Creditreform Corporate Issuer / Issue Rating

Orange S.A.

Creditreform Rating

Rating object	Rating information	
Orange S.A.	Corporate Issuer Rating: **BBB+ / stable**	Type: Update Unsolicited Public rating
Creditreform ID: 400980978 Incorporation: 31 December 1996 Based in: Paris, France Main (Industry): Telecommunications CEO: Christel Heydemann	LT LC Senior Unsecured Issues: **BBB+ / stable**	Other: **n.r.**
Rating objects: Long-term Corporate Issuer Rating: Orange S.A. Long-term Local Currency (LT LC) Senior Unsecured Issues	Rating date: 5 May 2023 Monitoring until: withdrawal of the rating Rating methodology: CRA "Corporate Ratings" CRA "Non-Financial Corporate Issue Ratings" CRA "Rating Criteria and Definitions" Rating history: www.creditreform-rating.de	

Content

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Summary

Company

Orange S.A. (hereinafter also referred to as Orange, the Group or the Company), formerly France Télécom, headquartered in Paris, France, is France's incumbent telecommunication operator, having its origins in the Ministry for Mail, Telegraphs and Telephone, and a leading multinational telecommunications group. Orange offers a broad range of connectivity services, such as fixed and mobile telecommunications, data transmission and other value-added services, including mobile financial services, to consumers, businesses and other telecommunication operators. Orange is also a leading provider of global IT and telecommunication services to multinational companies under the brand Orange Business (formerly Orange Business Services). The Group is present in 26 countries in Europe, Africa and Middle East and has a total customer base of 287.2 million customers worldwide.

In 2022, the Group achieved revenues amounting to EUR 43,471 million (2021: EUR 42,522 million), a reported EBITDA after Leases (EBITDAaL) of EUR 12,963 million (2021: EUR 12,566 million) and EAT of EUR 2,617 million (2021: EUR 778 million), in line with Orange's guidance for 2022.

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 and a strong financial position with stable earnings and cash generation capacity. Despite a slight increase in net financial debt, our analysis of Orange's credit metrics showed a positive development for the year 2022 in comparison to 2021, due to top line growth and recovered operating income.

Despite the challenging market situation, rising interest rates and intense competition, the Group's solid fundamentals should enable Orange to push ahead with the necessary infrastructure roll-out (especially 5G and fiber-to-the-home (FTTH)), and adapt its business model to the rapidly changing circumstances. Nevertheless, persistently weak business development in its home market of France, and the continuing high 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 keep its credit metrics stable over the coming 12 months. In addition, we expect that the Group will continue its operations in its key markets, whilst retaining stable market share and continuing its growth path in its Africa & Middle East segment. We expect the increased inflationary environment to 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, increasing intensity of competition and a subdued economic outlook in Europe.

Reference:

The relevant rating factors (key drivers) mentioned in this section are predominantly based on internal analyses, evaluations from the rating process, the derived valuations of the analysts participating in the rating and, if applicable, other rating committee members. The fundamental external sources used are specified in the sections "Regulatory requirements" and "Rules on the presentation of credit ratings and rating outlooks".

Excerpts from the financial key figures analysis 2022:

+ Increased revenues and earnings
+ Improved return on investment
+ EBIT(DA) interest coverage
+ Low interest expenses

- Increased net financial debt
- Asset coverage ratio

General rating factors summarize the key issues which – according to the analysts as of the date of the rating – have a significant or long-term impact on the rating, whether positive (+) or negative (-).

Relevant rating factors

Table 1: Financials I Source: Orange S.A. Annual Report 2022, 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[1]	
	2021	2022
Sales (million EUR)	42,522	43,471
EBITDA (million EUR)	11,104	13,232
EBIT (million EUR)	2,465	4,583
EAT (million EUR)	778	2,617
EAT w/o non-controlling interests (million EUR)	233	2,146
Total assets (million EUR)	94,677	97,443
Equity ratio (%)	25.0	24.84
Capital lock-up period (days)	57.84	59.34
Short-term capital lock-up (%)	41.63	44.36
Net total debt / EBITDA adj. (factor)	4.84	4.73
Ratio of interest expenses to total debt (%)	1.34	1.26
Return on Investment (%)	1.59	3.40

General rating factors

+ Strong market position in Europe and Africa and Middle East (market leader or one of the top providers in most of the countries), good geographical diversification
+ Leading international integrated broadband and telecommunications provider with a full range of services – adequate business mix
+ Employment of state-of-the-art technology (fiber roll-outs, 5G, TV contents, bundled offers)
+ Significant size and scale
+ High entry barriers in the market (licenses, concessions and permits)
+ Proven access to debt capital markets

– Highly competitive markets
– Highly regulated business with certain/corresponding obligations

[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 considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the company.

- Capital-intensive business with high ongoing investments (infrastructure and spectrum)
- Dependency on economic trends
- Country risks - exposure to countries with unstable economies
- Foreign exchange risks - high exposure to currency fluctuations
- Cybercrime and continuous technological changes
- Interest rate risks

Current rating factors

Current rating factors are the key factors which, in addition to the underlying rating factors, have an impact on the current rating.

+ Positive sales and earnings development in 2022 - growth primarily in Africa & Middle East region
+ Result of our financial analysis for 2022 recovered after decline in 2021
+ Infrastructure expansion (fiber optics and 5G) progressing; slight decline in capital expenditure expected in the coming years
+ Solid liquidity position and stable cash flow generation from operating activities
+ Expansion of customer base in 2022 - decreasing churn rate in France and Europe
+ Overall development on target in Q1 2023 driven by continued sales growth in Africa & Middle East and recovery in Spain

- Declining sales development in 2022 in core markets France and Spain
- Declining sales also in France in the first quarter of 2023 compared with the same period of the previous year
- Increased net financial debt in 2022
- Continued challenging market conditions, with rising interest rates, high inflation and intense competition
- Continuing high investment requirements to expand infrastructure for high-speed connectivity (5G and fiber network)

Prospective rating factors

Prospective rating factors are factors and possible events which – according to the analysts as of the date of the rating – would most likely have a stabilizing or positive effect (+), or a weakening or negative effect (-) on future ratings if they occurred. This is not an exhaustive list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors, whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

+ Profitable growth
+ Costs reductions and synergies leading to increased operating cash flow
+ Lower cash flow pressure thanks to reduced capex intensity
+ General improvement of financial ratios
+ Positive effects from a change in the regulatory framework in the relevant markets
+ Extension of its fiber network and further improvement of its network quality
+ Creation of new business models (NaaS, Application Programming Interface (APIs))

- Deterioration of operating performance due to increased competition
- Worsening of the economic situation and political instability
- Unexpected increase in capex and leverage, in particular due to fiber and 5G investments (spectrum and infrastructure)
- Unfavorable regulatory changes

ESG-factors

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, leading to a change in the rating result or the 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 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 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 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, to have 50% (in A&ME), respectively 75% (in Europe; except France) of its energy consumption coming from renewable sources, and to reduce the Group's Scope 1 and 2 carbon emission by 30% (compared to 2015 levels) by the end of 2025. In the course of its new strategic plan "Lead the future", Orange is making the additional commitment to reduce its emissions across all scopes (Scope 1, 2 and 3) by 45% by 2030 (from a 2020 base). As of the end of 2022, Orange had reduced its CO2 equivalent emissions (Scope 1 and 2) by 20.8% 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 the fact that corporate officers' variable compensation is already linked to the achievement of certain sustainability targets as positive. 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; however, 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.

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 to retain EBITDAaL margin, despite inflationary pressure and increasing interest rates. 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 due to fierce competition in the relevant markets. The decreased cash flow generation will force the Group to increase indebtedness, thereby deteriorating its credit metrics.

Business development and outlook

In a challenging market environment which has been characterized by high inflation, rising interest rates and geopolitical uncertainties, the Orange Group generated sales of EUR 43,471 million in the past fiscal year 2022 (2021: EUR 42,522 million), growing slightly by 2.2% compared to the previous year. The main growth driver was again the profitable, but in our opinion also riskier, Africa & Middle East (A&ME) segment. The core markets of France (54%) and Spain (11%), which together account for around 65% of sales, showed declining sales trends in 2022. It should be noted that a slight recovery trend was observed in Spain at the end of the past fiscal year. The Europe segment (excluding France), which also includes Spain, reported slight overall sales growth thanks to the good performance in Poland and Belgium. Price increases implemented in all European countries had a positive impact in particular. In addition, despite intense competition, Orange was able to significantly expand its customer base and reduce the churn rate, which is also reflected in revenue growth.

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	2020	2021	2022	Δ 22/21	Δ % 22/21
Sales	42,270	42,522	43,471	949	2.2%
EBITDA	13,913	11,104	13,232	2,128	19.2%
EBITDA-Marge	*32.9%*	*26.1%*	*30.4%*	*4.3 p.p.*	--
EBIT	5,340	2,465	4,583	2,118	85.9%
EBIT-Marge	*12.6%*	*5.8%*	*10.5%*	*4.7 p.p.*	--
EBT	4,207	1,740	3,882	2,142	123.1%
EAT	5,055	778	2,617	1,839	236.4%

Against the backdrop of the positive revenue development, EBITDA improved by 19.2% to EUR 13,232 million (2021: EUR 11,104 million), partly driven by robust performance in A&ME, which compensated for negative developments in the Enterprise segment. The disproportionate increase in EBITDA is partly attributable to special effects in the 2021 financial year which impacted the prior-year result by a total of roughly EUR 1.2 billion. Improved cost discipline also contributed to the increase in EBITDA. The EBITDA margin increased to 30.4% (2021: 26.1%), but remained below the level of 2020 (and before). EBIT showed a very similar development to EBITDA over the period under review due to relatively constant depreciation and amortization expense. Interest expenses decreased slightly year-on-year, so that EAT increased significantly to EUR 2,617 million in 2022 (2021: EUR 778 million). Overall, business development in 2022 was slightly positive as planned and, following a weaker fiscal year 2021, had a stabilizing effect on our rating assessment.

In addition, Orange benefits from its continued solid liquidity, which according to the Company totaled EUR 16,740 million at the end of 2022 (2021: EUR 16,642 million), noticeably exceeding current financial liabilities.

The following table provides an overview of business development in the individual segments and illustrates, among other things, the importance of the French market for the Group. The sale of the declining and comparatively lower-margin Spanish business, planned for the second half of 2023, should lead to an improvement in margins at Group level and to an improvement in key financial ratios as a result of the corresponding cash inflow (expected to be EUR 4.2 billion). On the other hand, the diversification effect will be reduced and the disproportionately growing, higher-risk A&ME segment will gain in importance, which would partially offset the positive effects.

Table 3: Orange's telecom activities by segment I Source: Annual report 2022

Orange's telecom activities by segments in 2021 and 2022; before consolidation effects							
In million EUR	France	Spain	Other European countries	Africa & Middle East	Enterprise	Totem	International Carriers
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
2021							
Revenue	18,092	4,720	5,859	6,381	7,757		1,515
EBITDAaL	6,867	1,251	1,579	2,265	970		-237
EBITDAaL margin	38.0%	26.5%	26.9%	35.5%	12.5%		-15.6%
Operating income	2,653	-3,724	791	1,291	474		1,217

For the current financial year, Orange expects (on a comparable basis, excluding not-yet-finalized or potential M&A transactions) slight growth in EBITDAaL (in relation to telecommunications activities) and a significant reduction in capital expenditure. A medium-term value of approximately 2x is still assumed for the net debt/EBITDAaL financial indicator. In addition, organic cash flow (telecommunications activities) is expected to increase from EUR 3.1 billion in 2022 to at least EUR 3.5 billion in 2023. In view of the overall planned business development in the first quarter of 2023, we believe that the above targets are generally achievable. However, high inflation, rising interest rates and geopolitical conflicts, which are reflected in a subdued economic outlook, as well as intense competition in the relevant markets, mean that there is still increased uncertainty with regard to future business development.

As the telecommunications sector becomes increasingly saturated, the ability to differentiate and improve customers' digital experience will become a key competitive advantage. In our view, Orange's future performance will depend on how rapidly the Company is able to adjust its business model to the surge of disruptive technologies and fast-changing consumer trends, and will require continued high amounts of investment. Organic operating results growing above market-average, along with the maintenance of a good level of creditworthiness, could exert a positive influence on the ratings.

Structural risk

The Orange Group is headquartered in Paris (France) and has its origins in the Ministry for Mail, Telegraphs and Telephone. It was renamed France Telecom in 1991 and became a société anonyme on December 31, 1996. As of 31 December 2022, the French state held 22.95% of the share capital, respectively 29.25% of the voting rights, either directly or jointly with Bpifrance Participations (held by the French state). Despite the blocking minority of the French state, we consider its influence on the Orange Group, and thus the proximity to the state, to be limited.

The rest of the shares are in free float (69.34%) or owned by the Company (0.07% treasury shares) or Orange employees (7.64%).

The Group operates in 26 countries. In addition to its main market of France, these include seven other European countries and 18 countries in Africa & the Middle East. Its business operations in Spain are to be contributed to a joint venture with competitor MásMóvil in the second half of 2023, which would then be accounted for at equity by Orange. The aim is to create a sustainable player with the scale and financial capacity to further expand infrastructure in Spain.

Orange has its own network infrastructure consisting of fiber optic, 4G and 5G networks, as well as submarine cable. It also leverages satellite communications capacity from other satellite operators. Orange's broad geographic presence and the scale of its operations expose the Group to geopolitical, macroeconomic, security and operational risks. In addition, there is a need to continuously invest in infrastructure in view of growing customer demand and competitiveness, as well as network reliability and security. In particular, broadband expansion (5G and optical fiber) is accompanied by high investment and capital requirements. To reduce the necessary investment costs, external investors are increasingly involved, which we view positively from a financial perspective. In addition, at least in the EU, consideration is being given to obliging over-the-top companies (streamers, hyperscalers, etc.) to contribute to the costs of network expansion (broadband roll-out). The results of the EU Commission's current consultation on this matter remain to be seen.

In 2022, Orange separated the offices of the Chairman of the Board of Directors and the Chief Executive Officer and, on a broader level, updated the Group's governance structure. The main governance bodies of Orange are still the Board of Directors and the Executive Committee. The Board of Directors presides over all decisions relating to the Group's major strategic, economic, employment, financial, and technological policies, and monitors the implementation of these policies by the General Management. The Board of Directors comprises 15 members and is supported by the expertise of three specialized committees: the Audit Committee; the Governance, Corporate Social and Environmental Responsibility Committee; and the Strategy and Technology Committee. To support the changes related to the new strategic plan, the Executive Committee was expanded to 13 members as of April 2023. As of 31 December 2022, the average number of employees was 130,307 (2021: 132,002).

The risk management and internal control system implemented by Orange is designed to ensure the achievement of operational and strategic objectives, compliance with applicable laws and regulations, as well as the reliability of financial and non-financial information, and is subject to a continuous improvement process.

Overall, we see Orange's short- to medium-term structural risk as moderate to slightly elevated given its international focus and the rapid expansion and transformation of its infrastructure.

Business risk

The telecommunications industry is marked by regulatory intervention, increasing competition, consolidation pressure and technological change, affecting the financials and revenues of established companies. The revenues of Orange are based on traffic, connection fees, network usage, installation fees, interconnection revenues, sales of handsets and equipment, other digital services, as well as value-added services and maintenance. These products and services are offered individually or in bundled packages.

The general business development of Orange depends largely on overall macroeconomic conditions and, more particularly, on demand for connectivity and the spending of its consumers. The overall demand for high-speed broadband – over fixed and mobile networks – remains very high. Still, any reduction in the buying power of its subscribers has a direct impact on the Company. The capacity of Orange to attract a high number of subscribers requires high marketing expenditure, particularly given the low degree of customer loyalty and high competitive intensity. Even though competition is very strong in Orange's key markets, we view Orange as having a strong market position in the jurisdictions where the Company operates.

The Group is subject to a variety of laws and regulations, and many services provided by Orange (e.g. network operation, spectrum usage) require the granting of concessions, permits and licenses by governmental authorities. In order to maintain these licenses, the Group is required to make certain investments in its infrastructure or to acquire new spectrum, putting pressure on the Company's cash flow. Some wireline and wireless telephony services are to be provided under regulated rates and price systems. Any breach of concession contracts or loss of permits or licenses could negatively affect the Group's development.

The Company is also exposed to country risks, such as political, economic, regulatory and currency risks, largely due to its operations in several non-investment-grade countries in Africa & the Middle East. Any changes in the political or economic environment could lead to decreasing revenues and/or impairments, which could have a detrimental effect on the Group's financial ratios. Although the share of sales in Africa & Middle East appears to have been moderate at roughly 15.5% in 2022, we expect the share of sales to increase in the future due to the high growth rate in this region and the expansion of business activities in Spain, and consequently a greater weighting of these risks, which would have a dampening effect on our assessment of the Group's business risk.

In the telecommunications business, network quality and prices are key to remaining competitive. Furthermore, as in most European markets, convergent offers (mobile, fixed, and cable TV), and the demand for new content is continuously on the increase, forcing the Company to develop new business areas (content creation).

Given the steadily growing mobile penetration and broadband uptake worldwide, we see good chances that the Company will be able to achieve further growth by means of increasing cross-selling opportunities (bundle offers with a better margin) while continuing to invest in its network to improve coverage and/ or broadband speeds. The introduction of 5G offers new opportunities. However, in addition to financial risks, network rollout and extension entail execution risks. Any changes to the networks, such as disruption or quality loss, could affect the business and business expansion of Orange.

In addition, it must be taken into account that the traditional telecommunications business is undergoing dynamic change. New networks must be designed to be open to competition and to be future-proof, so that third parties must be granted access to the network. In the future, networks will be similar to software platforms, which make available the main functions of the networks via connectors or APIs (application programming interface), thus enabling new business models (e.g., Network as a Service (NaaS). An innovative change in the telecommunications business requires regulatory changes, which can slow development.

Orange has adjusted its strategic alignment to meet the structural and economic challenges of the market in an appropriate manner. The new strategy "Lead the future" is designed to strengthen the focus on the core business and drive sustainable profitable growth in Africa & the Middle East. Investments in infrastructure expansion and development are to be continued within a responsible financial framework. Strategic partnerships will be entered into to reduce investment costs. The plan also provides for further cost-cutting measures and a slight reduction in the investment ratio from 18% to 15% of sales in the coming years, which should have a positive impact on free cash flow. In addition, Orange will consolidate its strong position in cybersecurity and undertake a complete re-positioning of its B2B activities to better meet the expectations of its customers and accelerate growth in der Enterprise segment. Lead the future will put in place a new company model guided by an ambitious policy of social and environmental responsibility.

Overall, we consider the strategic realignment to be plausible and suitable for improving competitiveness and generating positive business development in the future, although it remains to be seen whether the strategic goals will be achieved. Due to the high technological and financial requirements, especially with regard to network expansion (optical fiber and 5G), the intense competition, and the difficult overall environment with high inflation and rising interest rates, we assess the overall business risk as slightly increased.

Financial risk

For analytical purposes, CRA makes adjustments to the original balance sheet values of companies. Due to these adjustments and generally CRA's own calculation methods of key figures, they may differ from the original values and information provided by Orange.

Based on the consolidated figures for the fiscal year 2022, we assess the creditworthiness of Orange S.A. as highly satisfactory, which forms the basis for our rating assessment. The adjusted equity ratio decreased slightly to 24.8% in the past fiscal year 2022 (2021: 25.0%), largely due to the relatively high dividend payout.

Orange Group's financial liabilities totaled EUR 45,048 million as of December 31, 2022 (2021: EUR 43,408 million), consisting largely of bonds of EUR 29,943 million (2021: EUR 29,010 million), lease liabilities of EUR 8,410 million (2021: EUR 8,065 million), bank loans and loans from development organizations and multilateral lending institutions of EUR 3,309 million (2021: EUR 3,206 million), issues in the short-term securities markets under the NEU Commercial Paper program (Negotiable European Commercial papers) of EUR 1,004 million (2021: EUR 1,457 million) and other financial liabilities of EUR 2,382 million (2021: EUR 1,670 million). Of the total financial liabilities, EUR 6,211 million (2021: EUR 4,790 million) was due in the short term. Overall, the maturity structure of the Group's financing is relatively balanced and does not reveal any significant cluster risks.

As of 31 December 2022, bonds issued by the Group were redeemable at maturity, and no specific guarantee has been given in relation to their issuance. Certain subsidiaries of Orange S.A. are committed to comply with certain financial ratios related to indicators defined in the contracts with banks. The total equivalent amount of the relevant outstanding obligations was EUR 630 million. A breach of these ratios constitutes an event of default that can lead to early repayment of the respective line of credit or loan. According to annual statements, as of 31 December 2022, all covenants had been met.

In addition to the financial liabilities, existing purchase and other contractual obligations of approximately EUR 12,462 million must be taken into account.

Orange is subject to interest rate and foreign exchange risks, which are mitigated by the use of derivatives and natural hedging. The generally rising interest rates represent a certain risk with regard to the future interest burden - as well as the valuation of intangible assets (e.g. goodwill).

The balanced maturity structure as well as the high fixed-rate component of gross financial debt of 96% as of 31 December 2022, should be taken into account in relative terms.

Orange has factoring agreements as well as a syndicated multi-currency revolving credit facility of EUR 6.0 billion, which was signed with 27 international banks on 23 November 2022 to refinance its syndicated credit facility maturing in December 2023. The new credit facility matures in November 2027, with two one-year extension options, and its interest margin is indexed to the achievement of environmental and social targets. As of December 31, 2022, the credit facility was undrawn.

Orange had a strong liquidity position of EUR 16,740 million as of 31 December 2022, consisting of undrawn credit facilities (EUR 6,394 million), cash and cash equivalents (EUR 5,846 million) and fair value investments (4,500 million), which exceeded by far the Company's repayment obligations of its gross financial debt in 2023 (see above). The CRA's net total debt / EBITDA adj. was also adequate in our view (4.73x; 2021: 4.84x).

Overall, we see no significant short- or medium-term liquidity risks for Orange. The Group has an adequate cash position, undrawn credit lines, as well as a comfortable debt maturity profile that gives the Company financial flexibility together with proven capital market access. Furthermore, Orange generates solid operating cash flows and has diversified funding sources at its disposal, which should allow the Company to pursue its strategic plan while maintaining financial discipline, despite the continued high investment and capital requirements. The Company's high payout ratio and the increased net financial debt have a dampening effect on our assessment. Against the backdrop of rising interest rates, a significant increase in net debt could have a negative or limiting impact on the rating assessment.

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 notes of Orange S.A. have been issued under the EMTN program with its latest base prospectus from 8 June 2022 and the latest Supplement dated 4 April 2023. 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.

Result corporate issue rating

We have provided the EUR-denominated, unsubordinated and unsecured debt securities issued by Orange S.A. with an unsolicited corporate issue rating of BBB+. They thus have a strongly satisfactory credit quality and a low to medium risk of default. The outlook is also stable. In consideration of our corporate issue rating methodology, the rating is based on the unsolicited corporate issuer rating of Orange S.A. The terms and conditions did not give rise to the application of an extraordinary notching to the unsolicited corporate issuer rating.

Other types of debt instruments or issues denominated in other currencies of 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 4: Overview of CRA Ratings I Source: CRA

Rating Category	Details	
	Date	Rating
Orange S.A. (Issuer)	05.05.2023	BBB+ / stable
Long-Term Local-Currency (LT LC) Senior Unsecured Issues	05.05.2023	BBB+ / stable
Other	-	n.r

Table 5: Overview of 2022 Euro Medium Term Note Programme I Source: Base Prospectus dated 08.06.2022

Overview of 2022 EMTN Programme			
Volume	EUR 35,000,000,000	Maturity	Depending on respective bond
Issuer	Orange S.A.	Coupon	Depending on respective bond
Arrangers	BNP Paribas, BofA Securities Europe SA	Currency	Depending on respective bond
Credit enhancement	none	ISIN	Depending on 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 (such as the Commercial Paper Programme) 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.

Financial ratio analysis

Table 6: Financial key ratios |Source: Orange S.A. annual report 2022, structured by CRA

Asset structure	2019	2020	2021	2022
Fixed asset intensity (%)	69.28	71.16	71.59	70.35
Asset turnover	0.50	0.47	0.45	0.45
Asset coverage ratio (%)	67.48	70.16	70.83	69.01
Liquid funds to total assets	7.35	8.76	9.11	6.17
Capital structure				
Equity ratio (%)	19.51	25.82	25.00	24.84
Short-term debt ratio (%)	31.47	30.40	28.81	29.99
Long-term debt ratio (%)	27.24	24.10	25.71	23.70
Capital lock-up period (in days)	57.74	55.91	57.84	59.34
Trade-accounts payable ratio (%)	7.57	6.96	7.12	7.25
Short-term capital lock-up (%)	49.48	46.34	41.63	44.36
Gearing	3.75	2.53	2.64	2.78
Leverage	4.65	4.40	3.94	4.01
Financial stability				
Cash flow margin (%)	25.33	30.26	18.10	24.54
Cash flow ROI (%)	12.12	13.74	8.13	10.95
Total debt / EBITDA adj.	4.90	4.90	5.51	5.16
Net total debt / EBITDA adj.	4.45	4.32	4.84	4.73
ROCE (%)	11.57	9.66	7.58	9.53
Total debt repayment period	4.21	4.72	5.79	7.88
Profitability				
Gross profit margin (%)	57.72	58.15	57.73	56.91
EBIT interest coverage	4.84	4.37	2.59	4.97
EBITDA interest coverage	11.63	11.39	11.65	14.34
Ratio of personnel costs to total costs (%)	20.11	20.09	23.32	20.52
Ratio of material costs to total costs (%)	42.28	41.85	42.27	43.09
Cost income ratio (%)	86.18	87.59	94.61	89.66
Ratio of interest expenses to total debt (%)	1.74	1.77	1.34	1.26
Return on investment (%)	5.03	6.65	1.59	3.40
Return on equity (%)	17.67	24.51	3.26	10.93
Net profit margin (%)	7.63	11.96	1.83	6.02
Operating margin (%)	14.20	12.63	5.80	10.54
Liquidity				
Cash ratio (%)	23.34	28.79	31.61	20.54
Quick ratio (%)	86.15	84.53	89.40	87.21
Current ratio (%)	97.60	94.89	98.62	98.86

Appendix

Rating history

The rating history is available under https://www.creditreform-rating.de/en/ratings/published-ratings.html.

Table 7: 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 8: 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:

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

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.

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

[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 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 5 May 2023, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 8 May 2023. 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

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