Content strategy and update

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Agenda

- Scope and business purpose
- TV and Video
- Music
- Games
- Conclusion

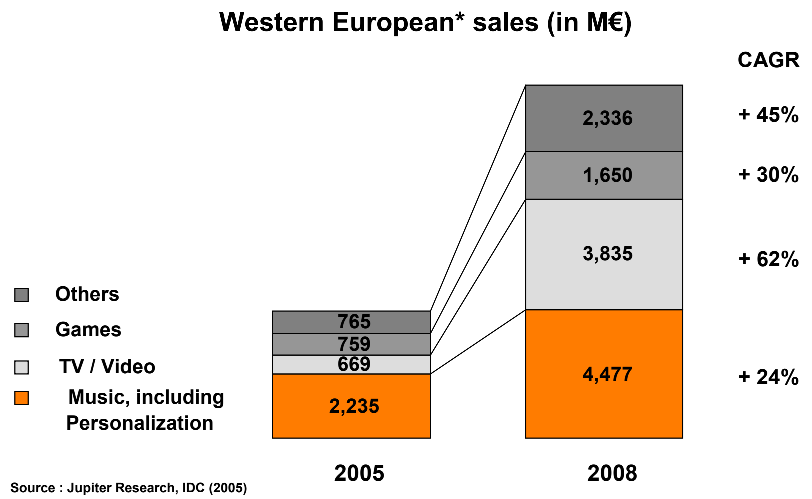
Scope and business purpose

Market evolution is presenting us with new opportunities

- ➔ Consumers are increasingly demanding instant access to digital content through multiple terminals
- ➔ Communications devices are becoming entertainment devices
- ➔ Networks: Increasing penetration of fixed and mobile broadband is providing speedier and more reliable access to digital content
- ➔ Partners: Content providers are looking for new channels of distribution and revenue streams

➔This changing market environment is setting the stage to enable true differentiation and revenue generation for the France Telecom Group, as it implements its NExT strategy

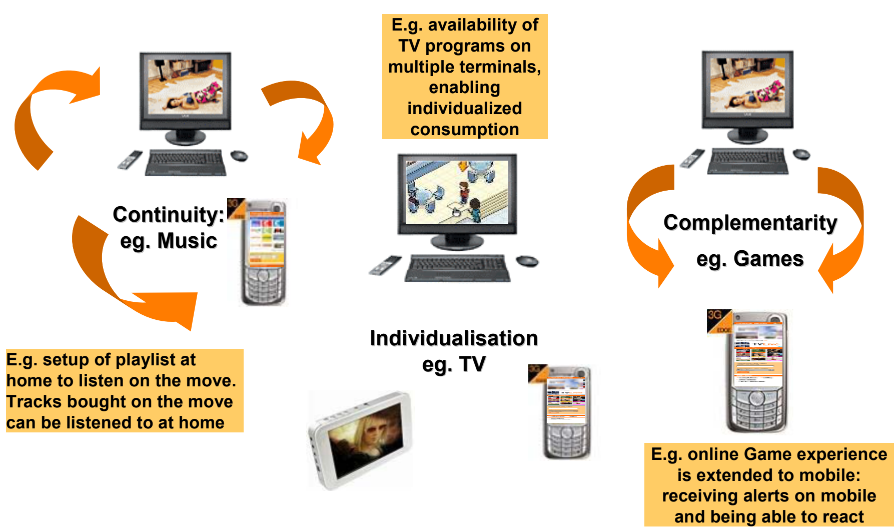
Digital content distribution is growing fast



➔ Early positioning in such a dynamic environment is key to our success

* Germany, Austria, Switzerland, UK, Ireland, Sweden, Denmark, Norway Finland, Netherlands, Belgium, Luxembourg, France, Italy, Spain, Portugal, Greece

Our strategy is ‘Content Everywhere’



➔ Key FT differentiators: Continuity, Complementarity and Individualisation

Our position in the value chain

Build offer

- **Create and produce Content**
  - Create, perform
  - Hire creators, performers
- **Publish Content**
  - Publish content services
- **Aggregate Content**
  - Package content services into offer
  - Protect content and compensate rights owners (DRM)

Deliver offer

- **Networks operations**
  - Build and operate networks (Fixed, Mobile)
- **Content access and delivery**
  - Manage user content experience accross networks
  - Manage conditional access
  - Manage decoding
  - Provide non-comodititized end-user devices (hardware and software)
  - Manage Home Networking

Manage customer relationships

- **Marketing and selling**
  - Off-line and on-line marketing, merchandising and selling
  - Community management
- **Customer care**
  - Invoicing
  - Billing
  - Maintenance

➔We are leveraging existing assets (retail, brand, network, customer management) and developing new skills in content partnerships and content management to offer our customers innovative services

Today, we confirm our objective of generating at least €400 m in direct pay content by 2008

➔ As part of NExT presentation in June 2005, we announced our objective of generating at least €400 m in "Direct pay content"

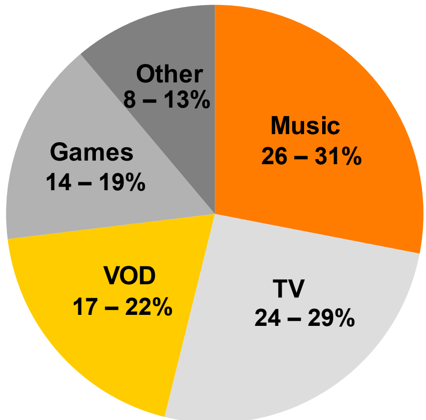
➔ This is defined as content-related revenue **billed separately to end-users**

➔ It **does not include** air-time revenues or associated communication services

➔ It is accounted either **gross or net of cost for content rights**, depending on whether FT is acting as a principal or agent

➔A conservative objective, assuming FT's revenues will grow on par with the online content market

Forecast breakdown of “Direct pay content” per content category in 2008



➔The majority of the revenue will come from TV & video services, with the remainder shared between music, games and other

Our framework for creating value

Through standalone profitability

- ➔ Build a profitable content business in itself
- ➔ KPI : increase of Customer Lifetime Value over ***content-related*** product portfolio

e.g. MMG

Through acquisition and retention

- ➔ Support acquisition, development and retention of end-user customers for core communications services
- ➔ KPI : increase of Customer Lifetime Value over ***complete*** FT product portfolio

e.g. Triple play

➔Beyond revenue generation, our objective is also to acquire and retain customers through compelling & differentiated content offerings.

TV and Video

Consumers expectations in TV are rising as technology evolves

- ➔ **More Programs**
  - TV channels
  - Programs on demand
- ➔ **Higher Quality**
  - ➔High Definition TV
  - ➔5.1 Surround Sound
- ➔ **Individual consumption**
  - Multiple TV sets at Home
  - TV on Mobile phones
- ➔ **Instant access**
  - Personal Video Recorder (PVR)
  - Catch-up TV

➔A multiple-platform service delivery enviroment, best-in class service functionality and proposition-based marketing will be key to our success

TV and video

➔ On ADSL

MaLigne tv

Why IPTV and VOD (ADSL) ?

Market	➔ Households which receive analogue terrestrial channels are now able to receive digital TV through wireline ➔ TV services are part of Multiple play offers that are proposed to all Broadband customers who are eligible.
Customer Benefits	➔ Access to digital multi-channel TV and on-demand programming ➔ An all-in-one packaged TV + Internet + telephony offering ➔ Viewers can download what they want from a video library ➔ Comply with satellite dishes regulation where applicable ➔ No co-ownership agreement required ➔ All in one bill
Partner Benefits	➔ Extended reach of TV coverage ➔ Direct relationship with subscribers for pay TV operators ➔ Leverage on FT and partners brands (eg Canal+, TPS), and retail and distribution networks

➔France Telecom has been the first in IP TV, with premium TV, VOD and PVR in Europe

Current IPTV (ADSL) offer in France

- ➔2 x 100 TV channel bouquets
  (TPS and Canal+/Canalsat)
- ➔Video on Demand
- ➔Personal Video Recorder
- ➔Integrated with FT multiplay offer through the *Livebox*
  (Home Broadband Wifi Gateway)

A unique all-in-one offer with complete TV bouquets, VOD and exclusive soccer programming

Entry-level offers for IPTV/VOD

MONOPLAY (without Internet access)	**MULTIPLAY (with Internet access and VoIP)**
€ 16 VAT incl. per month ➔TV and VOD access = € 16 + **Optional Premium TV**	**€ 44.90 VAT incl. per month** ➔Internet 512Kbps = € 24.90 ➔TV & VOD access = € 7 ➔VoIP = € 10 ➔Livebox = € 3 + **Optional Premium TV**
Current promotion ➔ Starting at € 8 for 3 months	**Current promotion** ➔ Starting at € 29.90 for 3 months

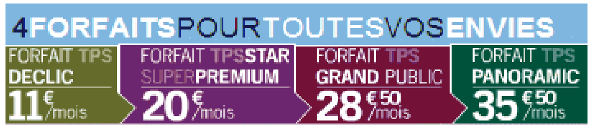
VOD

➔ € 1 to € 5 per program or movie

➔Entry-level packages are key to stimulating adoption and usage of new multi-play services

Premium bouquet with IPTV (France)

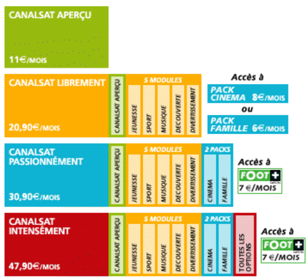
TPS



CANALSAT

CANAL+ LE BOUQUET

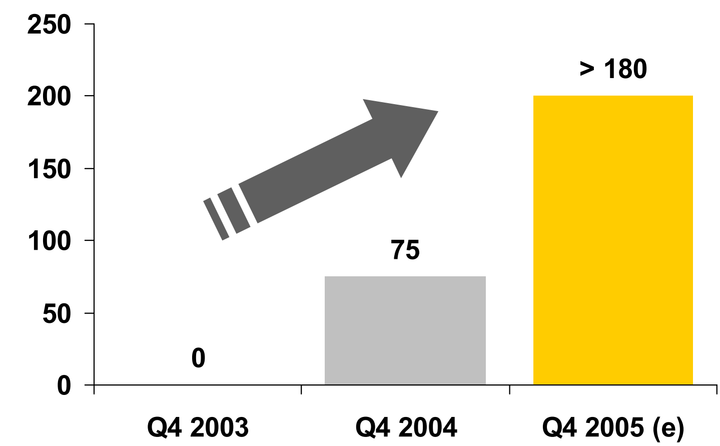
Option FOOT



➔Compelling content and **exclusive rights** enrich the service offering

IPTV (ADSL) is taking off

Ma Ligne TV base in France (in 000's)



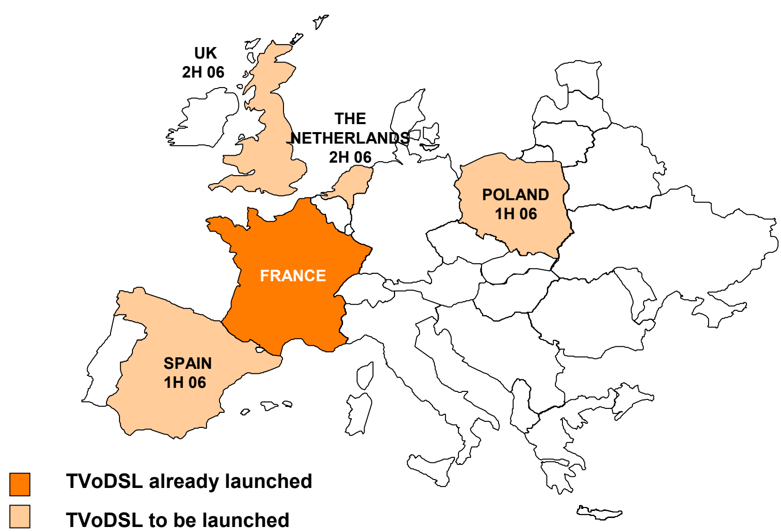
➔The convenience of IPTV (ADSL) is fast becoming an accepted form of TV distribution and consumption

IPTV and VOD (ADSL) business model

Revenue model	Profit model
➔ Monoplay at € 16 VAT incl. per month ➔ Multiplay at € 7 VAT incl. per month ➔ Revenues from partners for transport and sales commissions ➔ VOD rental at € 1 – 5 VAT incl. per program	➔ Positive EBITDA expected in year 4 ➔ Positive EBITDA-CAPEX expected in year 5

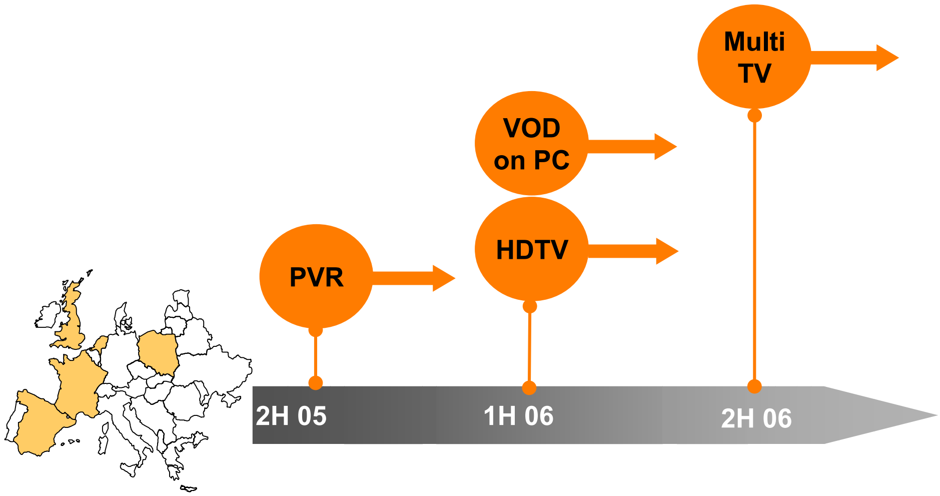
➔Main focus is customer acquisition and retention for core services

European roll-out plan of IPTV (ADSL)



➔Leveraging our experience in France and benefiting from scale effects across the footprint

IPTV and VOD (ADSL) roadmap



➔Initial launches in France, then rollout across IPTV (ADSL) footprint

TV and video

➔On Mobile

Why TV and VOD on mobile ?

Market	➔New network technology, such as UMTS and Edge, allow the delivery of Live TV signals straight to consumers ➔UMTS and Edge networks cover 85% of the population in France and 70% in the UK
Customer Benefits	➔ Instant access to news and entertainment (music videos, humour, charm) on the move ➔ Never miss a program ➔ Individual consumption at home
Partner Benefits	➔ Additional TV usage ➔ New revenues from short formats on demand

➔A win - win proposal for customers, partners & FT

A clear and simple access to Orange World services from portal and devices

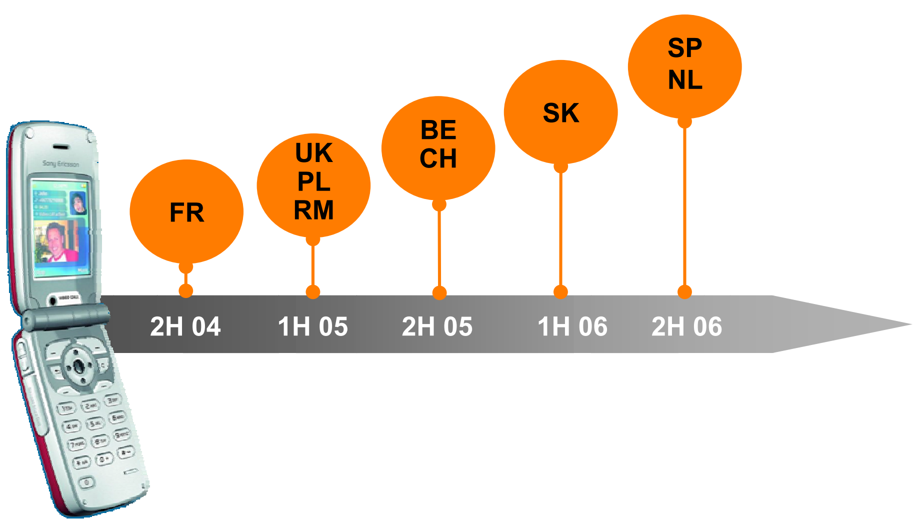
➔ One click access to content services

The world's largest live TV offer on Mobile

51 channels

LC1 was the 1st channel to adapt mobile format through Orange

Mobile TV and VOD launch plan in Europe



➔ Mobile TV becomes an integral part of the broadband consumer marketing proposition in 2005/6

Next steps for TV and VOD

- ➔ Converged (TV, Mobile, PC) offers (bundles) for VOD
  - TV series, Movies
  - Subscription based or free
- ➔ Free TV offer and optional Pay TV on IPTV and Mobile TV
- ➔ New standards for Mobile TV (DVB-H, DMB, etc.)

➔Remaining n°1 in TV through innovation in technology and programming

Music

Why digital music entertainment ?

Market	➔ Digital music is taking off ➔ Digital music growth is being fuelled by the launch of new integrated media player mobile phones ➔ Introduction of subscription-based services are set to grow
Customer Benefits	➔ Instant access to a large shelf space of digital music and availability of derived personalisation content ➔ Seamless compatibility between PC, mobile phones and terminals ➔ Ease of use in storage and interoperability with Hifi set, car stereo, MP3 recorder, laptop, mobile, TV free samplers
Partner Benefits	➔ Incremental revenue generation ➔ Extend consumer reach for digital music products ➔ Real-time merchandising: product placement, discounting, cross-selling and up selling according to sales reports and markets events ➔ Boost revenues of back catalogues through long tail effect

➔ Digital music entertainment is set to grow with increasing penetration of integrated portable media players and phones

Two categories of digital music

Core entertainment

'Based on tracks and albums'

- ➔ Music video download / streaming
- ➔ Music track download
- ➔ Radio streaming
- ➔ Concert video streaming
- ➔ Interactive radio

Personalization

'Derived music products'

- ➔ Ringtones
- ➔ Ringback tones
- ➔ Voice Mail greetings
- ➔ Logos & wallpapers

➔Consumed across and over multiple connected and audio devices

A sample of today's music offers

PC	Mobile
Wanadoo France ➔ Track Download: € 0.99 per track ➔ Unlimited Music Offer: € 7.99 per month ➔ Ringtones	**Orange France** ➔ Track Download: € 2 per track download or 3 for € 5* ➔ Ringtones: € 2 – 3 ➔ Ringback tones: € 1.5 per track plus € 1 per month ➔ Logos: € 2.5 – 3 per logo
FT fixed/MaLigne in France ➔ Ringback tone: € 1.5 per track plus € 1 per month	**Orange UK** ➔ Track Download: £ 1.50 per track ➔ Ringtones: £ 2.50 – 3.50 per ringtone
Wanadoo UK ➔ Track Download: £ 0.79 per track ➔ Ringtones	

*excl. airtime

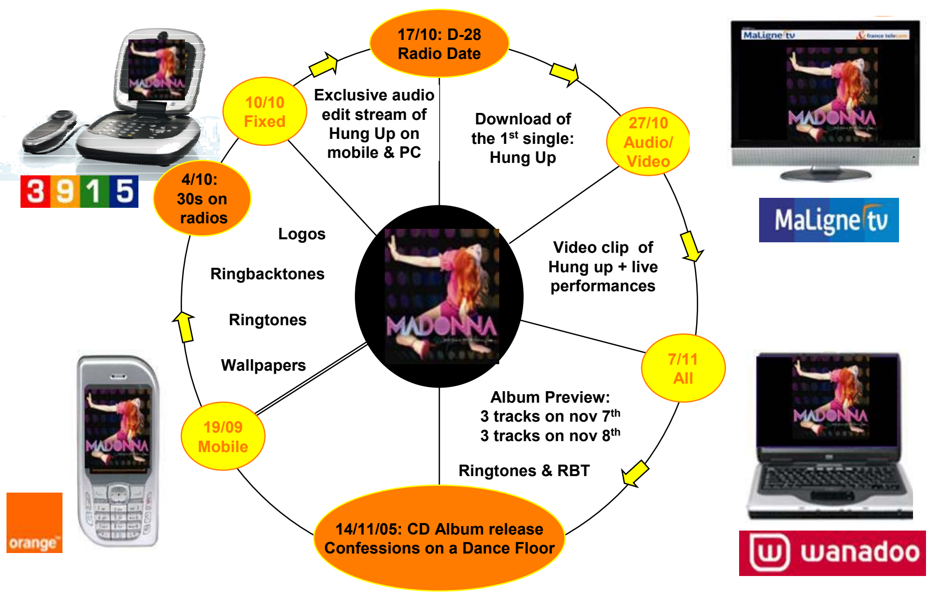
➔ FT's current portfolio of digital music entertainment is widely available across all platforms

Digital Music Business Model

Develop a Music business Unit	Acquisition & retention through differentiation
➔ Generate incremental revenue from direct–pay content music services ➔ Stimulate new and repetitive usage through an integrated music proposition including both core services and personalisation	➔ Support and complement core communications services ➔ Acquire new customers by offering exclusive services and differentiation ➔ Retain customers through converged and integrated services

➔ Purpose is (1) development of a profitable line of business (2) customer acquisition/retention

MADONNA Confessions on a dance floor



→ An illustrative example of Madonna Everywhere

Games

Why online games ?

Market

- ➔ Games has been the leading pay content on the Internet since 1996 (except adult content)
- ➔ The games industry is going online (MMG for Internet, Multiplayer games for mobile)
- ➔ A large subset of FT's customer base is playing games

Customer Benefits

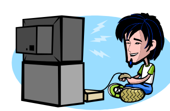
- ➔ Click to play (no more CDs)
- ➔ Choice, ability to "try before you buy"
- ➔ Always the latest version
- ➔ Playing with one's tribe

Partner

- ➔ Access to FT's large customer bases with efficient authentication tools and billing systems
- ➔ With protected revenues
- ➔ Saving retail, storage, distribution and manufacturing costs

➔ Promoting communication services through online games usage

Who is playing games ?



Casual Gamer	Midrange Gamer	Hardcore Gamer
Woman	Man	Man
20 to 50 years old	12 to 30 years old	16 to 25 years old
Persons usually considered as not playing much	Persons usually considered as playing regularly	Persons usually considered as playing excessively
Playing is a pastime and should provide instant gratification	Playing is a leisure	Playing is the preferred leisure and should allow to surpass oneself

Casual Games | **Midrange Games** | **Massively Multiplayer Games**

➔ FT's wide and varied customer base requires a full product portfolio

Current offers on Wanadoo and Orange

Wanadoo France

A comprehensive offer

- € 19 average per downloaded game on PC
- € 9,90 or € 19,90 per month for unlimited access to games on PC (streaming)

Orange

- € 3 - 5 per downloaded game in France
- £ 3 - 5 per downloaded game in UK

➔ Targeting Casual gamers and Mid-range gamers

FT positioning in online games

Mobile	Fixed Mass Market	Massively Multi Gamers
orange	wanadoo	GOA

Mobile Games from Orange

The widest choice of games on mobile in the UK

Game channel from Wanadoo

1st game community in France
500 000 unique visitors / month

Source : Nielsen January 2005

Dark Age of Camelot

Introduced beginning 2002

Among the top MMG in Europe

➔ A leading position in several countries / segments

Online games business model

Mobile	Fixed Mass Market	Massively Multi Gamers
✓ Simple, mostly 2D, and usually single player games ✓ Games are dowloaded (pay per act) ✓ Emergence of 3D and multi player games, with new pricing structures (subscription, rental, try before you buy)	✓ Simple and well-known games transposed on the Internet ✓ 3D and multi player games ✓ Try before you by, per game download, unlimited streaming subscriptions ✓ Community features ✓ Key strenghts : click to buy, single bill with Wanadoo access	✓ Single product offer at this stage : Dark Age of Camelot ✓ Gamers embody characters in a virtual world wich can host thousands of gamers simultaneously ✓ FT is a publisher and distributor
✓ Revenue sharing agreements with content providers	✓ Revenue sharing agreements with content providers	✓ FT is bearing a fixed upfront cost for licence ✓& Potentially higher return for FT

➔We target an overall profitable business, on top of synergies benefiting to communications services

Next steps for games

➔ Internet

- Introducing the same comprehensive offers in all countries
- Introducing new business models such as item selling
- Introducing new MMGs if acceptable economical conditions

➔ Mobile

- From 2D to 3D
- Introducing new business models (try before you buy, subscription offers)
- Adding community features

➔ Multi-platform games

Conclusion

Our points of differentiation

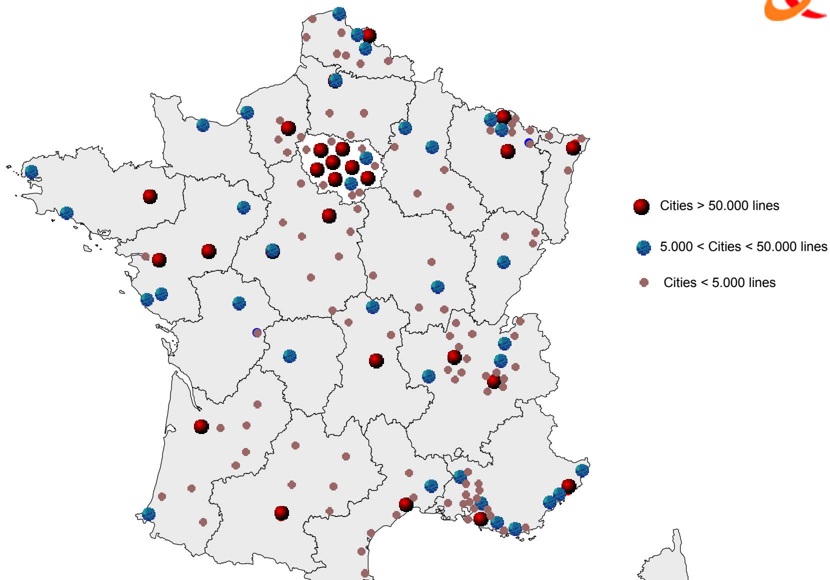
- A fully integrated and complete service offering delivered by a natively integrated operator (TV, PC, Mobile)
- First-mover advantage in key markets
  - 1st in IPTV (ADSL) with premium TV, VOD & PVR
  - 1st in TV on mobile
- Global and professional approach through a dedicated Content Division staffed with experienced personnel in content & media
  - Content partnership
  - Content management
  - Marketing and communication
- Forging effective and win-win partnerships with best of breed partners in the media, technology and content sectors

In summary

- A compelling vision with a distinctive ability to deliver
  - A significant portfolio of existing offers
  - An ambitious rollout of new initiatives across Europe
- A rigorous business framework for creating value
  - Calibrated investments and risks
  - Dual-purpose business benefits measured
- At least 400 M€ in direct pay content by 2008

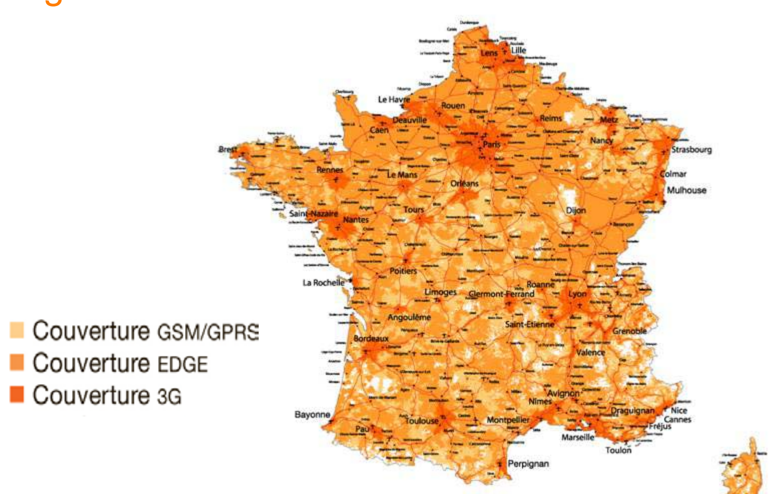
Appendix

Domestic IPTV (ADSL) coverage at 3Q05



➔ Target is to cover 8.5 million households in Ile-de-France region + 360 other cities by year en 2005

Today, mobile broadband is a reality for Orange France customers



➔ **Nearly 90% of the population**

➔ **All cities with more than 7.000 habitants**