

regulation clarification underway

Jean-Yves Larrourou

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cautionary statement

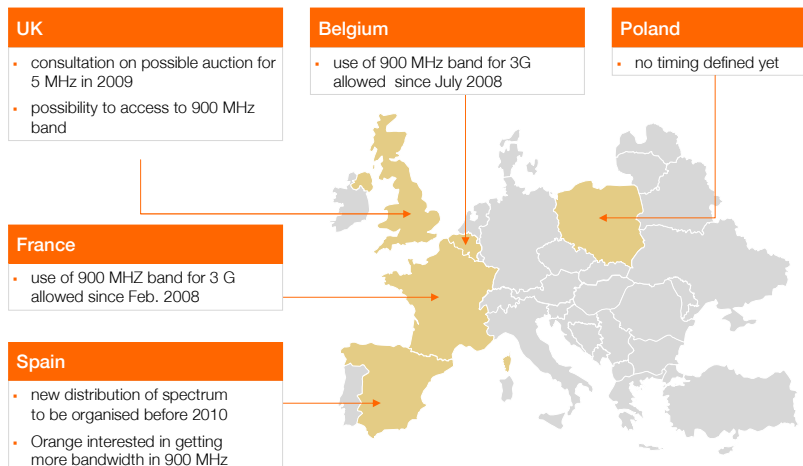
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agenda

- 1 scarce resources management
in favour of mobile data growth
- 2 asymmetric and symmetric access regulation
scope gets narrower
- 3 consumer regulation
favorable signals
- 4 improved visibility

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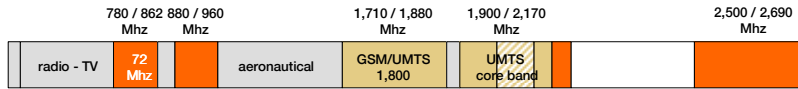
1 | 900 MHz spectrum refarming for better UMTS coverage



spectrum availability below 1 GHz will ease mobile coverage in rural areas and allow lower investments for UMTS coverage

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1 clearer spectrum attribution in France



digital dividend	900 MHz	2.1 GHz	2.6 GHz
<ul style="list-style-type: none"> for high speed mobile data territory coverage allocation process in 2009 together with 2.6 GHz allocation 	<ul style="list-style-type: none"> to extend 3G coverage 5 MHz to be allocated to new entrant (if any) under conditions to be defined 	<ul style="list-style-type: none"> call for tender in Q1 09 for allocation of three 5 MHz blocks one block being reserved for a new entrant 	<ul style="list-style-type: none"> allocation process to be launched before end 2009, decision on attribution not expected before 1st half 2010

a 4th operator in the French market?

<p>conditions of the 4th licence clarified (€206M) but questionable as regards fairness among all operators</p>	<ul style="list-style-type: none"> 5 MHz in 2.1 GHz band: <ul style="list-style-type: none"> attribution before end 2009 commercial services not to be launched before end 2010 5 MHz in 900 MHz band to be released back 18 months after attribution in non dense areas, and by end 2012 in dense areas
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additional spectrum to be released: FT to bid to ensure the future growth of its mobile data activities

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1 new spectrum allocation throughout Europe positive trend for mobile

	Belgium	UK	Spain	Poland
digital dividend	<ul style="list-style-type: none"> debate around possible digital dividend 	<ul style="list-style-type: none"> 72 MHz made available for other uses than broadcast further consultation expected in 2009 	<ul style="list-style-type: none"> so far, no spectrum left for mobile unclear whether there will be any digital dividend in Spain 	<ul style="list-style-type: none"> timeframe for TV digitization yet to be defined
2.6 GHz	<ul style="list-style-type: none"> national licences to be awarded in 2009 auction except if enough spectrum for all applicants 	<ul style="list-style-type: none"> would be open on a technology and service neutrality basis allocation process in 2009 	<ul style="list-style-type: none"> call for tender in 2009 	<ul style="list-style-type: none"> conditions to be defined in 2009 no need of spectrum before 2012-2014

opportunity to acquire new spectrum resources to ensure future network developments

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2 | toward the end of the *ex ante* retail regulation

EU level: regulation now focused on wholesale

- sector specific regulation is expected to gradually disappear in favour of the common competition law only
- new European Recommendation on relevant markets (2007): reduction by Commission from 18 to 7 relevant markets (1 retail and 6 wholesale)

France

- *ex ante* retail regulation completely rolled back, except for universal service obligations on fixed telephony

Poland

- TP notification 30-days prior to commercial launch for retail tariffs and contract terms requiring UKE approval:
 - fixed telephony (access and traffic)
 - minimum set of leased lines

UK

- no advance price notification requirements for BT retail services, except for:
 - non-residential line rental and inland calls
 - retail leased lineswhere same day notification applies

Spain

- retail regulation rolled back for Telefonica's fixed telephony services
- Telefonica's residential line rental: advance notification of retail prices and conditions to CMT at least 21 days before commercial launch

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2 | functional separation to become an exceptional remedy

review of the European Regulatory Framework

- no mandatory functional separation can be imposed by the European Commission alone
- no mandatory functional separation can be imposed by a national regulator without prior European Commission's approval
- functional separation to be an exceptional remedy only when evidence that all others failed

Poland	UK	France
<ul style="list-style-type: none"> UKE postponed any mandatory decision on functional separation TP proposed its own commitments based on non discriminatory practices: 'equivalence of access' 	<ul style="list-style-type: none"> Openreach is the only example of functional separation in Europe product development is slow (e.g. Naked DSL) tariffs are increasing (ULL, WLR) 	<ul style="list-style-type: none"> accounting separation enforced today ARCEP opposed to functional separation, as current remedies deemed sufficient

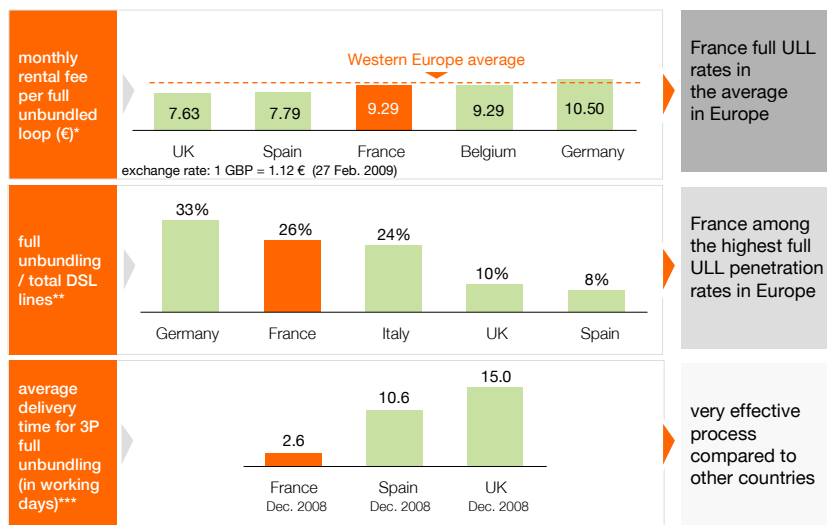
UKE studying TP's proposal → final decision expected Q4 2009

lack of efficiency incentives → increasing prices and low level of investment

no foreseeable mandatory functional separation in France

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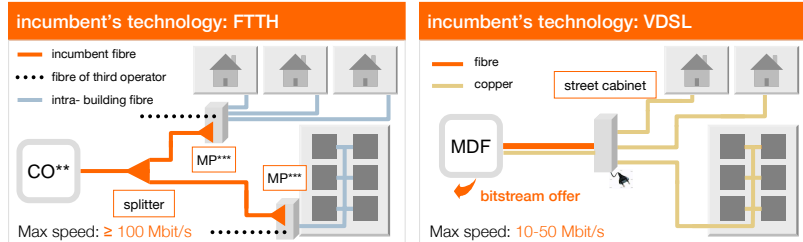
2 | stabilized broadband regulation in France



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* Cullen international, February 18, 2009; ** ECTA broadband scorecard, Q1 2008; *** ARCEP, OFCOM, CMT

2 clarification underway on NGA regulation (1/2) pragmatic approach of NRA*s



- implications**
- promotion of infrastructure-based competition
 - mandatory access to ducts
 - in-building cabling sharing
 - remedies to be defined in areas where duplication of infra is uneconomic

- implications**
- Main Distribution Frames (MDF) progressive closure, substituted by street cabinets
 - regulatory challenges:
 - is unbundling at the sub loop technically and economically sustainable?
 - how to maintain the level of competition coming from unbundling at the central office?

* NRA: National Regulation Authority ** CO: Central Office *** MP: mutualisation point

NRA*s looking for the right balance between investment incentives and competition stimulation

2 clarification underway on NGA regulation (2/2)

Spain	UK	France
<ul style="list-style-type: none"> • Jan. 2009: CMT's decision • Telefonica to progressively migrate its current copper network to both VDSL / FTTH • access to ducts available, for fibre, whatever the usage • ethernet-based bitstream offer <ul style="list-style-type: none"> ☑ cost oriented prices ☑ no explicit replicability of IPTV ☑ to be tested by Orange Spain 	<ul style="list-style-type: none"> • BT's plans to invest £1.5bn on VDSL • Openreach "umbrella": unknown whether Equivalence rules will apply to NGA • Openreach proposes to develop a generic Ethernet access product on Fibre 	<ul style="list-style-type: none"> • access to FTs' ducts fully operational for FTTH only • no asymmetric access obligation on horizontal fibre • symmetric regulation e.g. sharing of intra building fibre <ul style="list-style-type: none"> ☑ precise engineering rules under ARCEP's close scrutiny • public authorities roles and financing to be clarified

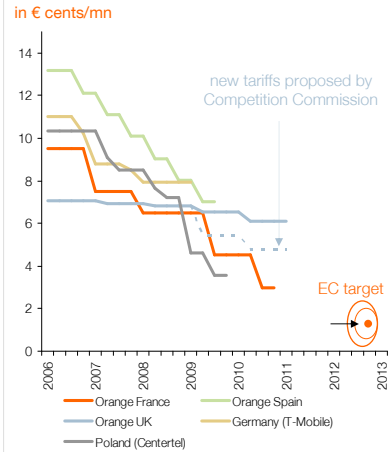
favourable evolution of the regulatory context but Orange will be watchful on implementation

wholesale access will definitely be offered, but price regulation still uncertain

clarification with final decisions expected mid 2009

2 | voice MTR tariffs to be harmonized by year 2012/2013 EC draft recommendation to be adopted in H1 2009

voice MTRs glide paths across European countries



MTR decrease cycle coming to an end

- substantial decreases with strong impact on all operators
- fixed operations on Orange European footprint strongly mitigates the effect compared to mobile only operators
- debate on proposed methodology to assess MTR relevant costs marketing policies will adapt:
 - EC new cost calculation methodology not supported by a majority of NRA
 - MTR decrease will mainly lead to tariffs rebalancing between customers segments
- France: ARCEP decision questionable as regards MTR level and remaining relative asymmetry with 3rd MNO
- disruptive scenarii can be avoided
 - Bill and Keep not supported by the EC draft recommendation
- lower MTR is an opportunity to develop new unlimited allnet offers

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* source: national regulators, exchange rates : 1GBP = 1.12 €, 1 PLN= 0.,2126 (27 Feb. 2009) applied to the whole period 2005 - 2013

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3 | increased political awareness that retail regulation is not the right way to ensure consumer protection

EU: toward the end of roaming retail regulation ?

- first European regulation in June 2007: drop of both wholesale and retail roaming tariffs for the years 2007 to 2009
- second draft EC regulation in Sept. 2008 extends the glide path of voice regulated tariffs until 2013 and introduces retail regulation on international SMS
- European parliament currently considering the possibility to put an end to retail regulation

operators improving self regulation in a context of already extensive consumer protection

- creation of the French operators federation for coordinated actions
- success of the unique number (33,700) to fight against SMS spamming
- anticipation of the law about free hotlines
- childhood protection
- close relationships with consumers associations in favour of consumers : outcomes such as better tariffs transparency

operators and public authorities converging towards a common approach to take care of consumerists concerns

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4 | improved visibility but we stay on the watch

- spectrum resources to the benefit of new services development
- scope of asymmetric regulation focussing on wholesale
- mobile termination rates decrease coming to an end
- progressive clarification on NGA regulation
- converged approach on consumer regulation
- new debates are emerging:
 - new services regulation (e-health)
 - new business models (exclusivity, net neutrality)
 - environmental concerns