Creditreform Corporate Issuer / Issue Rating

Orange S.A.

Creditreform Rating

16 December 2022 – 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. – hereinafter also referred to as "Orange", or "the Group" – as well as the unsolicited corporate issue ratings of long-term local currency senior unsecured notes issued by Orange S.A. at BBB+. The outlook remains stable.

Analysts

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Current relevant factors for the rating

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

- Strong market position in Europe, Africa and the Middle East (market leader or one of the top providers in most of the countries)
- High pricing pressure due to increasingly competitive business environment
- Slight decrease in revenue in France and Spain due to highly competitive landscape in combination with slight contraction of certain segments of the market
- Goodwill impairment in Spain due to a deteriorating competitive landscape and uncertainties surrounding COVID-19 in 2021
- Decrease in the France and Spain segment offset by continued growth in the Africa & Middle East segment
- Declining trend in fixed access over recent years
- Net proceeds supported EBITDA following partial divestures in 2021
- Operating results continue to grow slightly in 2022, largely due to the Africa & Middle East segment
- High inflationary environment whilst also facing strong pricing pressure; unclear whether Orange will be able to pass on rising costs onto customer base
- No significant material influence resulting out of the war in Ukraine or sanctions against Russia
- Agreement signed to form a joint venture with MásMóvil, which will result in the deconsolidation of Orange Spain; regulatory approvals still outstanding

ESG factors are factors related to environment, social issues and, governance. For more information, please see the "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, leading to a change in the rating result or the outlook.

ESG-criteria:

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 higher exposure to social risks, including those related to data privacy and security. On the other hand, the industry also has opportunities to positively impact society, being the enabler of digital transformation (smart cities, smart homes) and playing a key role in and 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 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 through increased process automation. Governance issues are more likely to arise for companies operating in emerging markets, due to less regulation and higher political instability.

To fight climate change, Orange expects to collect 30% of mobile phones that it sells in Europe for recycling, to have 50% of its energy consumption coming from renewable sources and reduce its Scope 1 and 2 carbon emission by 30% (compared to 2015 levels), by the end of 2025. At the end of 2021 Orange reduced its CO2 equivalent emissions by 12.1% compared to 2015 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 maximize efficiency gains across all industries, in particular energy generation, and transportation. We also see as positive the fact that corporate officers' variable compensation is already linked to the achievement of certain sustainability targets. 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, but we do not identify any significant influence 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 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, the Group has solid liquidity reserves, a strong financial position with stable earnings and cash generation capacity and has managed to maintain leverage at a stable level. During the 2021 business year the analysis of the Group's credit metrics showed a slight deterioration against the prior year as it reflected non-operating and non-recurring factors that influenced the Group's results during the year. Adjusted by these factors our analysis of Orange's credit metrics showed a stable development.

The aforementioned positive factors are somewhat offset as the Group's two largest markets (2021 EBITDAaL France: 54.6%, Spain: 10.0%) are faced with low estimated growth rates, a high degree of competition as well as high pricing pressure, limiting the ability to increase prices. This factors might put pressure on the Group's earnings margins over the coming years. This is still made up for by the strong growth trend that is currently underlying the Africa & Middle East segment (2021 EBITDAaL: 18.0%), which is currently showing strong growth rates all across the board. Moreover, the ongoing pressure of high capex investments in order to retain and improve its market position, also dampen the Group's rating result.

Outlook

The one-year outlook of the rating is stable. This is based on our expectation that Orange will keep its credit metrics stable over the next 12 month period. In addition, we expect that the Group will continue its operations in its key markets, whilst retaining stable market share and whilst continuing its growth path in the Africa & Middle East segment. We expect that the increased inflationary environment will put pressure on the Group's earnings, but we assume that Orange, due to its strong market share and solid profit and cash flow generation, will be able to face the challenges of rising market volatility and growing concern over a potential economic recession in Europe.

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: BBB+

In our best-case scenario for one year, we assume a rating of BBB+. In this scenario, we assume that the Group will retain its market share in the France and Europe segment including Spain and that it will show a small increase in revenue as well as EBITDAaL generation and that the inflationary pressure remained limited. The Africa & Middle East segment will continue on its growth path. We assume that cash flow generation increases somewhat against the prior year and the Group manages to maintain stable 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 of its market share in its key markets, faced with a highly inflationary environment without being able to pass the cost increases on to its customers. The decreased cash flow generation will force the Group to increase indebtedness thereby deteriorating credit metrics.

Business development and outlook

During 2021 revenues remained relatively flat at EUR 42,522 million (2020: EUR 42,270 million) in comparison to the prior business year. Revenues for the Group's France and Spain segments decreased slightly to EUR 18,092 (2020: 18,394 million) and EUR 4,720 million (2020: 4,951 million) respectively. This resulted predominantly from a very competitive environment in Spain and the decline in co-financing received from third-party operators for the FTTH network in France. The decrease was offset by a significant increase in the Africa & Middle East segment to EUR 6,381 million (2020: EUR 5,770 million) due to an increase in revenue in all countries (except the Central African Republic) due to an upturn in both number of mobile accesses and fixed accesses.

Despite relatively flat performance in revenue, EBITDA (including impairments) improved in comparison to the prior year and rose largely due to several non-recurring effects. Events that improved EBITDA mainly comprised reported net proceeds of EUR 2,507 million in total from the disposal of 50% of orange concessions (EUR 2,077 million) and 50% of a subsidiary of Orange Polska (EUR + 310 million) in the context of the creation of a FiberCo in Poland, and were partially offset by restructuring costs (EUR -331 million) and increased labour expenses following a renewal of the French part-time for seniors plan intergenerational agreement (EUR -1,225 million), as well as an extraordinary expense (EUR -172 million) in relation to the employee shareholding plan.

The Group's EBIT was, in addition to the aforementioned effects, also affected by impairments of EUR 3,810 million in total, of which EUR 3,702 million were goodwill. The impairment of goodwill was based on a deteriorating competitive environment in Spain and uncertainties surrounding the continuation of the COVID-19 health crisis. These events led to a comparably lower EBIT of EUR 2,465 million (2020: EUR 5,340 million). EAT dropped even further to EUR 778 million (2020: EUR 5,055 million) as a result of higher income taxes of EUR -962 million (2020: EUR +848 million) as goodwill impairments are not tax deductible. This was slightly offset by comparably lower net financial costs. It has to be noted that adjusted by non-recurring events, operating and net profit for the year remained relatively stable.

Table 1: Financials of Orange S.A. I Source: Orange S.A. Annual report 2021, standardized by CRA

Orange S.A. telecoms activities segments in 2021 and 2020 before consolidation effects						
In million EUR	France		Spain		Europe	
	2021	2020	2021	2020	2021	2020
Revenue	18,092	18,461	4,720	4,951	5,870	5,638
EBITDAaL	6,867	7,163	1,251	1,433	1,579	1,499
EBITDAaL margin	38.0%	38.4%	26.5%	28,9%	26,9%	26,6%
Operating income	2,653	3,809	-3,724	407	791	389
In million EUR	Africa & Middle East		Enterprise		International Carriers	
	2021	2020	2021	2020	2021	2020
Revenue	6,381	5,834	7,757	7,718	1,515	1,450
EBITDAaL	2,265	1,964	970	1,023	-237	-244
EBITDAaL margin	35.5%	33.7%	12.5%	13.1%	-15.6%	16.9%
Operating income	1,291	1,011	474	621	1,217	-538

Overall, the structured financial ratio analysis of 2021 shows a deterioration in comparison to the prior year. The increased risk mainly manifested due to a decrease in profitability, which affected ratios such as Return on Investment of 1.59% (2020: 6.65%), operating margin of 5.80% (2020: 12.63%) and EBIT interest coverage of 2.59 (2020: 4.37. Net total debt / EBITDA adj., which adjusts EBITDA for non-operating, non-recurring events, remained relatively stable at 4.84 (2020: 4.32), as also indebtedness remained relatively stable at EUR 35,348 million (EUR 35,260 million). It should be noted that, when adjusted for non-recurring events, the financial key ratio analysis shows a relatively stable development.

Operating cash flow stood at EUR 11,236 million (2020: EUR 12,697 million) in 2021 and showed a small reduction against the prior year. The operating cash flow is able to cover the costs of the Group's annual investments. During the business year, Orange invested EUR 8,789 million (2020: 8,764 million), predominantly in capital expenditure (eCAPEX) and telecommunication licences. In total the Group generated a cash flow after investments of EUR 5,260 million (2020: EUR 7,133 million), which was available for dividend issues and redemption of debt.

During the first six months of the business year 2022 Orange's revenues increased to EUR 21,297 million (H1 2021: EUR 20,867 million), EBITDAaL increased slightly to EUR 5,934 million (H1 2021: EUR 5,837 million). The slight increase in revenues and EBITDAaL was mainly driven by positive foreign exchange fluctuations (EUR +122 million), the European segment following the consolidation of Telekom Romania Communications (EUR +267 million), as well as organic growth by the Africa & Middle East segment, which reported strong growth across the board and grew by approximately 11%, mainly driven by Mobile and Fixed-only services. The increase was to a large extent offset by the France and Spain segment which both reported a decline of -1.4% and -4.3% respectively as they continue to struggle with a very competitive market environment and an overall contraction in fixed and mobile wholesale services. This trend also was largely confirmed in Q3 when revenues increased to EUR 32,120 million (Q3 2021: EUR 31,374 million) and EBITDAaL to EUR 9,515 million (Q3 2021: EUR 9,387 million).

The Group's liquidity as of H1 2022 remains solid as it has strong cash flow generation with sufficient headroom for dividend and debt repayment. In addition, the Group disposes over a liquidity position of EUR 16,973 million in total, consisting of cash and cash equivalents of EUR

7,872 million, short-term investments at FV of EUR 2,958 million, and available undrawn credit facilities of EUR 6,143 million. As the Group has a well-distributed debt maturity profile, and good working capital management we do not see any difficulties in the near to mid-future for the Group in terms of liquidity or debt repayment.

Table 2: Financials of Orange S.A. I Source: Orange S.A. Annual report 2021, standardized by CRA

Orange S.A. **Selected key figures of the financial statement analysis** **Basis: Annual accounts and report of 31.12. (IAS, Group)**	**CRA standardized figures[1]**	
	2020	**2021**
Sales (million EUR)	42,270	42,522
EBITDA (million EUR)	13,913	11,104
EBIT (million EUR)	5,340	2,465
EAT (million EUR)	5,055	778
EAT after transfer (million EUR)	4,822	233
Total assets (million EUR)	93,079	94,927
Equity ratio (%)	25.82	25.20
Capital lock-up period (days)	55.91	57.84
Short-term capital lock-up (%)	46.34	41.63
Net total debt / EBITDA adj. (factor)	4.32	4.84
Ratio of interest expenses to total debt (%)	1.77	1.34
Return on Investment (%)	6.65	1.59

We believe that the Group and in particular the segments France and the European markets including Spain will continue to face hardened market conditions over the coming years. The markets are highly competitive and faced with an inflationary environment. As the contractual terms do not always provide for indexation or a price revision clause Orange might in many cases not be able to pass the rising costs on to its customers, potentially putting additional pressure on the Group's margins. The Group's activity in Ukraine and Russia is moderate, with revenues of approximately EUR 100 million in Russia and does not generate any significant revenues in Ukraine. As of yet the Group has no immediate plans to exit these markets and has made clear that it will continue its business for existing customers but avoids entering into any new commercial relationships with entities located in those countries.

In July 2022 Orange signed an agreement to combine Orange Spain together with MásMóvil. This business combination will take the form of a joint venture and will result in the deconsolidation of Orange Spain from the Orange group accounts. The joint venture will then in turn be reported under the equity-method. It remains to be seen how this business combination will influence the future financial statements of the Group but we do not expect a significant change in creditworthiness as the assets of Orange Spain constituted approximately 11% of total assets as of the end of 2021. We expect the merger to produce positive synergies and provide a decisive competitive factor in the Company's highly competitive market through increased and im-

[1] 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.

proved service in the long run. The business combination is still subject to approval by the anti-trust and other administrative authorities, which is expected during the second half of 2023 at the latest.

Issue rating

Issue rating details

The rating objects of this issue rating are exclusively the long-term senior unsecured issues, denominated in euro, issued by Orange S.A. (issuer) which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the website of the ECB.

The issues have been issued under the EMTN program with its latest base prospectus from 8 June 2022. This EMTN program amounts to EUR 35 billion. The notes and coupons under the EMTN program constitute direct, unconditional, unsubordinated, unsecured obligations of the issuer, and rank at least pari passu among themselves and with all other present and future unsecured obligations of the issuer. Additionally, the notes benefit from a negative pledge provision and a cross default mechanism.

Corporate issue rating result

We have provided the debt securities issued by Orange S.A. with a rating of BBB+ / stable. The rating is based on the corporate rating of Orange S.A. Other types of debt instruments or issues denominated in other currencies by the Issuer have not been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Overview

Table 3: Overview of CRA Ratings I Source: CRA

Rating objects	Details	
	Date	Rating
Orange S.A. (Issuer)	16.12.2022	BBB+ / stable
Long-Term Local-Currency (LT LC) Senior Unsecured Issues	16.12.2022	BBB+ / stable
Other	-	n.r

Table 4: Overview of 2022 Euro Medium Note Program I Source: Orange S.A.

Overview 2022 EMTN Program			
Volume	EUR 35,000,000,000	Maturity	Depending on the respective bond
Issuer	Orange S.A.	Coupon	Depending on the respective bond
Arrangers	BNP Paribas, BofA Merrill Lynch	Currency	Depending on the respective bond
Credit enhancement	none	ISIN	Depending on the respective bond

All future LT LC senior unsecured Notes that will be issued by Orange S.A. and that have similar conditions to the current EMTN program, denominated in euro and included in the list of ECB-eligible marketable assets will, until further notice, receive the same ratings as the current LT LC senior unsecured notes issued under the EMTN program. Notes issued under the program 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. For the time being, other emission classes or programs and issues that do not denominate in euro will not be assessed. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Appendix

Rating history

The rating history is available under:

https://www.creditreform-rating.de/en/ratings/published-ratings.html

Table 5: Corporate issuer rating of Orange S.A. | Source: CRA

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	04.09.2019	12.09.2019	16.12.2020	BBB+ / stable

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

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	04.09.2019	12.09.2019	16.12.2020	BBB+ / stable

Regulatory requirements

The rating[2] 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.

[2] 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
Non-financial Corporate Issue Ratings	1.0	October 2016
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
Sabrina Mascher de Lima	Analyst	S.Mascher@creditreform-rating.de

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

Name	Function	Mail-Address
Philipp Beckmann	PAC	P.Beckmann@creditreform-rating.de

On 16 December 2022, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 19 December 2022. 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.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report at this point:

No ancillary services in the regulatory sense were carried out for this rating object.

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.

Creditreform Rating AG

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