

# ORIGINAL

## COUDERT BROTHERS LLP

ATTORNEYS AT LAW

1627 I STREET, N.W.  
WASHINGTON, D.C. 20006-4007  
TEL: (202) 775-5100  
FAX: (202) 775-1168  
WWW.COUDERT.COM

### BY FEDERAL EXPRESS

February 6, 2003

James J. McNulty  
Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
2nd Floor, Room N201  
Harrisburg, PA 17120

**NORTH AMERICA**  
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SAN FRANCISCO, WASHINGTON

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**ASSOCIATED OFFICES**  
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FEB 06 2003

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

Re: France Telecom Corporate Solutions L.L.C.; Application for Authority to Provide Telecommunications Services as a Reseller of Toll Services and Competitive Local Exchange Carrier Services, Docket No. A-311242

Dear Mr. McNulty:

This Letter is a supplement to the Application of France Telecom Corporate Solutions L.L.C. ("FTCS") for Authority to Provide Telecommunications Services as a Reseller of Toll Services and Competitive Local Exchange Carrier Services in the above-referenced docket.

FTCS hereby clarifies that it does not seek authority to operate in Pennsylvania as a Competitive Access Provider.

An original plus three copies of this letter is enclosed for filing. Please file-stamp and return the extra copy of this filing in the pre-addressed, stamped envelope provided for this purpose.

Kindly direct any questions to the undersigned.

DOCUMENT  
FOLDER

**DOCKETED**

MAR 18 2003

Regards,



William K. Coulter  
Elizabeth Holowinski  
Counsel for France Telecom  
Corporate Solutions L.L.C.

Enclosures

cc: Grace House, PUC Telecommunications Division

ORIGINAL

Malatesta  
Hawke &  
McKeon LLP  
ATTORNEYS AT LAW

Joseph J. Malatesta, Jr.  
William T. Hawke  
Kevin J. McKeon  
Louise A. Knight  
Thomas J. Sniscak  
Norman James Kennard  
Lillian Smith Harris

Scott T. Wyland  
Todd S. Stewart  
Craig R. Burgraff  
Janet L. Miller  
Steven K. Haas  
William E. Lehman  
Rikardo J. Hull

100 North Tenth Street, Harrisburg, PA 17101 Phone: 717.236.1300 Fax: 717.236.4841 www.mhm-law.com

February 13, 2003

James J. McNulty, Secretary  
Pennsylvania Public Utility Commission  
Post Office Box 3265  
Harrisburg, PA 17120

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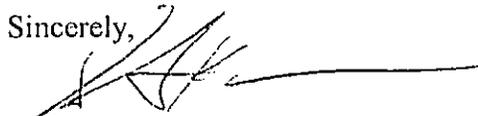
RE: Application of France Telecom Corporate Solutions L.L.C. For Approval To Offer, Render, Furnish or Supply Resold Local Exchange and Interexchange Telecommunications Services to the Public; Docket No. A- 311242 ;  
**PROTEST OF COMMONWEALTH TELEPHONE COMPANY**

Dear Secretary McNulty:

Enclosed, for filing with the Commission, please find an original and three (3) copies of the Protest of the Commonwealth Telephone Company ("CTCo") to the Application of France Telecom Corporate Solutions L.L.C. ("France Telecom"). CTCo notes that it is willing to withdraw its Protest if France Telecom's Application is amended to reflect that it is only seeking Commission approval to provide local exchange service in the service territories of Verizon Pennsylvania Inc. and Verizon North Inc.

If you have any questions, please feel free to contact me.

Sincerely,



Steven K. Haas  
Counsel for Commonwealth Telephone Company

SKH/rjh  
cc: Certificate of Service  
Michael Sharry

76

MAILING ADDRESS: P.O. BOX 1778 HARRISBURG, PA 17105

ORIGINAL

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of France Telecom Corporate Solutions : A- 311242  
L.L.C. For Approval To Offer, Render, Furnish :  
or Supply Resold Local Exchange and Interexchange :  
Telecommunications Services to the Public :

**DOCKETED**

FEB 25 2003

SECRETARY'S BUREAU

03 FEB 19 PM 4:21

**PROTEST OF COMMONWEALTH TELEPHONE COMPANY  
TO THE APPLICATION OF  
FRANCE TELECOM CORPORATE SOLUTIONS L.L.C.**

NOW COMES Commonwealth Telephone Company ("CTCo"), by and through its attorneys, Malatesta Hawke & McKeon LLP, and protests the above-referenced Application pursuant to 52 Pa. Code §5.51. In support thereof, CTCo avers as follows:

**DOCUMENT**

**I. BACKGROUND**

1. On or about January 28, 2003, France Telecom Corporate Solutions L.L.C. ("France Telecom") filed an Application with the Pennsylvania Public Utility Commission ("Commission") for approval to offer, render, furnish or supply resold local exchange and interexchange telecommunications services to the public. Paragraph 10 of the Application indicates that France Telecom intends to offer all forms of local exchange telecommunications services and interexchange telecommunication services on a resale basis within the state. Paragraph 11 of France Telecom's Application indicates that the company is seeking such authority statewide. Additionally, Original Page No. 53 of France Telecom's proposed Pa. PUC Tariff No. 1 (France Telecom Application, Exhibit D) states that it will service customers in Scranton and Lancaster.

The territory sought in this Application for approval by the Commission may include the service territory of CTCo, depending upon France Telecom's actual intentions. Accordingly, CTCo has a direct, immediate and substantial interest in the Application and has standing to assert the present Protest. CTCo notes that it will withdraw this Protest if France Telecom's Application is amended to clarify and reflect that France Telecom is, in fact, only seeking Commission approval to provide local exchange services in the territories of Verizon Pennsylvania Inc. and Verizon North Inc.

2. The interests of CTCo are not being represented by any current participant in this Application proceeding. CTCo may be bound by determinations made by the Commission, relative to this Application, which could adversely affect its interests.

3. The full name, address and telephone number of the protestant is:

Commonwealth Telephone Company  
100 Lake Street  
Dallas, PA 18612-1015

Commonwealth's attorney, upon whom all documents are requested to be served, is:

Norman James Kennard  
Malatesta Hawke & McKeon LLP  
Harrisburg Energy Center  
100 North Tenth Street  
PO Box 1778  
Harrisburg, PA 17101  
(717) 236-1300

## II. RURAL TELEPHONE COMPANIES

4. CTCo is a rural telephone company as defined under Section 3(a)(47) of the Telecommunications Act of 1996 ("TCA-96"),<sup>1</sup> which this Commission has recognized in its

---

<sup>1</sup> 47 U.S.C. Section 153(a)(47).

Orders entered at Docket No. M-00960799.<sup>2</sup>

5. The Commission in its June 3, 1996 Order and in the Order on Reconsideration, set forth consolidated entry procedures to be utilized by CLEC applicants seeking authority within the service territories of rural telephone companies. The consolidated procedures apply to France Telecom's Application to provide service within CTCo's service territory.

### III. APPLICATION

6. This Commission has stated that applications seeking authority to enter the service territory of rural telephone companies as defined under Section 3(a)(47) of the TCA-96 "will be subject to normal procedures under 66 Pa. C.S. Sections 1101 and 1103 and the traditional public interest standard, which is consistent with the standards contained in Section 254 of the 1996 Act."<sup>3</sup> Accordingly, France Telecom's Application, which seeks to expand its service within CTCo's service territory, must be denied if it fails to meet these traditional standards.

7. Pursuant to 66 Pa. C.S. Section 332(a), France Telecom bears the burden of proof as to all issues relating to its Application. Therefore, France Telecom must prove necessary elements required by the Commission by substantial evidence or its Application must be denied. CTCo believes, and therefore asserts, that France Telecom is or may not be fit to provide the services requested, that the existing service is not inadequate, that there is not a public need for the proposed service, and that it is not in the public interest to approve the Application.

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<sup>2</sup> *Re: Implementation of the Telecommunication Act of 1996*, Docket No. M-00960799; Orders entered June 3, 1996 and September 9, 1996 ("Order on Reconsideration").

<sup>3</sup> Order on Reconsideration at 6.

**A. Procedural Defects**

8. France Telecom's Application is procedurally defective in that it fails to comply with the Consolidated Procedures.

- (a) France Telecom has not filed with its Application a *bona fide* request for interconnection under Section 251(f)(1)(a) with CTCo.
- (b) France Telecom has failed to make a request for a Universal Service designation pursuant to Section 214(e)(2) committing to provide service throughout the desired service territory.
- (c) France Telecom has failed to address both the technical feasibility of the suggested interconnection and the economic impact interconnection will have upon CTCo. Accordingly, France Telecom's Application is contrary to the Commission's June 3 Order, and its Order on Reconsideration, and the Consolidated Procedures adopted therein. France Telecom's Application should, therefore, be denied.

**IV. BASIS OF PROTEST**

9. Pursuant to 66 Pa. C.S. Section 332(a), France Telecom bears the burden of proof as to all issues relating to its Application. France Telecom must therefore prove all necessary elements required by the Commission by substantial evidence or its Application must be denied.<sup>4</sup>

10. The Commission imposes a three part test in its review of Applications. The test consists of the following three requirements:

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<sup>4</sup> *Re: Mobil Phone of Northeastern Pennsylvania*, 54 Pa. PUC 521 (1980).

- (a) The applicant must prove that it has the necessary fitness to provide the proposed service;
- (b) The applicant must prove inadequacy of the existing service; and
- (c) The applicant must prove that there is a public need for the proposed service.

11. France Telecom has the additional burden of proving that the interconnection under Section 251(b) and (c) is not unduly burdensome, is technically feasible and is consistent with the concerns expressed in TCA-96 relative to Universal Service. France Telecom's Application fails to address these issues and, accordingly, is deficient on this basis.

**1. Fitness to Provide Service**

12. France Telecom, as the applicant, must prove that it has the necessary fitness to provide the proposed service to the public. The Commission has adopted a three-part definition of fitness as follows:

- (a) Technical fitness: The applicant must have the ability to actually provide the necessary service;
- (b) Financial fitness: An applicant must have the financial ability to make the necessary investment in equipment and facilities and should have sufficient financial capacity to ensure that adequate service will be rendered to the public; and
- (c) Legal fitness.

**a. Technical Fitness**

13. France Telecom has failed to set forth sufficient information, including staffing, operational, or existing facilities, necessary to make an informed decision as to its technical fitness. Additionally, France Telecom has failed to demonstrate or identify the technical

qualifications of any of the directors/employees identified in the application to provide the proposed service. Accordingly, CTCo avers that France Telecom does not possess the technical fitness to provide the service in the territory for which it seeks authority.

**b. Legal Fitness**

14. France Telecom has not provided any information or indication in its Application that it possesses the requisite legal fitness necessary for approval of its Application. Accordingly, France Telecom's Application should be denied.

**c. Financial Fitness**

15. France Telecom has not provided a tentative operating balance sheet or a projected income statement as required by the Commission's application procedures. Accordingly, neither the Commission nor CTCo is able to make a thorough assessment of France Telecom's financial fitness to provide the proposed service. Therefore, France Telecom's application should be denied.

**V. CONCLUSION**

16. France Telecom's Application suffers from numerous technical and procedural defects.<sup>5</sup> Additionally, France Telecom has failed to meet its burdens with regard to its Application to provide service in CTCo's territory. France Telecom has failed to support its Application by providing information relating to its financial, technical and legal fitness. Accordingly, for all the reasons set forth above, France Telecom's Application should be denied.

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<sup>5</sup> There may be additional defects beyond those specified herein and CTCo reserves the right to amend its Protest based upon further review of the Application.

WHEREFORE, Commonwealth Telephone Company respectfully requests that the above-referenced Application be denied.

Respectfully submitted,



---

Steven K. Haas  
Malatesta Hawke & McKeon LLP  
Harrisburg Energy Center  
100 North Tenth Street  
P.O. Box 1778  
Harrisburg, PA 17105  
(717) 236-1300

Counsel for  
Commonwealth Telephone Company

DATED: February 13, 2003

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P.A.P.U.C.  
SECRETARY'S BUREAU

**CERTIFICATE OF SERVICE**

I hereby certify that I am this day serving a copy of the foregoing document upon the person named and in the manner indicated below.

**Service by First Class Mail:**

William K. Coulter  
Elizabeth Holowincki  
Coudert Brothers LLP  
1627 I Street, NW  
Washington, DC 2006-4007

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\_\_\_\_\_  
Steven K. Haas

DATED: February 13, 2003

BTL

**Malatesta**  
 **Hawke &**  
  **McKeon LLP**

ATTORNEYS AT LAW

Joseph J. Malatesta, Jr.  
William T. Hawke  
Kevin J. McKeon  
Louise A. Knight  
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Rikardo J. Hull

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100 North Tenth Street, Harrisburg, PA 17101 Phone: 717.236.1300 Fax: 717.236.4841 www.mhm-law.com

March 10, 2003

James J. McNulty, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
P.O. Box 3265  
Harrisburg, PA 17120

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MAR 31 2003

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RE: Application of France Telecom Corporate Solutions L.L.C. for Authority to Provide Telecommunications Services as a Reseller of Toll Services and a Competitive Local Exchange Carrier in Pennsylvania; Docket No: A-311242;  
**NOTICE OF WITHDRAWAL OF PROTEST OF COMMONWEALTH TELEPHONE COMPANY**

Dear Secretary McNulty:

On or about January 28, 2003, France Telecom Corporate Solutions L.L.C. ("France Telecom") filed an Application with the Pennsylvania Public Utility Commission ("Commission") by which it requests authority to provide telecommunications services, including local exchange service, to the public in the Commonwealth of Pennsylvania. Commonwealth Telephone Company ("CTCo") filed a Protest to this original Application on February 13, 2003. On March 10, 2003, France Telecom filed an Amendment to its Application that modified the territory sought in the original Application. By its Amendment, France Telecom limited the territory sought for the provision of competitive local exchange service to the territories of Verizon Pennsylvania Inc., Verizon North Inc. and the United Telephone Company of Pennsylvania.

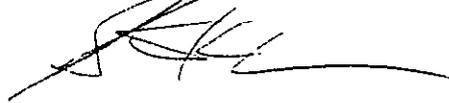
CTCo reviewed the Amendment filed by France Telecom. Please be advised that CTCo supports the Amendment to France Telecom's original Application and, if the Commission approves the Application as amended, then CTCo's Protest in this proceeding may be considered withdrawn.

MAILING ADDRESS: P.O. BOX 1778 HARRISBURG, PA 17105

James J. McNulty, Secretary  
March 10, 2003  
Page 2

Thank you for your attention to this matter. Please do not hesitate to contact me with any questions you may have.

Sincerely,

A handwritten signature in black ink, appearing to read 'S. Haas', with a long horizontal flourish extending to the right.

Steven K. Haas  
Counsel for  
Commonwealth Telephone Company

SKH

cc: Elizabeth Holowinski, Esquire  
Grace House, PUC Telecommunications Division

**ORIGINAL**  
**COUDERT BROTHERS LLP**  
ATTORNEYS AT LAW

BTL

1627 I STREET, N.W.  
WASHINGTON, D.C. 20006-4007  
TEL: (202) 775-5100  
FAX: (202) 775-1168  
WWW.COUDERT.COM

**NORTH AMERICA**  
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MAR 31 2003

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March 10, 2003

MAR 10 2003

James J. McNulty  
Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
2nd Floor, Room N201  
Harrisburg, PA 17120

**DOCUMENT**

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

Re: France Telecom Corporate Solutions L.L.C.; Application for Authority to Provide Telecommunications Services as a Reseller of Toll Services and Competitive Local Exchange Carrier Services, Docket No. A-311242

Dear Mr. McNulty:

This Letter is a supplement to the Application of France Telecom Corporate Solutions L.L.C. ("FTCS") for Authority to Provide Telecommunications Services as a Reseller of Toll Services and Competitive Local Exchange Carrier Services in the above-referenced docket.

FTCS hereby amends its Application to reflect that it is only seeking Commission approval to provide resold competitive local exchange service in the service territories of Verizon Pennsylvania Inc., Verizon North, Inc. and Sprint/United Telephone of Pennsylvania. Please note, however, that FTCS continues to request statewide authority to operate as a reseller of toll services.

An original plus three copies of this letter is enclosed for filing. Please file-stamp and return the extra copy of this filing in the pre-addressed, stamped envelope provided for this purpose. Kindly direct any questions to the undersigned.

Regards,



William K. Coulter  
Elizabeth Holowinski  
Counsel for France Telecom  
Corporate Solutions L.L.C.

Enclosures  
cc: Grace House, PUC Telecommunications Division

142

**ORIGINAL**

**COUDERT BROTHERS LLP**  
ATTORNEYS AT LAW

**NORTH-AMERICA**  
LOS ANGELES, NEW YORK, PALO ALTO,  
SAN FRANCISCO, WASHINGTON

1627 I STREET, N.W.  
WASHINGTON, D.C. 20006-4007  
TEL: (202) 775-5100  
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WWW.COUDERT.COM

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**BY FEDERAL EXPRESS**

October 18, 2004

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OCT 18 2004

James J. McNulty  
Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
2nd Floor, Room N201  
Harrisburg, PA 17120

**PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU**

Re: France Telecom Corporate Solutions L.L.C.; Application for Authority to Provide Telecommunications Services as a Reseller of Toll Services and Competitive Local Exchange Carrier Services, Docket No. A-311242

Dear Mr. McNulty:

This Letter is a supplement to the Application of France Telecom Corporate Solutions L.L.C. ("FTCS") for Authority to Provide Telecommunications Services as a Reseller of Toll Services and Competitive Local Exchange Carrier Services in the above-referenced docket.

The following information is being provided pursuant to staff request:

- (1) Updated financial statements for France Telecom S.A., Applicant's parent company, are attached hereto as Exhibit A.
- (2) Guarantee of Funding from Parent Company is attached hereto as Exhibit B. Please note that Applicant is 100% owned by France Telecom S.A., one of the largest telecommunications companies in the world. France Telecom S.A. has pledged to provide funding to Applicant for its operations in the United States of up to \$2 million dollars.
- (3) Applicant's Tentative Balance Sheet and Projected Income Statement for Pennsylvania operations are attached hereto as Exhibit C.

An original plus three copies of this letter is enclosed for filing. Please file-stamp and return the extra copy of this filing in the pre-addressed, stamped envelope provided for this purpose. Kindly direct any questions to the undersigned.

Regards,



William K. Coulter  
Counsel for France Telecom  
Corporate Solutions L.L.C.

Enclosures

cc: Dan Searforce, PUC Telecommunications Division

DOCUMENT

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OCT 18 2004

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

EXHIBIT A

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**France Telecom Corporate Solutions L.L.C.  
Demonstration of Financial Capability**

As a newly-formed company, Applicant does not have any audited financial statements. Applicant is majority owned and controlled by France Télécom S.A. ("France Telecom"), one of the largest communications companies in the world. Applicant's financial information will be fully consolidated in the financial statements of its parent company.<sup>1</sup> Excerpts of France Telecom's financial filings with the Securities and Exchange Commission are attached, including a Management Report (for the six months ended June 30, 2003 and 2004), and consolidated audited financial statements for the last three years.

France Telecom is a leading integrated communications company which is publicly-traded on both the Paris Stock Exchange and the New York Stock Exchange.

The attached financial documents demonstrate that France Telecom Corporate Solutions L.L.C. clearly possesses the requisite financial capability to provide intrastate telecommunications services in this State.

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OCT 18 2004

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

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<sup>1</sup> See Consolidated Financial Statements – France Telecom, 2002, 2001 and 2000 at p. F-9 ("companies which are wholly owned or which France Telecom controls, either directly or indirectly, are fully consolidated").

**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 20-F**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file no. 1-14712

**FRANCE TELECOM**

(Exact name of Registrant as specified in its charter)

Not applicable  
(Translation of Registrant's  
name into English)

6, place d'Alleray  
75505 Paris Cedex 15  
France  
(Address of principal executive offices)

French Republic  
(Jurisdiction of incorporation  
or organization)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of each class:</u>	<u>Name of each exchange on which registered:</u>
American Depositary Shares, each representing one Ordinary Share, nominal value €4.00 per share	New York Stock Exchange
Ordinary Shares, nominal value €4.00 per share*	New York Stock Exchange
American Depositary Contingent Value Rights	New York Stock Exchange
Contingent Value Rights*	New York Stock Exchange

\* Listed, not for trading or quotation purposes, but only in connection with the registration of the American Depositary Shares and American Depositary Contingent Value Rights pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares, nominal value €4.00 per share: 2,402,316,828 at December 31, 2003

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17  Item 18

# PART I

## Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

## Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

## Item 3. KEY INFORMATION

### 3.1 SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial and other operating data of France Telecom. The selected financial data set forth below should be read in conjunction with the Consolidated Financial Statements and "Item 5. Operating and Financial Review and Prospects" appearing elsewhere in this annual report on Form 20-F. The selected financial data presented below has been prepared on a basis constant with the basis of preparation used in the Consolidated Financial Statements as described in Note 2. Prior years have been reclassified as necessary for a consistent presentation. France Telecom's Consolidated Financial Statements are prepared in accordance with French GAAP, which differs in certain significant respects from U.S. GAAP. See Note 33 of the Notes to the Consolidated Financial Statements for a discussion of the principal differences between French GAAP and U.S. GAAP as they relate to France Telecom and a reconciliation of its net income and shareholders' equity to U.S. GAAP.

The selected consolidated financial data as of and for each of the five years ended December 31, 1999, 2000, 2001, 2002 and 2003 are extracted or derived from the Consolidated Financial Statements, which have been audited by Ernst & Young Audit and RSM Salustro Reydel, independent auditors, for the years ended December 31, 1999, 2000, 2001 and 2002, and which have been audited by Ernst & Young Audit and Deloitte Touche Tohmatsu, independent auditors, for the year ended December 31, 2003. The Consolidated Financial Statements as of and for the year ended December 31, 1999 have been translated into euro using the fixed exchange rate for French francs and euro on January 1, 1999.

	Year ended December 31,					
	2003	2003	2002	2001	2000	1999
	\$ <sup>(1)</sup>		€ millions, except per share data			
<b>CONSOLIDATED STATEMENT OF INCOME DATA</b>						
<i>Amounts in accordance with French GAAP:</i>						
Sales of services and products	58,101	46,121	46,630	43,026	33,674	27,233
Operating income <sup>(2)</sup>	12,035	9,554	6,808	5,200	4,856	4,490
Interest expense, net <sup>(3)</sup>	(4,995)	(3,965)	(4,041)	(3,847)	(2,006)	(662)
Other non-operating income/(expense), net	(1,410)	(1,119)	(12,849)	(5,904)	3,957	767
Net income (loss) from integrated companies	8,453	6,710	(12,809)	(2,316)	4,975	2,965
Goodwill amortization	(2,113)	(1,677)	(2,352)	(2,531)	(1,092)	(136)
Exceptional goodwill amortization	(1,432)	(1,137)	(5,378)	(3,257)	-	-
Net income (loss)	4,039	3,206	(20,736)	(8,280)	3,660	2,768
Basic number of shares (rounded)	2,463	1,955	1,085	1,103	1,065	1,025
Diluted number of shares (rounded)	2,754	2,186	1,159	1,177	1,091	1,050
<i>Earnings per share/ADS:</i>						
Net income (loss) per share (basic)	2.07	1.64	(16.75)	(6.58)	3.01	2.37
Net income (loss) per share (diluted)	2.02	1.60	(16.75)	(6.58)	2.97	2.34
Dividend per share <sup>(5)</sup>	-	-	-	1.00	1.00	1.00
<i>Approximate amounts in accordance with U.S. GAAP:<sup>(6)</sup></i>						
Net income (loss)	6,699	5,318	(33,556)	(19,278)	5,131	2,905
Earnings (loss) per share/ADS (basic) <sup>(4)</sup>	3.43	2.72	(26.70)	(14.86)	4.10	2.41
Earnings (loss) per share/ADS (diluted) <sup>(4)</sup>	3.24	2.57	(26.70)	(14.86)	4.04	2.36

Year ended December 31,

	2003	2003	2002	2001	2000	1999
	\$ <sup>(1)</sup>		€ millions, except per share data			
<b>CONSOLIDATED BALANCE SHEET DATA</b>						
<i>Amounts in accordance with French GAAP:</i>						
Intangible assets	53,404	42,392	46,086	53,152	52,338	2,131
Property, plant and equipment, net	38,593	30,635	36,268	31,728	34,623	28,964
Total assets	125,766	99,833	106,587	127,358	129,585	54,055
Short-term borrowings	1,978	1,570	10,490	11,365	25,165	2,479
Long-term debt, including current portion	60,243	47,821	60,393	56,139	38,089	14,784
Borrowings net of available cash and marketable securities	55,640	44,167	68,019	63,423	60,998	14,628
Shareholders' equity (deficit)	15,150	12,026	(9,951)	21,087	33,157	18,903
Capital stock <sup>(7)</sup>	31,421	24,942	29,511	28,843	28,843	10,727
<i>Approximate amounts in accordance with U.S. GAAP:<sup>(6)</sup></i>						
Shareholders' equity (deficit)	(588)	(467)	(26,751)	11,411	26,311	21,678
<b>CONSOLIDATED STATEMENT OF CASH FLOWS DATA</b>						
<i>Amounts in accordance with French GAAP:</i>						
Net cash provided by operating activities	14,263	11,322	11,839	7,076	6,613	8,109
Purchase of property, plant, equipment and intangible assets	(6,427)	(5,102)	(7,943)	(8,553)	(14,313)	(5,001)
Proceeds from sale of assets <sup>(8)</sup>	752	597	2,916	296	274	150
Cash paid for investment securities, acquired businesses, net of cash and investments in affiliates <sup>(9)</sup>	(299)	(237)	(2,228)	(4,355)	(40,561)	(2,804)
Holdings of own shares	-	-	(5,022)	(8,807)	-	-
Issuance (repayment) of short-term borrowings and long-term debt, net	(24,919)	(19,781)	(63)	5,514	39,301	(209)

(1) In millions. The Consolidated Financial Statements are stated in euro except for 1999, which were originally stated in French francs. The U.S. dollar amounts presented in the table above have been translated solely for the convenience of the reader using the Noon Buying Rate on December 31, 2003 of €0.7938 to \$1.00.

(2) Operating income for the years ended December 31, 1999, 2000, 2001, 2002 and 2003 includes items (€238 million, €225 million, €210 million, €199 million and €211, respectively) relating to the amortization of part of the additional provision for early retirement payments resulting from the change in 1998 and 1999 in actuarial assumptions used in calculating such provision. See Note 22 of the Notes to the Consolidated Financial Statements.

(3) Including interest expense on TDIRA.

(4) Earnings per ADS have been recalculated for all periods presented to reflect the 2002 stock dividend as required under U.S. GAAP, and as discussed in Note 33 of the Notes to the Consolidated Financial Statements.

(5) In 1996, prior to France Telecom's change of status on December 31, 1996, a payment of €686 million, which was appropriated from net income, was made to the French State. No dividend was declared after the change of status. The annual general meeting of the shareholders for the year ended December 31, 2003 authorized a payment of €0.25 per share to shareholders this year.

(6) Amounts presented under this caption were calculated by applying the principles described in Note 33 of the Notes to the Consolidated Financial Statements.

(7) Capital stock represents the sum of share capital and additional paid-in capital.

(8) Includes, for 2002 and 2003, a gain from the sale of real estate of €2,550 million and €419 million.

(9) Includes, for 2000, a cash payment of €21,693 million in connection with the acquisition of Orange plc.

	Year ended December 31,		
	2003	2002	2001
<b>OPERATING DATA</b>			
Telephones lines (standard lines and ISDN channels) at period-end (millions) <sup>(1)</sup>	49.3	49.5	40.0
ADSL lines in France at period-end (millions)	3.1	1.4	0.4
Total controlled wireless subscribers at period-end (millions)	56.2	49.9	43.2
Number of employees at period-end	218,523	243,573	211,554

(1) For the purposes of this presentation, each ISDN channel is counted as the equivalent of one standard access line.

### 3.2 EXCHANGE RATE INFORMATION

Under the provisions of the Treaty on the European Union signed at Maastricht in early 1992, a European Monetary Union ("EMU") with a single European currency, the euro, was established. On May 3, 1998, European governments and central banks announced that the following 11 member states would participate in the last stage of EMU: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxemburg, The Netherlands, Portugal and Spain. These countries have since been joined by other member states. The last stage of the EMU, which fixed exchange rates between national currencies and the European Currency Unit, and the introduction of the euro for certain purposes, began on January 1, 1999, at which time the exchange rate between the French franc and the euro was established at FF 6.55957 to €1.00 (or €0.1524 to FF 1.00).

Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro-denominated prices of the shares and, as a result, will affect the market price of the ADSs in the United States. In addition, exchange rate fluctuations will affect the U.S. dollar equivalent of any cash dividends received by holders of ADSs.

The following table sets forth, for the periods and dates indicated, certain information concerning the Noon Buying Rate in New York City for cable transfers for foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York expressed in U.S. dollars per €1.00. Such rates are provided solely for the convenience of the reader and are not necessarily the rates used by France Telecom in the preparation of the Consolidated Financial Statements included elsewhere in this annual report on Form 20-F. No representation is made that the euro could have been, or could be, converted into U.S. dollars at the rates indicated below or at any other rate.

U.S. dollars per €1.00	Year/period end rate	Average rate <sup>(1)</sup>	High	Low
<b>Yearly amounts</b>				
1999	\$1.01	\$1.06	\$1.18	\$1.00
2000	\$0.94	\$0.92	\$1.03	\$0.83
2001	\$0.89	\$0.89	\$0.95	\$0.84
2002	\$1.05	\$0.95	\$1.05	\$0.86
2003	\$1.26	\$1.14	\$1.26	\$1.04
<b>Monthly amounts</b>				
October 2003	\$1.16	\$1.17	\$1.18	\$1.16
November 2003	\$1.20	\$1.17	\$1.20	\$1.14
December 2003	\$1.26	\$1.23	\$1.26	\$1.20
January 2004	\$1.25	\$1.26	\$1.29	\$1.24
February 2004	\$1.24	\$1.26	\$1.28	\$1.24
March 2004	\$1.23	\$1.23	\$1.24	\$1.21
April 2004 (through April 14)	\$1.19	\$1.21	\$1.24	\$1.19

(1) The average of the Noon Buying Rates on the last business day of each month during the relevant period.

For information regarding the effects of currency fluctuations on France Telecom's results, see "Item 5. Operating and Financial Review and Prospects – 5.1.1 Activity and Operating Profitability of the Group".

### 3.3 RISK FACTORS

In addition to the other information contained in this annual report on Form 20-F, prospective investors should carefully consider the risks described below before making any investment decisions. These risks, or one of these risks, could have a negative effect on the business, the financial situation, or the results of operations of France Telecom. Moreover, additional

risks not currently known to France Telecom, or that France Telecom currently deems immaterial, may also impair its business operations. France Telecom's business, financial condition or results of operations could be materially adversely affected by any of these risks and investors could lose all or part of their investment.

The risks described below concern:

- Risk factors relating to France Telecom's business (see "– 3.3.1 Risk Factors Relating to France Telecom's Business");
- Risk factors relating to the telecommunications and wireless industries (see "– 3.3.2 Risk Factors Relating to the Telecommunications and Wireless Industries");
- Risk factors relating to financial markets (see "– 3.3.3 Risk Factors Relating to Financial Markets"); and
- Risk factors relating to legal proceedings (see "– 3.3.4 Risk Factors Relating to Legal Proceedings").

Risks related to France Telecom, the telecommunications industry and financial markets are described below in each of the categories by order of decreasing importance, according to France Telecom's current assessment. The occurrence of new external or internal events may lead France Telecom to modify this order of importance in the future.

### 3.3.1 RISK FACTORS RELATING TO FRANCE TELECOM'S BUSINESS

France Telecom may not be able to reduce its debt. If it is unable to reduce its indebtedness, 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 €100 billion, of which 80% was paid in cash. This led to a major increase of its net consolidated financial debt, which went from €14.6 billion at the end of 1999 to €68.0 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 indebtedness through an increase in capital, undertaken on April 15, 2003 for close to €15 billion and through its operational performance improvement program called "TOP". These two elements, for the most part, allowed France Telecom to reduce its net consolidated financial debt to €44.2 billion at December 31, 2003.

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 base services, Internet services);
- the decrease in business volume of older sectors (a tendency that is already being experienced in fixed line telephony);
- obstacles to the efforts to achieve savings in terms of operating expenses before amortization and depreciation and in terms of investments in tangible and intangible assets;
- the necessity, due to competition or technological advancement or changes in regulations, to incur operational or investment expenses that are greater than those planned.

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.

Furthermore, France Telecom's financing agreements contain a certain number of financial covenants (see Note 20 and Note 20.4 of the Notes to the Consolidated Financial Statements). If France Telecom fails to meet its obligations arising from its financing agreements or other payment obligations, its creditors may require early repayment. Many of France Telecom's financing agreements and its outstanding securities include cross-default and cross-acceleration provisions pursuant to which a payment default or acceleration, or a failure to respect a financial covenant, may result in the acceleration of all or a significant part of France Telecom's debt and an inability to draw upon its credit lines. France Telecom's high level of debt, its obligations to maintain certain financial ratios and its other obligations may limit its ability to borrow additional funds and invest in the development of its business.

The "TOP" Program may not achieve the expected results, which could have a material adverse impact on France Telecom's financial condition and results of operations.

The "TOP" operational performance improvement program strives to achieve optimal levels of performance for each of its activities and generate more than €15 billion in net cash flow over the period from 2003 to 2005.

The results of the "TOP" Program in 2003 are discussed in "Item 5. Operating and Financial Review and Prospects - 5.1.2.2 Results of the 'TOP' Operational Improvements Program".

In particular, the "TOP" Program allowed France Telecom to generate approximately €6.4 billion in free cash flow excluding asset disposals (for a calculation of free cash flow excluding asset disposals and a description of the manner in which France Telecom uses it, see "Item 5. Operating and Financial Review and Prospects - 5.4.2 Liquidity" and "Item 5. Operating and Financial Review and Prospects - 5.9 Non-GAAP Financial Measures and Financial Glossary"). France Telecom's management uses free cash flow excluding asset disposals to analyze its ability to generate net cash available for debt repayment in the context of the "TOP" Program. Operating expenses before depreciation and amortization decreased, on a comparable basis, from €30.3 billion in 2002 to €28.8 billion in 2003, representing a decrease of close to €1.5 billion. Investments in tangible and intangible assets (excluding acquisitions of licenses) decreased, on a comparable basis, from €6.95 billion in 2002 to €5.1 billion in 2003, representing a decrease of close to €1.9 billion.

In the future, the goals of this program may not be achieved or may be delayed, which would have a material impact on the financial condition and results of operations of France Telecom. France Telecom may encounter difficulties in the implementation of the program. For example, reorganization costs may be greater than expected (from €800 million to €1 billion), especially in cases of withdrawals from certain markets (for example, the withdrawal of Orange from the Swedish market).

Furthermore, the implementation of the "TOP" Program could lead to unexpected results. For example, investments in tangible and intangible assets, and more generally, the investments made in growth sectors, may 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.

**France Telecom may not be able to successfully integrate the companies that it has acquired or to achieve planned synergies.**

During 2003, France Telecom continued to pursue its integration of Equant and TP Group. 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 employee relations with acquired entities as a result of changes in management and ownership.

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

**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 governing documents or agreements for certain of these entities, certain key matters such as the approval of business plans and decisions as to the timing and amount of 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 a risk that decisions contrary to the interests of France Telecom will be made. For example, following the difficulties encountered with MobilCom, France Telecom was obliged to depreciate the total amount of its investment in MobilCom in 2002.

The consolidated subsidiaries that may be impacted by the risks described above are either proportionately consolidated (as in the case of control exercised with one or more other shareholder(s)) or consolidated according to the equity method (see Note 32 of the Notes to the Consolidated Financial Statements).

Companies that are consolidated proportionately mainly include ECMS (Mobinil), a subsidiary of Orange in Egypt, which is consolidated at 71.25%, as well as operators in Mauritius (Mauritius Telecom) and Jordan (JTC), in which France Telecom has a 40% controlling interest in each.

Companies that are consolidated by the equity method (see Note 11 of the Notes to the Consolidated Financial Statements) mainly include the operating subsidiaries of BITCO/TA Orange, a subsidiary of Orange in Thailand controlled at 49%, and

Radianz, a subsidiary of Equant controlled at 49%. At December 31, 2003, following an additional depreciation, the book value of the securities of BITCO was brought to zero. Moreover, France Telecom has a 36% interest in the share capital of Tower Participations following its withdrawal from TDF and a 20% interest in the share capital of Bluebird Participations France following its withdrawal from Eutelsat.

Finally, France Telecom has non-consolidated holdings (see Note 12 of the Notes to the Consolidated Financial Statements) that could be impacted by the risks mentioned above, in particular, Orange's interests in the share capital of ONE (17.5%, Austria) and Optimus (20%, Portugal). France Telecom fully depreciated at December 31, 2003 the value of its 27% interest in the share capital of Noos (Cable television, France).

In some cases, strategic or joint venture partners may choose not to continue their partnership. In addition, France Telecom's arrangements with its joint venture partners may expose France Telecom to requirements for additional financing, or additional capital expenditure or investment requirements or obligations to buy or sell holdings. See Note 28 of the Notes to the Consolidated Financial Statements.

These factors could impact France Telecom's ability to pursue its stated strategies with respect to those entities or have a material adverse effect on its results of operations or financial condition.

**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 of operations.**

At December 31, 2003, France Telecom had paid over €8 billion to acquire UMTS licenses in Europe (excluding minority interests, notably MobilCom). Under the terms of these licenses, France Telecom has agreed to make significant investments in its networks in order 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, it may incur significant costs, including revocation of the licenses, relating to its withdrawal from these markets.

For example, if Orange cannot fulfill 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 licenses, 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 significant negative impact on France Telecom's financial condition and results of operations.

In addition, 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 to promote demand for UMTS services or to subsidize 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 results of operations. The level of demand for UMTS products and services may be adversely affected by the failure of prior preliminary launches by France Telecom's competitors or 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 amortization 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 related to the development of UMTS or its other activities. Its financial condition and results of operations may be adversely affected.

For more information relating to the cost and value of UMTS licenses, see "Item 5. Operating and Financial Review and Prospects - 5.2.2.1 Orange Segment - Investments in Tangible and Intangible Assets".

**France Telecom recorded significant goodwill following the acquisitions it made between 1999 and 2002. Accelerated amortization of this goodwill may be required, which could have a material negative impact 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 December 31, 2003. Pursuant to French generally accepted accounting principles, goodwill is amortized over a period determined at the time the goodwill is recorded.

The value of goodwill is reassessed annually and, when events and circumstances indicate that a decrease in value may occur, France Telecom depreciates this goodwill, particularly in the case of events and circumstances that include 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 depreciated its investments in Equant and in certain subsidiaries of Orange and Wanadoo in 2002 and 2003. 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 amortization, which could have a material adverse effect on France Telecom's revenues.

For further information relating to the exceptional amortization of goodwill, see "Item 5. Operating and Financial Review and Prospects – 5.2.3.8 Goodwill Amortization".

**France Telecom's technical infrastructure is vulnerable to damage or interruptions caused by floods, storms, fires, power outages, war, intentional acts and other similar events. Technical network and information technology system failures may result in reduced user traffic, reduced revenue 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 in its service. In 2000, such damages amounted to approximately €150 million. In certain circumstances, France Telecom has no insurance for damages to its aerial lines and must itself finance these costs. 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. While the risk cannot be quantified, such events could result in customer dissatisfaction and reduced traffic and revenues for France Telecom.

**France Telecom will be obligated to 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 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 January 1, 2005.

The IFRS norms may have a material impact on important items in the accounts and balance sheet of France Telecom. For further information on the impact of IFRS norms, see "Item 5. Operating and Financial Review and Prospects – 5.7.2 Implementation of IFRS (International Financial Reporting Standards) within the France Telecom Group".

**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 made a significant number of investments in telecommunications operators in countries in Eastern Europe, the Middle East, the Caribbean, Latin America, 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 (as, for example, in the Ivory Coast) may evolve in an unpredictable manner. Political or economic upheaval or changes in laws may negatively affect the operations of companies in which France Telecom has invested, and may impair the value of these investments.

**The downgrading of France Telecom's debt ratings in 2001 and in 2002 by rating agencies increased the cost of its debt. Despite the ratings increases in December 2002, in 2003 and in 2004, 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. Standard & Poor's Ratings Services, or S&P's, lowered its rating on France Telecom's long-term debt from A- to BBB+, with a negative outlook, and downgraded France Telecom's short-term debt rating from A1 to A2. Moody's Investors Service, or Moody's, lowered its rating of France Telecom's long-term debt from A3 to Baa1, with a negative outlook, and downgraded its rating of France Telecom's short-term debt from P1 to P2. Fitch Ibcra downgraded its rating of France Telecom's long-term debt from A- to BBB+ with a negative outlook, and lowered the rating of its short-term debt from F1 to F2. After the publication of France Telecom's annual accounts in March 2002, S&P's and Moody's placed their respective BBB+ and Baa1 ratings of France Telecom's long-term debt, on review for downgrade; similarly, Fitch Ibcra placed its F2 rating of France Telecom's short-term debt on review for downgrade beginning March 2002. On May 13, 2002, Moody's also placed France Telecom's short-term debt under review.

On June 24, 2002, Moody's downgraded its rating of France Telecom's long-term debt from Baa1 to Baa3 and downgraded France Telecom's short-term debt rating from P2 to P3, with a negative outlook for the long-term debt. On June 25, 2002, S&P's downgraded France Telecom's long-term debt rating from BBB+ to BBB and downgraded France Telecom's short-term debt

rating from A2 to A3. S&P's also put France Telecom's long-term rating on review, with a negative outlook. On July 5, 2002, Fitch IBCA downgraded its rating of France Telecom's long-term debt to BBB-, with a stable outlook, and lowered its rating of France Telecom's short-term debt from F2 to F3. On July 12, 2002, S&P's again downgraded its rating of France Telecom's long-term debt from BBB to BBB-, with a stable outlook.

These ratings downgrades have limited France Telecom's access to financial markets while it faces significant debt repayments in 2003, 2004 and 2005. According to the rating agencies, the downgrading of France Telecom's ratings and their placement under review is due to doubts about France Telecom's ability to execute its debt reduction plan, due to both the deterioration of market conditions in the telecommunications sector and the difficulties encountered by France Telecom in carrying out its asset disposal program. The rating agencies have also expressed concern about the possible assumption by France Telecom of MobilCom's debt. In this regard, France Telecom recently completed, in 2003, the transactions contemplated by the MC Settlement Agreement with MobilCom (see Note 22.3 and Note 26 of the Notes to the Consolidated Financial Statements).

On December 5, 2002, after the announcement related to the launch of the "Ambition FT 2005" Plan (see "Item 4. Information on France Telecom - 4.2.1 'Ambition FT 2005' Plan") Fitch IBCA amended its outlook on France Telecom's long-term debt from stable to positive and S&P's confirmed its rating of France Telecom's long-term debt at BBB- with a stable outlook. On December 9, 2002, Moody's also confirmed France Telecom's long-term debt rating at Baa3 with a stable outlook. On May 14, 2003, S&P's increased its rating on France Telecom's long-term debt from BBB- to BBB with a positive outlook and its rating on short-term debt from A-3 to A-2. On August 7, 2003, Fitch IBCA increased its rating on France Telecom's long-term debt from BBB- with a positive outlook to BBB with a positive outlook. On September 23, 2003, Moody's increased its outlook on the long-term debt placed at Baa3 from stable to positive, then on December 5, 2003, placed it under positive review. On February 18, 2004, S&P's increased its rating on France Telecom's long-term debt to BBB+ with a positive outlook. On February 19, 2004, Fitch IBCA increased its rating on France Telecom's long-term debt to BBB+ with a positive outlook. On March 3, 2004, Moody's increased its rating on France Telecom long-term debt to Baa2 with a positive outlook and its short-term rating to P2, with a stable outlook.

France Telecom cannot guarantee that the rating agencies will not further downgrade its credit ratings, particularly if the TOP Program does not produce the expected results or if France Telecom is unable to reduce its indebtedness.

A significant portion of the debt (€17.1 billion outstanding at the end of 2003) includes step-up provisions, or provisions that will lead to the amendment of the coupons 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 coupon bonds 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 bonds). This can be explained by the impact of the deterioration in the ratings of France Telecom that occurred in 2002 on interest expense which was approximately €40 million in 2002, compared to €164 million in 2003.

Furthermore, France Telecom S.A.'s securitization programs require, where applicable, a rating above BB-.

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 undertaken measures 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 €90 million, based on its current level of indebtedness, and would also adversely affect its ability to access, and the conditions under which it accesses, the financial markets.

In addition, in the event of a ratings downgrade, certain derivatives contracts and certain contracts related to lease transactions with distinct third parties may be terminated or require the posting of collateral. France Telecom has already been required to post collateral for certain of these contracts.

### **3.3.2 RISK FACTORS RELATING TO THE TELECOMMUNICATIONS AND WIRELESS INDUSTRIES**

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 impact on its revenues and results of operations.

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 its business to meet the developments of the telecommunications industry, it may be unable to compete effectively and its business activities, financial condition and results

of operations 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 obligated to undertake substantial expenditures to maintain its customers.

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 the fixed line telephony business in France, which has been open to competition since January 1, 1998, France Telecom faces competition that has created a dramatic reduction in rates, as well as a reduction in its market share from 1998 through 2001. In addition, competition in the markets for regional and local calls is intensifying. The recent regulatory changes, such as the unbundling of its local loop, the preselection of operators, number portability and main distribution frame access, have increased the ease with which its customers can use the services of other telecommunications carriers instead of France Telecom's services. In the local call sector principally, with the introduction of carrier preselection at the beginning of 2002, France Telecom lost approximately 25% of its market share at December 31, 2002. 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, a process known as "fixed-wireless substitution". The level of competition is significantly influenced by decisions of the ART, which could make decisions that would lead to further declines in rates in the fixed line telephony business. For further information regarding competition and regulatory decisions that could affect the level of competition, see "Item 4. Information on France Telecom - 4.5.3 Fixed Line, Distribution, Networks, Large Customers and Operators" and "Item 4. Information on France Telecom - 4.12.2 French Regulations".

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 negatively 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, intellectual property and data specialists and new entrants in this market, including operators from competing networks and suppliers of Internet services or other 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.

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. In certain countries, 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.

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 which exert a pressure that may be influenced by regulation, particularly in France. There are few substantial barriers to entry in the Internet industry and connection costs for users and customers are low. As a result, France Telecom's most significant competitors in this segment may be new entrants such as the French postal service that would not be burdened by the costs of modernizing older equipment. It may be very expensive for France Telecom to upgrade its networks, products and technology in order to continue to compete effectively with other competitors. Wanadoo faces competition in the printed directories market from editors that offer regional directories in France. Online directories remain highly competitive with many market participants.

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

- price 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 revenues and an adequate gross margin of internal financing.

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, France Telecom's revenues, at a constant exchange rate, have grown in large part because of 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 slow, which in turn could affect its financial condition and results of operations, in particular if the revenues of the "Fixed Line, Distribution, Networks, Large Customers and Operators" segment were to decrease.

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 spectrum 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. France Telecom is also required 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 fulfills the requirements imposed by the applicable regulations, but it cannot predict the opinion of regulatory or judicial authorities, who could be asked to review or 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 and governmental changes and, in particular, by decisions made by regulatory authorities and competition authorities in relation to:

- granting, modifying and renewing licenses (see "Item 5. Operating and Financial Review and Prospects – 5.2.2.1 Orange Segment – Investments in Tangible and Intangible Assets" for further information on the renewal of the GSM license in France);
- rates or the possibility of extending activities to new markets;
- network accessibility to virtual network operators and other service providers; or
- access to third party networks.

Such decisions could significantly impact results of operations.

The following can be cited as examples of risks related to regulatory changes or decisions: the conditions for the renewal of Orange France's GSM license and Wanadoo's obligation to submit to the European Commission accounting information related to its broadband offers.

Regarding the first point, the GSM license granted to Orange France for a period of 15 years, from March 25, 1991, expires in March 2006. In compliance with the terms of the license, the conditions for renewing the license, like those for SFR, were defined in March 2004. The new conditions approved by the French government provide for a 1% fee per year on the revenues of wireless operators, in addition to a fee of €25 million per year. The wireless operators have agreed to continue to reduce the price of SMS text messages and will work in close cooperation with the French State, local authorities and the regulatory authority to complete the rural area coverage program and ensure 100% wireless telephony coverage for all French towns and villages. In other countries where it operates, France Telecom cannot foresee the new conditions that will be applicable within the framework of GSM licenses following their renewal, and in particular, cannot dismiss the possibility that the cost to the operator may be significantly higher than the current cost of the license fees.

Regarding the second point, within the framework of a July 2003 decision by the European Commission (see Note 29 of the Notes to the Consolidated Financial Statements) imposing a fine of €10.4 million on Wanadoo France for having abused its dominant position in the retail market for broadband Internet access by practicing predatory pricing between 2001 and October 2002 (Wanadoo filed an appeal against this decision), the European Commission has required that Wanadoo France furnish it with its operational accounts related to its broadband offers until 2006, in order to enable the Commission to verify that Wanadoo France is not engaging in predatory pricing.

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.

**Alleged health risks of 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 results of operations of France Telecom.**

In France, by decree dated May 3, 2002, the Health Ministry required wireless operators to provide their customers with recommendations on the use of mobile telephones and information on the remaining uncertainties relating to potential health risks. In addition, Orange signed charters of good conduct relating to the installation of transmitter sites with other operators and certain municipalities in France. On January 21, 2003, the ART published a scientific study regarding the health risks associated with wireless telephone transmitter sites and mobile telephones. The results of this study, ordered by the French National Institute for Industrial Environment and Risks (the *Institut national pour l'environnement industriel et des risques*, or "Ineris"), confirmed the conclusions of an independent report published in 2001, which found that "no study has been able to conclude that exposure to radio-frequency fields emitted by mobile telephones or their base stations have had a harmful influence on health". In total, at least four scientific studies with the same conclusions, including the one mentioned above, were published in 2003.

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 joint financing of a program with the government of the United Kingdom. The published scientific studies concluded that no long-term health risks exist.

While to date France Telecom is not aware of any substantiation of health risks associated with wireless communication devices, actual or perceived health risks may adversely affect 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 liability. In the event that future evidence is considered to show that health risks 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 results of operations.

### **3.3.3 RISK FACTORS RELATING TO FINANCIAL MARKETS**

**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 2002 and 2003, 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 affected. Derivative instruments are described in Note 20 of the Notes to the Consolidated Financial Statements.

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 statements and cash flow charts 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 results of operations. For example, in 2003, the impact of fluctuations in the exchange rate on France Telecom's revenues was approximately €2 billion.

**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, including changes in interest rates. Where appropriate, France Telecom enters into derivative instruments to hedge underlying exposures to changes in interest rates. The derivative instruments used by France Telecom are described in Note 20 of the Notes to the Consolidated Financial Statements. France Telecom's exposure to market risks is described in "Item 11. Quantitative and Qualitative Disclosures about Market Risk - 11.1 Exposure to Market Risks and Financial Instruments".

**Risk factors relating to the volatility of France Telecom's shares.**

France Telecom S.A.'s share prices may fluctuate due to a number of factors, including:

- a change in France Telecom's credit rating, or level of indebtedness or sales of assets;
- changes in recommendations made by financial analysts with respect to France Telecom;
- changes in analysts' forecasts regarding the markets in which France Telecom operates;
- an announcement by France Telecom or one of its competitors regarding strategic partnerships, results of operations, changes in its capital structure or other important changes in activity;
- the recruitment or departure of key employees; and
- general stock market fluctuations.

Following the exchange offer for Orange shares completed in 2003, France Telecom held none of its own shares at December 31, 2003.

In addition, the share prices of France Telecom's listed subsidiaries, Wanadoo, Equant and TP S.A., may fluctuate. This could impact the financial condition of France Telecom or its share price.

**Future sales by the French State of its shares in France Telecom may impact France Telecom's share price.**

At December 31, 2003, the French State held, directly or indirectly, through the intermediary, ERAP, approximately 54.5% of the share capital of France Telecom. Until January 2004, the French State had the legal obligation to hold more than 50% of the share capital of France Telecom. However, French law no. 2003-1365 of December 31, 2003, relating to the public telecommunications service and to France Telecom, allows the French State to transfer its holding to private investors. If the French State decides to reduce its holding in the share capital of France Telecom, such a sale or even the perception of potential sales could impact France Telecom's share price.

**The price of France Telecom's ADSs and the U.S. dollar value of any dividends will be affected by fluctuations in the U.S. dollar/euro exchange rate.**

The ADSs are quoted in U.S. dollars. Fluctuations in the exchange rate between the euro and the U.S. dollar are likely to affect the market price of the ADSs. For example, because France Telecom's financial statements are reported in euro, a decline in the value of the euro against the U.S. dollar would reduce France Telecom's earnings as reported in U.S. dollars. This could adversely affect the price at which the ADSs trade on the U.S. securities markets. Any dividend that France Telecom might pay in the future would be denominated in euro. A decline in the value of the euro against the U.S. dollar would reduce the U.S. dollar equivalent of any such dividend.

**Holders of ADSs may face disadvantages compared to holders of France Telecom's shares when attempting to exercise voting rights. Holders of shares wishing to exercise their voting rights must block their shares for at least five days prior to the shareholders' meeting pursuant to French law.**

In order to vote at shareholders' meetings, ADS holders who are not registered on the books of the depositary are required to transfer their ADSs for a certain number of days before a shareholders' meeting into a blocked account established for that purpose by the depositary. Any ADS transferred to this blocked account will not be available for transfer during that time. ADS holders who are registered on the books of the depositary must give instructions to the depositary not to transfer their ADSs during this period before the shareholders' meeting. ADS holders must therefore receive voting materials from the depositary sufficiently in advance in order to make these transfers or give these instructions. There can be no guarantee that ADS holders will receive voting materials in time to instruct the depositary to vote. Also, the depositary is not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. It is possible that ADS holders, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote at all.

In order to participate in any general meeting, a holder of shares held in registered form must have its shares registered in its name in a shareholder account maintained by France Telecom or on France Telecom's behalf by an agent appointed by France Telecom by 3:00 p.m. (Paris time) the day before the meeting. A holder of bearer shares must obtain a certificate (*certificat d'immobilisation*) from the accredited intermediary with whom the holder has deposited its shares, and the certificate must state that the shares are not transferable until the time fixed for the meeting. The holder must deposit this certificate at the place specified in the notice of the meeting by 3:00 p.m. (Paris time) the day before the meeting.

**Preemptive rights may be unavailable to holders of France Telecom's ADSs.**

Holders of France Telecom's ADSs or U.S. resident shareholders may be unable to exercise preemptive rights granted to France Telecom's shareholders, in which case holders of France Telecom's ADSs could be substantially diluted. Under French law, whenever France Telecom issues new shares for payment in cash or in kind, France Telecom is usually required to grant

preemptive rights to its shareholders. However, holders of France Telecom's ADSs or U.S. resident shareholders may not be able to exercise these preemptive rights to acquire shares unless both the rights and the shares are registered under the Securities Act of 1933 or an exemption from registration is available.

If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or reasonably practicable, it will allow the rights to lapse, in which case no value will be given for these rights.

### **3.3.4 RISK FACTORS RELATING TO LEGAL PROCEEDINGS**

France Telecom is involved in several investigations or legal proceedings that are more fully described in Note 29 of the Notes to the Consolidated Financial Statements. France Telecom's position as the leading operator and provider of networks and telecommunications services in France and one of the leading telecommunications operators in the world subjects it to the scrutiny of its competitors and French and European competition authorities. In addition, France Telecom is regularly involved in legal disputes with competitors as a result of its leading positions in the fixed and wireless telecommunications markets in which it operates. With the exception of the proceedings set forth in Note 29 of the Notes to the Consolidated Financial Statements, France Telecom believes that none of these proceedings, taken by itself, would have a material adverse effect on the financial condition or results of operations of the Group.

### 5.1.2.2 RESULTS OF THE TOP OPERATIONAL IMPROVEMENTS PROGRAM

The following table shows the reductions achieved in operating expenses before depreciation and amortization and before amortization of actuarial adjustments in the early retirement plan ("operating expenses before depreciation and amortization" or "OPEX"; see "– 5.9 Non-GAAP Financial Measures and Financial Glossary – Financial Glossary") and investments in tangible and intangible assets (excluding UMTS/GSM licenses) ("CAPEX") between 2002 and 2003, in the context of the implementation of the TOP Program.

(€ millions)	Year ended December 31,			Variations	
	2003	2002	2002	2003/2002	2003/2002
		on a comparable basis <sup>(1)</sup> (unaudited)	historical	on a comparable basis (unaudited)	historical
OPEX <sup>(2)</sup>	(28,818)	(30,305)	(31,713)	1,487	2,895
CAPEX	5,086	6,950	7,441	(1,864)	(2,355)
Operating income before depreciation and amortization less CAPEX	12,217	7,355	7,475	4,863	4,742
Changes in working capital (trade) <sup>(3)</sup>	(1,278)		(992)		

(1) The calculation, using figures on a historical basis, of figures on a comparable basis is set forth above and below.

(2) OPEX is equal to the sum of costs of goods and services sold, selling, general and administrative expenses and research and development expenses, as presented by destination on the income statement. These expenses are also followed on the basis of type of expense, as detailed below.

(3) Changes in working capital (trade) is discussed below. See "– 5.4.2.1 Net Cash Provided by Operating Activities".

TOP projects crossed from the launch stage to the roll-out stage. After priority given to projects delivering rapid results in the first quarter of 2003, the gradual restructuring of principal procedures delivered its first results and is being integrated at all levels of the organization to improve operating performance in a continuing manner.

The results achieved from the TOP Program during 2003 exceeded targets. These results should permit the acceleration of debt reduction for the Group, while reinforcing its growth.

France Telecom affirms its goal to generate more than €15 billion of free cash flow over the period 2003-2005, through the TOP Program. In 2003, France Telecom generated more than €6.4 billion in free cash flow excluding asset disposals (see "– 5.4.2 Liquidity"), compared to an initial goal of more than €3 billion raised to more than €4 billion excluding asset disposals.

#### ■ Changes in operating expenses before depreciation and amortization

See "– 5.2.1.2 From Revenues to Operating Income Before Depreciation and Amortization – Operating Expenses Before Depreciation and Amortization Excluding Personnel Costs".

Operating expenses before depreciation and amortization by type of expense is an alternative presentation to operating expenses as they are presented on the income statement by destination (cost of services and products sold, selling, general and administrative expenses and research and development expenses) – see Note 5 of the Notes to the Consolidated Financial Statements for information regarding how these presentations inter-relate. Following the implementation of the FT Ambition Plan 2005 plan, management follows Group operating expenses before depreciation and amortization by type of expense. As a result, the discussion of Group 2003 and 2002 results focuses on operating expenses before depreciation and amortization by type of expense, while the discussion by segment focuses on operating expenses before depreciation and amortization by destination.

Between 2002 and 2003, operating expenses before depreciation and amortization decreased €2,895 million.

On a comparable basis, the gains recorded for operating expenses before depreciation and amortization for the same period were approximately €1,487 million.

In 2003, operating expenses before depreciation and amortization amounted to approximately €28.8 billion, compared to €30.3 billion in 2002 on a comparable basis, or approximately 62.5% of revenues compared to approximately 67.9% for the year earlier period, an improvement of over 5 points.

The transformation in procedures and the effects of the TOP Sourcing Program (contractual renegotiations and reduction in the number of suppliers) particularly benefits operating expenses before depreciation and amortization through improvement in the selection of expenses and pooling of resources among the France Telecom Group's divisions. Gains in operating expenses before depreciation and amortization were mainly drawn from:

- the first results of the actions taken by "saving trackers" for the streamlining and improved allocation of general expenses, resulting in a modification of the approach to expenditure in the long-term and to a reduction in expenses relating to off-site transport, business travel and expenses relating to studies and fees;
- the implementation of new operational processes and the internalization of certain activities leading to an improvement in the operational processes relating to the maintenance and use of networks; and
- the restructuring of costs related to communication around advertising and a streamlining of expenses related to sponsorship.

Gains in operating expenses before depreciation and amortization were mainly derived from external purchases, which experienced a significant decrease during the years amounting to €18.0 billion in 2003, compared to €19.0 billion in 2002 on a comparable basis, representing a gain of €969 million. Among these, savings in consulting/advisory related expenses amounted to approximately €444 million and communications and advertising gains amounted to €107 million in 2003.

■ **Changes in progression of investments in tangible and intangible assets excluding licenses ("CAPEX")**

Between 2002 and 2003, investments in tangible and intangible assets excluding licenses decreased €2,355 million.

On a comparable basis, the gain in investments in tangible and intangible assets excluding licenses recorded for the same period was €1,864 million. This reflected better selectivity in investments in tangible and intangible assets, the effects of the TOP Sourcing Program and support for growth sectors.

The principal contributors to the reduction of investments in tangible and intangible assets were:

- the "Orange" segment for 42%;
- the "Fixed Line, Distribution, Networks, Large Customers and Operators" segment for 40%;
- the "Equant", "TP Group" and "Other International" segments for a total of 16%; and
- the "Wanadoo" segment for 2%.

Orange's investments in tangible and intangible assets excluding licenses decreased as a result of the delay of investments in the UMTS network due to the insufficient maturity of the market for the launch of the 3<sup>rd</sup> generation. A "CAPEX sharing" project was commenced in order to increase the pooling of assets for investments in areas such as information systems and billing. The decreases in the "Fixed Line, Distribution, Networks, Large Customers and Operators" segment corresponded to the decrease in expenditure in areas such as the switching and transmission capacities of the network in France.

However, in line with the TOP Program, and in order to accelerate productivity and improve the selectivity of investments, expenses for investments in tangible and intangible assets excluding licenses increased in areas with strong growth potential. This was particularly the case for investments related to broadband. Investments in the ADSL network increased 31% for the Group in 2003 compared to 2002 on a comparable basis, whereas the production of ADSL lines reached 3.1 million in 2003.

As a result, the level of the Group's investments in tangible and intangible assets excluding licenses is aimed at ensuring long-term growth in growth markets.

■ **Operating income before depreciation and amortization less CAPEX**

Operating income before depreciation and amortization less CAPEX increased €4,742 million between 2002 and 2003.

The results achieved under the TOP Program exceeded targets.

On a comparable basis, operating income before depreciation and amortization less CAPEX increased over 66% (approximately €4,863 million) to €12.2 billion at December 31, 2003 compared to €7.4 billion at December 31, 2002. This improvement of €4.9 billion was due to an increase of approximately €1.5 billion in revenues, approximately €1.5 billion for operating expenses before depreciation and amortization gains and approximately €1.9 billion in gains in investments in tangible and intangible assets excluding licenses.

For information regarding risks related to the TOP Program, see "Item 3. Key Information – 3.3.1 Risk Factors Relating to France Telecom's Business – The 'TOP' Program may not achieve the expected results, which could have a material adverse impact on France Telecom's financial condition and results of operations".

DOCUMENT

**EXHIBIT B**

**DOCKETED**  
DEC 14 2004

## CREDIT FACILITY AGREEMENT

Concluded between:

France Télécom S.A., a French *société anonyme* established and acting according to the law of France with its seat at 6, place d'Alleray 75505 Paris Cedex 15, registered in the Commercial Register maintained by the Paris Commercial Registry under no. B 380 129 866, hereinafter referred to as the "**Lender**"

and:

France Telecom Corporate Solutions, LLC "FTCS", with its seat at 1717 K Street NW, Suite 507, Washington, DC 22036, hereinafter referred to as the "**Borrower**"

(together the "**Parties**")

### **WHEREAS**

The Borrower requires additional funding for general corporate purposes and the Lender has agreed to make available to the Borrower the Facility described below.

**THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:**

### **DEFINITIONS**

In this Agreement, except to the extent that the context requires otherwise:

"**Advance**" means an advance under the Facility for an amount equivalent to the Drawdown Amount in the Specified Currency and for a period equal to the Availability Period, as quoted on the Notice of Drawdown.

"**Availability Period**" means the period beginning on, and including, the Commencement Date and ending on, and including, the Drawdown Repayment Date.

"**Borrowed Moneys Indebtedness**" means for the Borrower (i) any indebtedness for moneys borrowed; (ii) any indebtedness (actual or contingent) under any direct or indirect guarantee, security or other commitment designed to ensure any creditor against loss in respect of any Borrowed Moneys Indebtedness or obligations of any third party; and (iii) any indebtedness evidenced by bonds, notes, debentures or other similar instruments or under any acceptance credit opened on behalf of the Borrower.

"**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 Paris and in and the United States of America.

"**Call Option**" means the option granted by the Borrower to the Lender as from 1 January 2005 to call and early terminate this Facility with a 90 calendar days prior notice of the Lender being précised that such Call Option (i) is deemed to be effective after the 90 calendar days have elapsed and (ii) could not be effective before 31 December 2005.

"**Commencement Date**" means, for any Advance, the day (value date) on which the Lender makes the Drawdown Amount available to the Borrower, in accordance with the Notice of Drawdown.

"**Credit Facility Commencement Date**" means the date on which the Lender has paid to the Borrower the first Advance according to Article 1.

"**Credit Facility Maximum Amount**" means 2,000,000.00 USD (two millions US dollar).

"**Credit Facility Termination Date**" means the date on which the Call Option is effective or, whichever is the earliest, 31 December 2007.

"**Dollar**" or "**U.S.S**" or "**USD**" means the lawful currency for the time being of the United States of America.

"**Drawdown Amount**" means, for any Advance, the nominal amount in the Specified Currency made available to the Borrower by the Lender upon request from the Borrower according to the Notice of Drawdown, being precised that the total Drawdowns Amount shall not exceed the Credit Facility Maximum Amount.

"**Drawdown Repayment Date**" means, for any Advance, the day on which the Drawdown Amount must be reimbursed by the Borrower to the Lender (provided that the Advance Repayment Date can not occur after the Credit Facility Termination Date).

"**Event of Default**" has the meaning assigned to it in Clause 9 of this Agreement.

"**Interest Period**" means the period beginning on, and including, the Commencement Date and ending on, but excluding, the first Payment Date and each successive period beginning on and including a Payment date and ending on, but excluding, the succeeding Payment Date.

"**US LIBOR**" means the London Interbanking Offered Rate corresponding to the Availability Period and the Specified Currency, on page 3740-50 of Telerate at 11.00 a.m., two (2) Business Days before the Commencement Date.

"**Notice of Drawdown**" means, every written drawing request, either by e-mail, facsimile or courier, at least two (2) Business Days prior to the Commencement Date, by any duly authorised representative of the Borrower, referring to this Agreement and its terms & conditions, i.e. at least the Drawdown Amount (provided that the total aggregate Drawdown Amounts shall not exceed the Credit Facility Maximum Amount), its currency (i.e. the Specified Currency), the bank accounts numbers (if different from the bank accounts numbers quoted in Schedule A) and the Availability Period.

"**Payment Date**" means with respect to any Advance and Interest Period (i) prior to the Credit Facility Termination Date, the last day of each Interest Period for such Advance and (ii) in the case of the last Payment Date, the Credit Facility Termination Date. If any Payment Date should fall on a day which is not a Business Day, such Payment Date shall be the first succeeding day that is a Business Day unless such succeeding day falls in the next calendar month, in which case such Payment Date shall be the first preceding day that is a Business Day.

"**Rate per annum**" means US LIBOR relevant for the Interest Period plus a margin corresponding to 40 basis point per annum.

"**Specified Currency**" means Dollar.

"**Tax Treaty**" means the convention between France and another state which aims at avoiding double taxation.

## THE FACILITY

The Lender grants to the Borrower, upon and subject to the terms hereof, a Facility (the "Facility") amounting to the Credit Facility Maximum Amount, subject to Advances, as specified in the Definitions above, within the limits defined as the Credit Facility Maximum Amount; the difference between the Credit Facility Maximum Amount and the aggregate Drawdown Amounts being the "Availability Amount".

### Article 1 - Purpose and use of the Facility

The Borrower shall use the Facility and any Drawdown Amounts for general corporate purposes.

Every Advance will be subject to the following conditions:

- The Borrower has not defaulted in the due performance and observance of any other material obligation contained in any provision of this Agreement and the Borrower has not failed to cure within any applicable grace period;
- No Event of Default is outstanding or might result from the making of the Facility;
- The aggregate Drawdown Amounts are not exceeding the Credit Facility Maximum Amount;
- The Borrower has sent to the Lender a Notice of Drawdown in due time.

### Article 2 - Fees

The Borrower shall pay the Lender each year on arrears (or at the Credit Facility Termination Date, as the case may be) a commitment fee of 0.20% p.a. which will be computed each day on the Availability Amount, as from the date hereof up to and including the Credit Facility Termination Date.

### Article 3 - Interest

- (a) The Facility and the Advances shall bear interest from the Commencement Date to the date of its repayment or prepayment in full in accordance with Articles 4 and 5.

The rate of interest applicable to each Interest Period of the Facility shall be the Rate per annum.

- (b) All interest payable under this Article shall accrue from day to day and be computed on the basis of the actual days elapsed during the Interest Period and a year of 360 days (the "Accrued Interest"). Accrued Interest in relation to each Interest Period of the Facility shall be paid in arrears on the Payment Date of each Interest Period.

When such interest is required to be paid for a period of less than one year, it will be calculated on the basis of the actual number of days elapsed in such period divided by 365 (or 366 in a leap year) and rounding the resultant figure to the nearest USD 0.01 (USD 0.005 being rounded upwards).

- (c) If so previously agreed from time to time by the Lender and the Borrower, interest accrued on the amount outstanding (as such interest may have been increased pursuant to this Article) during each Interest Period may not be paid on its Payment Date. Any interest not paid under such agreement shall, as long as the same remains unpaid, be deemed to be an Advance requested by the Borrower on the Payment Date with a

maturity date on the Drawdown Repayment Date, in accordance with Article 4 and Article 1154 of the French Civil Code (*Code Civil*), and will reduce the Availability Amount accordingly.

- (d) If the Borrower fails to pay any amount payable by it hereunder, the Borrower shall forthwith pay interest ("Default Interest") on the overdue amount from the due date up to the date of actual payment at a rate per annum which is the aggregate of one per cent and the rate which would have been applied if the unpaid amount were to constitute part of the Facility hereunder for successive Interest Periods until payment; the claim and the payment of Default Interests may not be considered as a renunciation by the Lender to its right to an early repayment nor to the granting of a grace period.

Default Interest owing by Borrower shall accrue automatically as of right and without need of notification (*mise en demeure*) to the Borrower and will be compounded annually in accordance with Article 1154 of the French Civil Code (*Code Civil*).

- (e) In order to comply with the law and notably with the provisions of Articles L. 313-1, L. 313-2, R. 313-1 and R. 313-2 of the French Consumers Code (*Code de la consommation*) regarding the Effective Global Rate of the Loan, the Parties to this Agreement expressly acknowledge that there does not exist any additional cost which could increase the Rate per annum applicable to the Loan, and thus for information purposes the Effective Global Rate due on a nominal amount of two million dollar (2,000,000.00 USD) bearing an interest of 4,05875 percent per annum based on a year of 360 days would be 4,099934. Such rate cannot exceed the maximum rate of interest (*taux d'usure*) as defined by Article L. 313-3 of the French Consumers Code (*Code de la consommation*).

#### **Article 4 - Payment**

- (a) The Borrower shall make available to the Lender the Credit Facility Maximum Amount on the Credit Facility Commencement Date. Each Drawdown Amount will be made available to the Borrower by the Lender on the Commencement Date.
- (b) All payments hereunder shall be made in the Specified Currency by transfer, after having received, as the case may be, the corresponding Notice of Drawdown to the date of such payments, of same day funds (or, if payment in same day funds ceases to be feasible, in such other manner as at the time may be customary for the settlement of domestic banking transactions denominated in the Specified Currency) by 11.00 a.m. (Paris time) on the date of payment. Any payment shall be made, if to the Borrower, to the Borrower's account specified in Schedule A and, if to the Lender, to the Lender's account specified in Schedule A or, in either case, to such other account and/or bank as the receiving party may, by written notice to the other, designate to the other party not less than two (2) Business Days prior to the applicable date of payment.

#### **Article 5 - Repayment**

The amounts of the Advances or of the Facility outstanding as on the Credit Facility Termination Date, shall be repaid in full on such date.

**Article 6 - Prepayment**

- (a) On giving no less than two (2) Business Days, prior written notice to the Lender, the Borrower may prepay the Facility or any Advance at its sole convenience.
- (b) Any notice of prepayment given by the Borrower to the Lender under this clause shall become irrevocable on the day which falls two (2) Business Days prior to the required date for prepayment if given earlier than such day or, in the case of a notice of prepayment given two (2) Business Days prior to such required date, shall be irrevocable and the Borrower shall be bound to prepay in accordance with such notice.
- (c) Prepayment may only take place on a Payment Date before the Credit Facility Termination Date.
- (d) All prepayments under this Agreement shall be made together with Accrued Interest on the amount prepaid. Any Premium or penalty or additional cost shall be borne by the Borrower.
- (e) Any prepayment will make the corresponding amounts available for the Borrower under the Facility.

**Article 7 - Representations and Warranties**

The Borrower represents and warrants for the benefit of the Lender, as an essential element (*condition essentielle et déterminante*) of the decision of the Lender to enter into this Agreement, and repeats them all throughout the term of this Agreement with reference to the facts and circumstances then existing, that:

- (a) it is a company duly incorporated and validly existing under the laws of its jurisdiction of incorporation and has full power and capacity to own its assets and to carry out its business as it is now carried out;
- (b) it has full power and capacity to enter into and perform this Agreement and has taken all necessary steps required to authorise the execution and delivery of this Agreement and its performance according to its respective terms;
- (c) this Agreement constitutes, as from its execution, its legal, valid and binding obligations enforceable (subject to laws of general application affecting or relating to the rights of creditors generally) in accordance with the terms hereof;
- (d) the execution, delivery and performance of this Agreement will not violate (i) any present applicable law or regulation of France or of any other applicable jurisdiction, or (ii) any agreement or instrument which is binding upon it or any of its assets or revenues, or (iii) any clause of its constitutional documents;
- (e) there is no litigation, arbitration or administrative proceeding pending or, to the best of its knowledge, threatened to enjoin or restrain its execution or performance of this Agreement or any event or series of events which would result in a material adverse change in the business, assets, financial condition of the Borrower or in a manner which might threaten to enjoin or restrain its execution or performance of this Agreement, including any change in the nature of the business (*objet social*) of the Borrower;
- (f) all amounts payable by the Borrower under this Agreement may be made free and clear of and without deduction for or on account of any tax;
- (g) no stamp or registration duty or similar taxes or charges are payable in France in respect of this Agreement;

- (h) no Event of Default is outstanding or might arise from the making of the Facility and no other event is outstanding which would result in a material adverse change in the business, assets, financial condition of the Borrower since the closing of its last financial statements;
- (i) the audited accounts of the Borrower have been prepared in accordance with generally accepted accounting principles and practices fairly represent, to the best of the knowledge and belief of the Borrower after due and careful enquiry, the financial condition of the Borrower as of the date on which they were drawn up.

#### Article 8 - Undertakings

The undertakings in this Article shall remain in force from the date of this Agreement for so long as any amount is or may be outstanding under this Agreement:

- (a) Any authorisation and consent required or desirable in connection with the entry into, performance, validity and enforceability of, and with the transactions contemplated by the Facility have been obtained or carried out (as appropriate) and are in full force and effect and all necessary filings in connection therewith have been duly made and completed;
- (b) The Borrower shall notify the Lender of any Event of Default (and the steps, if any, being taken to remedy it) promptly upon its having come to the attention of the Borrower;
- (c) The Borrower's payment obligations under this Agreement rank and will at all times rank at least equally and rateably in all respects with all its other unsecured indebtedness, except for such indebtedness as would, by virtue of the law in force in France or any other applicable jurisdiction be preferred in the event of its bankruptcy, reorganisation, liquidation, dissolution or winding-up;
- (d) as soon as they are available (and in any event no later than one year after the end of each of its financial years) the annual report and the audited accounts of the Borrower for that financial year shall be transmitted to the Lender;
- (e) promptly to inform, and provide the Lender with all necessary documents regarding modifications affecting the nature or capacity of the Borrower (notably changes in its name, notification of merger or spin-off, transfer of its head office, order for its dissolution or liquidation or administration).

#### Article 9 - Taxation

- (a) All payments of principal or interests under the Facility shall be made free and clear of, and without deduction for, any tax, duty, levy of whatever nature, including penalties, interest and any other liabilities related thereto ("taxes") unless the Borrower is required by any relevant tax authority to make such payment subject to the deduction of withholding tax.
- (b) If the Borrower is required to make any deduction or withholding from any payment here above, he shall pay the full corresponding amount to be deducted or withheld to any relevant tax authority within the time allowed under the applicable law, and shall deliver to the Lender an original official receipt issued by such authority and any other appropriate evidence of the payment to such authority of all amounts so required to be deducted or withheld.
- (c) In order to benefit from a reduced rate of withholding tax or avoid withholding tax according to the Tax Treaty between the countries of domiciliation of the Lender and the

Borrower, the Lender shall, before any payment is made, deliver to the relevant tax authorities evidence that he is domiciled in such country in accordance with applicable rules.

- (d) Any tax, including withholding tax described in § (b), that will be paid in the country of domiciliation of the Borrower in addition to the payment of the principal or interests shall be borne by the Borrower in accordance with the applicable tax rules.

#### Article 10 - Events of Default

1. If any or more of the following events (each an "Event of Default") should occur and be continuing, i.e.:
- (a) the Borrower fails to pay on the due date any amount payable by it to the Lender hereunder within ten (10) Business Days of the date on which it receives notice of such non-payment from the Lender;
  - (b) the Borrower defaults in the due performance and observance of any other material provision contained in this Agreement (other than a default in the payment as per clause (a) above) and the Borrower fails to cure or cause to be cured such default within a period of fifteen (15) Business Days from the date on which it receives notice of such default from the Lender except that such period of fifteen (15) Business Days shall not apply if such default is not capable of being cured or remedied; or
  - (c) any representation, warranty or statement made in this Agreement proves to be untrue or incorrect in any material respect as of the date when made or given;
  - (d) a distress or other execution is levied or imposed upon or against any part of the property of the Borrower, is not discharged within thirty (30) Business Days of having been levied or imposed and the consequence of which is, in the reasonable opinion of the Lender, materially and adversely to affect the ability of the Borrower to perform its obligations hereunder (unless being contested in good faith and by appropriate means);
  - (e) the Borrower defaults in the due performance and observance of any payment obligation toward the other Party or any third party, other than a default resulting from the application of this Agreement, absent manifest error and unless such payment being contested in good faith and by appropriate means;
  - (f) any other Borrowed Moneys Indebtedness of the Borrower exceeding in the aggregate four million dollar (4,000,000.00 USD) (or its equivalent in other currencies) at any time is not paid when it falls due for payment or is found not to have been paid, in each case after any applicable grace period has elapsed, or shall become due and payable prior to the stated maturity thereof as a result of a payment default thereunder (except where the relevant creditor has waived such default or extended the date for payment thereof);
  - (g) an event takes place the consequence of which is materially and adversely to affect the activity, the assets or the financial position of the Borrower or its ability to reimburse the Facility and more generally to perform its obligations hereunder;
  - (h) if the Borrower applies for the appointment of a conciliator (*conciliateur*) or enters into an amicable settlement (*règlement amiable*) with its creditors or a judgment is issued for a judicial administration (*redressement judiciaire*) or for a judicial liquidation (*liquidation judiciaire*) or for a judicial transfer of the whole of its business (*cession totale de l'entreprise*) of the Borrower or, to the extent permitted by applicable law, if the

*Borrower makes any conveyance, assignment or other arrangement for the benefit of its creditors or enters into a composition with its creditors;*

- (i) if any order is made or law, decree, regulation or resolution is adopted for the liquidation, winding up or dissolution of the Borrower;
- (j) if any order is made or law, decree or regulation applicable to Lender is passed, modified or interpreted to an extent or in a manner which might threaten to enjoin or restrain the execution or performance of this Agreement.

then the Lender may:

- (a) declare the Facility to be terminated and no payment or regularisation further to this notification can postpone such termination; and
- (b) declare the outstanding amount of the Facility (including all Advances) hereunder together with Accrued Interest thereon and any other amounts whatsoever outstanding and payable by the Borrower under this Agreement to be immediately due and payable without any other demand or notice of any kind.

Delay in the exercise or the non-exercise of any such right is not a waiver of that right. Rights and recourse hereunder are cumulative but not exclusive of any rights and recourse the Lender may have besides.

- 2. The Borrower shall on duly justified demand indemnify the Lender against any direct loss or reasonable expense which the Lender may sustain or incur as a consequence of the Facility becoming due and payable in full, on a date earlier than it would otherwise be due as a consequence of the occurrence of any Event of Default with respect to it hereunder, including but not limited to any direct loss or reasonable expense sustained or incurred in liquidating deposits or credit facilities from third parties acquired to effect or maintain such Facility or part thereof. Any request by the Lender for indemnification pursuant to this provision shall be accompanied by a documented computation of the amount claimed and such documented computation shall be conclusive of the indemnification amount payable, absent manifest error.

#### Article 11 - Notices

- 1. Save as otherwise provided herein, any notice, request, demand or other communication to be given or made hereunder shall be given or made by phone and confirmed by letter or facsimile addressed:

- (a) in the case of the Lender, to it at:

Attention: Sylvic Nino  
Michel Poirier

Address: France Télécom DF/CF/DFT  
"Losserand 212"  
6, place d'Alleray  
75505 Paris Cedex 15  
France

Facsimile: +33 (1) 45 40 04 52

(b) in the case of the Borrower, to it at:

Attention: Danielle Aguto  
Address: France Telecom North America  
1717 K Street, N.W.  
Suite 507  
Washington, DC 20036  
USA  
Facsimile: +1 202-822-2100

or to such other address as the Borrower or the Lender may from time to time advise to the other parties hereto.

- 2. Each and every notice, request, demand or other communication shall be deemed to be duly given or made when delivered (in the case of personal delivery or letter) and when dispatched (in the case of facsimile) to the party to which such notice, request, demand or other communication is required or permitted to be given under this Agreement.
- 3. Notices to be given in writing include by facsimile.

**Article 12 - Assignment**

This Agreement and the rights hereunder may not be assigned or transferred by the Borrower without the prior written consent of the Lender. This Agreement and the rights hereunder may be assigned or transferred at any time by the Lender.

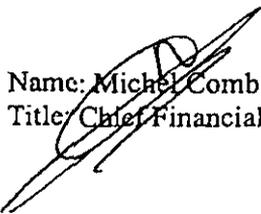
**Article 13 - Governing law and Jurisdiction**

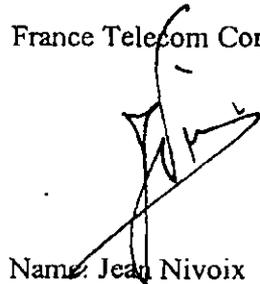
This Agreement shall be governed by and construed in accordance with French law.  
The parties to this Agreement irrevocably agree for the exclusive benefit of the Lender that the courts of Paris shall have jurisdiction to settle any disputes that may arise from or in connection with this Agreement. Nothing contained in this Article shall limit the right of the Lender to take Proceedings against the Borrower in any other court of competent jurisdiction.

Concluded in Paris on *November 5<sup>th</sup>, 2003*  
In two originals, one for each Party,

FRANCE TELECOM SA

France Telecom Corporate Solutions, LLC

  
Name: Michel Combes  
Title: Chief Financial Officer

  
Name: Jean Nivoix  
Title: General Manager

**SCHEDULE A**

**Borrower's account:**

Société Générale  
New York Branch  
Address: 1221 Avenue of the Americas  
New York, NY 10020  
Telex: ITT 428802  
Cable: SOCIEGEN  
Swift: SOGEUS33  
ABA: 026004226  
Account: 0182990  
Full Account Number: 026004226 01 82990

**Lender's account:**

CREDIT LYONNAIS PARIS  
Bank code: 30002  
Counter code: 00790  
Account no.: 0000002493B  
Key: 13

i.e., Account number: 30002/00790/0000002493B/13

**CENTRALIZED TREASURY MANAGEMENT AGREEMENT**  
~  
**ACCORD CONVENTIONNEL DE CENTRALISATION DE LA  
GESTION DE TRÉSORERIE**

ACCORD CONVENTIONNEL DE CENTRALISATION DE TRESORERIE  
~ CENTRALIZED TREASURY MANAGEMENT AGREEMENT

**BETWEEN:**

France Télécom, an SA (*Société anonyme*) company, having its registered address 6, place d'Alleray, 75505 Paris Cedex 15, France; being registered at the Paris Commercial register (*Registre du Commerce et des Sociétés de Paris*), under the number B 380 129 866, represented by M. Michel COMBES Chief Financial Officer, hereinafter referred to as "**France Télécom**"

ON THE ONE HAND

**AND**

France Telecom Corporate Solutions, LLC, a limited liability company organized under the laws of the State of Delaware, having a principal address at 1717 K Street, NW, Suite 507, Washington DC 20036, represented by M. Jean Nivoix, General Manager, herein after referred to as the "**Affiliated Company**"

ON THE OTHER HAND

For the purpose of the present agreement, each a "**Party**" and together the "**Parties**"

**ENTRE LES SOUSSIGNES**

France Télécom, société anonyme, ayant son siège social 6, place d'Alleray, 75505 Paris Cedex 15, immatriculée au Registre du Commerce et des Sociétés de Paris, sous le numéro B 380 129 866, représentée par M. Michel COMBES, Directeur Financier, ci-après dénommée "**France Télécom**"

D'UNE PART

**ET**

France Telecom Corporate Solutions, LLC, une compagnie organisée au Delaware, ayant un adresse au 1717 K Street, NW, Suite 507, Washington DC 20036, représentée par M. Jean Nivoix, General Manager, ci-après dénommée la "**Société Affiliée**"

D'AUTRE PART

Pour les besoins du présent accord, chacune une "**Partie**" et ensemble les "**Parties**"

ACCORD CONVENTIONNEL DE CENTRALISATION DE TRESORERIE  
 ~ CENTRALIZED TREASURY MANAGEMENT AGREEMENT

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ACCORD CONVENTIONNEL DE CENTRALISATION DE TRESORERIE  
~ CENTRALIZED TREASURY MANAGEMENT AGREEMENT**WHEREAS:**

The Affiliated Company is a subsidiary of France Télécom directly or indirectly.

The Affiliated Company having cash surplus available wishes to earn interest while keeping it liquid.

The Affiliated Company wishes to keep the funds available for any cash needs.

France Télécom manages the cash optimization and centralization under the best technical and financial conditions for the Affiliated Company and the other direct or indirect France Télécom subsidiaries, insuring a fine-tuning of the liquidity at the Group level.

For its application, a common economic, social or financial interest according to the Group policy shall prevail, with respect of arms length relationship principles and of the guidelines of articles L. 225-39 of the French Commercial Code and L. 511-7-3° of the French Monetary and Financial Code (previously article 12-3 of the French Banking Law (loi bancaire n° 84-46 du 24 janvier 1984)).

Thus, and in accordance with the provisions of article 39-1.3° of the French Tax Code (*Code général des impôts*) and the April 16, 1999 4 C-1-99 and 131 quarter tax recommendation on Centralized Treasuries, France Télécom and the Affiliated Company have decided to agree on the terms of the present treasury management agreement.

**IL A ÉTÉ EXPOSE ET CONVENU  
CE QUI SUIT :**

Que la Société Affiliée est une filiale soit directement, soit indirectement, de France Télécom ;

Que la Société Affiliée qui dispose d'une trésorerie excédentaire souhaite la faire fructifier tout en en conservant la disponibilité ;

Que la Société Affiliée souhaite s'assurer la possibilité de disposer de fonds pour faire face à d'éventuels besoins de trésorerie ;

Que la centralisation par France Télécom de la trésorerie de ses filiales directes ou indirectes, dont celle de la Société Affiliée, permet de répondre à ses besoins dans des conditions techniquement et financièrement avantageuses et d'assurer à l'intérieur du Groupe un rôle de régulateur de trésorerie auprès de ses différentes filiales ;

Que cette gestion sera impérativement dictée par un intérêt économique, social ou financier commun, déterminé au regard de la politique élaborée pour l'ensemble du Groupe dans le respect de l'article L. 225-39 du Code de commerce et conformément à l'article L. 511-7-3° du Code monétaire et financier (ancien article 12 de la loi n° 84-46 du 24 janvier 1984 dite "Loi bancaire") ;

Qu'à cette fin, conformément aux dispositions de l'article 39-1.3° et 131 quarter du Code général des impôts et de l'instruction 4 C-1-99 du 16 avril 1999 qui en précise les modalités d'application aux centrales de trésorerie, France Télécom et la Société Affiliée souhaitent convenir des modalités de cette gestion.

ACCORD CONVENTIONNEL DE CENTRALISATION DE TRESORERIE  
~ CENTRALIZED TREASURY MANAGEMENT AGREEMENT

**NOW THEREFORE in consideration of the above, it is agreed as follows:**

**CECI ÉTANT, IL EST CONVENU CE QUI SUIT :**

**Article 1 - Approval of the Treasury Agreement**

The Treasury Agreement shall be in place only once approved in signing by both parties in two original copies.

As instructed by the French Tax Department in the April 13, 1999 instruction 4 C-1-99 and in the October 15, 2001 letter; the setting up of this Treasury Agreement in the France Télécom Group shall only be applicable once three (3) companies incorporated in three (3) different states have signed the Treasury Agreement. Any Affiliated Company shall sign a Treasury Agreement with France Télécom according to a same template.

**Article 2 - Purpose of the Treasury Agreement and Mandate**

This agreement centralizes and organizes the management by France Télécom of the Affiliated Company available funds. For this purpose and according to the provisions of articles 1984 and seq. of the French Civil Code (*Code Civil*), the Affiliated Company gives France Télécom a mandate to run the operations on its behalf as described hereunder.

**Article 1 - Adhésion à l'Accord Conventionnel et Centralisation de Trésorerie**

L'adhésion de la Société Affiliée sera concrétisée par la signature de deux exemplaires du présent Accord Conventionnel.

Conformément aux dispositions de l'instruction 4 C-1-99 du 13 avril 1999 et au courrier de la Direction de la législation fiscale en date du 15 octobre 2001, il est expressément convenu que la mise en place effective de la centralisation de trésorerie au sein du Groupe France Télécom concerne des sociétés affiliées implantées dans au moins trois états différents. Chaque Société Affiliée signe un accord conventionnel avec France Télécom conforme à une convention modèle.

**Article 2 - Objet de l'Accord Conventionnel et mandat**

La présente convention a pour objet d'organiser et de centraliser la gestion par France Télécom de la trésorerie de la Société Affiliée. A cette fin, et conformément aux dispositions des articles 1984 et suivants du Code Civil, la Société Affiliée donne mandat à France Télécom, qui accepte, aux fins de procéder en son nom et pour son compte aux opérations de transferts de fonds.

ACCORD CONVENTIONNEL DE CENTRALISATION DE TRESORERIE  
~ CENTRALIZED TREASURY MANAGEMENT AGREEMENT

**Article 3 - Management**

3.1 France Télécom will operate the cash concentration, the management and coordination of treasury operations as instructed in article L. 511-7-3° of the French Monetary and Financial Code (*Code monétaire et financier*) (previously article 12-3 of the French Banking Law (*loi bancaire n° 84-46 du 24 janvier 1984*)).

3.2 Therefore France Télécom has opened in its books at least one internal current account for each of the Affiliated Company.

**Article 4 - Operating Procedures**

4.1 If needed, and on written request to the France Télécom contact person (as mentioned in the below article 9.1), the Affiliated Company may also have current accounts in any currency.

4.2 Fund transfers between the Affiliated Company and France Télécom will be booked on the current account(s) under good value and without any charges on fund transfers.

**Article 5 - Statement**

The Affiliated Company confirms that there is nothing in its articles of association that stops it from entering into this agreement with France Télécom.

**Article 3 - Gestion**

3.1 France Télécom assurera la centralisation, la gestion et la coordination des opérations de trésorerie conformément à l'article L. 511-7-3° du Code monétaire et financier (ancien article 12-3 de la loi n° 84-46 du 24 janvier 1984 dite « loi bancaire »).

3.2 Aux fins visés à l'article 3.1 ci-dessus, France Télécom a ouvert de manière distincte pour chaque Société Affiliée au moins un compte courant de trésorerie dans ses livres.

**Article 4 - Modalités de fonctionnement**

4.1 En cas de besoin, sur demande écrite auprès de l'interlocuteur de France Télécom visé à l'article 9.1 ci-dessous, la Société Affiliée pourra disposer de comptes courants en devises.

4.2 Ce ou ces comptes courants enregistreront sous bonne valeur et en exonération de toutes commissions, les virements de trésorerie effectués entre la Société Affiliée et France Télécom.

**Article 5 - Déclarations**

La Société Affiliée déclare que ses dispositions statutaires ne s'opposent pas au transfert de la gestion de ses opérations de trésorerie à France Télécom.

ACCORD CONVENTIONNEL DE CENTRALISATION DE TRESORERIE  
~ CENTRALIZED TREASURY MANAGEMENT AGREEMENT

**Article 6 - Transfers conditions**

Funds to be deposited or borrowed on D day shall be required by the Affiliated Company to France Télécom at least two (2) business days in advance (D-2) before 10:30 am Paris time, to be made with good (spot) value.

**Article 7 - Interest rate calculation**

7.1 According to current business practices, the applicable interest rate will depend on the Affiliated Company financials. The assignment of a credit rating is based on the following elements:

- The credit risk can be estimated by looking at the company's financial ratios, market share, and position in its business life cycle,
- The country risk can be estimated by looking at the yield on bonds issued by the government where the Affiliated Company is registered
- Loan maturity, the loans contracted under the scope of this Treasury Agreement are for a short-term period (less than one year). Therefore short-term interest rate will be used as reference.

7.2 France Telecom will apply the reference interest rates per currency adjusted with the credit and country risk premiums as referred to in Annex 1 of the Treasury Agreement.

**Article 6 - Annonce des mouvements**

Les sommes à déposer ou à emprunter le jour J devront être annoncées 2 jours ouvrés à l'avance (J-2) par la Société Affiliée avant 10:30 heures (heure de Paris) à France Télécom. Les retraits de dépôts ou remboursements d'avances se feront dans les mêmes conditions.

**Article 7 - Calcul des intérêts**

7.1 Conformément aux pratiques de la Place, la situation financière de la Société Affiliée influera sur les conditions de placement et d'emprunt réalisé au titre du présent Accord Conventionnel. Cette situation financière, résumée par la « notation » des sociétés se caractérise par les éléments suivants :

- Le risque de contrepartie ; combinaison des ratios financiers, des parts de marché et de la position de cycle de vie des produits en portefeuille de la Société Affiliée,
- Le risque pays ; qui peut être évalué par rapport aux emprunts d'Etat du pays dans lequel la Société Affiliée est enregistrée,
- La maturité des emprunts ; les emprunts réalisés au titre du présent Accord Conventionnel sont des emprunts à court terme de maturité inférieure à un an. Ce sont donc les taux de court terme qui servent de référence

7.2 France Télécom appliquera les taux de références par devises associés aux pondérations liées au risque de contre partie et au risque pays comme définis dans l'Annexe 1 du présent Accord Conventionnel.

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7.3 The positives or negatives balances of the Affiliated Company Current Account(s) will bear interest rates. France Télécom will apply the interest rate referred to in Annex 1 of the Treasury Agreement. Interests (for interest calculation the year shall consist in 360 actual days for all currencies except for the GBP where the year shall consist in 365 actual days) will be booked on a monthly basis and capitalized on the current account with value on the second (2<sup>nd</sup>) working day of the next period.

**Article 8 - France Télécom Loans to the Affiliated Company**

Short-term borrowings to the Affiliated Company can be accepted under written notice of the Affiliated Company or with France Télécom agreement. Borrowings will bear interest rates, calculated as indicated in Annex 1.

Interest will be free of any value added tax or similar tax ("TVA") (in accordance with Article 261 of the French Tax Code).

**Article 9 - Communications**

Any demand, notice or request shall be addressed in writing or by facsimile to:

7.3 Les soldes créditeurs ou débiteurs du ou des comptes courants de la Société Affiliée produisent des intérêts. France Télécom appliquera les taux définis dans l'Annexe 1 du présent Accord Conventionnel. Les intérêts seront comptabilisés mensuellement à terme échu, sur la base d'échelles d'intérêts (en base 360 pour toutes les devises, en base 365 pour le GBP) et capitalisés sur le compte courant de la devise appropriée en date de valeur deuxième (2<sup>ème</sup>) jour ouvré de la période suivante.

**Article 8 - Prêts de France Télécom à la Société Affiliée**

Des prêts à court terme en compte pourront être consentis à la Société Affiliée à sa demande écrite ou sur l'initiative de France Télécom. Ces prêts donneront lieu à intérêts calculés comme indiqué en Annexe 1.

Les intérêts dus par ou à France Télécom seront exonérés de taxe sur la valeur ajoutée (TVA) conformément aux dispositions de l'article 261 du Code Général des Impôts.

**Article 9 - Communications**

Toute demande, notice, requête ou toute communication devront être effectuées par lettre ou télécopie adressées à :

ACCORD CONVENTIONNEL DE CENTRALISATION DE TRESORERIE  
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## 9.1. France Telecom / Dans le cas de France Télécom:

Address: France Télécom DF/CF/DFT  
(Adresse :) « Losserand 212 »  
6, place d'Alleray  
75505 Paris Cedex 15

Attention to: Alain TRAN VAN THOAN or Evelyne JUIGNET  
(A l'attention de :)

Facsimile: +33 (0)1 44 44 94 70  
(Télécopie :)

Phone: +33 (0)1 44 44 97 69  
(Téléphone :)

## 9.2. The Affiliated Company / Dans le cas de la Société Affiliée

Address: France Telecom Corporate Solutions  
(Adresse :) 1717 K Street, NW, Suite 507  
Washington DC 20036

Attention to: Danielle Aguto  
(A l'attention de :)

Facsimile: +1 (202) 822 2099  
(Télécopie :)

Phone: +1 (202) 822 2058  
(Téléphone :)

**Article 10 - Regulation and  
controlling authority statements**

The Affiliated Company is responsible for its own statements and obligations due to regulation and controlling authorities. A table (in French) summarizing the statements and obligations to be submitted is attached as an example in Annex 2.

**Article 10 - Déclarations aux  
autorités de régulation et de contrôle**

La Société Affiliée s'engage à effectuer toutes les déclarations et obligations qui lui incombent, actuelles ou futures, notamment auprès des autorités de régulation et de contrôle. A titre indicatif, un tableau récapitulatif de ces déclarations et obligations est joint en Annexe 2.

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**Article 11 - Accounting requirements**

This Agreement being applicable, the Parties shall keep their own separate and independent accounting entries, according to the generally admitted accounting practices. Of course, the Parties shall duly book in their accounting ledger all treasury operations processed under the scope of this Agreement.

Financial flow consequent to this Agreement shall be booked in specific accounts, in order for both Parties to be able to trace the operations. The specific accounts can be internal current accounts.

**Article 12 - Duration of the Treasury Agreement and Control loss**

12.1 The Treasury Agreement shall last till the end of the current calendar year. Then the Agreement will be tacitly renewed. The present Agreement replaces and supersedes all other treasury agreement in place at the date hereof between the Parties

12.2 However the parties have the right to terminate this agreement at any time with a 6 months notice.

**Article 11 - Obligations comptables**

Pendant toute la durée du présent Accord Conventionnel, la Société Affiliée et France Télécom s'engagent à maintenir au sein de chacune d'elles une comptabilité propre, tenue conformément aux règles en vigueur et de façon indépendante, reflétant les activités propres à chacune d'elles. Il est bien entendu que les opérations visées par le présent Accord Conventionnel ne dispensent pas la Société Affiliée et/ou France Télécom de passer les écritures comptables retraçant leurs propres mouvements de trésorerie.

Les flux financiers résultant du présent Accord Conventionnel doivent être enregistrés dans des comptes spécifiques, de manière à pouvoir être suivis distinctement au niveau de chaque société partie au présent Accord Conventionnel. Ces comptes spécifiques peuvent prendre la forme de comptes courants.

**Article 12 - Durée de l'Accord Conventionnel et sortie du périmètre**

12.1 Le présent Accord Conventionnel est conclu pour l'année civile en cours. Il se renouvellera par tacite reconduction. Il remplace tout autre accord ou convention de trésorerie pouvant exister préalablement entre France Télécom et la Société Affiliée.

12.2 Toutefois, la Société Affiliée et France Télécom bénéficient d'une faculté de résiliation anticipée à tout moment, sous réserve de respecter un préavis de 6 mois.

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12.3 If the Affiliated Company fails to remain a direct or indirect subsidiary under France Télécom control, France Télécom can terminate the Treasury Agreement, in accordance with Article L. 233-3 of the French Commercial Code (*Code de Commerce*). The Current Accounts open with France Télécom shall be balanced. The operations in place shall be closed at market price within three (3) months, unless the Parties agree differently.

12.3 L'Accord Conventionnel pourra cependant être dénoncé immédiatement et unilatéralement par France Télécom en cas de perte de contrôle de la Société Affiliée au sens de l'Article L. 233-3 du Code de Commerce. Les comptes courants ouverts auprès de France Télécom seraient soldés. Les opérations seraient dénouées dans un délai maximal de trois (3) mois aux conditions de marché.

**Article 13 - Maximum Amount**

The Treasury Agreement is subject to a maximum borrowing cap related to the Affiliated Company's business plan (see Annex 3).

**Article 13 - Plafond**

L'Accord Conventionnel est soumis à un plafond maximum, fonction du plan d'activité de la Société Affiliée (voir Annexe 3).

**Article 14 - Applicable Law**

This Treasury Agreement is governed under French Law. In the event of translation, only the French signed version shall be authoritative.

**Article 14 - Loi applicable**

Le présent Accord Conventionnel est régi par le droit français. En cas de traduction seule la version française signée fera foi.

Executed in / Fait à Paris in three original copies / en trois exemplaires, on / le 3 November 2003  
3 November 2003

For / Pour France Télécom :

For / Pour FT Corporate Solutions

Name / Nom : Michel COMBES  
Title / Titre : Directeur Financier

Nom : Jean Nivoix  
Titre : General Manager

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**ANNEX 1: Interest rates applicable to the Affiliated Company**

**ANNEXE 1 : Taux d'intérêts applicables à la Société Affiliée**

**Reference rates / Taux d'intérêt de référence :**

<u>Currency</u> Monnaie	<u>Interest rate issuer</u> Source	<u>Credit Interest</u> Taux emprunteur	<u>Debit Interest</u> Taux placeur
EUR	EONIA	+0,40	+0,00
USD	LIBOR USD Overnight	+0,40	+0,00
GBP	LIBOR GBP Overnight	+0,40	+0,00
CHF	LIBOR CHF Overnight	+0,40	+0,00
HKD	HIBOR Overnight	+0,40	+0,00
SGD	SIBOR 1 month	+0,40	+0,00
YEN	LIBOR JPY Overnight	+0,40	+0,00

**Country risk premium / Pondération liée au risque pays :**

<u>Country or region</u> Pays ou Zone Géographique	<u>Credit Interest Premium</u> Pondération sur taux emprunteur	<u>Debit Interest Premium</u> Pondération sur taux placeur
"Euroland" & European Union	+0,00	+0,00
North America	+0,00	+0,00
South America	+1,00	+0,00
Eastern Europe	+0,50	+0,00
Asia	+0,25	+0,00
Africa	+0,50	+0,00

**Credit risk adjustment / Pondération liée au risque de crédit :**

<u>Credit risk (*)</u> Risques de crédit	<u>Credit Interest Adjustment</u> (**) Pondération sur taux emprunteur	<u>Debit Interest Adjustment</u> Pondération sur taux placeur
Net debt / EBITDA < 1	+0,00	+0,00
Net debt / EBITDA > 1	+0,20	+0,00
Net debt / EBITDA > 2	+0,50	+0,00
Net debt / EBITDA > 3	+1,00	+0,00
Net debt / EBITDA > 4	+1,50	+0,00
EBITDA < 0	+1,50	+0,00

(\*) Net debt and "EBITDA" shall be according to the last approved and published yearly financial statement

(\*\*) Holding companies without any operational activities shall divide the aggregated Net Debt by the aggregated EBITA of their affiliates and use the ratios above. Or use the ratio Net Debt / Financial Income. Financial Income shall be defined as the aggregate of all dividends paid by their subsidiaries.

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**ANNEX 2: Tax obligation related to the Centralized Treasury Management Agreement**

		Central Treasury	Affiliated Company
Tax obligation related to the Centralized Treasury Management Agreement	Bilateral Agreements	Within a month after signature of the agreements send to the relevant tax department (the « Direction des Grandes Entreprises <sup>1</sup> »): an original copy of all bilateral agreements, the agreement template and an updated list of all participating entities <sup>2</sup> .	The Affiliated Companies registered in France have to send within a month after signature the signed agreement together with the list of all the Affiliated Companies to the relevant local tax authority (ie: "la Direction des Grandes Entreprises <sup>3</sup> "). Only the Central Treasury has to submit an updated list of all participating entities. On the February 15 <sup>th</sup> following the signature of the agreement, the Affiliated Companies registered in France have to submit the form 2062. In this form, the Central Treasury shall be considered as the debited company (cf. part II A) and the Affiliated Company as the credited company (cf. part II B). The duration of the agreement (end of the calendar year followed by a tacit renewal) shall be indicated in part II C (« Observation »).
		NB: The Centralized Treasury Management template must be signed on the same day by at least 3 Affiliated Companies registered in 3 different States including the Central Treasury State. This is a mandatory condition for the French Tax authority to allow the set up of the Centralized Treasury. The Affiliated Company list must also include 3 different companies (including the mother company) registered in 3 different states.	
	Common agreement	The Affiliated Companies registered in France have to send -within a month after signature- the agreement signed by all the parties to the relevant local tax authority <sup>4</sup> .	The Affiliated Companies registered in France have to submit together with the Centralized Treasury Management Agreement the form 2062 (cf. above).
Penalties	Default / delay in submitting the agreements	Credit interest will no longer be deductible, withholding tax shall be charged. EUR 15 per document not submitted or not submitted on time. Additional EUR 150 fine if the documents are not submitted within 30 days after request.	
	Omissions / errors	EUR 150 for any document not dully fulfilled plus EUR 15 per mistake.	

<sup>1</sup> Department of the French Tax administration created by the December 13, 2000 decree and in charge of the France Telecom Group shall report. Address : 8, rue Courtois - 93 505 PANTIN

<sup>2</sup> Letter from October 15 2001 from DLF to French Treasurer association ("l'Association française des Trésoriers d'Entreprise") §4 ;

<sup>3</sup> Letter from October 15 2001 from DLF to French Treasurer association ("l'Association française des Trésoriers d'Entreprise") § 5 ;

<sup>4</sup> Instruction 4 C-1-99 dated April 16, 1999 ;

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**ANNEXE 2 : Obligations fiscales liées à un Accord Conventionnel de Centralisation de la Gestion de Trésorerie**

		Centrale de Trésorerie	Filiale Affiliée
Obligations fiscales Déclaratives liées à une convention de centrale de trésorerie	Conventions bilatérales	Envoi d'un exemplaire, dans le mois suivant sa signature, à la Direction des Grandes Entreprises <sup>5</sup> , de toutes les conventions bilatérales, de la convention modèle et d'une liste des sociétés affiliées <sup>6</sup> mise à jour.	Dépôt d'un exemplaire, à la Direction des Grandes Entreprises, par la société établie en France, dans le mois suivant la signature de la convention modèle, de la convention bilatérale et de la liste des sociétés affiliées <sup>7</sup> . La DLF ne précise pas si la liste des sociétés affiliées doit être mise à jour, selon nous, seule la mère est soumise à cette obligation de mise à jour. Dépôt par les entreprises établies en France d'un imprimé 2062 au plus tard le 15 février N+ 1 de la conclusion de la convention de trésorerie : en considérant la Centrale de Trésorerie comme créancière (cadre II A) et la filiale affiliée comme débiteur (cadre II B) ; en portant dans le cadre II C intitulé «Observations», la durée de la première période d'application et son renouvellement par tacite reconduction (article 16 de la convention de trésorerie).
	Accord commun (pour mémoire)	Envoi, dans le mois de sa conclusion, d'un exemplaire signé par toutes les sociétés concernées, de l'accord, à la direction des services fiscaux du lieu de leur principal établissement <sup>8</sup> par chacune des sociétés parties, établies en France.	Dépôt corollaire pour les entreprises établies en France d'un imprimé 2062 cf supra.
Sanctions	Défaut / retard de déclaration	Remise en cause de la tolérance administrative : les intérêts excédentaires ne sont plus déductibles, les retenues à la source sont applicables. 15 € (euros) par document non produit ou parvenu tardivement, portés à 150 € si, à la suite d'une première mise en demeure, les documents ne sont pas fournis dans les 30 jours de sa réception. Si les documents ne sont pas produits dans les 30 jours suivants une deuxième mise en demeure, application de la sanction prévue en cas d'omission en considérant qu'il y a omission de la totalité des renseignements qu'aurait dû mentionner le document.	
	Omission / inexactitude	15 € par omission ou inexactitude, avec un minimum de 150 € pour chaque document omis, incomplet ou inexact.	

<sup>5</sup> Service de la Direction Générale des Impôts créé par l'arrêté du 13 décembre 2000 et dont relèvent les sociétés du groupe économique France Télécom. Coordonnées : 8, rue Courtois - 93 505 PANTIN

<sup>6</sup> Lettre du 15 octobre 2001 de la DLF à l'Association française des Trésoriers d'Entreprise § 4 ;

<sup>7</sup> Lettre du 15 octobre 2001 de la DLF à l'Association française des Trésoriers d'Entreprise § 5 ;

<sup>8</sup> Instruction 4 C-1-99 du 16 avril 1999 ;

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**ANNEX 3:  
Maximum borrowing cap of the Affiliated Company**

**ANNEXE 3 :  
Plafond d'emprunt de la Société Affiliée**

The Affiliated Company shall not borrow  
more than

La Société Affiliée ne pourra emprunter  
plus de

**USD 2.000.000,00 (two million US dollars)  
USD 2.000.000,00 (deux millions d'US dollars)**

or the equivalent amount in any other  
authorized currency.

ou un montant équivalent dans n'importe  
quelle autre devise autorisée.

**MANAGEMENT FEES AGREEMENT ("Agreement")**

**BETWEEN**

France Telecom, a Société Anonyme having its head office at 6, place d'Alleray 75015 - PARIS, France, registered with the French commercial and company register under number 380 129 866 (1991BO0801), with a share capital of 8.897.457.796 euros, represented by Michel COMBES.

Hereinafter referred to as 'France Telecom'

**ON THE ONE HAND**

**AND**

France Telecom Corporate Solutions L.L.C., a limited liability company organized under the laws of Delaware, U.S.A. with offices located at 1717 K Street, NW,, Suite 507, Washington D.C. 20036.

Hereinafter referred to as 'FTCS'

**ON THE OTHER HAND**

France Telecom and FTCS being hereafter referred to individually as a "Party" and collectively as the "Parties", as the case may be.

**PREAMBLE:**

FTCS has launched a telecommunications and billing services activity in the United States in relation to a few global outsourcing telecommunications contracts.

France Telecom S.A. is the company heading the group. It therefore provides its subsidiaries with any advice and support they may need.

100% of FTCS's share capital is held by France Telecom S.A.

Now therefore the Parties hereby consent and agree on the following :

## ARTICLE 1 - SCOPE OF THE AGREEMENT

1.1 France Telecom S.A. hereby undertakes to provide FTCS with consulting and support services for the following management activities :

- Human resources management and policy
- Planning and corporate strategy
- Management control and organisation of the accounting data system
- Accounting rules
- Financing and cash flow management
- Legal and fiscal advice
- Group purchase management

1.2 To this effect, France Telecom S.A. hereby undertakes to transmit to FTCS by all means available its procedures and methods concerning the above-mentioned activities and to promote contacts between FTCS and the relevant department of France Telecom S.A. in charge of those activities so as to deal with the consulting or support requests efficiently.

1.3 As part of the general provision of support services and with regard to its specialised technical and professional skills, France Telecom S.A. undertakes among others to help FTCS in selecting means of financing and making decisions as regards its financial management.

## ARTICLE 2 - CALCULATION AND INVOICING OF THE MANAGEMENT FEE

2.1 The management fee payable to France Telecom shall be of an amount equal to 0,20% of the FTCS Turnover (excluding any Value Added Tax or similar turnover tax) (hereafter the "Management Fee").

For the purpose of this Agreement, "Turnover" means the turnover invoiced by FTCS and, as the case may be, by its subsidiaries, to third parties, excluding France Telecom S.A. and all the subsidiaries of the France Telecom Group.

The data relating to the Turnover of FTCS will refer to the current year approved Budget figures as submitted to the France Telecom group Accounting and Financial Control Department by FTCS, for each company included in the scope of the Management Fee..

The list of the FTCS subsidiaries included in the calculation basis of the Management Fee is annexed hereinafter in Schedule 1. This list may be modified in the future. 'Subsidiaries' means all the companies owned by FTCS which will be included within its consolidation perimeter.

The data relating to the Turnover will be extracted from the FTCS annual financial statements as processed by the Accounting and Financial Control Department of the France Telecom Group according to the methods set up in the reference procedure.

2.2 The Management Fee will be charged to FTCS by France Telecom on an annual basis and will be paid directly to France Telecom. Payment shall be made in EUROS within thirty (30) days of the date of the invoice.

This Payment will cover every cost and expense which France Telecom S.A. will incur in providing FTCS with the aforesaid services.



2.3 However it is expressly agreed that should FTCS entrust France Telecom with an exceptional task, the remuneration of the aforesaid task will not be included in the Management Fee but will be determined in advance by mutual agreement. This remuneration will be described in a separate schedule to this Agreement and will be charged separately according to the terms of the aforesaid schedule.

### ARTICLE 3 - TERMINATION

This Agreement may be terminated before the end of its term without any judicial intervention nor any formalities other than those stipulated hereafter in the following cases:

- By declaration of termination if a sum owed by FTCS is not paid when it falls due or if one of the parties does not respect its obligations under this Agreement. In the latter event, the Party wishing to exercise its option to terminate this Agreement will have to serve upon the other a formal notice, by registered letter with acknowledgement of receipt, observing the lack of payment or the breach and declaring the termination. The same termination will then take effect immediately within a month of the formal notice, if within this allowed period of time the defaulting Party still has not fulfilled its obligations.

Subject to any damages France Telecom might claim, among others if a sum owed by FTCS is not paid when it falls due, the termination of this Agreement will not in any case give rise to the payment of any indemnity whatsoever;

- By right and without any formality if a change is made which results in France Telecom's direct or indirect loss of control of FTCS, within the meaning of article L233-3 of the *French Commercial Code (Code du commerce français)*, subject to any prior written express agreement to the contrary by France Telecom. This termination will not give rise to the payment of any indemnity to FTCS.

### ARTICLE 4 - CONFIDENTIALITY

4.1 The Parties undertake to keep strictly confidential all information, knowledge and the constitutive documents of France Telecom and FTCS which have been exchanged or which they might know about.

In all circumstances the Parties will make the requisite arrangements to ensure full confidentiality as regards business premises, employees and any other involved person.

Subject to prior written authorization from the other Party, the Parties undertake not to disclose to any third Party any technical, commercial, financial or other information for any motive whatsoever.

4.2 The confidentiality obligations contained in article 4.1. above will bind and will go on binding the Parties even after the termination of this Agreement for any reason, until the aforesaid information, documents and statements have come into the public domain other than through the negligence or wilful default of one of the Parties or through a direct or indirect breach of this article 4.2. by one of the Parties.

### ARTICLE 5 - DURATION

This Agreement is concluded retroactively for a one-year period starting on January 1<sup>st</sup> 2003.



AC

It will be renewed automatically for successive periods of one (1) year, unless a notice of termination has been served by either Party onto the other by registered mail with acknowledgement of receipt four (4) months before the end of the then current term, which includes the first term.

Such a termination would occur with no obligation to indemnify the other Party.

#### ARTICLE 6 - « INTUITU PERSONAE »

The Parties acknowledge and agree that this Agreement has been entered into because of the links in capital which exist between the Parties. As a result FTCS is not entitled to assign or transfer this Agreement for any reason, under any form and to the advantage of any third party unless a specific written prior consent has been given by France Telecom S.A.

#### ARTICLE 7 - TAXES, DUTIES AND LEVIES

7.1 Any taxes, direct or indirect, applicable or to become applicable, which are levied on France Telecom in France as a result of this Agreement shall be borne by France Telecom. Any taxes, levies, duties, withholding taxes or similar charges, direct or indirect, applicable or to become applicable, which are levied as a result of the provisions of services hereunder shall be added in each invoice at the applicable rates, and shall be borne by FTCS. The Parties shall do their best efforts to obtain from the local tax administration an exoneration of withholding tax.

If any withholding Tax must be paid in accordance with this Agreement the evidence of the payment signed by the local Tax Authority must be sent to France Telecom.

7.2 If after the date of signature of this Agreement any change occurs in any national or local statute, ordinance, decree, law or regulation of other duly constituted authority, which modifies the status of the above mentioned taxes, the invoicing will be modified accordingly.

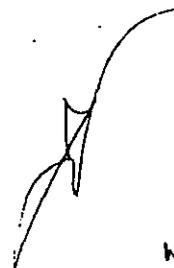
#### ARTICLE 8 - INTERPRETATION

8.1 The terms and conditions of this Agreement, including the Preamble and the Schedules which form an integral part of it, are compulsory. Each and every of them is an essential term of this Agreement without which it would not have been entered into, subject to the following stipulations concerning its validity.

8.2 The headings of the articles are only meant to ease reading and cannot be used to interpret or distort the meaning of the articles they relate to.

8.3 This Agreement, which includes its Preamble, defines the entirety of the obligations undertaken by the Parties regarding the subject matter of this Agreement. It cancels and replaces every written and oral understanding delivered or exchanged between the Parties prior to its signature.

8.4 Any modification of any of the terms and conditions of this Agreement shall be in writing signed by the persons authorised by each of the Parties, and will constitute a schedule to this Agreement.



Handwritten signature, possibly initials, located at the bottom right of the page.

### ARTICLE 9 - SEVERABILITY

If any provision of this Agreement is or becomes illegal, invalid or void or inapplicable under any law governing the implementation of this Agreement and is declared as such by any court, tribunal or arbitrator in a final decision, such provision shall be severed from the core of the Agreement and suppressed with no effect on the overall validity of the Agreement, all the other clauses of which remaining fully in force.

However should the avoidance of inapplicability severely endanger the legal and/or economical balance of this Agreement, the Parties will agree to meet in order to replace the said provision with a valid provision, as close as possible to the former both from the legal and economical points of view.

### ARTICLE 10 - GOVERNING LAW

This Agreement shall be governed by and construed in accordance with French law, without regard to its principles of conflicts of laws.

### ARTICLE 11 - DISPUTE RESOLUTION

11.1 As long as the Company remains an Affiliate of FRANCE TELECOM, any dispute between the Parties relating to this Agreement will first be submitted in writing to a panel consisting of one-senior executive of each of FRANCE TELECOM and the Company, who will promptly meet and confer in an effort to resolve such dispute.

Each Party's executives will be identified by notice to the other Party, and may be changed at any time thereafter also by notice to the other Party. Any decisions of the executives jointly agreed to in writing will be final and binding on the Parties.

In the event the executives are unable to resolve any dispute within thirty (30) days after submission to them, either party shall then refer such dispute to their respective Chief Executive Officers.

If there are two different Chief Executive Officers and should these Chief Executive Officers be unable to resolve the dispute within sixty (60) days after submission to them, such dispute shall be submitted to a conciliator appointed jointly by these Chief Executive Officer(s).

As regard to this Agreement, Chief Executive Officer Shall mean the principal executive officer of the corporation which directs and controls the business and the affairs of the corporation.

11.2 However should the Company cease to be an Affiliate of FRANCE TELECOM, then any dispute under this Agreement arising thereafter, or any prior dispute not resolved on the date of change of control, shall be submitted to the exclusive jurisdiction of the Courts of Paris, France, unless otherwise agreed between the Parties.

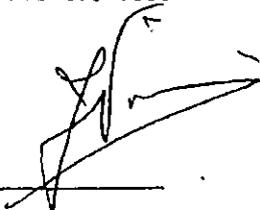
IN WITNESS WHEREOF, the Parties hereto have signed this Agreement in two (2) original copies, both in the English language of which France Telecom shall receive one (1) original copy and FTCS shall receive one (1) original copy.

Done this 15 day of Dec 2003

For and on behalf of FTCS



AS

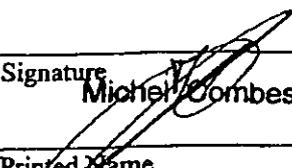
  
\_\_\_\_\_  
Signature

J. Nivoix  
Printed Name

General Manager  
Title

22/8/2003  
Date

For and on behalf of France Telecom

  
\_\_\_\_\_  
Signature

Michel Combes

\_\_\_\_\_  
Printed Name

Chief Financial Officer  
Title

09/07/2004  
Date

DOCUMENT

DOCKETED

DEC 14 2004

EXHIBIT C

France Telecom Corporate Solutions, LLC  
Balance Sheet -

	<u>Sept 30, 04</u>	<u>PA Allocation</u>
<b>ASSETS</b>		
Cash	1,882,747	-
Total Accounts Receivable (net)	11,634,477	350,000
Total Accrued Revenue	7,115,108	210,000
Other Assets and intangibles	663,801	-
<b>TOTAL ASSETS</b>	<u>21,296,133</u>	<u>560,000</u>
<b>LIABILITIES &amp; EQUITY</b>		
Liabilities		
Current Liabilities		
Accounts Payable	14,259,533	425,000
Accrued Expenses	8,498,460	250,000
Due to Related Party	1,703,856	-
Deferred Revenue -	141,097	-
Taxes Payable	581,747	-
Total Liabilities		
Equity		
Total Contributed Member Equity	13,005,000	390,000
Retained Earnings	(16,893,560)	(505,000)
Total Equity		
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u>21,296,133</u>	<u>560,000</u>

**France Telecom Corporate Solutions, LLC**  
**Profit & Loss Standard**  
For the YTD Period Ending September 2004

	<u>YTD</u>	<u>(Projected Full Year) PA Allocation</u>
Total Revenue	13,576,227	675,000
Total COGS	<u>19,105,544</u>	<u>950,000</u>
Gross Profit	(5,529,317)	(275,000)
Total SG & A Expense	700,052	35,000
Bad Debt Expense	3,041,861	152,000
Net Ordinary Loss		
Total Other Income	22,464	1,000
Total Other Expense	<u>148,780</u>	<u>7,500</u>
Net Loss	<u>(9,397,546)</u>	<u>(468,500)</u>

# COUDERT BROTHERS LLP

ATTORNEYS AT LAW

1627 I STREET, N.W.  
WASHINGTON, D.C. 20006-4007  
TEL: (202) 775-5100  
FAX: (202) 775-1168  
WWW.COUDERT.COM

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**ASSOCIATED OFFICES**  
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# ORIGINAL

## VIA FEDERAL EXPRESS

November 9, 2004

**DOCKETED**  
AUG 11 2005

# RECEIVED

NOV 09 2004

James J. McNulty  
Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
2nd Floor, Room N201  
Harrisburg, PA 17120

**PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU**

Re: France Telecom Corporate Solutions L.L.C.; Docket No. A-311242

Dear Mr. McNulty:

This Letter is a supplement to the Application of France Telecom Corporate Solutions L.L.C. ("FTCS") for Authority to Provide Telecommunications Services as a Reseller of Toll Services and Competitive Local Exchange Carrier Services in the above-referenced docket.

The following information is being provided pursuant to staff request:

- (1) FTCS' debt is distributed as follows: 48% of the Accrued Expenses are to related parties and 76% of the Accounts Payable are to related parties.
- (2) Under FTCS' business plan, the company's management projects losing money during the first number of years due to costs associated with starting a new business in the United States. However, FTCS' business plan expects profitability to increase as the business grows and stabilizes leading to positive net income within the next five years..

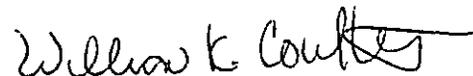
An original plus three copies of this letter is enclosed for filing.

# DOCUMENT FOLDER

Please file-stamp and return the extra copy of this filing in the pre-addressed, stamped envelope provided for this purpose.

Kindly direct any questions to the undersigned.

Regards,



William K. Coulter  
Counsel for France Telecom  
Corporate Solutions L.L.C.

Enclosures

cc: Dan Searfoorce, PUC Telecommunications Division

**RECEIVED**

NOV 09 2004

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU