2 July 2024 – Neuss, Germany

Rating Action / Update:

Creditreform Rating has affirmed the unsolicited corporate issuer rating of Orange S.A. at BBB+ / stable

Creditreform Rating (CRA) has affirmed the unsolicited, public corporate issuer rating of Orange S.A.—here also referred to as the Company, or Orange—as well as the unsolicited corporate issue rating of long-term local currency senior unsecured notes issued by Orange S.A., at BBB+. The outlook for the ratings remains stable. Additionally, the initial unsolicited short-term corporate issuer rating for Orange S.A. has been set to L3, representing an adequate level of liquidity.

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Current relevant factors for the rating

The following considerations were of specific relevance for the rating assessment:

+ Revenue and operating income growth in 2023 and Q1 2024, mainly driven by the continued strong growth in the A&ME region
+ Increased operating cash flow and free cash flow in 2023, primarily due to the reduction in CAPEX according to plan
+ Decreased, but still solid, liquidity position in 2023 which exceeds the repayment obligations of Orange's gross financial debt in 2024
+ Proceeds of approximately EUR 4.4 billion for Orange as a result of the creation of a joint venture in Spain with MásMóvil (MASORANGE) have a positive effect on the financial and liquidity position
+ Successful implementation of the "Lead the Future" strategy

- Increased net financial debt in 2023 due to the takeover of VOO[1]
- Orange's net financial debt / EBITDAaL from telecom activities has risen steadily in recent years, and has exceeded 2x for the first time, although an improvement is expected due to the cash inflow from MASORANGE in 2024
- Ongoing decline in sales and earnings in 2023 in core market France
- Increased operating income in 2023, largely reflecting the counter-effect of the recognition of goodwill impairment in Romania in 2022, partially offset by increased restructuring costs related to Orange Business and Orange Bank, along with the increase in charges related to the effect of pension reform enacted in France in April 2023
- Decline in sales and earnings in 2024 due to the deconsolidation of Orange Spain
- Ongoing challenging market conditions with high interest rates, inflation and intense competition
- Easing, but still high, investment requirements to expand infrastructure for high-speed connectivity (5G and fiber network)

[1] In June 2023, Orange Belgium finalized the acquisition of 75% minus one share of VOO S.A., a cable and MVNO player in Belgium.

ESG-criteria:

ESG factors are factors related to environment, social issues, and governance. For more information, please see the section "Regulatory requirements". CRA generally takes ESG relevant factors into account when assessing the rating object, and discloses them when they have a significant influence on the creditworthiness of the rating object which could lead to a change in the rating result or outlook.

CRA generally takes ESG factors (environment, social and governance) into account within its rating decisions. In the case of Orange S.A. we have not identified any ESG factors with significant influence.

In our view, the telecommunications sector has a higher exposure to social risks, including those related to data privacy and security. On the other hand, the industry also creates opportunities, which have a positive impact on society, being the enabler of digital transformation (smart cities, smart homes) and playing a key role in digital inclusion.

The environmental risk of the telecommunications sector should not be underestimated, especially due to the growing demand for connectivity and digital services, resulting in an exponential rise in data traffic and, consequently, higher energy consumption and CO2 emissions. This could be mitigated or even overcompensated in the future by efficiency gains from high-speed connections and increased process automation.

Governance issues are more likely to arise for companies operating in emerging markets due to weaker regulation and higher political instability.

In order to fight climate change, Orange expects to collect 30% of the mobile phones that it sells in Europe for recycling, and to have 50% (in A&ME), respectively 75% (in Europe; except France) of its energy consumption coming from renewable sources. The Group also aims to reduce its scope 1 and 2 carbon emissions in the digital segment by 30% (compared to 2015 levels) by the end of 2025. As of the end of 2023, Orange had reduced its CO2 equivalent emissions (scope 1 and 2) by 37,4% compared to 2015, thus achieving its scope reduction target for 2025 in the digital segment two years ahead of schedule. In the course of its new strategic plan “Lead the Future”, Orange has made an additional commitment to reduce its emissions across all scopes (scope 1, 2 and 3) by 45% by 2030 (from a 2020 base). The Company plans to achieve carbon neutrality by 2040, ten years earlier than objectives set for the sector as a whole. Orange will continue to invest and build partnerships with the objective of increasing innovation and maximizing efficiency gains across all industries, in particular energy generation and transportation. We also see the fact that the variable compensation for Orange’s corporate officers is already linked to the achievement of certain sustainability targets as a positive step in this direction. Lastly, Orange supports the United Nations' Sustainable Development Goals as part of its corporate social responsibility strategy.

Overall, we consider Orange to be well-positioned with regard to ESG factors, and do not identify any significant influence from these on the rating. In the future, ESG factors may have an impact on our rating assessment, depending on the Company's achievement of its targets, and on regulatory changes.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Rating result

The current unsolicited corporate issuer rating of Orange S.A. (BBB+) is based on the Group’s size, high degree of product and geographical diversification, and on its leading position in the majority of its key markets. Furthermore, in 2023 the Group improved its earnings and cash generation capacity. Largely due to the takeover of VOO, the Company's liquidity position deteriorated somewhat, but still remains solid. Our analysis of Orange's credit metrics showed a slightly positive development for the year 2023 in comparison to 2022, despite a noticeable increase in net financial debt. The cash inflow of EUR 4.4 billion from this transaction has a positive effect on the financial and liquidity position of the Orange Group.

In the face of the challenging market situation, rising interest rates and intense competition, the Group's solid fundamentals enable it to push ahead with the necessary infrastructure roll-outs (especially 5G and fiber-to-the-home (FTTH)), and to adapt its business model to the rapidly changing circumstances. Despite discernible improvements, overall subdued development in France and the continued high level of investment and capital required to maintain and improve competitiveness have a dampening effect on our rating assessment.

Outlook

The one-year outlook of the rating is stable. This is based on our expectation that Orange will maintain the solid result of our financial analysis over the coming 12 months. The cash inflow from the joint venture MASORANGE is supportive for our assessment. In addition, we expect the Group to continue operations in its key markets, whilst retaining a stable market share and continuing its growth path in the Africa & Middle East segment. We assume that Orange—due to its strong market position and solid profit and cash flow generation—will be able to face the structural and economic challenges of the industry, as well as the challenges of rising market volatility, increasing intensity of competition, and a subdued economic outlook in Europe. The implementation of the strategy (Lead the Future) should lead to further improvements in the medium term, although negative effects cannot be ruled out in the short term due to the substantial transformation of the company.

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Best-case scenario: A-

In our best-case scenario for one year, we assume a rating of A-. In this scenario, we assume that the Group will retain or improve its competitive position and market share in the France and Europe segment (excluding Spain), and will continue its growth trajectory in the Africa & Middle East segment. Against this backdrop, we assume that cash flow generation will increase and the Group will manage to improve its credit metrics.

Worst-case scenario: BBB

In our worst-case scenario for one year, we assume a rating of BBB. In this scenario, we assume that the Group will lose some market share in its key markets, and is faced with a highly competitive environment without being able to pass the cost increases on to its customers due to fierce competition in the respective markets. Decreasing earnings and cash flow generation will force the Group to increase indebtedness, thereby deteriorating its credit metrics.

Business development and outlook

Table 1: Financials of Orange S.A. I Source: Orange S.A. Annual Financial Report 2023, standardized by CRA

Orange S.A. Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12. (IFRS, Group)	CRA standardized figures[2]	
	2022	**2023**
Sales (EUR million)	43,471	44,122
EBITDA (EUR million)	13,232	13,772
EBIT (EUR million)	4,583	4,809
EAT (EUR million)	2,617	2,891
EAT after transfer (EUR million)	2,146	2,440
Total assets (EUR million)	95,421	95,390
Equity ratio (%)	23.25	23.07
Capital lock-up period (days)	59.34	58.26
Short-term capital lock-up (%)	44.36	48.88
Net total debt / EBITDA adj. (factor)	4.42	4.52
Ratio of interest expenses to total debt (%)	1.26	1.99
Return on Investment (%)	3.48	4.10

In the 2023 financial year, Orange generated revenue of EUR 44.1 billion (2022: EUR 43.5 billion), adjusted EBIT of EUR 4.8 billion (2022: EUR 4.6 billion), and adjusted EAT of EUR 2.9 billion (2022: EUR 2.6 billion). Orange thus achieved growth in a difficult market environment characterized by high inflation, high interest rates, and geopolitical crises, and achieved all of the targets set for 2023 as part of its "Lead the Future" strategy. As in previous years, the Company's sales growth of 1.5% is attributable to the profitable—but in our view, riskier—Africa & Middle East (A&ME) segment. In addition, price increases and acquisitions, particularly the takeover of VOO by Orange Belgium in June 2023, had a positive effect on sales growth. In addition, Orange was able to significantly expand its customer base, despite intense competition, and maintain the churn rate at a moderate level, which was also reflected in revenue growth. The core segment France, which was responsible for roughly 38.5% of revenue and 48.8% of the EBITDAaL used by Orange in 2023, again recorded a decline in revenue and earnings in 2023. This was largely due to a decline in wholesale revenue over several years as a result of the decommissioning of copper lines, which will likely continue to impact revenue and earnings in France in the coming years, albeit with a downward trend.

[2] For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally-generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt takes all balance sheet liabilities into account. Therefore, the key financial figures shown often deviate from the original values of the company.

Table 2: The development of business of Orange S.A. I Source: Annual Reports 2020-2022, standardized by CRA

Orange S.A.					
In million EUR	**2021**	**2022**	**2023**	**Δ 23/22**	**Δ % 23/22**
Sales	42,522	43,471	44,122	651	1.5%
EBITDA	11,104	13,232	13,772	540	4.1%
EBITDA margin	*26.1%*	*30.4%*	*31.2%*	*0.8 p.p.*	--
EBIT	2,465	4,583	4,809	226	4.9%
EBIT margin	*5.8%*	*10.5%*	*10.9%*	*0.4 p.p.*	--
EBT	1,740	3,882	3,762	-120	-3.1%
EAT	778	2,617	2,891	274	10.5%

Against the backdrop of positive sales development, EBITDA improved by 4.1% to EUR 13,772 million, based in part on a robust performance in the Europe and A&ME segments, which compensated for the negative development in the France segment and Orange Business (previously: Enterprise). While Orange Business was impacted by restructuring costs, higher expenses in connection with the new pension reform which came into force in April 2023, had a negative effect in France. The increase in EBITDA is partly due to one-off effects in the 2022 financial year, which impacted the previous year's result by a total of roughly EUR 0.8 billion. Improved cost discipline also contributed to the increase in EBITDA. The EBITDA margin rose to 31.2%, but remained below the level of 2020 (and that of prior years). EBIT also developed positively in the reporting period, despite an investment-related increase in depreciation and amortization. Interest expenses increased noticeably, with a negative impact on EBT compared to the previous year. However, this was offset by lower tax expenses, meaning that EAT rose significantly to EUR 2,891 million in 2023. Overall, business development in 2023 saw an uptick as planned, with a stabilizing effect on our rating assessment.

Despite a declining liquidity position (EUR 14.3 billion; 2022: EUR 16.7 billion) and a resulting increase in net financial debt (EUR 27.0 billion; 2022: EUR 25.3 billion), mainly due to the acquisition of VOO by Orange Belgium, we continue to see Orange Group's financial and liquidity situation as solid, in particular as the available liquidity at the end of 2023 exceeded the short-term financial debt.

The following table provides an overview of business development in the individual segments and illustrates, among other factors, the importance of the French market for the Group. The positive development of the Company's Spanish business, which raised the operating margin to the level of the Europe segment, is also apparent. The deconsolidation of Orange's Spanish business in the course of the establishment of MASORANGE, a joint venture between MásMóvil and Orange in Spain, into which the Spanish business of Orange was transferred, therefore appears to be somewhat less advantageous than recently assumed, although the cash inflow of EUR 4.4 billion from this transaction should have a positive effect on the financial and liquidity position of the Orange Group. On the other hand, the diversification effect will decrease, and the disproportionately growing, higher-risk A&ME segment will gain in importance, which would partially offset the positive effects. It remains to be seen how this business combination will influence the Group's future financial statements, but we do not expect a significant change in creditworthiness. We expect the merger to produce positive synergies and provide a decisive competitive factor in the Company's highly competitive market through increased and improved service in the long run.

Table 3: Orange's telecom activities by segment I Source: Annual report 2023

Orange's telecom activities by segments in 2022 and 2023; before consolidation effects							
In EUR million	France	Spain	Other European countries	Africa & Middle East	Orange Business (formerly: Enterprise)	Totem	Interna-tional Carriers
2023							
Revenue	17,730	4,698	6,889	7,152	7,927	686	1,478
EBITDAaL	6,364	1,246	1,791	2,734	679	372	-30
EBITDAaL margin	35,9%	26,5%	26,0%	38,2%	8,6%	54,2%	-2,0%
Operating income	2,967	238	533	1,755	92	251	-563
2022							
Revenue	17,983	4,647	6,315	6,918	7,930	685	1,540
EBITDAaL	6,645	1,111	1,662	2,584	804	371	-96
EBITDAaL margin	37.0%	23.9%	26.3%	37.3%	10.1%	54.2%	-6.2%
Operating income	3,361	12	-190	1,665	317	252	-417

Excluding the Spanish business, Group sales for the 2023 financial year would have amounted to EUR 39.7 billion (EUR -4.4 billion), EBITDAaL to EUR 11.8 billion (EUR -1.2 billion), and net income to EUR 2.7 billion (EUR -0.2 billion), according to the Company. CAPEX would have been EUR 0.8 billion lower at EUR 6.1 billion, and operating cash flow EUR 0.5 billion lower at EUR 3.2 billion. The targets for 2024 and 2025 have also been adjusted downward, although the targeted growth trajectory is to be continued overall.

For the current financial year (after deconsolidation of the Spanish business), Orange continues to expect—on a comparable basis, excluding uncompleted or potential M&A transactions—a slight growth in EBITDAaL (related to telecom activities), and a disciplined development of capital expenditure (eCAPEX). In addition, organic cash flow (telecommunications activities) is expected to increase to EUR 3.3 billion in 2024 and EUR 3.5 billion in 2025; including Spain, organic cash flow should rise to EUR 3.8 billion in 2024 and EUR 4.0 billion in 2025. A medium-term figure of approximately 2x is still assumed for the financial ratio net debt/EBITDAaL. In view of the Company's overall business performance in the first quarter of 2024, which is on track with forecasts, we believe the aforementioned targets to be generally achievable.

As the telecom sector becomes increasingly saturated, the ability to differentiate and enhance the digital experience of customers is becoming a critical competitive advantage. In our view, Orange's future performance will depend on how quickly it is able to adapt its business model to the tide of disruptive technologies and rapidly changing consumer trends, and this will continue to require significant investment. Organic operating results above the market average, and maintaining good creditworthiness, could have a positive impact on the ratings.

Further ratings

Based on the long-term issuer rating and taking into account our liquidity analysis, the short-term rating of Orange S.A. was set at L3 (standard mapping), which corresponds to an adequate liquidity assessment for one year.

The rating objects of the issue rating are exclusively long-term senior unsecured issues, denominated in euro, issued by Orange S.A., which are included in the list of ECB-eligible marketable assets.

The Notes have been issued under the Euro Medium Term Note Programme (EMTN), with the last basis prospectus of 07.06.2024.

We have provided the long-term local currency senior unsecured notes issued by Orange S.A. with an unsolicited rating of BBB+ / stable. The rating is based on the corporate issuer rating.

Long-term local currency senior unsecured notes issued by Orange S.A., which have similar conditions to the current EMTN programme, denominated in euro and included in the list of ECB-eligible marketable assets, generally receive the same ratings as the current LT LC senior unsecured notes issued under the EMTN programme. Notes issued in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Table 4: Overview of CRA Ratings I Source: CRA

Rating Category	Details	
	Date of rating committee	Rating
Orange S.A.	02.07.2024	BBB+ / stable / L3
Long-term Local Currency (LC) Senior Unsecured Issues issued by Orange S.A.	02.07.2024	BBB+ / stable
Other	--	n.r.

Appendix

Rating history

The rating history is available under the following link.

Table 5: Corporate Issuer Rating of Orange S.A.

Event	Rating created	Publication date	Result
Initial rating	04.09.2019	12.09.2019	BBB+ / stable

Table 6: LT LC senior unsecured issues issued by Orange S.A.

Event	Rating created	Publication date	Result
Initial rating	04.09.2019	12.09.2019	BBB+ / stable

Table 7: Short-term issuer rating of Orange S.A.

Event	Rating created	Publication date	Result
Initial rating	02.07.2024	www.creditreform-rating.de	L3

Regulatory requirements

The rating[3] was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating that is public. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

With Rated Entity or Related Third Party Participation	No
With access to Internal Documents	No
With Access to Management	No

A management meeting did not take place within the framework of the rating process.

The information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

[3] In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date
Corporate Ratings	2.4	July 2022
Corporate Short-Term Ratings	1.0	June 2023
Non-financial Corporate Issue Ratings	2.0	March 2024
Rating Criteria and Definitions	1.3	January 2018

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Mail-Address
Artur Kapica	Lead-analyst	A.Kapica@creditreform-rating.de
Elena Damijan	Analyst	E.Damijan@creditreform-rating.de
Luca Olmes	Analyst	L.Olmes@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Mail-Address
Tobias Stroetges	PAC	T.Stroetges@creditreform-rating.de

On 2 July 2024, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 2 July 2024. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

Creditreform Rating AG guarantees that the provision of ancillary services does not cause a conflict of interest with its rating activities and discloses in the final rating report which ancillary services were provided for the rating object or for third parties associated with it. The following ancillary services were provided for this rating object or for related third parties:

No ancillary services in the regulatory sense were provided for this rating.

The final list of rating-related and credit services can be viewed on the Creditreform Rating AG website at website.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report

2. Website

3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating

2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a “rating action”; initial release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade” or “downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website.

An explanatory statement of the meaning of Creditreform Rating AG’s default rates are available in the credit rating methodologies disclosed on the website.

Disclaimer

Any rating performed by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct, which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the enterprise or the issue under review.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. This rating is therefore no statement of fact, but an opinion. For this reason, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at corporate or investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments.

We have assumed that the documents and information made available to us by the client are complete and accurate and that the copies provided to us represent the full and unchanged contents of the original documents. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

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