Press Release

Creditreform Rating

Rating object	Rating incl. outlook / watch
Orange S.A.	BBB+ / stable
Long Term Local Currency Senior Unsecured Issues Orange S.A.	BBB+ / stable

The present update is, in the regulatory sense, a public unsolicited rating.

Date of inception / disclosure to rated entity / maximum validity:

Rating object	Date of inception	Disclosure to rated entity	Maximum validity
Orange S.A.	18.11.2021	19.11.2021	Until withdrawal of the rating
Long Term Local Currency Senior Unsecured Issues Orange S.A.	18.11.2021	19.11.2021	Until withdrawal of the rating

There occured no changes after the communication of the rating to the rating object.

Rating summary:

Creditreform Rating (CRA) has affirmed the ratings of the unsolicited, public corporate issuer rating of Orange S.A., hereinafter also referred to as Orange or 'the Company', as well as the unsolicited corporate issue ratings of the long term local currency senior unsecured notes issued by Orange S.A. at BBB+ / stable.

The rating result reflects Orange's stable operating performance during 2021 and our expectation that credit metrics will be sustained at healthy levels in the next 12-24 months. The Company's EBITDA margin, as adjusted by CRA, has remained between 30-35% historically, supported by its leading market position in Europe, Africa and Middle East and by continuous increase in its customer base, in particular in the mobile segment. Mobile access grew at an annual average rate of 3.35% over the last four years ended September 2021, representing an increase from 248 to 266 thousand clients. Overall, all markets are also benefitting from more positive prospects for retail services (except Spain) and from the recovery in equipment sales. This positive development is, to certain extent, offset by the declining trend in fixed access as well as by pricing pressure stemming from the industry's fierce competition. In terms of geography, Orange presented strong performance in Middle East and Africa with double-digit revenue growth in 2021 year-to-date (YTD), while operations in Spain (the Company's second largest market) have been underperforming. In the first half of the year, the Company recorded EUR 3.7 billion impairment on goodwill due to deteriorating operating environment and delayed economic recovery after COVID-19 crisis in Spain. We expect it to have a moderate impact on balance sheet, as we deduct half of the goodwill from equity when adjusting the original consolidated financial statements according to CRA methodologies.

To withstand the increasing competition within the telecommunication sector and improve its churn rate, Orange will continue to pursue a convergence strategy, which consists in engaging with consumers through multiple digital service offerings, including cyber security and financial services, smart home platform, cloud storage, among others. There has been sequential increases in Orange's convergent consumer base, with around 11.3 million access at the end of September 2021 (roughly one million more than three years ago) generating around 18% of consolidated net revenues. Orange also aims to be the enabler of digital transformation, providing innovative and high-speed connectivity (smart WiFi) to several other industries. Hence, the Company will continuously need to invest in infrastructure in order to expand 5G network and accelerate fixed broadband connectivity (fiber and fixed LTE), and the target is to have 69 million Fiber-to-the-Home (FTTH) connections by 2023 (compared to 54 million at the end of September 2021). In this context, Orange agreed with high profile financial partners (namely La Banque des Territoires, CNP Assurances and EDF Invest) to sell 50% of its stake in Orange Concession. The transaction was announced early this year and should be concluded in the fourth quarter 2021; cash proceeds will amount to EUR 1.5 billion. The project consist of expanding fiber platform into rural areas in France, bringing additional 4.5 million FTTH connections, and the partnership will reduce the risks associated with the building phase. The funding of the project is fully secured through the EUR1.3 billion non-recourse financing lines at Orange Concession.

Through investments to increase the offering of higher value added solutions and the EUR 1 billion cost savings initiative during 2019-2023, Orange will likely continue to increase its EBITDA generation and profitability in the years ahead. According to Orange's management, its reported EBITDAaL will grow by 2-3% on an annual basis during 2021-2023, resulting in nearly EUR 1 billion increase compared to 2020 levels. Despite this positive development, we expect the Company's key indicator to remain commensurate with current rating level in the short-to-medium term.

We believe the company has relatively prudent financial policies, being able to pursue its expansion plans and simultaneously to sustain an adequate capital structure, with equity ratio standing above 20% in 2020 and leverage (measured by Total Liabilities / EBITDA, according to CRA's methodology) reducing to 4.3 times at the end of 2020 compared to over 4.5 times in previous years. Additionally, Orange has been sustaining solid liquidity position with its cash balance of EUR 6.8 billion at the end of June 2021, sufficient to cover its short-term financial obligations (including leasing) by 1.40 times. Going forward, we expect the Company's robust internal cash flow generation to fully cover its investment needs and dividend distribution, likely leading to positive free cash flows in the next 12-24 months and further supporting Orange's liquidity profile.

Based on the unsolicited corporate issuer rating of Orange S.A. (BBB+ / stable), CRA has prepared unsolicited corporate issue ratings on issues (ISIN) of Orange S.A. The rating objects considered here are exclusively the EUR-denominated Long-Term Senior Unsecured Issues which are part of the ECB's list of eligible marketable assets and which were issued by Orange S.A. This ECB list of eligible marketable assets is available on the website of the European Central Bank. These issues (ISIN) are rated BBB+ / stable.

Primary key rating drivers:

+ Strong market position in Europe, Africa and the Middle East (market leader or one of the top providers in most of the countries)
+ Good geographical diversification and shift towards multiple services offerings (convergence business model)
+ Stable operating performance in 2020 despite COVID-19
+ Investments to offer higher value added products and EUR 1 billion cost saving initiatives will continue to support profitability
+ Proved prudent financial management with the maintenance of adequate capital structure amid execution of investment plans
+ Orange concession will allow the expansion of fiber platform in France without increasing leverage and financing risks
+ Comfortable liquidity position and proven access to debt capital markets

- Pricing pressure due to increasingly competitive business environment
- Declining trend in fixed access over the last years
- Still high degree of uncertainties on the course of COVID-19 pandemic and its impact on Orange's businesses
- Africa & Middle East regions continue to face political and economic instabilities, which could adversely affect Orange's results
- Weakening operating performance in Spain due to high competition and the country's delayed economic recovery after COVID-19 crisis which led to a goodwill write-down of EUR 3,7 billion

ESG-criteria:

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

In our view, the telecommunication sector has higher exposure to social risks, including data privacy and security. On the flip side, the industry also has several opportunities to positively impact the 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 telecommunication 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. On the other hand, this will be mitigated or even overcompensated in the future by efficiency gains from high-speed connections and more automated processes. Governance issues more likely arise with companies operating in emerging markets, due to less regulation and higher political instability.

To fight against climate change, Orange expect to collect 30% of its mobile phones sold 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), all that until the end of 2025. The Company plans to achieve carbon neutrality by 2040, ten years earlier than objectives set for the sector. 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 scenarios:

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 the next 12-24 months, we assume a rating of BBB+. This reflects our expectation that Orange will post modest EBITDA growth in the coming years, supported by cost savings initiatives as well as by continued increase in customer base, in particular in the convergence segment. In our view, the Company will continue to manage its investments and other cash outlays prudently while maintaining a sustainable capital structure and solid liquidity profile. Despite the expected improvement in overall performance, we believe that Orange's financial key indicators will remain commensurate with the BBB+ rating level in the short-to-medium term, with operating margin (EBIT/Revenues) standing at around 15%; equity ratio above 25% and Net Total Liabilities below 4 times.

Worst-case scenario: BBB

In our worst-case scenario for the next 12-24 months, we assume a rating of BBB. This reflects a scenario in which operating performance deteriorates in the coming years because of longer-lasting headwinds related COVID-19 pandemic, with the resumption of more severe lockdown measures slowing down economic activities in Orange's main market of operations. We also consider that Orange is unable to sustain its profitability due to the intense competition and price erosion within the telecommunication sector, with analytical EBITDA margin (as adjusted by CRA) standing slightly below 30% compared to 33.5% in 2020. Concerning leverage, the ratio Net Total Liabilities to EBITDA will trend towards 5 times in the short-o-medium term.

Analysts / Person approving (PAC):

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Initial rating:

Rating object	Event	Rating created	Publication date	Monitoring until	Result
Corporate Issuer Rating of Orange S.A.	Initialrating	04.09.2019	12.09.2019	16.12.2020	BBB+/stable
LT LC Senior Unsecured Issues issued by Orange S.A.	Initialrating	04.09.2019	12.09.2019	16.12.2020	BBB+/stable

Status of solicitation and information basis:

The present rating is, in the regulatory sense, a public **unsolicited** rating. The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

Rating methodology / Version / Date of application:

Rating methodology	Version number	Date
Corporate Ratings	2.3	29.05.2019
Government-related Companies	1.0	19.04.2017
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

Regulatory requirements:

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating[1] was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

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.

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.

[1] 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.

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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