

OFFERING CIRCULAR

SONATA SECURITIES S.A.

(a public limited liability company (société anonyme) incorporated under the laws of the Grand Duchy of Luxembourg and registered with the Luxembourg trade and companies register under number B 102636)

EUR 350,000,000
EURIBOR 3-month Rate plus 1.2 per cent. per annum
Credit-linked Exchangeable Bonds due 2036
Exchangeable for shares of France Telecom S.A.

Sonata Securities S.A. (the "Issuer") accepts full responsibility for the accuracy of the information contained in this listing document (other than for the information contained in the section "Overview of France Telecom and the Shares" for which the Issuer accepts responsibility for the accuracy of the extraction and reproduction of the information contained in such section) and confirms, having made reasonable enquiry, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement within this listing document misleading.

The Issuer is subject to the Luxembourg act dated 22 March 2004 on Securitisation (as amended from time to time, the "Luxembourg Securitisation Act 2004"). Under the Luxembourg Securitisation Act 2004, the Issuer, as an unregulated entity within the meaning of the Luxembourg Securitisation Act 2004, is not entitled to issue bonds or shares to the public on an ongoing basis.

The Issuer is offering EUR 350,000,000 Credit-linked Exchangeable Bonds due 2036 (the "Bonds") exchangeable for shares of France Telecom S.A. ("France Telecom") at 100 per cent. of the principal amount thereof. Each Bond will bear interest per annum on its outstanding principal amount from 5 May 2006 (the "Issue Date") at EURIBOR 3-month Rate plus 1.2 per cent. per annum for each Interest Period payable quarterly in arrear on 1 January, 1 April, 1 July and 1 October of each year with the first such interest payment to be made on 1 July 2006 in respect of the period from the Issue Date. The Bonds will be secured, limited recourse obligations of the Issuer, ranking *pari passu* without any preference among themselves. The Bonds will mature on 5 May 2036 (the "Maturity Date").

The Bonds are being offered and sold by Deutsche Bank AG, acting through its London branch ("Deutsche Bank AG, London Branch"), exclusively outside the United States to non-U.S. persons in reliance on Regulation S ("Regulation S") under the United States Securities Act of 1933, as amended (the "Securities Act").

Unless previously redeemed or otherwise purchased by the Issuer, each Bond will, at the option of the Bondholder (as defined herein), be exchangeable (such right, the "Exchange Right") for newly issued, fully paid ordinary shares of France Telecom (the "Newly Issued Shares") at any time during the period (the "Exchange Period") commencing on 15 June 2006 up to and including the earlier to occur of (i) the day falling 15 Business Days (as defined herein) prior to the Maturity Date and (ii) the day on which an Issuer Redemption Notice (as defined herein) is given (unless in such notice the Issuer specifies a date later than the date of the Issuer Redemption Notice as the last day on which the Exchange Right may be exercised *provided that*, in the case of *Redemption if the Average Closing Price of the Shares exceeds 150 per cent. of the Exchange Price* (see "Condition 7.2(C)"), the last day on which the Exchange Right may be exercised shall be the end of the fourth Business Day prior to the date of the settlement of such redemption). The Newly Issued Shares to which the Exchange Right relates are subject to adjustment in certain events. The right of Bondholders to exchange the Bonds for Newly Issued Shares may be suspended following certain events (see "Terms and Conditions of the Bonds—Suspension of Exchange Rights") and extinguished following a Mandatory Redemption Event (as defined herein) (see "Terms and Conditions of the Bonds—Circumstances in which the Exchange Right is extinguished").

Application has been made for the Bonds to be admitted for trading on the Euro MTF, which is the alternative market of the Luxembourg Stock Exchange, and listed on the Official List of the Luxembourg Stock Exchange. The Euro MTF is not a regulated market pursuant to the provisions of Directive 2004/39/EC.

The Shares (as defined herein) are listed and traded on a regular basis on Euronext Paris. On 2 May 2006, the official closing price of the Shares on Euronext Paris was €18.63 per Share.

Unless previously redeemed, exchanged or purchased and cancelled, the Bonds will be redeemed by the Issuer on the Maturity Date at their outstanding principal amount. At any time after the Issuer delivers an FT Credit Event Notice (as defined herein) the Issuer shall have no obligation to redeem any Bond at its outstanding principal amount on the Maturity Date (see "Terms and Conditions of the Bonds—Consequences of an FT Credit Event"). In various specified circumstances the Bonds are subject to redemption as a consequence of an FT Credit Event (as defined herein), at the option of the Issuer and as a consequence of a Mandatory Redemption Event (see "Terms and Conditions of the Bonds—Redemption").

The Bonds will be secured by a first fixed charge and an assignment by way of first ranking security in favour of the Trustee (as defined in the trust instrument relating to the Bonds (the "Trust Instrument")) over or in respect of the EURIBOR 3-month rate plus 1.2 per cent. per annum credit-linked exchangeable bonds due 2036 exchangeable for shares of France Telecom (the "Underlying Bonds"), and issued by Deutsche Bank AG, London Branch (the "Underlying Issuer") with an issue size that matches the issue size of the Bonds, and by a first fixed charge in favour of the Trustee over the Issuer's interest in sums held by any Agent under the Agency Agreement (each as defined herein) to meet payments due in respect of the Bonds, (together the "Mortgaged Property").

Claims against the Issuer by holders of the Bonds and by each other Secured Party will be limited to the Mortgaged Property. If the net proceeds of the enforcement of the Mortgaged Property are not sufficient to make payments of all amounts due in respect of the Bonds and of all amounts due to each Secured Party, no other assets of the Issuer will be available to meet such shortfall and the claims of holders of the Bonds and the Secured Parties in respect of any such shortfall shall be extinguished and no such party will be able to petition for the winding-up of the Issuer as a consequence of any such shortfall.

Bondholders, by subscribing to the Bonds, expressly accept, and shall be deemed to be bound by, the provisions of the Luxembourg Securitisation Act 2004 and in particular its provisions on limited recourse, no petition, subordination and priority of payments.

The Bonds will be issued in registered form and will be represented by interests in a permanent global certificate (a "Global Certificate"), which will be registered in the name of a nominee for, and will be deposited on the Issue Date with a common depository on behalf of, Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg").

THE BONDS WILL BE OBLIGATIONS SOLELY OF THE ISSUER AND WILL NOT BE GUARANTEED BY, OR BE THE RESPONSIBILITY OF, ANY OTHER ENTITY.

BOOKRUNNER

Deutsche Bank

Investing in the Bonds involves a high degree of risk. The attention of potential investors is drawn to the sections headed "Investor Suitability" on page 5 and "Risk Factors" on pages 7 to 10 of this Offering Circular.

The date of this Offering Circular is 4 May 2006.

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Except as set out below, the Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that this is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information. The delivery of this Offering Circular at any time does not imply that any information contained herein is correct at any time subsequent to the date hereof.

The information contained in this Offering Circular relating to France Telecom and the Shares has been extracted or reproduced from, or is a summary of, publicly available information published by France Telecom, including France Telecom's 2005 Document de Référence which was filed with the Autorité des Marchés Financiers on 10 March 2006, France Telecom's 2004 Document de Référence which was filed with the Autorité des Marchés Financiers on 2 March 2005, France Telecom's Annual Reports for the fiscal years ended 31 December 2003 and 31 December 2004, France Telecom's Consolidated Financial Statements for the fiscal year ended 31 December 2005 and 31 December 2004 and Form 20-F filings for 2004 and 2003 made by France Telecom with the United States Securities and Exchange Commission. The Issuer accepts responsibility for the accuracy of such extraction and reproduction or summary but accepts no further or other responsibility in respect of such information. Defined terms used in the section entitled "Overview of France Telecom and the Shares" may be different from those used in this Offering Circular and should be read as defined in the publicly available information mentioned above. Nothing has come to the attention of the Issuer that would cause it to believe either that such information is not correct and complete in all material respects or that there has been any development of a material nature affecting France Telecom which is not described in this Offering Circular.

France Telecom has not participated in the preparation of this Offering Circular or in establishing the terms of the Bonds. Consequently, there can be no assurance that all events occurring prior to the date hereof (including events that would affect the accuracy or completeness of the publicly available documents described in the preceding paragraph or the section titled "Overview of France Telecom and the Shares") that would affect the trading price of the Shares, and the credit quality of FT and therefore the value of the Bonds, have been publicly disclosed. Subsequent disclosure of any such events or the disclosure of or failure to disclose material future events concerning France Telecom could affect the trading prices of the Shares deliverable upon exchange of the Bonds and therefore the value of the Bonds.

No person has been authorised to give any information or to make any representation other than those contained in this Offering Circular in connection with the issue or sale of the Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Bookrunner (as defined in the "Summary").

This Offering Circular may only be used for the purposes for which it has been published.

This Offering Circular is to be read in conjunction with all the documents which are deemed to be incorporated herein by reference (see "Information Incorporated by Reference").

The distribution of this Offering Circular and the offering or sale of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Bookrunner to inform themselves about and to observe any such restriction. The Bonds have not been and will not be registered under the Securities Act. The Issuer has not registered and will not register under the U.S. Investment Company Act of 1940, as amended (the "Investment Company Act"). Consequently, the Bonds may not be offered, sold, resold, delivered or transferred within the United States or to, or for the account or benefit of, U.S. persons (as such term is defined in Regulation S under the Securities Act) except in accordance with the Securities Act or an exemption therefrom and under circumstances which will not require the Issuer to register under the Investment Company Act. For a description of certain restrictions on offers and sales of Bonds, restrictions on offers and sales of Shares deliverable on exchange of a Bond and on distribution of this Offering Circular, see "Subscription and Sale and Transfer Restrictions".

The Issuer is a special purpose vehicle having adopted the form of a public limited liability company (société anonyme) incorporated under the laws of the Grand Duchy of Luxembourg. The Issuer's activities are subject to the Luxembourg Securitisation Act 2004. Under the Luxembourg Securitisation Act 2004, the Issuer, as an unregulated entity within the meaning of the Luxembourg Securitisation Act 2004, is not entitled to issue bonds or its shares to the public on an ongoing basis.

Neither the Bookrunner nor the Trustee has separately verified the information contained herein and accordingly neither the Bookrunner nor the Trustee makes any representation, recommendation or warranty,

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express or implied, regarding the accuracy, adequacy, reasonableness or completeness of the information contained herein or in any further information, notice or other document which may at any time be supplied in connection with the Bonds or their distribution and neither of them accepts any responsibility or liability therefor. Neither the Bookrunner nor the Trustee undertakes to review the financial condition or affairs of the Issuer, the Underlying Issuer or France Telecom during the transactions contemplated by this Offering Circular nor to advise any investor or potential investor in the Bonds of any information relating to such entities or transactions coming to the attention of either the Bookrunner or the Trustee.

In this Offering Circular, unless otherwise specified or the context otherwise requires, references to “euro”, “EUR” or “€” are to the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union, as amended by the Treaty of Amsterdam.

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INVESTOR SUITABILITY

Prospective investors should determine whether an investment in the Bonds of the Issuer is appropriate in their particular circumstances and should consult with their legal, business and tax advisers to determine the consequences of an investment in the Bonds and to arrive at their own evaluation of the investment.

Attention is drawn, in particular, to “Risk Factors” below.

Investment in the Bonds is only suitable for investors who:

- (i) have the requisite knowledge and experience in financial and business matters, and access to, and knowledge of, appropriate analytical resources, to evaluate the information contained in this Offering Circular and the merits and risks of an investment in the Bonds in the context of such investors’ financial position and circumstances;
- (ii) are capable of bearing the economic risk of an investment in the Bonds for an indefinite period of time;
- (iii) are acquiring the Bonds for their own account for investment, not with a view to resale, distribution or other disposition of the Bonds (subject to any applicable law requiring that the disposition of the investor’s property be within its control);
- (iv) recognise that it may not be possible to make any transfer of the Bonds for a substantial period of time, if at all; and
- (v) are banks, investment banks, pension funds, insurance companies, securities firms, investment institutions, central governments, large international or supranational organisations or other entities, including, *inter alios*, treasuries and finance companies of large enterprises which are active on a regular and professional basis in the financial markets for their own account.

Investors’ attention is also drawn to the “Luxembourg Taxation” and “France Taxation” sections of this Offering Circular.

The tax consequences for each investor in the Bonds can be different and therefore investors are advised to consult with their tax advisers as to the specific consequences.

BY SUBSCRIBING TO THE BONDS, EACH HOLDER OF BONDS SHALL BE DEEMED TO BE FULLY AWARE OF, ADHERE TO AND BE BOUND BY, THE TERMS AND CONDITIONS AND THE PROVISIONS OF THE LUXEMBOURG SECURITISATION ACT 2004 AND, IN PARTICULAR, ITS PROVISIONS ON LIMITED RECOURSE, NO PETITION, SUBORDINATION AND PRIORITY OF PAYMENTS.

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INFORMATION INCORPORATED BY REFERENCE

The following shall be deemed incorporated in, and form part of, this Offering Circular:

- (i) the articles of incorporation of the Issuer;
- (ii) the Consolidated Financial Statements of the France Telecom Group for the periods ended 31 December 2005 and 31 December 2004;
- (iii) the 2004 Annual Report of the France Telecom Group for the fiscal year ended 31 December 2004;
- (iv) the 2003 Annual Report of the France Telecom Group for the fiscal year ended 31 December 2003;
- (v) Form 20-F filings for 2004 and 2003 made by France Telecom with the United States Securities and Exchange Commission;
- (vi) France Telecom's 2005 *Document de Référence* which was filed with the Autorité des Marchés Financiers on 10 March 2006; and
- (vii) France Telecom's 2004 *Document de Référence* which was filed with the Autorité des Marchés Financiers on 2 March 2005.

As long as the Bonds are admitted to trading on the Euro MTF and listed on the Official List of the Luxembourg Stock Exchange, the articles of incorporation of the Issuer may be inspected and are available free of charge at the offices of Deutsche Bank Luxembourg S.A., 2, Boulevard Konrad Adenauer, L-1115 Luxembourg.

Copies of the documents referred to in (ii) to (vii) above may be obtained from France Telecom's website (www.francetelecom.com) or, as the case may be, the United States Securities and Exchange Commission (www.sec.gov) or, as the case may be, the Autorité des Marchés Financiers (www.amf-france.org).

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RISK FACTORS

General

Purchasers of Bonds should conduct such independent investigation and analysis regarding the Issuer, the Underlying Issuer, France Telecom, the Shares, the Mortgaged Property, the security arrangements, the Bonds, the Underlying Bonds or other agreement entered into in respect of the Bonds and all other relevant market and economic factors as they deem appropriate to evaluate the merits and risks of an investment in the Bonds. The Issuer, the Bookrunner and the Trustee disclaim any responsibility to advise purchasers of Bonds of the risks and investment considerations associated with the purchase of the Bonds as they may exist at the date hereof or from time to time hereafter. However, as part of such independent investigation and analysis, prospective purchasers of Bonds are required by the Issuer to consider all of the information set forth below.

Terms used herein are as defined in Condition 23 (*Definitions*) of the Terms and Conditions of the Bonds.

Risks relating to the Bonds

No secondary market

Although application has been made to list the Bonds on the Luxembourg Stock Exchange's Euro MTF market, owing to possible liquidity constraints a secondary market may not develop in respect of the Bonds.

Limited recourse of Bondholders

Luxembourg Securitisation Act 2004: The Issuer is established as a *société de titrisation* within the meaning of the Luxembourg Securitisation Act 2004. The Luxembourg Securitisation Act 2004 and the articles of incorporation (the "**Articles**") of the Issuer authorise the board of the Issuer to create compartments (the "**Compartments**", and each a "**Compartment**"). A Compartment is a separate and distinct part of the Issuer's estate ("*patrimoine*"). As between all holders of bonds issued by the Issuer, each Compartment is deemed to comprise assets of a separate entity. Each Bondholder shall be deemed to be aware of, fully adhere to, and be bound by, the Conditions applicable to the Bonds and the Articles of the Issuer. The assets of the Compartment are exclusively available to satisfy the rights of holders of Bonds issued in relation to that Compartment and the rights of creditors whose claims have arisen at the occasion of the constitution, the operation or the liquidation of that Compartment. Fees, expenses and other liabilities incurred on behalf of the Issuer but which do not relate specifically to any Compartment shall, unless otherwise determined by the board of the directors of the Issuer (the "**Board**") be general liabilities of the Issuer and shall not be payable out of the assets of any Compartment. The Board shall ensure, to the extent possible (although there is no guarantee that the Board will be able to achieve this), that creditors of such liabilities waive recourse to the assets of any Compartment.

The Board shall establish and maintain separate accounting records for each of the Compartments of the Issuer. The assets of each Compartment may include the proceeds of the bonds issued thereunder, any swap agreements, option agreements or collateral relating to such bonds, any proceeds from any such swap agreements, option agreements and collateral. The fees, costs and expenses in relation to the bonds issued in respect of a Compartment are allocated to such Compartment in accordance with the relevant terms and conditions and the Articles. The investors under a Compartment will have recourse only to the assets included in such Compartment and their rights will be restricted to the assets included in such Compartment.

Limited recourse: The Board has created a specific Compartment in respect of which the Bonds will be issued. The right of Bondholders to participate in the assets of the Issuer is limited to the Mortgaged Property. If the payments received by the Issuer in respect of the Mortgaged Property are not sufficient to make payments of all amounts due in respect of the Bonds, then the obligations of the Issuer in respect of the Bonds will be limited to the Mortgaged Property, as specified in the Conditions. The Issuer will not be obliged to make any further payment in excess of amounts received upon the realisation of the Mortgaged Property. Following application of the proceeds of realisation of the Mortgaged Property in accordance with the Conditions, the claims of the Bondholders shall be

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extinguished and the Bondholders may not take any further action to recover such shortfall. In particular, no such party will be able to petition for the winding-up of the Issuer.

Consequences of Winding-up Proceedings: If the Issuer fails for any reason to meet its obligations or liabilities (that is, if the Issuer is unable to pay its debts and may obtain no further credit), a creditor may be entitled to make an application for the commencement of insolvency proceedings against the Issuer. The commencement of such proceedings may involve certain conditions, entitle creditors to terminate contracts with the Issuer and claim damages for any loss arising from such early termination. The commencement of such proceedings may result in the Issuer's assets (including the Mortgaged Property) being realised and applied to pay the fees and costs of the liquidator, debts preferred by law and debts payable in insolvency, before any surplus is distributed to the Bondholders. In the event of proceedings being commenced, the Issuer may not be able to pay the full redemption amount, any amount of interest and any other or alternative amounts anticipated by the Conditions. The Issuer will seek to contract only with parties who agree not to make application for the commencement of winding-up or similar proceedings against the Issuer.

Mandatory redemption

Investors should note that the Calculation Agent will be responsible for determining the events that would trigger a mandatory redemption pursuant to Condition 7.3 (*Mandatory Redemption*).

Early Redemption: Loss of Exchange Right

Although the Bonds are scheduled to be redeemed on the Maturity Date, the Bonds may be redeemed sooner pursuant to an FT Credit Event, a redemption at the option of the Issuer and a Mandatory Redemption Event. Consequently, the Bonds may be redeemed before the Exchange Period begins. In the event of a Mandatory Redemption Event, the Exchange Right will be immediately extinguished without prior notice to Bondholders.

A Credit Event Redemption will occur following an FT Credit Event which relates to the Reference Bond (as defined herein) and the issuer of the Reference Bond. If the Bonds are redeemed pursuant to a Credit Event Redemption, the Bondholders will receive the Credit Event Redemption Amount ("**CERA**") (see "*Terms and Conditions of the Bonds—Consequences of an FT Credit Event*"). After the delivery of the FT Credit Event Notice (such date being the "**Credit Event Date**"), the Issuer shall have no obligation to (i) make any interest payments and interest shall cease to accrue on the Bonds and (ii) redeem any of the Bonds at their scheduled maturity or any date of early redemption (irrespective of whether the Issuer has previously given notice of redemption), except pursuant to Credit Event Redemption.

Redemption at the option of the Issuer can occur (i) at any time on or after the second anniversary of the Issue Date, (ii) if any Adverse Change occurs or is likely to occur, (iii) if at any time on and from 3 March 2010 the average Closing Price of the Shares exceeds 150 per cent. of the Exchange Price or (iv) if the outstanding Bonds (or Underlying Bonds) represent less than 10 per cent. of the aggregate principal amount outstanding of the Bonds (or Underlying Bonds) on the Issue Date (see "*Terms and Conditions of the Bonds—Redemption at the Option of the Issuer*"). In respect of each of the options which the Issuer may exercise to redeem the Bonds (other than Redemption if the average Closing Price of the Shares exceeds 150 per cent. of the Exchange Price) the Issuer has the option to settle the amount payable on redemption by transferring or delivering Newly Issued Shares or by delivering cash.

The amount to be paid on redemption of the Bonds if the Issuer does not elect to transfer or deliver Newly Issued Shares upon redemption at the option of the Issuer (i) at any time on or after the second anniversary of the Issue Date and (ii) if any Adverse Change occurs or is likely to occur is, in the case of (i), 101 per cent. of the then Fair Market Value of the Bonds and, in the case of (ii), the then Fair Market Value of the Bonds, both as determined by the Calculation Agent in its sole discretion. Fair Market Value takes into account (*inter alia*) the trading price of the Bonds. However, there can be no guarantee that the Fair Market Value will be equal to the trading price of the Bonds, the principal amount of the Bonds, the redemption amount of the Bonds or the value of the Shares. If the Issuer does not elect to transfer or deliver Shares upon redemption at the option of the Issuer after the outstanding Bonds represent less than 10 per cent. of the aggregate principal amount outstanding of the Bonds on the Issue Date, then the amount to be paid on redemption in cash shall be the principal amount outstanding of the Bonds.

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Upon redemption at the option of the Issuer if the average Closing Price of the Shares exceeds 150 per cent. of the Exchange Price, the Issuer may, at any time on and from 3 March 2010, redeem all, but not some of the Bonds then outstanding in cash at the aggregate principal amount of all the then outstanding Bonds (see “*Terms and Conditions of the Bonds—Redemption at the Option of the Issuer*”).

A Mandatory Redemption Event is an event relating to the Underlying Bonds or the Underlying Issuer (see “*Terms and Conditions of the Bonds—Mandatory Redemption*”).

Following a Mandatory Redemption Event, the Underlying Bonds shall be deemed to have become immediately repayable (the “**Repayable Assets**”) and the Issuer shall, on the instructions of the Calculation Agent, give notice to the Bondholders (see “*Terms and Conditions of the Bonds—Mandatory Redemption*”). Upon expiry of such notice (a) the Issuer shall redeem each Bond in whole at its principal amount outstanding (b) the security constituted by or created pursuant to the Trust Instrument over the Repayable Assets shall become enforceable and (c) the Exchange Right in respect of each Bond shall be extinguished with effect from the first date of the occurrence of any Mandatory Redemption Event (as determined by the Calculation Agent).

Suspension of Exchange Right

Upon the occurrence of specified events (see “*Terms and Conditions of the Bonds—Suspension of Exchange Rights*”), the rights of Bondholders to exchange their Bonds for Newly Issued Shares may be suspended.

No direct recourse

Bondholders will have no direct recourse to the Mortgaged Property. Bondholders have only limited rights to direct the Trustee as to the Mortgaged Property, as described in the Conditions.

Withholding tax

Any payments under the Bonds will be made subject to any withholding or deduction for, or on account of, any applicable taxation.

Risks relating to the Shares

No control over the Shares

Bondholders will have no voting or other rights in respect of the Shares, and will have no right to direct the Issuer or the Underlying Issuer as to how to exercise its rights in respect of the Shares.

The Value of the Shares may decline

The value of the Shares may decline depending on market trends, performance of France Telecom and the availability of the Shares. In particular, the value of the Shares may vary substantially between the date on which Exchange Rights are exercised and the date on which the Shares are delivered.

Disclosure in relation to France Telecom

France Telecom has not participated in the preparation of this Offering Circular or in establishing the terms of the Bonds. Consequently, there can be no assurance that all events occurring prior to the date hereof (including events that would affect the accuracy or completeness of the publicly available information relating to France Telecom) that would affect the trading price of the Shares, and therefore the value of the Bonds, have been publicly disclosed. Subsequent disclosure of any such events or the disclosure of or failure to disclose material future events concerning France Telecom could affect the trading prices of the Newly Issued Shares deliverable upon exchange of the Bonds and therefore the value of the Bonds.

Transfer or delivery of the Shares

The transfer of the Bonds would not be subject to registration duties in France unless a transfer deed is voluntarily registered, in which case a €125 registration duty is applicable. The Shares being listed, their transfer would not be subject to registration duties in France unless a deed is entered into,

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in which case a 1.1 per cent. registration duty capped at €4,000 is applicable. In addition, the sale or transfer of the Shares by or through a French investment services provider may be subject to a stock exchange levy.

Costs associated with exercise of Exchange Rights

Bondholders are required to pay certain costs arising on exchange, including any stamp, transfer, registration, issue, documentary or other similar taxes and duties and other stock exchange transaction costs (if any) together with any value added or other tax thereon arising on the exercise of any Exchange Right and/or the transfer or delivery of Newly Issued Shares and or cash to, or to the order of, the relevant Bondholder, as more fully described under the Conditions. See “*Transfer or delivery of the Shares*” above.

Risks relating to the Underlying Bonds

Withholding tax

Any payments in respect of the Underlying Bonds will be made subject to any withholding or deductions for, or on account of, any applicable taxation.

Illiquid collateral

The collateral for the Bonds is the Underlying Bonds which is a privately placed, unlisted obligation, is not admitted to any trading market and is not readily realisable.

THE CONSIDERATIONS SET OUT ABOVE ARE NOT, AND ARE NOT INTENDED TO BE, A COMPREHENSIVE LIST OF ALL CONSIDERATIONS RELEVANT TO A DECISION TO PURCHASE OR HOLD ANY BONDS.

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SUMMARY

The following is a summary of the principal features of the Bonds and is qualified by the detailed information appearing elsewhere in this Offering Circular, and in particular in the sections entitled "Terms and Conditions of the Bonds", "Summary of Provisions Relating to Bonds While in Global Form" and "Description of the Underlying Bonds". Terms used in this summary and not otherwise defined have the meanings given in "Terms and Conditions of the Bonds".

- Issuer:** Sonata Securities S.A. (a public limited liability company (*société anonyme*) whose activities are subject to the Luxembourg Securitisation Act 2004). The board of directors of the Issuer has created a compartment in respect of the Bonds to which all the assets and liabilities relating to the Bonds will be allocated (see under "Compartment" below).
- Bonds:** EUR 350,000,000 EURIBOR 3-month Rate plus 1.2 per cent. per annum Credit-linked Exchangeable Bonds due 2036 (the "Bonds") exchangeable for newly issued, fully paid ordinary shares of France Telecom S.A. (the "Newly Issued Shares" and "France Telecom" respectively). References below to "Bondholders" are to holders of the Bonds.
- Issue Date:** 5 May 2006.
- Bookrunner:** Deutsche Bank AG, London Branch.
- Status and Security:** The Bonds will be secured, limited recourse obligations of the Issuer, ranking *pari passu* without any preference among themselves. Recourse in respect of the Bonds will be limited to the Mortgaged Property.
- Mortgaged Property:** The Bonds will be secured by:
- (a) a first fixed charge and assignment by way of first ranking security in favour of the Trustee over or in respect of the EURIBOR 3-month Rate plus 1.2 per cent. per annum credit-linked exchangeable bonds due 2036 exchangeable into the shares of France Telecom (the "Underlying Bonds") and issued by Deutsche Bank AG, London Branch (the "Underlying Issuer") with an issue size that matches the size of the Bonds; and
 - (b) a first fixed charge over the Issuer's interest in all sums held by any Agent under the Agency Agreement to meet payments due in respect of the Bonds,
- together, the "Mortgaged Property".
- Compartment:** A separate compartment has been created by the board of directors of the Issuer in respect of the Bonds (the "Compartment"). The Compartment is a separate part of the Issuer's assets and liabilities. The Mortgaged Property forms the assets in the Compartment and is exclusively available to satisfy the rights of the holders of the Bonds (in accordance with the Conditions) and the rights of the creditors whose claims have arisen at the occasion of the creation, the operation or the liquidation of the Compartment, as contemplated by article 4 of the articles of incorporation of the Issuer.
- Trustee:** Deutsche Trustee Company Limited.
- Principal Paying and Exchange Agent:** Deutsche Bank AG, London Branch.
- Paying and Exchange Agent:** Deutsche Bank Luxembourg S.A.

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Transfer Agent:	Deutsche Bank Luxembourg S.A.
Calculation Agent:	Deutsche Bank AG, London Branch.
Expert:	An internationally recognised financial institution appointed by the Issuer in consultation with the Trustee.
Listing Agent:	Deutsche Bank Luxembourg S.A.
Registrar:	Deutsche Bank Luxembourg S.A.
Issue Price:	100 per cent. of principal amount.
Form of Bonds:	The Bonds will be issued in registered form. The Bonds will be represented by interests in a permanent global certificate which will be deposited on its issue date with a common depository on behalf of Euroclear and Clearstream, Luxembourg. See “ <i>Summary of Provisions Relating to Bonds while in Global Form</i> ”.
Denomination:	EUR 50,000.
Interest:	Each Bond bears interest per annum on its outstanding principal amount from the Issue Date at the EURIBOR 3-month Rate plus 1.2 per cent. per annum, such interest being payable quarterly in arrear on 1 January, 1 April, 1 July and 1 October of each year, with the first such interest payment to be made on 1 July 2006, in respect of the period from the Issue Date.
Maturity Date:	5 May 2036.
Reference Bonds:	The <i>Titres à durée indéterminée remboursables en actions</i> issued by France Telecom the issuance of which was reserved to Ericsson Credit AB and Nokia OYJ and the terms and conditions of which are set out in the offering circular (<i>Note d’Opération</i>) approved by the Commission des Opérations de Bourse (COB) under visa number 03-092 dated 24 February 2003 (available on http://www.amf-france.org) listed on Euronext Paris with the following ISIN code FR0000472995. The terms and conditions of the Reference Bonds are set out in the offering circular mentioned above, as amended from time to time.
Final Redemption:	Unless previously redeemed, exchanged or purchased and cancelled as provided below, each Bond will be redeemed at its outstanding principal amount on the Maturity Date.
Exchange Right:	A Bondholder has the right to exchange its Bonds for Newly Issued Shares at any time during the Exchange Period. The Exchange Right may be exercised only in respect of the whole of the principal amount of a Bond. The number of Newly Issued Shares to be transferred or delivered on exchange of a Bond shall be determined by dividing the principal amount per Bond by the Exchange Price in effect on the Exchange Settlement Date as determined by the Calculation Agent, (the Exchange Ratio, which is subject to certain adjustments). See Condition 5 (<i>Adjustment Events</i>). The exercise of the Exchange Right may be suspended by the Issuer or extinguished in certain circumstances. See Condition 4 (<i>Exchange Right</i>).
Exchange Price:	EUR 28.4108 per Newly Issued Share, subject to certain adjustments. See Condition 5 (<i>Adjustment Events</i>).
Exchange Ratio:	The initial Exchange Ratio is 1759.8941 Shares per Bond.
Exchange Period:	The Exchange Right attaching to any Bond may be exercised by the holder thereof, at any time during the period commencing on and including 15 June 2006 up to and including the earlier to

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occur of (i) the close of business (in the place where the Exchange Notice in respect of the Bonds is deposited) on the day falling 15 Business days prior to the Maturity Date; and (ii) the day on which an Issuer Redemption Notice is given (unless, in such notice, the Issuer specifies a date later than the date of the Issuer Redemption Notice as the last day on which Exchange Rights may be exercised provided in the case of a *Redemption if the Average Closing Price of the Shares exceed 150 per cent. of the Exchange Price*, the last day on which the Exchange Rights may be exercised shall be the end of the fourth Business Day prior to the date of the settlement of such redemption). In addition, in any case where the Issuer effects a redemption at its option, if the Issuer delays in making payment or delivery of Newly Issued Shares (as applicable) on redemption for more than seven days, the Exchange Period will commence again on the Business Day immediately following such seventh day and ending on the Business Day immediately preceding the day on which the Issuer makes the payment or (as applicable) delivers Newly Issued Shares on redemption.

Cash Settlement Alternative:

The Issuer shall be entitled to elect for the payment of a Cash Settlement Amount in lieu of delivery of all or some of the Newly Issued Shares. See Condition 4.6 (*Cash Settlement Alternative*).

Redemption at the Option of the Issuer:

In respect of each of the options which the Issuer may exercise to redeem the Bonds (other than Redemption if the Average Closing Price of the Shares exceed 150 per cent. of the Exchange Price), the Issuer has the option to settle the amount payable on redemption by transferring or delivering Newly Issued Shares. See Condition 7.2 (Redemption at the Option of the Issuer).

Redemption on or after 2 years at the Issuer's option:

The Issuer may, at any time on or after the second anniversary of the Issue Date, by giving not less than 10 Business Days, and not more than 30 Business Days' notice to the Bondholders specifying the Redemption Settlement Date, redeem all, but not some, of the Bonds then outstanding in cash at 101 per cent. of the then Fair Market Value of the Bonds as determined by the Calculation Agent in its sole discretion.

Redemption arising from changes in treatment:

If any Adverse Change (as defined below) occurs or is likely to occur, the Issuer may by giving not less than 10 Business Days and not more than 30 Business Days' notice to the Bondholders specifying the Redemption Settlement Date, redeem all, but not some, of the Bonds then outstanding in cash at the then Fair Market Value of the Bonds as determined by the Calculation Agent in its sole discretion.

Redemption if the Average Closing Price of the Shares exceeds 150 per cent. of the Exchange Price:

The Issuer may, at any time on and from 3 March, 2010, redeem all, but not some, of the Bonds then outstanding by giving notice of such redemption to the Bondholders in cash at the aggregate principal amount of all the then outstanding Bonds if, in respect of a Bond, the average of the product of (i) the Closing Price of the Shares over a period of twenty (20) consecutive Trading Days during which the Shares are quoted on Euronext Paris, as selected by the Issuer from among forty (40) consecutive Trading Days during which the Shares are quoted on Euronext Paris and (ii) the Exchange Ratio applicable on each such Trading Day in respect of a Bond, exceeds 150 per cent. of the nominal value of a Bond.

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The notice of redemption to be given by the Issuer may not be given less than 30 Business Days and not more than 90 Business Days prior to the Redemption Settlement Date specified in such notice of redemption and the last day on which Exchange Rights may be exercised by the Bondholders which shall be the fourth Business Day prior to the Redemption Settlement Date.

Redemption if the outstanding Bonds represent less than 10 per cent. of the aggregate principal amount outstanding of the Bonds on the Issue Date:

The Issuer may by notice in writing to the Bondholders, redeem all, but not some, of the Bonds then outstanding at any time if the aggregate principal amount of all the outstanding Bonds (or the Underlying Bonds) is less than 10 per cent. of the aggregate principal amount outstanding of the Bonds (or, as the case may be, the Underlying Bonds) on the Issue Date in cash at the principal amount outstanding of the Bonds.

The Issuer, may however state in the Issuer Bond Reduction Notice that it elects to redeem the Bonds by transferring or delivering Newly Issued Shares to the Bondholders. If such election is made in the Issuer Bond Reduction Notice, the Issuer shall deliver per Bond such number of Newly Issued Shares as is equal to the nominal value of a Bond divided by the arithmetic average of the Volume Weighted Average Prices of the Shares in Euro on each of the twenty (20) Trading Days immediately following the date of the Issuer Bond Reduction Notice.

The Issuer shall transfer or deliver the number of Newly Issued Shares per Bond calculated as described above no later than three Business Days after the last Share Redemption Settlement Valuation Date.

Payment of accrued interest on redemption:

If the Issuer exercises its right to redeem the Bonds in full, it shall pay interest accrued on the Bonds to the relevant Redemption Settlement Date. This is applicable to any redemption made by the Issuer at its option.

Mandatory Redemption by the Issuer:

A Mandatory Redemption Event is an event relating to the Underlying Bonds or the Underlying Issuer. If the Calculation Agent determines that a Mandatory Redemption Event has occurred, then the Underlying Bonds shall be deemed to have become immediately repayable.

FT Credit Event Notice

Interest will cease to accrue on any Bond from the date of an FT Credit Event Notice from the Issuer to the Bondholders. After the giving of an FT Credit Event Notice, the provisions of the paragraph below headed *Credit Event Redemption* shall apply.

At any time after the Issuer delivers an FT Credit Event Notice, the Issuer shall have no obligation to redeem any Bond at its outstanding principal amount on the Maturity Date. Instead, the provisions of the paragraph below headed *Credit Event Redemption* shall apply.

Credit Event Redemption:

A Credit Event Redemption will occur following an FT Credit Event which relates to the Reference Bond and the issuer of the Reference Bond. If the Bonds are redeemed pursuant to a Credit Event Redemption, the Bondholders will receive a Credit Event Redemption Amount. The Issuer shall have no obligation to (i) make any interest payments and interest shall cease to accrue on the Bonds and (ii) redeem any of the Bonds at scheduled maturity or any date of early redemption (irrespective of whether the Issuer has previously given notice of redemption), except pursuant to a Credit Event Redemption.

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If at any time after an Issuer Redemption Notice is delivered but prior to a Redemption Settlement Date, the Issuer delivers an FT Credit Event Notice, such Issuer Redemption Notice shall be treated as null and void and the Issuer shall cease to be under any obligation to make any redemption of the Bonds pursuant to such notice. See Condition 7.4 (*Consequences of an FT Credit Event*).

Right to Purchase:

The Issuer may at any time purchase Bonds in the open market or otherwise. Bonds purchased by the Issuer may, at the option of the Issuer, be held by it, sold or transferred to the Registrar or to its order for cancellation. Cancelled Bonds may not be reissued or sold.

Public Offer:

If the Shares are subject to a Tender Offer, the Issuer may (but shall not be obliged to) take any action described in (A) or (B) below:

- (A) require the Calculation Agent to determine the appropriate adjustment, if any, to be made to any one or more of the Conditions to account for the Tender Offer and determine the effective date of that adjustment including, without limitation, substituting the affected Share with another share and setting the relevant Exchange Price for such Share; or
- (B) redeem the Bonds by giving notice to Bondholders, the Trustee and the Principal Paying and Exchange Agent. If the Bonds are so redeemed and cancelled, the Issuer will pay an amount to each Bondholder in respect of each Bond held by such Bondholder, which amount shall be the Fair Market Value of a Bond taking into account the Tender Offer, less the cost to the Issuer or the Underlying Issuer of unwinding any underlying related hedging arrangements (if any), all as determined by the Calculation Agent in its reasonable discretion and taking into account the corresponding valuation of an Underlying Bond. See Condition 10 (*Public Offer*).

Luxembourg Securitisation Act 2004:

The Bonds are issued subject to, and will be enforced in Luxembourg, if applicable, in accordance with the provisions of, the Luxembourg Securitisation Act 2004 (as may be amended from time to time).

Negative Pledge/Restrictions:

There is no negative pledge.

However, so long as any of the Bonds remains outstanding, the Issuer will not, without the prior consent of the Trustee, incur any indebtedness for moneys borrowed or raised other than in respect of Permitted Investments or Permitted Indebtedness, engage in any activity other than certain activities related to the Bonds or any Permitted Investment or Permitted Indebtedness, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property or consolidate or merge with any other person or issue any shares.

Cross Default:

There is no cross-default provision.

Withholding Tax:

All payments of principal and interest by the Issuer in respect of the Bonds will be made subject to any withholding or deduction for, or on account of, any applicable taxation.

All payments of principal and interest under the Underlying Instrument will also be made subject to any withholding or deduction for, or on account of, any applicable taxation.

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Governing Law of Bonds: English law.

Listing: Application will be made to list the Bonds on the Official List of the Luxembourg Stock Exchange and to admit the Bonds to trading on the Luxembourg Stock Exchange's Euro MTF market.

Use of Proceeds: The Issuer will use the proceeds from the issue of the Bonds to purchase the Underlying Bonds.

Selling and Transfer Restrictions: There are restrictions on the sale of Bonds and the distribution of the Offering Circular in various jurisdictions. See "*Subscription and Sale and Transfer Restrictions*".

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TERMS AND CONDITIONS OF THE BONDS

The following is the text of the terms and conditions which, subject to completion and amendment and as supplemented, modified or varied in accordance with the provisions of the Trust Instrument, will (subject as provided in "Summary of Provisions relating to Bonds while in Global Form") be applicable to the Global Certificates and to the Individual Certificates issued in exchange therefor (each as defined in these Terms and Conditions) and which will be endorsed on such Individual Certificates.

INTRODUCTION

The EUR 350,000,000 Credit-linked Exchangeable Bonds (the "**Bonds**") due 2036 exchangeable for shares of France Telecom S.A. ("**France Telecom**") which will be issued on 5 May 2006 (the "**Issue Date**") are constituted and secured by a trust instrument (the "**Trust Instrument**") dated on or about 5 May 2006 and made between, *inter alios*, Sonata Securities S.A. (the "**Issuer**") and Deutsche Trustee Company Limited (the "**Trustee**") as trustee for the holders of the Bonds.

By executing the Trust Instrument, the Issuer and the Trustee have entered into an agency agreement in respect of the Bonds (the "**Agency Agreement**") on the terms set out in full in Schedule 6 to the Trust Instrument with Deutsche Bank AG, London Branch as principal paying and exchange agent (the "**Principal Paying and Exchange Agent**"), calculation agent (the "**Calculation Agent**"), selling agent (the "**Selling Agent**") and purchaser (the "**Purchaser**") and Deutsche Bank Luxembourg S.A. as paying and exchange agent (the "**Paying and Exchange Agent**"), transfer agent (the "**Transfer Agent**"), registrar (the "**Registrar**") and listing agent (the "**Listing Agent**").

References to "**Paying and Exchange Agents**" shall include the Principal Paying and Exchange Agent, and any substitute or additional paying and exchange agents appointed in accordance with the Trust Instrument. References to "**Transfer Agents**" shall include the Transfer Agent and any substitute or additional transfer agents appointed in accordance with the Trust Instrument. "**Agents**" means the Paying and Exchange Agents, the Transfer Agent, the Registrar, the Calculation Agent and the Selling Agent or any of them, and shall include such further or other person or persons as may be appointed from time to time as an agent under the Agency Agreement with the prior written approval of the Trustee under the Trust Instrument.

These terms and conditions (the "**Conditions**") apply in relation to the Bonds in definitive form as completed, modified and amended by the other provisions of the Trust Instrument. Each reference herein to a specific numbered Condition is to such Condition as so completed, modified or amended. These Conditions include summaries of, and are subject to, the detailed provisions of the Trust Instrument. Copies of the Trust Instrument and the documents incorporated therein (including the provisions of the Agency Agreement) are available for inspection during normal office hours at the principal office of Deutsche Bank AG, London Branch, and at the registered offices of the Trustee and each of the Paying and Exchange Agents.

The Bondholders (as defined below) are deemed to have notice of, and shall be bound by, all of the provisions of the Trust Instrument and the documents incorporated therein (including the provisions of the Agency Agreement) applicable to them.

These Conditions apply to Bonds in global form as completed, modified and amended by the other provisions of the Trust Instrument and by the provisions of the Global Certificate (as defined below).

References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Bonds, and all other amounts in the nature of principal payable pursuant to Condition 7 (*Redemption*) or any amendment or supplement to it and (ii) "**interest**" shall be deemed to include all interest and other amounts payable pursuant to Condition 6 (*Interest*) and any amount in the nature of interest payable pursuant to Condition 7 (*Redemption*).

Each Bond is exchangeable for newly issued, fully paid ordinary shares of France Telecom ("**Newly Issued Shares**"). The number of Newly Issued Shares to be transferred or delivered on exchange of a Bond (the "**Exchange Ratio**") shall be determined by dividing the principal amount per Bond by the Exchange Price (as defined below) in effect on the Exchange Settlement Date (as defined below) as determined by the Calculation Agent and which is subject to adjustment in accordance with Condition 5 (*Adjustment Events*).

The collateral relating to the Bonds comprises the EUR 350,000,000 Credit-linked Exchangeable Bonds due 2036 exchangeable for Newly Issued Shares of France Telecom (the "**Underlying Bonds**") and issued by Deutsche Bank AG, London Branch (the "**Underlying Issuer**").

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A separate compartment has been created by the board of directors of the Issuer in respect of the Bonds (the “**Compartment**”). The Compartment is a separate part of the Issuer’s assets and liabilities. The Mortgaged Property (as defined below) forms the assets in the Compartment and is exclusively available to satisfy the rights of the Bondholders and the rights of the creditors whose claims have arisen on the occasion of the creation, the operation or the liquidation of the Compartment, as contemplated by article 4 of the articles of incorporation of the Issuer.

The Issuer is a securitisation company incorporated under the laws of the Grand Duchy of Luxembourg as a *société anonyme* (public limited liability company) on 26 August 2004 and its activities are subject to the Luxembourg act dated 22 March 2004 on securitisation (as amended from time to time, the “**Luxembourg Securitisation Act 2004**”). A copy of the Issuer’s articles of incorporation was lodged with the Luxembourg trade and companies register (“*Registre de commerce et des sociétés, Luxembourg*”) on 3 September 2004 and the Issuer is registered with the Luxembourg trade and companies register under number B.102.636. The registered office of the Issuer is at 9, Val Sainte-Croix, L-1371 Luxembourg.

The Issuer has not been approved by the Luxembourg financial sector and stock exchange regulator, the *Commission de surveillance du secteur financier* (the “**CSSF**”) as a securitisation undertaking under the Luxembourg Securitisation Act 2004 and may therefore not issue debt securities or shares to the public on an ongoing basis.

By subscribing for, or otherwise acquiring the Bonds, investors in the Bonds acknowledge that they are bound by the provisions of the Luxembourg Securitisation Act 2004 and, in particular, the provisions on limited recourse, subordination, no petition and priority of payments.

All capitalised items which are not defined in the Conditions shall have the meanings given to them in the Trust Instrument.

1. FORM, DENOMINATION AND TITLE

The Bonds are in registered form in the denomination of EUR 50,000 (the “**Denomination**”).

All Bonds shall have the same Denomination. The Bonds will initially be issued in the form of a global registered certificate (the “**Global Certificate**”) which will be deposited on its issue date with a common depositary on behalf of Euroclear and Clearstream, Luxembourg. Definitive registered certificates (“**Individual Certificates**”, and together with the Global Certificate, the “**Certificates**”) will only be issued upon exchange of an interest in the Global Certificate as described herein.

Title to the Bonds shall pass by registration in the register (the “**Register**”) which the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement. For the avoidance of doubt, in the event of any differences between information contained in the register kept by the Registrar and the register kept at the Issuer’s registered office, the register kept at the Issuer’s registered office shall prevail for Luxembourg law purposes.

Except as ordered by a court of competent jurisdiction or an official authority or as required by law, the holder (as defined below) of any Bond shall be deemed to be and may be treated as the absolute owner of such Bond, for the purpose of receiving payment thereof or on account thereof and for all other purposes, whether or not such Bond shall be overdue and notwithstanding any notice of ownership, theft or loss thereof or any writing thereon made by anyone, and no person will be liable for so treating the holder. No person shall have any right to enforce any term or condition of the Bonds or the Trust Instrument under the Contracts (Rights of Third Parties) Act 1999.

In these Conditions, “**Bondholder**” and “**holder**” means the person whose name is entered in the Register as the holder of a Bond.

2. TRANSFERS OF BONDS

2.1 Transfer of Bonds

One or more Bonds may be transferred upon the surrender, at the specified office of the Registrar or any Transfer Agent, of the Individual Certificate(s) relating to the Bonds to be transferred, together with the form of transfer endorsed on such Individual Certificate(s) duly completed and executed and such other evidence as the Registrar or Transfer Agent may

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reasonably require. In the case of a transfer of part only of a holding of Bonds represented by one Individual Certificate, a new Individual Certificate will be issued to the transferee in respect of the part transferred and a further new Individual Certificate in respect of the balance of the holding not transferred will be issued to the transferor. In no event may the Registrar or any Transfer Agent register the transfer of a Bond if it is aware that such transfer is in violation of the restrictive legend (if any) set forth on the face of such Individual Certificate, provided that neither the Registrar nor any Transfer Agent shall be required to investigate whether any such transfer is in violation of such restrictive legend.

The Registrar shall immediately inform the Issuer of any amendment made to the Register. The Issuer undertakes to keep at all times an up to date version of the register of the Bonds at its registered office.

2.2 Exercise of Exchange Rights in respect of Bonds

If Exchange Rights are exercised in respect of a holding of Bonds represented by a single Individual Certificate, a new Individual Certificate shall be issued to the holder in respect of the balance of the holding not subject to the exercise of such Exchange Rights. New Individual Certificates shall only be issued against surrender of the existing Individual Certificates to the Registrar or any Transfer Agent.

2.3 Delivery of new Individual Certificates

Each new Individual Certificate to be issued pursuant to Condition 2.1 (*Transfer of Bonds*) or 2.2 (*Exercise of Exchange Rights in respect of Bonds*) will be available for delivery within five business days of surrender of the relevant Individual Certificate and, if applicable, receipt of the form of transfer (the form of which is set out in Schedule 4 to the Trust Instrument and is available at the specified office of the Paying and Exchange Agent) or the Exchange Notice together with such other evidence (if any) as may be required pursuant to the relevant Condition. Delivery of new Individual Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom surrender of such Individual Certificate and, if applicable, delivery of such form of transfer or Exchange Notice shall have been made or, at the option of the holder making such delivery and surrender as aforesaid and as specified in the relevant form of transfer, Exchange Notice or otherwise in writing, shall be mailed at the risk of the holder entitled to the new Individual Certificate to such address as may be so specified.

In this Condition 2.3 “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of any Transfer Agent and in Luxembourg.

2.4 Exchange and transfer free of charge

Exchange and transfer of Individual Certificates on registration or transfer will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment by the relevant Bondholder (or the giving by the relevant Bondholder of such indemnity as the Registrar or the relevant Transfer Agent may require in respect thereof) of any tax or other governmental charges which may be imposed in relation to it.

2.5 Closed periods

No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 calendar days ending on the due date for redemption of that Bond, (ii) during the period of 15 calendar days prior to any date on which Bonds may be redeemed by the Issuer at its option pursuant to Condition 7.2 (*Redemption at the Option of the Issuer*), (iii) after an Exchange Notice has been delivered with respect to such Bond in accordance with Condition 4.5 (*Procedure for Exchange*) or (iv) during the period of seven days ending on (and including) any Record Date.

3. STATUS

The Bonds are secured, limited recourse obligations of the Issuer, ranking *pari passu* without any preference among themselves, which are secured in the manner described in Condition 12 (*Security for the Bonds*) and recourse in respect of which is limited in the manner described in Condition 16 (*Enforcement*). The Bonds are issued subject to, and will be enforced in

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Luxembourg, if applicable, in accordance with the provisions of the Luxembourg Securitisation Act 2004.

4. EXCHANGE RIGHT

4.1 Exchange Right

A Bondholder has the right to exchange its Bonds (such right, the “**Exchange Right**”) for Newly Issued Shares at any time during the Exchange Period, subject to compliance with applicable fiscal or other laws and regulations and to the provisions of this Condition 4 (*Exchange Right*). The number of Newly Issued Shares to be transferred or delivered on exchange of a Bond shall be determined by dividing the principal amount per Bond by the Exchange Price in effect on the Exchange Settlement Date as determined by the Calculation Agent (the “**Exchange Ratio**”) which is subject to adjustments pursuant to Condition 5 (*Adjustment Events*) below. Exchange Rights may be exercised only in respect of the whole of the principal amount of a Bond. Upon exchange, the right of the exchanging Bondholder to repayment of the Bonds to be exchanged shall be extinguished and released, and, in consideration and in exchange thereof, the Issuer shall transfer or deliver or procure the transfer or delivery of the Newly Issued Shares calculated in accordance with this Condition 4 on the Exchange Settlement Date.

4.2 Exchange Period

Subject to these Conditions, the Exchange Right attaching to any Bond may be exercised by the holder thereof at any time during the period (the “**Exchange Period**”) commencing on, and including, 15 June 2006 (the “**Option Commencement Date**”) up to and including the earlier to occur of:

- (A) the close of business (in the place where the Exchange Notice in respect of the Bond is deposited) on the day falling 15 Business Days prior to the Maturity Date; and
- (B) the day on which an Issuer Redemption Notice is given (unless in such notice the Issuer specifies a date later than the date of the Issuer Redemption Notice as the last day on which Exchange Rights may be exercised provided, in the case of Condition 7.2(C) (*Redemption if the Average Closing Price of the Shares exceeds 150 per cent. of the Exchange Price*), the last day on which the Exchange Rights may be exercised shall be the end of the fourth Business Day prior to the date of the settlement of such redemption). If Exchange Rights are exercised such that the Exchange Date would fall after such date, such exercise shall be null and void unless the Issuer, in its absolute discretion, determines otherwise (except where Condition 9.1(B) (*Settlement Disruption*) applies and such Issuer Redemption Notice is treated as null and void). In addition, in any case where the Issuer effects a redemption at its option, if the Issuer delays in making payment or delivery of the Newly Issued Shares (as applicable) on redemption for more than seven days, the Exchange Period will commence again on the Business Day immediately following such seventh day and ending on the Business Day immediately preceding the day on which the Issuer makes the payment or (as applicable) delivers the Newly Issued Shares on redemption.

4.3 Suspension of Exchange Rights

- (A) *Exchange Rights Suspension on Shares related events:*

The Issuer shall have the right, upon giving notice (an “**Exchange Suspension Notice**”) to the Bondholders in accordance with Condition 19 (*Notices*), to suspend the exercise of Exchange Rights for a period which shall not exceed three months in any of the following circumstances:

- (i) if the share capital of France Telecom is increased or if France Telecom issues any securities giving rights directly or indirectly to subscribe for, purchase or receive Shares;
- (ii) if France Telecom issues any other securities in respect of which its shareholders have preferential subscription rights or a preferential subscription period; or
- (iii) upon the merger (“*fusion*”) or demerger (“*scission*”) of France Telecom.

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The Exchange Suspension Notice shall be given at least 10 days before the start of the suspension to the Bondholders, the Principal Paying and Exchange Agent and the Trustee in accordance with Condition 19 (*Notices*). The Exchange Suspension Notice shall specify the date (the “**Suspension Start Date**”) on which the suspension of the exercise of Exchange Rights shall commence and the date (the “**Suspension End Date**”) on which such suspension shall end (the period from and including the Suspension Start Date to but excluding the Suspension End Date shall be the “**Exchange Suspension Period**”).

During the Exchange Suspension Period, no Exchange Notice may be given by any Bondholder and any Exchange Notice which has already been delivered but in respect of which the Exchange Settlement Date has not yet occurred shall, unless otherwise determined by the Issuer, be null and void.

(B) *Exchange Rights Suspension on Reference Bond Share Default:*

After the delivery by the Issuer of a Reference Bond Share Default Notice to the Bondholders, the Principal Paying and Exchange Agent and the Trustee, no Bondholder may deliver an Exchange Notice and any obligation of the Issuer to transfer or deliver Newly Issued Shares pursuant to the exercise by any Holder of any Exchange Right shall be suspended and any Exchange Notice which has already been delivered but in respect of which the Exchange Settlement Date has not yet occurred shall be null and void. If, after the delivery of Reference Bond Share Default Notice, the Issuer is notified by the Underlying Issuer in accordance with the terms of Underlying Bonds that a Reference Bond Share Default has ceased to exist, the Issuer shall, no later than five Business Days after the receipt of such notice, deliver a notice (an “**Exchange Right Resumption Notice**”) stating that, as from such date, any Bondholder may exercise its Exchange Right in respect of the Bonds by delivering an Exchange Notice. At any time whilst the Bonds are outstanding, more than one Reference Bond Share Default Notice and more than one Exchange Right Resumption Default Notice may be delivered but only the last of such notice delivered shall be effective.

4.4 Circumstances in which the Exchange Right is extinguished

On the occurrence of a Mandatory Redemption Event, the Exchange Right in respect of each Bond shall be extinguished (as provided in Condition 7.3 (*Mandatory Redemption*)).

4.5 Procedure for Exchange

- (A) To exercise the Exchange Right in respect of any Bond, a Bondholder must complete, execute and deposit at its own expense during normal business hours, at the specified office of any Paying and Exchange Agent, a notice of exchange (an “**Exchange Notice**”) in the form (for the time being current) obtainable from the specified office of any Paying and Exchange Agent, together with any amount to be paid by the Bondholder pursuant to this Condition 4 (*Exchange Right*).

If the Bonds are in definitive form, the Exchange Notice shall be deposited together with the Individual Certificate in respect of the relevant Bonds to be exchanged.

An Exchange Notice must:

- (i) specify the name and address of the Bondholder or such other name and address as directed by the Bondholder for transfer or delivery of the Newly Issued Shares;
- (ii) specify the principal amount of Bonds that are the subject of the Exchange Right; and, if the Bonds are in global form, (a) specify the number of the account with the relevant Clearing Agent to be debited with the Bonds being exchanged; and (b) irrevocably instruct and authorise the relevant Clearing Agent to debit on or before the Exchange Settlement Date such account with the Bonds and authorise the Principal Paying and Exchange Agent to so direct the relevant Clearing Agent on behalf of the Bondholder;
- (iii) contain a representation and warranty from the Bondholder to the effect that the Bonds to which the Exchange Notice relates are free from all liens, charges, encumbrances and other third party rights;

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- (iv) (a) contain representations and warranties from the Bondholder to the effect that, at the time of signing and delivery of the Exchange Notice, (A) it understands that the Newly Issued Shares to be transferred or delivered upon exchange of the Bonds have not been registered under the U.S. Securities Act of 1933 (as amended from time to time, the “**Securities Act**”), (B) it understands that the Newly Issued Shares to be transferred or delivered upon exchange of the Bonds may not be offered or sold in the United States absent registration or pursuant to an applicable exemption from the registration requirements of the Securities Act, (C) it understands that the Newly Issued Shares to be transferred or delivered upon exchange of the Bonds may not be deposited into any unrestricted depository receipt facility established or maintained by a depository bank, in particular France Telecom’s unrestricted American Depository Receipt Facility maintained by The Bank of New York, unless such Newly Issued Shares may be resold pursuant to Rule 144 under the Securities Act; and
- (b) certify that the exchange is being made outside of the United States (as such term is defined in Regulation S of the Securities Act (“**Regulation S**”) and it and any person for whom it is acquiring Newly Issued Shares is not a U.S. person (as such term is defined in Regulation S) and it is not acting as agent for, or on behalf of, a U.S. person;
- (v) specify the number of the Bondholder’s security account with the relevant Approved Intermediary to be credited with the Newly Issued Shares;
- (vi) specify the number and account name of the cash account of the Bondholder to which or from which any amount payable in cash (x) to such Bondholder is to be credited and (y) by such Bondholder is to be debited with respect to Transfer Expenses (if any) payable by such Bondholder;
- (vii) specify the details of the relevant tax authorities to which the relevant Paying and Exchange Agent must pay monies received in settlement of taxes payable pursuant to the conditions of the Bonds;
- (viii) irrevocably instruct and authorise the relevant Approved Intermediary to debit on the relevant Exchange Settlement Date the Bondholder’s cash account with the amount of the Transfer Expenses, if any, and to pay such expenses on the Bondholder’s behalf;
- (ix) authorise the production of the Exchange Notice in any applicable administrative or legal proceedings; and
- (x) provide any other certification required by applicable legislation at the time of the delivery of the Exchange Notice.

Failure to properly complete and deliver an Exchange Notice may result in such Exchange Notice being treated as null and void. Any determination as to whether such Exchange Notice has been properly completed and delivered as provided in these Conditions shall be made, in the case of Bonds represented by the Global Certificate, by the Clearing Agent after consultation with the Issuer, and shall be conclusive and binding on the Issuer and the relevant Bondholder and, in the case of Bonds in definitive form, by the Principal Paying and Exchange Agent after consultation with the Issuer, and shall be conclusive and binding on the Issuer and the relevant Bondholder.

- (B) As a condition precedent to exchange, the Bondholder must pay to the Paying and Exchange Agent to which it delivers the Exchange Notice (or make arrangements satisfactory to that Paying and Exchange Agent for the payment of) all Transfer Expenses. As a further condition precedent to exchange, the Bondholder must provide the relevant Paying and Exchange Agent with details of the relevant tax authorities to which the relevant Paying and Exchange Agent must pay monies received in settlement of taxes payable pursuant to the conditions of the Bonds. The Paying and Exchange Agents are under no obligation to determine whether a Bondholder is liable to pay any taxes (including stamp, issue, registration or similar taxes and duties) on the amounts payable (if any) in connection with the Bonds. The relevant Paying and Exchange Agent will not

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be concerned with, nor will it be obliged to enquire into, the sufficiency of any amount paid to it for this purpose.

- (C) The date on which Individual Certificates in respect of any Bond (if in definitive form) and the Exchange Notice relating thereto are deposited with a Paying and Exchange Agent, or on which the conditions precedent to the exchange are fulfilled, whichever shall be later, shall be the “**Option Exercise Date**” in respect of such Bond. The request for exchange shall be deemed to have been made, and accordingly the exchange will become effective at 23.59 hours (London time) on the Option Exercise Date applicable to the relevant Bond (and the next Business Day shall be the “**Exchange Date**” in respect of such Bond). An Exchange Notice once delivered shall be irrevocable.
- (D) Unless Condition 4.6 (*Cash Settlement Alternative*) applies, the Issuer shall on or before the Exchange Settlement Date procure, subject to Condition 9 (*Payment or Transfer Delays*):
- (i) that Newly Issued Shares (in such number as is determined under these Conditions) be transferred or delivered on exercise of the Exchange Right to the relevant Bondholder or as such Bondholder shall direct in the relevant Exchange Notice; and
 - (ii) that (if applicable) such documents of title and evidence of ownership of such Newly Issued Shares be despatched to the address given by the relevant Bondholder in the relevant Exchange Notice.

4.6 Cash Settlement Alternative

The Issuer shall be entitled to elect for the payment of a Cash Settlement Amount in lieu of transfer or delivery of all or some of the Newly Issued Shares by giving written notice of its election (a “**Cash Settlement Election Notice**”), no later than three Business Days after the Exchange Date, to the relevant Bondholder at the address specified for that purpose in the relevant Exchange Notice, with a copy to the Trustee, the Calculation Agent and the Principal Paying and Exchange Agent.

The Issuer shall state in the Cash Settlement Election Notice the date on which the Cash Settlement Amount will be paid to the relevant Bondholder (the “**Cash Exchange Settlement Date**”) which shall be no later than three Business Days after the last Cash Settlement Valuation Date.

“**Cash Settlement Amount**” shall be an amount in Euro, as calculated in the sole discretion of the Calculation Agent, in accordance with the following formula:

$$\text{Cash Settlement Amount} = N \times [P - C]$$

Where:

- N = Number of Newly Issued Shares which would have been transferred or delivered to the relevant Bondholder but for the Cash Settlement Election;
- P = Arithmetic average of the Volume Weighted Average Prices of the Existing Shares in Euro on each of the twenty Trading Days immediately following the date of the Cash Settlement Election Notice (each such date, a “**Cash Settlement Valuation Date**”); and
- C = Cash Settlement Adjustment.

If, in the sole opinion of the Calculation Agent, a Market Disruption Event has occurred on any such Cash Settlement Valuation Date, the Cash Settlement Amount shall be calculated on the basis of the Volume Weighted Average Prices of the Existing Shares in Euro on those of the Cash Settlement Valuation Dates on which there is no Market Disruption Event in respect of the Shares. If a Market Disruption Event exists on each of the Cash Settlement Valuation Dates, the Calculation Agent shall determine, in its sole discretion, the Volume Weighted Average Price of the Shares in Euro by determining the price or level of the Shares that would have prevailed but for the occurrence of a Market Disruption Event as of the last Cash Settlement Valuation Date having regard to the then prevailing market conditions, the last reported, published or traded price of the Existing Shares, and such other factors as the Calculation Agent considers in its sole discretion to be relevant.

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5. ADJUSTMENT EVENTS

5.1 Summary of Adjustment Events

Upon the occurrence of an Adjustment Event (as defined below), the Bondholders, the Trustee and the Principal Paying and Exchange Agent will be notified by the Calculation Agent of the adjustment to the Exchange Ratio as well as to the Exchange Price. Each such adjustment will be effected by the Calculation Agent, after receiving notice of an Adjustment Event, in accordance with the following provisions so as to preserve the economic equivalent of the Issuer's obligations under the Bonds. Each such adjustment will be effected by the Calculation Agent on the basis of the last previously determined Exchange Ratio and Exchange Price. Each Exchange Ratio will be expressed as a fraction (such fraction being rounded to the nearest 0.0001, with 0.00005 being rounded upwards), the numerator of which is the number of Shares and the denominator of which is one Bond.

In the event of any adjustment of the Exchange Ratio pursuant to one of the following provisions of this Condition 5, the Calculation Agent shall adjust the Exchange Price by dividing such Exchange Price by the ratio specified for such adjustment in such provision.

Each of the following events occurring on or after the Issue Date in relation to France Telecom is an "Adjustment Event":

- (A) issue of securities conferring preferential subscription rights;
- (B) increase of capital by means of capitalisation of reserves, profits or premiums, by distribution of bonus Shares, or division or consolidation of the Shares;
- (C) reduction of capital due to losses;
- (D) incorporation into France Telecom's shares capital of reserves, profits or premiums by increasing the nominal value of the Shares;
- (E) distribution of reserves or premiums in cash or portfolio securities;
- (F) merger (*fusion*) of France Telecom in which France Telecom is not the surviving company or demerger (*scission*) of France Telecom;
- (G) bonus issue to France Telecom's shareholders of transferable securities issued by France Telecom other than Shares;
- (H) buy-back of Existing Shares by France Telecom at a price higher than the market price; or
- (I) distribution of dividends,

and the rights of the Bondholders will be protected by adjusting the Exchange Ratio as indicated below.

5.2 Details of Adjustment Events

In the event that France Telecom carries out transactions in respect of which an adjustment under one of paragraphs (A) to (I) below has not been carried out and where later French law or regulations would require an adjustment, the Calculation Agent will carry out such an adjustment in accordance with the laws and regulations and market practice in effect in France at such time.

(A) *Issue of securities conferring preferential subscription rights*

In the event that France Telecom issues securities conferring preferential subscription rights, the new Exchange Ratio will be determined by multiplying the Exchange Ratio in effect before such issuance by the following ratio:

$$\frac{\text{Value of a Share ex subscription right plus the value of the subscription right}}{\text{Value of a Share ex subscription right}}$$

For the purpose of calculating such ratio, the value of a Share ex subscription right and of the subscription right will be determined by the Calculation Agent by taking the average of the Opening Prices (as defined below) for the Shares and for such subscription right on each of the Trading Days included in the exercise period of the subscription rights on which the Shares ex subscription rights and the subscription rights are simultaneously traded.

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“**Opening Price**” means, with respect to a Trading Day on which a Share or any other security, as applicable, is listed on Euronext Paris, the price for such Share or such other security, as applicable, on Euronext Paris at the opening of such Trading Day (as published by Euronext Paris). The Opening Price shall be determined by the Calculation Agent, following the advice of the Expert if (i) Euronext Paris’ publication service is discontinued, or (ii) the Shares or the relevant other securities are not listed at the relevant time on Euronext Paris. If the Shares or the relevant other securities, as applicable, are quoted in a currency other than Euro or any currency with an irrevocably fixed conversion rate to the Euro, conversions to Euro of the Opening Price of the Shares or the relevant securities, as applicable, will be made at the rate fixed by the ECB Rate in effect on the relevant Trading Day. For information purposes, the ECB Rate appears at approximately 12:00 hours (Paris time) on the display designated as “Page ECB37” on Reuters.

- (B) *Increase of capital by means of capitalisation of reserves, profits or premiums, by distribution of bonus Shares, or division or consolidation of the Shares*

In the event of an increase in France Telecom’s share capital by capitalisation of reserves, profits or premiums, by distribution of bonus Shares, as well as in the event of division or consolidation of Shares, the new Exchange Ratio will be determined by multiplying the Exchange Ratio in effect before such operation by the following ratio:

$$\frac{\text{Number of Shares existing after such event}}{\text{Number of Shares existing before such event}}$$

- (C) *Reduction of capital due to losses*

In the event of a reduction in France Telecom’s share capital resulting from losses, by a reduction in the number of Shares, the rights of Bondholders will be adjusted accordingly and the new Exchange Ratio will be determined by multiplying the Exchange Ratio in effect before such operation by the following ratio:

$$\frac{\text{Number of Shares existing after such event}}{\text{Number of Shares existing before such event}}$$

- (D) *Incorporation into France Telecom’s share capital of reserves, profits or premiums by increasing the nominal value of the Shares*

In the event of an increase in France Telecom’s share capital by capitalisation of reserves, profits or premiums, effected by increasing the nominal value of the Shares, the Exchange Ratio will not be adjusted but the nominal value of Shares transferable to Bondholders will be increased to the same extent.

- (E) *Distribution of reserves or premiums in cash or portfolio securities*

In the event of a distribution of reserves or premiums to shareholders in cash or in portfolio securities, the new Exchange Ratio will be determined by multiplying the Exchange Ratio in effect before such distribution by the following ratio:

$$\frac{\text{Value of one Share prior to distribution}}{\text{Value of one Share prior to distribution minus, to the extent they constitute reserves or premiums, the amount distributed and/or the value of the securities distributed per Share}}$$

For the purpose of calculating such ratio, the value of a Share prior to the distribution will be determined by the Calculation Agent by reference to the average of the Opening Prices for the Shares during the last twenty (20) consecutive Trading Days among the forty (40) Trading Days preceding the date of the distribution, which shall be deemed to be the date on which the Shares trade ex-distribution right. The value of securities distributed per Share will be calculated by the Calculation Agent:

- (i) by reference to the average of the Opening Prices for such securities during at least twenty (20) consecutive Trading Days among the forty (40) Trading Days preceding the date of distribution, in the case of securities listed on a regulated stock exchange before the date of the distribution;

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- (ii) if such securities are not listed on a regulated stock exchange before the date of distribution but only after such date, by reference to the average of the Opening Prices for such securities during at least twenty (20) consecutive Trading Days among the forty (40) Trading Days following the date of distribution; or
- (iii) if such quotations are not available, by reference to a value determined by the Calculation Agent.

(F) *Merger of France Telecom in which France Telecom is not the surviving company or demerger of France Telecom*

In the event of a merger (*fusion*) of France Telecom with one or more other companies in which France Telecom is not the surviving company, or in the event of a demerger (*scission*) of France Telecom into two or more companies (whether or not France Telecom is a surviving company), the Bonds will be exchangeable into shares of the surviving company resulting from the merger or of the companies resulting from the demerger under the same conditions as those originally applicable to the Bonds.

The Exchange Ratio in respect of the shares of such surviving company resulting from the merger or such companies resulting from the demerger will be determined by adjusting the then applicable Exchange Ratio by reference to the ratio to which the Shares were exchanged for the shares of the surviving company resulting from the merger or of the companies resulting from the demerger.

(G) *Bonus issue to France Telecom's shareholders of transferable securities issued by France Telecom other than Shares*

In the event of a bonus issue to France Telecom's shareholders of any transferable securities issued by France Telecom, other than Shares, the new Exchange Ratio will be determined as follows:

- (x) If the right to receive the new transferable securities so distributed (the "**Attribution Right**") has been listed on Euronext Paris, the new Exchange Ratio will be determined by multiplying the Exchange Ratio in effect before such bonus issue by the following ratio:

$$\frac{\text{Value of a Share ex Attribution Right plus the value of such Attribution Right}}{\text{Value of a Share ex Attribution Right}}$$

where the value of a Share ex Attribution Right and of the Attribution Right will be determined by the Calculation Agent by taking the average of the Opening Prices for a Share ex Attribution Right and for such Attribution Right on each of the ten (10) consecutive Trading Days following the date of attribution of the Attribution Right on which the Shares ex Attribution Right and the Attribution Right are simultaneously traded.

- (y) If the Attribution Right has not been listed on Euronext Paris, the new Exchange Ratio will be determined by multiplying the Exchange Ratio in effect before such bonus issue by the following ratio:

$$\frac{\text{Value of a Share ex Attribution Right plus the value of the transferable security(ies) issued per Share}}{\text{Value of a Share ex Attribution Right}}$$

where the value of a Share ex Attribution Right and of the transferable security(ies) issued per Share will be determined by the Calculation Agent by taking the average of the Opening Prices of the Shares and of such transferable security(ies) on each of the ten (10) consecutive Trading Days following the date of attribution of the Attribution Right on which the Shares ex Attribution Right and the transferable security(ies) are simultaneously traded. If the transferable security(ies) is (are) not listed on Euronext Paris, its (their) value will be as determined by the Calculation Agent.

(H) *Buy-back of Shares by France Telecom at a price higher than the market price*

In the event of a buy-back of Shares by France Telecom at a price higher than the market price of the Shares, the new Exchange Ratio shall be determined by multiplying the

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Exchange Ratio in effect before the commencement of the buy-back by the following ratio, calculated to the nearest hundredth of a share:

$$\frac{\text{Share price} + \text{Pc}\% \times (\text{Buy-back price minus Share price})}{\text{Share price}}$$

Where:

“**Share price**” means the average Opening Price over at least ten (10) consecutive Trading Days chosen by France Telecom from the twenty (20) Trading Days preceding the buy-back (or the option to buy-back).

“**Pc%**” means the percentage of capital bought back.

“**Buy-back price**” means the actual price at which the Shares are bought back (which, by definition, will be higher than the market price).

(I) *Distribution of Dividends*

If and when a Dividend is declared, or a No Dividend Resolution is passed, in respect of Shares, the Exchange Ratio shall be subject to the following adjustments.

In the case of any Dividend consisting of alternative choices, the Issuer shall have absolute discretion as to which of such alternative choices to make.

“**Effective Date**” means, in respect of a Dividend, the Ex-Dividend Date, or, in respect of a No Dividend Resolution, the day falling three Business Days after the date on which the No Dividend Resolution was passed.

(a) *Adjustment to the Exchange Ratio for first Dividend or No Dividend Resolution*

In the case of the first Dividend declared or a No Dividend Resolution in each relevant fiscal period by France Telecom with effect from the Effective Date, the Exchange Ratio shall be adjusted (increased or decreased) in accordance with the following formula, depending on the relevant Dividend Yield:

- (i) if the relevant Dividend Yield is different (higher or lower) from the Reference Dividend Yield, the Exchange Ratio shall be adjusted according to the formula below:

$$\text{NRA} = \text{RA} \times (1 + \text{RDY} - \text{K})$$

where:

- NRA means the new Exchange Ratio
 - RA means the last Exchange Ratio in effect before the Ex-Dividend Date for the relevant dividend; and
 - RDY means the relevant Dividend Yield
 - K = 5% also referred to as the “**Reference Dividend Yield**”;
- (ii) if the relevant Dividend Yield is equal to the Reference Dividend Yield, the Exchange Ratio shall not be adjusted; and
- (iii) in the event of a No Dividend Resolution, the adjustment referred to in (i) shall be applied as if a dividend of zero had been declared.

“**Dividend Yield**” is the ratio obtained by dividing the relevant Dividend by France Telecom’s market capitalisation; the market capitalisation used to calculate each such ratio being equal to the product of (x) the Closing Price on the Trading Day immediately preceding the date of approval of the relevant dividend (or interim dividend) by the Shareholders (or the board of directors) and (y) the respective number of Shares existing on such date.

Any dividends or fractions of dividends leading to an adjustment of the Exchange Ratio by virtue of paragraphs (A) to (H) above will not be taken into account for the purpose of this paragraph (I).

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“**Ex-Dividend Date**” is the Trading Day on which Shares start trading ex-dividend on Euronext Paris.

(b) *Adjustment for subsequent Dividends*

In the case of any subsequent Dividend declared in respect of the Shares in each fiscal year, with effect from the Effective Date the Exchange Ratio shall be adjusted according to the formula below.

$$\text{NRA} = \text{RA} \times (1 + \text{RDY})$$

where:

- NRA means the new Exchange Ratio
- RA means the last Exchange Ratio in effect before the Ex-Dividend Date for the relevant dividend; and
- RDY means the relevant Dividend Yield in respect of the subsequent dividend.

For the avoidance of doubt, such subsequent dividend excludes, in the Dividend Yield calculation, any dividends in respect of the same accounting year for which an adjustment has already occurred by virtue of paragraph (a) above.

No Adjustment will be made for any second or subsequent No Dividend Resolution in any fiscal year in respect of the Exchange Ratio.

With effect from and including the Effective Date the Exchange Ratio shall mean the Exchange Ratio in accordance with paragraph (a) above. Any such adjustment shall be subject to any subsequent adjustment pursuant to this paragraph (b).

5.3 Retroactive Adjustments

If an Adjustment Event occurs:

- (A) on or prior to the giving of an Exchange Notice but is not reflected in the Exchange Ratio in effect on such date; or
- (B) after the giving of an Exchange Notice up to, and including, the Settlement Date, the Issuer shall deliver the Newly Issued Shares or pay any cash amount due to the Bondholders, as the case may be, using the new Exchange Ratio (and Exchange Price) determined by the Calculation Agent and, if the delivery or payment has already occurred in respect of the relevant Bonds, deliver such additional Newly Issued Shares or pay such additional cash amount as applicable.

5.4 Calculation Agent and Expert

- (A) The Calculation Agent shall determine any adjustment to be made in accordance with this Condition 5, except as otherwise specifically provided.
- (B) In relation to any matter requiring advice, calculation or ratification by an Expert, the Issuer shall promptly appoint an Expert for that purpose.

6. INTEREST

6.1 Interest Rate and Accrual

- (A) Each Bond bears interest per annum on its outstanding principal amount from the Issue Date at the Interest Rate (as defined below), such interest being payable quarterly in arrear on 1 January, 1 April, 1 July and 1 October of each year (each an “**Interest Payment Date**”) (each period from and including an Interest Payment Date to but excluding the next Interest Payment Date being an “**Interest Period**”) with the first such interest payment to be made on 1 July 2006 in respect of the period from the Issue Date, subject as provided in Condition 11 (*Payments*).
- (B) As long as the Bonds are represented by a Global Certificate and are held by a common depository on behalf of Euroclear and Clearstream, Luxembourg, interest in respect of

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any Interest Payment Date shall be payable to such persons who are reflected in the records of the relevant common depository as holders of the Bonds.

- (C) Interest will cease to accrue on any Bond from the date of the giving of a notice (a “**FT Credit Event Notice**”) from the Issuer to the Bondholders, the Trustee and the Principal Paying and Exchange Agent stating that an FT Credit Event has occurred. After the giving of an FT Credit Event Notice, the provisions of Condition 7.4 (*Consequences of an FT Credit Event*) shall apply.

“**Interest Rate**” for each Interest Period means EURIBOR 3-month Rate plus 1.20 per cent. per annum.

“**EURIBOR 3-month Rate**” means the rate expressed as an annual rate, as calculated and published by the Banking Federation of the European Union and appearing for information purposes on the Reuters screen EURIBOR 01 or Telerate screen page 248 (or, if not available, on Telerate screen page 20041, or if not available, on whatever page of such other recognised screen service that may be substituted therefor, as chosen by the Calculation Agent) on or about 11:00 a.m. (Brussels time), two TARGET Days before the first day of the relevant Interest Period (each an “**Interest Determination Date**”) offered for interbank deposits in Euro among leading banks within the Eurozone for a duration of three months and, in the event the relevant Interest Period would be of less than three months, the rate applicable to such Interest Period shall be calculated on the basis of the EURIBOR rate with a maturity the closest in duration to the relevant Interest Period, and such rate shall be published in accordance with Condition 19 (*Notices*) and notified by the Principal Paying and Exchange Agent to the Luxembourg Stock Exchange.

“**Eurozone**” means the region comprised of member States of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union, as amended by the Treaty of Amsterdam.

6.2 Interest Calculations

The Calculation Agent will, as soon as practicable after 11:00 a.m. (Brussels time) on each Interest Determination Date, determine the EURIBOR 3-month Rate and the Interest Rate for the relevant Interest Period. Such determination by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

The amount of interest payable in respect of each Bond for any period shall be calculated by the Principal Paying and Exchange Agent by applying the Interest Rate to the nominal value of that Bond, multiplying such sum by the actual number of days in the period concerned divided by 360 and rounding the resultant figure to the nearest Euro 0.01 (Euro 0.005 being rounded upwards).

7. REDEMPTION

7.1 Final Redemption

- (A) Unless previously redeemed, exchanged or purchased and cancelled as provided below, each Bond will be redeemed at its outstanding principal amount on the Maturity Date.
- (B) At any time after the Issuer delivers an FT Credit Event Notice, the Issuer shall have no obligation to redeem any Bond at its outstanding principal amount on the Maturity Date. Instead, the provisions of Condition 7.4 (*Consequences of an FT Credit Event*) shall apply.

7.2 Redemption at the Option of the Issuer

- (A) *Redemption on or after 2 years at the Issuer’s option:*

The Issuer may, at any time on or after the second anniversary of the Issue Date, by giving not less than 10 Business Days’ and not more than 30 Business Days’ notice (an “**Issuer Optional Call Notice**”) to the Bondholders specifying the Redemption Settlement Date, redeem all, but not some, of the Bonds then outstanding in cash at 101 per cent. of the then Fair Market Value of the Bonds as determined by the Calculation Agent in its sole discretion.

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Following the determination of the Fair Market Value, the Issuer shall within 3 Business Days notify the Bondholders, the Trustee and the Principal Paying and Exchange Agent of such determination and shall state in such notification whether it elects (the “**Share Election Redemption Settlement**”) to effect the redemption by transferring or delivering Newly Issued Shares instead of paying cash. If it so elects, the Issuer shall transfer or deliver per Bond such number of Newly Issued Shares as is equal to the Fair Market Value divided by the arithmetic average of the Volume Weighted Average Prices of the Shares in Euro on each of the twenty Trading Days immediately following the date of the notice of the Fair Market Value (each such date a “**Share Redemption Settlement Valuation Date**”).

The Issuer shall transfer or deliver the number of Newly Issued Shares per Bond calculated as described above no later than 3 Business Days after the last Share Redemption Settlement Valuation Date.

(B) *Redemption arising from changes in treatment:*

If any Adverse Change occurs or is likely to occur, the Issuer may, by giving not less than 10 Business Days’ and not more than 30 Business Days’ notice (an “**Issuer Adverse Change Notice**”) to the Bondholders, the Trustee and the Principal Paying and Exchange Agent specifying the Redemption Settlement Date, redeem all, but not some, of the Bonds then outstanding in cash at the then Fair Market Value of the Bonds as determined by the Calculation Agent in its sole discretion.

Following the determination of the Fair Market Value, the Issuer shall within 3 Business Days notify the Bondholders, the Trustee, and the Principal Paying and Exchange Agent of such determination and shall state in such notification whether it elects (the “**Share Election Redemption Settlement**”) to effect the redemption by transferring or delivering Newly Issued Shares instead of paying cash. If it so elects, the Issuer shall transfer or deliver per Bond such number of Newly Issued Shares as is equal to the Fair Market Value divided by the arithmetic average of the Volume Weighted Average Prices of the Shares in Euro on each of the twenty Trading Days immediately following the date of the notice of the Fair Market Value (each such date, a “**Share Redemption Settlement Valuation Date**”).

The Issuer shall transfer or deliver the number of Newly Issued Shares per Bond calculated as described above no later than 3 Business Days after the last Share Redemption Settlement Valuation Date.

(C) *Redemption if the Average Closing Price of the Shares exceeds 150 per cent. of the Exchange Price:*

The Issuer may, at any time on and from 3 March 2010, redeem all, but not some, of the Bonds then outstanding, by giving notice of such redemption to the Bondholders, the Trustee and the Principal Paying and Exchange Agent, in cash at the aggregate principal amount of all the then outstanding Bonds if, in respect of a Bond, the average of the product of (i) the Closing Price of the Shares over a period of twenty (20) consecutive Trading Days during which the Shares are quoted on Euronext Paris, as selected by the Issuer in its sole discretion from among forty (40) consecutive Trading Days during which the Shares are quoted on Euronext Paris and (ii) the Exchange Ratio applicable on each such Trading Day in respect of a Bond, exceeds 150 per cent. of the nominal value of the Bond. The Issuer shall by notice in writing to the Bondholders copied to the Trustee and the Principal Paying and Exchange Agent (the “**Issuer Shares Excess Redemption Notice**”) (which notice may not be given less than 30 Business Days and not more than 90 Business Days prior to the Redemption Settlement Date specified in such notice of redemption and the last day on which the Exchange Rights may be exercised by the Bondholders which shall be the fourth Business Day prior to the Redemption Settlement Date).

(D) *Redemption if the outstanding Bonds represent less than 10 per cent. of the aggregate principal amount outstanding of the Bonds on the Issue Date:*

The Issuer may, by notice (the “**Issuer Bond Reduction Notice**”) in writing to the Bondholders, the Trustee and the Principal Paying and Exchange Agent, redeem all, but

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not some, of the Bonds then outstanding at any time if the aggregate principal amount of all the outstanding Bonds (or the Underlying Bonds) is less than 10 per cent. of the aggregate principal amount outstanding of the Bonds (or, as the case may be, the Underlying Bonds) on the Issue Date in cash at the principal amount outstanding of the Bonds.

The Issuer may however state in the Issuer Bond Reduction Notice that it elects to redeem the Bonds by transferring or delivering Newly Issued Shares to the Bondholders (such election being a “**Share Election Redemption Settlement**”). If such election is made in the Issuer Bond Reduction Notice, the Issuer shall transfer or deliver per Bond such number of Newly Issued Shares as is equal to the nominal value of a Bond divided by the arithmetic average of the Volume Weighted Average Prices of the Shares in Euro on each of the twenty (20) Trading Days immediately following the date of the Issuer Bond Reduction Notice (each such date, a “**Share Redemption Settlement Valuation Date**”).

The Issuer shall transfer or deliver the number of Newly Issued Shares per Bond calculated as described above no later than 3 Business Days after the last Share Redemption Settlement Valuation Date.

(E) *Redemption by transfer or delivery of Shares:*

In respect of each of the options which the Issuer may exercise to redeem the Bonds (other than pursuant to Condition 7.2(C) (*Redemption if the Average Closing Price of the Shares exceeds 150 per cent. of the Exchange Price*) above), the Issuer has the option to settle the amount payable on redemption by transferring or delivering Newly Issued Shares as more particularly set out below.

If the Issuer has specified in any Issuer Redemption Notice that it shall redeem the Bonds by the transfer or delivery of Newly Issued Shares, it shall notify the Bondholders in such notice of the number of Newly Issued Shares to be transferred or delivered in respect of each Bond and request the Bondholders to provide to it a completed Exchange Notice no later than 2 Business Days prior to the relevant Redemption Settlement Date and any obligation of the Issuer to transfer or deliver Newly Issued Shares to a Bondholder pursuant to the relevant Issuer Redemption Notice shall be conditional upon the delivery of an Exchange Notice by such Bondholder. The Issuer shall transfer or deliver the number of Newly Issued Shares per Bond calculated as described above no later than 3 Business Days after the last Share Redemption Settlement Valuation Date. The obligation of the Issuer to transfer or deliver any Newly Issued Shares pursuant to any Issuer Redemption Notice shall be further subject to Condition 9 (*Payment or Transfer Delays*) below.

(F) *Payment of accrued interest on redemption:*

If the Issuer exercises its right to redeem the Bonds in full in accordance with any of Conditions 7.2 (A) to (D), it shall pay interest accrued on the Bonds to the relevant Redemption Settlement Date. This is applicable to any redemption made by the Issuer at its option under this Condition 7.2.

(G) *FT Credit Event following an Issuer Redemption Notice:*

If, at any time after an Issuer Redemption Notice is delivered but prior to a Redemption Settlement Date, the Issuer delivers an FT Credit Event Notice, such Issuer Redemption Notice shall be null and void and the Issuer shall cease to be under any obligation to make any redemption of the Bonds pursuant to such notice.

7.3 Mandatory Redemption

(A) If the Calculation Agent has determined (such determination to be conclusive in absence of manifest error) that:

- (i) the Underlying Bonds have become repayable or have become capable of being declared due and repayable prior to their stated date of maturity for whatever reason;
- (ii) there is a payment default in respect of any of the Underlying Bonds;

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- (iii) the Underlying Issuer fails to perform or observe any of its other obligations under the Underlying Bonds and the failure continues after any applicable grace period;
- (iv) any order is made by any competent court or resolution is passed for the winding up or dissolution of the Underlying Issuer;
- (v) the Underlying Issuer ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation or is adjudicated or found bankrupt or insolvent;
- (vi) proceedings are initiated against the Underlying Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative receiver or other similar official or an administrative receiver or other similar official is appointed in relation to the Underlying Issuer, in relation to all or substantially all of its undertaking or assets or an encumbrancer takes possession of all or substantially all of its undertaking or assets, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against all or substantially all of its undertaking or assets, which are not discharged within 90 days;
- (vii) the Underlying Issuer initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or
- (viii) any other event which would constitute an event of default in relation to the Underlying Bonds has taken place (each such event, a “**Mandatory Redemption Event**”) and the Bonds shall likewise be deemed to have become immediately repayable,

the Underlying Bonds shall be deemed to have become immediately repayable (the “**Repayable Assets**”).

- (B) The Issuer shall, on the instruction of the Calculation Agent, give not more than 30 nor less than 15 days’ notice to the Trustee, the Principal Paying and Exchange Agent, the Bondholders and (for as long as the Bonds are admitted to trading on the Euro MTF and listed on the Official List of the Luxembourg Stock Exchange) the Luxembourg Stock Exchange specifying the principal amount of the Repayable Assets, the principal amount of the Bonds to be redeemed and the due date for redemption, and upon expiry of such notice (i) the Issuer shall redeem each Bond in whole at its principal amount outstanding (ii) the security constituted by or created pursuant to the Trust Instrument over the Repayable Assets shall become enforceable and (iii) the Exchange Right in respect of each Bond shall be extinguished with effect from the first date of the occurrence of any Mandatory Redemption Event (as determined by the Calculation Agent, such determination to be conclusive in absence of manifest error). Interest shall continue to accrue on the part of the principal amount of Bonds which has become due for redemption until payment thereof has been made to the Trustee and notice is given to the Bondholders in accordance with Condition 19 (*Notices*) that such amount is available for payment. Failure to make any payment due in respect of a Mandatory Redemption under this Condition 7.3 (*Mandatory Redemption*) of part of the principal amount of the Bonds or interest thereon shall not constitute an Event of Default of the Issuer under Condition 15 (*Events of Default*).

7.4 Consequences of an FT Credit Event

After the delivery of an FT Credit Event Notice (such date being the “**Credit Event Date**”), the Issuer shall have no obligation to (i) make any interest payments and interest shall cease to accrue on the Bonds and (ii) redeem any of the Bonds at their scheduled maturity or any date

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of early redemption (irrespective of whether the Issuer has previously given a notice of redemption), except pursuant to this Condition 7.4.

The Issuer shall redeem the Bonds (such redemption being a “**Credit Event Redemption**”) in accordance with this paragraph by paying the Credit Event Redemption Amount (“**CERA**”) per Bond determined as follows:

(i) *Redemption on the liquidation of France Telecom*

If, after the delivery of an FT Credit Event Notice and prior to a redemption notice delivered pursuant to (ii) or (iii) below, upon the liquidation of France Telecom under which payments are made to the Senior Creditors and/or subordinated creditors including creditors with Principal Reference Bonds Claims of France Telecom by the liquidator, the Issuer shall within five Business Days after such payments have been made notify (such notice being an “**FT Liquidation Redemption Notice**”) the Bondholders, the Trustee and the Principal Paying and Exchange Agent that it will redeem the Bonds on a date falling no later than five Business Days after the date of the FT Liquidation Redemption Notice on the following basis:

- (a) any interest which has accrued on an outstanding Bond and is owing under that Bond from the Interest Payment Date (or, if none, the Issue Date) immediately preceding the FT Credit Event Notice to the Credit Event Date (“**Unpaid Interest**”) shall be paid by multiplying the Unpaid Interest on that Bond outstanding by the Senior Recovery Rate; and
- (b) the principal amount of each Bond shall be paid by multiplying such amount by the Principal Recovery Rate.

(ii) *Redemption determined by a Reference Bond Placement*

The Issuer may (a) after the date falling 3 months after the Credit Event Date and (b) if no notice of redemption has been delivered pursuant to (i) above or (iii) below, by giving notice (such notice being an “**FT Placement Redemption Notice**”) in writing to the Bondholders, the Trustee and the Principal Paying and Exchange Agent, elect to redeem the Bonds and determine the CERA on the basis of the placement price (the “**Reference Bonds Placement Price**”) per Reference Bond under a Vendor Bond Placement which has been determined no earlier than three Business Days before the date of the FT Placement Redemption Notice. The Issuer shall specify the date of redemption in the FT Placement Redemption Notice which date shall not be more than five Business Days after the date of the settlement of the Vendor Bond Placement.

If an FT Placement Redemption Notice is given, the CERA per Bond shall be the aggregate of the Unpaid Interest of an outstanding Bond and the principal amount of that outstanding Bond multiplied by the Reference Bond Market Price Rate.

(iii) *Redemption at the nominal amount of the Bonds*

If, on the date falling six months after the Credit Event Date, the Issuer has not made a Credit Event Redemption pursuant to either (i) or (ii) above, the Issuer shall by notice in writing to the Bondholders, the Trustee and the Principal Paying and Exchange Agent (such notice being an “**FT Nominal Value Redemption Notice**”) redeem the Bonds at their principal amount outstanding together with Unpaid Interest on the outstanding Bonds. The Issuer shall specify the date of redemption in the FT Nominal Value Redemption Notice which date shall not be more than five Business Days after the date falling six months after the Credit Event Date.

7.5 Purchases

The Issuer may at any time purchase Bonds in the open market or otherwise. Bonds purchased by the Issuer may, at the option of the Issuer, be held by it, sold or transferred to the Registrar or to its order for cancellation.

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7.6 Cancellation

All Bonds exchanged or redeemed must be surrendered for cancellation by surrendering the Certificate representing such Bonds to the Registrar and, when so surrendered, will, together with all Bonds redeemed by the Issuer, be cancelled forthwith. Any Bonds so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Bonds shall be discharged. The Issuer undertakes to (i) either promptly inform or (ii) procure that Principal Paying and Exchange Agent promptly informs (on its behalf) the Luxembourg Stock Exchange of any cancellation of the Bonds, as long as the Bonds are admitted to trading on the Euro MTF and listed on the Official List of the Luxembourg Stock Exchange.

8. PROVISIONS RELATING TO NEWLY ISSUED SHARES TO BE DELIVERED

- (A) The Newly Issued Shares transferred or delivered on the exercise of any Exchange Right or the redemption of the Bonds by the Issuer under Condition 7 (*Redemption*) shall be fully paid ordinary shares of France Telecom subject to the provisions of the bye-laws of France Telecom. Newly Issued Shares give the holders thereof the right, in respect of the fiscal year (the “**Current Fiscal Year**”) of France Telecom in which the Exchange Settlement Date, the Redemption Settlement Date or, as applicable, the date of the Share Election Redemption Settlement falls and the following fiscal years, to the same dividend per Newly Issued Share (on the basis of the same nominal value) as that paid in respect of other Shares with equivalent dividend rights. However, Newly Issued Shares do not give the holders thereof the right to dividend per Newly Issued Share in respect of the fiscal year of France Telecom immediately preceding the Current Fiscal Year. The Bondholders shall not be entitled to any dividend nor to any compensation in respect of Newly Issued Shares in the case that the Exchange Settlement Date, the Redemption Settlement Date or, as applicable, the date of the Share Election Redemption Settlement falls after Record Date for such dividend. Where the Issuer elects to pay cash in respect of an exercise of an Exchange Right or in respect of an optional redemption by the Issuer, the cash amount payable shall, as described above, be subject to the Cash Settlement Adjustment (if applicable). Prior to the transfer or delivery of any Newly Issued Share, the Bondholders shall not be entitled to exercise or direct the exercise of any voting rights attached to that Newly Issued Share.
- (B) No dividend in respect of the Newly Issued Shares shall be delivered on the exercise of a Bondholder’s Exchange Rights or the redemption of the Bonds by the Issuer under Condition 7 (*Redemption*) and, prior to the transfer or delivery of any Newly Issued Share, the Bondholders shall not be entitled to exercise or direct the exercise of any voting rights attached to that Newly Issued Share.
- (C) Fractions of a Newly Issued Share will not be transferred or delivered on exchange provided that if more than one Bond is to be exchanged by a Bondholder or more than one Bond is held by a Bondholder on redemption of the Bonds by the Issuer under Condition 7 (*Redemption*), the number of Newly Issued Shares which shall be transferred or delivered upon exchange or redemption shall be calculated on the basis of the aggregate principal amount of the Bonds of such Bondholder which is subject to the exchange or, as the case may be, redemption. The Issuer shall pay to the relevant Bondholder a cash amount (to be paid at the same time of the transfer or delivery of the Newly Issued Shares) equal to the product of (x) the fraction of the Newly Issued Share to which such Bondholder would otherwise be entitled and (y) the Closing Price on the third Trading Day preceding the Exchange Settlement Date or Redemption Settlement Date, rounded to the nearest full cent, with 0.005 being rounded upwards.

9. PAYMENT OR TRANSFER DELAYS

9.1 Settlement Disruption

- (A) (i) If:
- (a) the Issuer is notified by the Underlying Issuer that, in its opinion, it is not possible to effect a transfer or delivery of Newly Issued Shares by the

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- relevant settlement date under the Underlying Bonds or the Reference Bonds, by reason of a suspension or material limitation of transfers of Shares in Euroclear France or a material disruption, suspension or limitation of trading of the Shares on Euronext Paris; or
- (b) the Issuer is notified by the Underlying Issuer that any transfer or delivery of Newly Issued Shares under the Underlying Bonds or the Reference Bonds would be unlawful under any applicable laws or regulations or if such transfer or delivery is impossible or not practicable for any reason; or
- (ii) If:
- (a) If in the opinion of the Calculation Agent, it is not possible to effect a transfer or delivery of Newly Issued Shares by a Settlement Date, by reason of a suspension or material limitation of transfers of Shares in Euroclear France or a material disruption, suspension or limitation of trading of the Shares on Euronext Paris; or
 - (b) if such transfer or delivery of Newly Issued Shares would be unlawful under any applicable laws or regulations or if such transfer or delivery is impossible or not practical for any reason,
- (any event or circumstance described in (i) or (ii) above being a “**Settlement Disruption**”)

then, in the case of (i) above, the Issuer will cause the transfer and delivery of Newly Issued Shares to be made on the next succeeding Trading Business Day on which it has been notified by the Underlying Issuer that there is no Settlement Disruption and, in the case of (ii) above, the Issuer will cause the transfer and delivery of Newly Issued Shares to be made on the next succeeding Trading Business Day on which there is no Settlement Disruption.

- (B) If a Settlement Disruption lasts for more than 8 consecutive Trading Business Days, the relevant Exchange Notice or Issuer Redemption Notice pursuant to which Newly Issued Shares are to be transferred or delivered shall be null and void and the Issuer shall be released from any obligation which arises as a result of such notice. If this provision applies, any Bond debited from the relevant Bondholder’s account under Condition 4.5 (*Procedure for Exchange*) shall be re-transferred to the account from which it was debited and any Individual Certificate in respect of any Bond deposited by a Bondholder under Condition 4.5 (*Procedure for Exchange*) shall be available for collection.

9.2 Delay due to Retroactive Adjustment

If, in the opinion of the Calculation Agent, it is not possible to effect a transfer or delivery of Newly Issued Shares or payment of cash by reason of the need to effect any retroactive adjustment to the applicable Exchange Price or Exchange Ratio in accordance with Condition 5.3 (*Retroactive Adjustments*), the Issuer shall make the relevant transfer or delivery of Newly Issued Shares or payment of cash as soon as practicable following the confirmation by the Calculation Agent that such adjustment has been made.

10. PUBLIC OFFER

If the Shares are subject to a Tender Offer, the Issuer may (but shall not be obliged to) take any action described in (A) or (B) below:

- (A) require the Calculation Agent to determine the appropriate adjustment, if any, to be made to any one or more of the Conditions to account for the Tender Offer and determine the effective date of that adjustment including, without limitation, substituting the affected Share with another share and setting the relevant Exchange Price for such Share; or
- (B) redeem the Bonds by giving notice to Bondholders, the Trustee and the Principal Paying and Exchange Agent. If the Bonds are so redeemed and cancelled, the Issuer will pay an amount to each Bondholder in respect of each Bond held by such Bondholder, which

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amount shall be the Fair Market Value of a Bond taking into account the Tender Offer, less the cost to the Issuer or the Underlying Issuer of unwinding any underlying related hedging arrangements (if any), all as determined by the Calculation Agent in its reasonable discretion and taking into account the corresponding valuation of an Underlying Bond. Payment will be made in such manner as shall be notified to the Bondholders, the Trustee and the Principal Paying and Exchange Agent.

Upon the occurrence of a Tender Offer, the Calculation Agent shall give notice as soon as practicable to the Bondholders, the Trustee and the Principal Paying and Exchange Agent (although Bondholders are deemed to acknowledge that there may necessarily be some delay between the time at which any of the above events occurs and the time at which it is reported to Bondholders, the Trustee and the Principal Paying and Exchange Agent) stating the occurrence of the Tender Offer, giving details thereof and the action proposed to be taken by the Issuer in relation thereto.

11. PAYMENTS

11.1 Bonds

Payments of principal in respect of the Bonds will be made by the Principal Paying and Exchange Agent against presentation and surrender of the relevant Individual Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided below.

Interest on the Bonds will be paid by the Paying and Exchange Agents to the person shown on the Register (or, if more than one person is so shown, to the first named person) at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”).

Payment of principal or interest or any Cash Settlement Amount on each Bond in definitive form will be made by the Principal Paying and Exchange Agent in Euro by cheque drawn on a bank in the Eurozone and mailed to the Bondholder (or to the first named of joint holders) of such Bond at its address appearing in the Register maintained by the Registrar. Upon application by a Bondholder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of principal or interest or other sum may be made by transfer to an account in Euro maintained by the payee with a bank in the Eurozone.

If any Interest Payment Date, Settlement Date or any due date for payment of any other amount in respect of any Bond is not a TARGET Day, then a Bondholder shall not be entitled to payment of the amount due until the next following day that is a TARGET Day and the Bondholder shall not be entitled to any interest or other sums in respect of such postponed payment period.

11.2 Payments subject to law, etc.

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives. No commission or expenses shall be charged to the Bondholders in respect of such payments.

11.3 Appointment of Agents

The Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of any of the Agents and to appoint additional or other Paying and Exchange Agents, provided that the Issuer will at all times maintain (i) a Registrar, (ii) a Transfer Agent, (iii) a Principal Paying and Exchange Agent having a specified office in a European city approved by the Trustee, and (iv) for as long as the Bonds are admitted for trading on the Euro MTF and listed on the Official List of Luxembourg Stock Exchange, a Paying and Exchange Agent and Transfer Agent in Luxembourg. For so long as the Bonds are listed on any other stock exchange, the Issuer will maintain such other agents as may be required by the rules of such stock exchange.

Notice of any such change or any change of any specified office will promptly be given to the Bondholders in accordance with Condition 19 (*Notices*).

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11.4 Non-Business Days

If any date for payment in respect of any Bond is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment.

In this Condition 11.4, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation.

11.5 Taxation

All payments of principal and interest by the Issuer in respect of the Bonds may be made subject to any withholding or deduction for, or on account of, any applicable taxation. All payments of principal and interest under the Underlying Bonds will also be made subject to any withholding or deduction for, or on account of, any applicable taxation. The Issuer will not be required to pay any additional amounts in respect of such withholding or deduction.

12. SECURITY FOR THE BONDS

12.1 Underlying Bonds

The Underlying Bonds will be held by the Trustee, on behalf of the Issuer, subject to the security created by or pursuant to the Trust Instrument and to the conditions set out in the Luxembourg Securitisation Act 2004.

12.2 Mortgaged Property

The Luxembourg Securitisation Act 2004 provides that the Mortgaged Property (and the proceeds thereof) will be available solely to meet the claims of the specified Bondholders and other creditors the rights and claims of which have arisen at the occasion of constitution, the operation or the liquidation of the Compartment to which the Bonds were allocated to following a decision of the board of directors of the Issuer.

12.3 Security

The Issuer has in the Trust Instrument created the following security:

- (i) a first fixed charge and assignment by way of first ranking security in favour of the Trustee all of the Issuer’s rights, title, interest and benefit, present and future, over or in respect of the Underlying Bonds and in respect of and sums derived from the Underlying Bonds (including, without limitation, any proceeds of the sale thereof); and
- (ii) a first fixed charge in favour of the Trustee over the Issuer’s rights, title, interest and benefit, present and future, to all sums held by any Agent under the Agency Agreement to meet payments due in respect of the Bonds.

In these Conditions and in the Trust Instrument, “**Mortgaged Property**” means the Underlying Bonds and the other property, assets and/or rights of the Issuer which have been charged, assigned, pledged and/or otherwise made subject to the security created by the Issuer in favour of the Trustee pursuant to the Trust Instrument.

12.4 General provisions relating to security

- (A) The security constituted or created pursuant to the Trust Instrument will be granted to the Trustee for itself and as trustee for the Secured Parties under the Trust Instrument as continuing security (i) for the payment of all sums due to the Trustee or any appointee thereof or any receiver under the Trust Instrument or due under the Bonds and (ii) for the payment of all sums payable to any of the Agents pursuant to any provision of the Agency Agreement which requires the Issuer to reimburse (and to pay interest on the amount reimbursed as provided in the Agency Agreement) such Agent for any amount paid out by such Agent to the holders of Bonds before receipt of the corresponding amount due from the Issuer.

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- (B) The security constituted by or created pursuant to the Trust Instrument shall become enforceable upon the occurrence of an Event of Default.
- (C) The Underlying Bonds will be held by the Trustee on behalf of the Issuer on and subject to the terms and conditions of the Agency Agreement and, subject to the security referred to in Condition 12.3 (*Security*).

The Trust Instrument provides that the Trustee shall not be bound or concerned to make any investigation into, or be responsible for:

- (i) *the creditworthiness of the Underlying Bonds or any obligor or guarantor in respect of the Underlying Bonds or other person which is a party to any other agreement or document constituting or evidencing any of the Underlying Bonds or the Mortgaged Property; or*
- (ii) *the validity or enforceability of the obligations of any such person as is referred to in sub-paragraph (i) above or of the security constituted by or pursuant to the Trust Instrument; or*
- (iii) *whether the cashflows relating to the Underlying Bonds and/or the Mortgaged Property and the Bonds are matched.*

Neither the Issuer nor the Trustee will have any responsibility for the performance by any clearing system (or its participants or indirect participants) of any of their respective obligations under the rules and procedures governing their operations.

12.5 Application of Proceeds of Enforcement of Mortgaged Property

The Trustee shall (subject to the provisions of the Trust Instrument) apply all moneys received by it under the provisions of the Trust Instrument in connection with the realisation or enforcement of the security constituted by or pursuant to the Trust Instrument:

- (A) first, *pari passu* and *pro rata* in payment or satisfaction of all fees, costs, charges, expenses, liabilities and other amounts incurred by or payable to the Trustee, any appointee thereof, or any receiver under or pursuant to the Trust Instrument (which for the purpose of this Condition 12.5 and the Trust Instrument shall include any taxes required to be paid, the costs of realising any security and the Trustee's remuneration);
- (B) secondly, *pari passu* and *pro rata* in payment of any amounts owing to the Agents which shall include any amounts owing to the Agents for reimbursement in respect of payment of principal and interest made to the relevant Bondholders;
- (C) thirdly, in payment of any amounts due and payable to the Bondholders *pari passu* and rateably; and
- (D) fourthly, in payment of the balance (if any) to the Issuer.

By subscribing for or otherwise acquiring the Bonds, each Bondholder expressly consents to the provisions of this Condition 12.5 and the limitation of its rights in accordance with article 64 of the Luxembourg Securitisation Act 2004 and is deemed to have accepted such provisions and the consequences thereof.

12.6 Realisation of the Mortgaged Property

- (A) In the event of the security constituted by or created pursuant to the Trust Instrument over the Mortgaged Property becoming enforceable, the Trustee may at its discretion and shall:
 - (i) if requested in writing by the holders of at least one-fifth in aggregate principal amount of the Bonds then outstanding (as defined in the Trust Instrument); or
 - (ii) if directed by an Extraordinary Resolution of the Bondholders;do one or more of the following:
 - (1) instruct the Selling Agent to endeavour to sell or otherwise realise the Underlying Bonds in accordance with this Condition 12.6 and the provisions of the Agency Agreement;

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- (2) take other steps to realise all or some of the Underlying Bonds;
 - (3) otherwise enforce the security constituted by or pursuant to the Trust Instrument, and
- (B) in each case without any liability as to the consequences of such action and without having regard to the effect of such action on individual Bondholders and provided in each case that the Trustee shall not be required to take any action without first being indemnified and/or secured to its satisfaction or to do anything which is or may be contrary to any applicable law.

If the Selling Agent is instructed by the Trustee in accordance with Condition 12.6(A) to endeavour to sell or otherwise realise the Underlying Bonds, the Selling Agent shall, on behalf of and as the agent of the Trustee pursuant to, and in accordance with, the provisions of the Agency Agreement, use all reasonable endeavours to sell or otherwise realise the Underlying Bonds as soon as reasonably practicable on or after the date on which it receives such instruction at its best execution price less any commissions or expenses charged by the Selling Agent and specified for this purpose in the Trust Instrument.

If, however, the Selling Agent determines that there is no available market for the Underlying Bonds, or if the Selling Agent otherwise determines that it is impossible to sell or otherwise realise the Underlying Bonds or any part of it, the Selling Agent will promptly notify the Issuer and the Trustee of such lack of availability or impossibility and the Selling Agent shall not be required to effect the sale or other realisation of the Underlying Bonds or any further part of it. Any such determination by the Selling Agent shall be in its sole discretion and shall be binding on the Issuer, the Trustee and the Bondholders. In the event that the Selling Agent makes such determination, the Trustee at its discretion may, and shall if so requested or directed in accordance with this Condition 12.6 (but subject in each case to its being indemnified and/or secured in accordance with this Condition), realise all or part of the Underlying Bonds by other means.

In order to obtain its best execution price for the above purposes, the Selling Agent shall be required to take reasonable care to ascertain the price which is the best available for the sale or other realisation of the Underlying Bonds at the time of the sale or other realisation for transactions of the kind and size concerned and, unless circumstances require the Selling Agent to do otherwise in the interests of the Bondholders, to deal at a price which is not less advantageous to the Bondholders.

The Trustee shall have no responsibility or liability for the performance by the Selling Agent of its duties under this Condition 12.6 or for the price at which any of the Underlying Bonds may be sold or otherwise realised.

12.7 Shortfall after application of proceeds

If the net proceeds of the realisation of the security created pursuant to the Trust Instrument (the “**Net Proceeds**”) are not sufficient to make all payments due in respect of the Bonds, the obligation of the Issuer to make payments in respect of the Bonds (or in respect of other amounts owed to Secured Parties) will be limited to such net proceeds. The other assets of the Issuer will not be available for payment of any Shortfall (as defined below) arising therefrom. Any Shortfall shall be borne by the Bondholders, and any other persons entitled to the benefit of such security according to the priorities specified in the Trust Instrument.

The Issuer will not be obliged to make any further payment in excess of the Net Proceeds and any right to receive any further sum in each case in respect of any Shortfall remaining after realisation of the security under Condition 12.6 (*Realisation of the Mortgaged Property*) and application of the proceeds in accordance with the Trust Instrument shall be extinguished and neither the Trustee nor any Bondholder nor any other person entitled to the benefit of such security (nor any person acting on behalf of any of them) may take any further action to recover such Shortfall. In particular, no such party will be able to petition for the winding-up of the Issuer. Failure to make any payment in respect of any Shortfall shall in no circumstances constitute an Event of Default under Condition 15 (*Event of Default*).

The realisation of some only of the Underlying Bonds where there is a Shortfall will not extinguish any claims in respect of the remaining Underlying Bonds.

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In this Condition 12.7 (*Shortfall after application of proceeds*) “**Shortfall**” means the amount, if any, by which the amount of the Net Proceeds is less than the payments which would but for this Condition 12.7 (*Shortfall after application of proceeds*) have been due under the Bonds and/or to any other person entitled to the benefit of the security created pursuant to the Trust Instrument.

12.8 Issuer’s rights as holder of Underlying Bonds

Prior to the occurrence of an Event of Default, the Issuer may exercise any rights in its capacity as holder of the Underlying Bonds without the prior written consent of the Trustee save that the Issuer will not attend or vote at any meeting of holders of the Underlying Bonds, or give any consent to an amendment or modification of the terms of the Underlying Bonds unless the Trustee shall give its prior written consent (which consent may be given by the Trustee in its absolute discretion) or by direction of any Extraordinary Resolution of the Bondholders.

12.9 Exercise of Issuer’s right as holder of Underlying Bonds following Exchange Notice

On each occasion that a Bondholder delivers an Exchange Notice in respect of a Bond, the Issuer will on the Option Exercise Date in respect of that Exchange Notice or within one Business Day thereafter, deliver a notice to Deutsche Bank AG, London Branch as Underlying Issuer:

- (A) exercising its exchange right under the Underlying Bonds in a principal amount equal to the principal amount of the Bonds in respect of which the Exchange Right has been exchanged; and
- (B) (subject to the Underlying Issuer’s option to pay a cash settlement amount and the Issuer’s option to pay a Cash Settlement Amount) directing the Underlying Issuer to transfer or deliver on the Exchange Settlement Date the Newly Issued Shares to the relevant Bondholder or as the Bondholder directs in the relevant Exchange Notice.

13. RESTRICTIONS

The Issuer has covenanted in the Trust Instrument that (*inter alia*) so long as any of the Bonds remains outstanding, it will not, without the prior written consent of the Trustee:

- (A) engage in any activity or do any thing whatsoever except:
 - (i) issue or enter into investments which are subject to the Luxembourg Securitisation Act 2004 and the enforcement and limited recourse provisions contained in the Trust Instrument (“**Permitted Investments**”) or otherwise incur indebtedness in respect of moneys borrowed or raised where such indebtedness is incurred on terms that it is subject to the Luxembourg Securitisation Act 2004 and/or relates to assets or other property which are not part of the Mortgaged Property of any other investments and on terms which provide for the extinguishment of all claims in respect of such indebtedness after application of the proceeds of the assets on which such indebtedness is secured (“**Permitted Indebtedness**”);
 - (ii) enter into any agency agreement, trust instrument, swap agreement, option agreement, repurchase agreement or any deed or agreement of any other kind related to any Permitted Investment or Permitted Indebtedness, but provided always that any such agreement is entered into on terms that the obligations of the Issuer thereunder relate to a compartment of specified assets of the Issuer (other than its share capital) which do not form part of the Mortgaged Property and on terms which provide for extinguishment of all claims in respect of such obligations after application of the assets on which such indebtedness is secured;
 - (iii) acquire, or enter into any agreement constituting the collateral in respect of any Permitted Investment or the assets securing any Permitted Indebtedness or any other agreement relating thereto;
 - (iv) perform its obligations under each Permitted Investment or Permitted Indebtedness, the agency agreement, trust instrument, swap agreement, option agreement, repurchase agreement or other deeds or agreements incidental to the

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- issue and constitution of, or the granting of security for, any Permitted Investment or Permitted Indebtedness;
- (v) enforce any of its rights under any agency agreement, trust instrument or other deed or agreement entered into in relation to any Permitted Investment or Permitted Indebtedness;
 - (vi) perform any act incidental to or necessary in connection with any of the above;
- (B) have any subsidiaries or employees;
 - (C) subject to sub-paragraph (A) above, dispose of any of its property or other assets or any part thereof or interest therein (subject as provided in the terms and conditions relating to any Permitted Investment or the terms and conditions of any Permitted Indebtedness);
 - (D) purchase, own, lease or otherwise acquire any real property (including office premises or like facilities);
 - (E) consolidate or merge with any other person; or
 - (F) issue any shares.

14. PRESCRIPTION

Claims against the Issuer for payment in respect of the Bonds shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect thereof.

15. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in principal amount of Bonds then outstanding, or if so directed by an Extraordinary Resolution of such holders, shall (subject in each case to being indemnified and/or secured to its satisfaction), give notice to the Issuer that the Bonds are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount outstanding and the security constituted by or created pursuant to the Trust Instrument shall become enforceable, as provided in the Trust Instrument, in any of the following events (each an “**Event of Default**”):

- (A) (subject as provided in Condition 7.3 (*Mandatory Redemption*)) if default is made for a period of 14 days or more in the payment of any sum due in respect of the Bonds and/or any payment of any sum or transfer or delivery obligations in respect of any Newly Issued Share pursuant to an exercise of Exchange Rights or an Issuer Redemption Notice or any of them; or
- (B) if (i) the Issuer fails to perform or observe any of its other obligations under the Bonds or the Trust Instrument, (ii) the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of Bondholders, and (iii) (unless such failure is, in the opinion of the Trustee, incapable of remedy in which case no such notice as is referred to in this paragraph shall be required) such failure continues for a period of 30 days (or such longer period as the Trustee may permit) following the service by the Trustee on the Issuer of notice requiring the same to be remedied (and for these purposes, a failure to perform or observe an obligation shall be deemed to be remediable notwithstanding that the failure results from not doing an act or thing by a particular time); or
- (C) if any order shall be made by any competent court or any resolution passed for the winding-up or dissolution of the Issuer save for the purposes of amalgamation, merger, consolidation, reorganisation or other similar arrangement on terms previously approved in writing by the Trustee or by an Extraordinary Resolution.

The Issuer has undertaken in the Trust Instrument that, on each anniversary of the Issue Date and also within 14 days after any request by the Trustee, it will send to the Trustee a certificate signed by a Director of the Issuer to the effect that, after making all reasonable enquiries by such Director, to the best of the knowledge, information and belief of the Issuer there did not exist, as at a date not more than five days prior to the date of the certificate, nor had there existed at any time prior thereto since the date of the Trust Instrument or the date of the last

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such certificate if any, any Event of Default or Potential Event of Default (as defined in the Trust Instrument) or, if such an Event of Default or Potential Event of Default did then exist or had existed, specifying the same and to such other effect as the Trustee may require.

The Trust Instrument provides that the Trustee shall not be under any obligation to monitor whether or not an Event of Default or a Potential Event of Default (as defined in the Trust Instrument) has occurred or is continuing.

16. ENFORCEMENT

At any time after the Bonds become due and payable or in any of the circumstances specified in Condition 12.4 (*General provisions relating to security*), the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Instrument and the Bonds and, to the extent provided in the Trust Instrument, to enforce the security constituted by the Trust Instrument but it shall not be obliged to take any such proceedings unless (a) it shall have been so requested or directed by any person entitled to make such request or give such direction pursuant to Condition 12.6(A) (*Realisation of the Mortgaged Property*) and (b) it shall have been indemnified to its satisfaction and provided that it shall not be obliged to take any action if it would be against any applicable law.

Only the Trustee (or, to the extent provided in Condition 12.6 (*Realisation of the Mortgaged Property*), the Selling Agent) may pursue the remedies available under the Trust Instrument to enforce the rights of the Bondholders and/or any of the Agents and no Bondholder or any of the Agents is entitled to proceed against the Issuer unless the Trustee, having become bound to proceed in accordance with the terms of the Trust Instrument, fails or neglects to do so within a reasonable period and such failure is continuing.

The Secured Parties and any receiver appointed under the Trust Instrument shall have recourse only to the Mortgaged Property. Neither the Secured Parties nor any such receiver nor anyone acting on behalf of any of them having realised the same and distributed the net proceeds in accordance with Condition 12.5 (*Application of Proceeds of Enforcement of Mortgaged Property*) shall be obliged or entitled to take any further steps against the Issuer or its other assets or the Trustee to recover any sums due but still unpaid in respect of the Bonds or the Trust Instrument or in respect of any amount owed to any Secured Party (save for lodging a claim in the liquidation of the Issuer initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer) and the right to receive any such sum due but still unpaid shall be extinguished. In particular, neither the Secured Parties nor any such receiver nor any other party to the Trust Instrument shall be entitled to petition or take any other step for the winding-up of the Issuer or the appointment of an insolvency receiver or similar official in respect of the Issuer, nor shall any of them have any claim in respect of any asset of the Issuer not forming part of the Mortgaged Property.

17. MEETINGS OF BONDHOLDERS; MODIFICATIONS; WAIVER; AND SUBSTITUTION

17.1 Meetings of Bondholders

The Trust Instrument contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including modification by Extraordinary Resolution of the Bonds (including these Conditions or the provisions of the Trust Instrument insofar as the same may apply to the Bonds). The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding or, at any adjourned such meeting, two or more persons being or representing Bondholders, whatever the principal amount of the Bonds so held or represented, and an Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not, except that any Extraordinary Resolution proposed, inter alia, (i) to amend the date of maturity or redemption of the Bonds, or the date for payment of interest thereon, (ii) to reduce or cancel the principal amount or any premium payable on redemption of the Bonds, (iii) to reduce the rate or rates of interest in respect of the Bonds or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating the interest payable in respect thereof, (iv) to change any method of calculating the Cash Settlement Amount, (v) to change the currency or currencies of payment or

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denomination of the Bonds, (vi) to change any aspect of the Exchange Right (excluding any change arising as a result of these Conditions), (vii) to take any steps which as specified in the Trust Instrument may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, (viii) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, (ix) to modify the provisions of the Trust Instrument concerning this exception or (x) to modify any other provisions specifically identified for this purpose in the Trust Instrument, will only be binding if passed at a meeting of the Bondholders, the quorum at which shall be two or more persons holding or representing 75 per cent. or, at any adjourned meeting, not less than 25 per cent., in principal amount of the Bonds for the time being outstanding. The holder of a Global Certificate representing all (or part) of the Bonds for the time being outstanding will be treated as being two persons for the purposes of such quorum requirements. A resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds for the time being outstanding shall for all purposes be as valid and effectual as an Extraordinary Resolution passed at a meeting of Bondholders.

The provisions of articles 86 to 97 of the Luxembourg act dated 10 August 1915 on commercial companies, as amended, shall not apply to the Bonds.

17.2 Modification

The Trustee may, without the consent of the Bondholders or any other Secured Party, agree to (i) any modification to the Trust Instrument or any other agreement or document entered into in relation to the Bonds which is of a formal, minor or technical nature or is made to correct a manifest error or an error which is, in the opinion of the Trustee, proven; (ii) any modification of any of the provisions of the Trust Instrument or any other agreement or document entered into in relation to the Bonds which in the opinion of the Trustee is not materially prejudicial to the interests of the Bondholders; (iii) any modification of the provisions of the Trust Instrument or any other agreement or document entered into in relation to the Bonds which is made to satisfy any requirement of any stock exchange on which the Bonds are or are proposed to be issued and which, in each case, is not in the opinion of the Trustee materially prejudicial to the interests of the Bondholders, and (iv) any modification of the provisions of the Trust Instrument which is specified in the Trust Instrument as being a modification to which the Trustee may agree without the consent of the Bondholders or any Secured Party.

If the Trustee shall so require, any such modification shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 19 (*Notices*).

17.3 Waiver

The Trustee may, without the consent of the Bondholders or any other Secured Party and without prejudice to its rights in respect of any subsequent breach, from time to time and at any time, but only if and in so far as in its opinion the interests of the Bondholders shall not be materially prejudiced thereby, waive or authorise, on such terms and conditions as to it shall seem expedient, any breach or proposed breach by the Issuer of any of the covenants or provisions in the Trust Instrument or the Conditions or determine that any Event of Default or Potential Event of Default shall not be treated as such, provided always that the Trustee shall not exercise any powers conferred on it by this Condition 17.3 (*Waiver*) in contravention of any express direction given by an Extraordinary Resolution of the Bondholders but no such direction shall affect any waiver, authorisation or determination previously given or made. Any such waiver, authorisation or determination shall be binding on the Bondholders.

If the Trustee shall so require, any such waiver, authorisation or determination shall be notified to the Bondholders as soon as practicable thereafter in accordance with Condition 19 (*Notices*).

17.4 Substitution

The Trust Instrument contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Instrument and such other conditions as the Trustee may require but without the consent of the Bondholders, to the substitution of any other company (a "**Substitute Company**") in place of the Issuer or of any previous substituted company, as principal obligor under the Trust Instrument and all of the Bonds then outstanding. In the case of such a

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substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Instrument provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Bondholders.

The Trust Instrument provides that, if a Director or other authorised officer of any Substitute Company certifies that the Substitute Company will be solvent immediately after the time at which the substitution is to be effected, the Trustee shall not have regard to the financial condition, profits or prospects of such Substitute Company or compare the same with those of the Issuer (or any previously substituted company).

For the purposes of this Condition 17.4, it is expressly agreed that, by subscribing for, acquiring or otherwise purchasing the Bonds, the holders of the Bonds are expressly deemed to have consented to the substitution of the Issuer by the Substitute Company and to the release of the Issuer from any and all obligations in respect of the Bonds and all the agreements attached thereto and are expressly deemed to have accepted such substitution and the consequences thereof.

17.5 Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition 17) the Trustee shall assume that each person whose name is entered in the Register as the holder of a Bond in the Register is a holder of a Bond and shall have regard to the interests of the holders of the Bonds as a class and shall not have regard to the consequences of such exercise for individual Bondholders, and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual holders of the Bonds.

18. REPLACEMENT OF BONDS

If a Bond is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws at the specified office of the Registrar or the registered office of the Issuer, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Bond is subsequently presented for payment, there will be paid to the Issuer on demand the amount payable by the Issuer in respect of the Bonds) and otherwise as the Issuer may require. Mutilated or defaced Bonds must be surrendered before replacements will be issued.

19. NOTICES

Notices to the holders of Bonds will be mailed to them or, if there is more than one holder of any Bond, to the first named holder of that Bond at their respective addresses in the Register and will be deemed to have been given on the date that it is mailed. If and for so long as any Bonds are admitted to trading on the Euro MTF and listed on the Official List of the Luxembourg Stock Exchange, notices to Bondholders will also be published in accordance with the rules and regulations of the Luxembourg Stock Exchange (which include publication on the website of the Luxembourg Stock Exchange (www.bourse.lu)).

If, in the opinion of the Trustee, any such publication is not practicable, notice will be validly given if published in a leading daily English newspaper of general circulation in Europe approved by the Trustee.

Notices to or copied to the Trustee, Principal Paying and Exchange Agent and Calculation Agent shall be given in accordance with the terms of the Trust Instrument and Agency Agreement.

20. REMOVAL, INDEMNIFICATION AND OBLIGATIONS OF THE TRUSTEE

The Trust Instrument contains provisions for the appointment, retirement and removal of the Trustee. The Issuer may remove and appoint a new Trustee in respect of the Bonds if approved by an Extraordinary Resolution of the Bondholders. The Issuer shall as soon as practicable after the appointment of a new Trustee notify the Bondholders of such appointment in accordance with Condition 19 (*Notices*).

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The Trust Instrument contains provisions for the indemnification of the Trustee and for its relief from responsibility including for the exercise of any voting rights in respect of the Underlying Bonds or for the value, validity, sufficiency and enforceability (which the Trustee has not investigated) of the security created over the Mortgaged Property. The Trustee is not obliged to take any action under the Trust Instrument unless indemnified and/or secured to its satisfaction. The Trustee and any affiliate is entitled to enter into business transactions with the Issuer, any issuer or guarantor (where applicable) of any of the Underlying Bonds, or any of their subsidiary, holding or associated companies without accounting to the Bondholders for profit resulting therefrom.

The Trustee is exempted from liability with respect to any loss or theft or reduction in value of the Underlying Bonds, from any obligation to insure or to procure the insuring of the Underlying Bonds (or any documents evidencing, constituting or representing the same or transferring any rights or obligations thereunder). The Trustee is not responsible for supervising the performance by any other person of their obligations to the Issuer.

The Trust Instrument provides that the Trustee will be under no obligation or duty to act on any directions of the Bondholders. The Trust Instrument further provides that, in carrying out its duties and exercising its discretions, the Trustee shall (save as expressly provided in the Trust Instrument) have regard only to the interests of the Bondholders.

21. FURTHER ISSUE

The Issuer may from time to time without the consent of the Bondholders, but subject to Condition 13 (*Restrictions*), create and issue further bonds:

- (1) having the same terms and conditions as the Bonds in all respects (or in all material respects except for the first payment of interest) and so that the same shall be consolidated and form a single series with such Bonds (the “**Existing Bonds**”) provided that, unless otherwise approved by an Extraordinary Resolution of Bondholders, the Issuer provides additional assets as security for such further bonds (“**Further Bonds**”) of at least an amount determined on the Nominal Basis (as such term is defined below). Any Further Bonds shall be constituted and secured by a deed supplemental to the Trust Instrument (the “**Supplemental Deed**”, and so that, upon the execution of the Supplemental Deed, all references to the “Trust Instrument” shall be construed as being to such document as amended and supplemented by the Supplemental Deed), such further security shall be added to the Mortgaged Property so that the Further Bonds and the Existing Bonds shall be secured by the same Mortgaged Property, and references in these Conditions to “**Bonds**”, “**Underlying Bonds**” and “**Mortgaged Property**” shall be construed accordingly; or
- (2) upon terms that such bonds form a separate series from the Bonds and shall not be secured on the Mortgaged Property for the Bonds. Any such bonds shall be secured on, but only on, such property or assets as may be referred to in the relevant conditions and trust instrument applying to such separate series.

In this Condition 21 “**Nominal Basis**” means that the additional assets required to be provided by the Issuer in respect of any Further Bonds issued or to be issued pursuant to paragraph (1) hereof shall be of a nominal amount which bears the same proportion to the nominal amount of the Further Bonds as the proportion which the nominal amount of such assets forming part of the Mortgaged Property for the Existing Bonds bears to the nominal amount of the Existing Bonds as at such date.

Following the issue of any Further Bonds, each holder of a Bond (whether an Existing Bond or a Further Bond) will have an equal *pro rata* share in the Mortgaged Property, as increased on the Nominal Basis, and the amount of such *pro rata* share will be affected by the outcome of the Nominal Basis.

The Trustee will not have any responsibility for the Nominal Basis selected and will not be liable for any loss suffered by any holder of any Existing Bond or Further Bond or any other person for the Nominal Basis selected by the Issuer or for any determination of the amount and/or value of any additional assets required to be and/or actually provided by the Issuer in respect of any Further Bonds.

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22. GOVERNING LAW AND JURISDICTION

22.1 Governing Law

The Trust Instrument and the Bonds are governed by, and shall be construed in accordance with, English law.

22.2 Jurisdiction

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds and, accordingly, any legal action or proceedings arising out of or in conjunction with the Bonds may be brought in such courts (“**Proceedings**”). The Issuer has in the Trust Instrument irrevocably submitted to the jurisdiction of such courts.

22.3 Agent for Service of Process

The Issuer has irrevocably appointed the person specified in the Trust Instrument as its agent for service of process, at its registered office for the time being, as its agent to receive, for it and on its behalf, service of process in any Proceedings in England.

23. DEFINITIONS

23.1 Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Adjustment Event**” has the meaning given in Condition 5.1 (*Summary of Adjustment Events*);

“**Adverse Change**” means any change or prospective change in the accounting, tax, legal or regulatory treatment applicable to the Bonds, the Underlying Bonds, the Reference Bonds, the Shares or any hedging transaction of the Issuer, the Underlying Issuer or the Bookrunner or any affiliate of the Bookrunner in respect of the Bonds, the Underlying Bonds, the Reference Bonds or the Shares has occurred or is likely to occur that would have an adverse effect on the position of the Issuer, the Underlying Issuer, the Bookrunner or any affiliate of the Bookrunner in respect of the Bonds, the Underlying Bonds, the Reference Bonds or the Shares or on the position of the Issuer, the Underlying Issuer, the Bookrunner or any affiliate of the Bookrunner or any of their counterparties in respect of any such hedging transaction;

“**Affiliates**” means in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose “control” of any entity or person means ownership of a majority of the voting power of the entity or person;

“**Agency Agreement**” has the meaning given in the Introduction to these Conditions;

“**Agents**” has the meaning given in the Introduction to these Conditions;

“**Approved Intermediary**” means any financial institution (“*entreprise d’investissement habilitée à la tenue de compte-conservation*”) acting on behalf of a Bondholder as a direct or indirect participant of Euroclear France S.A.;

“**Attribution Right**” has the meaning given in Condition 5.2 (*Details of Adjustment Events*);

“**Bondholder**” has the meaning given in Condition 1 (*Form, Denomination and Title*);

“**Bonds**” has the meaning given in the Introduction to these Conditions;

“**Bookrunner**” means Deutsche Bank AG, London Branch;

“**Business Day**” means a day which is a France Business Day and a day on which commercial banks are open for general business in London and Luxembourg;

“**Calculation Agent**” has the meaning given in the Introduction to these Conditions;

“**Cash Exchange Settlement Date**” has the meaning given in Condition 4.6 (*Cash Settlement Alternative*);

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“**Cash Settlement Adjustment**” means the fair market value of the dividend per Existing Share (the “**Preceding Year Dividend**”) in respect of the fiscal year (the “*Preceding Fiscal Year*”) immediately preceding the fiscal year of France Telecom in which the cash settlement on the Cash Exchange Settlement Date takes place if the Cash Exchange Settlement Date falls before the Record Date for the Preceding Year Dividend determined as follows:

- (i) if the Preceding Year Dividend has been declared, the fair market value shall be the amount of such dividend declared; and
- (ii) if the Preceding Year Dividend has not yet been declared, such amount as determined by the Expert.

In addition, if:

- (A) the relevant Record Date or other due date for the establishment of the right to receive any dividend (other than Preceding Year Dividend) or other entitlement in relation to the Shares is on or after the date of the Cash Settlement Election Notice; and
- (B) on any Cash Settlement Valuation Date after the Cash Settlement Election Notice, the Shares are traded without the right to receive such dividend (other than Preceding Year Dividend) or entitlement,

then the Volume Weighted Average Price of the Existing Shares on any such Cash Settlement Valuation Date shall be increased by an amount equal to the fair market value of such dividend or entitlement payable in respect of one Share on such day as determined by the Calculation Agent (provided that where options, warrants or other rights are publicly traded in a market which is determined by the Calculation Agent to have adequate liquidity, the fair market value of such options, warrants or other rights shall be equal to the arithmetic mean of the daily closing prices of such options, warrants or other rights during each such Cash Settlement Valuation Date or such shorter period as such options warrants or other rights are publicly traded if they are not traded on all such Cash Settlement Valuation Dates);

“**Cash Settlement Amount**” has the meaning given in Condition 4.6 (*Cash Settlement Alternative*);

“**Cash Settlement Election Notice**” has the meaning given in Condition 4.6 (*Cash Settlement Alternative*);

“**Cash Settlement Valuation Date**” has the meaning given in Condition 4.6 (*Cash Settlement Alternative*);

“**CERA**” has the meaning given in Condition 7.4 (*Consequences of an FT Credit Event*);

“**Certificates**” means the Individual Certificates together with the Global Certificates;

“**Clearing Agent**” means Euroclear Bank S.A./N.V., as operator of the Euroclear System and Clearstream Banking, société anonyme;

“**Clearstream, Luxembourg**” means Clearstream Banking, société anonyme;

“**Closing Price**” means, with respect to a Trading Day on which a Share or any other security, as applicable, is listed on Euronext Paris, the price for such Share or such other security, as applicable, on Euronext Paris at the close of such Trading Day (as published by Euronext Paris). The Closing Price shall be determined by the Calculation Agent, following the advice of the Expert if (i) Euronext Paris’ publication service is discontinued, or (ii) the Shares or the relevant other securities are not listed at the relevant time on Euronext Paris. If the Shares or the relevant other securities, as applicable, are quoted in a currency other than Euro or any currency with an irrevocably fixed conversion rate to the Euro, conversions to Euro of the Closing Price of the Shares or the relevant securities, as applicable, will be made at the rate fixed by the European Central Bank (the “**ECB Rate**”) in effect on the relevant Trading Day. For information purposes only, the ECB Rate appears at approximately 12:00 hours (Paris time) on the display designated as “Page ECB37” on Reuters;

“**Compartment**” has the meaning given in the Introduction to these Conditions;

“**Credit Event Date**” has the meaning given in Condition 7.4 (*Consequences of an FT Credit Event*);

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“**Credit Event Redemption**” has the meaning given in Condition 7.4 (*Consequences of an FT Credit Event*);

“**CSSF**” has the meaning given in the Introduction to these Conditions;

“**Current Fiscal Year**” has the meaning given in Condition 8 (*Provisions Relating to Newly Issued Shares to be Delivered*);

“**Denomination**” has the meaning given in Condition 1 (*Form, Denomination and Title*);

“**Director**” in relation to any person includes any person occupying the position of director of that person, by whatever name called;

“**Dividend**” means in respect of the Shares the amount of any dividend in cash or the fair value of any dividend in kind, without taking into account any tax credit of the per Share dividend approved by the shareholders of France Telecom (the “**Shareholders**”) (or interim dividend decided by the board of directors), irrespective of the existence of any option for the Shareholders to receive such dividend (or interim dividend) in cash or in kind;

“**Dividend Yield**” has the meaning given in Condition 5.2 (*Details of Adjustment Events*);

“**ECB Rate**” has the meaning given in the definition of “Closing Price”;

“**Effective Date**” has the meaning given in Condition 5.2 (*Details of Adjustment Events*);

“**EURIBOR 3-month Rate**” has the meaning given in Condition 6 (*Interest*);

“**Euroclear**” means Euroclear Bank S.A./N.V. as operator of the Euroclear System;

“**Euroclear France**” means Euroclear France S.A.;

“**Euronext Paris**” means the regulated market managed by Euronext Paris S.A. For the purposes of these Conditions, except where the context otherwise requires, references to “Euronext Paris” shall, if the Shares or the relevant other securities are not listed on Euronext Paris at the relevant time, be construed as references to such other European Union (as it exists today), United States or Japanese regulated stock exchange or to any other similarly regulated stock exchange on which the Shares or the relevant other securities are so listed at such time, as selected by the Calculation Agent, following the advice of an Expert if there are more than one (with preference to be given to the regulated stock exchange with the highest average trading volume of the Shares or the relevant other securities);

“**Eurozone**” has the meaning given in Condition 6 (*Interest*);

“**Event of Default**” has the meaning given in Condition 15 (*Events of Default*);

“**Exchange Date**” has the meaning given in Condition 4.5 (*Procedure for Exchange*);

“**Exchange Notice**” has the meaning give in Condition 4.5 (*Procedure for Exchange*);

“**Exchange Period**” has the meaning given in Condition 4.2 (*Exchange Period*);

“**Exchange Price**” means EUR 28.4108 per Share, subject to adjustment in accordance with Condition 5 (*Adjustment Events*);

“**Exchange Ratio**” has the meaning given in Condition 4.1 (*Exchange Right*) and the initial Exchange Ratio is 1759.8941 Newly Issued Shares per Bond, subject to adjustment in accordance with Condition 5 (*Adjustment Events*);

“**Exchange Right**” has the meaning given in Condition 4.1 (*Exchange Right*);

“**Exchange Right Resumption Notice**” has the meaning given in Condition 4.3 (*Suspension of Exchange Rights*);

“**Exchange Settlement Date**” means the day on which Newly Issued Shares are transferred or delivered to a Bondholder pursuant to Condition 4 (*Exchange Right*), which shall not be later than 15 Trading Business Days after the relevant Exchange Date;

“**Exchange Suspension Notice**” has the meaning given in Condition 4.3 (*Suspension of Exchange Rights*);

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“**Exchange Suspension Period**” has the meaning given in Condition 4.3 (*Suspension of Exchange Rights*);

“**Ex-Dividend Date**” has the meaning given in Condition 5.2 (*Details of Adjustment Events*);

“**Existing Bonds**” has the meaning given in Condition 21 (*Further Issue*);

“**Existing Shares**” means Shares which are already in issue;

“**Expert**” means an internationally recognised financial institution;

“**Extraordinary Resolution**” means a resolution passed at a meeting duly convened and held in accordance with the Trust Instrument by a majority of at least 75 per cent. of the votes cast, provided that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds who for the time being are entitled to receive notice of a meeting shall for all purposes be as valid and effectual as an Extraordinary Resolution passed at a meeting of such Bondholders;

“**Fair Market Value**” means with respect to the Bonds, the fair market value of such Bonds as determined by the Calculation Agent based on the advice of the Expert taking into account the trading of the Shares, interest rates, the expected future dividends payable and future volatility of the Shares, any amount due to be paid between the date of valuing the fair market value and the relevant payment or settlement date and any other factors considered to be appropriate for consideration by the Expert, including without limitation, the trading of the Bonds and any other public tradable security linked to the Shares (but, for the avoidance of doubt, disregarding the fact that the Bonds are to be redeemed hereunder);

“**France Business Day**” means any day, other than a Saturday or a Sunday, on which commercial banks and foreign exchange markets are open for general business in France and on which Euroclear France is open for business;

“**France Telecom**” has the meaning given in the Introduction to these Conditions;

“**FT Arrears of Interest**” means any interest not paid on any interest payment date under the Reference Bond;

“**FT Bankruptcy Event**” means France Telecom:

- (A) is dissolved (other than pursuant to a consolidation, amalgamation or merger);
- (B) becomes insolvent or is unable to pay its debts or fails or admits in writing in a judicial regulatory or administrative proceeding or filing its inability generally to pay its debts as they become due;
- (C) makes a general assignment, arrangement or composition with or for the benefit of its creditors;
- (D) institutes or has instituted against it a proceeding seeking a judgement of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (i) results in a judgement of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (ii) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof;
- (E) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
- (F) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee or other similar official for it or for all or substantially all its assets;
- (G) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter;

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- (H) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in (A) to (G) above (inclusive); or
- (I) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts;

“**FT Credit Event**” means a:

- (A) Reference Bond Default Event;
- (B) FT Cross Default Event;
- (C) FT Bankruptcy Event; or
- (D) FT Restructuring Event;

“**FT Credit Event Notice**” has the meaning given in Condition 6 (*Interest*);

“**FT Cross Default Event**” means, in relation to France Telecom, the occurrence or existence of:

- (A) a default, event of default or other similar condition or event (however described) in respect of France Telecom under one or more agreements or instruments relating to Specified Indebtedness in an aggregate amount of not less than €20,000,000 (or its equivalent in another currency) which has resulted in such Specified Indebtedness becoming, or becoming capable at such time of being declared, due and payable under such agreements or instruments, before it would otherwise have been due and payable, or
- (B) a default by France Telecom in making one or more payments on the due date thereof in an aggregate amount of not less than €20,000,000 (or its equivalent in another currency) under such agreements or instruments (after giving effect to any applicable notice requirement or grace period);

“**FT Default Interest**” means the interest that is payable on the FT Arrears of Interest where the amount of such FT Arrears of Interest is due for at least a full year period;

“**FT Liquidation Redemption Notice**” has the meaning given in Condition 7.4 (*Consequences of an FT Credit Event*);

“**FT Nominal Value Redemption Notice**” has the meaning given in Condition 7.4 (*Consequences of an FT Credit Event*);

“**FT Placement Redemption Notice**” has the meaning given in Condition 7.4 (*Consequences of an FT Credit Event*);

“**FT Restructuring Event**” means:

- (i) with respect to the Reference Bond, any one or more of the events in (A) to (F) below occurs in a form that binds all holders of the Reference Bond, is (a) agreed between France Telecom as the issuer of the Reference Bond or a Governmental Authority and a sufficient number of holders of the Reference Bond to bind all holders of the Reference Bond or (b) is announced (or otherwise decreed) by France Telecom as the issuer of the Reference Bond or a Governmental Authority in a form that binds all holders of the Reference Bond, and such event is not expressly provided for under the terms of the Reference Bond in effect as of the issue date of the Reference Bond; and / or
- (ii) with respect to the Specified Indebtedness of France Telecom and in relation to an aggregate amount of not less than €20,000,000 (or its equivalent in another currency), any one or more of the events in (A) to (B) below occurs in a form that binds all persons to whom France Telecom owes any Specified Indebtedness, is agreed between France Telecom or a Governmental Authority and a sufficient number of persons to whom France Telecom owes any Specified Indebtedness to bind all persons to whom France Telecom owes any Specified Indebtedness or is announced (or otherwise decreed) by France Telecom or a Governmental Authority in a form that binds persons to whom France Telecom owes any Specified Indebtedness, and such event is not expressly

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provided for under the terms of the Specified Indebtedness in effect as of the date as of which such Specified Indebtedness is issued or incurred:

- (A) a reduction in the rate or amount of interest payable or the amount of the scheduled interest accruals;
- (B) a reduction in the amount of principal or premium payable at maturity or at scheduled redemption dates;
- (C) a postponement or other deferral of a date or dates for either (i) the payment or accrual of interest or (ii) the payment of principal or premium;
- (D) a change in the ranking in priority of payment of the Reference Bond or any Specified Indebtedness, causing the subordination of such Reference Bond or Specified Indebtedness to any other Specified Indebtedness below its original terms of issue;
- (E) any change in the currency or composition of any payment of interest or principal to any currency which is not a Permitted Currency; or
- (F) any change in the terms of redemption for Shares in the Reference Bonds not contemplated in its original terms.

Notwithstanding (A) to (F) above, none of the following shall constitute an FT Restructuring Event:

- (i) the occurrence of, agreement to or announcement of any of the events described in (A) to (F) above due to an administrative adjustment, accounting adjustment or tax adjustment or other technical adjustment occurring in the ordinary course of business; and
- (ii) the occurrence of, agreement to or announcement of any of the events described in (A) to (F) above in circumstances where such event does not directly or indirectly result from a deterioration in the creditworthiness or financial condition of France Telecom.

The occurrence of, agreement to or announcement of any of the events described at (A) to (F) shall not be an FT Restructuring Event unless the Reference Bond or Specified Indebtedness in respect of any such events is a Multiple Holder Obligation except that this condition does not apply where such occurrence or announcement is binding on each or the only holder of the Reference Bond or Specified Indebtedness without their agreement;

“**Further Bonds**” has the meaning given in Condition 21 (*Further Issue*);

“**Global Certificate**” has the meaning given in Condition 1 (*Form, Denomination and Title*);

“**Governmental Authority**” means any *de facto* or *de jure* government (or any agency, instrumentality, ministry or department thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of France Telecom or France;

“**Individual Certificate**” has the meaning given in Condition 1 (*Form, Denomination and Title*);

“**interest**” has the meaning given in the Introduction to these Conditions;

“**Interest Determination Date**” has the meaning given in Condition 6 (*Interest*);

“**Interest Payment Date**” has the meaning given in Condition 6 (*Interest*);

“**Interest Period**” has the meaning given in Condition 6 (*Interest*);

“**Interest Rate**” has the meaning given in Condition 6 (*Interest*);

“**Issue Date**” has the meaning given in the Introduction to these Conditions;

“**Issuer**” has the meaning given in the Introduction to these Conditions;

“**Issuer Adverse Change Notice**” has the meaning given to that term in Condition 7.2 (*Redemption at the Option of the Issuer*);

“**Issuer Bond Reduction Notice**” has the meaning given to that term in Condition 7.2 (*Redemption at the Option of the Issuer*);

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“**Issuer Optional Call Notice**” has the meaning given in Condition 7.2 (*Redemption of the Option of the Issuer*);

“**Issuer Redemption Notice**” means any redemption notice given by the Issuer under Condition 7.2 (*Redemption at the Option of the Issuer*), Condition 7.3 (*Mandatory Redemption*) and Condition 7.4 (*Consequences of an FT Credit Event*);

“**Issuer Shares Excess has Redemption Notice**” the meaning given to that term in Condition 7.2 (*Redemption at the Option of the Issuer*);

“**Luxembourg**” means the Grand Duchy of Luxembourg;

“**Luxembourg Securitisation Act 2004**” has the meaning given in the Introduction to these Conditions;

“**Mandatory Redemption Event**” has the meaning given in Condition 7.3 (*Mandatory Redemption*);

“**Market Disruption Event**” means the occurrence or existence on any Trading Day of any suspension of or limitation imposed on trading of the Shares on the Euronext Paris or any reference source determined by the Calculation Agent;

“**Maturity Date**” means 5 May 2036;

“**Mortgaged Property**” has the meaning given in Condition 12.3 (*Security*);

“**Multiple Holder Obligation**” means any obligation under any Specified Indebtedness that (i) at the time of the event which constitutes an FT Restructuring Event is held by more than three holders of the Reference Bond or (as applicable) persons to whom France Telecom owes any Specified Indebtedness that are not Affiliates of each other and (ii) with respect to which a percentage of holders of the Reference Bond or (as applicable) persons to whom France Telecom owes any Specified Indebtedness (determined pursuant to the terms of the Specified Indebtedness as in effect on the date of such event) at least equal to sixty-six-and-two-thirds is required to consent to the event which constitutes an FT Restructuring Event;

“**Net Proceeds**” has the meaning given in Condition 12.7 (*Shortfall after application of proceeds*);

“**Net Proceeds per Reference Bond**” shall be the Reference Bonds Placement Price per Reference Bond minus (a) the total amount of FT Arrears of Interest and FT Default Interest payable in respect of a Reference Bond up to the date of settlement of the Vendor Bond Placement and (b) minus the amount obtained by dividing all the fees, commissions, costs and expenses incurred in the Vendor Bond Placement by the total number of Reference Bonds included in the Vendor Bond Placement;

“**Newly Issued Shares**” means Shares which are newly issued;

“**No Dividend Resolution**” means in respect of any Shares, a resolution of the shareholders of France Telecom approving a proposal for such issuer not to pay a dividend in respect of the Shares in that fiscal year;

“**Nominal Basis**” has the meaning given in Condition 21 (*Further Issue*);

“**Opening Price**” has the meaning given in Condition 5.2 (*Details of Adjustment Events*);

“**Option Commencement Date**” has the meaning given in Condition 4.2 (*Exchange Period*);

“**Option Exercise Date**” has the meaning given in Condition 4.5 (*Procedure for Exchange*);

“**Paying and Exchange Agents**” has the meaning given in the Introduction to these Conditions;

“**Permitted Currency**” means (i) the legal tender of any Group of 7 country (or any country that becomes a member of the Group of 7 if such Group of 7 expands its membership) or (ii) the legal tender of any country which, as of the date of such change, is a member of the Organisation for Economic Cooperation and Development and has a local currency long-term debt rating of either AAA or higher assigned to it by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. or any successor to the rating business thereof, Aaa or higher assigned to it by Moody’s Investors Service, Inc. or any successor to the rating business thereof or AAA or higher assigned to it by Fitch Ratings or any successor to the ratings business thereof;

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“**Permitted Indebtedness**” has the meaning given in Condition 13 (*Restrictions*);

“**Permitted Investments**” has the meaning given in Condition 13 (*Restrictions*);

“**Potential Event of Default**” means an event which, with the giving of notice and/or lapse of time and/or the forming of an opinion, would become an Event of Default;

“**Preceding Fiscal Year**” has the meaning given in the definition of “**Cash Settlement Adjustment**”;

“**Preceding Year Dividend**” has the meaning given in the definition of “**Cash Settlement Adjustment**”;

“**Principal Paying and Exchange Agent**” has the meaning given in the Introduction to these Conditions;

“**Principal Recovery Rate**” means the fraction obtained by dividing (a) the total amount paid or declared by the liquidator of France Telecom to be paid in respect of the Principal Reference Bonds Claims by (b) the total amount of Principal Reference Bonds Claims;

“**Principal Reference Bonds Claims**” means the claims of the holders of the Reference Bonds in respect of the principal payable under Reference Bonds;

“**Proceedings**” has the meaning given to that term in Condition 22.2 (*Jurisdiction*);

“**Record Date**” in respect of a Bond has the meaning given in Condition 11.1 (*Bonds*), and, in respect of any other security, in respect of any entitlement to receive any dividend or other distribution declared, paid or made, or any rights granted, the record date or other due date for the establishment of the relevant entitlement;

“**Redemption Settlement Date**” means in respect of any redemption made at the option of the Issuer, the date specified in the relevant Issuer Redemption Notice as the date fixed for redemption or, if later, the date of the Share Election Redemption Settlement;

“**Reference Bond**” means *Titres à durée indéterminée remboursables en actions* issued by France Telecom the issuance of which was reserved to Ericsson Credit AB and Nokia OYJ and the terms and conditions of which are set out in the offering circular (*Note d'Opération*) approved by the Commission des Opérations de Bourse (COB) under visa number 03-092 dated 24 February 2003 (available on <http://www.amf-france.org>) listed on Euronext Paris with the following ISIN: FR0000472995;

“**Reference Bond Default Event**” means any default by FT under the Reference Bond;

“**Reference Bond Market Price Rate**” means the fraction obtained by dividing (a) the Net Proceeds per Reference Bond by (b) nominal value of a Reference Bond;

“**Reference Bond Placement Price**” has the meaning given in Condition 7.4 (*Consequences of an FT Credit Event*);

“**Reference Bond Share Default**” means a default under the Reference Bond in relation to the transfer or delivery of Newly Issued Shares to a holder of the Reference Bond;

“**Reference Bond Share Default Notice**” means a notice from the Issuer to the Bondholders, the Principal Paying and Exchange Agent and the Trustee that a Reference Bond Share Default has occurred;

“**Register**” has the meaning given in Condition 1 (*Form, Denomination and Title*);

“**Registrar**” has the meaning given in the Introduction to these Conditions;

“**Regulation S**” has the meaning given in Condition 4.5 (*Procedure for Exchange*);

“**Relevant Date**” means, in respect of any Bond, the date on which payment in respect thereof first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given to the Bondholders in accordance with Condition 19 (*Notices*) that, upon further presentation of the relevant Certificate being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation;

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“**Repayable Assets**” has the meaning given in Condition 7.3 (*Mandatory Redemption*);

“**Secured Party**” has the meaning given in Schedule 2 to the Trust Instrument;

“**Securities Act**” has the meaning given in Condition 4.5 (*Procedure for Exchange*);

“**Selling Agent**” has the meaning given in the Introduction to these Conditions;

“**Senior Claims**” means the claims of creditors (“**Senior Creditors**”) of France Telecom who are unsubordinated and unsecured creditors of France Telecom;

“**Senior Creditors**” has the meaning given in the definition of “**Senior Claims**”;

“**Senior Recovery Rate**” means the fraction obtained by dividing (a) the total amount paid or declared by the liquidator of France Telecom to be paid in respect of the Senior Claims by (b) the total amount of the Senior Claims;

“**Settlement Date**” means an Exchange Settlement Date or a Redemption Settlement Date or a Cash Exchange Settlement Date;

“**Settlement Disruption**” has the meaning given to that term in Condition 9.1 (*Settlement Disruption*);

“**Share Election Redemption Settlement**” has the meaning given in Condition 7.2 (*Redemption at the Option of the Issuer*);

“**Shareholders**” has the meaning given in the definition of “**Dividend**”;

“**Share Redemption Settlement Valuation Date**” has the meaning given in Condition 7.2 (*Redemption at the Option of the Issuer*);

“**Shares**” means fully paid ordinary shares of France Telecom;

“**Shortfall**” has the meaning given in Condition 12.7 (*Shortfall after application of proceeds*);

“**Specified Indebtedness**” means any obligation (whether present or future, contingent or otherwise, as principal or surety or otherwise) in respect of borrowed money and any obligation to make any payment under a Specified Transaction;

“**Specified Transaction**” means a rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions and any combination of these transactions);

“**Substitute Company**” has the meaning given in Condition 17.4 (*Substitution*);

“**Supplemental Deed**” has the meaning given in Condition 21 (*Further Issue*);

“**Suspension End Date**” has the meaning given in Condition 4.3 (*Suspension of Exchange Rights*);

“**Suspension Start Date**” has the meaning given in Condition 4.3 (*Suspension of Exchange Rights*);

“**TARGET Business Day**” means a day which is a Business Day and a Target Day;

“**TARGET Day**” means a day which the Trans-European Automated Real-Time Gross-Settlement Express Transfer System (TARGET) is open for settlement of payments in Euro;

“**Tender Offer**” means a cash tender offer or exchange offer which would result in an offer being extended to all securities of France Telecom which grant rights to Shares or voting rights of France Telecom;

“**Trading Business Day**” means a day which is a Business Day and a Trading Day;

“**Trading Day**” means any France Business Day that is a trading day on Euronext Paris other than a day on which it is scheduled to close prior to its regular weekday closing time;

“**Transfer Agents**” has the meaning given in the Introduction to these Conditions;

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“**Transfer Expenses**” means all costs and expenses of effecting the transfer or delivery of Newly Issued Shares or the Cash Settlement Amount (as the case may be) and any stamp, transfer, registration, issue, documentary or other similar taxes and duties and other stock exchange transaction costs (if any), together with any value added or other tax thereon, arising on the exercise of any Exchange Right and/or the transfer or delivery of Newly Issued Shares and/or cash to, or to the order of, the relevant Bondholder;

“**Trustee**” has the meaning given in the Introduction to these Conditions;

“**Trust Instrument**” has the meaning given in the Introduction to these Conditions;

“**Underlying Bonds**” has the meaning given in the Introduction to these Conditions;

“**Underlying Issuer**” means Deutsche Bank AG, London Branch;

“**Unpaid Interest**” has the meaning given in Condition 7.4 (*Consequences of an FT Credit Event*);

“**Vendor Bond Placement**” means a placement arranged by the Underlying Issuer in respect of the Reference Bonds (to be made with institutional investors selected in a commercially reasonable manner by the Underlying Issuer with a view to obtaining a fair price for such Reference Bonds) in the principal amount of not less than the outstanding principal amount of the Bonds; and

“**Volume Weighted Average Price**” means, in respect of any specified day, the volume weighted average trading prices for the Shares for that day’s trading then ended as quoted on Euronext Paris and as displayed on Bloomberg “FTE FP Equity AQR AUTO” screen by de-selecting all the codes except “1 Normal” on such day utilising the “Custom” price and not the “Bloomberg” price, displayed on such screen (or, if such page is unavailable as at the relevant time, such other source of publicly available information as the Calculation Agent may determine in its absolute discretion).

23.2 Construction of certain references

In these Conditions, unless otherwise specified or unless the context requires otherwise:

- (A) references to the word “**amendment**” shall be construed to include a supplement, novation or re-enactment, and “**amended**” is to be construed accordingly;
- (B) references to the word “**assets**” shall be construed to include properties, revenues and rights of every kind, present, future and contingent, and whether tangible or intangible;
- (C) references to the words “**authorisation**” or “**consent**” shall be construed to include, without limitation, any authorisation, consent, approval, resolution, licence, exemption, filing, notarisation or registration;
- (D) references to the word “**company**” shall be construed to include any company, corporation or other body corporate, wherever and however incorporated or established;
- (E) references to the word “**continuing**” shall be construed to include, in relation to an event of default (however defined), not remedied or waived;
- (F) references to the word “**indebtedness**” shall be construed to include any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;
- (G) references to the word “**law**” shall be construed to include common or customary law, principles of equity and any constitution, code of practice, decree, judgement, decision, legislation, order, ordinance, regulation, bye-law, statute, treaty or other legislative measure in any jurisdiction or any present or future directive, regulation, guideline, request, rule or requirement (in each case, whether or not having the force of law but, if not having the force of law, the compliance with which is in accordance with the general practice of persons to whom the directive, regulation, guideline, request, rule or requirement is intended to apply) of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;

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- (H) references to the word “**liability**” shall be construed to include, and “**liabilities**” include, any loss, damage, cost, charge, claim, demand, expense, judgement, action, proceeding or other liability whatsoever (including, without limitation, in respect of taxes, duties, levies, imposts and other charges);
- (I) references to the word “**month**” shall be construed as a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month, except that if there is no numerically corresponding day in the month in which that period ends, the period shall end on the last Business Day in that calendar month;
- (J) references to Bonds being “**outstanding**” shall be construed in accordance with the Trust Instrument;
- (K) references to the word “**person**” shall be construed to include any natural person, firm, company, corporation, undertaking, government, state or agency of a state, any local or municipal authority, trust, any association or partnership (whether or not having separate legal personality) of two or more of the foregoing or other legal entity;
- (L) references to the word “**regulation**” shall be construed to include any regulation, rule, official directive, request or guideline (in each case, whether or not having the force of law but, if not having the force of law, the compliance with which is in accordance with the general practice of persons to whom the regulation, rule, official directive, request or guideline is intended to apply) of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
- (M) references to the word “**rights**” shall be construed to include all rights, title, benefits, powers, privileges, interests, claims, authorities, discretions, remedies, liberties, easements, quasi-easements and appurtenances (in each case, of every kind, present, future and contingent); and
- (N) references to the words “**collateral**” or “**security**” shall be construed to include any mortgage, charge, pledge, lien, security assignment, hypothecation or trust arrangement for the purpose of providing security and any other encumbrance or security interest of any kind having the effect of securing any obligation of any person (including, without limitation, the deposit of moneys or property with a person with the intention of affording such person a right of set-off or lien) and any other agreement or any other type of arrangement (including, without limitation, title transfer and retention arrangements) having a similar effect.

24. Interpretation

- (A) Words importing the singular shall include the plural and vice versa.
- (B) Unless a contrary indication appears, a reference to any party or person shall be construed as including its and any subsequent successors in title, permitted transferees and permitted assigns, in each case in accordance with their respective interests.
- (C) Unless a contrary indication appears, a reference to a time of day shall be construed as referring to French or English time as appropriate.
- (D) Headings and subheadings are for ease of reference only and shall be ignored in the construction of the Conditions.
- (E) Unless a contrary indication appears, references to any provision of any law or regulation are to be construed as referring to that provision as it may have been, or may from time to time be, amended or re-enacted, and as referring to all bye-laws, instruments, orders and regulations for the time being made under or deriving validity from that provision.
- (F) A reference to any document is a reference to that document as amended, restated, supplemented, novated or replaced from time to time.

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SUMMARY OF PROVISIONS RELATING TO BONDS WHILE IN GLOBAL FORM

Initial Issue of Bonds

Upon the initial deposit of the Global Certificate registered in the name of a nominee for the Common Depository with the Common Depository, Euroclear or Clearstream, Luxembourg will credit each subscriber with a principal amount of Bonds equal to the principal amount thereof for which it has subscribed and paid.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a Bond represented by a Global Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Certificate, and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Bonds for as long as the Bonds are represented by such Global Certificate and such obligations of the Issuer will be discharged by payment to the holder of such Global Certificate in respect of each amount so paid.

Exchange

Global Certificate

The Global Certificate will be exchangeable on or after its Exchange Date in whole but not in part for Individual Certificates:

- (i) the Bonds become due and payable in accordance with the Conditions and payment is not made on due presentation of the Global Certificate for payment; or
- (ii) otherwise, if the Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

Delivery of Individual Certificates

On or after any Exchange Date, the holder of any Global Certificate may, in the case of exchange in full, surrender such Global Certificate. In exchange for any Global Certificate, or the part thereof to be exchanged, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed Individual Certificates. Individual Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Trust Instrument.

“**Exchange Date**” means a day falling not less than 60 days after that on which the notice requiring exchange is given or the date on which the Global Certificate becomes exchangeable pursuant to paragraph (ii) under “Global Certificate” above and, in any case, on which banks are open for business in the city in which the specified office of the Registrar is located and in the city in which the relevant clearing system is located.

Amendments to Conditions

The Global Certificate contains provisions that apply to the Bonds, some of which will modify the effect of the Terms and Conditions of the Bonds set out in this Offering Circular. The following is a summary of those provisions:

Prescription

Claims against the Issuer in respect of Bonds that are represented by a Global Certificate will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 23 (*Definitions*)).

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Meetings

The holder of the Bonds represented by a Global Certificate shall (unless the Global Certificate represents only one Bond) be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, the holder of the Global Certificate shall be treated as having one vote in respect of each EUR 50,000 of Bonds for which such Global Certificate may be exchanged. On a poll all Bondholders are entitled to one vote in respect of each Bond comprising such Bondholders' holding, whether or not represented by a Global Certificate. The provisions of articles 86 to 97 of the Luxembourg act dated 10 August 1915 on commercial companies, as amended, shall not apply to the Bonds.

Exercise of Exchange Right

For so long as all of the Bonds are represented by the Global Certificate held on behalf of Euroclear and/or Clearstream, Luxembourg, a Bondholder wishing to exercise Exchange Rights in respect of any such Bond(s) shall not be required to deposit the relevant Bond(s) with the Paying and Exchange Agent to whom the relevant Exchange Notice is delivered. On the Exchange Date in respect of such Bond(s) the Paying and Exchange Agent to whom the relevant Notice is delivered shall, on behalf of the relevant Bondholder, obtain confirmation from Euroclear and/or, as the case may be, Clearstream, Luxembourg that the Bondholder (or, as the case may be, the name of the accountholder specified in the Exchange Notice) is shown in its records as the holder of at least the principal amount of Bonds in respect of which the Exchange Notice has been delivered. Whilst the Bonds are represented by the Global Certificate and such Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, Exchange Notices shall be given in accordance with the standard procedures of Euroclear and/or Clearstream, Luxembourg (which may include notice being given on the instruction of the relevant Accountholder by Euroclear and/or, as the case may be, Clearstream, Luxembourg or any common depository therefor to any Paying and Exchange Agent by electronic means) in a form acceptable to Euroclear and/or, as the case may be, Clearstream, Luxembourg.

Trustee's Powers

In considering the interests of Bondholders while the Global Certificate is registered in the name of any nominee for a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Certificate and may consider such interests as if such accountholders were the holders of the Bonds represented by such Global Certificate.

Notices

Notwithstanding Condition 19 (*Notices*), so long as any Bonds are represented by the Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to Bondholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders except that so long as the Bonds are listed on the Official List of the Luxembourg Stock Exchange, notice shall be given in accordance with the rules and regulations of the Luxembourg Stock Exchange.

Title to and Transfer of the Bonds

Title and transfer of the Bonds is subject to the procedures and mechanisms set out in Conditions 1 (*Form, Denomination and Title*) and 2 (*Transfer of Bonds*).

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USE OF PROCEEDS

The net proceeds from the issue of the Bonds, which are expected to amount to approximately EUR 350,000,000, will be used to acquire the Underlying Bonds which will form part of the Mortgaged Property in respect of the Bonds, and may (but shall not be obliged to) be used to pay expenses in connection with the administration of the Issuer and the issue of the Bonds.

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DESCRIPTION OF THE ISSUER

General

The Issuer was incorporated in the Grand Duchy of Luxembourg as a public limited liability company (*société anonyme*) with unlimited duration on 26 August 2004 under the name Sonata Securities S.A. and is registered with the Luxembourg trade and companies register under number B. 102.636. The Issuer's activities are subject to the Luxembourg Securitisation Act 2004.

The articles of incorporation of the Issuer have been published in the Luxembourg official gazette, the *Mémorial, Recueil des Sociétés et Associations*, number C-1120 of 9 November 2004, on page 53745 and have recently been amended by a notarial deed dated 6 April 2006 which is in the process of being published.

The registered office of the Issuer is at 7, Val Sainte-Croix, L-1371 Luxembourg. The share capital of the Issuer is EUR 31,000 divided into 62 Ordinary Shares of EUR 500 each ("**Sonata Shares**") all of which are fully paid. The issued Sonata Shares are held on trust by SFM Offshore Limited and Structured Finance Management Offshore Limited (each, a "**Share Trustee**", and together, the "**Share Trustees**"), each of whom owns 31 Sonata Shares under the terms of a declaration of trust (each, a "**Declaration of Trust**" and together, the "**Declarations of Trust**") dated 24 August 2004, under which the Share Trustees hold 62 issued Sonata Shares of the Issuer on trust for charity. The Share Trustees have no beneficial interest in and derive no benefit (other than any fees for acting as Share Trustee) from their holding of the Sonata Shares. The Share Trustees will apply any income derived by them from the Issuer solely for charitable purposes.

Corporate objects

The corporate objects of the Issuer are to enter into, perform and serve as a vehicle for, any securitisation transactions as permitted under the Luxembourg Securitisation Act 2004. To that effect, the Issuer may, *inter alia*, acquire or assume, directly or through another entity or vehicle, the risks relating to the holding or property of claims, receivables and/or other goods or assets (including securities of any kind), either movable or immovable, tangible or intangible, and/or risks relating to liabilities or commitments of third parties or which are inherent to all or part of the activities undertaken by third parties, by issuing securities of any kind whose value or return is linked to these risks.

The Issuer may assume or acquire these risks by acquiring, by any means, the claims, receivables and/or assets, by guaranteeing the liabilities or commitments or by binding itself by any other means.

The Issuer may proceed to (i) the acquisition, holding and disposal, in any form, by any means, whether directly or indirectly, of participations, rights and interests in, and obligations of, Luxembourg and foreign companies, (ii) the acquisition by purchase, subscription, or in any other manner, as well as the transfer by sale, exchange or in any other manner of stock, bonds, debentures, notes and other securities or financial instruments of any kind and contracts thereon or related thereto, and (iii) the ownership, administration, development and management of a portfolio (including, among other things, the assets referred to in (i) and (ii) above). The Issuer may further acquire, hold and dispose of interests in partnerships, limited partnerships, trusts, funds and other entities.

The Issuer may borrow in any form. It may issue notes, bonds, debentures, certificates, warrants and any kind of debt including under one or more issue programmes. The Issuer may lend funds including the proceeds of any borrowings and/or issues of securities to its subsidiaries, affiliated companies or to any other company.

In accordance with, and to the extent permitted by, the Luxembourg Securitisation Act 2004, the Issuer may also give guarantees and grant security over its assets in order to secure the obligations it has assumed for the securitisation of these assets or for the benefit of investors (including their trustee or representative, if any) and/or any issuing entity participating in a securitisation transaction of the Issuer. The Issuer may not pledge, transfer, encumber or otherwise create security over some or all of its assets, unless permitted by the Luxembourg Securitisation Act 2004.

The Issuer may enter into, execute and deliver and perform any swaps, futures, forwards, derivatives, options, repurchase, stock lending and similar transactions.

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The Issuer may generally employ any techniques and instruments relating to investments for the purpose of their efficient management, including, but not limited to, techniques and instruments designed to protect it against credit, currency exchange, interest rate risks and other risks.

The descriptions above are to be understood in their broadest sense and their enumeration is not limiting. The Issuer's corporate objects also include any transaction or agreement which is entered into by the Issuer, provided it is not inconsistent with the foregoing enumerated objects.

In general, the Issuer may take any controlling and supervisory measures and carry out any operation or transaction which it considers necessary or useful in the accomplishment and development of its corporate objects, to the largest extent permitted under the Luxembourg Securitisation Act 2004.

In accordance with the Luxembourg Securitisation Act 2004, the Board is entitled to create one or more compartments (representing the assets of the Issuer attributable to an issue of securities) corresponding each to a separate part of the Issuer's estate.

Business

So long as any of the Bonds remain outstanding, the Issuer will be subject to the restrictions set out in Condition 13 (*Restrictions*) and each Trust Instrument.

The Issuer has, and will have, no assets other than the sum of EUR 31,000 representing the issued and paid-up share capital, such fees (as agreed) per issue payable to it in connection with the issue of bonds or the purchase, sale or incurring of other obligations and any mortgaged property and any other assets on which any bonds are secured. Save in respect of the fees generated in connection with each issue of bonds, any related profits and the proceeds of any deposits and investments made from such fees or from amounts representing the Issuer's issued and paid-up share capital, the Issuer will not accumulate any surpluses.

The Bonds are obligations of the Issuer alone and not of, or guaranteed in any way by the Trustee. Furthermore, they are not obligations of, or guaranteed in any way by, Deutsche Bank or any of the Agents.

Capitalisation

The following table sets out the capitalisation of the Issuer.

Shareholders' Funds:

Share capital (EUR 31,000; Issued 62 Ordinary Sonata Shares of EUR 500 each) as at 3 May 2006	EUR 31,000
Outstanding indebtedness as at 3 May 2006	EUR 4,876,882,428
Total Capitalisation	<u>EUR 4,876,913,428</u>

As at the date of this Offering Circular, there has been no material change to the Issuer's outstanding indebtedness.

Directors

The Directors of the Issuer are as follows:

Federigo Cannizzarro di Belmontino;
Alexis Kamarowsky; and
Jean-Marc Debaty.

The business address of Federigo Cannizzarro di Belmontino, Alexis Kamarowsky and Jean-Marc Debaty is 7, Val Sainte-Croix, L-1371 Luxembourg.

External Auditor ("réviseur d'entreprises")

The external auditor of the Issuer is Deloitte S.A.

Annual General Meeting

The annual general meeting of the Issuer takes place each year at the registered office of the Issuer.

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Since its date of incorporation, no financial statements of the Issuer have been prepared. The Issuer intends to publish its first financial statements in respect of the period starting on the date of incorporation and ended 31 December 2005, and expects that such financial statements will be available in June 2006. Any future published financial statements prepared by the Issuer (which will be in respect of the period ending 31 December in each year) will be available from the Luxembourg Paying Agent. The Issuer does not produce interim financial statements.

The articles of incorporation and the financial statements of the Issuer have been or will be (as the case may be) filed with the Luxembourg trade and companies register where copies may be obtained.

The issue of this Offering Circular and the issue of Bonds hereunder were authorised by a resolution of the Board of Directors of the Issuer passed on 2 May 2006.

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DESCRIPTION OF THE UNDERLYING BONDS

The following is the text of the terms and conditions which, subject to completion and amendment and as supplemented, modified or varied in accordance with their provisions, will be applicable to the Underlying Bonds.

INTRODUCTION

The EUR 350,000,000 Credit-linked Exchangeable Bonds (the “**Underlying Bonds**”) due 2036 exchangeable for shares of France Telecom S.A. (“**France Telecom**”) which will be issued on 5 May 2006 (the “**Issue Date**”) by Deutsche Bank AG, London Branch (the “**Underlying Issuer**”) are constituted by a deed of covenant dated 5 May 2006 and entered into by the Underlying Issuer.

The Underlying Bonds are the subject of an agency agreement dated 5 May 2006 between the Underlying Issuer, Deutsche Bank Luxembourg S.A. as registrar (the “**Registrar**”) and Deutsche Bank AG, London Branch as calculation agent (the “**Calculation Agent**”) and exchange agent (the “**Exchange Agent**”).

Each Underlying Bond is exchangeable for newly issued, fully paid shares of France Telecom (“**Newly Issued Shares**”).

Unless previously redeemed, exchanged or purchased and cancelled, each Underlying Bond will be redeemed by the Underlying Issuer on the Maturity Date at its outstanding principal amount.

1. FORM, DENOMINATION AND TITLE

The Underlying Bonds are in registered form in the denomination of EUR 50,000 (the “**Denomination**”).

All Underlying Bonds shall have the same Denomination. The Underlying Bonds will be issued in the form of a global certificate held by Deutsche Trustee Company Limited. Definitive registered certificates (the “**Certificates**”) will be issued in respect of a holding of Underlying Bonds.

Title to the Underlying Bonds shall pass by registration in the register (the “**Register**”) maintained by the Underlying Issuer.

Except as ordered by a court of competent jurisdiction or an official authority or as required by law, the holder (as defined below) of any Underlying Bond shall be deemed to be and may be treated as the absolute owner of such Underlying Bond, for the purpose of receiving payment thereof or on account thereof and for all other purposes, whether or not such Underlying Bond shall be overdue and notwithstanding any notice of ownership, theft or loss thereof or any writing thereon made by anyone and no person will be liable for so treating the holder. No person shall have any right to enforce any term or condition of the Underlying Bonds or the Trust Instrument under the Contracts (Rights of Third Parties) Act 1999.

In these Conditions, “**Underlying Bondholder**” and “**holder**” means the person whose name is entered in the Register as the holder of an Underlying Bond.

2. TRANSFERS OF UNDERLYING BONDS

2.1 Transfer of Underlying Bonds

One or more Underlying Bonds may be transferred upon the surrender, at the Underlying Issuer’s registered office, of the Certificate(s) relating to the Underlying Bonds to be transferred, together with the form of transfer endorsed on such Certificate(s) duly completed and executed and such other evidence as the Underlying Issuer may reasonably require. In the case of a transfer of part only of a holding of Underlying Bonds represented by one Certificate, a new Certificate will be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred will be issued to the transferor. In no event will the Underlying Issuer register the transfer of an Underlying Bond if it is aware that such transfer is in violation of the restrictive legend (if any) set forth on the face of such Certificate.

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2.2 Exercise of Exchange Rights in respect of Underlying Bonds

If Exchange Rights are exercised in respect of a holding of Underlying Bonds represented by a single Certificate, a new Certificate shall be issued to the holder in respect of the balance of the holding not subject to the exercise of such Exchange Rights. New Certificates shall only be issued against surrender of the existing Certificates to the Underlying Issuer.

2.3 Delivery of new Certificates

Each new Certificate to be issued pursuant to Condition 2.1 (*Transfer of Underlying Bonds*) or 2.2 (*Exercise of Exchange Rights in respect of Underlying Bonds*) will be available for delivery within five business days of surrender of the relevant Certificate and, if applicable, receipt of the form of transfer or the Exchange Notice together with such other evidence (if any) as may be required pursuant to the relevant Condition. Delivery of new Certificate(s) shall be made at the Underlying Issuer's registered office to whom surrender of such Certificate and, if applicable, delivery of such form of transfer or Exchange Notice shall have been made or, at the option of the holder making such delivery and surrender as aforesaid and as specified in the relevant form of transfer, Exchange Notice or otherwise in writing, shall be mailed at the risk of the holder entitled to the new Certificate to such address as may be so specified.

In this Condition 2.3, "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in London.

2.4 Exchange and transfer free of charge

Exchange and transfer of Certificates on registration or transfer will be effected without charge by the Underlying Issuer, but upon payment by the relevant Underlying Bondholder (or the giving by the relevant Underlying Bondholder of such indemnity as the Underlying Issuer may require in respect thereof) of any tax or other governmental charges which may be imposed in relation to it.

2.5 Closed periods

No Underlying Bondholder may require the transfer of an Underlying Bond to be registered (i) during the period of 15 calendar days ending on the due date for redemption of that Underlying Bond, (ii) during the period of 15 calendar days prior to any date on which Underlying Bonds may be redeemed by the Underlying Issuer at its option pursuant to Condition 7.2 (*Redemption at the Option of the Underlying Issuer*), (iii) after an Exchange Notice has been delivered with respect to such Underlying Bond in accordance with Condition 4.4 (*Procedure for Exchange*) or (iv) during the period of seven days ending on (and including) any Record Date.

3. STATUS

The Underlying Bonds constitute direct, general and unconditional obligations of the Underlying Issuer, ranking *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unsecured obligations of the Underlying Issuer, save for such obligations as may be preferred by mandatory provisions of law.

4. EXCHANGE RIGHT

4.1 Exchange Right

An Underlying Bondholder has the right to exchange its Underlying Bonds (such right, the "**Exchange Right**") for Newly Issued Shares at any time during the Exchange Period, subject to compliance with applicable fiscal or other laws and regulations and to the provisions of this Condition 4 (*Exchange Right*). The number of Newly Issued Shares to be transferred or delivered on exchange of a Bond shall be determined by dividing the principal amount per Bond by the Exchange Price in effect on the Exchange Settlement Date as determined by the Calculation Agent (the "**Exchange Ratio**") which is subject to adjustments pursuant to Condition 5 (*Adjustment Events*) below. Exchange Rights may be exercised only in respect of the whole of the principal amount of an Underlying Bond. Upon exchange, the right of the exchanging Underlying Bondholder to repayment of the Underlying Bonds to be exchanged shall be

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extinguished and released, and, in consideration and in exchange thereof, the Underlying Issuer shall transfer or deliver or procure the transfer or delivery of the Newly Issued Shares calculated in accordance with this Condition 4 on the Exchange Settlement Date.

4.2 Exchange Period

Subject to these Conditions, the Exchange Right attaching to any Underlying Bond may be exercised by the holder thereof at any time during the period (the “**Exchange Period**”) commencing on, and including, 15 June 2006 (the “**Option Commencement Date**”) up to and including the earlier to occur of:

- (A) the close of business (in the place where the Exchange Notice in respect of the Underlying Bond is deposited) on the day falling 12 Business Days prior to the Maturity Date; and
- (B) the day on which an Underlying Issuer Redemption Notice is given (unless in such notice the Underlying Issuer specifies a date later than the date of the Underlying Issuer Redemption Notice as the last day on which Exchange Rights may be exercised provided, in the case of Condition 7.2(C) (*Redemption if the average closing price of the Shares exceeds 150 per cent. of the Exchange Price*), the last day on which the Exchange Rights may be exercised shall be the end of the fourth Business Day prior to the date of the settlement of such redemption). If Exchange Rights are exercised such that the Exchange Date would fall after such date, such exercise shall be null and void unless the Underlying Issuer, in its absolute discretion, determines otherwise (except where Condition 9.1(B) (*Settlement Disruption*) applies and such Underlying Issuer Redemption Notice is treated as null and void). In addition, in any case where the Underlying Issuer effects a redemption at its option, if the Underlying Issuer delays in making payment or delivery of the Newly Issued Shares (as applicable) on redemption for more than seven days, the Exchange Period will commence again on the Business Day immediately following such seventh day and ending on the Business Day immediately preceding the day on which the Underlying Issuer makes the payment or (as applicable) delivers the Newly Issued Shares on redemption.

4.3 Suspension of Exchange Rights

- (A) *Exchange Rights suspension on Shares related events:*

The Underlying Issuer shall have the right, upon giving notice (an “**Exchange Suspension Notice**”) to the Underlying Bondholders in accordance with Condition 16 (*Notices*), to suspend the exercise of Exchange Rights for a period which shall not exceed three months in any of the following circumstances:

- (i) if the share capital of France Telecom is increased or if France Telecom issues any securities giving rights directly or indirectly to subscribe for, purchase or receive Shares;
- (ii) if France Telecom issues any other securities in respect of which its shareholders have preferential subscription rights or a preferential subscription period; or
- (iii) upon the merger (“*fusion*”) or demerger (“*scission*”) of France Telecom.

The Exchange Suspension Notice shall be given at least 10 days before the start of the suspension to the Underlying Bondholders in accordance with Condition 16 (*Notices*). The Exchange Suspension Notice shall specify the date (the “**Suspension Start Date**”) on which the suspension of the exercise of Exchange Rights shall commence and the date (the “**Suspension End Date**”) on which such suspension shall end (the period from and including the Suspension Start Date to but excluding the Suspension End Date shall be the “**Exchange Suspension Period**”).

During the Exchange Suspension Period, no Exchange Notice may be given by any Underlying Bondholder and any Exchange Notice which has already been delivered but in respect of which the Exchange Settlement Date has not yet occurred shall, unless otherwise determined by the Underlying Issuer, be null and void.

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(B) *Exchange Rights Suspension on Reference Bond Share Default:*

After the delivery by the Underlying Issuer of a Reference Bond Share Default Notice to the Underlying Bondholders, no Underlying Bondholder may deliver an Exchange Notice and any obligation of the Underlying Issuer to transfer or deliver Newly Issued Shares pursuant to the exercise by any Holder of any Exchange Right shall be suspended and any Exchange Notice which has already been delivered but in respect of which the Exchange Settlement Date has not yet occurred shall be null and void. If, after the delivery of Reference Bond Share Default Notice, a Reference Bond Share Default has ceased to exist, the Underlying Issuer shall deliver a notice (an “**Exchange Right Resumption Notice**”) stating that, as from such date, any Underlying Bondholder may exercise its Exchange Right in respect of the Underlying Bonds by delivering an Exchange Notice. At any time whilst the Underlying Bonds are outstanding, more than one Reference Bond Share Default Notice and more than one Exchange Right Resumption Default Notice may be delivered but only the last of such notice delivered shall be effective.

4.4 Procedure for Exchange

(A) To exercise the Exchange Right in respect of any Underlying Bond, an Underlying Bondholder must complete, execute and deposit at its own expense during normal business hours, at the Underlying Issuer’s registered office, a notice of exchange (an “**Exchange Notice**”) in the form (for the time being current) obtainable from the Underlying Issuer’s registered office, together with any amount to be paid by the Underlying Bondholder pursuant to this Condition 4 (*Exchange Right*).

An Exchange Notice must:

- (i) specify the name and address of the Underlying Bondholder or such other name and address as directed by the Underlying Bondholder for transfer or deliver of the Newly Issued Shares;
- (ii) specify the principal amount of Underlying Bonds that are the subject of the Exchange Right;
- (iii) (a) contain representations and warranties from the Underlying Bondholder to the effect that, at the time of signing and delivery of the Exchange Notice, (A) it understands that the Newly Issued Shares to be transferred or delivered upon exchange of the Underlying Bonds have not been registered under the U.S. Securities Act of 1933 (as amended from time to time, the “**Securities Act**”), (B) it understands that the Newly Issued Shares to be transferred or delivered upon exchange of the Underlying Bonds may not be offered or sold in the United States absent registration or pursuant to an applicable exemption from the registration requirements of the Securities Act, (C) it understands that the Newly Issued Shares to be transferred or delivered upon exchange of the Underlying Bonds may not be deposited into any unrestricted depository receipt facility established or maintained by a depository bank, in particular France Telecom’s unrestricted American Depository Receipt Facility maintained by The Bank of New York, unless such Newly Issued Shares may be resold pursuant to Rule 144 under the Securities Act; and
(b) certify that the exchange is being made outside of the United States (as such term is defined in Regulation S of the Securities Act (“**Regulation S**”) and it and any person for whom it is acquiring Newly Issued Shares is not a U.S. person (as such term is defined in Regulation S) and it is not acting as agent for, or on behalf of, a U.S. person;
- (iv) specify the number and account name of the cash account to which or from which any amount payable in cash (x) to the Underlying Bondholder or as directed by such Underlying Bondholder is to be credited and (y) by the Underlying Bondholder or on behalf of such Underlying Bondholder is to be debited with respect to Transfer Expenses (if any) payable by such Underlying Bondholder;

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- (v) authorise the production of the Exchange Notice in any applicable administrative or legal proceedings; and
- (vi) provide any other certification required by applicable legislation at the time of the delivery of the Exchange Notice.

Failure to properly complete and deliver an Exchange Notice may result in such Exchange Notice being treated as null and void. Any determination as to whether such Exchange Notice has been properly completed and delivered as provided in these Conditions shall be made by the Underlying Issuer.

- (B) As a condition precedent to exchange, the Underlying Bondholder must pay to the Underlying Issuer (or make arrangements satisfactory to the Underlying Issuer for the payment of) all Transfer Expenses.
- (C) The date on which Certificates in respect of any Underlying Bond and the Exchange Notice relating thereto are deposited with the Underlying Issuer, or on which the conditions precedent to the exchange are fulfilled, whichever shall be later, shall be the “**Exchange Date**” in respect of such Underlying Bond. The request for exchange shall be deemed to have been made, and accordingly the exchange will become effective at 23:59 hours (London time) on the Exchange Date applicable to the relevant Underlying Bond. An Exchange Notice once delivered shall be irrevocable.
- (D) Unless Condition 4.5 (*Cash Settlement Alternative*) applies, the Underlying Issuer shall on or before the Exchange Settlement Date procure, subject to Condition 9 (*Payment or Transfer Delays*):
 - (i) that Newly Issued Shares (in such number as is determined under these Conditions) be transferred or delivered on exercise of the Exchange Right to the relevant Underlying Bondholder or as such Underlying Bondholder shall direct in the relevant Exchange Notice; and
 - (ii) that (if applicable) such documents of title and evidence of ownership of such Newly Issued Shares be despatched to the address given by the relevant Underlying Bondholder in the relevant Exchange Notice.

4.5 Cash Settlement Alternative

The Underlying Issuer shall be entitled to elect for the payment of a Cash Settlement Amount in lieu of transfer or delivery of all or some of the Newly Issued Shares by giving written notice of its election (a “**Cash Settlement Election Notice**”) no later than three Business Days after the Exchange Date, to the relevant Underlying Bondholder at the address specified for that purpose in the relevant Exchange Notice.

The Underlying Issuer shall state in the Cash Settlement Election Notice the date on which the Cash Settlement Amount will be paid to the relevant Underlying Bondholder (the “**Cash Exchange Settlement Date**”) which shall be no later than three Business Days after the last Cash Settlement Valuation Date.

“**Cash Settlement Amount**” shall be an amount in Euro, as calculated in the sole discretion of the Calculation Agent, in accordance with the following formula:

$$\text{Cash Settlement Amount} = N \times [P - C]$$

Where:

- N = Number of Newly Issued Shares which would have been transferred or delivered to the relevant Underlying Bondholder but for the Cash Settlement Election;
- P = Arithmetic average of the Volume Weighted Average Prices of the Existing Shares in Euro on each of the twenty Trading Days immediately following the date of the Cash Settlement Election Notice (each such date, a “**Cash Settlement Valuation Date**”); and
- C = Cash Settlement Adjustment.

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If, in the sole opinion of the Calculation Agent, a Market Disruption Event has occurred on any such Cash Settlement Valuation Date, the Cash Settlement Amount shall be calculated on the basis of the Volume Weighted Average Prices of the Existing Shares in Euro on those of the Cash Settlement Valuation Dates on which there is no Market Disruption Event in respect of the Shares. If a Market Disruption Event exists on each of the Cash Settlement Valuation Dates, the Calculation Agent shall determine, in its sole discretion, the Volume Weighted Average Price of the Shares in Euro by determining the price or level of the Shares that would have prevailed but for the occurrence of a Market Disruption Event as of the last Cash Settlement Valuation Date having regard to the then prevailing market conditions, the last reported, published or traded price of the Existing Shares, and such other factors as the Calculation Agent considers in its sole discretion to be relevant.

5. ADJUSTMENT EVENTS

5.1 Summary of Adjustment Events

Upon the occurrence of an Adjustment Event (as defined below), the Underlying Bondholders will be notified by the Calculation Agent of the adjustment to the Exchange Ratio as well as to the Exchange Price. Each such adjustment will be effected by the Calculation Agent, after receiving notice of an Adjustment Event, in accordance with the following provisions so as to preserve the economic equivalent of the Underlying Issuer's obligations under the Underlying Bonds. Each such adjustment will be effected by the Calculation Agent on the basis of the last previously determined Exchange Ratio and Exchange Price. Each Exchange Ratio will be expressed as a fraction (such fraction being rounded to the nearest 0.0001, with 0.00005 being rounded upwards), the numerator of which is the number of Shares and the denominator of which is one Underlying Bond.

In the event of any adjustment of the Exchange Ratio pursuant to one of the following provisions of this Condition 5, the Calculation Agent shall adjust the Exchange Price by dividing such Exchange Price by the ratio specified for such adjustment in such provision.

Each of the following events occurring on or after the Issue Date in relation to France Telecom is an "**Adjustment Event**":

- (A) issue of securities conferring preferential subscription rights;
- (B) increase of capital by means of capitalisation of reserves, profits or premiums, by distribution of bonus Shares, or division or consolidation of the Shares;
- (C) reduction of capital due to losses;
- (D) incorporation into France Telecom's shares capital of reserves, profits or premiums by increasing the nominal value of the Shares;
- (E) distribution of reserves or premiums in cash or portfolio securities;
- (F) merger (*fusion*) of France Telecom in which France Telecom is not the surviving company or demerger (*scission*) of France Telecom;
- (G) bonus issue to France Telecom's shareholders of transferable securities issued by France Telecom other than Shares;
- (H) buy-back of Existing Shares by France Telecom at a price higher than the market price; or
- (I) distribution of dividends,

and the rights of the Underlying Bondholders will be protected by adjusting the Exchange Ratio as indicated below.

5.2 Details of Adjustment Events

In the event that France Telecom carries out transactions in respect of which an adjustment under one of paragraphs (A) to (I) below has not been carried out and where later French law or regulations would require an adjustment, the Calculation Agent will carry out such an adjustment in accordance with the laws and regulations and market practice in effect in France at such time.

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(A) *Issue of securities conferring preferential subscription rights*

In the event that France Telecom issues securities conferring preferential subscription rights, the new Exchange Ratio will be determined by multiplying the Exchange Ratio in effect before such issuance by the following ratio:

$$\frac{\text{Value of a Share ex subscription right plus the value of the subscription right}}{\text{Value of a Share ex subscription right}}$$

For the purpose of calculating such ratio, the value of a Share ex subscription right and of the subscription right will be determined by the Calculation Agent by taking the average of the Opening Prices (as defined below) for the Shares and for such subscription right on each of the Trading Days included in the exercise period of the subscription rights on which the Shares ex subscription rights and the subscription rights are simultaneously traded.

“**Opening Price**” means, with respect to a Trading Day on which a Share or any other security, as applicable, is listed on Euronext Paris, the price for such Share or such other security, as applicable, on Euronext Paris at the opening of such Trading Day (as published by Euronext Paris). The Opening Price shall be determined by the Calculation Agent, following the advice of the Expert if (i) Euronext Paris’ publication service is discontinued, or (ii) the Shares or the relevant other securities are not listed at the relevant time on Euronext Paris. If the Shares or the relevant other securities, as applicable, are quoted in a currency other than Euro or any currency with an irrevocably fixed conversion rate to the Euro, conversions to Euro of the Opening Price of the Shares or the relevant securities, as applicable, will be made at the rate fixed by the ECB Rate in effect on the relevant Trading Day. For information purposes, the ECB Rate appears at approximately 12:00 hours (Paris time) on the display designated as “Page ECB37” on Reuters.

(B) *Increase of capital by means of capitalisation of reserves, profits or premiums, by distribution of bonus Shares, or division or consolidation of the Shares*

In the event of an increase in France Telecom’s share capital by capitalisation of reserves, profits or premiums, by distribution of bonus Shares, as well as in the event of division or consolidation of Shares, the new Exchange Ratio will be determined by multiplying the Exchange Ratio in effect before such operation by the following ratio:

$$\frac{\text{Number of Shares existing after such event}}{\text{Number of Shares existing before such event}}$$

(C) *Reduction of capital due to losses*

In the event of a reduction in France Telecom’s share capital resulting from losses, by a reduction in the number of Shares, the rights of Underlying Bondholders will be adjusted accordingly and the new Exchange Ratio will be determined by multiplying the Exchange Ratio in effect before such operation by the following ratio:

$$\frac{\text{Number of Shares existing after such event}}{\text{Number of Shares existing before such event}}$$

(D) *Incorporation into France Telecom’s share capital of reserves, profits or premiums by increasing the nominal value of the Shares*

In the event of an increase in France Telecom’s share capital by capitalisation of reserves, profits or premiums, effected by increasing the nominal value of the Shares, the Exchange Ratio will not be adjusted but the nominal value of Shares transferable to Underlying Bondholders will be increased to the same extent.

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(E) *Distribution of reserves or premiums in cash or portfolio securities*

In the event of a distribution of reserves or premiums to shareholders in cash or in portfolio securities, the new Exchange Ratio will be determined by multiplying the Exchange Ratio in effect before such distribution by the following ratio:

$$\frac{\text{Value of one Share prior to distribution}}{\text{Value of one Share prior to distribution minus, to the extent they constitute reserves or premiums, the amount distributed and/or the value of the securities distributed per Share}}$$

For the purpose of calculating such ratio, the value of a Share prior to the distribution will be determined by the Calculation Agent by reference to the average of the Opening Prices for the Shares during the last twenty (20) consecutive Trading Days among the forty (40) Trading Days preceding the date of the distribution, which shall be deemed to be the date on which the Shares trade ex-distribution right. The value of securities distributed per Share will be calculated by the Calculation Agent:

- (i) by reference to the average of the Opening Prices for such securities during at least twenty (20) consecutive Trading Days among the forty (40) Trading Days preceding the date of distribution, in the case of securities listed on a regulated stock exchange before the date of the distribution;
- (ii) if such securities are not listed on a regulated stock exchange before the date of distribution but only after such date, by reference to the average of the Opening Prices for such securities during at least twenty (20) consecutive Trading Days among the forty (40) Trading Days following the date of distribution; or
- (iii) if such quotations are not available, by reference to a value determined by the Calculation Agent.

(F) *Merger of France Telecom in which France Telecom is not the surviving company or demerger of France Telecom*

In the event of a merger (*fusion*) of France Telecom with one or more other companies in which France Telecom is not the surviving company, or in the event of a demerger (*scission*) of France Telecom into two or more companies (whether or not France Telecom is a surviving company), the Underlying Bonds will be exchangeable into shares of the surviving company resulting from the merger or of the companies resulting from the demerger under the same conditions as those originally applicable to the Underlying Bonds.

The Exchange Ratio in respect of the shares of such surviving company resulting from the merger or such companies resulting from the demerger will be determined by adjusting the then applicable Exchange Ratio by reference to the ratio to which the Shares were exchanged for the shares of the surviving company resulting from the merger or of the companies resulting from the demerger.

(G) *Bonus issue to France Telecom's shareholders of transferable securities issued by France Telecom other than Shares*

In the event of a bonus issue to France Telecom's shareholders of any transferable securities issued by France Telecom, other than Shares, the new Exchange Ratio will be determined as follows:

- (x) If the right to receive the new transferable securities so distributed (the "**Attribution Right**") has been listed on Euronext Paris, the new Exchange Ratio will be determined by multiplying the Exchange Ratio in effect before such bonus issue by the following ratio:

$$\frac{\text{Value of a Share ex Attribution Right plus the value of such Attribution Right}}{\text{Value of a Share ex Attribution Right}}$$

where the value of a Share ex Attribution Right and of the Attribution Right will be determined by the Calculation Agent by taking the average of the Opening Prices for a Share ex Attribution Right and for such Attribution Right on each of the ten (10) consecutive Trading Days following the date of attribution of the Attribution Right

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on which the Shares ex Attribution Right and the Attribution Right are simultaneously traded.

(y) If the Attribution Right has not been listed on Euronext Paris, the new Exchange Ratio will be determined by multiplying the Exchange Ratio in effect before such bonus issue by the following ratio:

$$\frac{\text{Value of a Share ex Attribution Right plus the value of the transferable security(ies) issued per Share}}{\text{Value of a Share ex Attribution Right}}$$

where the value of a Share ex Attribution Right and of the transferable security(ies) issued per Share will be determined by the Calculation Agent by taking the average of the Opening Prices of the Shares and of such transferable security(ies) on each of the ten (10) consecutive Trading Days following the date of attribution of the Attribution Right on which the Shares ex Attribution Right and the transferable security(ies) are simultaneously traded. If the transferable security(ies) is (are) not listed on Euronext Paris, its (their) value will be as determined by the Calculation Agent.

(H) *Buy-back of Shares by France Telecom at a price higher than the market price*

In the event of a buy-back of Shares by France Telecom at a price higher than the market price of the Shares, the new Exchange Ratio shall be determined by multiplying the Exchange Ratio in effect before the commencement of the buy-back by the following ratio, calculated to the nearest hundredth of a share:

$$\frac{\text{Share price} + \text{Pc}\% \times (\text{Buy-back price minus Share price})}{\text{Share price}}$$

Where:

“**Share price**” means the average Opening Price over at least ten (10) consecutive Trading Days chosen by France Telecom from the twenty (20) Trading Days preceding the buy-back (or the option to buy-back).

“**Pc%**” means the percentage of capital bought back.

“**Buy-back price**” means the actual price at which the Shares are bought back (which, by definition, will be higher than the market price).

(I) *Distribution of Dividends*

If and when a Dividend is declared, or a No Dividend Resolution is passed, in respect of Shares, the Exchange Ratio shall be subject to the following adjustments.

In the case of any Dividend consisting of alternative choices, the Underlying Issuer shall have absolute discretion as to which of such alternative choices to make.

“**Effective Date**” means, in respect of a Dividend, the Ex-Dividend Date, or, in respect of a No Dividend Resolution, the day falling three Business Days after the date on which the No Dividend Resolution was passed.

(a) *Adjustment to the Exchange Ratio for first Dividend or No Dividend Resolution*

In the case of the first Dividend declared or a No Dividend Resolution in each relevant fiscal period by France Telecom with effect from the Effective Date, the Exchange Ratio shall be adjusted (increased or decreased) in accordance with the following formula, depending on the relevant Dividend Yield:

(i) if the relevant Dividend Yield is different (higher or lower) from the Reference Dividend Yield, the Exchange Ratio shall be adjusted according to the formula below:

$$\text{NRA} = \text{RA} \times (1 + \text{RDY} - \text{K})$$

where:

— NRA means the new Exchange Ratio

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- RA means the last Exchange Ratio in effect before the Ex-Dividend Date for the relevant dividend; and
 - RDY means the relevant Dividend Yield
 - $K = 5\%$ also referred to as the “**Reference Dividend Yield**”;
- (ii) if the relevant Dividend Yield is equal to the Reference Dividend Yield, the Exchange Ratio shall not be adjusted; and
- (iii) in the event of a No Dividend Resolution, the adjustment referred to in (i) shall be applied as if a dividend of zero had been declared.

“**Dividend Yield**” is the ratio obtained by dividing the relevant Dividend by France Telecom’s market capitalisation; the market capitalisation used to calculate each such ratio being equal to the product of (x) the Closing Price on the Trading Day immediately preceding the date of approval of the relevant dividend (or interim dividend) by the Shareholders (or the board of directors) and (y) the respective number of Shares existing on such date.

Any dividends or fractions of dividends leading to an adjustment of the Exchange Ratio by virtue of paragraphs (A) to (H) above will not be taken into account for the purpose of this paragraph (I).

“**Ex-Dividend Date**” is the Trading Day on which Shares start trading ex-dividend on Euronext Paris.

(b) *Adjustment for subsequent Dividends*

In the case of any subsequent Dividend declared in respect of the Shares in each fiscal year, with effect from the Effective Date the Exchange Ratio shall be adjusted according to the formula below.

$$\text{NRA} = \text{RA} \times (1 + \text{RDY})$$

where:

- NRA means the new Exchange Ratio
- RA means the last Exchange Ratio in effect before the Ex-Dividend Date for the relevant dividend; and
- RDY means the relevant Dividend Yield in respect of the subsequent dividend.

For the avoidance of doubt, such subsequent dividend excludes, in the Dividend Yield calculation, any dividends in respect of the same accounting year for which an adjustment has already occurred by virtue of paragraph (a) above.

No Adjustment will be made for any second or subsequent No Dividend Resolution in any fiscal year in respect of the Exchange Ratio.

With effect from and including the Effective Date the Exchange Ratio shall mean the Exchange Ratio in accordance with paragraph (a) above. Any such adjustment shall be subject to any subsequent adjustment pursuant to this paragraph (b).

5.3 Retroactive Adjustments

If an Adjustment Event occurs:

- (A) on or prior to the giving of an Exchange Notice but is not reflected in the Exchange Ratio in effect on such date; or
- (B) after the giving of an Exchange Notice up to, and including, the Settlement Date,

the Underlying Issuer shall deliver the Newly Issued Shares or pay any cash amount due to the Underlying Bondholders, as the case may be, using the new Exchange Ratio (and Exchange Price) determined by the Calculation Agent and, if delivery or payment has already occurred in

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respect of the relevant Underlying Bonds, deliver such additional Newly Issued Shares or pay such additional cash amount as applicable.

5.4 Calculation Agent and Expert

- (A) The Calculation Agent shall determine any adjustment to be made in accordance with this Condition 5, except as otherwise specifically provided.
- (B) In relation to any matter requiring the advice, calculation or ratification by an Expert, the Underlying Issuer shall promptly appoint an Expert for that purpose.

6. INTEREST

6.1 Interest Rate and Accrual

- (A) Each Underlying Bond bears interest per annum on its outstanding principal amount from the Issue Date at the Interest Rate (as defined below), such interest being payable quarterly in arrear on 1 January, 1 April, 1 July and 1 October of each year (each an “**Interest Payment Date**”) (each period from and including an Interest Payment Date to but excluding the next Interest Payment Date being an “**Interest Period**”) with the first such interest payment to be made on 1 July 2006 in respect of the period from the Issue Date, subject as provided in Condition 11 (*Payments*).
- (B) Interest will cease to accrue on any Underlying Bond from the date of the giving of a notice (an “**FT Credit Event Notice**”) from the Underlying Issuer to the Underlying Bondholders stating that a FT Credit Event has occurred. After the giving of an FT Credit Event Notice, the provisions of Condition 7.4 (*Consequences of an FT Credit Event*) shall apply.

“**Interest Rate**” for each Interest Period means EURIBOR 3-month Rate plus 1.20 per cent. per annum.

“**EURIBOR 3-month Rate**” means the rate expressed as an annual rate, as calculated and published by the Banking Federation of the European Union and appearing for information purposes on the Reuters screen EURIBOR 01 or Telerate screen page 248 (or, if not available, on Telerate screen page 20041, or if not available, on whatever page of such other recognised screen service that may be substituted therefor, as chosen by the Calculation Agent) on or about 11:00 a.m. (Brussels time), two TARGET Days before the first day of the relevant Interest Period (each an “**Interest Determination Date**”) offered for interbank deposits in Euro among leading banks within the Eurozone for a duration of three months and, in the event the relevant Interest Period would be of less than three months, the rate applicable to such Interest Period shall be calculated on the basis of the EURIBOR rate with a maturity closest in duration to the relevant Interest Period, and such rate shall be published in accordance with Condition 16 (*Notices*).

“**Eurozone**” means the region comprised of member States of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union, as amended by the Treaty of Amsterdam.

6.2 Interest Calculations

The Calculation Agent will, as soon as practicable after 11:00 a.m. (Brussels time) on each Interest Determination Date, determine the EURIBOR 3-month Rate and the Interest Rate for the relevant Interest Period. Such determination by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

The amount of interest payable in respect of each Underlying Bond for any period shall be calculated by applying the Interest Rate to the nominal value of that Underlying Bond, multiplying such sum by the actual number of days in the period concerned divided by 360 and rounding the resultant figure to the nearest Euro 0.01 (Euro 0.005 being rounded upwards).

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7. REDEMPTION

7.1 Final Redemption

- (A) Unless previously redeemed, exchanged or purchased and cancelled as provided below, each Underlying Bond will be redeemed at its outstanding principal amount on the Maturity Date.
- (B) At any time after the Underlying Issuer delivers a FT Credit Event Notice, the Underlying Issuer shall have no obligation to redeem any Underlying Bond at its outstanding principal amount on the Maturity Date. Instead, the provisions of Condition 7.3 (*Consequences of an FT Credit Event*) shall apply.

7.2 Redemption at the Option of the Underlying Issuer

- (A) *Redemption on or after 2 years at the Underlying Issuer's option:*

The Underlying Issuer may, at any time on or after the second anniversary of the Issue Date, by giving not less than 10 Business Days' and not more than 30 Business Days' notice (an "**Underlying Issuer Optional Call Notice**") to the Underlying Bondholders specifying the Redemption Settlement Date, redeem all, but not some, of the Underlying Bonds then outstanding in cash at 101 per cent. of the then Fair Market Value of the Underlying Bonds as determined by the Calculation Agent in its sole discretion.

Following the determination of the Fair Market Value, the Underlying Issuer shall within 3 Business Days notify the Underlying Bondholders and Exchange Agent of such determination and shall state in such notification whether it elects (the "**Share Election Redemption Settlement**") to effect the redemption by transferring or delivering Newly Issued Shares instead of paying cash. If it so elects, the Underlying Issuer shall transfer or deliver per Underlying Bond such number of Newly Issued Shares as is equal to the Fair Market Value divided by the arithmetic average of the Volume Weighted Average Prices of the Shares in Euro on each of the twenty Trading Days immediately following the date of the notice of the Fair Market Value (each such date a "**Share Redemption Settlement Valuation Date**").

The Underlying Issuer shall transfer or deliver the number of Newly Issued Shares per Underlying Bond calculated as described above no later than 3 Business Days after the last Share Redemption Settlement Valuation Date.

- (B) *Redemption arising from changes in treatment:*

If any Adverse Change occurs or is likely to occur, the Underlying Issuer may, by giving not less than 10 Business Days' and not more than 30 Business Days' notice (an "**Underlying Issuer Adverse Change Notice**") to the Underlying Bondholders specifying the Redemption Settlement Date, redeem all, but not some, of the Underlying Bonds then outstanding in cash at the then Fair Market Value of the Underlying Bonds as determined by the Calculation Agent in its sole discretion.

Following the determination of the Fair Market Value, the Underlying Issuer shall within 3 Business Days notify the Underlying Bondholders of such determination and shall state in such notification whether it elects (the "**Share Election Redemption Settlement**") to effect the redemption by transferring or delivering Newly Issued Shares instead of paying cash. If it so elects, the Underlying Issuer shall transfer or deliver per Underlying Bond such number of Newly Issued Shares as is equal to the Fair Market Value divided by the arithmetic average of the Volume Weighted Average Prices of the Shares in Euro on each of the twenty Trading Days immediately following the date of the notice of the Fair Market Value (each such date, a "**Share Redemption Settlement Valuation Date**").

The Underlying Issuer shall transfer or deliver the number of Newly Issued Shares per Underlying Bond calculated as described above no later than 3 Business Days after the last Share Redemption Settlement Valuation Date.

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(C) *Redemption if the Average Closing Price of the Shares exceeds 150 per cent. of the Exchange Price:*

The Underlying Issuer may, at any time on and from 3 March 2010, redeem all, but not some, of the Underlying Bonds then outstanding, by giving notice of such redemption to the Underlying Bondholders in cash at the aggregate principal amount of all the then outstanding Underlying Bonds if, in respect of an Underlying Bond, the average of the product of (i) the Closing Price of the Shares over a period of twenty (20) consecutive Trading Days during which the Shares are quoted on Euronext Paris, as selected by the Underlying Issuer in its sole discretion from among forty (40) consecutive Trading Days during which the Shares are quoted on Euronext Paris and (ii) the Exchange Ratio applicable on each such Trading Day in respect of an Underlying Bond, exceeds 150 per cent. of the nominal value of the Underlying Bond. The Underlying Issuer shall by notice in writing to the Underlying Bondholders (the “**Underlying Issuer Shares Excess Redemption Notice**”) (which notice may not be given less than 30 Business Days and not more than 90 Business Days prior to the Redemption Settlement Date specified in such notice of redemption and the last day on which the Exchange Rights may be exercised by the Underlying Bondholders which shall be the fourth Business Day prior to the Redemption Settlement Date).

(D) *Redemption if the outstanding Underlying Bonds represent less than 10 per cent. of the aggregate principal amount outstanding of the Underlying Bonds on the Issue Date:*

The Underlying Issuer may, by notice (the “**Underlying Issuer Bond Reduction Notice**”) in writing to the Underlying Bondholders redeem all, but not some, of the Underlying Bonds then outstanding at any time if the aggregate principal amount of all the outstanding Underlying Bonds is less than 10 per cent. of the aggregate principal amount outstanding of the Underlying Bonds on the Issue Date in cash at the principal amount outstanding of the Underlying Bonds.

The Underlying Issuer may however state in the Underlying Issuer Bond Reduction Notice that it elects to redeem the Underlying Bonds by transferring or delivering Newly Issued Shares to the Underlying Bondholders (such election being a “**Share Election Redemption Settlement**”). If such election is made in the Underlying Issuer Bond Reduction Notice, the Underlying Issuer shall transfer or deliver per Underlying Bond such number of Newly Issued Shares as is equal to the nominal value of an Underlying Bond divided by the arithmetic average of the Volume Weighted Average Prices of the Shares in Euro on each of the twenty (20) Trading Days immediately following the date of the Underlying Issuer Bond Reduction Notice (each such date, a “**Share Redemption Settlement Valuation Date**”).

The Underlying Issuer shall transfer or deliver the number of Newly Issued Shares per Underlying Bond calculated as described above no later than 3 Business Days after the last Share Redemption Settlement Valuation Date.

(E) *Redemption by transfer or delivery of Shares:*

In respect of each of the options which the Underlying Issuer may exercise to redeem the Underlying Bonds (other than pursuant to Condition 7.2(C) (*Redemption if the Average Closing Price of the Shares exceeds 150 per cent. of the Exchange Price*) above), the Underlying Issuer has the option to settle the amount payable on redemption by transferring or delivering Newly Issued Shares as more particularly set out below.

If the Underlying Issuer has specified in any Underlying Issuer Redemption Notice that it shall redeem the Underlying Bonds by the delivery or transfer of Newly Issued Shares, it shall notify the Underlying Bondholders in such notice of the number of Newly Issued Shares to be transferred or delivered in respect of each Underlying Bond and request the Underlying Bondholders to provide to it a completed Exchange Notice no later than 2 Business Days prior to the relevant Redemption Settlement Date and any obligation of the Underlying Issuer to deliver or transfer Newly Issued Shares to an Underlying Bondholder pursuant to the relevant Underlying Issuer Redemption Notice shall be conditional upon the delivery of an Exchange Notice by such Underlying Bondholder. The Underlying Issuer shall transfer or deliver the number of Newly Issued Shares per

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Underlying Bond calculated as described above no later than 3 Business Days after the last Share Redemption Settlement Valuation Date. The obligation of the Underlying Issuer to transfer or deliver any Newly Issued Shares pursuant to any Underlying Issuer Redemption Notice shall be further subject to Condition 9 (*Payment or Transfer Delays*) below.

(F) *Payment of accrued interest on redemption:*

If the Underlying Issuer exercises its right to redeem the Underlying Bonds in full in accordance with any of Conditions 7.2 (A) to (D), it shall pay interest accrued on the Underlying Bonds to the relevant Redemption Settlement Date. This is applicable to any redemption made by the Underlying Issuer at its option under this Condition 7.2.

(G) *FT Credit Event following an Underlying Issuer Redemption Notice:*

If, at any time after an Underlying Issuer Redemption Notice is delivered but prior to a Redemption Settlement Date, the Underlying Issuer delivers an FT Credit Event Notice, such Underlying Issuer Redemption Notice shall be null and void and the Underlying Issuer shall cease to be under any obligation to make any redemption of the Underlying Bonds pursuant to such notice.

7.3 Consequences of an FT Credit Event

After the delivery of an FT Credit Event Notice (such date being the “**Credit Event Date**”), the Underlying Issuer shall have no obligation to (i) make any interest payments and interest shall cease to accrue on the Underlying Bonds and (ii) redeem any of the Underlying Bonds at their scheduled maturity or any date of early redemption (irrespective of whether the Underlying Issuer has previously given a notice of redemption), except pursuant to this Condition 7.3.

The Underlying Issuer shall redeem the Underlying Bonds (such redemption being a “**Credit Event Redemption**”) in accordance with this paragraph by paying the Credit Event Redemption Amount (“**CERA**”) per Underlying Bond determined as follows:

(i) *Redemption on the liquidation of France Telecom*

If, after the delivery of a FT Credit Event Notice and prior to a redemption notice delivered pursuant to (ii) or (iii) below, upon the liquidation of France Telecom under which payments are made to the Senior Creditors and/or subordinated creditors including creditors with Principal Reference Bonds Claims of France Telecom by the liquidator, the Underlying Issuer shall within five Business Days after such payments have been made notify (such notice being an “**FT Liquidation Redemption Notice**”) the Underlying Bondholders that it will redeem the Underlying Bonds on a date falling no later than five Business Days after the date of the FT Liquidation Redemption Notice on the following basis:

- (a) any interest which has accrued on an outstanding Underlying Bond and is owing under that Underlying Bond from the Interest Payment Date (or, if none, the Issue Date) immediately preceding the FT Credit Event Notice to the Credit Event Date (“**Unpaid Interest**”) shall be paid by multiplying the Unpaid Interest on that Underlying Bond outstanding by the Senior Recovery Rate; and
- (b) the principal amount of each Underlying Bond shall be paid by multiplying such amount by the Principal Recovery Rate.

(ii) *Redemption determined by a Reference Bond Placement*

The Underlying Issuer may (a) after the date falling 3 months after the Credit Event Date and (b) if no notice of redemption has been delivered pursuant to (i) above or (iii) below, by giving notice (such notice being an “**FT Placement Redemption Notice**”) in writing to the Underlying Bondholders, elect to redeem the Underlying Bonds and determine the CERA on the basis of the placement price (the “**Reference Bonds Placement Price**”) per Reference Bond under a Vendor Bond Placement which has been determined no earlier than three Business Days before the date of the FT Placement Redemption Notice. The Underlying Issuer shall specify the date of redemption in the FT

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Placement Redemption Notice which date shall not be more than five Business Days after the date of the settlement of the Vendor Bond Placement.

If an FT Placement Redemption Notice is given, the CERA per Underlying Bond shall be the aggregate of the Unpaid Interest of an outstanding Underlying Bond and the principal amount of that outstanding Underlying Bond multiplied by the Reference Bond Market Price Rate.

(iii) *Redemption at the nominal amount of the Underlying Bonds*

If, on the date falling six months after the Credit Event Date, the Underlying Issuer has not made a Credit Event Redemption pursuant to either (i) or (ii) above, the Underlying Issuer shall by notice in writing to the Underlying Bondholders (such notice being an “**FT Nominal Value Redemption Notice**”) redeem the Underlying Bonds at their principal amount outstanding together with Unpaid Interest on the outstanding Underlying Bonds. The Underlying Issuer shall specify the date of redemption in the FT Nominal Value Redemption Notice which date shall not be more than five Business Days after the date falling six months after the Credit Event Date.

7.4 Purchases

The Underlying Issuer may at any time purchase Underlying Bonds in the open market or otherwise.

7.5 Cancellation

All Underlying Bonds exchanged or redeemed must be surrendered for cancellation by surrendering the Certificate representing such Underlying Bonds to the Underlying Issuer and, when so surrendered, will, together with all Underlying Bonds redeemed by the Underlying Issuer, be cancelled forthwith. Any Underlying Bonds so surrendered for cancellation may not be reissued or resold and the obligations of the Underlying Issuer in respect of any such Underlying Bonds shall be discharged.

8. PROVISIONS RELATING TO NEWLY ISSUED SHARES TO BE DELIVERED

- (A) The Newly Issued Shares transferred or delivered on the exercise of any Exchange Right or the redemption of the Underlying Bonds by the Underlying Issuer under Condition 7 (*Redemption*) shall be fully paid ordinary shares of France Telecom subject to the provisions of the bye-laws of France Telecom. Newly Issued Shares give the holders thereof the right, in respect of the fiscal year (the “**Current Fiscal Year**”) of France Telecom in which the Exchange Settlement Date, the Redemption Settlement Date or, as applicable, the date of the Share Election Redemption Settlement falls and the following fiscal years, to the same dividend per Newly Issued Share (on the basis of the same nominal value) as that paid in respect of other Shares with equivalent dividend rights. However, Newly Issued Shares do not give the holders thereof the right to dividend per Newly Issued Share in respect of the fiscal year of France Telecom immediately preceding the Current Fiscal Year. The Underlying Bondholders shall not be entitled to any dividend nor to any compensation in respect of Newly Issued Shares in the case that the Exchange Settlement Date, the Redemption Settlement Date or, as applicable, the date of the Share Election Redemption Settlement falls after Record Date for such dividend. Where the Underlying Issuer elects to pay cash in respect of an exercise of an Exchange Right or in respect of an optional redemption by the Underlying Issuer, the cash amount payable shall, as described above, be subject to the Cash Settlement Adjustment (if applicable). Prior to the transfer or delivery of any Newly Issued Shares, the Underlying Bondholders shall not be entitled to exercise or direct the exercise of any voting rights attached to that Newly Issued Share.
- (B) No dividend in respect of the Newly Issued Shares shall be delivered on the exercise of an Underlying Bondholder’s Exchange Rights or the redemption of the Underlying Bonds by the Underlying Issuer under Condition 7 (*Redemption*) and, prior to the transfer or delivery of any Share, the Underlying Bondholders shall not be entitled to exercise or direct the exercise of any voting rights attached to that Newly Issued Share.

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- (C) Fractions of a Newly Issued Share will not be transferred or delivered on exchange provided that if more than one Underlying Bond is to be exchanged by an Underlying Bondholder or more than one Underlying Bond is held by an Underlying Bondholder on redemption of the Underlying Bonds by the Underlying Issuer under Condition 7 (*Redemption*), the number of Newly Issued Shares which shall be transferred or delivered upon exchange or redemption shall be calculated on the basis of the aggregate principal amount of the Underlying Bonds of such Underlying Bondholder which is subject to the exchange or, as the case may be, redemption. The Underlying Issuer shall pay to the relevant Underlying Bondholder a cash amount (to be paid at the same time of the transfer or delivery of the Newly Issued Shares) equal to the product of (x) the fraction of the Newly Issued Share to which such Underlying Bondholder would otherwise be entitled and (y) the Closing Price on the third Trading Day preceding the Exchange Settlement Date or Redemption Settlement Date, rounded to the nearest full cent, with 0.005 being rounded upwards.

9. PAYMENT OR TRANSFER DELAYS

9.1 Settlement Disruption

- (A) (i) If:
- (a) the Underlying Issuer is of the opinion that it is not possible to effect a transfer or delivery of Newly Issued Shares by the relevant settlement date under the Underlying Bonds or the Reference Bonds by reason of a suspension or material limitation of transfers of Shares in Euroclear France or a material disruption, suspension or limitation of trading of the Shares on Euronext Paris; or
 - (b) any transfer or delivery of Newly Issued Shares under the Underlying Bonds or the Reference Bonds would be unlawful under any applicable laws or regulations or if such transfer or delivery is impossible or not practicable for any reason; or
- (ii) If:
- (a) in the opinion of the Calculation Agent, it is not possible to effect a transfer or delivery of Newly Issued Shares by a Settlement Date, by reason of a suspension or material limitation of transfers of Shares in Euroclear France or a material disruption, suspension or limitation of trading of the Shares on Euronext Paris; or
 - (b) such transfer or delivery of Newly Issued Shares would be unlawful under any applicable laws or regulations or if such transfer is impossible or not practical for any reason,

(any event or circumstance described in (i) or (ii) above being a “**Settlement Disruption**”)

then, in the case of (i) above, the Underlying Issuer will cause the transfer or delivery of Newly Issued Shares to be made on the next succeeding Trading Business Day on which there is no Settlement Disruption and, in the case of (ii) above, the Underlying Issuer will cause the transfer of Newly Issued Shares to be made on the next succeeding Trading Business Day on which there is no Settlement Disruption.

- (B) If a Settlement Disruption lasts for more than 8 consecutive Trading Business Days, the relevant Exchange Notice or Underlying Issuer Redemption Notice pursuant to which Newly Issued Shares are to be transferred or delivered shall be null and void and the Underlying Issuer shall be released from any obligation which arises as a result of such notice.

9.2 Delay due to Retroactive Adjustment

If, in the opinion of the Calculation Agent, it is not possible to effect a transfer or delivery of Newly Issued Shares or payment of cash by reason of the need to effect any retroactive adjustment to the applicable Exchange Price or Exchange Ratio in accordance with Condition

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5.3 (*Retroactive Adjustments*), the Underlying Issuer shall make the relevant transfer or delivery of Newly Issued Shares or payment of cash as soon as practicable following the confirmation by the Calculation Agent that such adjustment has been made.

10. PUBLIC OFFER

If the Shares are subject to a Tender Offer, the Underlying Issuer may (but shall not be obliged to) take any action described in (A) or (B) below:

- (A) require the Calculation Agent to determine the appropriate adjustment, if any, to be made to any one or more of the Conditions to account for the Tender Offer and determine the effective date of that adjustment including, without limitation, substituting the affected Share with another share and setting the relevant Exchange Price for such Share; or
- (B) redeem the Underlying Bonds by giving notice to Underlying Bondholders. If the Underlying Bonds are so redeemed and cancelled, the Underlying Issuer will pay an amount to each Underlying Bondholder in respect of each Underlying Bond held by such Underlying Bondholder, which amount shall be the Fair Market Value of an Underlying Bond taking into account the Tender Offer, less the cost to the Underlying Issuer of unwinding any underlying related hedging arrangements (if any), all as determined by the Calculation Agent in its reasonable discretion. Payment will be made in such manner as shall be notified to the Underlying Bondholders.

Upon the occurrence of a Tender Offer, the Calculation Agent shall give notice as soon as practicable to the Underlying Bondholders (although Underlying Bondholders are deemed to acknowledge that there may necessarily be some delay between the time at which any of the above events occurs and the time at which it is reported to Underlying Bondholders) stating the occurrence of the Tender Offer, giving details thereof and the action proposed to be taken by the Underlying Issuer in relation thereto.

11. PAYMENTS

11.1 Underlying Bonds

Payments of principal in respect of the Underlying Bonds will be made against presentation and surrender of the relevant Certificates at the Underlying Issuer's registered office in the manner provided below.

Interest on the Underlying Bonds will be paid to the person shown on the Register (or, if more than one person is so shown, to the first named person) at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**").

Payment in principal or interest or any Cash Settlement Amount on each Underlying Bond in definitive form will be made in Euro by cheque drawn on a bank in the Eurozone and mailed to the Underlying Bondholder (or to the first named of joint holders) of such Underlying Bond at its address appearing in the Register maintained by the Registrar. Upon application by an Underlying Bondholder to the Underlying Issuer before the Record Date, such payment of principal or interest or other sum may be made by transfer to an account in Euro maintained by the payee with a bank in the Eurozone.

If any Interest Payment Date, Settlement Date or any due date for payment of any other amount in respect of any Underlying Bond is not a TARGET Day, then an Underlying Bondholder shall not be entitled to payment of the amount due until the next following day that is a TARGET Day and the Underlying Bondholder shall not be entitled to any interest or other sums in respect of such postponed payment period.

11.2 Payments subject to law, etc.

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives. No commission or expenses shall be charged to the Underlying Bondholders in respect of such payments.

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11.3 Non-Business Days

If any date for payment in respect of any Underlying Bond is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment.

In this Condition 11.3 “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation.

11.4 Taxation

All payments of principal and interest by the Underlying Issuer in respect of the Underlying Bonds may be made subject to any withholding or deduction for, or on account of, any applicable taxation. The Underlying Issuer will not be required to pay any additional amounts in respect of such withholding or deduction.

12. PRESCRIPTION

Claims against the Underlying Issuer for payment in respect of the Underlying Bonds shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect thereof.

13. EVENTS OF DEFAULT

If any of the following events (each an “**Event of Default**”) occurs and is continuing:

- (A) if default is made for a period of 14 days or more in the payment of any sum due in respect of the Underlying Bonds and/or any payment of any sum or transfer or delivery obligations in respect of any Newly Issued Shares pursuant to an exercise of Exchange Rights or an Underlying Issuer Redemption Notice or any of them; or
- (B) if (i) the Underlying Issuer fails to perform or observe any of its other obligations under the Underlying Bonds, (ii) such event is materially prejudicial to the interests of Underlying Bondholders, and (iii) such failure continues for a period of 30 days following the service by any Underlying Bondholder on the Underlying Issuer of notice requiring the same to be remedied (and for these purposes, a failure to perform or observe an obligation shall be deemed to be remediable notwithstanding that the failure results from not doing an act or thing by a particular time); or
- (C) if any order shall be made by any competent court or any resolution passed for the winding-up or dissolution of the Underlying Issuer save for the purposes of amalgamation, merger, consolidation, reorganisation or other similar arrangement,

then Underlying Bondholders holding not less than one-third of the aggregate principal amount of the outstanding Underlying Bonds may, by written notice addressed to the Underlying Issuer and delivered to the Underlying Issuer’s registered office, declare the Underlying Bonds immediately due and repayable, whereupon they shall become immediately due and repayable at their principal amount without further action or formality. Notice of any such declaration shall promptly be given to all the other Underlying Bondholders.

14. MODIFICATION AND WAIVER

The Underlying Bonds and these Conditions may be amended without the consent of the Underlying Bondholders to make modifications of a formal, minor or technical nature or corrections of manifest errors which are not materially prejudicial to the interests of the Underlying Bondholders.

Underlying Bondholders holding at least 50 per cent. (by principal amount) of the outstanding Underlying Bonds may approve any other modifications of the Underlying Bonds and these Conditions, may waive or authorise any breach or proposed breach of the Conditions or determine that any Event of Default or Potential Event of Default shall not be treated as such.

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Any such modification, waiver, authorisation or determination shall be notified by the Underlying Issuer to the Underlying Bondholders as soon as practicable thereafter in accordance with Condition 16 (*Notices*).

15. REPLACEMENT OF UNDERLYING BONDS

If an Underlying Bond is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws at the registered office of the Underlying Issuer, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Underlying Bond is subsequently presented for payment, there will be paid to the Underlying Issuer on demand the amount payable by the Underlying Issuer in respect of the Underlying Bonds) and otherwise as the Underlying Issuer may require. Mutilated or defaced Underlying Bonds must be surrendered before replacements will be issued.

16. NOTICES

Notices to the holders of Underlying Bonds will be mailed to them or, if there is more than one holder of any Underlying Bond, to the first named holder of that Underlying Bond at their respective addresses in the Register and will be deemed to have been given on the date that it is mailed.

17. FURTHER ISSUE

The Underlying Issuer may from time to time without the consent of the Underlying Bondholders, but subject to Condition 13 (*Restrictions*), create and issue further bonds:

- (1) having the same terms and conditions as the Underlying Bonds in all respects (or in all respects except for the first payment of interest) and so that the same shall be consolidated and form a single series with such Underlying Bonds. References in these Conditions to “**Underlying Bonds**” shall be construed accordingly; or
- (2) upon terms that such bonds form a separate series from the Underlying Bonds.

18. GOVERNING LAW AND JURISDICTION

18.1 Governing Law

The Underlying Bonds are governed by, and shall be construed in accordance with, English law.

18.2 Jurisdiction

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Underlying Bonds and, accordingly, any legal action or proceedings arising out of or in conjunction with the Underlying Bonds may be brought in such courts (“**Proceedings**”).

19. DEFINITIONS

19.1 Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Adjustment Event**” has the meaning given in Condition 5.1 (*Summary of Adjustment Events*);

“**Adverse Change**” means any change or prospective change in the accounting, tax, legal or regulatory treatment applicable to the Underlying Bonds, the Reference Bonds, the Shares or any hedging transaction of the Underlying Issuer or the Bookrunner or any affiliate of the Bookrunner in respect of the Underlying Bonds, the Reference Bonds or the Shares has occurred or is likely to occur that would have an adverse effect on the position of the Underlying Issuer, the Bookrunner or any affiliate of the Bookrunner in respect of the Underlying Bonds, the Reference Bonds or the Shares or on the position of the Underlying Issuer, the Bookrunner or any affiliate of the Bookrunner or any of their counterparties in respect of any such hedging transaction;

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“**Affiliates**” means in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose “control” of any entity or person means ownership of a majority of the voting power of the entity or person;

“**Attribution Right**” has the meaning given in Condition 5.2 (*Details of Adjustment Events*);

“**Bookrunner**” means Deutsche Bank AG, London Branch;

“**Business Day**” means a day which is a France Business Day and a day on which commercial banks are open for general business in London and Luxembourg;

“**Calculation Agent**” has the meaning given in the Introduction to these Conditions;

“**Cash Exchange Settlement Date**” has the meaning given in Condition 4.5 (*Cash Settlement Alternative*);

“**Cash Settlement Adjustment**” means the fair market value of the dividend per Existing Share (the “**Preceding Year Dividend**”) in respect of the fiscal year (the “**Preceding Fiscal Year**”) immediately preceding the fiscal year of France Telecom in which the cash settlement on the Cash Exchange Settlement Date takes place if the Cash Exchange Settlement Date falls before the Record Date for the Preceding Year Dividend determined as follows:

- (i) if the Preceding Year Dividend has been declared, the fair market value shall be the amount of such dividend declared; and
- (ii) if the Preceding Year Dividend has not yet been declared, such amount as determined by the Expert.

In addition, if:

- (A) the relevant Record Date or other due date for the establishment of the right to receive any dividend (other than Preceding Year Dividend) or other entitlement in relation to the Shares is on or after the date of the Cash Settlement Election Notice; and
- (B) on any Cash Settlement Valuation Date after the Cash Settlement Election Notice, the Shares are traded without the right to receive such dividend (other than Preceding Year Dividend) or entitlement,

then the Volume Weighted Average Price of the Existing Shares on any such Cash Settlement Valuation Date shall be increased by an amount equal to the fair market value of such dividend or entitlement payable in respect of one Share on such day as determined by the Calculation Agent (provided that where options, warrants or other rights are publicly traded in a market which is determined by the Calculation Agent to have adequate liquidity, the fair market value of such options, warrants or other rights shall be equal to the arithmetic mean of the daily closing prices of such options, warrants or other rights during each such Cash Settlement Valuation Date or such shorter period as such options warrants or other rights are publicly traded if they are not traded on all such Cash Settlement Valuation Dates);

“**Cash Settlement Amount**” has the meaning given in Condition 4.5 (*Cash Settlement Alternative*);

“**Cash Settlement Election Notice**” has the meaning given in Condition 4.5 (*Cash Settlement Alternative*);

“**Cash Settlement Valuation Date**” has the meaning given in Condition 4.5 (*Cash Settlement Alternative*);

“**CERA**” has the meaning given in Condition 7.3 (*Consequences of an FT Credit Event*);

“**Certificates**” has the meaning given in Condition 1 (*Form, Denomination and Title*);

“**Closing Price**” means, with respect to a Trading Day on which a Share or any other security, as applicable, is listed on Euronext Paris, the price for such Share or such other security, as applicable, on Euronext Paris at the close of such Trading Day (as published by Euronext Paris). The Closing Price shall be determined by the Calculation Agent, following the advice of the Expert if (i) Euronext Paris’ publication service is discontinued, or (ii) the Shares or the relevant other securities are not listed at the relevant time on Euronext Paris. If the Shares or the relevant other securities, as applicable, are quoted in a currency other than Euro or any currency

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with an irrevocably fixed conversion rate to the Euro, conversions to Euro of the Closing Price of the Shares or the relevant securities, as applicable, will be made at the rate fixed by the European Central Bank (the “**ECB Rate**”) in effect on the relevant Trading Day. For information purposes only, the ECB Rate appears at approximately 12:00 hours (Paris time) on the display designated as “Page ECB37” on Reuters;

“**Credit Event Date**” has the meaning given in Condition 7.3 (*Consequences of an FT Credit Event*);

“**Credit Event Redemption**” has the meaning given in Condition 7.3 (*Consequences of an FT Credit Event*);

“**Current Fiscal Year**” has the meaning given in Condition 8 (*Provisions Relating to Newly Issued Shares to be Delivered*);

“**Denomination**” has the meaning given in Condition 1 (*Form, Denomination and Title*);

“**Dividend**” means in respect of the Shares the amount of any dividend in cash or the fair value of any dividend in kind, without taking into account any tax credit of the per Share dividend approved by the shareholders of France Telecom (the “**Shareholders**”) (or interim dividend decided by the board of directors), irrespective of the existence of any option for the Shareholders to receive such dividend (or interim dividend) in cash or in kind;

“**Dividend Yield**” has the meaning given in Condition 5.2 (*Details of Adjustment Events*);

“**ECB Rate**” has the meaning given in the definition of “**Closing Price**”;

“**Effective Date**” has the meaning given in Condition 5.2 (*Details of Adjustment Events*);

“**EURIBOR 3-month Rate**” has the meaning given in Condition 6 (*Interest*);

“**Euroclear France**” means Euroclear France S.A.;

“**Euronext Paris**” means the regulated market managed by Euronext Paris S.A. For the purposes of these Conditions, except where the context otherwise requires, references to “Euronext Paris” shall, if the Shares or the relevant other securities are not listed on Euronext Paris at the relevant time, be construed as references to such other European Union (as it exists today), United States or Japanese regulated stock exchange or to any other similarly regulated stock exchange on which the Shares or the relevant other securities are so listed at such time, as selected by the Calculation Agent, following the advice of an Expert if there are more than one (with preference to be given to the regulated stock exchange with the highest average trading volume of the Shares or the relevant other securities);

“**Eurozone**” has the meaning given in Condition 6 (*Interest*);

“**Event of Default**” has the meaning given in Condition 13 (*Events of Default*);

“**Exchange Agent**” has the meaning given in the Introduction to these Conditions;

“**Exchange Date**” has the meaning given in Condition 4.4 (*Procedure for Exchange*);

“**Exchange Notice**” has the meaning give in Condition 4.4 (*Procedure for Exchange*);

“**Exchange Period**” has the meaning given in Condition 4.2 (*Exchange Period*);

“**Exchange Price**” means EUR 28.4108 per Newly Issued Share, subject to adjustment in accordance with Condition 5 (*Adjustment Events*);

“**Exchange Ratio**” has the meaning given in Condition 4.1 (*Exchange Right*), and the initial Exchange Ratio is 1759.8941 Shares per Underlying Bond, subject to adjustment in accordance with Condition 5 (*Adjustment Events*);

“**Exchange Right**” has the meaning given in Condition 4.1 (*Exchange Right*);

“**Exchange Right Resumption Notice**” has the meaning given in Condition 4.3 (*Suspension of Exchange Rights*);

“**Exchange Settlement Date**” means the day on which Newly Issued Shares are delivered or transferred to an Underlying Bondholder pursuant to Condition 4 (*Exchange Right*), which shall not be later than 14 Trading Business Days after the relevant Exchange Date;

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“**Exchange Suspension Notice**” has the meaning given in Condition 4.3 (*Suspension of Exchange Rights*);

“**Exchange Suspension Period**” has the meaning given in Condition 4.3 (*Suspension of Exchange Rights*);

“**Ex-Dividend Date**” has the meaning given in Condition 5.2 (*Details of Adjustment Events*);

“**Existing Shares**” means Shares which are already in issue;

“**Expert**” means an internationally recognised financial institution;

“**Fair Market Value**” means with respect to the Underlying Bonds, the fair market value of such Underlying Bonds as determined by the Calculation Agent based on the advice of the Expert taking into account the trading of the Shares, interest rates, the expected future dividends payable and future volatility of the Shares, any amount due to be paid between the date of valuing the fair market value and the relevant payment or settlement date and any other factors considered to be appropriate for consideration by the Expert, including without limitation, the trading of the Underlying Bonds and any other public tradable security linked to the Shares (but, for the avoidance of doubt, disregarding the fact that the Underlying Bonds are to be redeemed hereunder);

“**France Business Day**” means any day, other than a Saturday or a Sunday, on which commercial banks and foreign exchange markets are open for general business in France and on which Euroclear France is open for business;

“**France Telecom**” has the meaning given in the Introduction to these Conditions;

“**FT Arrears of Interest**” means any interest not paid on any interest payment date under the Reference Bond;

“**FT Bankruptcy Event**” means France Telecom:

- (A) is dissolved (other than pursuant to a consolidation, amalgamation or merger);
- (B) becomes insolvent or is unable to pay its debts or fails or admits in writing in a judicial regulatory or administrative proceeding or filing its inability generally to pay its debts as they become due;
- (C) makes a general assignment, arrangement or composition with or for the benefit of its creditors;
- (D) institutes or has instituted against it a proceeding seeking a judgement of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (i) results in a judgement of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (ii) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof;
- (E) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
- (F) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee or other similar official for it or for all or substantially all its assets;
- (G) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter;
- (H) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in (A) to (G) above (inclusive); or

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- (I) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts;

“**FT Credit Event**” means a:

- (A) Reference Bond Default Event;
(B) FT Cross Default Event;
(C) FT Bankruptcy Event; or
(D) FT Restructuring Event;

“**FT Credit Event Notice**” has the meaning given in Condition 6 (*Interest*);

“**FT Cross Default Event**” means, in relation to France Telecom, the occurrence or existence of:

- (A) a default, event of default or other similar condition or event (however described) in respect of France Telecom under one or more agreements or instruments relating to Specified Indebtedness in an aggregate amount of not less than €20,000,000 (or its equivalent in another currency) which has resulted in such Specified Indebtedness becoming, or becoming capable at such time of being declared, due and payable under such agreements or instruments, before it would otherwise have been due and payable, or
(B) a default by France Telecom in making one or more payments on the due date thereof in an aggregate amount of not less than €20,000,000 (or its equivalent in another currency) under such agreements or instruments (after giving effect to any applicable notice requirement or grace period);

“**FT Default Interest**” means the interest that is payable on the FT Arrears of Interest where the amount of such FT Arrears of Interest is due for at least a full year period;

“**FT Liquidation Redemption Notice**” has the meaning given in Condition 7.3 (*Consequences of an FT Credit Event Redemption*);

“**FT Nominal Value Redemption Notice**” has the meaning given in Condition 7.3 (*Consequences of an FT Credit Event Redemption*);

“**FT Placement Redemption Notice**” has the meaning given in Condition 7.3 (*Consequences of an FT Credit Event Redemption*);

“**FT Restructuring Event**” means:

- (i) with respect to the Reference Bond, any one or more of the events in (A) to (F) below occurs in a form that binds all holders of the Reference Bond, is (a) agreed between France Telecom as the issuer of the Reference Bond or a Governmental Authority and a sufficient number of holders of the Reference Bond to bind all holders of the Reference Bond or (b) is announced (or otherwise decreed) by France Telecom as the issuer of the Reference Bond or a Governmental Authority in a form that binds all holders of the Reference Bond, and such event is not expressly provided for under the terms of the Reference Bond in effect as of the issue date of the Reference Bond; and / or
(ii) with respect to the Specified Indebtedness of France Telecom and in relation to an aggregate amount of not less than €20,000,000 (or its equivalent in another currency), any one or more of the events in (A) to (B) below occurs in a form that binds all persons to whom France Telecom owes any Specified Indebtedness, is agreed between France Telecom or a Governmental Authority and a sufficient number of persons to whom France Telecom owes any Specified Indebtedness to bind all persons to whom France Telecom owes any Specified Indebtedness or is announced (or otherwise decreed) by France Telecom or a Governmental Authority in a form that binds persons to whom France Telecom owes any Specified Indebtedness, and such event is not expressly provided for under the terms of the Specified Indebtedness in effect as of the date as of which such Specified Indebtedness is issued or incurred:
(A) a reduction in the rate or amount of interest payable or the amount of the scheduled interest accruals;

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- (B) a reduction in the amount of principal or premium payable at maturity or at scheduled redemption dates;
- (C) a postponement or other deferral of a date or dates for either (i) the payment or accrual of interest or (ii) the payment of principal or premium;
- (D) a change in the ranking in priority of payment of the Reference Bond or any Specified Indebtedness, causing the subordination of such Reference Bond or Specified Indebtedness to any other Specified Indebtedness below its original terms of issue;
- (E) any change in the currency or composition of any payment of interest or principal to any currency which is not a Permitted Currency; or
- (F) any change in the terms of redemption for Shares in the Reference Bonds not contemplated in its original terms.

Notwithstanding (A) to (F) above, none of the following shall constitute an FT Restructuring Event:

- (i) the occurrence of, agreement to or announcement of any of the events described in (A) to (F) above due to an administrative adjustment, accounting adjustment or tax adjustment or other technical adjustment occurring in the ordinary course of business; and
- (ii) the occurrence of, agreement to or announcement of any of the events described in (A) to (F) above in circumstances where such event does not directly or indirectly result from a deterioration in the creditworthiness or financial condition of France Telecom.

The occurrence of, agreement to or announcement of any of the events described at (A) to (F) shall not be an FT Restructuring Event unless the Reference Bond or Specified Indebtedness in respect of any such events is a Multiple Holder Obligation except that this condition does not apply where such occurrence or announcement is binding on each or the only holder of the Reference Bond or Specified Indebtedness without their agreement;

“**Governmental Authority**” means any *de facto* or *de jure* government (or any agency, instrumentality, ministry or department thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of France Telecom or France;

“**Interest Determination Date**” has the meaning given in Condition 6 (*Interest*);

“**Interest Payment Date**” has the meaning given in Condition 6 (*Interest*);

“**Interest Period**” has the meaning given in Condition 6 (*Interest*);

“**Interest Rate**” has the meaning given in Condition 6 (*Interest*);

“**Issue Date**” has the meaning given in the Introduction to these Conditions;

“**Luxembourg**” means the Grand Duchy of Luxembourg;

“**Market Disruption Event**” means the occurrence or existence on any Trading Day of any suspension of or limitation imposed on trading of the Shares on the Euronext Paris or any reference source determined by the Calculation Agent;

“**Maturity Date**” means 5 May 2036;

“**Multiple Holder Obligation**” means any obligation under any Specified Indebtedness that (i) at the time of the event which constitutes an FT Restructuring Event is held by more than three holders of the Reference Bond or (as applicable) persons to whom France Telecom owes any Specified Indebtedness that are not Affiliates of each other and (ii) with respect to which a percentage of holders of the Reference Bond or (as applicable) persons to whom France Telecom owes any Specified Indebtedness (determined pursuant to the terms of the Specified Indebtedness as in effect on the date of such event) at least equal to sixty-six-and-two-thirds is required to consent to the event which constitutes an FT Restructuring Event;

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“**Net Proceeds per Reference Bond**” shall be the Reference Bonds Placement Price per Reference Bond minus (a) the total amount of FT Arrears of Interest and FT Default Interest payable in respect of a Reference Bond up to the date of settlement of the Vendor Bond Placement and (b) minus the amount obtained by dividing all the fees, commissions, costs and expenses incurred in the Vendor Bond Placement by the total number of Reference Bonds included in the Vendor Bond Placement;

“**Newly Issued Shares**” means Shares which are newly issued;

“**No Dividend Resolution**” means in respect of any Shares, a resolution of the shareholders of France Telecom approving a proposal for such issuer not to pay a dividend in respect of the Shares in that fiscal year;

“**Opening Price**” has the meaning given in Condition 5.2 (*Details of Adjustment Events*);

“**Option Commencement Date**” has the meaning given in Condition 4.2 (*Exchange Period*);

“**Permitted Currency**” means (i) the legal tender of any Group of 7 country (or any country that becomes a member of the Group of 7 if such Group of 7 expands its membership) or (ii) the legal tender of any country which, as of the date of such change, is a member of the Organisation for Economic Cooperation and Development and has a local currency long-term debt rating of either AAA or higher assigned to it by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. or any successor to the rating business thereof, Aaa or higher assigned to it by Moody’s Investors Service, Inc. or any successor to the rating business thereof or AAA or higher assigned to it by Fitch Ratings or any successor to the ratings business thereof;

“**Potential Event of Default**” means an event which, with the giving of notice and/or lapse of time and/or the forming of an opinion, would become an Event of Default;

“**Preceding Fiscal Year**” has the meaning given in the definition of “**Cash Settlement Adjustment**”;

“**Preceding Year Dividend**” has the meaning given in the definition of “**Cash Settlement Adjustment**”;

“**Principal Recovery Rate**” means the fraction obtained by dividing (a) the total amount paid or declared by the liquidator of France Telecom to be paid in respect of the Principal Reference Bonds Claims by (b) the total amount of Principal Reference Bonds Claims;

“**Principal Reference Bonds Claims**” means the claims of the holders of the Reference Bonds in respect of the principal payable under Reference Bonds;

“**Proceedings**” has the meaning given to that term in Condition 18.2 (*Jurisdiction*);

“**Record Date**” in respect of an Underlying Bond has the meaning given in Condition 11.1 (*Underlying Bonds*), and, in respect of any other security, in respect of any entitlement to receive any dividend or other distribution declared, paid or made, or any rights granted, the record date or other due date for the establishment of the relevant entitlement;

“**Redemption Settlement Date**” means in respect of any redemption made at the option of the Underlying Issuer, the date specified in the relevant Underlying Issuer Redemption Notice as the date fixed for redemption or, if later, the date of the Share Election Redemption Settlement;

“**Reference Bond**” means *Titres à durée indéterminée remboursables en actions* issued by France Telecom the issuance of which was reserved to Ericsson Credit AB and Nokia OYJ and the terms and conditions of which are set out in the offering circular (*Note d’Opération*) approved by the Commission des Opérations de Bourse (COB) under visa number 03-092 dated 24 February 2003 (available on <http://www.amf-france.org>) listed on Euronext Paris with the following ISIN: FR0000472995;

“**Reference Bond Default Event**” means any default by FT under the Reference Bond;

“**Reference Bond Market Price Rate**” means the fraction obtained by dividing (a) the Net Proceeds per Reference Bond by (b) nominal value of a Reference Bond;

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“**Reference Bond Placement Price**” has the meaning given in Condition 7.3 (*Consequences of an FT Credit Event*);

“**Reference Bond Share Default**” means a default under the Reference Bond in relation to the transfer or delivery of Newly Issued Shares to a holder of the Reference Bond;

“**Reference Bond Share Default Notice**” means a notice from the Underlying Issuer to the Underlying Bondholders that a Reference Bond Share Default has occurred;

“**Register**” has the meaning given in Condition 1 (*Form, Denomination and Title*);

“**Registrar**” has the meaning given in the Introduction to these Conditions;

“**Regulation S**” has the meaning given in Condition 4.4 (*Procedure for Exchange*);

“**Relevant Date**” means, in respect of any Underlying Bond, the date on which payment in respect thereof first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given to the Underlying Bondholders in accordance with Condition 16 (*Notices*) that, upon further presentation of the relevant Certificate being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation;

“**Securities Act**” has the meaning given in Condition 4.4 (*Procedure for Exchange*);

“**Senior Claims**” means the claims of creditors (“**Senior Creditors**”) of France Telecom who are unsubordinated and unsecured creditors of France Telecom;

“**Senior Creditors**” has the meaning given in the definition of “**Senior Claims**”;

“**Senior Recovery Rate**” means the fraction obtained by dividing (a) the total amount paid or declared by the liquidator of France Telecom to be paid in respect of the Senior Claims by (b) the total amount of the Senior Claims;

“**Settlement Date**” means an Exchange Settlement Date or a Redemption Settlement Date or a Cash Exchange Settlement Date;

“**Settlement Disruption**” has the meaning given to that term in Condition 9.1 (*Settlement Disruption*);

“**Share Election Redemption Settlement**” has the meaning given in Condition 7.2 (*Redemption at the Option of the Underlying Issuer*);

“**Shareholders**” has the meaning given in the definition of “**Dividend**”;

“**Share Redemption Settlement Valuation Date**” has the meaning given in Condition 7.2 (*Redemption at the Option of the Underlying Issuer*);

“**Shares**” means fully paid ordinary shares of France Telecom;

“**Specified Indebtedness**” means any obligation (whether present or future, contingent or otherwise, as principal or surety or otherwise) in respect of borrowed money and any obligation to make any payment under a Specified Transaction;

“**Specified Transaction**” means a rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions and any combination of these transactions);

“**Suspension End Date**” has the meaning given in Condition 4.3 (*Suspension of Exchange Rights*);

“**Suspension Start Date**” has the meaning given in Condition 4.3 (*Suspension of Exchange Rights*);

“**TARGET Day**” means a day which the Trans-European Automated Real-Time Gross-Settlement Express Transfer System (TARGET) is open for settlement of payments in Euro;

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“**Tender Offer**” means a cash tender offer or exchange offer which would result in an offer being extended to all securities of France Telecom which grant rights to Shares or voting rights of France Telecom;

“**Trading Business Day**” means a day which is a Business Day and a Trading Day;

“**Trading Day**” means any France Business Day that is a trading day on Euronext Paris other than a day on which it is scheduled to close prior to its regular weekday closing time;

“**Transfer Expenses**” means all costs and expenses of effecting the transfer or delivery of Newly Issued Shares or the Cash Settlement Amount (as the case may be) and any stamp, transfer, registration, issue, documentary or other similar taxes and duties and other stock exchange transaction costs (if any), together with any value added or other tax thereon, arising on the exercise of any Exchange Right and/or the transfer or delivery of Newly Issued Shares and/or cash to, or to the order of, the relevant Underlying Bondholder;

“**Underlying Bondholder**” has the meaning given in Condition 1 (*Form, Denomination and Title*);

“**Underlying Bonds**” has the meaning given in the Introduction to these Conditions;

“**Underlying Issuer**” has the meaning given in the Introduction to these Conditions;

“**Underlying Issuer Adverse Change Notice**” has the meaning given to that term in Condition 7.2 (*Redemption at the Option of the Underlying Issuer*);

“**Underlying Issuer Bond Reduction Notice**” has the meaning given to that term in Condition 7.2 (*Redemption at the Option of the Underlying Issuer*);

“**Underlying Issuer Optional Call Notice**” has the meaning given in Condition 7.2 (*Redemption of the Option of the Underlying Issuer*);

“**Underlying Issuer Redemption Notice**” means any redemption notice given by the Underlying Issuer under Condition 7.2 (*Redemption at the option of the Underlying Issuer*) and Condition 7.3 (*Consequences of a FT Credit Event*);

“**Underlying Issuer Shares Excess Redemption Notice**” has the meaning given to that term in Condition 7.2 (*Redemption at the Option of the Underlying Issuer*);

“**Unpaid Interest**” has the meaning given in Condition 7.3 (*Consequences of an FT Credit Event*);

“**Vendor Bond Placement**” means a placement arranged by the Underlying Issuer in respect of the Reference Bonds (to be made with institutional investors selected in a commercially reasonable manner by the Underlying Issuer with a view to obtaining a fair price for such Reference Bonds) in the principal amount of not less than the outstanding principal amount of the Bonds; and

“**Volume Weighted Average Price**” means, in respect of any specified day, the volume weighted average trading prices for the Shares for that day’s trading then ended as quoted on Euronext Paris and as displayed on Bloomberg “FTE FP Equity AQR AUTO” screen by de-selecting all the codes except “1 Normal” on such day utilising the “Custom” price and not the “Bloomberg” price, displayed on such screen (or, if such page is unavailable as at the relevant time, such other source of publicly available information as the Calculation Agent may determine in its absolute discretion).

19.2 Construction of certain references

In these Conditions, unless otherwise specified or unless the context requires otherwise:

- (A) references to the word “**amendment**” shall be construed to include a supplement, novation or re-enactment, and “**amended**” is to be construed accordingly;
- (B) references to the word “**assets**” shall be construed to include properties, revenues and rights of every kind, present, future and contingent, and whether tangible or intangible;
- (C) references to the words “**authorisation**” or “**consent**” shall be construed to include, without limitation, any authorisation, consent, approval, resolution, licence, exemption, filing, notarisation or registration;

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- (D) references to the word “**company**” shall be construed to include any company, corporation or other body corporate, wherever and however incorporated or established;
- (E) references to the word “**continuing**” shall be construed to include, in relation to an event of default (however defined), not remedied or waived;
- (F) references to the word “**indebtedness**” shall be construed to include any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;
- (G) references to the word “**law**” shall be construed to include common or customary law, principles of equity and any constitution, code of practice, decree, judgement, decision, legislation, order, ordinance, regulation, bye-law, statute, treaty or other legislative measure in any jurisdiction or any present or future directive, regulation, guideline, request, rule or requirement (in each case, whether or not having the force of law but, if not having the force of law, the compliance with which is in accordance with the general practice of persons to whom the directive, regulation, guideline, request, rule or requirement is intended to apply) of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
- (H) references to the word “**month**” shall be construed as a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month, except that if there is no numerically corresponding day in the month in which that period ends, the period shall end on the last Business Day in that calendar month;
- (I) An Underlying Bond shall be considered to be “outstanding” unless one or more of the following events has occurred:
 - (i) it has been redeemed in full, or purchased under Condition 7.4 (*Redemption—Purchases*), and in either case has been cancelled in accordance with Condition 7.5 (*Redemption—Cancellation*);
 - (ii) the due date for its redemption in full has occurred and all sums due in respect of such Underlying Bond (including all accrued interest) are available for payment against presentation and surrender of such Underlying Bond;
 - (iii) all claims for principal and interest in respect of such Underlying Bond have become void under Condition 12 (*Prescription*);
 - (iv) it has been mutilated or defaced, or is alleged to have been lost, stolen or destroyed, and has been replaced pursuant to Condition 15 (*Replacement of Underlying Bonds*); or
 - (v) for the purposes of Condition 14 (*Modification and Waiver*) only, it is held by, or by any person for the benefit of, the Underlying Issuer;

provided, however, that, for the purposes of (i) ascertaining the right to attend and vote at any meeting of Underlying Bondholders and (ii) Condition 14 (Modification and Waiver), those Underlying Bonds (if any) which are for the time being held by any person (including but not limited to the Underlying Issuer or any Subsidiary or Affiliate of the Underlying Issuer) for the benefit of the Underlying Issuer or a Subsidiary or Affiliate of the Underlying Issuer, shall (unless and until ceasing to be so held) be deemed not to remain outstanding.
- (J) references to the word “**person**” shall be construed to include any natural person, firm, company, corporation, undertaking, government, state or agency of a state, any local or municipal authority, trust, any association or partnership (whether or not having separate legal personality) of two or more of the foregoing or other legal entity;
- (K) references to the word “**regulation**” shall be construed to include any regulation, rule, official directive, request or guideline (in each case, whether or not having the force of law but, if not having the force of law, the compliance with which is in accordance with the general practice of persons to whom the regulation, rule, official directive, request or

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guideline is intended to apply) of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;

- (L) references to the word “**rights**” shall be construed to include all rights, title, benefits, powers, privileges, interests, claims, authorities, discretions, remedies, liberties, easements, quasi-easements and appurtenances (in each case, of every kind, present, future and contingent); and
- (M) references to the words “**security**” shall be construed to include any mortgage, charge, pledge, lien, security assignment, hypothecation or trust arrangement for the purpose of providing security and any other encumbrance or security interest of any kind having the effect of securing any obligation of any person (including, without limitation, the deposit of moneys or property with a person with the intention of affording such person a right of set-off or lien) and any other agreement or any other type of arrangement (including, without limitation, title transfer and retention arrangements) having a similar effect.

20. Interpretation

- (A) Words importing the singular shall include the plural and vice versa.
- (B) Unless a contrary indication appears, a reference to any party or person shall be construed as including its and any subsequent successors in title, permitted transferees and permitted assigns, in each case in accordance with their respective interests.
- (C) Unless a contrary indication appears, a reference to a time of day shall be construed as referring to French or English time as appropriate.
- (D) Headings and subheadings are for ease of reference only and shall be ignored in the construction of the Conditions.
- (E) References in these Conditions to (i) “**principal**” shall be deemed to include any premium payable in respect of the Underlying Bonds, and all other amounts in the nature of principal payable pursuant to Condition 7 (*Redemption*) or any amendment or supplement to it and (ii) “**interest**” shall be deemed to include all interest and other amounts payable pursuant to Condition 6 (*Interest*) and any amount in the nature of interest payable pursuant to Condition 7 (*Redemption*).
- (F) Unless a contrary indication appears, references to any provision of any law or regulation are to be construed as referring to that provision as it may have been, or may from time to time be, amended or re-enacted, and as referring to all bye-laws, instruments, orders and regulations for the time being made under or deriving validity from that provision.
- (G) A reference to any document is a reference to that document as amended, restated, supplemented, novated or replaced from time to time.

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DESCRIPTION OF THE UNDERLYING ISSUER

History and Development of the Underlying Issuer

Deutsche Bank Aktiengesellschaft (the “**Bank**”) originated from the reunification of Norddeutsche Bank Aktiengesellschaft, Hamburg, Rheinisch-Westfälische Bank Aktiengesellschaft, Düsseldorf and Süddeutsche Bank Aktiengesellschaft, Munich; pursuant to the Law on the Regional Scope of Credit Institutions, these had been disincorporated in 1952 from the Bank which was founded in 1870. The merger and the name were entered in the Commercial Register of the District Court Frankfurt am Main on 2 May 1957. The Bank is a banking institution and a stock corporation incorporated under the laws of Germany under registration number HRB 30 000. The Bank has its registered office in Frankfurt am Main, Germany. It maintains its head office at Taunusanlage 12, 60325 Frankfurt am Main (telephone: +49-69-910-00) and branch offices in Germany and abroad including in London, New York, Sydney, Tokyo and an Asia-Pacific Head Office in Singapore which serve as hubs for its operations in the respective regions. The Bank, acting through its London branch (Deutsche Bank AG, London Branch) is the Underlying Issuer. Deutsche Bank AG, London Branch is registered as a foreign company in England and Wales.

The Bank is the parent company of a group consisting of banks, capital market companies, fund management companies, a property finance company, instalment financing companies, research and consultancy companies and other domestic and foreign companies.

The objects of the Bank, as laid down in its Articles of Association, include the transaction of all kinds of banking business, the provision of financial and other services and the promotion of international economic relations. The Bank may realise these objectives itself or through subsidiaries and affiliated companies. To the extent permitted by law, the Bank is entitled to transact all business and to take all steps which appear likely to promote the objectives of the Bank, in particular: to acquire and dispose of real estate, to establish branches at home and abroad, to acquire, administer and dispose of participations in other enterprises, and to conclude enterprise agreements.

The Bank operates through three group divisions:

The **Corporate and Investment Bank** comprises the following businesses:

- (i) **Global Markets** comprises all origination, sales, trading and research in securities.
- (ii) **Global Banking** handles all financial requirements of companies including loans, M&A advisory services, trade and export finance and cash management services.

Private Clients and Asset Management comprises the following businesses:

- (i) **Private & Business Clients** serves private and business clients in seven countries in Europe and provides them with comprehensive and integrated financial solutions both for their private and business requirements.
- (ii) **Private Wealth Management** pursues an integrated holistic business model to cater for the complex needs of high net worth clients, their families and selected institutions.
- (iii) **Asset Management** combines asset management for institutional clients and private investors. It offers products in equities, bonds and real estate.

Corporate Investments covers the Bank’s industrial shareholdings, other holdings and Bank-occupied real estate assets, private equity and venture capital activities.

Selected Financial Information

As of 31 December 2005, the issued share capital of the Bank amounted to Euro 1,419,610,291.20 consisting of 554,535,270 ordinary shares without par values. The shares are fully paid up and in registered form. They are listed on all German stock exchanges as well as on the Stock Exchanges in Amsterdam, Brussels, London, Luxembourg, New York, Paris, Tokyo, Vienna and Zurich.

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OVERVIEW OF FRANCE TELECOM AND THE SHARES

The information contained in this Offering Circular relating to France Telecom and the Shares has been extracted and reproduced from, or is a summary of, publicly available information published by France Telecom on its website (www.francetelecom.com) and/or filed by France Telecom with the United States Securities and Exchange Commission (“**SEC filings**”) (www.sec.gov) and/or filed by France Telecom with the *Autorité des Marchés Financiers* (www.amf-france.org) and, in the case of the share prices set out in section 5 below, published by Bloomberg.

The Issuer accepts responsibility for the accuracy of such extraction and reproduction or, as the case may be, summary of such information but accepts no further or other responsibility in respect of such information.

Defined terms used in this section may be different from those used elsewhere in this Offering Circular and should be read as defined in the English translation of the *2005 Document de Référence* which was filed with the *Autorité des Marchés Financiers* on 10 March 2006 (the “*2005 Document de Référence*”).

The *2005 Document de Référence*, the *2004 Document de Référence* which was filed with the *Autorité des Marchés Financiers* on 2 March 2005 (the “*2004 Document de Référence*”), the Annual Report for the fiscal year ended 31 December 2004 (the “**2004 Annual Report**”), the Annual Report for the fiscal year ended 31 December 2003 (the “**2003 Annual Report**”), press releases, financial statements and the SEC filings may be found on its website: <http://www.francetelecom.com/en/financials/investors/index.html>.

1. France Telecom S.A.

France Telecom S.A. was incorporated as a French *société anonyme* on 31 December 1996 for a lifetime of 99 years from that date. Barring early liquidation or extension, the company will expire on 31 December 2095.

France Telecom, which was formerly part of the French Postal and Telecommunications Ministry, was formed as a public operator on 1 January 1991. Having become a *société anonyme* pursuant to French law No. 96-660 of 26 July 1996, France Telecom S.A. is governed by French corporate law, subject to specific laws governing the Company, particularly French law No. 90-568 of 2 July 1990 relating to the organization of public postal and telecommunications services, as amended by French law No. 96-660 of 26 July 1996 and by French law No. 2003-1365 of 31 December 2003. France Telecom is also regulated by its by-laws.

The transfer from the public sector to the private sector of France Telecom, authorized by decree No. 2004-387 of 3 May 2004 issued pursuant to French law No. 2003-1365 of 31 December 2003, took place on 7 September 2004 following the sale by the French state of 10.85 per cent. of France Telecom share capital.

France Telecom’s monopoly terminated on 1 June 1998. Since the implementation of the French law of 31 December 2003, the provisions relating exclusively to France Telecom have ceased to apply. France Telecom is also subject to obligations stipulated by the legislation governing state-owned companies.

The France Télécom group, with its principal subsidiaries Orange, Amena (the Spanish mobile operator acquired in November 2005), TP Group (the Polish telecommunications operator TP S.A. and its subsidiaries), Equant, and the PagesJaunes Group, offers its consumers, business customers, and other telecommunications operators a broad selection of services covering fixed-line and mobile telephony, data transmission, Internet and multimedia services and other value-added services.

As at the date of the *2005 Document de Référence* France Télécom provides services to close to 145 million customers.

France Telecom’s shares have been listed on the Eurolist (formerly the *Premier Marché*) of Euronext Paris S.A. (ISIN code: FR0000133308) since 20 October 1997 when the French State sold 25 per cent. of its shares to the public and France Telecom employees. Prior to that date, there was no public trading market for the shares. The shares are included in the “CAC 40 Index,” a widely followed index of 40 major stocks. The shares are also listed on the New York Stock Exchange (“**NYSE**”) in the form of American Depository Shares (“**ADSs**”) under the symbol “FTE” (Code 35177Q10). BNP

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Paribas holds the share registry for France Telecom and the Bank of New York acts as depository for the ADSs.

France Telecom's registered office is located at 6, place d'Alleray, Paris 75055 France.

France Télécom set up the following four business segments in order to reflect the Group's development and the structure of its business, starting from 1 January 2005:

- the “**Personal Communication Services**” segment groups together the mobile telecommunications businesses in France, the United Kingdom, Spain, Poland, and the Rest of the World. It also includes all the Orange and Amena subsidiaries, as well as the mobile telephony businesses of TP Group (with its subsidiary PTK Centertel) and other companies in the Group internationally;
- the “**Home Communication Services**” segment groups together the fixed-line telecommunications service businesses (fixed-line telephony, Internet, services, services to operators) and the distribution activities and support functions provided to other business segments of the France Télécom group. It corresponds to the activities previously included in the segment “Fixed Line, Distribution, Networks, Large Customers and Operators” segment (not including business services in France) and in the Wanadoo subsidiary, as well as the fixed-line telephony and the Internet businesses of TP Group and other companies in the Group internationally;
- the “**Enterprise Communication Services**” segment groups together communications services for companies in France and services for companies worldwide. It groups together the business services in France previously included in the “Fixed Line, Distribution, Networks, Large Customers and Operators” segment, as well as worldwide services (the Equant subsidiary's activities); and
- the “**Directories**” segment includes the PagesJaunes Group business previously included in the Wanadoo subsidiary.

The Group has six geographic segments, including the four main geographic markets (France, the United Kingdom, Poland and Spain), Other European countries and the Rest of the World.

2. France Telecom shares

2.1 Share capital

As of 31 December 2005, the capital of France Telecom amounted to 10,412,239,188 euros divided into 2,603,059,797 fully paid up shares each with a par value of 4 euros. At 31 December 2005, the French State owned directly, and indirectly through ERAP, 32.45 per cent. of France Telecom's share capital.

2.2 Shareholders meetings and voting rights

Shareholders' meetings are composed of all shareholders whose shares are paid up and have been registered in an account prior to the date of the meeting.

Ordinary Shareholders' Meeting

Ordinary shareholders' meetings are those meetings called to make any and all decisions that do not amend the by-laws. An ordinary meeting shall be convened at least once a year within six months of the end of each financial year in order to approve the annual and consolidated accounts for the year in question or, in case of postponement, within the period established by court order.

On the first convocation, the meeting may validly deliberate only if the shareholders present or represented by proxy or voting by mail represent at least one-quarter of the shares entitled to vote. Upon the second convocation, no quorum is required. Decisions are made by a majority of votes held by the shareholders present, represented by proxy, or voting by mail.

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Extraordinary Shareholders' Meeting

Only the extraordinary shareholders' meeting is authorised to amend any and all provisions of the by-laws. It may not, however, increase shareholder commitments, except for properly executed transactions resulting from a share consolidation.

Subject to the legal provisions governing capital increases from reserves, profits or share premiums, the deliberations of the extraordinary meeting shall be valid only if the shareholders present, represented by proxy or voting by mail represent at least one-third of all shares entitled to vote when convened for the first time, or one-fourth when convened for the second time. If the latter quorum is not reached, the second meeting may be postponed to a date no later than two months after the date for which it was called.

Subject to the same condition, the second meeting shall make decisions by a two-thirds majority of the shareholders present, represented by proxy, or voting by mail.

Conditions for exercising voting rights

In all shareholders' meetings, each shareholder who is participating at such meetings has the same number of votes as shares held or represented, with no further limitations other than those stipulated by law. There is no clause in the by-laws for double or multiple voting rights for France Telecom S.A. shareholders.

Representation of Non-French Residents

A shareholder who is not a French resident may be represented at a shareholders' meeting by an intermediary under the name of which he or she is registered and who is acting on his or her behalf if:

- the registration of such intermediary, in the form of a collective account or in several individual accounts, has been made with France Telecom's accredited account administrator;
- such intermediary has declared, when opening one or several accounts with the accredited account administrator, that it is an intermediary holding shares on someone's behalf, under conditions imposed by law; and
- such intermediary represents that, upon France Telecom's or the accredited account administrator's request, it will disclose the identity of the non-resident holders of the shares whose voting rights are exercised.

An intermediary who complies with the above-mentioned requirements may transmit the relevant proxies pertaining to the shares for which they have received a general power of attorney. However, such voting rights or proxies will not be taken into account if the intermediary has not registered or has not disclosed the identity of the non-resident holders of the shares for whom such voting rights or proxies are exercised.

Documents on Display

France Telecom is subject to the informational requirements of the Exchange Act, and files periodic reports and other information with the Commission. These documents are available from the internet site that the Commission maintains (www.sec.gov). Corporate documents that are made available to shareholders as required by applicable law may be read at France Telecom's offices at 208, rue Raymond Losserand, 75014 Paris, France, Department of Legal and Fiscal Affairs.

2.3 The shares and transfer of shares

France Telecom's by-laws provide that its shares may at the shareholder's option be held either (i) in bearer form and recorded in its name in an account maintained by an accredited financial intermediary, such as a French broker, bank or other authorised financial institution or (ii) in registered form in its name in an account maintained by a financial intermediary acting for France Telecom and on its behalf. It may, at its expense, change from one form of holding to the other.

Shares are freely negotiable, subject to applicable legal and regulatory provisions. They shall be registered in a share account and are transferred by means of a transfer order from account to account.

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2.4 Holdings of shares and identification of shareholders

In accordance with the provisions of the French Monetary and Financial Code (*Code monétaire et financier*) concerning dematerialization of securities, shareholders' ownership rights are represented by book entries instead of share certificates. France Telecom maintains a share account with Euroclear France S.A. for all shares in registered form, which is administered by BNP Paribas. In addition, France Telecom maintains separate accounts in the name of each shareholder either directly or, at a shareholder's request, through the shareholder's accredited intermediary. Each shareholder account shows the name of the holder and the number of shares held and, in the case of shares held through an accredited intermediary, the shareholder account shows that they are so held. France Telecom S.A. is also entitled, with respect to shares in registered form, to request at any time from the intermediary registered on behalf of the owners of the shares residing abroad to disclose the identity of the holders of such shares. BNP Paribas, as a matter of course, issues confirmations (*attestation d'inscriptions en compte*) to each registered shareholder as to shares registered in the shareholder's account, but these confirmations are not documents of title.

Shares held in bearer form are held on the shareholder's behalf in an account maintained by an accredited intermediary and are registered in an account, which the accredited intermediary maintains with Euroclear France S.A. That account is separate from France Telecom's share account with Euroclear France S.A. Each accredited intermediary maintains a record of shares held through it and will issue certificates of registration for the shares that it holds. Shares held in bearer form may only be transferred through accredited intermediaries and Euroclear France S.A.

France Telecom S.A. may at any time, including by request to the central depository that operates the account for issuance of its securities, use all statutory or regulatory provisions that allow it to identify holders of securities that confer immediate or future voting rights in its shareholders' meetings, and to obtain information about the number of securities held by each of them and any restrictions that might be attached to the securities; this identification concerns in particular the holders of similar securities outside French territory.

France Telecom S.A. is also entitled, with respect to shares in registered form, to request at any time that the intermediary registered on behalf of the owners of the shares residing abroad disclose the identity of the owners of such shares.

2.5 Ownership of shares by non-French persons

Under the French Commercial Code, there is no limitation on the right of non-residents or non-French shareholders to own or, where applicable, to vote securities of a French company.

Under French law, there is no limitation on the right of non-residents or non-French shareholders to own or, where applicable, to vote securities of a French company.

Under the French Monetary and Financial Code as implemented by Decree no. 2003-196 dated 7 March 2003, a person who is not a resident of the European Union ("EU") is not required to obtain a prior authorisation (*autorisation préalable*), before acquiring a controlling interest in a French company (with exceptions regarding certain sensitive economic areas, such as defence, public health, etc.). However, both EU and non-EU residents must file an administrative notice (*déclaration administrative*), with French authorities in connection with the acquisition of a controlling interest in any French company. Under existing administrative rulings, ownership of 20 per cent. or more of a listed company's share capital is regarded as a controlling interest, but a lower percentage may be held to be a controlling interest in certain circumstances (depending upon such factors as the acquiring party's intentions, its ability to elect directors or financial reliance by the French company on the acquiring party).

2.6 Liquidation and dissolution

As stated above, France Telecom S.A. was incorporated for a duration of 99 years from 31 December 1996. Barring early liquidation or extension, the Company will expire on 31 December 2095.

If France Telecom is liquidated, any assets remaining after payment of France Telecom's debts, liquidation expenses and all of France Telecom's remaining obligations will be distributed first to repay

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in full the nominal value of France Telecom's shares. Any surplus will be distributed pro rata among shareholders in proportion to the nominal value of their shareholdings.

2.7 Purchase by France Telecom S.A. of its own shares

The board of directors may, within the limits and conditions set by law, purchase France Telecom S.A. shares on the market.

Under COB Regulation no.90-04, as amended, France Telecom may not trade in its shares for the purpose of manipulating the market and trading should under no circumstance aim at hindering the regular functioning of the market or misleading third parties.

In its nineteenth resolution, the combined ordinary and extraordinary shareholders' meeting held on 22 April 2005 authorised the board of directors, with powers to sub-delegate in accordance with the provisions of the law, to repurchase shares of France Telecom S.A. up to a limit of 10 per cent. of the share capital, for a period of 18 months ending on 22 October 2006. This resolution terminated the unused portion of the authorisation to repurchase shares granted by the shareholders' meeting of 9 April 2004, as amended by the shareholders' meeting of 1 September 2004.

This share repurchase program was made public in an information memorandum ("*note d'information*") which received visa no. 05-220 from the *Autorité des marchés financiers* on 6 April 2005. It is consistent with European regulations applying the European "Market Abuse" directive relating to share repurchases (which entered into force on 13 October 2004).

According to the terms of this program, the maximum purchase price may not exceed €40 per share, while the minimum sale price may be no less than €14.50 per share.

Within the framework of the previous program granted by the shareholders' meeting of 9 April 2004, on 6 December 2004 France Telecom repurchased 34 shares to meet the request for anticipated conversion of two France Telecom 4 per cent. bonds due 29 November 2005. France Telecom did not repurchase any other shares pursuant to this program during 2004 and therefore held none of its own shares at 31 December 2004.

2.8 Preemptive rights

According to the French Commercial Code, if France Telecom issues new shares or other securities giving a right, directly or indirectly, to new shares issued for cash, current shareholders will have preemptive subscription rights to these securities on a pro rata basis. These preemptive rights require France Telecom to give priority treatment to those shareholders. During the subscription period relating to a particular offering of shares, shareholders may transfer their preferential subscription rights, if they have not previously waived these rights. These rights may also be listed on the Euronext Paris S.A. or any relevant stock exchange. A two-thirds majority of the shares entitled to vote at an extraordinary general meeting may vote to waive preemptive subscription rights with respect to any particular offering.

Holders of France Telecom's American Depositary Shares ("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. However, holders of France Telecom's ADSs or U.S. resident shareholders may not be able to exercise these preemption 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.

Since 1998, the shareholders' meeting of France Telecom has authorized the Board of Directors to increase the share capital of France Telecom, including in cases of tender or exchange offers, through the issuance of shares or other securities for a maximum total nominal amount. These shares and securities may be issued, at the discretion of the Board of Directors, with or without preemptive subscription rights. If there are no shareholders' preemptive subscription rights, a priority period may be granted to existing shareholders.

Pursuant to the Combined Ordinary and Extraordinary Shareholders' Meeting of France Telecom held on 22 April 2005, the Board of Directors has the authority, for a period of 26 months, to issue, with or without preferred subscription rights for shareholders, ordinary shares and securities giving access via any and all means, immediately or in the future, to existing shares or shares to be

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issued of the Company or one of its subsidiaries, including in the event of a public exchange offer initiated by the Company.

The same shareholders' meeting voted to renew the delegation granted to the Board of Directors by the Shareholders' Meeting of September 1, 2004 to issue shares reserved for those holders of shares or stock options of Orange that have signed liquidity contracts with the Company. The Board was also authorized to issue, without consideration, Options Liquidity Instruments reserved for holders of Orange share subscription options covered by liquidity contracts.

The maximum nominal amount of capital increases that may be carried out, immediate or future, under these authorizations was capped at 8 billion euros.

2.9 Control of France Telecom

As of 31 December 2005, the French State owned directly and indirectly through ERAP, 32.45 per cent. of France Telecom's share capital.

Until the adoption of French law no. 2003-1365 of 31 December 2003 and decree no. 2004-387 of 3 May 2004, the French State was required to hold, directly or indirectly, more than half of the share capital of France Telecom. In this context, France Telecom S.A. was subject to various State control procedures. Moreover, the France Telecom statutory auditors were appointed by decree and the membership of the Board of Directors was subject to specific rules.

Following the transfer by the French State of 10.85 per cent. of the share capital of France Telecom S.A. on 7 September 2004, those specific procedures no longer apply. Nevertheless, pursuant to the Decree-Law of 30 October 1935, the Board of Directors must still include representatives of the French State pro rata to the number of France Telecom shares held by the State.

At 31 December 2005, the State directly or indirectly held 32.45 per cent. of France Telecom's capital and voting rights and had as a consequence 4 representatives out of a total of 15 members on the France Telecom Board of Directors.

In addition, the French State, by virtue of being the principal shareholder, can in practice (given the low level of participation in shareholders' meetings and the absence of other significant shareholding blocks) determine the outcome of the shareholders' vote for the election of directors and, more generally, for any issue put to a vote at a shareholders' meeting.

To the best of France Telecom's knowledge, there are no agreements which, if implemented at a later date, could entail a change in its control.

2.10 Disclosure of principal shareholders

In addition to the legal obligation to report to France Telecom S.A. and the AMF when the thresholds of 5 per cent., 10 per cent., 20 per cent., 33⅓ per cent., 50 per cent. and 66⅔ per cent. of the share capital or voting rights are crossed, any individual or legal entity, acting alone or in concert with others, that acquires, directly or indirectly (as defined by Articles L. 233-7 *et seq.* of the French Commercial Code) a number of shares, voting rights or securities representing shares equal to 0.5 per cent. of the share capital or voting rights in France Telecom S.A., must report the total number holding of such shares, voting rights or securities giving rights to the share capital that such person or entity holds via registered mail with return receipt to France Telecom S.A. within five trading days after registration of the securities which enabled the holder to reach or cross the threshold.

This declaration must be repeated in accordance with the conditions indicated above each time a new 0.5 per cent. threshold is reached or crossed, whether crossing above or below, for any reason whatsoever, including beyond the 5 per cent. threshold.

3. Securities giving access to share capital

As at 31 December 2004, the maximum potential dilution that may result from the conversion of the perpetual notes redeemable for France Telecom S.A. shares issued in March of 2003, the bonds convertible or exchangeable into new or existing shares of France Telecom S.A. issued in September 2004 and the stock options granted by Wanadoo, which were assumed by France Telecom S.A., is 6.97 per cent. of share capital and voting rights based on the number of shares comprising the share capital of France Telecom S.A. at 31 December 2004. Taking into account the stock options

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issued by Orange, the maximum potential dilution at 31 December 2004 is 8.49 per cent. of share capital and voting rights.

3.1 Bonds convertible into new France Telecom S.A. shares—November 1998

In November 1998, France Telecom S.A. issued, at par, 2,538,543 bonds convertible into France Telecom S.A. shares, with a nominal value of €800.05, amounting to a total value of €2,031 million. The bonds were convertible between 7 December 1999 and 1 January 2004, based on an initial ratio of 10 shares per bond which became 12.17 shares per bond on 31 December 2003, following the changes in the share capital of France Telecom S.A.

The bonds were listed for trading on the *Premier marché* of Euronext Paris S.A. This transaction was the subject of an information memorandum (“*note d’information*”) which received a visa (no. 98-943) from the *Commission des opérations de bourse* on 28 November 1998.

These bonds reached maturity on 1 January 2004 and were delisted at the close of trading on 31 December 2003. The holders had a period of three months, until 31 March 2004, to request conversion or reimbursement at par. At that date, 81 additional bonds were presented for conversion, resulting in the creation of 987 France Telecom S.A. shares. All of the remaining bonds were reimbursed at par.

3.2 Bonds exchangeable for existing France Telecom S.A. shares—November 2001

France Telecom S.A. issued on November 29 2001, 3,492,000 bonds exchangeable for existing France Telecom S.A. shares, with a nominal value of €1,000 per bond, for a total amount of €3,492,000,000 maturing on 29 November 2005.

Each bond entitled the holder to exercise, at any time on or after 29 November 2001, an option to exchange the bonds for existing France Telecom S.A. shares. These exchangeable bonds were listed on the Luxembourg Stock Exchange.

On 8 November 2004, France Telecom S.A. announced its intention to reimburse at par the 2,843,000 bonds still outstanding. Holders of such bonds had until 2 December 2004, to exercise their right to exchange the bonds at a ratio of 17.2944 shares per bond. Two bonds were exchanged resulting in the delivery to their holder of 34 shares of France Telecom S.A. The remaining bonds were reimbursed on 13 December 2004 at par, together with accrued interest, for a price of €1,001.53 each.

3.3 Perpetual notes redeemable for new France Telecom S.A. shares

In the context of the settlement of various disputes related to the German mobile telephone service provider MobilCom Holding GmbH (“**MobilCom**”), in which France Telecom S.A. holds 28.3 per cent. of the capital, France Telecom entered into three agreements on 30 November 2002 (the “**Assignment and Subscription Agreements**”) with certain creditors of MobilCom that had granted it loans or credit facilities, i.e., (i) the members of the Senior Interim Facility banking syndicate, (ii) Ericsson Credit AB and (iii) Nokia OYJ.

Pursuant to these agreements, the Combined Ordinary and Extraordinary Shareholders’ Meeting held on 25 February 2003 authorized the Board of Directors, with powers to sub-delegate in accordance with the provisions of the law, to issue perpetual bonds redeemable for France Telecom S.A. shares (“**TDIRA**”) reserved for the members of the Senior Interim Facility banking syndicate and for Ericsson Credit AB and Nokia OYJ.

On 3 March 2003, the Chairman of the Board of Directors, pursuant to a delegation of authority from the Board of Directors on 25 February 2003, issued at par 430,705 TDIRAs, with a nominal value of 14,100 euros each, for a total value of 6,072,940,500 euros:

- 341,910 TDIRAs were reserved for the members of the Senior Interim Facility banking syndicate (“**Bank Tranche**”); and
- 88,795 TDIRAs were reserved for Ericsson Credit AB and Nokia OYJ (“**Supplier Tranche**”).

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With the exception of the adjustment mechanisms for the redemption ratio, the TDIRAs of both the Bank Tranche and the Supplier Tranche have identical features. However, because they cannot be assimilated, these notes are listed for trading as two separate issues on the Eurolist (international compartment) Euronext Paris S.A. The listing of these notes was described in a prospectus approved by the *Commission des opérations de bourse* with specific warnings on 24 February 2003 under no. 03-092. This document is available on the AMF website www.amf-france.org and the Company's website at www.francetelecom.com.

The TDIRAs may be redeemed for new shares of France Telecom stock at any time at the initiative of the holders or, at the initiative of France Telecom as of 3 March 2010 if the average closing price for 20 consecutive trading days, chosen among 40 trading days during which the stock is listed, is greater than 125 per cent. of the redemption price.

After adjustment of the initial parity of 300 shares per TDIRA in April 2003, May 2004 and September 2005 to take into account France Telecom capital increases and premium distributions, the TDIRAs may be redeemed at a ratio of 364.4437 shares for one TDIRA with a nominal value of 14,100 euros for the Bank Tranche and 356.9513 shares for one TDIRA with a face value of 14,100 euros for the Supplier Tranche. This rate will be adjusted to protect the rights of the holders according to applicable law. In addition, during the first seven years, the redemption rate for the TDIRAs allocated to the members of the banking syndicate will be adjusted to compensate for any dividend distribution, if those distributions have not been otherwise taken into account through another adjustment.

The TDIRAs have an initial interest rate of 5.75 per cent. from their issuance date until 31 December 2009 inclusive, and will be indexed to Euribor plus 3 per cent. thereafter. These two rates were revised downwards from 2 January 2006, to 5.25 per cent. until 31 December 2009, and 3-month Euribor plus 2.5 per cent. thereafter because France Telecom's respective debt ratings with Moody's and Standard and Poor's were upgraded to Baa1 and BBB+ and because France Telecom fulfilled the share price conditions as defined in the contract, with the average, weighted according to the total share transaction volume, of the daily weighted average stock market price for 20 consecutive trading days exceeding 30/47ths of the redemption price in force, i.e. 24.77 euros for the Bank Tranche and 25.19 euros for the Supplier Tranche.

Where no dividend payment is voted in the Shareholders' Meeting or no interim dividend payment is paid by the Board of Directors during the 12 months preceding the coupon payment date, France Telecom can delay the payment of the coupon. Such deferred interest will itself accrue interest based on the Euribor 12-month rate until the deferred payments are made. This deferred interest must be paid in full—including the related accrued interest—at the date of payment of the coupon following any decision to pay a dividend or interim dividend and before the redemption of the TDIRA. The interest is recorded on an annual basis in a statement of income. The interest accrued and/or capitalised, for which payment has been deferred, appears under liabilities as "interest accrued".

Based on the purchases made by France Telecom S.A. in 2003, 2004 and 2005, 347,918 TDIRAs remained outstanding on 31 December 2005.

- 260,896 TDIRAs from the Bank Tranche, redeemable (subject to possible adjustments in the redemption ratio) for 95,081,903 new France Telecom shares; and
- 87,022 TDIRAs from the Supplier Tranche, redeemable (subject to possible adjustments in the redemption ratio) for 31,062,616 new France Telecom shares.

3.4 Bonds convertible and/or exchangeable into new or existing shares of France Telecom S.A.— September 2004

Further to a resolution of the Board of Directors of 1 September 2004 and the decisions of the Chief Executive Officer on 1 and 2 September 2004, France Telecom S.A. issued 445,564 bonds convertible and/or exchangeable for new existing France Telecom S.A. shares maturing on 1 January 2009, with a nominal value of 2,581 euros per bond, for a total amount of 1,150,000,684 euros.

Each bond bears interest at the rate of 1.60 per cent. per annum and gives the holder the right to demand, at any time on or after 20 October 2004 and until the seventh business day preceding the normal or early redemption date, the allotment of France Telecom shares in the ratio of 100.297 shares

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per bond; the initial parity of 100 France Telecom shares per bond was adjusted following the capital increase of September 2005.

France Telecom S.A. may at its discretion remit new shares or existing shares, or a combination of the two.

The bonds are listed on the Eurolist of Euronext Paris S.A. under the ISIN code FR0010113357.

All of the bonds were still outstanding at 31 December 2005.

3.5 Options to subscribe for and purchase shares

France Telecom S.A. had not implemented any share subscription and/or purchase plans. However, within the framework of the mixed public offer relating to Wanadoo shares that was authorized by the *Autorité des marchés financiers* on 9 March 2004, France Telecom S.A. undertook to ensure the liquidity of shares resulting from the exercise of the share subscription options of Wanadoo that were not contributed to the offer, according to a Wanadoo share valuation mechanism based on the exchange ratio for the offer (seven France Telecom shares for eighteen Wanadoo shares).

This undertaking, which was effective as of the closing of the offer on 19 April 2004 resulted, upon the merger of Wanadoo S.A. and France Telecom S.A. on 1 September 2004, in the assumption by France Telecom S.A. of Wanadoo's commitments to holders of Wanadoo share options at a ratio of seven France Telecom shares for eighteen Wanadoo, shares subject to any additional adjustments that may occur following future financial operations. At 31 December 2004, 10,285,794 options were outstanding with a weighted average exercise price of €19.71.

In addition, upon completion of the tender offer followed by a compulsory purchase of the shares of Orange, France Telecom S.A. offered Orange stock option holders and holders of Orange shares obtained upon exercise of stock options following the offer, the possibility of entering into a liquidity contract.

The Orange shares covered by the liquidity contract are automatically transferred to France Telecom S.A. either upon the exercise by the holder of their related options or at the end of the lock-up period in respect of the options that had already been exercised. The shares are exchanged on the basis of the exchange ratio existing during the public exchange offer adjusted where necessary on the basis of changes to the share capital or shareholders' equity of France Telecom as described in the liquidity contract, pursuant to standard practices, i.e. 0.445 France Telecom shares for one Orange share at 31 December 2004.

In consideration for the Orange shares, France Telecom may choose to remit (i) new or existing France Telecom shares; (ii) a cash payment equal to the value of the corresponding number of France Telecom shares on the basis of the exchange rate ratio such that the value is determined by reference to the average trading rate of France Telecom shares over the twenty trading days preceding the implementation of the transfer of Orange shares, in accordance with the terms of the liquidity contract, or (iii) a combination of cash and shares. At 31 December 2004, 98,938,143 Orange options were outstanding with a weighted average exercise price of €8.77.

4. Listings, Ticker Symbols

The principal trading market for France Telecom's shares is Euronext Paris S.A., where the shares have been traded since 20 October 1997. Prior to that date, there was no public trading market for the shares. The shares in the form of American Depositary Shares are also listed on the New York Stock Exchange.

Tickers

Euronext Paris S.A.	FTE
NYSE	FTE
Reuters	FTE.PA
Reuters (ADS)	FTE.N
Bloomberg	FTE FP
Bloomberg (ADS)	FTE US
ISIN	FR0000133308
ISIN (ADS)	LI535177Q1058

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5. Share Price

	2006	2005	2004	2003	2002
Closing Price (€)*	18.63	20.99	24.27	22.58	14.39
High (€)**	21.87	25.73	24.79	24.16	40.68
Low (€)**	17.81	20.44	18.56	15.06	5.99

* The 2006 Closing Price is the price France Telecom shares closed at on 2 May 2006. For the years from and including 2002 to and including 2005 the Closing Price is the price that France Telecom's shares closed at on 31 December of the relevant year or on the last day of trading of the relevant year.

** The High and Low prices are the highest and lowest prices France Telecom shares closed at in each year other than in the 2006 High and Low prices which are the highest and lowest prices France Telecom shares closed at during the period from 1 January 2006 to and including 2 May 2006.

The information above was obtained from Bloomberg.

6. Dividends

6.1 Dividend history

In 2004, France Telecom made a distribution of 0.48 euro per share. For the 2005 financial year, the Board of Directors decided at its meeting on 13 February 2006 to recommend to the Ordinary Shareholders' Meeting a dividend of 1 euro per share. At its meeting on 8 March 2006, the Board of Directors decided to submit a proposal at the general meeting for the dividend to be paid out on 10 May 2006.

For the following financial years, future dividends should increase based on the growth in organic cash flow and sector practices, with the objective of distributing an amount between 40 per cent. and 45 per cent. of organic cash flow. In this respect, the Board of Directors has indicated that it is contemplating to propose the distribution of a dividend of 1.20 euros per share for the 2006 financial year. Future dividends will depend on France Telecom's ability to generate profits, its financial position, and on any other factor deemed relevant by the Board of Directors.

Dividends distributed over the last three years (excluding dividend tax credit (avoir fiscal))

Dividend for Financial Year	Dividend per share (in €)	Total dividend (in €)
2002	—	—
2003	0.25	600,579,207 ⁽²⁾
2004	0.48	1,184,320,044
2005	1.00 ⁽¹⁾	2,603,059,797 ⁽³⁾

(1) Excluding distributions relating to the shares to be issued consideration for the contribution of Wanadoo shares.

(2) Subject to the approval of the Annual Shareholders' Meeting.

(3) On the basis of the number of shares at 31 December 2005.

Payment of dividends is assured by Euroclear France.

Dividends not claimed within five years of the date of payment revert to the French State.

On 3 March 2003, France Telecom S.A. issued two tranches of perpetual notes redeemable for shares (TDIRAs). If no dividend has been approved by the shareholders or if no interim dividend has been decided by the Board of Directors for a period of 12 months prior to a scheduled interest payment date, France Telecom has the right to postpone the payment of interest due on that date. Interest thus deferred will itself bear interest at the Euribor 12-month rate. This deferred interest must be paid in full, including the related accrued interest, on the payment date following any decision to pay a dividend or interim dividend and before the redemption of the TDIRA.

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6.2 Restriction regarding the distribution of dividends

At least 5 per cent. of the earnings for the financial year less prior losses, if any, is set aside to fund the legal reserve. This withdrawal ceases to be mandatory when the reserve reaches one-tenth of the share capital; it resumes when, for any reason, the legal reserve falls below this one-tenth figure.

Distributable profits consist of the profits for the year, less prior losses, plus the amounts to be placed in reserves as required by law or the by-laws, plus retained earnings. The shareholders' meeting may withdraw from these earnings any sums it deems appropriate to allocate to any optional reserves or to carry forward to the next financial year.

Moreover, the shareholders' meeting may decide to distribute sums taken from reserves at its disposal, expressly indicating the reserve items from which such withdrawals are made. However, dividends shall first be taken from the distributable earnings for the year.

Except in the case of a capital reduction, no distribution may be made to shareholders when shareholders' equity is or would, as a result of such a distribution, be less than the amount of capital plus reserves which the law or the by-laws prohibit from being distributed. The re-evaluation variance may not be distributed; it may be incorporated, in whole or in part, into the capital.

6.3 Payment of Dividends

The terms and conditions for the payment of dividends approved by the shareholders' meeting are determined by the meeting or, in lieu thereof, by the board of directors. However, cash dividends must be paid within a maximum of nine months after the close of the financial year, unless extended by court order.

The ordinary shareholders' meeting may grant each shareholder, for all or part of the dividends to be distributed, an option between payment of the dividend in cash or in shares, subject to any legal requirements.

Dividends not claimed within five years after the payment date shall be deemed to expire.

6.4 Interim Dividends

Interim dividends may be distributed before the approval of the financial statements for the year when the balance sheet established during or at the end of a financial year and certified by an auditor, shows that the company has made a profit since the close of the last financial year, after recognizing the necessary depreciation and provisions and after deducting prior losses, if any, and the sums to be allocated to reserves, as required by law or the by-laws, and including any retained earnings. The amount of such interim dividends may not exceed the amount of the profit so defined.

7. Selected audited financial data of the France Telecom Group

The selected audited financial data of the France Telecom Group contained in this paragraph 7 has been extracted from the 2005 and 2004 *Documents de Référence*. As noted below, the 2005 *Document de Référence* has been drawn up in accordance with IFRS, as adopted within the European Union. For this reason, the selected audited financial data has been divided into that derived from the 2005 *Document de Référence* and that derived from the 2004 *Document de Référence* (see sub-paragraphs 7.1 and 7.2 below).

7.1 Selected audited financial data of the France Telecom Group for the year ended 31 December 2005, extracted from the 2005 *Document de Référence*

The following selected financial data is derived from France Telecom's consolidated financial statements. The consolidated financial statements for the year ended 31 December 2005 have been audited by Deloitte & Associés and Ernst & Young. The consolidated financial statements for the year ended 31 December 2005 have for the first time been drawn up in accordance with IFRS, as adopted within the European Union. For comparison, they include data relative to the 2004 financial year, restated in accordance with these same standards. The data should be read in conjunction with the consolidated financial statements, related notes, and other information included in the 2005 *Document de Référence*.

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(Amounts in millions of euros, except share data)

	2005	2004
Consolidated Statement of Income Data (as at year end, 31 December):		
Net revenues	49,038	46,158
Gross operating margin	18,416	17,923
Operating income	11,284	9,312
Finance costs, net	(3,356)	(3,625)
Consolidated net income after tax	6,360	3,210
Net income attributable to equity holders of France Telecom S.A.	5,709	3,017
Earnings per share (in euros)		
Net income attributable to equity holders of France Telecom S.A.		
• Basic	2.28	1.23
• Diluted	2.20	1.22
Consolidated Balance Sheet Data (as at year end, 31 December):		
Total non-current assets	94,271	84,462
Total current assets	15,079	14,231
Total assets	109,350	98,693
Equity attributable to equity holders of France Telecom S.A.	24,860	14,451
Minority Interests	3,578	3,232
Total equity	28,438	17,683
Total non-current liabilities	50,911	49,987
Total current liabilities	30,001	31,023
Total equity and liabilities	109,350	98,693
Consolidated Statement of Changes in Equity Data (as at year end, 31 December):		
Number of shares in issue	2,603,059,797	2,467,333,426
Share capital	10,412	9,869
Additional paid-in capital	15,131	12,675
Income (expense recognized directly in equity):		
Assets available for sale	123	124
Hedging Instruments	(200)	(161)
Deferred Taxes	68	21
Retained earnings (deficit)	(2,607)	(8,640)
Translation Adjustments	1,933	563
Total	24,860	14,451
Minority Interests	3,578	3,232
Total Equity	28,438	17,683
Consolidated Statement of Cash Flows Data (as at year end, 31 December):		
Net cash provided by operating activities	13,374	12,697
Net cash used in investing activities	(11,677)	(5,591)
Net cash used in financing activities	(860)	(7,346)
Cash and cash equivalents at end of year	4,097	3,153

7.2 Selected audited financial data of the France Telecom Group for the year ended 31 December 2004, extracted from the 2004 Document de Référence

The following selected financial data is derived from France Telecom's consolidated financial statements. The consolidated financial statements for the year ended 31 December 2004 have been audited by Deloitte & Associés and Ernst & Young. The consolidated financial statements for the year ended 31 December 2004 include information specifically required by French law in all audit reports. The audit was conducted in accordance with professional standards applicable in France. The data should be read in conjunction with the consolidated financial statements, related notes, and other information included in the 2004 Document de Référence.

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(Amounts in millions of euros, except per share data)

	2004	2003	2002
Consolidated Statement of Income Data (as at year end, 31 December):			
Operating income before depreciation and amortization of actuarial adjustments in the early retirement plan	18,261	17,303	14,917
Operating income	10,824	9,554	6,808
Current income from integrated companies	7,459	5,365	2,687
Net income/(loss) from integrated companies	5,305	6,710	(12,809)
Net income/(loss) from the consolidated group	3,002	3,728	(20,906)
Net income/(loss)	2,784	3,206	(20,736)
Earnings per share (in euros)			
• Basic published	1.14	1.64	(19.11)
• Diluted published	1.12	1.60	(19.11)
Consolidated Balance Sheet Data (as at year end, 31 December):			
Total long term assets	80,431	83,375	92,740
Total current assets	15,894	14,458	13,847
Total assets	96,325	99,833	106,587
Shareholders' equity	15,681	12,026	(9,951)
Minority Interests	4,052	5,966	9,780
Non-refundable funds and equivalents	5,149	5,279	—
Total long-term liabilities	40,484	44,750	61,876
Total current liabilities	30,959	31,812	44,882
Total liabilities and shareholders' equity	96,325	99,833	106,587
Consolidated Statement of Changes in Shareholders' Equity Data (as at year end, 31 December):			
Number of shares issued	2,467,333,426	2,402,316,828	1,190,158,724
Share capital	9,869	9,609	4,761
Additional paid-in capital	12,675	15,333	24,750
Retained earnings	(353)	(6,033)	(26,170)
Foreign currency translation Adjustments	(6,510)	(6,883)	(3,315)
Treasury Shares	—	—	(9,977)
Total	15,681	12,026	(9,951)
Consolidated Statement of Cash Flows Data (as at year end, 31 December):			
Net cash provided by operating activities	12,818	11,322	11,839
Net cash used in investing activities	(5,564)	(3,737)	(11,514)
Net cash used in financing activities	(7,423)	(6,868)	(194)
Increase/(decrease) in cash and cash equivalents	(169)	717	131
Cash and cash equivalents at end of year	3,203	3,350	2,819

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LUXEMBOURG TAXATION

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Bonds should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy, impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*impôt de solidarité*) as well as personal income tax (*impôt sur le revenu*) generally. Investors may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

TAXATION OF THE ISSUER

At the formation of the Issuer, a fixed capital duty (*droit d'apport*) of EUR 1,250 was payable in respect of the subscribed share capital. On future capital increases, no capital duty will become due. The transfer or sale of securities of the Issuer will not be subject to a Luxembourg registration or stamp duty.

The Issuer will be considered, from a Luxembourg perspective, as a resident of Luxembourg both for the purposes of Luxembourg domestic tax law and for the purposes of the tax treaties entered into by Luxembourg and should therefore be able to obtain a residence certificate from the Luxembourg tax authorities.

The Issuer will be liable to Luxembourg corporation taxes. The standard applicable rate, including corporate income tax, municipal business tax, and the solidarity surcharge, is 29.63 per cent. for the fiscal year ending 31 December 2006. Liability to such corporation taxes extends to the Issuer's worldwide profits including capital gains, subject to the provisions of any relevant double taxation treaty. The taxable income of the Issuer is computed by application of all rules of the Luxembourg income tax law of 4 December 1967, as amended (*loi concernant l'impôt sur le revenu*), as commented and currently applied by the Luxembourg tax authorities, as well as the Luxembourg Securitisation Act 2004. Under certain conditions, dividends received by the Issuer from qualifying participations and capital gains realised by the Issuer on the sale of qualifying participations may be exempt from Luxembourg corporation taxes under the Luxembourg participation exemption. The Issuer may further deduct from its taxable profits interest payments made to holders of Bonds and firm commitments to make interest payments to holders of Bonds.

The Issuer is exempt from wealth tax.

TAXATION OF THE HOLDERS OF BONDS

Withholding Tax

(i) Non-resident holders of Bonds

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 2005 (the "**Laws**") mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Bonds, nor on accrued but unpaid interest in respect of the Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Bonds held by non-resident holders of Bonds.

Under the Laws implementing the Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the "**Territories**"), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the

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immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which are resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it will be levied at a rate of 15 per cent. during the first three-year period starting 1 July 2005, at a rate of 20 per cent. for the subsequent three-year period and at a rate of 35 per cent. thereafter. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Bonds coming within the scope of the Laws would at present be subject to withholding tax of 15 per cent.

(ii) Resident holders of Bonds

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 (the “Law”) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Bonds, nor on accrued but unpaid interest in respect of Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Bonds held by Luxembourg resident holders of Bonds.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner who is resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Bonds coming within the scope of the Law would be subject to withholding tax of 10 per cent.

Income Taxation

(i) Non-resident holders of Bonds

A non-resident holder of Bonds, not having a permanent establishment or permanent representative in Luxembourg to which such Bonds are attributable, is not subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Bonds. A gain realised by such non-resident holder of Bonds on the sale or disposal of the Bonds, in any form whatsoever, the exchange of Bonds into Newly Issued Shares being deemed a disposal of Bonds, is further not subject to Luxembourg income tax.

A non-resident corporate holder of Bonds or an individual holder of Bonds acting in the course of the management of a professional or business undertaking, who has a permanent establishment or permanent representative in Luxembourg to which such Bonds are attributable, is subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Bonds and on any gains realised upon the sale or disposal of the Bonds, in any form whatsoever, the exchange of Bonds into Newly Issued Shares being deemed a disposal of Bonds.

(ii) Resident holders of Bonds

A corporate holder of Bonds must include any interest accrued or received, any redemption premium or issue discount, as well as any gain realised on the sale or disposal of the Bonds, in any form whatsoever, the exchange of Bonds into Newly Issued Shares being deemed a disposal of Bonds, in its taxable income for Luxembourg income tax assessment purposes. The same inclusion applies to an individual holder of Bonds, acting in the course of the management of a professional or business undertaking. Under certain circumstances gains realised on the exchange of Bonds into Newly Issued Shares may not be disclosed for tax purposes, in which case any portion of such gains corresponding to accrued but unpaid interest would nevertheless be subject to taxation.

A holder of Bonds that is governed by the law of 31 July 1929, on pure holding companies, as amended, or by the laws of 30 March 1988 and 20 December 2002 on undertakings for collective investment, as amended, is neither subject to Luxembourg income tax in respect of interest accrued or received, any redemption premium or issue discount, nor on gains realised on the sale or disposal of

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the Bonds, in any form whatsoever, the exchange of Bonds into Newly Issued Shares being deemed a disposal of Bonds.

An individual holder of Bonds, acting in the course of the management of his/her private wealth, is subject to Luxembourg income tax in respect of interest received, redemption premiums or issue discounts, under the Bonds, except if withholding tax has been levied on such payments in accordance with the Law. A gain realised by an individual holder of Bonds, acting in the course of the management of his/her private wealth, upon the sale or disposal of Bonds, in any form whatsoever, the exchange of Bonds into Newly Issued Shares being deemed a disposal of Bonds, is not subject to Luxembourg income tax, provided this sale or disposal took place more than six months after the Bonds were acquired. However, any portion of such gain corresponding to accrued but unpaid interest income is subject to Luxembourg income tax, except if withholding tax has been levied on such interest in accordance with the Law.

Net Wealth Taxation

A corporate holder of Bonds, whether it is resident of Luxembourg for tax purposes or, if not, it maintains a permanent establishment or a permanent representative in Luxembourg to which such Bonds are attributable, is subject to Luxembourg wealth tax on such Bonds, except if the holder of Bonds is governed by the law of 31 July 1929 on pure holding companies, as amended, or by the laws of 30 March 1988 and 20 December 2002 on undertakings for collective investment, as amended, or is a securitisation company governed by the law of 22 March 2004 on securitisation, or a capital company governed by the law of 15 June 2004 on venture capital vehicles.

An individual holder of Bonds, whether he/she is resident of Luxembourg or not, is not subject to Luxembourg wealth tax on such Bonds.

Other Taxes

Neither the issuance nor the transfer of Bonds will give rise to any Luxembourg stamp duty, value added tax, issuance tax, registration tax, transfer tax or similar taxes or duties.

Where a holder of Bonds is a resident of Luxembourg for tax purposes at the time of his/her death, the Bonds are included in his/her taxable estate for inheritance tax assessment purposes.

Gift tax may be due on a gift or donation of Bonds if embodied in a Luxembourg deed or recorded in Luxembourg.

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FRANCE TAXATION

The following summary contains a description of the principal French tax consequences of the ownership and disposal of the Shares. The statements relating to French tax law set forth below are based on the laws in force as of the date hereof, and may be subject to change in applicable French tax law or in any applicable double taxation convention or treaty which France may enter into after the date hereof.

This discussion is intended only as a descriptive summary and does not purport to be a complete analysis of all potential tax effects of the ownership and disposal of the Shares, nor to be a comprehensive description of all the tax considerations that may be relevant upon redemption of the Bonds into the Shares.

The following summary does not discuss the treatment of the Shares held in connection with a permanent establishment or fixed base through which a holder carries on business or performs personal services in France.

1. Taxation of the Bonds

Prospective French resident investors should seek advice of their tax advisers to clarify any French tax implications resulting from an investment in the Bonds.

2. Taxation of the Shares

2.1 French residents

(A) Individuals holding securities as part of their personal assets and not engaging in stock exchange transactions as a regular practice

(i) Dividends

Dividends are subject to income tax at progressive rates. They give rise to a 40 per cent. uncapped allowance (“**40 per cent. Allowance**”) and to an annual general allowance equal to €3,050 for married couples subject to joint taxation as well as for partners bound by a *pacte civil de solidarité* (“**PACS**”) defined in article 515-1 of the French Civil Code or €1,525 for unmarried persons, widow(ers), divorced persons or for persons who are married but taxed separately. The 40 per cent. Allowance applies before application of the €3,050 or €1,525 general allowance.

Further, dividends qualify for a tax credit (*crédit d’impôt*), equal to 50 per cent. of the amount of dividends received, before the application of 40 per cent. Allowance and the general allowance of €3,050 or €1,525, such tax credit being capped annually at €230 for married couples subject to joint taxation as well as partners bound by a *pacte civil de solidarité* defined in article 515-1 of the French Civil Code and at €115 for unmarried persons, divorced persons, widow(ers) or for persons who are married but taxed separately. The capped 50 per cent. tax credit is offset against the aggregate amount of income tax payable by the tax payer in respect of the year in which the dividends are received, the excess, if any, being refundable if exceeding €8.

Moreover, dividends, before deduction of the 40 per cent. Allowance and of the €3,050 or €1,525 general allowance, are subject to the following social contributions (in the category of estate income):

- (a) the *contribution sociale généralisée* (“**CSG**”), at a rate of 8.2 per cent., 5.8 per cent. of which is tax deductible from income subject to personal income tax in the year of payment of the CSG;
- (b) the 2 per cent. *prélèvement social*, which is not deductible from the income tax;
- (c) the 0.3 per cent. *contribution additionnelle au prélèvement social*, which is not deductible from the income tax base; and
- (d) the additional 0.5 per cent. *contribution pour le remboursement de la dette sociale* (“**CRDS**”), which is not deductible from the income tax base.

(ii) Capital gains

Pursuant to article 150-0 A of the *Code Général des Impôts* (“**CGI**”), capital gains realised by individuals are subject, from the first euro, to income tax and social contributions, at a global rate of 27 per cent. if the total amount of sales of securities and other rights or interests falling within the scope of article 150-0 A of the CGI (excluding transfers qualifying for deferred

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taxation or tax exempt sales of securities held as part of a share savings scheme (*Plan d'Epargne en Actions*)) realised during the calendar year exceeds, per household, a threshold which is currently equal to €15,000.

The global rate of 27 per cent. comprises:

- (a) income tax at a flat rate of 16 per cent.;
- (b) the CSG at a rate of 8.2 per cent., which is not deductible from the income tax base;
- (c) the 2 per cent. *prélèvement social*, which is not deductible from the personal income tax base;
- (d) the 0.3 per cent. *contribution additionnelle au prélèvement social*, which is not deductible from the income tax base; and
- (e) the CRDS at a rate of 0.5 per cent., which is not deductible from the income tax base.

Capital gains give rise to a 1/3 allowance per year of holding after the fifth year of holding. As a result, the capital gains realised upon disposal of shares are fully exempted if at the time of such disposal the shares have been held at least for 8 years. This allowance is applicable as from 1st January 2006 and the holding period is computed as follows:

- with respect to shares acquired or subscribed before 1 January 2006, the holding period is computed as from 1 January 2006;
- with respect to shares acquired or subscribed as from 1 January 2006, the holding period is computed as from the 1 January of the year during which the shares are acquired or subscribed.

The allowance mentioned above is only applicable for income tax purposes and does not affect the application of the social contributions: capital gains are subject to social contributions, even if they are fully exempted from income tax as a result of the allowance.

Any capital losses sustained during a given year may be offset against capital gains of a similar nature realised during the year of the sale or the ten following years, provided that the threshold of sale of securities referred to above was exceeded in the year in which the capital losses have been sustained.

(iii) Special regime for share savings plans (*Plans d'Epargne en Actions*) (“PEA”)

The Shares are eligible for the PEA.

Under certain conditions, dividends collected and capital gains realised on shares held through such PEA are exempt from income tax and social contributions provided such dividends and gains remain invested in the PEA. At the closing of the PEA (if taking place at least 5 years after its opening) or at the partial withdrawing (if taking place at least 8 years after its opening), the net gain realised since the opening of the PEA is exempt from income tax but is nonetheless subject to CSG, CRDS, the 2 per cent. *prélèvement social* and the *contribution additionnelle* at the rate applicable then.

The table below summarises the various taxes applicable as at 1 January 2006 depending on the date the PEA is closed (by way of exception, the withdrawal of funds invested in a PEA to be used for the creation or acquisition of an enterprise within three months does not affect the exemption allowed for invested amounts and does not entail termination of the scheme before due date).

<u>Term of the PEA</u>	<u>Income tax</u>	<u>Social contributions</u>	<u>Total</u>
Less than 2 years	22.5%	11%	33.5%⁽¹⁾⁽²⁾
Between 2 and 5 years	16.0%	11%	27.0%⁽¹⁾⁽²⁾
More than 5 years	0.0%	11%⁽²⁾	11.0%⁽²⁾

(1) Calculated on the whole of the gains if the annual threshold of sales of securities (currently €15,000) is exceeded.

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- (2) The amount of CSG, CRDS and the *prélèvement social* (including the *contribution additionnelle*) may vary depending on the date on which the gains are realised:
- portion of the gains accrued until 31 December 1997: between 0 per cent. and 3.9 per cent.;
 - portion of the gains accrued between 1 January 1998 and 30 June 2004: 10 per cent.;
 - portion of the gains accrued between 1 July 2004 and 31 December 2004: 10.3 per cent.;
 - portion of the gains accrued on or after 1 January 2005: 11 per cent..

Income received in respect of securities held through a PEA also qualifies for the 50 per cent. tax credit (*crédit d'impôt*) capped at €115 or €230 depending on the beneficiary's marital status as mentioned above.

Capital losses sustained on shares held through a PEA may only be offset against capital gains made within the same PEA. If the PEA is closed before expiry of a fifth—year period after its opening or if the PEA is closed after the end of the five year when the PEA's net asset value on the date of withdrawal of shares is less than the amount of payments made under the plan since it was opened (disregarding the payments relating to withdrawals or redemptions not leading to termination of the PEA), and provided that, on the date the PEA is closed, all of the shares contained therein have been sold (or that the capitalisation agreement has been fully redeemed), any losses incurred in this respect may be offset against gains from the sale of securities held outside the PEA made during the same year or the ten following years, provided that the aforementioned annual threshold of sale of securities (currently €15,000) was exceeded in the year the capital losses were sustained.

- (iv) Wealth tax (*impôt de solidarité sur la fortune*)

The Shares owned by individuals as part of their personal assets shall, where applicable, be included in their tax base subject to the French wealth tax.

2.2 Legal entities liable to corporate income tax

- (A) Dividends

Legal entities not qualifying as French parent companies

French legal entities holding less than 5 per cent. of the FT share capital shall not qualify as parent companies for the application of rules set forth under articles 145 and 216 of the CGI.

Dividends received by such companies shall be subject to corporate income tax at the ordinary rate of 33½ per cent., plus, where applicable, the 3.3 per cent. additional social contribution (article 235 ter ZC of the CGI) computed on the amount of the corporate income tax after application of a rebate that may not exceed €763,000 for each 12-month period.

However, pursuant to article 219-I-b of the CGI, legal entities which annual turnover is below €7,630,000 and which capital, fully paid up, is held continuously during the relevant tax year for at least 75 per cent. by individuals or by a company complying with the above conditions, may benefit from a reduced corporate income tax rate of 15 per cent. on the portion of their taxable profit not exceeding €38,120 per 12-month period. These legal entities also benefit from an exemption of the 3.3 per cent. additional social contribution.

Legal entities qualifying as French parent companies

Under articles 145 and 216 of the CGI, French legal entities subject to corporate income tax and holding more than 5 per cent. of the FT share capital may, under certain conditions and provided that they so elect, qualify for the parent-subsidiary tax regime pursuant to which the dividends received by the parent company are not subject to corporate income tax, except for a lump sum of costs and expenses; this lump sum is equal to 5 per cent. of the amount of dividends but shall however not exceed, for each fiscal year, the total amount of costs and expenses of whatever kind incurred by the parent company during the relevant fiscal year.

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(B) Capital gains

Standard regime

The capital gains or losses realised upon the disposal of the Shares will be respectively added to or deducted from the income subject to corporate income tax at the ordinary rate, of 33 $\frac{1}{3}$ per cent., plus, as the case may be, the 3.3 per cent. additional social contribution which is computed on the amount of corporate income tax after application of a rebate which may not exceed €763,000 per 12-month period (article 235 ter ZC of the CGI).

Special long-term regime

Pursuant to article 219-I-a *quinquies* of the CGI, capital gains realised on the disposal of investment securities held for at least two years are taxed at a reduced tax rate of 8 per cent. (plus, where applicable, the 3.3 per cent. additional social contribution, i.e., an effective rate of 8.264 per cent.) and will be exempt for financial years opening as from 1 January 2007 (subject to the add-back to the taxable income subject to corporate income tax at the ordinary rate of a lump sum of costs and charges equal to 5 per cent. of the net capital gains).

Pursuant to the article 219-I-a *quinquies* of the CGI, investment securities are defined as (i) shares that are, for accounting purposes, held in connection with a long-term interest (*titres de participation*); (ii) under certain conditions, shares acquired as a result of a take-over bid or tender offer by the company that initiated such bid or offer, (iii) and shares eligible for the application of the parent-subsidiary regime provided for in articles 145 and 216 of the CGI if these shares are booked in a “long-term investment securities” account or a special sub-division of another balance sheet account corresponding to their accounting qualification, except shares in real estate companies.

Any long-term capital losses made on the disposal of shares which fall within the scope of the article 219-I-a *quinquies* of the CGI and arising during the fiscal year opened in 2006 may only be offset against capital gains of the same nature taxed at 8 per cent. realised in the same year. The net long term capital losses existing at the beginning of a fiscal year opened as from 1 January 2007 will not be carried forward.

Alternatively, pursuant to section 219-I-a ter of the CGI, long term capital gains realised upon the disposal of shares whose acquisition price is at least equal to €22,800,000 and which meet the conditions for the application of the parent company regime except that they represent less than 5 per cent. of the issuer’s share capital and which are booked in a “long-term investment securities” account or a special sub-division of another balance sheet account corresponding to their accounting qualification are taxed at a 15 per cent. rate plus, as the case may be, 3.3 per cent. additional social contribution (i.e., an effective rate of 15.495 per cent.).

Any long-term capital losses made on the disposal of the shares which fall within the scope of the article 219-I-a ter of the CGI may only be offset against capital gains of the same nature realised in the same year or, in the ten following years. These long-term capital losses are not deductible from the profits taxable at standard corporate income tax rate.

2.3 Shareholders having their tax residence outside France

(A) Dividends

Pursuant to French tax law, dividends paid by a company having its registered office in France to shareholders whose tax domicile or registered office is located outside France are, in principle, subject to a 25 per cent. withholding tax.

However, companies whose effective place of management is situated in a Member State of the European Community may, subject to fulfilment of the conditions set out in article 119 ter of the CGI, qualify for exemption from the French withholding tax.

In addition, shareholders having their tax residence or registered office in a State and having concluded a tax treaty with France may, under certain conditions relating in particular to compliance with the procedure for the granting of tax benefits under the tax treaty, qualify for a partial reduction of the French withholding tax rate or total cancellation of the withholding tax.

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The FT shareholders concerned should contact their usual tax adviser in order to determine whether such tax treaty provisions may apply to their particular case and to consider the consequences, on their specific situation, of holding Shares.

(B) Capital gains

Capital gains on the disposal of shares for a consideration by persons who do not have their tax residence in France within the meaning of article 4 B of the CGI or whose registered office is situated outside France are generally exempt from taxation in France, unless the shares sold relate to a permanent establishment or a fixed base that such persons have in France or unless the rights directly or indirectly owned by the transferor, together with the members of his or her household, in the profit of the company whose shares are being sold exceeded 25 per cent., at any time whatsoever, during the five years preceding the sale. The capital gains on the disposal of a shareholding exceeding or having exceeded the 25 per cent. threshold during the aforementioned period are subject to tax in France at the flat rate of 16 per cent., subject to any applicable provisions of tax treaties.

(C) Wealth tax

Individuals who do not have their tax residence in France are not subject to wealth tax in France in respect of their financial investments. Long-term investment securities (i.e., securities which enable the holder to exercise an influence in the issuing company and, in particular, in principle, securities representing at least 10 per cent. of the issuer's share capital and which were either subscribed for upon issue or kept for a period of at least two years) are not deemed to be financial investments and may therefore be subject to French wealth tax, subject to any applicable provisions of international tax treaties.

2.4 Other situations

Shareholders subject to a tax regime other than those referred to above must seek advice from their usual tax adviser as to the tax regime which will apply to their specific case.

2.5 Registration tax

The transfer of the Bonds would not be subject to registration duties in France, unless a transfer deed is voluntarily registered in which case a €125 registration duty is applicable.

The Shares being listed, their transfer would not be subject to registration duties in France unless a deed is established in which case a 1.1 per cent. registration duty capped at €4,000 is applicable.

In addition, the sale or transfer of the FT shares by or through a French investment services provider may be subject to a stock exchange levy.

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SUBSCRIPTION AND SALE AND TRANSFER RESTRICTIONS

The Issuer will enter into a Purchase Agreement with the Bookrunner pursuant to which the Bookrunner will agree, among other things, to procure purchasers for such Bonds.

General

Save to the extent indicated in the paragraph "*United Kingdom*" below, no action has been or will be taken in any jurisdiction by the Bookrunner or the Issuer that would permit a public offering of any of the Bonds, or possession or distribution of the Offering Circular, or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. The Bookrunner will comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells, or delivers Bonds or has in its possession or distributes the Offering Circular, or any such other material, in all cases at its own expense, unless otherwise agreed. The Bookrunner will also ensure that no obligations are imposed on the Issuer in any such jurisdiction as a result of any of the foregoing actions (except to the extent that such actions are the actions of the Issuer) (but not the Bookrunner acting as the agent of the Issuer). The Issuer will not have any responsibility for, and the Purchaser will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it may make any acquisition, offer, sale or delivery.

The Offering Circular has been prepared by the Issuer for use in connection with the offer and sale of the Bonds outside the United States to non-U.S. persons and for the listing of the Bonds on the Luxembourg Stock Exchange.

No action has been or will be taken in any jurisdiction that would permit a public offering of any of the Bonds, or possession or distribution of the Offering Circular or any part thereof or any other offering material, in any country or jurisdiction where action for that purpose is required.

United States

The Issuer has not been and will not be registered under the Investment Company Act and the Bonds have not been and will not be registered under the Securities Act. Consequently, the Bonds may not be offered, sold, resold, delivered or transferred within the United States or to, or for the account or benefit of, U.S. persons (as such term is defined in Regulation S under the Securities Act) except in accordance with the Securities Act or an exemption therefrom and under circumstances which will not require the Issuer to register under the Investment Company Act.

United Kingdom

The Bookrunner has represented, warranted and agreed that:

- (i) it has only communicated or caused to be communicated, and it will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA (and all rules and regulations made pursuant to the FSMA), with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

France

Neither this Prospectus nor any other offering material relating to the Bonds described in this Prospectus has been submitted to the clearance procedures of the *Autorité des Marchés Financiers* or by the competent authority of another Member State of the European Economic Area and notified to the *Autorité des Marchés Financiers*. The Bonds have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this Prospectus nor any other offering material relating to the Bonds has been or will be:

- released, issued, distributed or caused to be released, issued or distributed to the public in France; or

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- used in connection with any offer for subscription or sale of the Bonds to the public in France.

Such offers, sales and distributions will be made in France only:

- to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, all as defined in, and in accordance with, Articles L.411-2 and D.411-1, of the French *Code monétaire et financier*; or
- to investment services providers authorised to engage in portfolio management on behalf of third parties; or
- in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French *Code monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers*, does not constitute a public offer (*appel public à l'épargne*).

The Bonds may be resold directly or indirectly, only in compliance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code monétaire et financier*.

Luxembourg

The Bookrunner has represented and agreed that it has not and will not, offer or sell the Bonds to the public in the Grand Duchy of Luxembourg, directly or indirectly, and, neither this Offering Circular nor any other circular, prospectus, form of application, advertisement, communication or other material may be distributed, or otherwise made available in, or from or published in, the Grand Duchy of Luxembourg, except for the sole purpose of the admission to trading of the Bonds on the Euro MTF, which is the alternative market of the Luxembourg Stock Exchange, and listed on the Official List of the Luxembourg Stock Exchange and except in circumstances which do not constitute a public offer of securities to the public.

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GENERAL INFORMATION

- (1) The Issuer has obtained all necessary consents, approvals and authorisations (if any) which are necessary in Luxembourg at the date of this Offering Circular in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by a resolution of the Board of Directors of the Issuer passed on 2 May 2006. The issue of this Offering Circular was authorised by a resolution of the Board of Directors of the Issuer passed on 2 May 2006.
- (2) There are no, nor have there been any, litigation or arbitration proceedings (including any such proceedings which are pending or threatened) of which the Issuer is aware, which may have or have had during the 12 months prior to the date of this Offering Circular a significant effect on the financial position of the Issuer.
- (3) Bonds have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The Common Code of the Bonds is 024936899, and the ISIN is XS0249368993.
- (4) From the date of this Offering Circular and for so long as any Bonds remain outstanding, the following documents will be obtainable free of charge, during usual business hours on any day (Saturdays, Sundays and public holidays excepted) at the registered office of the Issuer and the specified offices of the Trustee, the Principal Paying and Exchange Agent and the Paying and Exchange Agent in Luxembourg (and copies of the documents specified in sub-paragraphs (iii) and (iv) below may be obtained free of charge from the specified office of the Paying and Exchange Agent in Luxembourg):
 - (i) the articles of incorporation of the Issuer;
 - (ii) the Declarations of Trust;
 - (iii) this Offering Circular;
 - (iv) the Trust Instrument and each document incorporated by reference into such Trust Instrument; and
 - (v) the most recently published audited and (if any) unaudited financial statements of the Issuer.

The documents set out in paragraphs (i) and (ii) above may also be examined at the Luxembourg trade and companies register where copies thereof may be obtained.
- (5) The *Document de Référence* of France Telecom (which contains the financial report of France Telecom) is available on the France Telecom website (www.francetelecom.com), and is currently filed with the *Autorité des Marchés Financiers* and available on the *Autorité des Marchés Financiers* website (www.amf-france.org). France Telecom currently files Forms 20-F and 6-K with the Securities and Exchange Commission. Such forms include financial information on France Telecom and are available to the public. Pursuant to French legislation, France Telecom must file a copy of its audited accounts, as approved by the shareholders, with the secretariat of the Registrar of Commerce and Companies with which it is registered. Copies of these filed accounts can be obtained by the public. In the unlikely event that above financial information ceases to be available at the above addresses, it will become available free of charge during normal business hours at the registered office of the Paying and Exchange Agent in Luxembourg.
- (6) The Issuer is a company incorporated under the laws of Luxembourg. No Director of the Issuer is a resident of the United States, and all or a substantial portion of the assets of the Issuer and such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer or such persons or to enforce against any of them in the United States courts judgments obtained in the United States courts predicated upon the civil liability provisions of the federal securities laws of the United States.
- (7) The admission of the Bonds for trading on the Euro MTF, which is the alternative market of the Luxembourg Stock Exchange, and the listing of the Bonds on the Official List of the Luxembourg Stock Exchange is expected to take effect on 5 May 2006. The Euro MTF is not a regulated market according to the provisions of the Directive 2004/39/EC. The listing of the

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Bonds on the Euro MTF will be expressed as a percentage of their principal amount (exclusive of accrued interest).

- (8) Save as disclosed in this Offering Circular, since the date of its incorporation there has been no significant change which would have a material adverse effect on the financial or trading position of the Issuer.
- (9) The financial statements of the Issuer will be audited by Deloitte S.A., external auditor (“*réviseur d’entreprises*”) of the Issuer.

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