 454 new shares, to be subscribed for through the exercise of warrants (*bons de souscription d'actions*). On 31 August, 2005 France Telecom proceeded with the free allotment of 2,468,629,922 warrants to its shareholders.

On 5 September, 2005, the French State confirmed that the French State and ERAP will not exercise their warrants which they will receive as shareholders of France Telecom and that they will sell them during the trading period.

4. LEGAL PROCEEDINGS

Litigation under competition regulation

France Telecom has been involved in a certain number of contentious matters launched by its competitors which are claiming that France Telecom is engaging in anti-competitive behavior. In their claims lodged with the French Competition Council, the various plaintiffs generally are requesting all heads of relief and penalties available to them under the law, including injunctions to cease subject to penalties in case of violation and of anticompetitive practices, and fines, which may, in the worst case scenario, amount to 10% of the Group's revenues. Competitors are also in a position to bring claims for damages before the French civil and commercial courts for the loss they allege to have suffered due to France Telecom's actions which they consider are in breach of the law, notably due to their anti-competitive nature.

On 11 January, 2005, the Court of Appeal of Paris dismissed the appeal by France Telecom against the decision handed down by the Competition Council on 13 May, 2004. This decision imposed a fine of €20 million for the failure to comply with the decision of 18 February, 2000, which ordered France Telecom to offer operators access to the ADSL Connect ATM offer allowing for an exercise of actual competition, in respect of both the price and the nature of the services offered. The court of appeal of Paris upheld the decision and increased the fine to €40 million. France Telecom lodged an appeal on a point of law to the Cour de cassation against the decision. On 3 June, 2005, in the context of a substantive examination of the claim being made in parallel, the Rapporteur of the Competition Council delivered to France Telecom its final report in which he maintained the claims against France Telecom for having unjustifiably restricted its competitors from access to its local network and for having therefore distorted the competitiveness of the retail market and on the upstream broadband ADSL market. A decision is expected on 27 October, 2005.

On 14 March, 2005, the French Competition Council decided to terminate its in-depth substantive investigation based on the complaint made by Numéricâble regarding the calculation of fees paid to France Telecom for the use of cabled networks for broadcasting.

On 12 April, 2005, the Court of Appeal of Paris overturned the decision of the Competition Council of 14 October, 2004 imposing fines of €18 and €2 million against France Telecom and SFR respectively, following a complaint from the association of operators TENOR claiming they engaged in practices distorting the competition in the professional fixed communications market. France Telecom obtained a reimbursement of the fine paid to the French Treasury in December 2004. The ETNA association (the new denomination of TENOR) and the Economic Minister have lodged an appeal on a point of law to the Cour de Cassation against the Court of Appeal’s decision.

On 28 June, 2005, Orange France received a final report from Rapporteur the Competition Council in the context of the examination relating to the practices of Orange France, SFR and Bouygues Telecom in respect of the retail mobile phone market. The report maintains the two grievances which had initially been made, notably the exchange of information between the three principal operators and the freezing of their shares of the market. Orange vigorously contests the existence of an agreement between the mobile phone operators. Orange bases its position on specific legal elements and numerous analyses and economic studies which contradict the theory put forward for the manipulation and freeze on market shares. The decision is pending and the Competition Council may hand down its ruling before the end of 2005.

On 30 June, 2005, Neuf Telecom summoned France Telecom to appear before the commercial court of Paris on short notice, and is claiming €497 million in damages and interest as compensation for the loss it claims to have suffered as a result of the failure by France Telecom to put in place the ADSL Connect ATM offer in accordance with orders handed down by the Competition Council and the Court of Appeal of Paris. The hearing is fixed for 16 September, 2005.

On 19 July, 2005, the AFORS (the French Association of Telecommunications Network and Services Operators) and the consumer association UFC Que Choisir had claimed in the French Competition Council "anti-competitive character of the clause requiring a minimum subscription period imposed by France Telecom to its subscribers", along with a request for protective measures. On 5 September, 2005, following the announcement by France Telecom of the modification of its general terms of subscription from 1 October, 2005, the AFORS and UFC Que Choisir renounced their actions and on 6 September, 2005, the Competition Council closed the case.

Since 1999, T-Online had filed several complaints with the Competition Council alleging abuse by France Telecom of its dominant position in the sector of Internet access providers, and had requested injunctions against France Telecom. On 6 September, 2005, France Telecom and T-Online have resolved all their disputes before the competition authorities.

International Arbitrations

On 22 February, 2005, the Arbitral Tribunal constituted in 2002, in the context of a procedure commenced both under the French-Lebanese Agreement for the Encouragement and Reciprocal Protection of Investments and under the arbitration rules of UNCITRAL, notified its final decision to the parties. The dispute concerned a Build, Operate and Transfer contract of FTML (66.66% of which is held by France Telecom), and related to the anticipatory termination of the contract in 2001 and the consequences of that termination. The Arbitral Tribunal accepted the principal claims of France Telecom in respect of its subsidiaries FTML and FTMI and fixed a sum of US$266 million to be paid to FTML in compensation. Furthermore, the Arbitral Tribunal stated that the Lebanese Republic may no longer pursue its claim to recover the US$300 million it had made in April 2000.

On 29 March, 2005, the Arbitration Tribunal of the Polish Chamber of Commerce ruled that the minority shareholders of Wirtualna Polska were justified in exercising their sale options in advance as agreed to by TP Internet, over the shares in Wirtualna Polska. The total amount of shares to be paid by TP Internet is 221 million Zlotys (€54.7 million, based on the exchange rate as at 30 June, 2005).

On 26 April, 2005, TP Internet lodged an appeal against the decision before the Civil Tribunal.

Meeting of Minority shareholders of MobilCom

On 22 April, 2005, at the request of certain minority shareholders, a resolution was passed at the annual shareholders' meeting to commence proceedings against France Telecom in relation to the discontinuance by MobilCom of its UMTS activities, and in relation to the fact that France Telecom ceased to ensure the financing of MobilCom as well as the signing on 20 November, 2002, of the MC transaction agreement (the "***MC Settlement Agreement***"). There was an attempt at the annual shareholders' meeting to nominate a representative in charge of commencing such proceedings. If the nomination of the representative is validated, they will have six months from the date of the resolution to decide whether or not to proceed with the claim against France Telecom.

During the annual shareholders' meeting, France Telecom (through its subsidiary ASP) opposed the resolution, and subsequently submitted a claim against the validity of the decision. Furthermore, France Telecom notified Mobilcom of an injunction in order to protect the company against any consequences of compliance with the resolution, in particular in respect of the breach of the MC Settlement Agreement and the cancellation of financing granted by France Telecom by application of the MC Settlement Agreement, which amounts to approximately €7 billion. On 23 August, 2005 a new MobilCom general assembly annulled the 22 April, 2005 resolution. The minority shareholders, comprising at least 10% of the votes, did not object to the resolution.

On 12 August, 2005, the Flensburg courts rejected the claims of Mrs Schmid-Sindram and Mr Marek as shareholders of MobilCom, who asked for the payment from France Telecom of financial compensation calculated on the fair value of the MobilCom shares.

There are no other government, judicial or arbitral proceedings, including all proceedings of which France Telecom is aware, which are pending or threatened, and which may take or may have taken place over the last 12 months which have a material effect on the financial position or the profitability of the Company and/or the Group.

5. *FUTURE PROSPECTS*

2005 Objectives

The growth rate and improvement of profitability as well as other financial measures accelerated during the first quarter of 2005, and France Telecom believes that these trends will continue during the second quarter as a result of the successful launch of broadband services in Europe, the continuing monitoring of operation costs and targeted commercial investments. The current growth rate in revenues conforms with the comparable objective growth rate of 3 to 5% for 2005. On this basis, France Telecom confirms its objectives for 2005, including notably:

- a growth in revenue from 6% to 7% in Personal Services;
- a slight increase in Home Services revenue;
- in Enterprise services, France Telecom predicts that revenue for the whole of 2005 will conform with the results in the first six months of 2005;
- revenue growth in Directories services of 5% to 7%;
- a Gross Operating Margin exceeding €18.5 billion, if the growth rate for the first six months of 2005 is maintained throughout 2005;
- a ratio of CAPEX to revenues in the upper end of the 10% to 12% range;
- ratio of net debt to gross operating margin below 2.5.

France Telecom has targeted an improvement in full year organic cash flow compared with the first six months of 2005. As a result, France Telecom confirms its goals to generate an organic cash flow of €7 to €8 billion on an annual basis.

France Telecom has also confirmed its target for Orange France to obtain more than 500,000 customers in the mobile broadband sector.

Launch of the NExT program and outlook for 2008

On 29 June, 2005, France Telecom presented its 2006-2008 NExT Program (New Experiences in Telecom services), which will give customers access to a wide range of services that are both high in value and simple. The program will also enable the Group to pursue its transformation as an integrated operator, supported by its renewed model for profitable growth.

NExT: new convergent and innovative services

France Telecom is introducing an array of services in the areas of communication, infotainement and lifestyle.

Some of the newly announced services include:

- ***New communication services***: Family Talk, LiveCom, Livephone and Mobile & Connected.
- ***New infotainment services***: Photos transfer, LiveMusic.

- ***New everyday life services***: LiveZoom, Home care, Mobivisit.

- ***New Business Services***: Business Everywhere Multimedia.

NExT: An adapted and simplified brand architecture

Over the next 18 months, Orange is expected to become the Group's international and commercial brand for mobile, broadband and multiplay offerings, as well as for all Entreprise businesses. The Company's name will remain unchanged.

2008 objectives

NExT's operational objectives for 2008 are the following:

- 5% to 10% of the Group's total revenues from convergent offerings;

- single portal available to 100% of the customer base;

- more than 2 million IP telephones and more than 30% of the mobile customer base using signature devices;

- more than 12 million fixed-line broadband customers, including more than 8 million Livebox subscribers (of which 6 million to be in France);

- more than one million subscribers to Maligne TV in France, and more than €400 million in revenues from direct paid content;

- more than 12 million mobile broadband customers, including over 6 million in France and over 5 million in the UK;

- more than 85 million clients in 2008, an annual average revenue growth from 2005 to 2008 above 6%, and a slight improvement in margins;

- on the Enterprise market, more than a million Business Everywhere customers and more than €2 billion of revenues from Information & Communication Technology (ICT) services, with an annual increase in revenues from services of approximately 15% on average; and

- in the Enterprise segment, the 2008 revenues may be slightly lower than in 2005.

As part of the transformation plan, France Telecom announced a 25% increase in employee training efforts and a reinforced staff incentive program.

France Telecom has also developed the following new financial objectives for 2008:

- France Telecom aims for average annual revenue growth of 3% to 5% on a comparable basis in the period from 2006 to 2008 and for EBITDA growth rate that is slightly higher than revenue growth in the same period. The CAPEX to revenues ratio is expected to remain stable at about 12%, while research and development expenditure could reach 2% of revenues.

- Clear use of cash policy.

- Debt reduction: net debt to EBITDA ratio under two by end 2008.

- Dividend: the board of directors has indicated that it will recommend to the shareholders' meeting the payment of a dividend of €1 per share, to be distributed in 2006. During the period from 2006 to 2008, the dividend is expected to increase based on two key indicators: organic free cash flow and sector benchmarks.

6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Composition of the board of directors

On 2 September, 2005, Mr. Alain Baron, member representing the employees, resigned from its position as director of France Telecom and was replaced by Mrs. Hélène Adam.

Organisation of France Telecom and composition of the Executive committee

On 5 September, 2005, France Telecom, announced its decision to reinforce and simplify its organization and introduced a new management team.

Four functions are created around the Chief Executive Officer to drive the implementation of NExT and ensure its success:

– NExT Financial Balance and Value Creation, to ensure that the Group meets its commitments in terms of financial targets and value creation;

– NExT Strategic Marketing, to create Group-wide strategic marketing, supported by a « Technocentre », ensuring speed and consistency in the development of convergent offers;

– NExT Transformation, to guarantee the progress and coherence of all essential transformation programs for the operational success of NExT, and ensure that the objectives are met within the defined timeframe;

– NExT Human Resources and Skills, to drive development and evolution of the skills of employees and management, in particular with the "ACT" program: Anticipation, Competence for Transformation.

Messrs Michel Combes, for NExT Financial Balance and Value Creation; Georges Penalver, for NExT Strategic Marketing; Louis-Pierre Wenes, for NExT Transformation; and Olivier Barberot for NExT Human Resources and Skills are appointed in these functions.

To reinforce the Group's internationalisation, two new teams will report to Didier Lombard. International Strategy Development, led by Sanjiv Ahuja, will focus on analysing opportunities for international development and monitoring the internationalisation of the Group's organization, culture and environment. Group Globalization and Cohesiveness, led by Michel Davancens, will aim to identify new talents throughout the Group, and accelerate best practice exchange between all Group entities.

Also reporting directly to Didier Lombard, a new team led by Didier Quillot will drive Brand Evolution within the Group over the coming 18 months, as was announced as part of the NExT program last June.

Corporate governance

– Creation of a Strategic Committee within the Executive Committee of the Group. The Strategic Committee, meeting weekly, makes strategic decisions and ensures the monitoring of Group performance, the review and resolution of key issues, the validation of operational and financial objectives. This Committee led by Didier Lombard includes the four executives responsible for driving NExT, the executives in charge of « International Strategic Development » and « Network, Carriers and IT », and the Corporate General Secretary of the Group;

– Enlargement of the Executive Committee, to reinforce the cohesion of the Group, with permanent guests : The Managing Director of TP SA, the CEOs of Orange France and Orange UK, the Permanent Representative in Brussels and the General Counsel of the Group;

– Adoption of clearer and simpler decision making rules to prepare the Executive Committee's decisions, and monitor their implementation, follow-up and evaluation.

Composition of the Executive Committee

Didier Lombard, Chief Executive Officer (*)

– NExT Key Drivers

  Michel Combes, NExT Financial Balance and Value Creation (*)
  Georges Penalver, NExT Strategic Marketing (*)
  Louis-Pierre Wenes, NExT Transformation (*)
  Olivier Barberot, NExT Human Resources and Skills (*)

– Operational Divisions

  Olivier Sichel, Home
  Sanjiv Ahuja, Personal
  Barbara Dalibard, Enterprise
  Patricia Langrand, Content
  Benoît Eymard, Sales and Services France
  Jean-Paul Cottet, International

– Missions

  Sanjiv Ahuja, International Strategy Development (*)
  Michel Davancens, Group Globalization and Cohesiveness
  Didier Quillot, Branding Evolution

– Performance Divisions

  Jean-Philippe Vanot, Network, Carriers and IT (*)
  Pascal Viginier, Research and Development
  Marc Fossier, Technology

– Support Functions

  Stéphane Pallez, Finance
  Guy-Patrick Cherouvrier, Human Resources
  Jean-Yves Larrouturou, Corporate General Secretary (*)
  Jacques Champeaux, Regulation
  Marc Meyer, External Communication
  Louis-Pierre Wenes, Sourcing

(*) members of the Strategic Committee

Stock option scheme

At its meeting on 6 September, 2005, France Telecom's Board of Directors decided to set up a stock option scheme pursuant to the authority granted by the Shareholders' Meeting of 1

September, 2004. The Board defined the outlines of the scheme which will be finalized by the end of October:

– The scheme will be offered to executive managers with a key level of responsibility or expertise for the Group. Stock options may be granted throughout the France Telecom Group, with the exception of the public traded companies PagesJaunes, Mobistar, Mobinil and TPSA and subsidiaries in which France Telecom holds less than 50%.
– The options will be granted to a maximum of 4,000 beneficiaries, representing 2.56% of the total workforce of the companies included in the scheme.
– The scheme will cover a maximum of 0.65% of the capital (the authority granted by the Shareholders' Meeting was for 2%). The exercise price will be set without discount.

7. ESTIMATED FIRST SIX MONTHS 2005 RESULTS AND KEY PERFORMANCE INDICATORS

In order to more effectively reflect its organization and the evolution of its activities in its various markets, since 1 January, 2005 France Telecom has four new segments:

- the Personal segment, grouping all of its activities for mobile services in France, the United Kingdom, Poland and the Rest of World;

- the Home segment, covering activities for fixed telecommunications services (fixed telephony, internet services, operator services) and revenues from distribution and support functions provided to other France Telecom segments;

- the Enterprise segment, for business services in France and global services; and

- the Directories segment, consolidating the activities of its PagesJaunes Group subsidiary.

On 28 July, 2005, France Telecom announced its estimated financial results and associated key performance indicators for the first six months of 2005. This information remains unchanged as at the date of this Base Prospectus.

It should be noted that the definitive results for the period from 1 January, 2005 to 30 June, 2005 which will be reported, may be revised on the basis of events or circumstances uncovered or incurred subsequent to the issuance of this Base Prospectus.

The estimated earnings for the first six months of 2005 were produced in accordance with the usual process of compiling six-monthly consolidated accounts.

These earnings are not the definitive six-monthly consolidated accounts, have not yet been formally approved by the board of directors, and the statutory auditors have not yet completed their review. Consequently, they relate to the definition of estimated earnings in accordance with the Annex to the AMF recommendation of October 2004 relating to regarding "Announcements relating to estimated financial data".

The 30 June, 2005 estimated earnings were produced in accordance with the same principles that were applied for the establishment of the 2004 IFRS restated consolidated financial statements. These principles, and in particular the accounting options and positions retained by the France Telecom Group are contained in the section "Information on IFRS" at section 3.2, note 2.

The full and final version of the consolidated financial statements for the first six months of 2005 will be published on or about 30 September, 2005 (see Report of Auditors on the estimates for the first six months of 2005 at the end of this section).

The main characteristics of the first six months 2005 results are listed below:

- France Telecom revenues for the first six months of 2005 increased 2.3% on a comparable basis (4.5% on an actual basis) to €23.7 billion.

- faster growth rate in revenues in the second quarter of 2005 of 3.6%, after an increase of 1.0% in the first quarter of 2005 (on a comparable basis[(1)]);

- major improvement in operating performance with a Gross Operating Margin1 (GOM) on revenues of 39.3% in the first six months of 2005 against 38.6% (in historical data) for the first six months of 2004;

- the implementation of the NExT program (France Telecom's New Experience in Telecom services program for 2006-2008, announced on 29 June, 2005).

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(1) See "Glossary".

The table below provides France Telecom's key financial information for the six months ended 20 June, 2005 and 30 June, 2004.

(in billions of euros)	*Six months ended June 30,*			*Change (%)*	
	2005	***2004***	***2004***	***2005/2004***	
		Actual	on a comparable basis (*)	actual	on a comparable basis
Revenues	***23.7***	***22.7***	***23.1***	***4.5%***	***2.3%***
Gross operating margin[2]	9.3	8.8	8.8	6.2%	5.1%
As a % of revenues	39.3%	38.6%	38.2%	—	—
Gross operating margin before commercial expenses[3] (as a % of revenues)	51.3%	50.4%	49.5%	—	—
Operating income	6.5	4.3	—	49.9%	—
Net income, group share	3.4	1.0	—	223%	—

(in billions of euros)	*At June 30,*			*Change (%)*	
	2005	***2004***	***2004***	***2005/2004***	
		actual	on a comparable basis (*)	actual	on a comparable basis
Investments in tangible and intangible assets (CAPEX)[4]	2.7	2.1	2.1	31.1%	29.6%
As a % of revenues	11.5%	9.1%	9.0%	—	—
Organic cash flow[3]	2.9	3.3	—	(10.7)%	—

(in billions of euros)	*At 30 June, 2005*	*At 31 Dec, 2004*	*Change (%)*
		actual	
Net financial debt	46.3	49.8	(7.2)%
Net debt/gross operating margin ratio	2.50[5]	2.78	

(*) *Information on a comparable basis is unaudited and has not been subject to a limited review by the statutory auditors of France Telecom. See "Glossary".*

2 *See "Glossary".*

3 *See "Glossary" for the definition of commercial expenses.*

4 *See "Glossary".*

5 *Net debt as of 30 June, 2005/(gross operating margin for second six months of 2004 and first six months of 2005).*

There have been no significant changes in the financial position of the Group since the end of the last financial year which have not been described in this Base Prospectus.

Group Revenues

France Telecom's consolidated revenues totaled €23.7 billion for the six months ended 30 June, 2005, compared to €22.7 billion for the six months ended 30 June, 2004 (€23.1 billion on a comparable basis), representing an increase of 4.5% on an actual basis and 2.3% on a comparable basis. This revenue growth on an actual basis includes the favorable impact of variation in currency exchange rates (€213 million in the first six months of 2005) and the impact of Orange France's withdrawal from the Bill & Keep mechanism (€412 million). These two favorable effects were partially offset by the impact of changes in the scope of consolidation (in the amount of €142 million), particularly the sale of Orange Denmark and France Telecom Câble.

After an increase of 1.0% in the first quarter of 2005 on a comparable basis (3.5% on an actual basis), an improvement was recorded in the second quarter, with revenues on a comparable basis increasing by 3.6% and 5.4% on an actual basis. Revenues from mobile services, reflecting in particular the dynamic growth in customer base, rose 8.6% in the second quarter after a growth of 5.2% in the first quarter on a comparable basis (revenues increased 12.3% and 8.9% respectively, on an actual basis). At the same time, revenues from consumer broadband Internet use grew by 60.3% in the first six months of the year on a comparable basis and 63.6% on an actual basis.

These favorable trends were partially offset by the decline in traditional fixed-line consumer services in France and Poland and by the downward trend in services to businesses.

Information on a comparable basis: impact of acquisitions, divestitures, foreign exchange variations and other factors on revenues on a historical basis

The impact of acquisitions, divestitures, foreign exchange variations and other factors on revenues for the first six months of 2004 on an actual basis is summarized as follows:

- acquisitions increased revenues by €0.024 billion;
- divestitures decreased revenues by €0.166 billion (including €0.122 billion which was attributable to the sale of Orange Denmark and €0.035 billion to the sale of France Telecom Câble);
- foreign exchange variations increased revenues by €0.213 billion; and
- the impact of other factors increased revenues by €0.412 billion, relating to the exit of Bill & Keep1 for Orange France.

Revenues: Analysis by Segment

The following table presents, for the first six months of 2004 and 2005, revenues of the Group by segment and befo

(in millions of euros)	***Six months ended June 30,***		
	2005	***2004***	***2004***
		historical	on a comparable basis (*)
Total revenues	***23,665***	***22,655***	***23,139***
Revenues by segment:			
PERSONAL	***10,984***	***9,930***	***10,271***
of which Personal France	4,739	4,029	4,441
Personal United Kingdom	2,812	2,903	2,850
Personal Poland	741	564	657
Personal Rest of World	2,782	2,516	2,398
Éliminations	(90)	(82)	(75)
HOME	***11,156***	***11,129***	***11,324***
of which Home France	8,828	8,956	8,931
Consumer services	4,841	4,943	4,908
Carrier services	2,742	2,770	2,776
Other	1,245	1,243	1,247
Home Poland	1,560	1,450	1,682
Home Rest of World	837	799	789
Eliminations	(69)	(77)	(77)
ENTERPRISE	***3,922***	***4,175***	***4,123***
of which Fixed line telephony in France	1,390	1,524	1,524
Business networks in France	1,357	1,397	1,397
Other business services in France	266	305	298
Global services	1,139	1,165	1,113

Eliminations	(231)	(216)	(208)
DIRECTORIES	***482***	***433***	***440***
Inter-segment eliminations	*(2,879)*	*(3,012)*	*(3,020)*

(*) Information on a comparable basis is unaudited and has not been subject to a limited review by the statutory auditors of France Telecom. See "Glossary".

1 See "Glossary".

(1) See "Glossary".
(2) See "Glossary".

Personal Segment ("Personal ")

	Six months ended June 30,		
	2005	***2004 actual***	***2004 on a comparable basis (*)***
Personal France			
Number of customers (thousands)	21,440	20,396	20,396
of which contract, in %	61.7%	59.7%	59.7%
Overall ARPU (contract and prepaid offerings), in euros	429	387	421
Overall AUPU1 (minutes)	172	161	161
Share of data services (% of network revenues)	13.9%	12.3%	13.6%
Personal United Kingdom			
Number of customers (thousands)	14,459	13,747	13,747
of which contract, in %	34.1%	33.1%	33.1%
Overall ARPU (contract and prepaid offerings), in pounds sterling	267	274	274
Overall AUPU (minutes)	144	143	143
Share of data services (% of network revenues)	19.1%	17.0%	17.0%
Personal Poland			
Number of customers (thousands)	8,634	6,090	6,090
of which contract, in %	42.1%	47.7%	47.7%
Personal Rest of World			
Number of customers (thousands)	22,207	17,756	17,143
Total Personal			
Number of customers (thousands)	66,740	57,989	57,376

(*) Information on a comparable basis is unaudited and has not been subject to a limited review by the statutory auditors of France Telecom. See "Glossary".

Revenues from the Personal segment rose to €11.0 billion for the six months ended 30 June, 2005, an increase of 6.9% on a comparable basis (10.6% on an actual basis), due to strong performance in all countries.

Orange France

Orange France recorded €4.7 billion in revenues for the first six months of 2005, an increase of 6.7% on a comparable basis and 17.6% on an actual basis (and 8.2% excluding the impact of the call termination rate cut), due to a 5.1% year-on-year increase in the number of customers and a 1.9% increase on a comparable increase in ARPU. This result was achieved because of both a favorable change in the product mix (the percentage of contract customers was 61.7% at the end of June 2005, increased from 59.7% one year earlier) and a 6.8% rise in AUPU. Data services increased by 18.7% for the first six months of 2005 and represented 13.9% of network revenues, compared with 13.6% for the first six months of 2004 (on a comparable basis). There were approximately 182,000 customers of mobile multimedia services for the first six months of 2005.

Net customer additions reached approximately 199,000 in the first six months of 2005, versus approximately 67,000 in the first six months of 2004, with a focus on high value clients. Contract net customer additions amounted to approximately 344,000. Contract customers represented 61.7% of the customer base at the end June 2005, versus 59.7% at the end of the first six months of 2004. Overall ARPU increased by 1.9% in the first six months of 2005 over the first six months of 2004, to €429 (2.6% excluding the impact of the call termination rate cut). The overall churn2 at the end of June was stable, compared to the first quarter of 2005, at 18.7%, and the contract churn stabilized below 11%. In the meantime, voice usage is still growing at 172 minutes per month on average (i.e. an increase of 7% year-on-year). At the end of June 2005, mobile broadband had approximately 182,000 customers.

Orange UK

Orange UK posted €2.8 billion in revenues for the six months ended 30 June, 2005, down 1.4% on a comparable basis and 3.2% on an actual basis. The impact of the reduction in the rate of call terminations on 1 September, 2004 was offset to a great extent by the combined effects of a 5.2% increase in the number of customers and an improved product mix (the percentage of contract customers was 34.1% at the end of June 2005, increased from 33.1% one year earlier). Data services, which grew 10.9%, accounted for 19.1% of network revenues, compared with 17.0% for the six months ended 30 June, 2004 (on a comparable basis). There was a total of approximately 92,000 mobile multimedia customers at 30 June, 2005.

Revenues of Orange UK decreased by 2.4% on a comparable basis between the first three months of 2004 and the first three months of 2005 (decreasing by 0.3% between the second quarters of 2004 and 2005). The success of the first new offers launched in March 2004 permitted the number of prepaid customers to remain stable. Orange UK experienced continuous strong performance on contract net customer additions, which France Telecom believes confirms the turnaround in the UK business. The approximately 218,000 net customer additions on contract constitute the best performance since 2001. Total revenues were still impacted by the adverse effect of the call termination rate cut. Excluding the impact of the call termination rate cut, total revenue would have increased by 5.5%.

ARPU registered a decrease of 2.6% between the second six months of 2004 and the second six months of 2005. Contract ARPU remained strong at £569 in the second quarter of 2005, increasing by 3.6% from the second quarter of 2004 before the impact of the decrease in call termination rate. Prepay ARPU decreased by 10.2% over the second quarters of 2004 and 2005 from £127 to £114. The objective for growth in new customers was reached along with a stable level of contract churn at 23.7% (blended churn down to 24.6%) in the second quarter of 2005, compared to 23.2% in the second quarter of 2004. Over these quarters, pre-paid churn decreased from 31.8% to 29.2%.

In the second quarter of 2005, Orange UK was able to respond to the negative trends observed over the last several quarters relating to prepay. Orange UK is now exhibiting some positive signs regarding prepaid revenues and customer acquisitions with the early success of new offers launched recently.

Personal Poland

Revenues from Personal Poland totaled €741 million, reflecting a 12.8% rise on a comparable basis and 31.5% on an actual basis, driven by the significant growth in the number of mobile customers. There were 8.6 million mobile subscribers at the end of June 2005, up by 41.8% year-on-year. At the end of June 2005, the penetration rate for the mobile market was 67.5%.

Despite strong competition, Centertel increased its market share in the second quarter of 2005 to 33.5%, versus 32.6% in the first quarter (and 31.1% a year earlier), with strong performance on contract net customer additions, who represented 58% of the total number of clients in the first six months of 2005, versus 52% in the first six months of 2004. Market share was increased due to new offers and special offers using multimedia services and despite the aggressive roll-out of UMTS/EDGE by two competitors. Consequently, average usage has been boosted, and blended minutes of use rose to 80 minutes, an increase of 25% year-on-year. In a highly competitive environment, blended ARPU decreased 14% year-on-year to 62 PLN (€15.35, based on the average exchange rate of the zloty in the first six months of 2005).

Personal Rest of World

Personal Rest of World remains a key driver for growth for France Telecom. Revenues from Personal Rest of World totaled €2.8 billion for the first six months of 2005, an increase of 16.0% on a comparable basis and 10.5% on an actual basis. The subscriber base grew by 29.5% on a comparable basis, to 22.2 million subscribers. Revenues of all companies of the Group located in all non-western European countries achieved double-digit growth in total revenues; in particular, Orange Romania's revenues increased by 44.9%.

Home Segment ("Home")

	Six months ended June 30,		
	2005	***2004***	***Change (%)***
Home France			
Number of broadband connections (ADSL and unbundled lines)	***7,802***	***4,687***	***66.5%***
Total number of ADSL connections (thousands)	5,473	3,956	38.3%
of which France Telecom Consumer ADSL access	3,661	2,238	63.6%
of which third-party ISPs and others	1,812	1,718	5.5%
Total number of unbundled lines (thousands)	2,330	731	219%
of which partial unbundling	2,074	718	189%
of which total unbundling	256	13	n/s
Number of Consumer telephone lines in France (thousands)	***27,209***	***27,523***	***(1.1)%***
Access-related services (millions of subscriptions)	9.7	8.3	17%
Market share in local calls (in %)	70.1%	73.9%	
Market share in long-distance calls (in %)	57.9%	58.8%	
Number of Voice over IP customers (thousands)	326	n/s	
Home Poland			
Number of fixed-line telephony customers (thousands)	11,314	11,371	(0.5)%
Number of broadband Internet customers	927	340	172%
Home Rest of World			
Number of broadband connections (thousands)	***1,777***	***952***	***87%***
United Kingdom	769	316	143%
Spain	526	235	124%
The Netherlands	482	401	20%

Revenues from the Home segment totaled €11.16 billion for the first six months of 2005, an increase of 0.2% on an actual basis, due to the favorable impact of the exchange rate for the Polish zloty, and a decline of 1.5% on a comparable basis. The fall in revenues from traditional phone services in France and Poland was partially offset by the rapid growth of broadband Internet in Europe, which recorded 6.4 million customers for the six months ended 30 June, 2005, compared with 3.5 million for the six months ended 30 June, 2004, an 80% increase in one year.

The main driver of growth in the Home segment remains broadband. In France, France Telecom continued to regain momentum in retail ADSL market share. The segment of the market (calculated by number of ADSL clients) improved over the first six months of 2005, giving Home France 46.9% at 30 June, 2005 compared with 46.5% at 31 December, 2004. The portion of the number of net customer additions brought in by Home France was 49% in the first quarter and 48.1% in the second quarter.

In Poland, the broadband market is still very dynamic due to many promotions on ADSL offers. Home Poland increased its customer base by 229% year-on-year to approximately 888,000. Fixed telephone revenues are affected by developments in the mobile sector. Fixed ARPU also increased between the first and second quarters of 2005 due to new offers and new tariff plans launched recently.

In the Rest of World countries, the 110% growth in the ADSL customer base (87% growth in ADSL and cable broadband) is due to the success of France Telecom’s broadband strategy roll-out. Outside Europe, there was steady 3% growth in the fixed line customer base year-on-year.

Total fixed telephony lines

For Europe, the number of fixed telephony lines remained almost stable. In France, there were 27.825 million lines for the first six months of 2004 versus 27.776 million for the first six months of 2005, including unbundled lines, public telephony, sales to other operators and own consumption, but excluding Enterprise lines. However, there was a 38% increase in ADSL fixed lines.

In Poland, the number of fixed lines totaled 11.37 million at 30 June, 2004 and 11.31 million at 30 June, 2005.

For the Rest of World, there was a 3% increase in the number of fixed telephony lines, for a subscriber group of 727,000 at 30 June, 2005.

Home France

Due to strong performance in the second quarter, Home France posted revenues of €8.8 billion in the first six months of 2005, a 1.1% decrease in relation to the first six months of 2004 on a comparable basis.

For fixed line telephony in France, the number of total access lines has stabilized, and in the second three months of 2005, there was an increase in residential subscription fees in the amount of €53 million (€17 million for the first three months of 2005).

The slowdown in the decrease of market shares in local and long distance calls is due to the success of unlimited offers. Moreover, there were 326,000 customers at the end of June 2005 for Home France’s Voice over IP offers. Voice over IP is more than a substitution to PSTN and generates additional overall usage. Finally, the number of customers with PSTN or Voice over IP contracts increased by 9.6% year-on-year.

In addition, France Telecom continued to increase its total ADSL market share to nearly 47% due to the improvement of the competitiveness of the eXtense offers, new innovative offers and services, and the benefit of its content strategy.

Regarding Livebox, there were 627,000 modems rented at the end of June, an increase of 51% in relation to the first quarter (broadband net customer additions in the first six months of 2005 were 53.5%). This performance is driving the development of new applications such as Voice over IP and TV over DSL.

Adverse impacts resulted mainly from:

- decrease in fixed to mobile communications;
- narrowband Internet interconnection traffic due to migration towards broadband and the decrease in tariffs in mid-2004;
- the decrease of sales to the Enterprise segment, with no impact on a group consolidated basis.

Consumer services

Consumer services revenues increased by 0.3% in the second quarter on a comparable basis, compared to a decrease of 3% in the first quarter. Between the first six months of 2004 and 2005, revenues decreased by 1.4% on a comparable basis and by 2.1% on an actual basis, reflecting the downward trend for telephone calls (excluding Voice over IP), due both to a loss of market share and the downturn in the overall market for traditional fixed-line telephony.

The first component of consumer services revenues, subscription fees, increased 4.0% on both an actual and on a comparable basis year-on-year, from €2,000 million to €2,080 million. In the second quarter of 2005, the full positive impact of the increase of subscription fees was experienced, €53 million in the second quarter compared to €17 million in the first quarter. At 30 June, 2005, the growth in the number of services tied to access increased by 16% over the preceding year. France Telecom continues to increase the rate of penetration and revenues connected to these types of services. Revenues for the second component of consumer services revenues, calling services, decreased by 13.3% year-on-year on a comparable basis. This decrease is due to the following factors:

- the negative impact of fixed to mobile cuts, amounting to a 3% impact year-on-year; and
- the downward trend in telephone communications (excluding voice) due to the loss of market share and the decrease in the global market for traditional fixed telephony.

For the third component of consumer services revenues, online and Internet services, revenues rose 18.9% year-on-year on a comparable basis, driven by the strong growth in Wanadoo's ADSL consumer broadband offerings, which had 3.7 million clients at 30 June, 2005, compared with 2.2 million one year earlier. In the first six months of 2005, Home France registered very strong performance in ADSL net customer additions to market share of 48.6%, in line with the guidance of between 45% and 50%.

Market share (based on the number of ADSL customers) improved during the first six months of 2005, rising to 46.9% for Home France at 30 June, 2005 compared with 46.5% at 31 December, 2004. The number of Livebox units marketed grew substantially in the first six months of 2005, with 627,000 Livebox units leased at 30 June, 2005, compared with 234,000 at 31 December, 2004, representing an increase of 168% for the first six months of this year. Likewise, subscriptions to Voice over IP packages (Wanadoo Phone) doubled in the first six months of 2005, growing from approximately 150,000 at 31 December, 2004, to approximately 326,000 at 30 June, 2005.

The average revenue per user for these types of services (subscription fees, telephone communications, online and Internet services) increased in the second quarter of 2005 to €26.80 versus €26.70 in the first quarter (an increase of 0.5%). This was mainly due to:

- the full impact of the increase of subscription fees in the second quarter of 2005, with an ARPU of €12.40, versus €12.20 in the first quarter (an increase of 1.9%); and
- online and Internet services increasing from €4 of revenue per user in the first quarter of 2005 to €4.30 per user in the second quarter (an increase of 6.7%).

Concerning access, the first quarter of 2005 confirmed 2004 trends with a near stabilization of the number of lines at 27.2 million for the second quarter of 2005, without full unbundling, due to the dynamism of France Telecom's ADSL access offers.

Carrier services

Between the first six months of 2004 and 2005, revenues declined slightly by 1.2% from €2,776 million to €2,742 million on a comparable basis (and decreased by 1.0% on an actual basis). The decrease was 0.6% in the first quarter and 1.9% in the second quarter on a comparable basis.

Services to domestic operators grew by 12.7% (on both actual and on a comparable basis), primarily due to the growth in the unbundling of telephone lines (2.3 million partially and totally unbundled lines versus 0.7 million in 2004).

For other carrier services, revenues decreased 11.6% on an actual basis and 11.9% on a comparable basis, amounting to €1.385 million in the first six months of 2005.

Other Services

Finally, "Other" revenues in France remained nearly stable in the first six months of 2005, amounting to €1,245 million for the first six months of 2005, versus €1,247 million for the first six months of 2004 on a comparable basis (with a decrease of 4.0% in the first quarter and an increase of 3.8% in the second quarter).

Home Poland

In the first six months of 2005, Home Poland recorded growth of 7.5% in revenues on an actual basis, due to the favorable impact of the evolution in the exchange rate for the zloty. On a comparable basis, revenues decreased by 7.3%. The impact of growing competitive pressure in the telephone communications market was partially offset by the very rapid growth of broadband Internet. Indeed, the number of broadband Internet customers totaled approximately 927,000 at 30 June, 2005 compared with 340,000 at 30 June, 2004, with a market share of 72.1% at 30 June, 2005 versus 67.0% one year earlier. In addition, the number of telephone lines remained stable with 11.3 million customer lines at 30 June, 2005.

The decrease in revenues on a comparable basis of 7.3% is mainly a result of fixed to mobile substitution due to unlimited offers on mobiles. Home Poland has implemented an action plan to address the situation, and France Telecom notes the following developments:

- 2.4 million customers subscribed to the new tariff plans at the end of June. Due to these new plans, fixed ARPU increased in the second quarter of 2005 compared to the first quarter; and

- Poland is still the country with the highest growth rate in broadband subscribers for the fifth consecutive quarter. Internet broadband penetration also increased in the second quarter. The ADSL customer base increased by 229% year-on-year, reaching approximately 888,000 customers at the end of June 2005.

Home Rest of World

Revenues from Home Rest of World rose 4.8% on an actual basis and 6.1% on a comparable basis, with this growth related to the rapid expansion of broadband Internet in the United Kingdom, Spain and the Netherlands. There were a total of 1.8 million broadband Internet subscribers, representing a one-year increase of 87%. The success of Livebox has also been confirmed with 89,000 Livebox units sold or rented at the end of June 2005.

In the UK, Home Rest of World added approximately 453,000 customers in one year due to the new innovative Internet + Voice over IP products and the deployment of unbundling. In Spain, the success of dual-play offers is confirmed and the acceleration of ULL migration has started. France Telecom gained more than 290,000 new ADSL customers in one year. Outside Europe, France Telecom had a steady 3% in fixed customer growth year-on-year at the end of June with approximately 727,000 subscribers.

Enterprise Segment

	Six months ended June 30,		
Business Indicators (in thousands)	***2005***	***2004***	***Change (%)***
Number of Enterprise segment telephone lines in France	5,935	5,914	0.4%
Number of permanent connections to managed data networks in France	267	235	13%
Share of xDSL permanent connections	59%	42%	
Number of roaming service users in France	364	283	28%
Number of IP-VPN connections (including global services)	152	92	66%

Revenues from the Enterprise segment declined by 4.9% on a comparable basis and 6.0% on an actual basis. This drop was primarily due to fixed line telephony in France (down by 8.8%), in the first six months of 2005 (decrease of 8.2% and 9.4%, respectively, for the first and second quarters, in relation to 2004) which was affected by the downward trend in traffic volumes and price cuts for calls, and the downturn of 2.9% of the revenues from Business networks in France (decrease of 3.9% and 1.8%, respectively, for the first and second quarters in relation to 2004).

This decrease of 2.9% is tied to technology migrations: the number of IP-VPN connections, including the Oléane range, increased by 87% compared with 30 June, 2004 and xDSL connections accounted for 59% of permanent connections to managed data networks, versus 42% a year earlier. Revenues from mobile solutions posted rapid growth, with the number of Business Everywhere clients growing rapidly (28% compared to 30 June, 2004).

Revenues from Other business services in France decreased by 10.5% in the first six months of 2005 on a comparable basis(decrease of 9.9% and 11.1%, respectively, for the first and second quarters of 2005 in relation to 2004).

Revenues from global services increased 2.4% on a comparable basis for the first six months of 2005 (with an increase of 0.9% for the first quarter of 2005 and 3.8% for the second quarter) but decreased 2.2% on an actual basis. The growth in solutions and services for businesses more than offset the downturn in revenues from network services.

France Telecom’s revenues are impacted by the following technological evolutions currently underway with which the Enterprise Segment is confronted:

- the continued migration of data business towards DSL and IP VPN; and
- the development of mobility, with growth of Business Everywhere end users of 28% on a year-on-year basis to approximately 364,000.

Enterprise revenues are still strongly affected by the decline of voice revenues due to negative volume and price effects. Business networks revenues in France decreased with continued price pressure and migrations towards DSL and IP VPN offerings. Finally, the transformation of the global services business has resulted in the growth of revenues for solutions and services activities offsetting the decline in network services revenues in the first six months of 2005.

France Telecom benefited from the development of IP VPN solutions with total IP-VPN access increasing by 66% year-on-year. Beyond this technological shift, the Enterprise segment is transforming its model to provide more services related to IP core business. France Telecom addresses key customer demands such as managing technological migration and overall complexity, security issues, and strategic applications management. There was a 13% increase in services revenues year-on-year, highlighting these demands.

During the first six months of 2005, France Telecom signed a 5-year contract with Airbus for a full IP solution, including integration and support services as well as voice messaging management, contact centers and business processes for 30,000 extensions in France and 10,000 extensions in the UK.

In France, in response to needs expressed by clients, the business proceeded to change its product mix. The growth in data access is still driven by IP VPN solutions in response to customers needs. DSL connections now account for 59% of Enterprise access in France, compared to 42% a year ago. For the Enterprise segment as a whole, transformation of the business model is underway with:

- year-on-year growth of 25% in outsourcing revenues on a comparable basis (including signature of a multi-year, $100 million outsourcing contract for STMicroelectronics); and
- a 13% increase of services revenues year-on-year, on a comparable basis, to €404 million.

Directories Segment

The Directories segment recorded revenues of €482 million, an increase of 9.5% on a comparable basis and 11.2% on an actual basis.

Using a comparable publication schedule, revenues increased 6.9%. This growth reflected an increase of 7.0% in revenues for PagesJaunes in France where the number of advertisers increased by 18.8% compared with 30 June, 2004 and revenues from online services rose by 14.6% as a result of the growth of internet services. The audience at PagesJaunes.fr (in millions of pages viewed) increased by 38% between the first six months of 2004 and 2005, and the number of on-line advertisers (in thousands) increased by 14.7% between the first six months of 2004 and 2005.

International activities grew by 6.7%, driven in particular by QDQ Media in Spain, which recorded a revenue increase of 12.4% compared with the first six months of 2004.

Additional Key Performance Indicators

In addition to the key performance indicators of France Telecom's business discussed above, France Telecom also produces detailed information relating to total numbers of subscribers in its various principal areas of business. The following discussion gives information with respect to the most significant aspects of such additional key performance indicators (all data are on an actual, not on a comparable, basis).

Total subscribers in controlled subsidiaries

As at 30 June, 2005, for the Rest of the World, including France, the total number of subscribers was 127.5 million.

For France, overall subscribers increased slightly by 1% between the first six months of 2004 and the first six months of 2005, from 59.7 million to 60.5 million. In particular, Internet subscribers increased by 15% from 4.7 million to 5.4 million.

In Europe (excluding France), the number of all subscribers increased by 10% from 53.2 million to 58.4 million. The number of mobile subscribers, which was 32.3 million at the end of June 2004, increased by 16%, to 37.6 million, while Internet subscribers decreased by 2%.

For the Rest of the World (excluding Europe), the number of subscribers was 8.5 million, 7.7 million of whom were Mobile subscribers.

The distribution of subscribers (Mobile, Fixed line and Internet)

As at 30 June, 2005, the numbers of subscribers were split as follows :

	Number of clients 30 June, 2005 (in millions)
Mobile	66.74
Fixed line	49.4
Internet	11.35
Total	127.5

The number of mobile subscribers in Europe amounted to 59 million as at 30 June, 2005, representing an increase of 12% compared with 30 June, 2004, 21.4 million of which are in France (a 5% increase) and 37.6 million are outside of France (a 16% increase). With 14.5 million subscribers, Orange UK increased by 5%, and with 8.6 million clients, the TP Group (Poland) progressed 42%. The increase of Orange Romania, to 5.7 million subscribers represents a 45% increase in one year. Outside of Europe, the consolidated subscriber base rose to 7.74 million, including 3.7 million for the Egyptian subsidiary, ECMS/ Mobinil, factored in by a proportional integration, and whose subscriber base grew 57% in one year.

The number of Fixed line subscribers rose to 49.4 million as at 30 June, 2005, which is stable on a comparable basis. The number of lines in France has stabilized at 33.7 million, and in Poland (11.3 million). Outside of Europe, the total number of subscribers, factoring in the proportional integration of figures relating to Sonatel (Senegal), rose to 0.7 million. On a comparable basis, the number of Fixed line subscribers of subsidiaries outside of Europe increased by 3% in a year.

The number of Internet subscribers rose to 11.35 million as at 30 June, 2005, amounting to an overall increase of 5%. The number rose 15% in France (5.4 million) and decreased by 2% in Europe (excluding France), to 6 million subscribers.

From Revenues to Gross Operating Margin

(in millions of euros)	*Six months ended June 30,*			*Change (%)*	
	2005	***2004***	***2004***		
		actual	on a comparable basis (*)	actual	on a comparable basis
Revenues	23,665	22,655	23,139	4.5%	2.3%
Non-labor costs	9,876	9,372	9,762	5.4%	1.2%
as a % of revenues	41.7%	41.4%	42.2%		
of which external purchases	9,326	8,657	9,034	7.7%	3.2%
as a % of revenues	39.4%	38.2%	39.0%		
Labor costs[(1)]	4,489	4,528	4,530	(0.9)%	(0.9)%
as a % of revenues	19.0%	20.0%	19.6%		
Gross operating margin	9,300	8,755	8,847	6.2%	5.1%
as a % of revenues	39.3%	38.6%	38.2%		

(*) Information on a comparable basis is unaudited and has not been subject to a limited review by the statutory auditors of France Telecom. See "Glossary".

Non-labor and Labor Costs

France Telecom's labor costs decreased by 0.9% from €4,530 million on a comparable basis to €4,489 million between the first six months of 2004 and 2005 due to the following factors:

- a volume effect in the amount of a decrease of 4% directly linked to the decrease of full-time equivalent headcount;
- a mix effect in the amount of a 0.7% increase of expenses; and
- a price impact in the amount of a 2.4% increase of expenses.

Non-labor operating costs grew by 1.2%, with an increase of 3.2% for external purchases.

Employee headcount decreased by 3.6% year-on-year (with a decrease of 3.6% also for France Telecom S.A.).

Commercial expenses increased by 0.7 points in the first six months of 2005 to 12%, and accounted for 29% of total non-labor operating costs. This increase reflected both the highly competitive nature of the market and France Telecom's ability to develop its commercial and distribution policy. More specifically, 79.3% of total commercial expenses was accounted for by Personal, and 33.5% for Personal UK. Other non-labor costs decreased by 1.5% compared to the first six months of 2004 on a comparable basis (from 30.9% in the first six months of 2004 to 29.7% in the first six months of 2005 on a comparable basis).

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(1) See "Glossary".

Gross operating margin

Gross operating margin amounted to €9.3 billion for the first six months of 2005, an increase of 5.1% on a comparable basis and 6.2% on an actual basis. Gross operating margin was 39.3% of revenues on a comparable basis and 38.6% on an actual basis, versus 38.2% for the six months ended 30 June, 2004 on a comparable basis.

With the transition to IFRS, gross operating margin includes non-operational revenues and expenses. Gross operating margin for the first six months of 2005 includes the reversal of a provision of €199 million relating to the Group's activities in Lebanon. Apart from this favorable impact, gross operating margin amounted to €9.1 billion in the first six months of 2005. France Telecom believes that the increase in gross operating margin is attributable to the TOP program.

Gross operating margin both before and after commercial costs improved in the first six months of 2005 and the first six months of 2004 on a comparable basis for the Home, Personal and Directories segments.

The following table provides a breakdown of gross operating margin by segment:

	Six months ended June 30,		
(in millions of euros)	***2005***	***2004***	***2004***
		actual	on a comparable basis (*)
Total Group	***9,300***	***8,755***	***8,847***
Total Personal	***4,142***	***3,852***	***3,833***
Personal – France	1,942	1,833	1,813
Personal – UK	764	904	885
Personal – Poland	291	194	229
Personal – Rest of World	1,145	919	905
Total Home	***3,970***	***3,643***	***3,764***
Total Enterprise	***986***	***1,094***	***1,084***
Directories	***203***	***166***	***166***

(*) Information on a comparable basis is unaudited and has not been subject to a limited review by the statutory auditors of France Telecom. See "Glossary".

Personal Segment

The ratio of gross operating margin before commercial expenses to revenues for the Personal segment improved (0.5 points in the first six months of 2005 versus the first six months of 2004 on a comparable basis), such that commercial expenses increased without impacting profitability (gross operating margin reached 37.7% in the first six months of 2005 compared to 37.3% in the first six months of 2004 on a comparable basis). The Personal division made the strongest customer investments.

Strong gross operating margins in France, Poland and Rest of World balanced out the high customer investment in the UK designed to drive recovery in that market:

- in France, the exit from the Bill & Keep system negatively impacted operating margins. On a comparable basis, gross operating margin before commercial expenses decreased by 0.3 points to 57.2% driven by the cut in the call termination rate offset by ongoing cost saving initiatives;

- gross operating margin before commercial expenses increased in the UK to 61% in the first six months of 2005 from 59.9% on a comparable basis in the first six months of 2004 before commercial expenses; however, strong commercial efforts, particularly in relation to subscriber acquisition costs, and strict control over operating costs were put in place were made to drive recovery;

- in Poland, gross operating margin before commercial expenses decreased between the first six months of 2004 and 2005 due to an increase of interconnection traffic and corresponding repayment to operators. However, gross operating margin increased by 4.3 points to 39.2%; and

- mobile operations in the Rest of World continued to improve profitability. The gross operating margin before commercial expenses increased between the first six months of 2004 and 2005 from 56.8% to 59.2% on a comparable basis.

Home Segment

The margin rate of gross operating margin improved by 2.4 points in the first six months of 2005 (on a comparable basis) to 35.6%. Gross operating margin increased by 5.5% in the first six months of 2005, despite the 1.5% reduction in revenues on a comparable basis. This increase reflects the policy of control over operating expenses as well as the positive impact of reversal of a provision (litigation with the State of Lebanon). Excluding this exceptional event, the gross operating margin of the Home segment would have been 33.8%, an increase of 0.6 points.

Enterprise Segment

Operating profitability experienced the negative impact of the decrease in revenues, which was partially offset by a reduction in operating costs. The ratio of gross operating margin to revenues reached 25.1% in the first six months of 2005 compared to 26.3% in the first six months of 2004 on a comparable basis.

Directories Segment

The ratio of gross operating margin to revenues for the Directories segment increased by 4.4 points in the first six months of 2005 to 42.1%, versus 37.7% in the first six months of 2004 (on a comparable basis).

From Gross Operating Margin to Operating Income

(in millions of euros)	*Six months ended June 30,*		*Change (%)*	
	2005	***2004***	***actual***	***on a comparable basis (*)***
Gross operating margin	***9,300***	***8,755***	***6.2%***	***5.1%***
Employee profit-sharing	(166)	(107)	55.0%	54.7%
Share based payments	(34)	(55)	(36.9)%	(36.1)%
Amortization	(3,462)	(3,932)	(11.9)%	(9.3)%
Impairment of goodwill	0	(534)	ns	ns
Impairment of assets	(196)	90		
Disposal of assets	1,171	131		
Restructuring costs	(174)	(39)		
Income/loss from affiliates accounted for under the equity method	40	13		
Operating income	***6,479***	***4,322***	***49.9%***	

(*) Information on a comparable basis is unaudited and has not been subject to a limited review by the statutory auditors of France Telecom. See "Glossary".

Operating income reached nearly €6.5 billion for the six months ended 30 June, 2005, compared to €4.3 billion for the six months ended 30 June, 2004, an increase of 49.9%. This increase is linked to a decrease in depreciation and revenues from disposals. This significant growth takes into account, in addition to operating performance, the results of asset disposals for €1.2 billion. Revenues from disposals of assets amounted to €1,171 million in the first six months of 2005, and principally related to the shares in PagesJaunes, disposed of in the amount of €386 million; other disposals include TDF (€377 million), MobilCom (€264 million), Intelsat (€51 million) and Blue Bird (€74 million).

The decrease of €470 million of depreciation between the first six months of 2005 and 2004 also benefited from the progression of operating income on an actual basis. Depreciation was impacted by the increase of useful life of some fixed assets.

In the first six months of 2005, the amount relating to fixed asset impairment was €196 million, of which €185 million related to the Equant brand, following the decision to abandon the Equant brand in 2006.

The increase in restructuring costs (€174 million over the period, versus €39 million for the first six months of 2004) mainly reflects the impact of actualization of the early retirement plan provision.

From Operating Income to Net Income

(in millions of euros)	*Six months ended June 30,*	
	2005	***2004***
Operating income	***6,479***	***4,322***
Total financial charges, net	***(1,827)***	***(2,027)***
Income taxes	(1,018)	(1,138)
Net result	3,634	1,157
Minority interests	***(271)***	***(115)***
Net income, Group share	***3,363***	***1,042***

The decrease of 9.9% in net financial charges between 30 June, 2005 and 30 June, 2004 is mainly due to the ongoing reduction in France Telecom's net financial debt. The reduction was about €3.6 billion between 30 June, 2005 and 31 December, 2004.

The annual average compound interest rate of France Telecom's net debt was 6.41% at the end of June 2005, compared to 6.98% a year before.

The increase in minority interests reflects the improvement of results for many companies of the France Telecom and the buy-out of Equant minority interests.

As a result of all these factors, net income, Group share increased significantly, from €1.0 billion for the first six months of 2004 to almost €3.4 billion for the first six months of 2005.

Analysis of Investments in Tangible and Intangible Assets, excluding GSM and UMTS licenses

(in millions of euros)	*Six months ended June 30,*		*Change (%)*
	2005	***2004***	***2004***
	actual	on a comparable basis (*)	on a comparable basis
Total Group CAPEX	2,713	2,094	29.6%
% of revenues	11.5%	9.0%	
of which 2G-3G and radio access network	809	623	30.0%
of which ADSL	96	99	(2.9)%
of which IT	559	445	25.6%

(*) Information on a comparable basis is unaudited and has not been subject to a limited review by the statutory auditors of France Telecom. See "Glossary".

CAPEX totaled €2.7 billion and amounted to 11.5% of revenues in the first six months of 2005 versus a ratio of 9% in the first six months of 2004 on a comparable basis. This ratio is in the upper range of 10 to 12% and confirms France Telecom's objective. The increase in capital expenditure during this period was 29.6% on a comparable basis and 31.1% on an actual basis. This increase is linked to the rapid deployment of broadband services, both fixed (ADSL) and mobile (EDGE and UMTS). In the segment of mobile activities and services, efforts have been particularly intensive in France, with the deployment of an EDGE network that now covers 85% of the population. The growth in CAPEX also reflects growth in expenditure on IT systems, notably relating to customer relations.

The increase in CAPEX in the first six months of 2005 also reflects acceleration of expenditure for investment in geographical zones with high growth, such as Orange Rest of World.

The decrease of €349 million between the first six months of 2005 and the first six months of 2004 in cash flow excluding asset disposals, investment in short-term marketable securities and minority interest buy-outs (Wanadoo, Orange, Equant, Orange Romania) is largely accounted for by the acceleration in investment expenditure in the first six months of 2005.

CAPEX relating to IT increased by 25,6% in the first six months of 2005 on a comparable basis. This growth reflects the implementation of IT processes at the Group levels, notably regarding billing, customer relations management and convergence projects as well as an acceleration of investment in high-growth areas like Orange Rest of World.

Due to the more pronounced anticipated impact of seasonality in the second six months of 2005 than the second six months of 2004, France Telecom confirms its objective of a ratio of CAPEX to revenues of between 10% and 12% for 2005.

The ratio of CAPEX to revenues of France Telecom increased between the first and second quarters of 2005 by 2.9 points, reflecting the impact of seasonality that also occurred in 2004 (this ratio was 2.5 points higher than for the first quarter).

Liquidity

This table details, for the first six months of 2004 and 2005, the main cash flows and elements of the liquidity of the France Telecom group, commencing with net cash provided by operating activities.

(in millions of euros)	***Six months ended June 30,***	
	2005	***2004***
Net cash provided by operating activities	5,868	5,870
Net cash used for investing activities	(2,423)	(3,387)
of which CAPEX net of variation of fixed asset suppliers	(2,959)	(2,578)
of which revenues from disposals of investments in securities	1,529	18
Impact of investment in short-term marketable securities	0	(1,477)
Free Cash Flow excluding asset disposals and investment in short-term marketable securities (1)	1,916	988
Minority interests buyouts (Wanadoo, Orange, Equant and Orange Romania)	999	2,276
Cash flow excluding asset disposals and minority interest buyouts	2,915	3,264
Teleinvest acquisition (exercise of the "Kulczyck Put") (2)	(350)	0
Cash Flow excluding asset disposals, investment in short-term	2,565	3,264

marketable securities and minority interest buyouts (Wanadoo, Orange, Equant and Orange Romania) and after the acquisition of Teleinvest		
Impact of changes in scope of consolidation, variation in exchange rates, capital increase, new IFRS accounting standards and others	472	(981)
of which dividends by France Telecom S.A.	(1,184)	—
of which carry back	1,324	—
Decrease in net financial debt	3,567	25

(1) Free cash flow excluding asset disposals is net cash provided by operating activities, less net cash used in investing activities, less asset disposals. Placing net cash liquidity in SICAV is considered from an accounting point of view as net cash provided by investing activities. In calculating free cash flow, the net cash SICAV are nevertheless considered as liquidities and are included in the calculation.

(2) The Kulczyck Put has been accounted for as a debt repayment.

Net cash provided by operating activities

The following table presents the transition from gross operating margin to net cash provided by operating activities for the six months ended 30 June, 2005 and 30 June, 2004.

(in millions of euros)	***Six months ended June 30,***	
	2005	***2004***
Gross operating margin	9,300	8,755
Interest expense, net[(1)]	(1,447)	(1,696)
Elimination of effect of foreign exchange variations included in gross operating margin	(9)	(16)
Income taxes	(475)	(166)
Payments in relation to early retirement plan	(448)	(405)
Employee profit sharing	(166)	(107)
Restructuring costs, TDIRA1 interest expense and other	(852)	(181)
Change in working capital requirements (defined as inventories plus receivables less payables)	81	(99)
Change in working capital requirements, excluding operational (others)	(116)	(215)
Net cash provided by operating activities	5,868	5,870

(1) Net financial charges excluding TDIRA, discounting, disposal and depreciation of financial assets and foreign exchange (gain/loss).

(1) See "Glossary".

Net cash provided by operating activities was virtually stable at about €5.9 billion in the first six months of 2005. In the first six months of 2005, the evolution is attributable to the following:

- the increase of income tax in the amount of €309 million; and

- the increase of other net income items (decrease of €852 million for the six months ending 30 June, 2005, versus a decrease of €181 million for the six months ending 30 June, 2004), notably including the payment relating to TDIRA capitalized interest charges (for the 2003 and 2004 fiscal years) in the amount of €550 million. This payment results from the reversal by France Telecom of the distribution of a dividend in 2004. Among these other elements, an amount of €199 million relates to the neutralization of a reversal of provision (regarding FTM Liban).

Net cash used for investing activities

Net cash used for investing activities reached €2.4 billion in the first six months of 2005, versus €3.4 billion for the first six months of 2004. In the first six months of months of 2005, the net cash used includes:

- acquisitions of tangible and intangible fixed assets net of variation of fixed asset suppliers in the amount of €2.959 billion; and

- revenues from disposal of investments in securities, net of funds given, in the amount of €1.529 billion.

Other information relating to free cash flow

Free cash flow, excluding asset disposals, investment in short-term marketable securities and minority buy-outs (Wanadoo, Orange, Equant and Orange Romania) reached €2.9 billion in the first six months of 2005, compared to €3.3 billion in the first six months of 2004. This decrease was mainly due to the increase in investments in tangible and intangible assets during the first six months of 2005.

Net Financial Debt

Net financial debt amounted to €46.3 billion on 30 June, 2005, versus €49.8 billion at 31 December, 2004, reflecting a decrease of net financial debt of €3.6 billion over the first six months of 2005. The ratio of net financial debt to gross operational margin was 2.50 in the first six months of 2005 (on the basis of the gross operational margin recorded over the 12 previous months), versus 2.78 at 31 December, 2004.

The decrease of €3.6 billion of net financial debt between 31 December, 2004 and 30 June, 2005 includes the payment of dividends by France Telecom S.A. in the amount of €1.2 billion and the effect of deconsolidating the carry-back debt of 2001 (following renegotiation of the contract of disposal of the 2001 carry-back that occurred in June 2005).

The reduction in net financial debt that occurred in the first six months of 2005 allows the France Telecom group to confirm its objective of a ratio of net financial debt to gross operating margin of less than 2.5 for 2005.

In the context of the acquisition of Amena announced by France Telecom, following the acquisition, France Telecom will consolidate an amount of additional net debt of €5.7 billion. This amount, estimated as of the end of 2005, is based on the net estimated debt of Amena at the end of 2005, and does not take into account the eventual effect of price adjustment clauses upon the completion of the transaction (see sections 3.2 and 3.4 of this document).

REPORT OF THE AUDITORS ON THE ESTIMATES FOR THE FIRST SIX MONTHS OF 2005

This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and is construed in accordance with French law and professional auditing standards applicable in France.

"As statutory auditors of France Telecom and in accordance with *Règlement* (EU) No. 809/2004, we issue this report on the estimated results of France Telecom in respect of the first six months of 2005, included in Chapter 5 of this prospectus, dated 31 August 2005.

These estimates, and the bases upon which they have been prepared, have been prepared under your responsibility, in accordance with *Règlement* (EU) No. 809/2004, and the CESR recommendations relating to profit forecasts and estimates. In the context of the implementation of the IFRS as adopted in the European Union, for the 2005 consolidated financial statements, these estimates were prepared in accordance with the accounting and evaluation criteria of IFRS as adopted in the European Union. For comparison purposes, they include the figures relating to the first six months of 2004, adjusted in accordance with the same principles.

It is our responsibility to report on the estimates in accordance with the requirements of Annex I, point 13.3 of the *Règlement* (EU) No. 809/2004.

We performed our procedures in accordance with professional standards applicable in France. Our procedures, which are neither an audit nor a limited review, consisted in an assessment of procedures applied by management to prepare the estimates and in performing procedures to ensure conformity of the accounting methods used with those which should be followed in preparing the 2005 consolidated financial statements outlined in paragraph 2 of chapter 5 of this offering memorandum. Our procedures also involved compiling information and explanations which we considered necessary to obtain a reasonable assurance that the estimates were adequately prepared on the bases provided.

We remind you that, with respect to estimates which may change in light of certain elements arising or occurring after the issue of our report, the final financial statements for the first six months of 2005 may differ from the estimates presented, and we do not express any conclusion on the actual confirmation of these estimates.

In our opinion:

- the estimates have been adequately prepared on the basis provided;

- the basis of accounting used to prepare theses estimates is consistent with the accounting methods which should be followed in order to prepare the 2005 consolidated financial statements.

Without qualifying the opinion expressed above, we draw your attention to paragraph 2, describing the methods used to prepare the estimates and to note 2.1.2 of paragraph 3.4 of the above mentioned chapter 5, which points out the accounting positions applied by France Telecom that are still being analysed by either the IFRIC or the CNC."

French original signed in Neuilly sur Seine and Paris La Défense on 31 August 2005

By the Statutory Auditors

DELOITTE & ASSOCIES	***ERNST & YOUNG Audit***	
Jean-Paul Picard	Etienne Jacquemin	Christian Chiarasini

GLOSSARY

ARPU (Average Revenue Per User)

Mobile ARPU is mobile network revenues for the previous twelve months divided by Mobile weighted average customer base for the 12-month period. Mobile Network revenues include outgoing traffic, incoming traffic, access fees, visitor roaming and value added services. The Mobile weighted average customer base for the 12-month period is the average of the monthly average customer bases (calculated as the sum of the opening and closing customer bases for the month divided by two). ARPU is quoted on a revenue per customer per year basis. Since 1 January, 2005, Orange France (mainland), together with the other French mobile operators, has not used the "Bill & Keep" system. The discontinuing of the "Bill & Keep" system leads to an increase in Orange France's revenues, specifically the revenues received from other French mobile network operators for voice calls from their networks that terminate on Orange France's mainland network, similar to other markets such as the United Kingdom.

Internet ARPU is ARPU calculated by dividing year-to-date connectivity revenues by the weighted average number of Wanadoo customers during the same period. The weighted average number of Wanadoo customers during a period is the monthly average customer base for the period. The monthly average customer base is calculated as the sum of the opening and closing number of customers for the month divided by two.

"HOME France Usage" ARPU is calculated by dividing the average of the "Home Usage" monthly revenues for the last twelve month period by the weighted average customer base for the last twelve month period. The weighted average customer base for the last twelve month period is the average of the monthly average customer bases, which is calculated as the sum of the opening and closing customer bases for the month divided by two.

AUPU (Average Usage Per User)

Mobile AUPU is monthly average usage per user (AUPU), defined as total usage (including outgoing traffic, incoming traffic and roaming) for the 12 previous months divided by the weighted average number of Orange Group's customers during the same period. AUPU is quoted in minutes on a usage per customer per month basis.

"Bill & Keep" is the mechanism by which a mobile operator invoices the calling party for the entire outgoing call to another mobile subscriber (the called party) without paying a percentage as compensation for access to the terminal portion of the third-party operator's mobile network. The withdrawal from the "Bill & Keep" system in France for all the mobile operators became effective on 1 January, 2005. It led to an increase in revenues and in a correlated increase in call terminal charges paid to third-party mobile operators.

CAPEX or ***capital expenditure*** equals tangible and intangible investments excluding GSM and UMTS licenses and excluding investments financed under leasing agreements.

Cash Flow

Free Cash Flow is net cash provided by operating activities, less net cash used in investing activities. Placing net cash liquidity in SICAV is considered from an accounting point of view as net cash provided by investing activities. In calculating free cash flow, the net cash SICAV are nevertheless considered as liquidities and are included in the calculation.

Free Cash Flow excluding asset disposals is net cash provided by operating activities, less net cash used in investing activities, less asset disposals. Placing net cash liquidity in SICAV is considered from an accounting point of view as net cash provided by investing activities. In calculating free cash flow, the net cash SICAV are nevertheless considered as liquidities and are included in the calculation.

Cash Flow excluding asset disposals and minority interest buy-outs is net cash provided by operating activities, less net cash used in investing activities, less asset disposals, less investments in the minority buy-outs of Orange, Wanadoo, Equant and Orange Romania. Placing net cash liquidity in SICAV is considered from an accounting point of view as net cash provided by investing activities. In calculating free cash flow, the net cash SICAV are nevertheless considered as liquidities and are included in the calculation.

Organic Cash Flow is net cash provided by operating activities, less asset disposals, less investments in the minority buy-outs of Orange, Wanadoo, Equant and Orange Romania, and after the impact of settlement of the Equant contingent value rights certificates (CVRs). Placing net cash liquidity in SICAV is considered from an accounting point of view as net cash provided by investing activities. In calculating free cash flow, the net cash SICAV are nevertheless considered as liquidities and are included in the calculation. The settlement of the Equant CVRs occurred in the second six months of 2004 and thus there is no impact on the first six months of 2004.

Churn is the measure of customers leaving France Telecom's networks, and is calculated by dividing the total number of customers who disconnect or are treated as having disconnected from the network, voluntarily or involuntarily (excluding money-back returns and fraudulent connections), for the previous 12 months by the weighted average number of France Telecom's customers during the same period. The way churn is computed differs between Personal UK and Personal France in the following ways:

- For Personal UK, customers migrating between contract and prepaid products are included in individual product churn but do not impact overall churn as they remain on the Orange UK network. Customer disconnections that occur either during the money-back guaranteed 14-day trial period or due to fraudulent connections are not included in churn. The Company also excludes from churn those connections which, in its view, do not result in active customers, including those as a result of prepaid handset upgrades or the removal of handsets from the UK market. Prepaid customers are treated as having churned if they have not made any outgoing calls and have received less than four incoming calls in the last three months.

- For Personal France, churn includes those customers leaving the Orange network, migrations between contract and prepaid products and those customers upgrading their handsets via an indirect channel. Prepaid customers are treated as having churned after eight months if they do not recharge their account during this eight-month period.

Commercial expenses see "External Charges."

Comparable basis figures are figures at a constant exchange rate, presented for the preceding period on a comparable basis. The presentation consists in retaining the results for the current period and restating the results for the corresponding period of the previous year, in order to reflect the same scope of consolidation over comparable periods while eliminating effects of exchange rates. The effect of exchange rate fluctuations is neutralized by applying to the previous period the average exchange rates used for the income statement for the current period.

External charges external charges include:

- Commercial expenses: external expenditure relating to purchases of handsets, distribution commissions and advertising expenses.

- Other external charges, which are external expenditure including purchases and payments to operators, overheads, operational and technical maintenance outsourcing fees, costs relating to property and information systems, and purchases of equipment.

Gross operating margin (GOM) is revenues minus external purchases, operating costs (net of operating income) and wages and payroll expenses (labor costs). Labor costs presented in GOM do not include employee profit sharing and share-based payment.

Labor costs presented in gross operating margin do not include employee profit-sharing and share-based payment, and correspond to the wages and payroll expenses only.

Network revenues for mobile services include both inbound and outbound traffic, access costs, roaming and value-added services.

TDIRA is perpetual bonds redeemable for France Telecom shares.

INFORMATION ON IFRS

Preparation of 2004 consolidated financial information on the conversion to IFRS

In accordance with European regulation 1606/2002 dated 19 July, 2002, the 2005 consolidated financial statements will be prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

In preparation for the publication of 2005 IFRS financial statements with comparative information for 2004, and as recommended by the French securities regulator (AMF) concerning financial communications during the transition period, preliminary information has been prepared on the main effects of the transition to IFRS on:

- the opening IFRS balance sheet at the transition date (1 January, 2004), in which the final IFRS transition adjustments determined at the time of publication of the 2005 consolidated financial statements will be recorded inequity;
- Equity at 31 December, 2004 and profit or loss for the period.

This information was reviewed by the board of directors on 13 April, 2005 and was audited by the auditors described in the Free Translation of the Report of Auditors on the consolidated financial statements restated in accordance with IFTS for the financial year 2004 dated 14 April, 2005 reproduced at the end of this section.

The principal impacts of the changeover to IFRS

The principal impacts of the changeover to IFRS on 31 December, 2004 are:

- Revenues, which total €46.16 billion (€47.16 billion under French GAAP);
- Gross operating margin, which reflects the operational performance of the company, is only slightly impacted by the restatements of sales revenues; it was €17.92 billion (REAA of €18.26 billion under French GAAP), which is a gross operating margin rate of 38.8% (38.7% REAA under French GAAP);
- Net results attributable to France Telecom shareholders total €3.02 billion, which is €233 million higher than the equivalent under French GAAP (net income, Group share of €2.78 billion under French GAAP);
- Earnings per share up 8% to €1.23 (€1.14 under French GAAP);
- At 31 December, 2004, France Telecom's net financial debt under IFRS GAAP was €49.92 billion (€43.94 billion under French GAAP). As previously announced, the debt of France Telecom now includes known elements that have been, until now, classified differently on the balance sheet or off-balance sheet, such as the TDIRA the carry-back claim or interest accrued and not due; and
- Likewise, equity capital amounts to €2 billion higher at €17.68 billion (€15.68 billion under French GAAP), primarily as a result of the presentation of minority interests within equity capital.

The consolidated adjusted IFRS accounts for the fiscal year 2004 with notes and annexes

PRELIMINARY CONSOLIDATED INCOME STATEMENT
(Amounts in millions of euros, except for per share data)

	Year ended 31 December 2004
Net revenues	46,158
External purchases	(17,870)
Other operating income and expense	(1,515)
Wages and employee benefits expenses	(8,850)
Gross operating margin	***17,923***
- Employee profit-sharing	(280)
- Share-based compensation	(399)
Depreciation and amortisation	(7,990)
Impairment of goodwill	(534)
Impairment of non-current assets	(179)
Gains (losses) on disposal of assets	922
Restructuring costs	(181)
Share of profits (losses) of associates	30
Operating income	***9,312***
Interest expense	(3,621)
Foreign exchange gains (losses)	144
Discounting	(148)
Finance costs, net	***(3,625)***
Income tax	(2,477)
Net income	***3,210***
Attributable to:	
- Equity holders of France Télécom SA	3,017
- Minority interests	193

Earnings per share (in euros)

Attributable to equity holders of France Télécom SA	
- Basic earnings per share	1.23
- Diluted earnings per share	1.22

	At 1 January 2004	***At 31 December 2004***
ASSETS		
Goodwill	26,537	27,589
Intangible assets	15,865	14,851
Property, plant and equipment	28,972	27,283
Interests in associates and investments held for sale	607	370
Assets available for sale	727	615
Other financial and non-current assets	4,829	4,285
Deferred tax assets	11,151	9,469
Total non-current assets	***88,688***	***84,462***
Inventories	658	644
Trade receivables	6,960	6,589
Other receivables	2,043	2,695
Current tax assets	65	88
Prepaid expenses and other current assets	768	750
Other financial and current assets	2,189	312
Cash and cash equivalents	3,370	3,153
Total current assets	***16,053***	***14,231***
TOTAL ASSETS	***104,741***	***98,693***
EQUITY AND LIABILITIES		
Share capital	9,609	9,869
Additional paid-in capital	15,333	12,675
Retained earnings (deficit)	(15,303)	(11,673)

Net income (loss) for the year	0	3,017
Foreign currency translation adjustment		563
Equity attributable to equity holders of France Telecom SA	***9,639***	***14,451***
Minority interest	4,356	3,232
Total equity	***13,995***	***17,683***
Exchangeable or convertible bonds	39,360	34,222
Financial long term debt	9,643	8,571
Provision for employee benefit costs	3,125	3,260
Provisions	1,066	617
Other non-current liabilities	1,506	1,374
Deferred tax liabilities	1,997	1,978
Total non-current liabilities	***56,697***	***50,022***
Current portion of long-term debt	9,116	7,443
Bank overdrafts and other short-term borrowings	5,268	4,037
Accrued interest payable	1,314	1,172
Provisions	1,272	1,041
Trade payables	7,344	7,757
Employee liabilities	3,268	2,884
Other payables	1,378	1,869
Other current liabilities	1,396	784
Current tax payable	398	431
Deferred income	3,295	3,570
Total current liabilities	***34,049***	***30,988***
TOTAL EQUITY AND LIABILITIES	***104,741***	***98,693***

FRANCE TELECOM
PRELIMINARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Amounts in millions of euros)

	Attributable to equity holders of France Telecom SA				
	Share capital	***Additional paid in capital***	***Income (expense) recognised directly in equity***	***Retained earnings (deficit)***	***Forei curren transla adjustm***
Balance at 1 January 2004	9,609	15,333	(47)	(15,256)	
Unrealised foreign exchange gain or loss					
Gains (losses) on cash flow hedges taken to equity			(9)		
Gain or loss on financial assets available for sale			(9)		
Tax on items taken directly to equity			(15)		
Total income and expense recognised in equity	*0*	*0*	*(33)*		
Net Income for the year				*3,017*	
Total recognised income and expense for the year	0	0	(33)	3,017	
Appropriation of France Telecom SA profit		(3,116)		3,116	
Share capital issued in connection with the public exchange offer for Wanadoo shares (attributable to equity holders of France Telecom SA)	259	1,085			
Commitments to purchase minority interests				308	
Dividends		(617)			
Equity share options issued				40	
Other movements	1	(10)		199	
Balance at 31 December 2004	9,869	12,675	(80)	(8,576)	

NOTE 1. INFORMATION REGARDING IFRS

1.1 Preparation of 2004 consolidated financial information on the conversion to IFRS

In accordance with European regulation 1606/2002 dated 19 July, 2002, the 2005 consolidated financial statements will be prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

The first published IFRS financial statements will concern the 2005 fiscal year and will include comparative figures for 2004 prepared using the same basis of preparation.

In preparation for the publication of 2005 IFRS financial statements with comparative information for 2004, and as recommended by the French securities regulator (AMF) concerning financial communications during the transition period, preliminary information has been prepared on the main effects of the transition to IFRS on:

- the opening IFRS balance sheet at the transition date (1 January, 2004), in which the final IFRS transition adjustments determined at the time of publication of the 2005 consolidated financial statements will be recorded in equity;
- Equity at 31 December, 2004 and profit or loss for the period.

The estimated impact of the transition to IFRS on the 2004 financial statements has been determined by applying to 2004 data the IAS/IFRS and related interpretations that the Group expects to apply for the preparation of the IFRS financial statements at 31 December, 2005. As explained in Note 2, the preliminary comparative 2004 financial information has been prepared on the basis of:

- IAS/IFRS and related interpretations whose application will be compulsory at 31 December, 2005, based on current information;
- IAS/IFRS and related interpretations whose application will be compulsory after 31 December, 2005 and for which the Group has opted for earlier application;
- The outcome expected at this point in time of the technical issues and exposure drafts currently being examined by the IASB and IFRIC, which may be applicable to the 2005 IFRS consolidated financial statements;
- The options and exemptions that the Group expects to apply for the preparation of the 2005 IFRS financial statements.

Due to the above, the preliminary opening balance sheet may not correspond exactly to the opening balance sheet that will be used to prepare the 2005 IFRS consolidated financial statements.

This information was reviewed by the board of directors on 13 April, 2005.

1.2 Organization of the conversion project

The Group launched the IFRS conversion project in July 2003. The various phases of the project consisted of identifying and dealing with the main differences in accounting methods at 31 December, 2004, and preparing the preliminary opening IFRS balance sheet at 1 January, 2004 as well as the adjustments to the 2004 monthly financial flows.

The project forms part of a broader program to enhance management reporting, deploy a new consolidation tool and a new chart of accounts throughout the Group. To ensure that accounting policies are defined and implemented consistently throughout the Group, the IFRS conversion project is being led by a corporate team that is responsible for managing the project plans at both Group and sub-group levels.

The main committees responsible for ensuring the success of the project and track progress are as follows:

- A Program Steering Committee comprised of the main players in the Group and the sub-groups.

- A Technical Committee responsible for validating IFRS technical issues and options up front, comprised of the main players in the Group and the sub-groups and the external auditors.

- A Program Strategy Committee responsible for the IFRS conversion project, the new consolidation system and the new management reporting system, comprised of the Executive Directors and Finance Management.

- The Audit Committee, which is responsible for examining all accounting options selected by the Group.

NOTE 2. EFFECTS OF THE FIRST-TIME ADOPTION OF IFRS

This note describes the principles applied to prepare the preliminary opening IFRS balance sheet at 1 January, 2004 and the differences compared to the French generally accepted accounting principles (French GAAP) previously applied, as well as the effects of these differences on the preliminary 2004 opening and closing balance sheets and 2004 profit or loss.

Preliminary financial information for 2004 on the transition to IFRS has been prepared in accordance with IFRS 1 – First-time Adoption of IFRS and the IFRS applicable at 31 December, 2005, as published by the IASB as of 31 December, 2004. In particular, it has been prepared in accordance with:

- IAS 39 – Financial Instruments: Recognition and Measurement and IAS 32 – Financial Instruments: Disclosure and Presentation. The Group has elected to apply these two standards effective from 1 January, 2004 in order to improve the comparability of the 2004 and 2005 IFRS financial statements. The Group is not concerned by the provisions of IAS 39 that have not been endorsed by the European Commission.

- IFRS 5 – Non-Current Assets Held For Sale And Discontinued Operations

The Group has also opted for early adoption of IFRIC 4 – Determining Whether An Arrangement Contains A Lease . Adoption of this interpretation is compulsory for annual periods beginning on or after 1 January, 2006 but early application is permitted. Although it has not yet been endorsed by the European Commission, the European Financial Reporting Advisory Group (EFRAG) has recommended that it be endorsed.

At this stage, the Group has elected not to adopt in advance the amendment to IAS 19 – Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures. The Group is not concerned by interpretations IFRIC 2 – Members' Shares in Co-operative Entities and Similar Instruments, and IFRIC 3 – Emission Rights.

2.1 Accounting options selected and positions taken by France Telecom

2.1.1 Accounting options selected by France Telecom for the preparation of the preliminary opening IFRS balance sheet at the transition date (1 January, 2004)

IFRS 1 – First-time Adoption of IFRS sets out the rules to be followed by first-time adopters of IFRS. The Group has opted to apply the following options and exemptions provided for in IFRS 1:

Business combinations

In accordance with the exemption provided for in IFRS 1, the Group has opted not to restate past business combinations that occurred before 1 January, 2004.

IFRS 1 does not deal explicitly with acquisitions of minority interests and none of the other IFRS specifically address this issue. Consequently, the Group has decided to continue to apply the French GAAP accounting treatment (see below).

Cumulative translation differences

Cumulative translation differences for all foreign operations have been transferred to retained earnings at 1 January, 2004. This adjustment has no impact on opening shareholders' equity at that date. In the opening IFRS balance sheet at 1 January, 2004, the cumulative translation adjustment is therefore equal to zero. The gain or loss on a subsequent disposal of any foreign operation will exclude translation differences that arose before the date of transition to IFRS but will include later translation differences.

Cumulative actuarial gains and losses on pension and other post-employment benefit plans

Cumulative unrecognized actuarial gains and losses on pension and other post-employment benefit plans at 1 January, 2004 have been recognized in shareholders' equity in the opening balance sheet, in accordance with the option proposed by IFRS 1. This treatment was also applied in the 2004 French GAAP consolidated financial statements.

Measurement of certain items of property, plant and equipment and intangible assets at fair value

In the opening IFRS balance sheet at 1 January, 2004, the Group has opted to measure property, plant and equipment and intangible assets at historical cost, in accordance with IAS 16 and IAS 38, except for:

- Certain properties held by TP Group, which have been measured at fair value.
- Certain items of property, plant and equipment held by France Telecom SA, which were revalued at fair value at the time of the change in the Company's status and deregulation of the telecommunications market in 1996. These fair values, determined at 31 December, 1996, were used as the assets' deemed cost at that date.

Stock options and other share-based payments

The Group has opted to apply IFRS 2 – Share-based Payment retrospectively to equity-settled and cash-settled plans. Consequently, IFRS 2 has been applied to all share-based plans, including those implemented prior to 7 November, 2002.

2.1.2 Positions taken by France Telecom on issues that are still being analyzed by the IFRIC or the French standard-setter (CNC)

In the absence of standards or interpretations applicable to the transactions described below, management has used its judgment to define and apply the most appropriate accounting methods. For important issues, the Group referred the matter to the international accounting standard-setters. The Group's judgment-based interpretations are as follows:

Acquisitions of minority interests

The Group has applied the French GAAP accounting treatment of acquisitions of minority interests, which consists of recognizing in goodwill the difference between the cost of acquisition of minority interests and the Group's equity in the book value of the underlying net assets, without making any fair value adjustments to the assets and liabilities acquired. These transactions are not addressed in any IAS or IFRS and the Group has therefore referred the issue to the International Financial Reporting Interpretations Committee (IFRC) for consideration, in order to clarify the relevant accounting treatment. Depending on the IFRIC's reply, the accounting treatment described above may be changed.

Goodwill recognized on acquisitions of minority interests in 2003 and 2004 amounted to €3,039 million for Orange and €1,276 million for Wanadoo.

Commitments to purchase minority interests (put options)

As explained in Note 3.18, commitments to purchase minority interests and put options granted to minority shareholders are currently recognized as a financial debt and as a reduction in minority interests in equity, in accordance with IAS 27 – Consolidated and Separate Financial Statements and IAS 32 – Financial Instruments: Disclosure and Presentation. Where the amount of the commitment exceeds the amount of the minority interest, the difference is recorded as a deduction from equity attributable to equity holders of France Telecom SA.

Since this accounting treatment does not reflect the economic substance of the transactions and due to possible differing interpretations of the texts regarding the commitments concerned, particularly those arising from put options, the Group submitted the issue to the International Financial Reporting Interpretations Committee (IFRC) for consideration, in order to obtain guidance on the appropriate accounting treatment and the scope of application of the related texts. Depending on the IFRIC's reply, the accounting treatment described above may be changed.

Put options granted to minority shareholders amounted to €983 million at 1 January, 2004 and €547 million at 31 December, 2004. The overall effect on equity attributable to equity holders of France Telecom SA arising from the recognition of these commitments as a debt is €661 million at 1 January, 2004 and €422 million at 31 December, 2004.

Loyalty programs

IFRS do not specifically address the accounting treatment of loyalty programs and the Group has therefore applied the French GAAP accounting treatment, which is based on Comité d'Urgence (Emerging Accounting Issues Committee) recommendation 2004-E dated 13 October, 2004. Two types of loyalty program exist within the Group, with and without a contract renewal obligation. For both types of program, the Group defers part of the invoiced revenue over the customer rights acquisition period based on the fair value of these obligations.

The French standard setter (CNC) are currently examining the accounting treatment of these programs under IFRS, under the aegis of IFRIC.

The liability recognized for these programs amounts to €297 million at 1 January, 2004 and €383 million at 31 December, 2004.

Discount on shares granted to employees

As explained in Note 3.21 – Share-based payments, the Group considers that the grant date for the discount on shares granted to employees corresponds to the date on which the main terms of the offer are announced. This treatment complies with the recommended method set out in the CNC press release dated 21 December, 2004 on employee share ownership plans (Plans d'épargne d'entreprise – PEE), which interprets the announcement date as being the grant date defined in IFRS 2 – Share-based Payment.

According to generally accepted practice under US GAAP (SFAS 123) which is similar to the treatment of share-based payments under IFRS 2, the fair value is measured at the end of the subscription period.

If the fair value of share grants made in connection with employee rights issues was valued at the end of the subscription period, the expense recognized in 2004 would be increased by €177 million, without any tax effect.

2.2 Effects on 2004 equity and net income

Reconciliation of French GAAP to IFRS: Statement of Changes in Equity

	Opening equity			*Closing equity*			
(in millions of euros)	*Attributable to equity holders of France Télécom SA*	*Minority interest*	*Total*	*Attributable to equity holders of France Télécom SA*	*Minority interest*	*Total*	*Attributa equity h of F Téléco*
French GAAP (2003 published financial statements)	***12,026***	***5,966***	***17,992***				
Consolidation of Tele Invest & Tele Invest II and special purpose vehicles (securitization programmes)	(62)	(519)	(581)				
Employee benefits (Group including France Télécom SA)	(502)	0	(502)				
Deferred taxes on employee benefits	177	0	177				
Impact of loyalty programmes	(297)	0	(297)				
Deferred taxes on impact of loyalty programmes	102	0	102				
French GAAP at 31 December 2003, adjusted for the effects of changes of method adopted in 2004	***11,444***	***5,447***	***16,891***	***15,681***	***4,052***	***19,733***	[illegible]
Proportional consolidation of affiliates in Senegal		(224)	(224)		(262)	(262)	
Subscriber base amortization	(1,952)	(517)	(2,469)	(2,472)	(628)	(3,100)	
Impairment of goodwill	0	0	0	1,725	18	1,743	
Adjustment of hybrid instruments: TDIRA (excluding effect of amortised cost method)	1,267	0	1,267	1,236	0	1,236	
Adjustment of hybrid instruments: OCEANE	0	0	0	97	0	97	
Equant impairment losses (property, plant and equipment and intangible assets)	0	0	0	163	136	299	
Revenue recognition	(1,002)	(50)	(1,052)	(1,056)	(49)	(1,105)	
Minority shareholder put options	(661)	(322)	(983)	(422)	(125)	(547)	
France Telecom SA tax loss carryback credits, 2000 and 2001	275	0	275	198	0	198	

Equity compensation	0	0	0	(282)	(2)	(284)
Remeasurement of financial assets at fair value	173	3	176	83	0	83
Financial instruments	(14)	25	11	(16)	50	34
Amortized cost adjustment to debt (debt issuance costs and issue premiums)	(98)	(2)	(100)	(182)	0	(182)
Cancellation of capitalised interest	(100)	(49)	(149)	(97)	(56)	(153)
Revaluation at fair value of TP Group property, plant and equipment	139	154	293	133	148	281
Capitalisation of development costs	122	6	128	142	0	142
Other adjustments	(40)	(13)	(53)	20	9	29
Deferred tax liability on tax loss carryback credits	(98)	0	(98)	(70)	0	(70)
Deferred tax liability on revaluation at fair value of TP Group property, plant and equipment	(27)	(29)	(56)	(25)	(20)	(45)
Deferred tax liability on trade marks	(1,248)	(65)	(1,313)	(1,236)	(49)	(1,285)
Cancellation of discounting adjustment to deferred tax assets	1,759	0	1,759	998	0	998
Deferred tax liability on hybrid instruments (TDIRA and OCEANE, excluding effect of amortised cost method)	(450)	0	(450)	(457)	0	(457)
Deferred taxes on revenue recognition	341	5	346	355	5	360
Deferred taxes on subscriber base	(174)	(32)	(206)	(49)	(5)	(54)
Other deferred tax adjustments	(17)	19	2	(16)	10	(6)
IFRS	***9,639***	***4,356***	***13,995***	***14,451***	***3,232***	***17,683***

2.3 Effects on 2004 net income

(in millions of euros)	*Reconciliation of French GAAP to IFRS : Income Statement* *Published 2004 French GAAP accounts* ***2004***	*IFRS* ***2004***	*Differences*
Net revenues	47,157	46,158	(99
External purchases	(18,617)	(17,870)	74
Other operating income and expense	(1,405)	(1,515)	(11
Wages & employee benefits expenses	(8,874)	(8,850)	2
Operating income before depreciation and amortisation of actuarial adjustments in the early retirement plan (French GAAP) / Gross Operating Margin (IFRS)	***18,261***	***17,923***	***(33***
Employee profit-sharing		(280)	(28
Share based compensation		(399)	(39
Depreciation and amortisation	(7,437)	(7,990)	(55
Impairment of goodwill		(534)	(53
Impairment of non-current assets		(179)	(17
Gains (losses) on disposal of assets		922	92
Restructuring costs		(181)	(18
Share of profits (losses) of associates		30	3
Impairment of goodwill on associates		-	
Operating Income	***10,824***	***9,312***	***(1,51***
Interest expense	(3,397)	(3,621)	(22
Foreign exchange gains (losses)	180	144	(3
Discounting	(148)	(148)	
Finance costs, net	***(3,365)***	***(3,625)***	***(26***
Equity in net income (loss) of affiliates	4	-	(
Other non-operating income (expense), net	113	-	(11
Employee profit-sharing	(269)	-	26

Goodwill amortisation	(1,788)	-	1,78
Exceptional goodwill amortisation	(519)	-	51
Income tax expense	(1,998)	(2,477)	(47
Net Income	***3,002***	***3,210***	***20***
Attributable to:			
- Equity holders of France Télécom SA	2,784	3,017	23
- Minority Interests	218	193	(2
Earnings per share			
Attributable to equity holders of France Telecom SA			
- Basic	1.14	1.23	0.0
- Diluted	1.12	1.22	0.1

2.4 Effects on the opening balance sheet at 1 January, 2004

French GAAP balance sheet		*Changes of method (French GAAP)** *	*Reclassifications*** *		*IFRS adjustments*		*IFRS*	*Note*	*IFRS balance sheet*
odwill, net	***25,838***	699	0		0		***26,537***		Goodwill, net
angible assets, net	***16,554***		1,685		(2,374)		***15,865***		Other intangible assets, net
				1,896		*(2,469)*		2.6.7	
				(211)		*114*		2.6.11	
						(19)			
operty, plant and equipment, net	***30,635***		(1,713)		50		***28,972***		Property, plant and equipment, net
				(1,896)		*293*		2.6.12	
				183		*(149)*		2.6.12	
						14		2.6.11	
						(108)			
estments accounted for under the uity method	***205***		462		(60)		***607***		Interests in associates and assets held for sale
n-consolidated investments	***1,045***		(460)		142		***727***	2.6.13	Assets available-for-sale
her long-term assets, net	***3,171***	(1,718)			3,376		***4,829***		Other financial and non-current assets
						1,706		2.6.5	
						1,253		2.6.18	
						436		2.6.14	
						(19)			
ferred income taxes, net (long-m)	***7,927***	279	1,429		1,516		***11,151***		Deferred tax assets, net
						1,759		2.6.10	
						346		2.6.10	
						(450)		2.6.10	
						(98)		2.6.10	
						(41)			
tal long-term assets	***85,375***	***(740)***	***1,403***		***2,650***		***88,688***		***Total non-current assets***
entories, net	***516***		122		20		***658***		Inventories, net
ade accounts receivable, less visions	***3,819***	3,143	0		(2)		***6,960***		Trade receivables, net
ferred income taxes, net	***1,429***		(1,429)		(0)		***0***		
epaid expenses and other current ets	***3,470***		(3,455)		(15)				
			2,131		(88)		***2,043***		Other receivables
			65				***65***		Current tax assets
			1,103		(335)		***768***		Prepaid expenses and other current assets
				1,101		*(265)*			
				2		*(70)*			
arketable securities	***1,874***		156		159		***2,189***		Other financial and current assets
				158		*146*		2.6.14	

				(2)		13		
sh and cash equivalents	***3,350***	41			(21)		***3,370***	Cash and cash equivalents
tal current sets	***14,458***	***3,184***	***(1,307)***		***(282)***		***16,053***	***Total current assets***
tal assets	***99,833***	***2,444***	***96***		***2,368***		***104,741***	***Total assets***

(*) The changes of method under French GAAP are described in note 2.6.1
(**) The main reclassifications are described in note 2.6.19

French GAAP balance sheet		***Changes of method (French GAAP)****	***Reclassifications*****	***IFRS adjustments***		***IFRS***	***Note***	***IFRS balance sheet***
Share capital	9,609					***9,609***		Share capital
Additional paid-in capital	15,333					***15,333***		Additional paid-in capital
Retained earnings (losses carried	(6,033)	(582)	(6,883)	(1,805)		***(15,303)***		Retained earnings (deficit)
Foreign currency translation adjustment	(6,883)		6,883			***0***		Foreign currency translation adjustment
Shareholders' equity	***12,026***	***(582)***	***0***	***(1,805)***		***9,639***		***Equity attributable to equity holders of France Télécom SA***
Minority interests	5,966	(519)		(1,091)		***4,356***		Minority interests
Shareholders' equity including minority interests	***17,992***	***(1,101)***	***0***	***(2,896)***		***13,995***		***Total equity***
Non-refundable funds and equivalents	5,279			(5,279)		***0***		
Bonds	36,356			3,004		***39,360***		Exchangeable or convertible bonds
					4,031		2.6.6	
					(1,152)		2.6.14	
					125			
Other long- and medium-term debt less current portion	2,408	2,155	122	4,958		***9,643***		Financial long term debt
					1,431		2.6.5	
					983		2.6.4	
					1,162		2.6.18	
					1,352		2.6.14	
					30			
Other long-term liabilities	5,986	(1,266)	(4,712)	(8)				
			3,040	85		***3,125***		Provision for employee benefit costs
			1,139	(73)		***1,066***		Provisions
			1,563	(57)		***1,506***		Other non-current liabilities
			467	1,530		***1,997***		Deferred tax liabilities
					1,312		2.6.10	
					206		2.6.10	
					56		2.6.12	
					(44)			
Total long-term liabilities	***44,750***	***889***	***1,619***	***9,439***		***56,697***		***Total non-current liabilities***
Current portion of long- and medium- term debt	9,057		5	54		***9,116***		Current portion of long-term debt

				5		*86*		2.6.18	
						(32)		2.6.14	
Bank overdrafts and other short-term borrowings	1,570	1,462	2,077		159		***5,268***		Bank overdrafts and other short-term borrowings
						285		2.6.14	
						(126)			
	0		1,324		(10)		***1,314***		Accrued interest payable
			1,299		(27)		***1,272***		Provisions
Trade accounts payable	7,368				(24)		***7,344***		Trade payables
	0		3,250		18		***3,268***		Employee liabilities
Accrued expenses and other payables	9,040	897	(9,900)		(37)		***0***		
Other current liabilities	1,378		(1,361)		(17)				
			1,378		0		***1,378***		Other payables
			1,480		(84)		***1,396***		Other current liabilities
	0		406		(8)		***398***		Current tax payable
Deferred income taxes, net	234		(236)		2		***0***		
Deferred income	3,165	297	(1,245)		1,078		***3,295***		Deferred income
						1,052		2.6.8	
						26			
Total current liabilities	***31,812***	***2,656***	***(1,523)***		***1,104***		***34,049***		***Total current liabilities***
Total liabilities and shareholders' equity	***99,833***	***2,444***	***96***		***2,368***		***104,741***		***Total equity and liabilities***

(*) *The changes of method under French GAAP are described in note 2.6.1*
(**) *The main reclassifications are described in note 2.6.19*

2.5 *Effects on the closing balance sheet at 31 December, 2004*

French GAAP balance sheet		***Reclassifications****		***IFRS adjustments***		***IFRS***	***Note***	***IFRS balance sheet***
Goodwill, net	***25,806***	0		1,783		***27,589***	2.6.9	Goodwill, net
Intangible assets, net	***15,904***	1,736		(2,789)		***14,851***		Intangible assets, net
			1,881		*(3,151)*		2.6.7	
			(145)		*201*		2.6.17	
					141		2.6.11	
					20			
Property, plant and equipment, net	***29,034***	(1,757)		6		***27,283***		Property, plant and equipment, net
			(1,881)		*281*		2.6.12	
			124		*(153)*		2.6.15	
					98		2.6.17	
					1		2.6.11	
					(220)		2.6.20	
					(1)			
Investments accounted for under the equity method	***174***	216		(20)		***370***		Interests in associates and assets held for sale
Non-consolidated investments, net	***760***	(214)		69		***615***	2.6.13	Assets available-for-sale
Other long-term assets, net	***1,635***	0		2,650		***4,285***		Other financial and non-current assets
					1,706		2.6.5	
					760		2.6.18	
					184		2.6.14	
Deferred income taxes, net	***7,118***	1,431		920		***9,469***		Deferred tax assets, net
					998		2.6.10	
					360		2.6.10	
					(425)		2.6.10	
					(70)		2.6.10	
					57			
Total long-term assets	***80,431***	***1,412***		***2,619***		***84,462***		***Total non-current assets***
Inventories, net	***579***	69		(4)		***644***		Inventories, net
Trade accounts receivable, less provisions	***6,599***			(10)		***6,589***		Trade receivables, net
Deferred income taxes, net	***1,431***	(1,431)		(0)		***0***		
Prepaid expenses and other current assets	***3,833***	(3,809)		(24)				
		2,723		(28)		***2,695***		Other receivables
		88		0		***88***		Current tax assets
		953		(203)		***750***		Prepaid expenses and other current assets
					(209)			
					6			

Marketable securities	***249***	44	19		***312***		Other financial and current assets
				56		2.6.14	
				(37)			
Cash and cash equivalents	***3,203***		(50)		***3,153***		Cash and cash equivalents
Total current assets	***15,894***	***(1,363)***	***(300)***		***14,231***		***Total current assets***
Total assets	***96,325***	***49***	***2,319***		***98,693***		***Total assets***

(*) The main reclassifications are described in note 2.6.19

French GAAP balance sheet		***Reclassifications****	***IFRS adjustments***		***IFRS***	***Note***	***IFRS balance sheet***
Share capital	***9,869***		0		***9,869***		Share capital
Additional paid-in capital	***12,675***				***12,675***		Additional paid-in capital
Retained earnings (losses carried forward)	***(3,137)***		(8,536)		***(11,673)***		Retained earnings (deficit)
Net income for the period	***2,784***		233		***3,017***		Net Income (loss) for the year
Foreign currency translation adjustment	***(6,510)***		7,073		***563***		Foreign currency translation adjustment
Shareholders' equity	***15,681***	***0***	***(1,230)***		***14,451***		***Equity attributable to equity holders of France Télécom SA***
Minority interests	***4,052***		(820)		***3,232***		Minority interests
Shareholders' equity including minority in interests	***19,733***	***0***	***(2,050)***		***17,683***		***Total equity***
Non-refundable funds and equivalents	***5,149***	(0)	(5,149)		***0***		
Bonds	***32,092***		2,130		***34,222***		Exchangeable or convertible bonds
				3,994		2.6.6	
				(97)		2.6.6	
				(1,773)		2.6.14	
				6			
Other long- and medium-term debt less current portion	***3,934***	116	4,521		***8,571***		Financial long term debt
				1,508		2.6.5	
				547		2.6.4	
				706		2.6.18	
				1,824		2.6.14	
				(64)			
Other long-term liabilities	***4,458***	(4,454)	(4)				
		3,260	0		***3,260***		Provision for employee benefit costs
		618	(1)		***617***		Provisions
		1,381	(7)		***1,374***		Other non-current liabilities
		487	1,491		***1,978***		Deferred tax liabilities
				1,297		2.6.10	
				53		2.6.10	
				54		2.6.12	
				87			

Total long-term liabilities	***40,484***	***1,408***	***8,130***		***50,022***		***Total non-current liabilities***
Current portion of long- and medium-term debt	***7,478***	2	(37)		***7,443***		Current portion of long term debt
				48		2.6.18	
				(7)		2.6.14	
				(78)			
Bank overdrafts and other short-term borrowings	***3,886***		151		***4,037***		Bank overdrafts and other short-term borrowings
				232		2.6.14	
				(81)			
	0	1,122	50		***1,172***		Accrued interest payable
		1,082	(41)		***1,041***		Provisions
Trade accounts payable	***7,786***		(29)		***7,757***		Trade payables
	0	2,603	281		***2,884***		Employee liabilities
				284		2.6.16	
				(3)			
Accrued expenses and other payables	***7,142***	(7,095)	(47)				
Other current liabilities	***790***	(767)	(23)				
		1,869	0		***1,869***		Other payables
		832	(48)		***784***		Other current liabilities
	0	425	6		***431***		Current tax payable
Deferred income taxes, net	***285***	(287)	2		***0***		
Deferred income	***3,592***	(1,145)	1,123		***3,570***		Deferred income
				1,105		2.6.8	
				18			
Total current liabilities	***30,959***	***(1,359)***	***1,388***		***30,988***		***Total current liabilities***
Total liabilities and shareholders' equity	***96,325***	***49***	***2,319***		***98,693***		***Total equity and liabilities***

(*) *The main reclassifications are described in note 2.6.19*

2.6 Description of the main IFRS adjustments

Restatements done through a change in accounting policy in the French GAAP accounts

2.6.1 Scope of consolidation

In accordance with IAS 27 - Consolidated and Separate Financial Statements and SIC 12 – Consolidation: Special Purpose Entities, subsidiaries that are controlled by France Telecom, directly or indirectly, have been fully consolidated as from 1 January, 2004 including entities where control does not result from the ownership of shares. Tele Invest and Tele Invest II, two Kulczyk Holding entities that acquired TPSA shares, and the special purpose entities set up in connection with trade receivables securitization programs, have therefore been fully consolidated in the opening IFRS balance sheet.

In the French GAAP consolidated financial statements, these entities were excluded from the scope of consolidation up to 31 December, 2003 but were consolidated in 2004 in compliance with the Loi de Sécurité Financière (Financial Security Act) dated 1 August, 2003.

First-time consolidation of Tele Invest and Tele Invest II from 1 January, 2004 led to a €519 million reduction in minority interests, corresponding to the 13.57% interest in TPSA held by these entities, a €699 million increase in net goodwill, a €66 million reduction in shareholders' equity including cumulative translation adjustments attributable to equity holders of France Telecom SA, and a €2,155 million increase in borrowings.

In the 2004 French GAAP income statement, consolidation of these two entities led to recognition of a €43 million goodwill amortization charge and interest expense of €99 million and there had been no movements in the provision for risk previously recorded (€870 million carried in the balance sheet at 31 December, 2003), which was written off to equity in the opening balance sheet at 1 January, 2004.

In the IFRS income statement, the €43 million additional goodwill amortization charge has been reversed.

At 1 January, 2004, first-time consolidation of special purpose entities set up in connection with trade receivables securitization programs led to i) on the assets side, reinstatement of the sold receivables, generating a €3,143 million increase in trade receivables, net, a €1,718 million decrease in other non-current financial assets and derivative instruments, corresponding to the net value of the retained interests, and a €41 million increase in cash and cash equivalents, and ii) on the liabilities side, a €1,462 million increase in bank overdrafts and short-term borrowings and a €4 million increase in shareholders' equity.

2.6.2 Provisions for pensions and other post-employment benefit obligations

The principles governing the measurement and recognition of pension and other post-employment benefit obligations in accordance with IAS 19 – Employee Benefits are similar to those applied in the 2004 French GAAP accounts, with retrospective effect from 1 January, 2004, in accordance with CNC recommendation 2003-R.01 and the first-time adoption rules set out in CNC press release dated 22 July, 2004.

The effect of the change in accounting policy under French GAAP, consisting mainly of the recognition at the transition date of cumulative actuarial gains and losses not recognized previously, is a €502 million reduction in equity (before the €177 million deferred tax asset) and a €502 million increase in provisions for pensions and other post-employment benefit obligations.

2.6.3 Loyalty programs

Following adoption of Comité d'Urgence (Emerging Accounting Issues Committee) recommendation 2004-E dated 13 October, 2004 on the accounting treatment of discounts and other benefits (goods or services) granted to customers, the accounting treatment of loyalty programs with a contract renewal obligation is the same as that for programs without a renewal obligation, which are accrued and presented as a reduction in revenues. The effect of this change of accounting policy under French GAAP at 1 January, 2004 is a €297 million reduction in equity (before the €102 million positive deferred tax effect). This accounting policy has been maintained in the IFRS accounts.

Other adjustments

2.6.4 Commitments to purchase minority interests (put options)

As explained in Notes 3.18 and 2.1, based on IAS 27 – Consolidated and Separate Financial Statements and IAS 32 – Financial Instruments: Disclosure and Presentation in their current, commitments to purchase minority interests and put options granted to minority shareholders are recognized in debt and as a reduction in minority interests. Where the amount of the commitment exceeds the amount of the minority interest, the difference is recorded as a reduction in shareholders' equity attributable to equity holders of France Telecom SA.

The impact on the opening balance sheet at 1 January, 2004 is €983 million, including €458 million for the Orange tender offer (offre publique de retrait) followed by the compulsory purchase of the remaining shares (retrait obligatoire) and €525 million for put options granted to minority shareholders, mainly of Orange Slovensko.

In the 2004 consolidated income statement, the revaluation of these purchase commitments has a negative impact on the net income for €69 million.

The impact on equity at 31 December, 2004 amounts to €547 million, primarily concerning Orange Slovensko.

2.6.5 France Telecom SA tax loss carry back receivable

In the French GAAP accounts, sales by France Telecom of tax loss carry back receivables to a financial institution in 2000 and 2001 led to the removal of the credits from the balance sheet. This accounting treatment does not comply with IAS 18 – Revenue. Consequently, the carry back receivables have been re-reinstated in the opening IFRS balance sheet at 1 January, 2004 and a liability has been recognized in the same amount. The carry back receivables cannot be recorded as a deduction from financial debt, because they are tax credits. The asset and liability will be extinguished in 2006 and 2007, when the receivables are settled by the French State to the financial institution.

In the opening balance sheet at 1 January, 2004, recognition of the tax loss carry back receivables has the effect of increasing (i) receivables by €1,706 million, (ii) financial debt by €1,431 million, corresponding to the proceeds from the sale of the credits (€1,300 million) less transaction costs (€11 million) plus accrued interest calculated at the implicit interest rate (€142 million), and (iii) equity by €275 million (€177 million net of the related deferred tax liability).

In the 2004 income statement, recognition of the carry back receivables in the balance sheet has the effect of increasing finance costs by €77 million (€49 million after tax), corresponding to accrued interest on the debt for 2004.

In the closing balance sheet at 31 December, 2004, the carry back receivables are carried in assets for an amount of €1,706 million, the corresponding debt totals €1,508 million, and the unamortized portion of the debt recognized in equity amounts to €198 million (€128 million net of deferred tax liabilities). The €198 million corresponds to interest to be added to the debt over the period to the date of settlement of the carry back receivables , in 2006 and 2007.

2.6.6 Hybrid financial instruments

A hybrid financial instrument is a debt instrument that contains both a liability component and an equity component. According to IAS 32, the issuer of a financial instrument must classify the instrument, or its component parts, at inception as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. The perpetual bonds redeemable for shares (TDIRAs) and bonds convertible into or exchangeable for new or existing shares (OCEANEs) issued during the second six months of 2004 are therefore recognized based on their liability and equity components.

Perpetual bonds redeemable for shares (TDIRAs)

The TDIRAs, which were classified as quasi-equity in the French GAAP accounts, have been recognized as a financial liability and an equity instrument in the IFRS accounts. The component recognized in equity in the opening IFRS balance sheet at 1 January, 2004 amounts to €1,267 million (versus €4,031 million recognized in financial debt). In addition, the effect of applying the amortized cost method impacts equity for €18 million. The net effect on opening equity is therefore €1,249 million. At 31 December, 2004, the instrument's equity component amounts to €1,236 million (and the liability component to €3,994 million) and €81 million has been deducted from equity corresponding to the effect of applying the amortized cost method. The total effect at 31 December, 2004 is therefore €1,155 million on equity and €3,994 million on debt. Lastly a deferred tax liability has been recognized for €450 million at 1 January, 2004 and €425 million at 31 December, 2004.

Bonds convertible into or exchangeable for new or existing shares (OCEANEs)

At 31 December, 2004, the effect on equity of the OCEANEs issued during the second six months of the year amounts to €97 million. A deferred tax liability of €32 million has been recognized at 31 December, 2004.

2.6.7 Customer list amortization

Market shares acquired in business combinations that are recognized in the French GAAP accounts were analyzed under US GAAP as corresponding to the value of customer lists, amortizable over the expected life of the commercial relationship. The same analysis applies under IAS 38 – Intangible Assets. Consequently, in the IFRS accounts, the market shares recognized in the French GAAP accounts – which were not amortized – have been reclassified as customer lists and recorded net of amortization.

The negative effect on equity in the IFRS balance sheet amounts to €2,469 million at 1 January, 2004 (including a €1,952 million deduction from equity attributable to equity holders of France Telecom SA) and €3,100 million at 31 December, 2004 (including a €2,472 million deduction from equity attributable to share holders of France Telecom SA) .

In the 2004 IFRS income statement, the effect is an increase in amortization of intangible assets of €582 million.

Customer list amortization also affects the amount reported under IFRS for impairment losses on Equant property, plant and equipment and intangible assets (see Note 2.6.17).

2.6.8 Revenue

The effect on equity in the opening IFRS balance sheet at 1 January, 2004 of IFRS adjustments to revenue – except for the loyalty program effect – is a reduction of €1,052 million (before the €346 million positive deferred tax effect). This effect corresponds mainly to the deferral over the average life of the contractual relationship of fixed wire telephone service connection fees.

Revenue in the 2004 IFRS income statement is €782 million lower than the French GAAP figure, due mainly to changes of appreciation in revenue recognition and the presentation changes described below.

Changes on the revenues recognition accounting policy

- Deferred recognition of revenues corresponding to initial fixed wire telephone service connection fees: negative effect of €80 million.

- Positive impact associated with promotional offers, mainly from the mobile business, including free minutes, the impact of which is deferred over the contractual commitment term: €26 million.

Presentation of certain expenses as a deduction from revenue

- Reclassification as a deduction from revenue of content and other provider expenses, mainly in respect of special premium-rate numbers: negative effect of €352 million.

- Recognition of revenues from mobile equipment sold in a packaged offer via indirect distribution channels based on the price paid by the end customer: negative effect of €345 million.

- "Service Level Agreement" penalties paid in the fixed wire telephony business: negative effect of €16 million.

All of these items are recognized as an expense according to French GAAP.

The net effect on 2004 consolidated gross operating margin is a decrease of €41 million.

The net effect on equity at 31 December, 2004 is a decrease of €1,105 million (before the €360 million positive deferred tax effect). This amount corresponds mainly to the negative effect of deferred connection fees in the fixed wire telephone service over the average life of the contractual relationship.

2.6.9 Goodwill amortization and impairment losses

In accordance with the exemption provided for in IFRS 1, the Group has opted not to restate past business combinations that occurred prior to 1 January, 2004. Under IFRS 3 – Business Combinations, effective from 1 January, 2004, goodwill is not amortized, leading to a €1,773 million positive effect on 2004 net income.

No additional impairment losses on goodwill have been recorded in the opening IFRS balance sheet at 1 January, 2004 or the 2004 income statement. In 2004, the €534 million impairment loss recorded in the IFRS accounts in respect of Equant corresponds to €519 million in impairment losses and €15 million reported as amortization expense in the 2004 French GAAP accounts.

2.6.10 Deferred taxes

The main effects on the opening IFRS balance sheet at 1 January, 2004 related to deferred taxes are as follows:

- According to IAS 12 – Income Taxes, deferred taxes are not discounted. Reversal of the discounting adjustments recorded in the French GAAP accounts has a positive effect of €1,759 million on the opening balance sheet.

- Under IAS 12, deferred tax liabilities are recognized on all intangible assets acquired in business combinations (trade marks and customer lists). Deferred tax liabilities recognized in the opening IFRS balance sheet in accordance with IAS 12 amount to €1,313 million for trade marks and €206 million for customer lists.

The other material deferred tax adjustments recorded in the opening IFRS balance sheet are as follows:

- Deferred tax liability of €450 million from the of the liability and equity components of TDIRAs (excluding the amortized cost effect).

- Deferred tax asset of €346 million related to the change of revenue recognition policy.

- Deferred tax asset of €177 million on provisions for pensions and other post-employment benefits.

- Deferred tax asset of €102 million related to loyalty programs.

- Deferred tax liability of €98 million on the tax loss carry back receivables.

- Deferred tax liability of €54 million related to the effects of the other adjustments.

In the 2004 IFRS income statement, application of IAS 12 led to the cancellation of the reversal of the provision recorded for discounting of the deferred tax effect, generating a €776 million reduction in net income. Movements resulting from the application of other standards have a net positive effect of €283 million.

At 31 December, 2004, the main effects of IFRS adjustments on deferred taxes are as follows:

- Deferred tax liability of €1,297 million on trade marks (including a €1,285 million impact on equity attributable to equity holders of France Telecom SA) and €54 million on customer lists.

- Deferred tax liability of €425 million on the TDIRAs (excluding the effect of applying the amortized cost method) and €32 million on the OCEANEs.

- Deferred tax assets of €360 million on revenue recognition adjustments.

- Deferred tax asset of €998 million related to the reversal of the discounting effect on deferred taxes.

- Deferred tax liability of €70 million on the tax loss carry back receivables.

- Deferred tax liability of €52 million related to the effects of the other adjustments.

2.6.11 Development costs

Under French GAAP, research and development costs are recognized as an expense for the period in which they are incurred. According to IFRS, development costs meeting the required criteria are capitalized and amortized.

In the opening IFRS balance sheet at 1 January, 2004, an amount of €128 million, corresponding to cumulative development costs (€212 million) less accumulated amortization (€84 million) has been recognized in assets, leading to an increase in equity in the same amount.

In the 2004 IFRS income statement, the effect is an €86 million increase in gross operating margin and a €25 million increase in operating income.

In the IFRS balance sheet at 31 December, 2004, capitalized development costs amount to €142 million (corresponding to a gross value of €260 million less accumulated amortization of €118 million).

2.6.12 Property, plant and equipment

In the opening IFRS balance sheet at 1 January, 2004:

- The revaluation at fair value of TP Group property, plant and equipment has the effect of increasing tangible assets by €293 million (€237 million after tax).

- Unamortized capitalized interest in the amount of €149 million before tax has been eliminated from the net book value of tangible assets, leading to a reduction in equity in the same amount.

In the 2004 IFRS income statement:

- The revaluation at fair value of TP Group property, plant and equipment has the effect of increasing amortization expense by €51 million, affecting operating income.

- The change in the method of accounting for borrowing costs on acquisitions of property, plant and equipment has a €2 million positive effect on operating income.

In the IFRS balance sheet at 31 December, 2004:

- The revaluation at fair value of TP Group property, plant and equipment has the effect of increasing the net book value of tangible assets by €281 million (€236 million after tax).

- Elimination of unamortized capitalized interest has the effect of reducing the net book value of tangible assets by €153 million, compared with the French GAAP amount.

- The effect on impairment losses on Equant and intangible assets is described in Note 2.6.17.

2.6.13 Remeasurement of financial assets at fair value

Under IFRS, financial assets held for trading and available for sale are measured at fair value. Gains and losses arising from remeasurement at fair value are recognized in the income statement for assets held for trading and in equity for available-for-sale financial assets. In addition, when there is objective evidence that available-for-sale assets are impaired, the cumulative loss recorded in equity is written off through profit or loss. In the French GAAP accounts, these assets are stated at the lower of cost and fair value. Therefore, the impact on equity in the opening IFRS balance sheet at 1 January, 2004 is an increase of €176 million. This restatement mainly concerns available-for-sale assets, for €142 million, including €57 million on Pramindo Ikat shares and €44 million on Intelsat shares.

Gains and losses arising from remeasurement at fair value recognized in the 2004 IFRS income statement represent a net loss of (€83 million), including a (€22 million) net loss on mutual fund units, the (€40 million) negative effect of canceling the provision reversal on Bull shares, and the (€30 million) negative effect of canceling the provision reversal on Optimus shares.

In 2004, the effect of recognizing directly in equity gains and losses from remeasurement at fair value of available-for-sale assets is a negative (€11 million).

The effect of the adjustments on equity at 31 December, 2004 amounts to €83 million, corresponding mainly to the remeasurement at fair value of Intelsat shares for €41 million.

2.6.14 Derivative instruments and interest rate and currency hedges

Group policy consists of using derivative instruments to hedge economic interest rate and currency risks. In accordance with IAS 39 – Financial Instruments: Recognition and Measurement, derivative instruments are measured at fair value in the balance sheet. Financial instruments that fulfill the documentation and effectiveness criteria described in Note 3.15, which are eligible for hedge accounting, are accounted for according to the principles described in that note.

The Group uses interest rate derivatives to hedge part of its financial debt. For certain derivatives designated as fair value hedges of identified underlying (fixed rate financial debt), changes in the fair value of the derivative largely offset changes in the fair value of the underlying financial debt. Other derivatives qualify as cash flow hedges (of floating rate debt). The effective portion of gains and losses arising from the remeasurement of derivatives at fair value is accounted for in equity and the ineffective portion is recognized in the income statement.

The Group uses currency derivatives to hedge debts in foreign currencies. Under IFRS, the debt is measured at the period-end rate and the resulting exchange gain or loss is offset by the exchange loss or gain arising from the measurement of the derivatives at fair value in the balance sheet.

In the opening IFRS balance sheet at 1 January, 2004, application of IAS 39 to derivative instruments has the effect of increasing equity by €11 million. Remeasurement at fair value of bonds redeemable for STM shares (carried at nominal value in the French GAAP accounts) has a €53 million negative effect on equity. The effect of recognizing derivative instruments (other than the bonds redeemable for STM shares) in the balance sheet is a €59 million reduction in equity at the level of France Telecom SA. This corresponds to gains of €88 million on derivatives not recognized in the French GAAP accounts and a €147 million negative effect on gains and losses on cash flow hedges recognized in equity. The impact on cash flow hedge reserves corresponds mainly to the equalizing payment recognized as deferred income under French GAAP. Lastly, the effect of measuring NTL warrants at fair value is €35 million (corresponding to the gain not recognized in the

French GAAP figures while measurement of Equant contingent value rights certificates (CVGs) at fair value has a €28 million effect on equity.

In the IFRS balance sheet at 31 December, 2004, application of IAS 39 has a €34 million effect on equity. The change in value of the listed bonds redeemable for STM shares has a positive effect of €56 million on closing equity. The effect of recognizing derivative instruments (other than the bonds redeemable for STM shares) in the balance sheet is a (€130 million) reduction in equity at the level of France Telecom SA. This corresponds to gains of €25 million on derivatives not recognized in the French GAAP accounts and a (€155 million) negative effect on cash flow hedge reserves recognized in equity. The effect on equity of measuring NTL warrants at fair value is €6 million, corresponding to the gain not recognized in the French GAAP accounts.

Derivatives are also used to hedge part of the Group’s bond debt (current and non-current portions) against currency risks. The derivative impact, accounted for jointly with the bond debt in the French GAAP accounts amounts to €1,184 million at 1 January, 2004 and €1,780 million at 31 December, 2004. Under IFRS, foreign currency debt is converted at the period-end rate, and the effect of applying the hedging rate in the French GAAP accounts has therefore been cancelled in the IFRS balance sheet.

Under IFRS, the fair value of the total derivatives portfolio is analyzed by maturity and between gains (recorded as assets) and losses (recorded as liabilities), across the following four balance sheet captions:

- In "Financial debt long-term" for €1,352 million at 1 January, 2004 (€1,824 million at 31 December, 2004)
- In "Other non-current financial assets" for €436 million at 1 January, 2004 (€184 million at 31 December, 2004)
- In "Bank overdrafts and other short-term borrowings" for €285 million at 1 January, 2004 (€232 million at 31 December, 2004)
- In "Other current financial assets" for €146 million at 1 January, 2004 (€56 million at 31 December, 2004).

2.6.15 Transaction costs, issue and redemption premiums

Under IFRS, transaction costs (including issue and redemption premiums) that are directly attributable to the acquisition or issue of a financial liability are deducted from the liability’s carrying value. This is because financial liabilities are initially recognized at cost, corresponding to the fair value of the amounts paid or received in exchange for the liability.

They are amortized over the debt term by the effective interest method (as opposed to the straight-line method under French GAAP).

In the opening IFRS balance sheet at 1 January, 2004, recognition of financial liabilities at amortized cost (excluding carry back effect) has the effect of reducing equity by (€100 million). Of the total, (€95 million) concerns France Telecom SA, including (€18 million) arising from application of the amortized cost method to perpetual bonds redeemable for shares (TDIRAs).

In the IFRS balance sheet at 31 December, 2004, recognition of financial liabilities at amortized cost (excluding carry back) has the effect of reducing equity by (€182 million). The amount at the level of France Telecom SA is (€187 million), including an (€81 million) effect on equity arising from application of the amortized cost method to perpetual bonds redeemable for shares (TDIRAs).

2.6.16 Stock options and employee share issues

Stock options

Under French GAAP, no compensation expense is recognized on stock option grants.

Application of IFRS 2 – Share-based Payment, leads to the recognition of an expense for stock options granted to employees. In the opening IFRS balance sheet at 1 January, 2004, all of the plans have been considered as equity-settled. The cumulative expense of €544 million at 1 January, 2004 is offset by an increase in an equity account, with no effect on total equity. In 2004, €257 million has been reclassified from equity to accrued compensation expense in respect of the Orange share liquidity agreement, as the Group is no longer able to deliver shares but only cash.

In the 2004 IFRS income statement, the expense related to stock options amounts to €136 million, offset by €109 million recognized in equity for equity-settled plans and €27 million recognized in debt for cash-settled plans.

Employee share issues

Following the sale of shares to outside investors, Pages Jaunes carried out an employee rights issue.

Following the sale by the French State of 10.85% of France Télécom SA's capital, the French State offered shares to current and former France Télécom Group employees in accordance with the Privatization Act of 6 August, 1986. A total of 28.7 million shares were purchased by employees.

Under IFRS, the compensation related expense (concerning current and former France Télécom Group employees) has been determined based on the fair value of the rights to shares at the grant date, taking into account the restriction period. In the 2004 IFRS income statement, the effect is an additional charge of (i) €190 million in respect of the French State's share offer and (ii) €16 million in respect of the Pages Jaunes rights issue.

2.6.17 Impairment of Equant tangible and intangible assets

The positive effect of €299 million on the IFRS income statement corresponds to the reduction in impairment losses on non-current assets compared to the amount recorded in the French GAAP accounts. This effect mainly corresponds to retrospective amortization of the Equant customer lists, recognized in equity in the opening IFRS balance sheet, leading to a reduction in Equant's net book value.

2.6.18 In-substance defeasance and cross-lease operations

Under French GAAP, the guarantee deposits paid and lease commitments given under Orange finance leases (in-substance defeasance) and the prepayments made and lease commitments given by France Télécom SA and Orange under cross-leases with separate third parties (QTE lease) are offset.

In the IFRS balance sheet, the deposits (€1,253 million at 1 January, 2004 and €754 million at 31 December, 2004) and lease commitments are reported separately as assets and liabilities, in accordance with IAS 32 – Financial Instruments: Disclosure and Presentation, and included in the calculation of net financial debt.

The net profit recognized on the Orange finance leases (€122 million at 1 January, 2004 and €116 million at 31 December, 2004) is reported as deferred income in the French GAAP financial statements and has been reclassified as financial debt in the IFRS figures.

2.6.19 Main reclassifications

2.6.19.1 Main balance sheet reclassifications

Reclassification of minority interests

In accordance with IAS 27 – Consolidated and Separate Financial Statements, minority interests reported on a separate line of liabilities in the French GAAP balance sheet for €5,966 million, are reported as a separate component of equity in the IFRS balance sheet at 1 January, 2004. At 31 December, 2004, minority interests included in equity amounted to €4,052 million.

Other balance sheet reclassifications

Various balance sheet items have been reclassified to comply with IFRS presentation rules. The main reclassifications made in the opening balance sheet at 1 January, 2004 – in addition to the one described above – are as follows:

- Software, which is included in property, plant and equipment in the French GAAP balance sheet, has been reclassified as an intangible asset for €1,896 million (€1,881 million at 31 December, 2004).

- Indefeasible Rights of Use (IRUs), which are included in intangible assets in the French GAAP balance sheet, have been reclassified as tangible assets for €183 million (€124 million at 31 December, 2004).

- Other receivables and prepaid expenses in the French GAAP balance sheet have been analyzed mainly between four captions, as follows:

  In "Other receivables" for €2,131 million (€2,723 million at 31 December, 2004)

  In "Current tax assets" for €65 million (€88 million at 31 December, 2004)

  In "Prepaid expenses and other current assets" for €1,103 million (€953 million at 31 December, 2004).

  In "Other current financial assets " for €156 million (€44 million at 31 December, 2004).

- Other medium- and long-term debt in the French GAAP balance sheet has been analyzed mainly between four captions, as follows:

  In "Non-current provision for employee benefit costs" for €3,040 million (€3,260 million at 31 December, 2004).

  In "Long-term provisions" for €1,139 million (€618 million at 31 December, 2004).

  In "Other non-current liabilities" for €324 million (€241 million at 31 December, 2004).

  In "Deferred tax liabilities" for €230 million (€200 million at 31 December, 2004).

- Accrued expenses and other payables in the French GAAP balance sheet have been analyzed mainly between six captions, as follows:

  In "Bank overdrafts and short-term borrowings" for €2,077 million, corresponding to the Equant contingent value rights certificates (CVGs) redeemed in 2004.

  In "Accrued interest" for €1,324 million (€1,122 million at 31 December, 2004).

  In "Short-term provisions" for €1,299 million (€1,082 million at 31 December, 2004).

  In "Current employee benefit costs" for €3,250 million (€2,603 million at 31 December, 2004).

In "Other payables" for €1,374 million (€1,866 million at 31 December, 2004).

In "Current tax payable" for €406 million (€425 million at 31 December, 2004).

- Other current liabilities in the French GAAP balance sheet are recognized mainly in "Other current liabilities".

- Deferred income tax assets and liabilities have been classified as non-current. Therefore, the "Deferred tax assets short-term net" caption in the French GAAP balance sheet has been reclassified in deferred tax assets and liabilities.

- Non-operating deferred income, reported in the French GAAP balance sheet under deferred income, has been reclassified as "Other non-current liabilities" for €1,244 million (€1,145 million at 31 December, 2004). This amount includes civil engineering work invoiced in advance in connection with the disposal of cable networks (€0.6 billion).

2.6.19.2 Main income statement reclassifications

In addition to the IFRS adjustments restatements described above (concerning revenue recognition, capitalization of development costs, proportional consolidation of Sonatel, etc.) certain presentation changes have been made to the income statement to comply with the IFRS format. The main reclassifications in 2004 concern profit from operations, as follows:

- Employee profit sharing is reported under "Employee benefit expenses".

- Exceptional amortization of goodwill is reported under "Impairment of goodwill".

The net income of €113 million reported under "Other non-operating income/(expense), net" in the French GAAP income statement has been reclassified mainly among the following captions:

- In "Other operating income and expenses" for (€93 million).

- In "Wages and employee benefit expenses" for (€69 million).

- In "Share-based compensation " and "Employee profit-sharing" for (€68 million).

- In "Impairment of tangible and intangible assets" for (€431 million) .

- In "Disposals of assets" for €846 million

- In "Restructuring costs" for (€181 million).

Gains and losses on disposals of assets reported in the 2004 French GAAP income statement represented a net profit of €644 million. The amount of €922 million reported in the IFRS income statement also includes gains of €163 million on company liquidations, reported in the French GAAP income statement under provision reversals and other, as well as a €51 million dilution gain and €46 million in profits on disposals of non-current assets reported in the French GAAP income statement as a component of operating income before depreciation and amortization of actuarial adjustments in the early retirement plan.

2.6.20 Sonatel

Under IFRS, use of the proportional consolidation method for Sonatel in Senegal and its subsidiaries (previously fully consolidated) led to the integration, in the opening IFRS consolidated balance sheet at 1 January, 2004, of France Telecom’s 42.33% interest in these companies’ assets and liabilities. The change of consolidation method has no impact on either profit or equity attributable to equity holders of France Telecom SA.

2.7 Effects on debt

2.7.1 Effects on net debt

According to French GAAP, the Group defines net financial debt as total debt (converted at the hedging rate) less cash, cash equivalents and marketable securities.

Net debt is not defined in IFRS and the Group has therefore opted to apply the following definition, which is based on that formulated by the French standard-setter (CNC) in recommendation 2004-R-02 on the presentation of IFRS financial statements:

Net debt corresponds to the total of financial debt (converted at the period-end exchange rate), less derivative instruments carried in assets, less cash collateral paid on derivative instruments, plus derivative instruments carried in liabilities, plus cash collateral received on derivative instruments, plus accrued interest, less cash and cash equivalents and less deposits paid on certain specific transactions (if the related debt is included in total debt). The effect of applying IFRS on net financial debt at 31 December, 2004 and 1 January, 2004 is summarized below:

(in millions of euros)	**Note**	**December 31, 2004**	**January 1, 2004**
Net debt under French GAAP (1)		43,938	44,167
Consolidation of Tele Invest and Tele Invest II (1)		-	2,155
Consolidation of special purpose entities (trade receivables securitizations) (1)		-	1,422
Net debt adjusted for the effects of the changes in accounting policies at 1 January, 2004		**43,938**	**47,744**
Effect of reclassifying part of the debt related to of perpetual bonds redeemable for shares (TDIRAs)	2.6.6	3,994	4,031
Effect of the separate recognition of the liability and equity components of bonds convertible into or exchangeable for new shares or existing shares (OCEANEs) (2)	2.6.6	(97)	-
Debt attached to carry back receivable securitization	2.6.5	1,508	1,431
Equant Contingent Value Rights Certificates (CVGs) (2)		-	2,049
Commitments to purchase minority interests (put options)	2.6.4	547	983
Accrued interest		1,172	1,308
Derivative instruments and cash collateral (3)		(1,068)	(866)
Bonds redeemable for STM shares (4)		(56)	52
Other		(15)	(39)
Net debt under IFRS		**49,923**	**56,693**

(1) Tele Invest and Tele Invest II and the special purpose vehicles set up in connection with the securitization programs were consolidated in the French GAAP accounts at 31 December, 2004 and their financial debt are therefore included in net debt determined according to French GAAP.

(2) Under IFRS, the Equant Contingent Value Rights Certificates (CVGs) are qualified as derivative instruments and are therefore included in debt at 1 January, 2004 at fair value (€2,049 million). They were redeemed on 8 July, 2004 for a total of €2,015 million.

(3) Under French GAAP, financial debts are converted at the hedging rate and currency derivatives are therefore automatically included in net debt. Under IFRS, all derivative instruments are recognized in the balance sheet and measured at fair value (see Note 2.17). The Group has decided to classify all of these derivative instruments in net debt, because they are for the most part held as hedges of financial debts. The cash collateral paid or received in response to margin calls is closely linked to the derivatives and therefore also included in net debt.

(4) Under IFRS, the bonds redeemable for STM shares are measured at fair value (€390 million at 31 December, 2004 versus €498 million at 1 January, 2004).

2.7.2 Balance sheet items included in net debt under IFRS.

	IFRS BALANCE SHEET DETAIL (in millions of euros)	***At 1 January 2004***	***At 31 December 2004***	**Of which amounts included in calculation of net debt** ***At 1 January 2004***	***At 31 December 2004***
	Other financial and non current assets	4,829	4,285		
o/w	*Non-current derivative instruments*	*436*	*184*	*436*	*184*
	Cash collateral paid	*910*	*1,129*	*910*	*1,129*
	In-substance defeasance deposits and cross-leases ("QTE")	*1,253*	*760*	*1,253*	*760*
	Carryback credits and accrued interest	*2,230*	*2,212*	*0*	*0*
	Other financial and current assets	2,189	312		
o/w	*Current derivative instruments*	*146*	*56*	*146*	*56*
	Assets held for trading	*1,885*	*240*	*1,885*	*240*
	Accrued interest	*8*	*0*	*8*	
	Related receivables	*150*	*16*		
	Cash and cash equivalents	3,370	3,153	3,370	3,153
	Assets included in the calculation of net debt			**8,008**	**5,522**
	Exchangeable or convertible bonds	39,360	34,222	39,360	34,222
	Financial long term debt	9,643	8,571	9,643	8,571
	Current portion of long term debt	9,116	7,443	9,116	7,443
	Bank overdrafts and short-term borrowings	5,268	4,037	5,268	4,037
	Accrued interest payable	1,314	1,172	1,314	1,172
	Liabilities included in the calculation of net debt			**64,701**	**55,445**
	NET DEBT			**56,693**	**49,923**

2.8 Effects on the 2004 statements of cash flows

(in millions of euros)	*Period ended 31 December, 2004*			
	French GAAP	***IFRS***	***Difference***	***Adjustments***
Net cash provided by operating activities	***12,818***	***12,697***	***(121)***	***(121)***
Net cash used in investing activities	***(5,564)***	***(5,591)***	***(27)***	***(27)***
Net cash used in financing activities	***(7,423)***	***(7,346)***	***77***	***77***
Net change in cash and cash equivalents	(169)	(240)	(71)	(71)
Effect of exchange rate changes on cash and cash equivalents	22	23	1	1
Cash and cash equivalents at beginning of period	3,350	3,370	20	20
Cash and cash equivalents at end of period	***3,203***	***3,153***	***(50)***	***(50)***

Applying IFRS has not effect on cash and cash equivalents, except for the (€50 million) reduction arising from the proportional consolidation of Sonatel in Senegal and its subsidiaries under IFRS as opposed to full consolidation in the French GAAP accounts.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis for the preparation of the financial statements

The preparation of financial statements in accordance with IFRS requires France Telecom management to make estimates and apply assumptions that affect the reported amounts of assets and liabilities and contingent liabilities at the date of preparation of the financial statements and reported income and expenses for the period. Management reviews these estimates and assumptions on a continuous basis, by reference to past experience and various other factors considered as reasonable which form the basis for assessing the book value of assets and liabilities. Actual results may differ significantly from these estimates, if different assumptions or circumstances apply.

Certain IFRS offer alternative methods of measuring and recognizing assets and liabilities. The Group has chosen:

- To continue to recognize inventories at their original cost, determined by the weighted average unit cost method, in accordance with IAS 2 – Inventories.
- To measure tangible and intangible assets using historical cost as deemed cost instead of remeasuring tangible and intangible assets at fair value at each closing.
- Not to capitalize interest expense incurred during the construction and acquisition period of tangible and intangible assets, as provided for under IAS 23 – Borrowing Costs.
- Recognize actuarial gains and losses on pension and other post-employment benefit obligations as from 1 January, 2004 according to the corridor method. This method consists of recognizing a specified portion of the net cumulative actuarial gains and losses that exceed 10% of the greater of (I) the present value of the defined benefit obligation and (ii) the fair

value of plan assets, over the average expected remaining working lives of the employees participating in the plan.

- Continue to consolidate jointly-controlled companies using the proportional method, as provided for in IAS 31 – Interests in Joint Ventures.

Lastly, where a specific transaction is not dealt with in any standards or interpretations, management applies judgment to define and apply accounting policies methods that will lead to relevant and reliable information, so that the financial statements:

- Give a true and fair view of the Group's financial position, financial performance and cash flows
- Reflect the substance of transactions
- Are neutral
- Are prepared on a prudent basis
- Are complete in all material respects.

3.2 Consolidation

- Subsidiaries that are controlled exclusively by France Telecom, directly or indirectly, are fully consolidated.
- Companies that are controlled jointly by France Telecom and a limited number of other shareholders are proportionally consolidated; if these companies have any exclusively controlled, fully-consolidated subsidiaries that are not wholly-owned, indirect minority interests in these subsidiaries are recognized separately in the France Télécom consolidated financial statements.
- Companies over which France Télécom exercises significant influence (generally corresponding to an ownership interest of 20 to 50%) are accounted for using the equity method.

When assessing the level of control or significant influence exercised over a subsidiary or associate, account is taken of the existence and effect of any exercisable or convertible potential voting rights at the period-end.

- In accordance with IFRS 5, the assets and liabilities of controlled entities that are considered as being held for sale are reported on a separate line in the consolidated balance sheet. Profits or losses of discontinued operations are reported on a separate line of the income statement. IFRS 5 defines a discontinued operation as a component of an entity comprising operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity, that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations.

Material intercompany transactions and balances are eliminated in consolidation.

3.3 Translation of financial statements of foreign subsidiaries

The financial statements of foreign subsidiaries whose functional currency is not the euro – except for those subsidiaries operating in hyperinflationary economies – are translated into euros as follows:

- Assets and liabilities are translated at the period-end exchange rate.

- Income statement items are translated at the average rate for the period.

- Differences arising from the use of these different rates are recorded as a separate component of equity.

The financial statements of subsidiaries that operate in hyperinflationary economies and whose functional currency is also hyperinflationary are adjusted for the effects of inflation prior to translation into euros as follows:

- Non-monetary assets, liabilities, income, expenses and cash flows are adjusted for inflation based on the change in the general price index over the period from the initial transaction date to the period-end.

- The exchange gain or loss on the subsidiary's net monetary position during the period (determined based on the change in the general price index over the same period) is recognized in the income statement under exchange gains and losses.

The financial statements adjusted for inflation as explained above are then translated into euros as follows:

- Assets, liabilities, income, expenses and cash flows for the period are translated at the period-end rate.

- Differences arising from translation at the period-end rate of assets and liabilities carried in the opening balance sheet are recorded as a separate component of equity.

3.4 Transactions in foreign currencies

The principles covering the measurement and recognition of transactions in foreign currencies are set out in IAS 21 – The Effects of Changes in Foreign Exchange Rates. In accordance with this standard, transactions in foreign currencies are converted by the subsidiary into its functional currency at the exchange rate at the transaction date. Monetary assets and liabilities are remeasured at each balance sheet date at the period-end exchange rate and the differences arising from remeasurement are recorded in the income statement:

- In operating income for commercial transactions.

- In financial income or finance costs for financial transactions.

Derivative instruments are measured and recognized in accordance with the general principles described in Note 3.15. Currency derivatives are recognized in the balance sheet at fair value. Gains and losses arising from remeasurement at fair value are recognized:

- In operating income for fair value hedges of commercial transactions.

- In investment income or finance costs for hedges of financial assets and liabilities and derivative instruments that do not qualify for hedge accounting.

3.5 Presentation of the financial statements

As allowed under IAS 1 – Presentation of Financial Statements, expenses are presented by nature in the consolidated income statement. The presentation of the income statement under IFRS is significantly different from that under French GAAP, with the inclusion in operating income of items presented as non-operating income and expense in the French GAAP income statement and of goodwill amortisation and impairment losses.

Under IFRS, operating income corresponds to net profit before:

- Financial income
- Finance costs
- Income taxes
- Profits and losses of discontinued operations and operations held for sale.

Gross operating margin corresponds to operating income before:

- Employee profit-sharing
- Share-based compensation
- Depreciation and amortisation expense
- Impairment of goodwill and other non-current assets
- Disposal of assets
- Restructuring costs
- Share of profits (losses) of associates
- Impairment of goodwill on associates.

3.6 Revenues

Revenues from France Télécom activities are recognized and presented as follows, in accordance with IAS 18 – Revenue:

Equipment sales

Revenues from equipment sales are recognized when the significant risks and rewards of ownership are transferred to the buyer.

When the equipment is sold by a third-party retailer (indirect distribution channel) who purchases it from the Group and receives a commission for signing up the customer, the related revenue is recognized when the equipment is sold to the end-customer in an amount reflecting the Group's best estimate of the retail price.

Equipment rentals

In accordance with IFRIC 4 – Determining Whether An Arrangement Contains A Lease, which the Group has opted to adopt early effective from 1 January, 2004, the equipment for which a right of use is granted is analysed in accordance with IAS 17 – Leases.

Equipment lease revenues are recognized on a straight-line basis over the life of the lease agreement, except in the case of finance leases which are accounted for as sales on credit.

Service revenues

Telephone service and Internet access subscription fees are recognized in revenue on a straight-line basis over the service period.

Charges for incoming and outgoing telephone calls are recognized in revenue when the service is rendered.

Revenues from the sale of transmission capacity on terrestrial and submarine cables (indefeasible rights of use – IRU) are recognized on a straight-line basis over the life of the contract.

Service Level Agreement penalties paid to customers are recorded as a deduction from revenues.

Revenue-sharing arrangements (premium rate numbers, audiotel, special number for Internet dial-up) are recognized net of content or service provider fees when the provider is responsible for the service rendered and for setting the price to be paid by subscribers.

Revenues from the supply of content are also recognized net of the amount due to the content provider, when the latter is responsible for the service content and for setting the price to subscribers.

Cooperative advertising agreements with certain specific suppliers are recognized in revenues when the Group receives a fee for an identifiable service and the fair value of that service can be measured reliably. In all other cases, revenues from cooperative advertising agreements are accounted for as a deduction from the expenses incurred with the supplier. As a general rule, no amounts are recognized in revenues for cooperative advertising agreements.

Revenues from Internet advertising and from the sale of advertising space in on-line directories are recognized over the period during which the advertisement appears. Revenues from the sale of advertising space in printed directories are recognized when the directory is published.

Separable components of packaged offers and bundled offers

Sales of packaged mobile and Internet offers are considered as comprising identifiable and separate components to which general revenue recognition criteria can be applied separately. Numerous service offers on the Group's main markets are made up of two components, a product (mobile telephone or modem) and a service. Once the separate components have been identified, the amount received or receivable from the customer is allocated based on each component's fair value. The sum allocated to delivered items is limited to the amount that is not dependent on the delivery of other items. For example, the sum allocated to delivered equipment generally corresponds to the price paid by the end-customer for that equipment. The balance of the amount received or receivable is contingent upon the future delivery of the service.

Offers that cannot be analysed between separately identifiable components, because the commercial effect cannot be understood without reference to the series of transactions as a whole, are treated as bundled offers. Revenues from bundled offers are recognized in full over the life of the contract. The main example is connection to the service; this does not represent a separately identifiable transaction from the subscription and communications, and connection fees are therefore recognized over the average expected life of the contractual relationship.

Complex contracts

France Télécom offers customized solutions to its business customers. The related contracts are analysed as multiple-elements transactions (including management of the telecommunication network, access, voice and data transmission and migration). The commercial discounts granted under these contracts if certain conditions are fulfilled are recorded as a deduction from revenue based on the specific terms of each contract.

Migration costs incurred by France Télécom under these contracts and any upfront commissions paid to the customer are recognized in expenses when they are incurred, except in the case of contracts that include an early termination penalty clause.

Promotional offers

Revenues are stated net of discounts. For certain commercial offers where customers are offered a free service over a certain period in exchange for signing up for a fixed period (time-based incentives), the total revenue is spread over the fixed, non-cancellable period.

Loyalty programs

Loyalty programs consist of granting future benefits to customers (such as free communications and product discounts) in exchange for current use of the service (volume-based incentives).

Two types of loyalty program exist, with and without a contract renewal obligation. For both types of program, the Group defers part of the invoiced revenue over the period of acquisition of customer rights, at the fair value of these obligations.

Exchanges of goods or services

Revenues from exchanges of services barter transactions are recognized only when the actual value of the exchanged services can be determined, at the fair value of the goods or services provided or received, whichever is more readily determinable, irrespective of whether or not the bartered goods or services are similar. Fair value is estimated by reference to non-barter sales, corresponding to sales of equivalent goods or services by the Group to other buyers on the same terms, the fair value of which can be reliably measured. If fair value cannot be reliably estimated, the transaction is recognized at the book value of the asset given in the exchange or at a nil value.

Call termination from mobile to mobile, which were not invoiced (income and expenses) between French mobile operators until 31 December, 2004 have been analysed as an exchange of goods and services, the fair value of which is not determinable for the year ended 31 December, 2004, and no revenue has been recognized on these calls.

3.7 Subscriber acquisition costs, advertising and related costs

Subscriber acquisition and retention costs, other than loyalty program costs, are recognized as an expense for the period in which they are incurred. Advertising, promotion, sponsoring, communication and brand marketing costs are also expensed as incurred

3.8 Borrowing costs

The Group has opted not to capitalize interest expense for the period of construction and acquisition of tangible and intangible assets, as allowed under IAS 23 – Borrowing Costs.

3.9 Share issuance costs

External costs directly related to share issues are deducted from the related premium, net of any tax saving. Other share issuance costs are recorded as an expense.

3.10 Earnings per share

The Group discloses both basic earnings per share and diluted earnings per share. The number of shares used to calculate diluted earnings per share takes into the conversion into ordinary shares of potentially dilutive instruments outstanding at the period-end. These include stock options backed by a liquidity contract set up by the Group in favor of Orange option holders and Wanadoo stock options. Diluted earnings per share is calculated based on earnings per share attributable to the equity holders of France Télécom SA, adjusted for the finance cost of dilutive debt instruments and their impact on employee profit-sharing, net of the related tax effect. If the Group reports a loss, diluted loss per share represents the same amount as the basic loss. To permit direct year-on-year comparisons, the weighted average number of shares outstanding for the reporting year and the other years presented is adjusted for the effect of any shares issued at a discount to market price. Treasury stock deducted from consolidated equity is not taken into account in the calculation of basic or diluted earnings per share.

3.11 Goodwill

Goodwill represents the excess of the purchase cost of shares in consolidated companies, including transaction expenses, and the Group's equity in the fair value of the underlying net assets at the date of acquisition.

In accordance with IFRS 3 – Business Combinations, goodwill is not amortized but is tested for impairment at least once a year or more frequently when there is an indication that it may be impaired. IAS 36 – Impairment of Assets requires these tests to be performed at the level of each Cash Generating Unit (CGU) to which the goodwill has been allocated. In certain cases, CGUs may be combined if the combined CGUs represent the lowest level as which management monitors return on investment. A Cash Generating Unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

France Telecom generally measures the recoverable amount of goodwill at the level of the group of activities within the business segment or the geographical segment in the case of Poland. Management considers that this level of analysis reflects:

- The characteristics of the business or market (technology, brand, subscriber-base, marketing) shared by all the entities for which the related goodwill is being measured.

- Resources (IT platforms, R&D, management, financing resources) shared among the entities concerned, leading to synergies.

- The level at which management monitors the return on investment in acquired businesses. France Télécom pays a premium to acquire strategic businesses that can be combined with existing businesses within consistent units in order to enhance the expanded unit's development potential.

To determine whether goodwill has been impaired, the consolidated net book value of the assets and liabilities of the CGU or group of CGUs is compared to its recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use. Fair value less costs to sell is the amount obtainable from the sale of a CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. Value in use is the present value of the future cash flows expected to be derived from the CGU or group of CGUs, including goodwill. Cash flow projections are based on economic and regulatory assumptions, license renewal assumptions and forecast trading conditions, as follows:

- Cash flow projections are based on the five-year business plan.

- Cash flow projections beyond the five-year timeframe are extrapolated by applying a declining or flat growth rate over the next three years, followed by a growth rate to perpetuity reflecting the expected long-term growth in the market.

- The cash flows obtained are discounted using appropriate rates for the type of business and the countries concerned.

Goodwill impairment losses are recorded in the income statement as a deduction from operating income.

If the business is intended to be sold, the recoverable amount is determined on the basis of the fair value net of costs to sell.

3.12 Intangible assets

Intangible assets, consisting mainly of trade marks, customer lists, licenses, development costs and software, are stated at acquisition or production cost.

When intangible assets are acquired in a business combination, their cost is generally determined in connection with the purchase price allocation based on their respective market values. When their market value is not readily determinable, cost is determined using generally accepted valuation methods based on revenues, costs or other appropriate criteria.

Internally-developed trade marks and customer lists are not recognized in intangible assets.

Trade marks

Trade marks have an indefinite useful life and are not amortized, but are tested for impairment (see Note 3.14).

Customer lists

Customer lists are amortized over the expected life of the commercial relationship, estimated at 4 to 5 years.

Licenses

Licenses to operate mobile telephone networks are amortized on a straight-line basis over the license period from the date when the network is technically ready and the service can be marketed. The third generation mobile license (UMTS) in France is stated at an amount corresponding to the fixed portion of the operating fee due when the license was granted. The variable user fee (corresponding to 1% of qualifying revenues generated by the third generation network) is expensed as incurred.

Research and development costs

Under IAS 38 – Intangible Assets, development costs must be recognized as an intangible asset when the following can be demonstrated:

- The intention to complete the intangible asset and use or sell it and the availability of adequate technical, financial and other resources for this purpose.

- How the intangible asset will generate probable future economic benefits for the Group.

- The Group's ability to measure reliably the expenditure attributable to the intangible asset during its development.

Research costs, and development costs not fulfilling the above criteria are expensed as incurred. Development costs recognized as an intangible asset are amortized on a straight-line basis over their estimated useful life, generally not exceeding three years.

Patents

Patents are amortized on a straight-line basis over the expected period of use, not to exceed twenty years.

Software

Software is amortized on a straight-line basis over the expected period of use, not to exceed five years.

Other development costs

An intangible asset is recognized for website development costs when all of the following conditions are met:

- It is probable that the website will be successfully developed, the Group has adequate technical, financial and other resources to complete the development and has the intention of and ability to complete the site and use or sell it.

- The website will generate probable future economic benefits.
- The Group is capable of measuring reliably the expenditure attributable to the website during its development.

Website development costs are recorded in expenses or recognized as an intangible asset depending on the development phase:

- Initial design costs are expensed as incurred.
- Qualifying development and graphic design costs are recognized as an intangible asset.
- Expenditure incurred after the website has been completed is recorded as an expense, except where it enables the website to generate future additional economic benefits, and it can be reliably estimated and attributed to the website.

3.13 Property, plant and equipment

Cost

The cost of tangible assets corresponds to their purchase or production cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which Group incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories

The cost of networks includes design and construction costs, as well as capacity improvement costs.

Indefeasible Rights of Use (IRU)

Indefeasible Rights of Use (IRU) correspond to the right to use a portion of the capacity of a terrestrial or submarine transmission cable granted for a fixed period. IRUs are recognized as an asset when France Télécom has the specific indefeasible right to use an identified portion of the underlying asset, generally optical fibers or dedicated wavelength bandwidth, and the duration of the right covers the major part of the underlying asset's economic life. They are depreciated over the shorter of the expected period of use and the life of the contract. IRUs that do not fulfill the above criteria are accounted for as service contracts.

Government grants

France Télécom may receive non-repayable government grants in the form of direct or indirect funding of capital projects, mainly provided by local or regional governments. These grants are deducted from the cost of the related assets and recognized in income statement, based on the pattern in which the asset's expected economic benefits are consumed.

Finance leases

Assets acquired under leases that transfer the risks and rewards of ownership to France Télécom (finance leases) are recorded in tangible assets and an obligation in the same amount is recorded in liabilities. The risks and rewards of ownership are considered as having been transferred to France Télécom when:

- The lease transfers ownership of the asset to the lessee by the end of the lease term.

- The Group has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised.

- The lease term is for the major part of the economic life of the asset even if title is not transferred.

- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

Assets leased by France Télécom as lessor under leases that transfer the risks and rewards of ownership to the lessee are treated as having been sold.

Maintenance and repair costs are expensed as incurred, except where they serve to increase the asset's productivity or prolong its useful life.

Depreciation

Tangible assets are depreciated to write off their cost less any residual value on a basis that reflects the pattern in which their future economic benefits are expected to be consumed.

Therefore, the straight-line basis is usually applied over the following estimated useful lives:

Buildings and leasehold improvements	10 to 30 years
Switching, transmission and other network equipment	5 to 10 years
Cables and public infrastructure	15 to 20 years
Computer hardware and software	3 to 5 years
Other	3 to 14 years

These useful lives are reviewed annually and are adjusted if current estimated useful lives are different from previous estimates. These changes in accounting estimates are recognized prospectively.

3.14 Impairment of non-current assets

Under IAS 36 – Impairment of Assets, long-lived assets must be tested for impairment when there is an indication that they may be impaired. Indicators are reviewed at least at each closing date.

In the case of an other-than-temporary decline in the recoverable amount of an item of property, plant and equipment or an intangible asset to below its net book value, due to events or circumstances occurring during the period (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) an impairment loss is recognized. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Each asset or group of assets is tested for impairment by comparing its recoverable amount to its net book value. When an asset or group of assets is found to be impaired, the recognized impairment loss is equal to the difference between its net book value and recoverable amount.

The recoverable amount of an asset is generally determined by reference to its value in use, corresponding to the future economic benefits expected to be derived from the use of the asset and its subsequent disposal. It is assessed by the discounted cash flows method, based on management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset and the asset's expected conditions of use.

3.15 Financial assets and liabilities

Financial assets include available-for-sale assets, held-to-maturity assets, assets held for trading, derivative instruments, cash collateral paid on derivative instruments, loans and receivables and cash and cash equivalents.

Financial liabilities include borrowings, other financing and bank overdrafts, derivative instruments, cash collateral received on derivative instruments and accounts payable.

Financial assets and liabilities are measured and recognized in accordance with IAS 39 – Financial Instruments: Recognition and Measurement.

Measurement and recognition of financial assets

Held-to-maturity assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables, that the Group has the positive intention and ability to hold to maturity. They are recognized initially at fair value and are subsequently measured at amortized cost by the effective interest method.

At each balance sheet date, the Group assesses whether there is any objective evidence that held-to-maturity assets are impaired. If any such evidence exists, the asset's recoverable amount is calculated. If the recoverable amount is less than the asset's book value, an impairment loss is recognized in the income statement.

Available-for-sale assets

Available-for-sale assets consist mainly of shares in non-consolidated companies and marketable securities that do not fulfill the criteria for classification in any of the other categories of financial assets. They are measured at fair value and gains and losses arising from remeasurement at fair value are recognized in equity.

Fair value corresponds to market price for listed securities and estimated fair value for unlisted securities, determined according to the most appropriate financial criteria in each case.

At each balance sheet date, the Group assesses whether there is any objective evidence that available-for-sale assets are impaired. If any such evidence exists, the asset's recoverable amount is calculated. If the recoverable amount is less than the asset's book value, an impairment loss is recognized in the income statement.

Loans and receivables

Loans and receivables include loans to and receivables from non-consolidated companies, other loans and receivables and trade receivables. They are recognized initially at fair value and are subsequently measured at amortized cost by the effective interest method. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. Cash flows on loans and receivables at variable rates of interest are remeasured periodically, to take into account changes in market interest rates. The remeasurement has the effect of increasing or reducing the effective interest rate and, consequently, the carrying value of the loan or receivable.

At each balance sheet date, the Group assesses whether there is any objective evidence that loans or receivables are impaired. If any such evidence exists, the asset's recoverable amount is calculated. If the recoverable amount is less than the asset's book value, an impairment loss is recognized in the income statement.

Assets held for trading

Assets held for trading are assets that the Group acquired principally for the purpose of selling them in the near term in order to realise a profit, that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. This category also includes assets not fulfilling the above criteria that the Group has opted to measure using the fair value option.

Assets held for trading, consisting mainly of mutual fund units, are carried in the balance sheet under "Other current financial assets and derivative instruments" .

Cash and cash equivalents

Cash equivalents are held primarily to meet the Group's short-term cash needs rather than for investment or other purposes. They consist of instruments that are readily convertible into known amounts of cash and are not exposed to any material risk of impairment. Cash and cash equivalents comprise cash available on demand and short-term investments with maturities generally of three months or less at the date of purchase. They are stated at historical cost which is close to their realizable value.

Measurement and recognition of financial liabilities

With the exception of financial liabilities held for trading, bonds redeemable for STM shares and derivative instruments which are measured at fair value through profit or loss, borrowings and other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost by the effective interest method.

Transaction costs that are directly attributable to the acquisition or issue of the financial liability are deducted from the liability's carrying value. This is because financial liabilities are initially recognized at cost, corresponding to the fair value of the sums paid or received in exchange for the liability. The costs are subsequently amortized over the life of the debt, by the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument or, when appropriate, through the period to the next interest adjustment date, to the net carrying amount of the financial liability. The calculation includes all fees and points paid or received between parties to the contract.

Certain borrowings are designated as being hedged by fair value hedges. A fair value hedge is a hedge of the exposure to changes in fair value of a recognized liability or an identified portion of the liability, that is attributable to a particular risk and could affect profit or loss.

Certain other financial liabilities are designated as being hedged by cash flow hedges. A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized liability or a highly probable forecast transaction (such as a purchase or sale) and could affect profit or loss.

Concerning the bonds redeemable for STM shares, it is not possible to measure the embedded derivative separately from the host contract either at acquisition or at a subsequent financial reporting date; consequently, the entire combined contract as a financial liability at fair value through profit or loss.

Hybrid instruments

Certain financial instruments comprise both a liability component and an equity component. They include perpetual bonds redeemable for shares (TDIRAs), bonds convertible into or exchangeable for new or existing shares (OCEANEs) and bonds with an exchange.

On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option. The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component

Financial liabilities held for trading

Financial liabilities held for trading are measured at fair value.

Measurement and recognition of derivative instruments

Derivative instruments are recognized in the balance sheet and measured at fair value. Except as explained below, gains and losses arising from remeasurement at fair value of derivative instruments are systematically recognized in income statement.

Derivative instruments may be designated as fair value hedges or cash flow hedges:

- A fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an identified portion of the asset or liability, that is attributable to a particular risk and could affect profit or loss.

- A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction (such as a future purchase or sale) and could affect profit or loss.

A hedging relationship qualifies for hedge accounting when:

- At the inception of the hedge, there is formal designation and documentation of the hedging relationship.

- At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (i.e. the actual results of the hedge are within a range of 80-125 per cent).

The effects of applying hedge accounting are as follows:

- For fair value hedges of existing assets and liabilities, the hedged portion of the asset or liability is recognized in the balance sheet at fair value. The gain or loss from remeasuring the hedged item at fair value is recognized in profit or loss and is offset by the effective portion of the loss or gain from remeasuring the hedging instrument at fair value.

- For cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity – because the change in the fair value of the hedged portion of the underlying item is not recognized in the balance sheet – and the ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss. Amounts recognized directly in equity are subsequently recognized in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

3.16 Inventories

Inventories are stated at the lower of cost and net realizable value, taking into account expected revenues from the sale of packages comprising a mobile hand-set and a subscription. Cost corresponds to purchase or production cost determined by the weighted average cost method.

3.17 Deferred taxes

In accordance with IAS 12 – Income Taxes, deferred taxes are recognized for all temporary differences between the book values of assets and liabilities and their tax basis, as well as for unused tax losses, by the liability method. Deferred tax assets are recognized only when their recovery is considered probable.

IAS 12 requires, in particular, the recognition of deferred tax liabilities on all intangible assets recognized in business combinations (trade marks, customer lists).

A deferred tax liability is recognized for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

- The Group is able to control the timing of the reversal of the temporary difference; and
- It is probable that the temporary difference will not reverse in the foreseeable future.

In practice, this means that for fully and proportionally consolidated companies, a deferred tax liability is recognized for taxes payable on planned dividend distributions by these companies.

In accordance with IAS 12, deferred tax assets and liabilities are not discounted.

3.18 Commitments to purchase minority interests (put options)

In accordance with IAS 27 – Consolidated and Separate Financial Statements, minority interests are included in shareholders' equity.

Based on IAS 27 and IAS 32 – Financial Instruments: Disclosure and Presentation, in their current form, commitments to purchase minority interests and put options granted to minority shareholders are recognized as a financial debt and as a reduction in minority interests. When the amount of the commitment exceeds the amount of the minority interest, the difference is recorded as a reduction in equity attributable to equity holders of France Télécom SA.

3.19 Provisions

In accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, a provision is recognized when the Group has a present obligation towards a third party and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The obligation may be legal, regulatory or contractual or it may represent a constructive obligation deriving from the Group's actions where, by an established pattern of past practice, published policies or a sufficiently specific current statement, the Group has indicated to other parties that it will accept certain responsibilities, and as a result, has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

The amount recognized as a provision corresponds to the best estimate of the expenditure required to settle the present obligation at the balance sheet date. If a reliable estimate cannot be made of the amount of the obligation, no provision is recorded but details of the obligation are disclosed in the notes to the financial statements.

Contingent liabilities – corresponding to probable obligations that are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control, and to probable obligations that are not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation – are disclosed in the notes to the financial statements.

Provisions for restructuring costs are recognized only when the restructuring has been announced and the Group has drawn up or has started to implement a detailed formal plan.

Provisions are discounted when the discounting adjustment is material.

Statutory training rights (DIF)

No provision is recorded for the cost of training courses followed by employees at their own initiative. However, the notes to the consolidated financial statements include disclosures of the cumulative number of hours' training entitlement at the year-end and the unused portion of the vested entitlement.

In the limited number of cases (request for training leave, redundancy or resignation- CIF) where these costs cannot be considered as remuneration of future services, the resulting short-term obligation is provided for as soon as its settlement becomes probable or certain.

3.20 Pension and other post-employment benefit obligations

Post-employment benefit plans

Civil service pension plans in France

Civil servants employed by France Telecom are covered by the government-sponsored civil service and military pension plan. France Telecom's obligation under these plans is limited to the payment of annual contributions (Act no. 96-660 dated 26 July, 1996). Consequently, France Télécom has no obligation to fund any future deficits of the pension plans covering its own civil servant employees or any other civil service plans.

Long- service awards and other retirement benefits

Under the laws of certain countries, employees are entitled to a lump sum payment when they complete a number of years' service or when they retire. The amount of these payments depends on their years of service and end-of-career salary.

Other pension plans

Employees are also entitled to pension benefits under defined contribution and defined benefit plans. The Group's obligation under defined contribution plans is limited to the payment of contributions, which are expensed as incurred.

Other post-retirement benefits

France Télécom offers retired employees certain benefits such as free telephone lines and coverage of certain healthcare costs.

In accordance with IAS 19, obligations under defined benefit plans are measured by the projected unit credit method. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation which is then discounted.

The calculation is based on demographic assumptions concerning retirement age, rates of future salary increases, staff turnover rates, and financial assumptions concerning future interest rates (to determine the discount rate) and inflation. These assumptions are made at the level of each individual entity, based on its local macro-economic environment.

Actuarial gains and losses arising since 1 January, 2004 are recognized by the corridor method. This method consists of recognizing a specified portion of the net cumulative actuarial gains and losses that exceed 10% of the greater of (i) the present value of the defined benefit obligation and (ii) the fair value of plan assets, over the average expected remaining working lives of the employees participating in the plan.

Other long-term benefits

Other long-term benefits consist mainly of long-service awards and paid long-term leaves of absence, for which the related obligations are also measured on an actuarial basis.

Termination benefits

Early-retirement plan in France

France Telecom has set up an early-retirement plan for civil servants and employees under contract. Under the terms of the plan, which will expire on 31 December, 2006, France Télécom employees aged 55 and over who have completed at least 25 years' service, are eligible to take early retirement at 70% of their salary for the period up to the statutory retirement age of 60. They also receive a lump-sum payment which is equal to one year's salary if they take early-retirement at 55 and is reduced progressively as the age at which they elect to retire approaches the statutory retirement age.

Under IAS 19, the benefit is treated in the same way as lump sum benefits payable on termination of service and a provision is recognized for the obligation, based on actuarial assumptions.

Other termination benefits

Any other termination benefits are also determined on an actuarial basis and covered by provisions. For all commitments where termination of employment contracts would trigger payment of an indemnity, actuarial gains and losses are recognized in profit or loss for the period when the assumptions are revised.

3.21 Share-based payments

In accordance with IFRS 2 – Share-Based Payment, the fair value of stock options, employee share issues and share grants without consideration (concerning the shares of France Telecom or its subsidiaries) is determined on the grant date.

Following the sale by the French State of 10.85% of France Télécom SA's capital, the French State offered shares to current and former France Telecom Group employees in accordance with the Privatization Act of 6 August 1986. The grant date was taken to be the date when the main terms of the plan were announced to employees, as stipulated in the press release issued by the French standard-setter (CNC) on 21 December, 2004 on the topic of employee share ownership plans. Since the related benefits vested immediately (the vesting period being very short or non-existent), the related compensation expense was recognized in full in 2004. The amount of the recognized expense corresponds to the fair value of the rights at the date of grant, taking into account the restriction period. The value of stock options is generally determined by reference to the exercise price, the life of the options, the current price of the underlying shares, the expected share price volatility, expected dividends and the risk-free interest rate over the life of the options. The amount so determined is recognized in personnel costs on a straight-line basis over the period between the grant date and the exercise date – corresponding to the vesting period – and in equity for equity-settled plans or in debt for cash-settled plans.

The Group has opted for retrospective application of IFRS 2 to equity- and cash-settled plans. Plans issued prior to 31 December, 2003 have been valued in accordance with US GAAP (SFAS 123) using the Black-Scholes options pricing model. Effective from 1 January, 2004, all new plans are valued in accordance with IFRS 2 using a binomial model.

3.22 Treasury shares

Treasury shares are recorded as a deduction from equity, at cost. When shares are sold out of treasury shares, the resulting profit or loss is recorded in equity net of tax.

NOTE 4. ADDITIONAL PRO FORMA INFORMATION

Following the changes in the Group's management structure, effective 1 January, 2005, the Group now has four reportable business segments. To facilitate period-on-period comparisons, in the segment analyses presented below the 2004 information has been adjusted to reflect the new organisation applicable in 2005.

The Group's four reportable business segments are:

- Home: Residential Communications Services, corresponding to the businesses previously included in "Fixed Line, Distribution, Networks, Large Customers and Operators", Wanadoo and the Polish and international fixed line businesses.

- Personal: Personal Communications Services, corresponding to the Orange business and the mobile telephone services offered by TP SA and its subsidiary Centertel or by international service providers.

- Enterprise: Enterprise Communications Services, corresponding to enterprise services in France previously included in "Fixed Line, Distribution, Networks, Large Customers and Operators" and global enterprise services (Equant).

- Directory Services, corresponding to the PagesJaunes sub-group (Yellow Pages).

Each of the above reportable segments has its own resources, although they may also share certain resources in the areas of networks and information systems, research and development, distribution networks and other shared competencies. The use of shared resources is taken into account in segment operating income based on the terms of contractual agreements between legal entities, or external benchmarks, or by allocating costs among all the segments. The supply of shared resources is included in inter-segment revenues of the service provider, and use of the resources is included in expenses taken into account for the calculation of gross operating margin of the service user.

Segment operating income corresponds to operating income, excluding gains and losses on disposals of assets and the share in profit or loss of associates not directly related to the segment concerned.

The Group has five geographic segments, including the three main geographic markets (France, Poland, the United Kingdom) where it has a stable position, the Rest of Europe and the Rest of the World.

The following analysis does not include all of the information required to be disclosed under IAS 14 – Segment Reporting.

4.1 Analysis by business segment

The following table shows information by business segment for the period ended 31 December, 2004:

(in millions of euros)	Home	Personal	Enterprise	Directories	Eliminations	Group total
2004						

Net revenue	22,440	20,564	8,235	978	(6,059)	**46,158**
- External	17,814	19,521	7,858	965		46,158
- Inter-segment	4,626	1,043	377	13	(6,059)	0
Gross operating margin	7,401	8,076	2,039	407	-	**17,923**
Employee profit-sharing	(156)	(72)	(22)	(30)	-	(280)
Share-based compensation	(212)	(124)	(38)	(25)	-	(399)
Depreciation and amortisation	(3,935)	(3,388)	(657)	(10)	-	(7,990)
Impairment of goodwill	-	-	(534)	-	-	(534)
Impairment of assets	10	(5)	(184)	-	-	(179)
Disposal of assets						922
- Allocated by segment - Not allocable						320
	194	55	71	-	-	602
Restructuring costs	(134)	(15)	(32)	-	-	(181)
Share of the profit (loss) of associates	17	-	12	1	-	30
Operating income						**9,312**
- Allocated by segment	3,185	4,527	655	343	-	8,710
- Not allocable						602
Finance income						192
Finance costs						(3,817)
Income tax expense						(2,477)
Net income						**3,210**
CAPEX	2,051	2,702	388	8	(8)	**5,141**

4.2 Analysis by geographic segment

(in millions of euros)	***Period ended 31 December 2004***
Revenue contribution	***46,158***
France	27,446
United Kingdom	6,241
Poland	4,082
Other countries of Europe	4,657
Rest of World (1)	3,732

(1) Including all Equant Group companies.

REPORT OF THE AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS RESTATED IN ACCORDANCE WITH IFRS FOR THE FINANCIAL YEAR 2004

This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and is construed in accordance with French law and professional auditing standards applicable in France.

"Pursuant to the request made to us in our capacity as Auditors of France Telecom, we have audited the consolidated financial statements of the France Telecom company, restated in accordance with IFRS as adopted in the European Union, for the year ended 31 December 2004 (hereinafter the "restated consolidated financial statements").

The restated consolidated financial statements were established under the responsibility of the Board of Directors, in the context of the transition to the IFRS as adopted in the European Union for the preparation of consolidated financial statements for the financial year 2005, based on the consolidated financial statements for the year ended 31 December 2004 prepared in accordance with French accounting principles and rules (the "consolidated financial statements"), which we audited in accordance with professional standards applicable in France. We issued an unqualified opinion on these consolidated financial statements. It is our responsibility, on the basis of our audit, to express an opinion on the restated consolidated financial statements.

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance that the restated consolidated statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the data contained in the financial statements. It also consists of assessing the accounting principles used and the significant estimates made to establish the financial statements, and assessing the overall presentation. We believe that our audit provides a reasonable basis for the opinion expressed below.

In our opinion, the restated consolidated financial statements have been prepared, in all material respects, in accordance with the rules described in the notes to the financial statements, which specify how IFRS 1 and the other international accounting standards adopted in the European Union have been applied and indicate the accounting standards, interpretations, rules and accounting methods which, according to management, should be applicable for the preparation of the consolidated financial statements for the financial year 2005 under the IFRS as adopted in the European Union.

Without qualifying the opinion expressed above, we draw your attention to note 1.1, which explains the reasons why the comparative information presented in the consolidated statements for the financial year 2005 might differ from the restated consolidated financial statements attached to this report.

We also draw your attention to note 2.1.2, which explains the accounting positions used by France Telecom on which work is in progress at the IFRIC or the CNC.

Moreover, we remind you that, in the preparation of the transition to the IFRS as adopted in the European Union for the preparation of consolidated statements for 2005, the restated consolidated financial statements do not include comparative information for 2003, nor all the notes required by the IFRS as adopted in the European Union which would be necessary, under those standards, to give a fair view of the net assets, financial position and earnings of the entity formed by the companies included in the consolidation."

French Original Signed in Paris La Défense and Neuilly sur Seine on 14 April 2005

By the Statutory Auditors

ERNST & YOUNG Audit — ***DELOITTE & ASSOCIES***

Christian Chiarasini — Jean-Paul Picard — Etienne Jacquemin

SUBSCRIPTION AND SALE

The Dealers have, in an amended and restated programme agreement (the "Programme Agreement") dated 19 September, 2005, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*" above. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with any update of the Programme and the issue of Notes under the Programme.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Programme Agreement, it will not offer, sell or deliver Notes (i) as part of their distribution at any time; and (ii) otherwise until 40 days after the completion of the distribution (as determined and certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant lead manager (in the case of a syndicated issue)) of all Notes of the Tranche of which such Notes are a part within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding paragraph and in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the later of the date of the closing of the offering of any Series of Notes and the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each issue of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issue and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms. Each relevant Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will offer, sell or deliver such Notes only in compliance with such additional U.S. selling restrictions.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a ***Relevant Member State***), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the ***Relevant Implementation Date***) it has not made and will not make an offer of Notes to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

(a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;

(b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression ***Prospectus Directive*** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

(i) in relation to any Notes having a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law") and each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

France

(a) Each of the Dealers and the Issuer acknowledges that Notes are being, or are deemed to be, issued outside the Republic of France; and

(b) In respect of Notes not constituting "*obligations*" under French law and issued in any currency on a non-syndicated basis, each of the Dealer and the Issuer has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, Notes in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed in France, the Base Prospectus or any other offering material relating to the Notes.

(c) In respect of Notes constituting "*obligations*" under French law issued in euro whether on a syndicated or non-syndicated basis, each of the Dealers and the Issuer has represented and agreed that:

(i) it has only made and will only make an offer of Notes to the public (*appel public à l'épargne*) in France in the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the *Autorité des marchés financiers* (***AMF***) in France or, where appropriate, when approved in another Member State of the European Economic Area which has implemented the EU Prospectus Directive 2003/71/EC on the date of notification to the AMF in France, all in accordance with articles L.412-1 and L.621-8 of the French *Code monétaire et financier* and the *Règlement général* of the AMF and ending at the latest on the date which is 12 months after the date of such publication; or

(ii) it has only made and will only make an offer of Notes to the public in France (*appel public à l'épargne*) and/or it has only required and will only require the admission to trading on Euronext Paris S.A. in circumstances which do not require the publication by the Issuer of a prospectus pursuant to articles L.411-2 and L.412-1 of the French *Code monétaire et financier*; and

(iii) otherwise, (in relation to Notes listed on Euronext Paris, in connection with their initial distribution only) it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Base Prospectus or any other offering material relating to the Notes, and that such offers, sales and distributions have been and shall only be made in France to (i) providers of investment services relating to portfolio management for the account of third parties, and/or (ii) qualified investors (*investisseurs qualifiés*), all as defined in, and in accordance with, articles L.411-1, L.411-2 and D.411-1 of the French *Code monétaire et financier*.

(d) In respect of Notes constituting "*obligations*" under French law issued in currencies other than euro on a syndicated basis, each of the Dealers and the Issuer has represented and agreed that, (in relation to Notes listed on Euronext Paris, in connection with their initial distribution only), it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France (*appel public à l'épargne*), and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Base Prospectus or any other offering material relating to the Notes, and that such offers, sales and distributions have been and shall only be made in France through an international syndicate to (i) providers of investment services relating to portfolio management for the account of third parties, and (ii) qualified investors (*investisseurs qualifiés*) acting for their own account, all as defined in, and in accordance with, articles L.411-1, L.411-2 and D.411-1 of the French *Code monétaire et financier*.

(e) In respect of Notes constituting "*obligations*" under French law issued in currencies other than euro on a non-syndicated basis each of the Dealer and the Issuer has represented and agreed that, (in relation to Notes listed on Euronext Paris, in connection with their initial distribution only), it has not offered or sold and will not offer or sell, directly or indirectly, Notes in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed in France, the Base Prospectus or any other offering material relating to the Notes, and each subscriber will be domiciled or resident for tax purposes outside France.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any other Dealer shall have any responsibility therefor.

Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

TAXATION

France

Payments in respect of Notes issued by the Issuer that constitute *obligations* under French law will be made without withholding or deduction for, or on account of, taxes imposed by or on behalf of the Republic of France, as provided by Article 131 *quater* of the French General Tax Code, if issued outside France. Notes will be issued (or deemed to be issued) outside France:

(i) in the case of syndicated or non-syndicated issues of Notes, if they are denominated in euro as provided in the Circular of the *Direction générale des impôts* dated 30th September, 1998;

(ii) in the case of internationally syndicated issues of Notes denominated in currencies other than euro, if, *inter alia*, the issuer and the relevant Dealers agree, in connection with their initial distribution, not to offer the Notes to the public in the Republic of France. Such securities may be offered in the Republic of France only to "qualified investors" as described in Article L.411-2 of the *Code monétaire et financier*; or

(iii) in the case of non-syndicated issues of Notes denominated in currencies other than euro, if each of the subscribers is domiciled or resident for tax purposes outside the Republic of France.

(iv) On 3rd June, 2003, the Council of the European Union adopted a new directive regarding the taxation of savings income received in the form of interest payments (the ***Directive***). Subject to certain conditions being met, Member States will be required from 1st July, 2005 to provide the tax authorities of another Member State with, *inter alia,* details of payments of interest within the meaning of the Directive (interest, products, premiums or other debt income) made by a paying agent located within its jurisdiction to or for the benefit of an individual resident in that other Member State (the ***Disclosure of Information Method***).

For these purposes, the term paying agent is defined widely and includes in particular any economic operator who is responsible for making interest payments, within the meaning of the Directive, for the immediate benefit of individuals.

However, throughout the transitional period, certain Member States (the Grand-Duchy of Luxembourg, Belgium and Austria), instead of using the Disclosure of Information Method used by other Member States, would withhold an amount on interest payments.

The rate of such withholding tax will equal 15 per cent. during the first three years, 20 per cent. during the subsequent three years and 35 per cent. until the end of the transitional period. Such transitional period will end if and when the European Community enters into agreements on exchange of information upon request with several jurisdictions (including, inter alia, the United States, Switzerland, Liechtenstein, San Marino, Monaco and Andorra).

The Directive was implemented into French law by the Amended Finance Law for 2003 and by the Amended Finance Law for 2004, which impose on paying agents based in France an obligation to report to the French tax authorities certain information with respect to interest payments made to beneficial owners domiciled in another Member State, including, among other things, the identity and address of the beneficial owner and a detailed list of the different categories of interest payments made from 1st July, 2005.

Luxembourg

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

General

Under Luxembourg tax law, there is currently no withholding tax on payments of principal, premium or interest, nor on accrued but unpaid interest, in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes. As from 1 July, 2005 Luxembourg will levy withholding tax on interest payments made by a Luxembourg paying agent to individual beneficial owners who are tax resident of (i) another EU Member State, pursuant to the Council Directive 2003/48/EC of 3 June, 2003 on taxation of savings income in the form of interest payments, or (ii) of certain non-EU countries and territories which have agreed to adopt similar measures to those provided for under the Council Directive 2003/48/EC. Responsibility for the withholding of such tax will be assumed by the Luxembourg paying agent and not by the Issuer.

Income Taxation of holders of Notes

A Luxembourg holder of Notes that is governed by the law of 31 July, 1929, on pure holding companies, as amended, or by the laws of 30 March, 1988 and 20 December, 2002 on undertakings for collective investment, as amended, is neither subject to Luxembourg income tax in respect of interest accrued or received, nor on gains realised on the sale or disposal of Notes.

A corporate holder of Notes, who is resident of Luxembourg for tax purposes or who has a permanent establishment or a fixed place of business in Luxembourg, to which the Notes are attributable, must include any interest received or accrued, as well as any gain realised on the sale or disposal of Notes, in its taxable income for Luxembourg income tax assessment purposes. The same obligation applies to an individual holder of Notes, acting in the course of the management of a professional or business undertaking, who is resident of Luxembourg for tax purposes or who has a permanent establishment or a fixed place of business in Luxembourg, to which the Notes are attributable.

An individual holder of Notes, acting in the course of the management of his/her private wealth, who is resident of Luxembourg for tax purposes, is subject to Luxembourg income tax in respect of interest received under the Notes. A gain realised by an individual holder of Notes, acting in the course of the management of his/her private wealth, who is resident in Luxembourg for tax purposes, upon the sale or disposal of Notes, is not subject to Luxembourg income tax, provided such sale or disposal took place more than six months after the Notes were acquired. However, any portion of such gain corresponding to accrued but unpaid interest income is subject to Luxembourg income tax.

Net Wealth Taxation of holders of Notes

Any holder of Notes, whether such holder is resident in Luxembourg for tax purposes or, if not, such holder maintains a permanent establishment or a fixed place of business in Luxembourg to which the Notes are attributable, is subject to Luxembourg wealth tax on such Notes, except if the holder of Notes is governed by the law of 31 July, 1929, on pure holding companies, as amended, or by the laws of 30 March, 1988 and 20

December, 2002 on undertakings for collective investment, as amended, or is a securitisation company governed by the law of 22 March, 2004 on securitisation, or is a capital company governed by the law of 15 June, 2004 on venture capital vehicles.

Other Taxes

Neither the issuance nor the transfer of Notes will give rise to any Luxembourg stamp duty, value added tax, issuance tax, registration tax, transfer tax or similar taxes or duties.

Where a holder of Notes is a resident of Luxembourg for tax purposes at the time of his death, the Notes are included in his taxable estate for inheritance tax assessment purposes.

Gift tax may be due on a gift or donation of Notes if embodied in a Luxembourg deed or recorded in Luxembourg.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1st July, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

General

Each Issuer assumes responsibility for withholding taxes to the extent set forth in Condition 7 of the Conditions.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes have been authorised, to the extent that such Notes constitute "*obligations*" under French law, by a resolution of the *Conseil d'Administration* dated 27 October 2004.

Listing of Notes on the Luxembourg Stock Exchange

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market.

The Luxembourg Stock Exchange has allocated the number 12034 to the Programme for listing purposes. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Investment Services Directive (Directive 93/22/EEC).

Documents Available

For the period of twelve months following the date of this Base Prospectus, copies of the following documents will, when published, be available during usual business hours on any weekday (except Saturdays and public holidays) from the registered office of the Issuer and from the specified offices of the Paying Agents for the time being in London and Luxembourg free of charge and those documents referred to in (iii) and (v) below will be available for inspection during usual business hours on any weekday (except Saturdays and public holidays) at the offices of the Paying Agent in Luxembourg:

(i) the *statuts* (with an English translation thereof) of the Issuer;

(ii) the Issuer's Annual Reports on Form 20-F for the financial years 2004 and 2003, filed with the SEC (which include the most recent audited consolidated financial statements of the Issuer, which are at the date of this Base Prospectus the consolidated financial statements of the Issuer for the years ended 31 December, 2002, 2003 and 2004);

(iii) the Programme Agreement, the Agency Agreement, the forms of the temporary global Notes, the permanent global Notes, the definitive Notes, the Receipts, the Coupons and the Talons, the Deed of Covenant;

(iv) a copy of this Base Prospectus; and

(v) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference.

In addition, copies of this Base Prospectus, each Final Terms relating to Notes which are admitted to trading on the Luxembourg Stock Exchange's regulated market and each document incorporated herein by reference are available on the Luxembourg Stock Exchange's website (being at the date hereof www.bourse.lu).

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche allocated by Euroclear and Clearstream, Luxembourg will be specified in the relevant Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the relevant Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 boulevard des Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 avenue JF Kennedy, L-1855 Luxembourg.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Material Change

Since 31 December, 2004 there has been no significant change in the financial position of the Issuer and there has been no material adverse change in the financial position or prospect of the Issuer , except as disclosed in this Base Prospectus.

Litigation

None of the Issuer and any of its subsidiaries (whether as defendant or otherwise) is, or has been during the period of 12 months immediately preceding the date of this Base Prospectus, engaged in any governmental, legal, arbitration, administrative or other proceedings, the results of which might have or have had a significant effect on the financial position, the profitability or the operation of the Issuer in the context of the issue of the Notes nor is the Issuer aware of any such proceedings pending or being threatened.

Auditors

The consolidated financial statements of the Issuer as of 31 December 2004 and 2003 and for the two years then ended, incorporated by reference in this Base Prospectus, have been audited by Ernst & Young Audit and Deloitte & Associés, independent public registered accounting firms, as stated in their reports incorporated by reference therein.

Ernst & Young Audit are registered with the *Compagnie Régionale des Commissaires aux Comptes de Versailles*, and Deloitte & Associés are registered with the *Compagnie Régionale des Commissaires aux Comptes de Versailles*, both of which are supervised by the *Compagnie Nationale des Commissaires aux Comptes*.

The auditors of the Issuer have no material interest in the Issuer.

Directors

The business address of the Directors of the Issuer is 6, place d'Alleray, 75505 Paris Cedex 15.

Regulated Markets

Debt issues under the Programme (or previous versions thereof) are listed in the Luxembourg and/or Paris stock exchanges.

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