BRYAN, GARNIER & CO

INDEPENDENT RESEARCH

29th June 2016

TMT

Orange

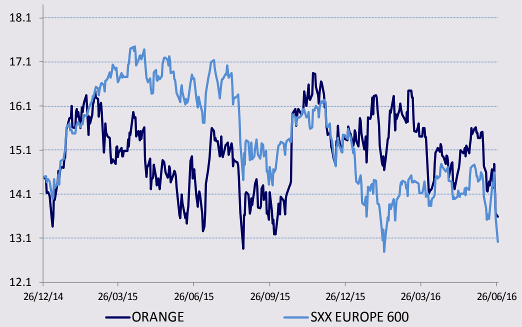
Lights are turning green.

Fair Value EUR17.1 (price EUR13.59)

BUY
Coverage initiated

Bloomberg	ORA FP
Reuters	ORAN.PA
12-month High / Low (EUR)	16.9 / 12.9
Market capitalisation (EURm)	36,137
Enterprise Value (BG estimates EURm)	59,320
Avg. 6m daily volume ('000 shares)	7,863
Free Float	72.0%
3y EPS CAGR	2.6%
Gearing (12/15)	110%
Dividend yields (12/16e)	4.42%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (EURm)	40,236	41,220	41,684	41,977
EBITA EURm)	4,742	4,875	5,082	5,230
Op.Margin (%)	11.8	11.8	12.2	12.5
Diluted EPS (EUR)	0.98	0.96	1.04	1.06
EV/Sales	1.56x	1.44x	1.41x	1.40x
EV/EBITDA	5.0x	4.7x	4.6x	4.5x
EV/EBITA	13.2x	12.2x	11.6x	11.2x
P/E	13.8x	14.2x	13.0x	12.8x
ROCE	4.3	4.1	4.4	4.4



We are initiating coverage of Orange with a Buy rating and a fair value of €17.1. We believe that Orange is currently trading at an unjustified discount. Orange is efficiently managing its national business model while the French market is getting back on track. Its healthier balance sheet makes it possible to seize external growth opportunities, especially on an international scale, and we consider a dividend increase to be likely by 2017.

- Thanks to a **French market showing signs of recovery** and to its **unique premium positioning**, Orange France appears to be in a position to make up for the **revenue losses** related to the **roaming agreement with Free** and to **DSL unbundling**. We anticipate a revenue decline of **0.6%** in 2016, vs. **-0.8%** in 2015, with a stabilization expected by 2017. **EBITDA should stabilise in 2016**, before going slightly up in 2017 and 2018.

- **International markets are expected to fuel the Group's growth** in the coming years. After **+5.2%** in 2015, we anticipate a further revenue increase of **3.6%** over the period 2016-2018 in the **AMEA area**, while the Spanish division, invigorated by the acquisition of Jazztel, should help Orange achieve **+2.6%** growth by 2018 in Europe. Furthermore, a **debt ratio below 2x** should enable the Group to carry out new selective **external growth** transactions.

- We forecast an **EBITDA increase of 2.8% in 2016**, to **€12.77bn,** and then **+1.7%** over 2017-2018. In our opinion, **capex will raise to €6.9bn** in 2016, then to **€7.1bn** in 2017 and 2018 as the company will invest massively in its French and Portuguese fibre networks.

- We consider a **dividend increase** from **€0.6 to €0.8** per share in 2017 to be conceivable, as this would bring the **dividend yield closer to that of market comparables, i.e. 5.5%**. Orange is currently trading at **4.7x its 2016 EBITDA**, implying a discount of about **30%** to its peers. Our DCF-based fair value stands at **€17.1**.

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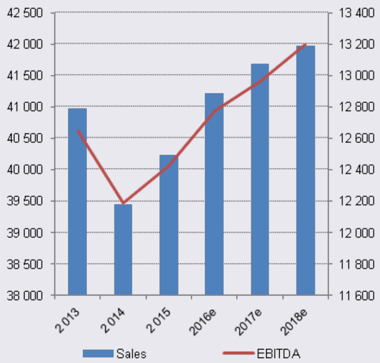

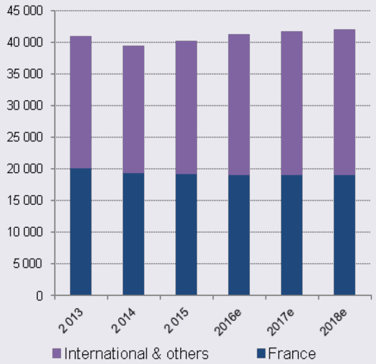

Company description

Orange SA is a telecommunications operator. The Company provides telecommunication services to consumers and companies, under the brand Orange Business Services. The Company's locations include France, Spain, Poland, Belgium, Luxembourg, Central European countries, Africa and Middle East. The company provides a range of services including fixed telephony, mobile telecommunications, internet access, data transmission and other value-added services.

Simplified Profit & Loss Account (EURm)	**2013**	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Revenues	40,981	39,445	40,236	41,220	41,684	41,977
Change (%)	*-%*	*-3.7%*	*2.0%*	*2.4%*	*1.1%*	*0.7%*
Adjusted EBITDA	12,649	12,190	12,426	12,772	12,962	13,197
EBIT	5,333	4,571	4,742	4,875	5,082	5,230
Change (%)	*-%*	*-14.3%*	*3.7%*	*2.8%*	*4.2%*	*2.9%*
Financial results	(1,750)	(1,638)	(1,583)	(1,234)	(1,155)	(1,137)
Pre-Tax profits	3,583	2,933	3,159	3,641	3,927	4,093
Tax	(1,405)	(1,573)	(649)	(746)	(805)	(921)
Minority interests	260	300	306	306	306	306
Net profit	2,133	1,225	2,958	2,894	3,122	3,172
Restated net profit	2,133	1,225	2,958	2,894	3,122	3,172
Change (%)	*-%*	*-42.6%*	*141%*	*-2.1%*	*7.9%*	*1.6%*
Cash Flow Statement (EURm)						
Operating cash flows	8,908	10,155	11,136	11,151	11,210	11,189
Change in working capital	(110)	(236)	275	195	43.4	(57.1)
Capex, net, and licenses paid	(6,080)	(5,930)	(6,896)	(8,253)	(7,425)	(7,423)
Dividends	(1,314)	(1,846)	(1,589)	(1,621)	(1,891)	(2,161)
Net debt	30,726	26,090	26,552	23,183	22,668	22,424
Free Cash flow	1,262	2,862	3,089	1,665	2,631	2,629
Balance Sheet (EURm)						
Tangible fixed assets	23,157	23,314	25,123	26,259	26,544	26,802
Intangibles assets	36,732	36,595	41,398	41,398	41,398	41,398
Cash & equivalents	5,916	6,758	4,469	8,668	9,183	9,427
current assets	7,529	7,705	9,843	9,935	10,004	10,080
Other assets	12,499	14,032	10,597	7,181	7,097	6,991
Total assets	85,833	88,404	91,430	93,442	94,227	94,698
L & ST Debt	37,481	34,373	34,064	34,894	34,894	34,894
Others liabilities	22,018	22,330	24,099	23,020	22,799	22,484
Shareholders' funds	24,349	29,559	30,907	33,087	34,012	34,717
Total Liabilities	85,833	88,404	91,430	93,442	94,227	94,698
Capital employed	69,208	65,971	68,014	71,327	71,485	71,694
Ratios						
Operating margin	13.01	11.59	11.80	11.83	12.19	12.46
Tax rate	(39.21)	(53.63)	(20.54)	(20.50)	(20.50)	(22.50)
Net margin	5.20	3.11	7.35	7.02	7.49	7.56
ROE (after tax)	7.69	3.13	8.58	7.82	8.28	8.26
ROCE (after tax)	3.08	1.86	4.35	4.06	4.37	4.42
Gearing	154	116	110	105	103	101
Pay out ratio	61.60	151	53.72	55.99	60.56	68.12
Number of shares, diluted	2,631,711	2,637,415	2,700,700	2,700,965	2,700,965	2,700,965
Data per Share (EUR)						
EPS	0.71	0.35	0.98	0.96	1.04	1.06
Restated EPS	0.71	0.35	0.98	0.96	1.04	1.06
% change	*-%*	*-50.7%*	*180%*	*-2.4%*	*8.8%*	*1.8%*
BVPS	9.25	11.21	11.44	12.25	12.59	12.85
Operating cash flows	3.38	3.85	4.12	4.13	4.15	4.14
FCF	0.48	1.09	1.14	0.62	0.97	0.97
Net dividend	0.50	0.70	0.59	0.60	0.70	0.80

Source: Company Data; Bryan, Garnier & Co ests.

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1. Investment Case

Why the interest now?

The reason for writing now

The factors that have dragged the stock price down for several years should soon **run out of steam**. Despite failed M&A attempts, the **conditions in the French market are improving**, the Group's **cleaned-up balance sheet** makes it possible to consider further **international expansion**, there is a real **potential for dividend increase**, and the **influence of the French government** as a shareholder **should not last forever**.

Cheap or Expensive?

Valuation

We believe the Orange stock to be currently undervalued and the discount to its peers to be overestimated. Our **DCF**-based fair value stands at **€17.1**, implying a **26% potential premium** to the current stock price.

When will I start making money?

Catalysts

The share price performance will be linked to: **1/** Improvement in the French market, **2/** continued international growth, **3/** selective acquisition policy, **4/** dividend increase

What's the value added?

Difference from consensus

Rather than the 2016-2018 figures, in our view the stock price **has not yet factored in the positive signals** that might **change the market's perception of the Group** in the long term and set it free from the burdens that still maintain it below market comparables.

Could I lose money?

Risks to our investment case

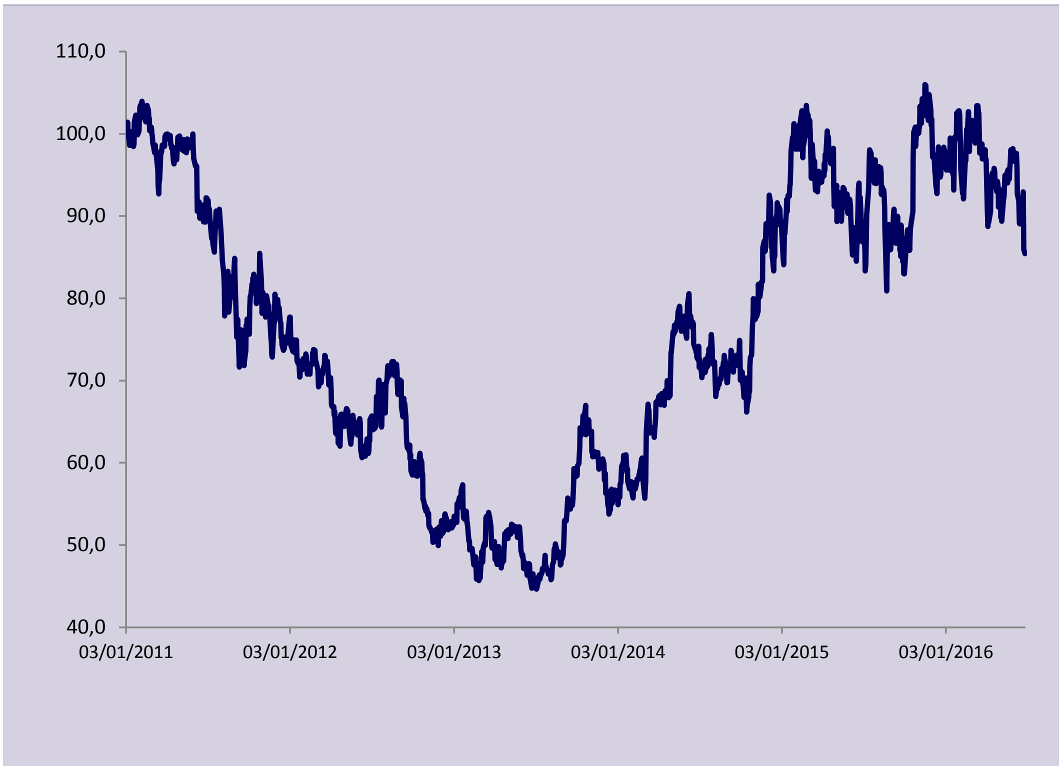
The main risks to our scenario are the following: **1/** renewed deterioration in the French market, **2/** disappointing acquisitions and international growth.

2. Valuation: factors supporting a stock rerating

2.1. Stock price history

As shown in the graph below, at the beginning of 2015 the Orange stock returned to levels it had not reached since mid-2011, before the arrival of Free Mobile.

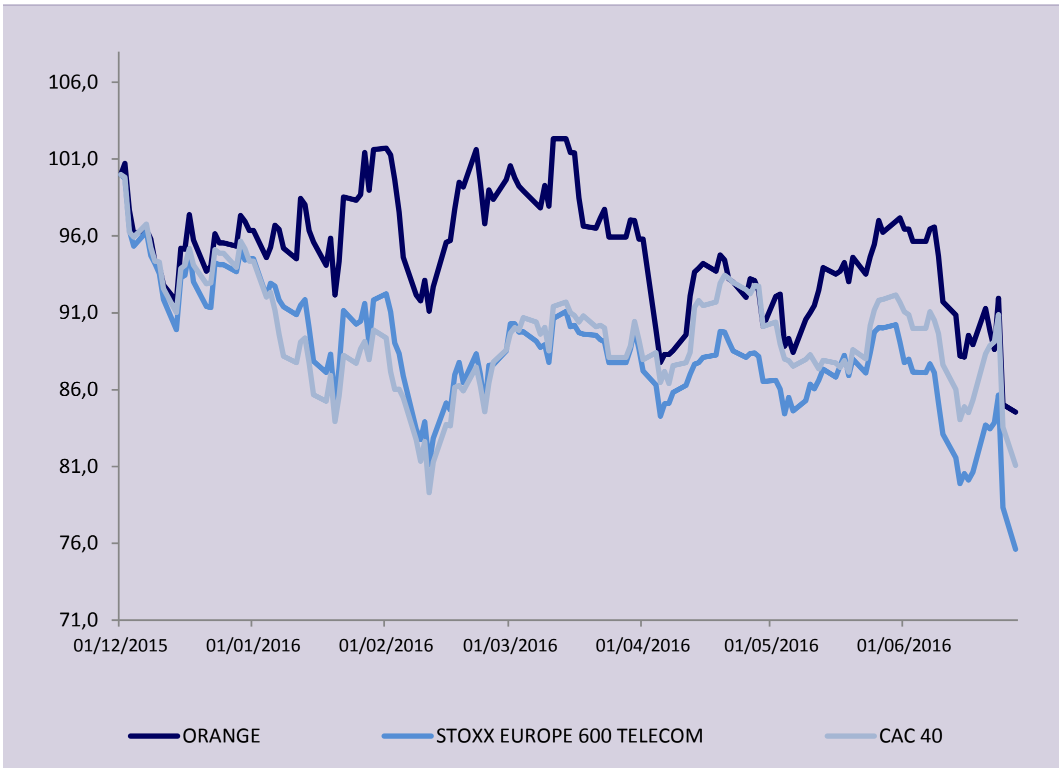
Fig. 1: Orange's stock price since the arrival of Free Mobile



Source: Thomson Reuters.

Between mid-December 2015 and early April 2016, the stock **outperformed** the CAC40 and STOXX Telecom 600 indices, **supported by hopes of a consolidation** in the French telecom market. In early April, it **suffered the dramatic impact of the failed discussions with Bouygues**. This impact **gradually disappeared** in the next weeks and the stock followed the same trends as the CAC40 and STOXX Telecom 600, even when they **collapsed in June**, mostly due to **Brexit**.

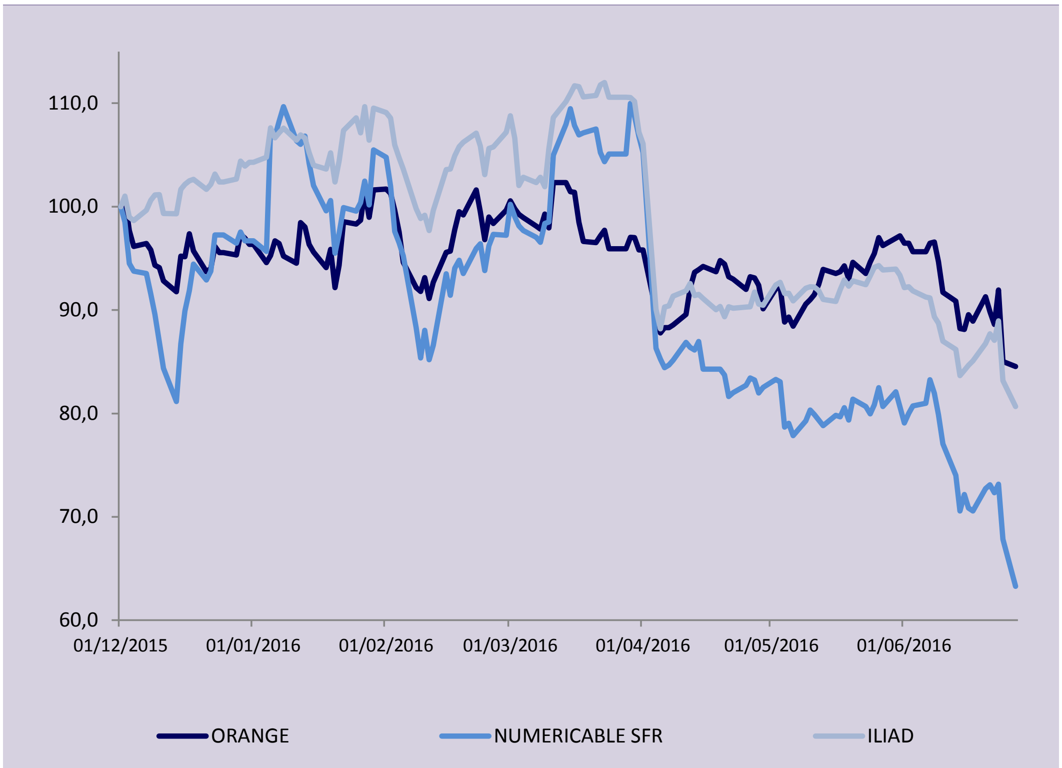
Fig. 2: Orange's stock price vs. STOXX EUROPE 600 Telecom and CAC40



Source: Thomson Reuters

It is noteworthy that the **fluctuations** in Orange's stock price related to M&A talks were much **smaller** than those observed with Iliad and Numericable-SFR. This is due to the fact that, from a **strategic/industrial point of view, the deal seemed much less relevant for Orange than for its competitors**, and that the valuation basis used for Bouygues Telecom was high.

Fig. 3: Orange's stock price vs. French competitors



Source: Thomson Reuters

2.2. DCF valuation

Our **DCF**-based **fair value** stands at **€17.1**, implying a **26%** premium to the current stock price.

Our model is based on the following assumptions:

- **Revenue**: we anticipate a revenue increase of **2.4% in 2016 vs. -0.1% in 2015**, propelled in particular by **Spain and Africa**, with a **0.6% decline in France** vs. -0.8% in 2015. We expect **growth to stabilise at 0.7%** by 2018, driven by international markets, while the French division will be stable at **0.1%**, the **market improvement compensating the revenue losses related to the roaming agreement with Free and to the unbundling**.

- **EBITDA:** EBITDA growth should be confirmed, at **2.8%** in 2016, vs. **0.1%** in 2015, due in particular to the performance of the Spanish division. Boosted by the Group's savings plan, the improvement in adjusted EBITDA margin should be confirmed, up **from 30.9% at the end of 2015 to 31.4% in 2018**.

- **Investments**: as compared to 2015, we expect **capex to increase** to **€6,9bn in 2016,** then to **€7,1bn** in 2017 and 2018, representing between **16%** and **17%** of revenue, supported, among others, by **substantial fibre investments in France and Poland**. We add up the purchase of the **Polish 4G licence for €800m** in 2016, and an additional yearly **€100m** for new licenses purchased around the world (excluding France and Poland).

- WCR: we assume the payment of the **French 700MHz 4G license**, for which **€933m** were recorded in 2015, although this amount will be paid in 2016-2018 in **four €233m payments** (including two in 2016).
- We assume a 20.5% tax rate until 2017, and then **22.5%**, as tax loss deductions will come to an end.
- We use a cost of net debt before tax of **4.9%**
- We adopt a discount rate of **6.6%** and a beta of **0.95**, which was calculated based on Orange's 5-year historical beta vs. STOXX 600, deducting 0.05 in order to take into account **more favourable conditions in France**, a good **resilience to macroeconomic factors**, and a **dividend policy expected to improve** (for comparison, we adopted a beta of 0.8 for Iliad, 1.07 for SFR and 1.33 for Altice). We also assume a risk premium of **7.0%** and a risk-free rate of **1.6%**.
- We use a perpetual growth rate of **0.7%**.

Fig. 4: Calculation of the discount rate

Inputs	
Risk Free rate	1.6%
Market risk premium	7.0%
B	0,95
Cost of Equity	**8.25%**
Cost of Debt after taxes	3.9%
Gearing (based on market cap)	61%
WACC	**6.6%**

Source: Bryan, Garnier & Co ests.

Fig. 5: Discounted Cash Flow model

EURm	**2015**	**2016e**	**2017e**	**2018e**	**2019e**	**2020e**	**2021e**	**2022e**	**2023e**	**2024e**	**2025e**	**2026e**
Sale	40 236	41 220	41 684	41 977	42 273	42 571	42 871	43 173	43 477	43 783	44 092	44 402
Change in sales		2,4%	1,1%	0,7%	0,7%	0,7%	0,7%	0,7%	0,7%	0,7%	0,7%	0,7%
EBIT	4 742	4 875	5 082	5 230	5 449	5 536	5 624	5 712	5 802	5 891	5 982	6 073
As % of sales	11,8%	11,8%	12,2%	12,5%	12,9%	13,0%	13,1%	13,2%	13,3%	13,5%	13,6%	13,7%
Tax rate	20,5%	20,5%	20,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%	22,5%
Net Op. Profit after Tax	3 768	3 875	4 040	4 053	4 223	4 290	4 359	4 427	4 496	4 566	4 636	4 706
+ D&A and prov.	6497	6700	6807	6831	6865	6852	6842	6833	6827	6821	6817	6800
Cash flow from op.	10 265	10 575	10 847	10 885	11 088	11 142	11 200	11 260	11 323	11 387	11 453	11 506
- Net investments (incl. Freq.)	-6 896	-8 253	-7 425	-7 423	-7 000	-6 800	-6 800	-6 800	-6 800	-6 800	-6 800	-6 800
- change in WCR	275	195	43	-57	-58	-58	-58	-59	-59	-60	-60	-60
Free cash Flow	3 644	2 517	3 465	3 405	4 030	4 285	4 342	4 402	4 464	4 527	4 593	4 646
Discounted FCF		2 432	3 140	2 894	3 213	3 204	3 046	2 896	2 755	2 621	2 494	2 367
Sum of disc. FCF		31 062										
+ disc. terminal value		40 928										
- net debt		-21 562										
+ financial assets		4 618										
- minority interests		-4 138										
- provisions		-1 147										
+/- other adj.		-3 629										
Valuation		46 132										
Nbre of shares (fully dilluted)		2 701										
Value per share		17,1										

Source: Company Data; Bryan, Garnier & Co ests.

We exclude the dividends paid for the year from the net debt calculation used in the DCF. Financial assets include, among others, the 4% stake in BT for a valuation estimated at €2.5bn. Minority interests essentially include Sonatel, Orange Belgium and Orange Polska, at market value. Other adjustments include the value of commitments concerning long term and post-employment benefits (including the Part Time Senior agreement).

2.3. Market comparables

The Orange stock is trading at a **significant discount to the European market comparables** presented in the tables below. The discount has also increased over the last two years.

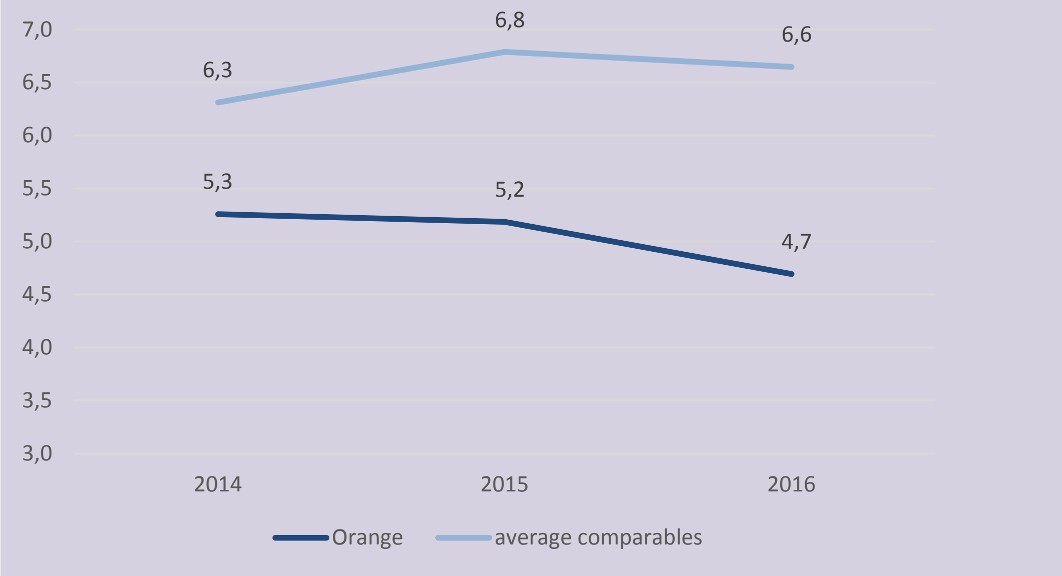
Even considering **its EBITDA growth prospects**, **Orange's valuation is still below that of market comparables**.

Fig. 6: EV/EBITDA multiples of comparable companies

EV/EBITDA	2016e	2017e
TELECOM ITALIA	4,6	4,4
Orange consensus	**4,7**	**4,6**
Deutsch Telekom	5,5	5,1
TELENOR	5,4	5,1
Telefonica	5,5	5,2
Orange BG	**5,6**	**5,6**
TDC	5,6	5,6
NC SFR	6,1	5,5
PROXIMUS	6,3	6,1
Altice	7,2	6,1
Vodafone	7,3	6,9
SWISSCOM 'R'	7,3	7,3
BT Group	7,3	5,9
TELIA COMPANY	8,2	8,0
KPN KON	8,1	7,8
Average cons.	**6,4**	**6,0**

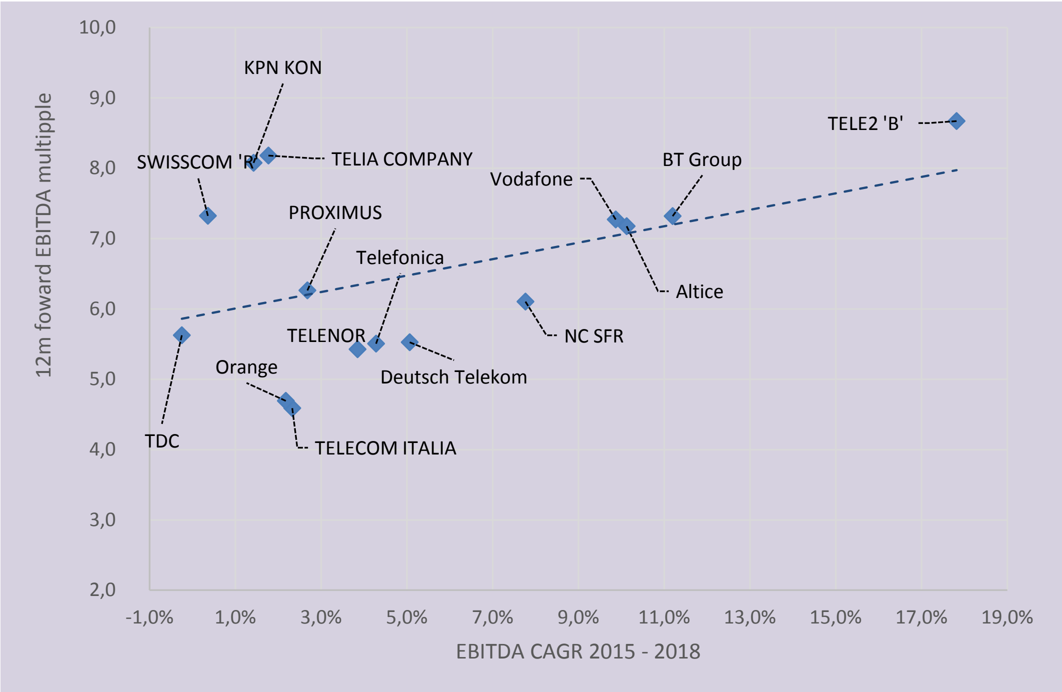
Source: Thomson Reuters, Bryan, Garnier & Co ests.

Fig. 7: Evolution of EV/EBITDA multiples of Orange comparable companies



Source: Thomson Reuters.

Fig. 8: Correlation between EV/EBITDA and EBITDA growth



Source: Company Data; Bryan, Garnier & Co ests.

We believe that this discount is attributable to the investors' concerns regarding the following factors:

- Dividend policy (see paragraph below)
- Conditions in the French market (see Section 3)

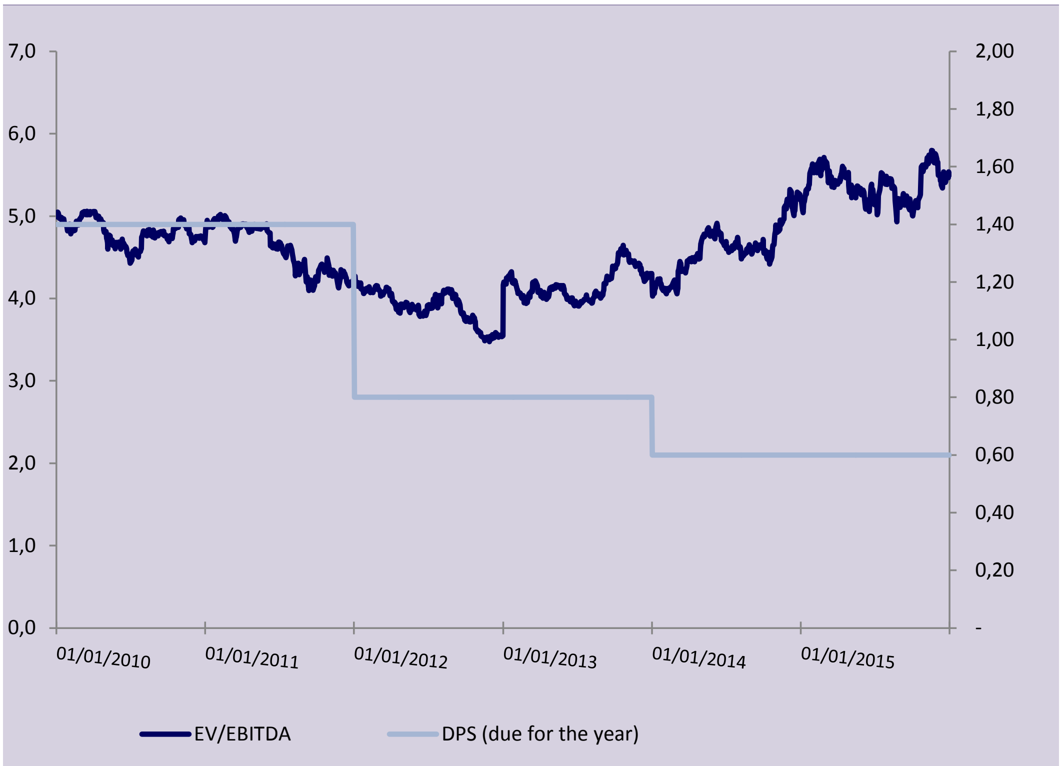
- Fibre investment policy (see Section 3)
- Exposure to Africa (see Section 4)
- Status as the incumbent operator and influence of the French government (see Section 5)

However, as shown in this report, there are grounds to be optimistic about all these factors, and we consider the discount mentioned earlier to be excessive.

2.4. Dividend policy

The graph below shows Orange's dividend policy since 2010. The 40% decrease in 2012 happened when Orange suffered the impact of the entry of Free. This impact could also be observed in its valuation. However, the 25% decline in dividends for the year 2014 did not keep the stock price from moving back up simultaneously, as brighter prospects emerged for Orange following the Free impact.

Fig. 9: Orange's EV/EBITDA multiple and dividend per share



Source: Company Data; Bryan, Garnier & Co ests.

It can also be noted in the table below that Orange's dividend policy is less generous than that of most of its European competitors. Here we use a concept of "pay out" to EBITDA rather than net income, as EBITDA is the most usual measure of performance in the telecom sector.

Fig. 10: EBITDA pay out ratio of Telecom players in Europe

EBITDA pay out	2015	2016e	2017e	2018e
TELECOM ITALIA	0,0%	0,7%	1,5%	2,2%
TDC	7,8%	10,4%	11,3%	10,9%
Orange consensus	**12,8%**	**12,9%**	**13,5%**	**13,9%**
Deutsch Telekom	12,9%	13,2%	13,7%	14,0%
BT Group	19,6%	21,1%	19,5%	21,1%
Telefonica	23,9%	24,2%	22,5%	22,4%
KPN KON	23,9%	47,3%	24,4%	27,8%
TELENOR	25,5%	25,3%	25,8%	26,5%
SWISSCOM 'R'	27,8%	26,7%	26,7%	27,3%
PROXIMUS	30,8%	29,1%	29,1%	29,6%
TELIA COMPANY	38,2%	34,1%	35,1%	36,2%
Telefonica Deutschland	39,6%	42,1%	41,8%	42,8%
Average pannel	**21,9%**	**23,9%**	**22,1%**	**22,9%**
Average pannel (without Telecom Italia)	**23,7%**	**25,9%**	**23,8%**	**24,6%**

Source: Thomson Reuters.

Orange stated that **a dividend increase was conceivable,** subject to confirmation that the **EBITDA is improving** over **several consecutive quarters**.

We consider a dividend increase to the same level as in 2012/2013, i.e. **€0.8** per share, to be conceivable by 2017. Such a time horizon allows for an observation period long enough to be able to make an informed decision. The distribution amount would therefore be equivalent to **33% of EBITDA-capex paid for the financial year**, vs. between **25%** and **30%** in the past few years, and between **40%** and **45%** before the decrease in 2013. Based on the current stock price, the dividend yield would be 5.5%, vs consensus at 4.3% (€0.65 per share).

Fig. 11: Dividend policy and EBITDA - CAPEX

	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e
EBITDA-capex (EURm)	10 065	9 313	7 967	7 018	6 554	5 940	5 886	5 871	6 108
Due dividend per share	1,4	1,4	0,8	0,8	0,6	0,6	0,6	0,8	0,8
Cash dividend per share	1,4	1,4	1,4	0,5	0,7	0,6	0,6	0,7	0,8
Cash dividend (EURm)	3 706	3 703	3 632	1 314	1 846	1 589	1 621	1 891	2 161
% cash dividend / EBITDA-CAPEX	**37%**	**40%**	**46%**	**19%**	**28%**	**27%**	**28%**	**32%**	**35%**

Source: Company Data; Bryan, Garnier & Co ests.

3. Despite a failed M&A attempt, the French division can see the light at the end of the tunnel

3.1. The French environment is getting better

After failed M&A discussions, the first signs of a market repair and a capex war have appeared (rather than a price war).

After failed discussions on a potential merger of Orange and Bouygues, one could have expected market players to become more aggressive again, in line with the dangerous game they had played for several quarters, with ever more aggressive promotions.

The necessity of promoting **greater rationality**, the common interest in **restoring profit margins** and, more importantly, the need for each player to **generate funding to invest** in the fibre and 4G, seem to have guided operators onto a different path.

In a way, **the first signs of a "spontaneous market repair" have appeared** and the market seems to be **shifting from a price war to a capex war**. And Orange's size and ability to invest large amounts constitute **very significant assets** in this war.

In Q1 2016, SFR increased prices again in fixed and mobile telephony as a result of expanded offerings, in line with the strategy pursued since the company was acquired by Altice at the end of 2014. Orange took advantage of the launch of its new premium "Livebox 4k" to raise its rates in the fixed segment. On the occasion of its 20^{th} anniversary, Bouygues Telecom also increased its mobile rates while increasing its data allowance levels. But more importantly, Bouygues Telecom raised its rates in the fixed segment by starting to charge 3€/month for router rental.

Fig. 12: Main price hikes in Q1/Q2 2016

Operator	Segment	Offer	Price hike
Bouygues	Mobile	B&You 2h	1 €
Bouygues	Mobile	Sensation 30 Go	5 €
SFR	Mobile	all Power offers	1 €
SFR	Fixed	all Power offers	3 €
Orange	Fixed	Play	2 €
Orange	Fixed	Jet	3 €
Bouygues	Fixed	Bbox Miami	1 €
Bouygues	Fixed	All offers - box rental	3 €

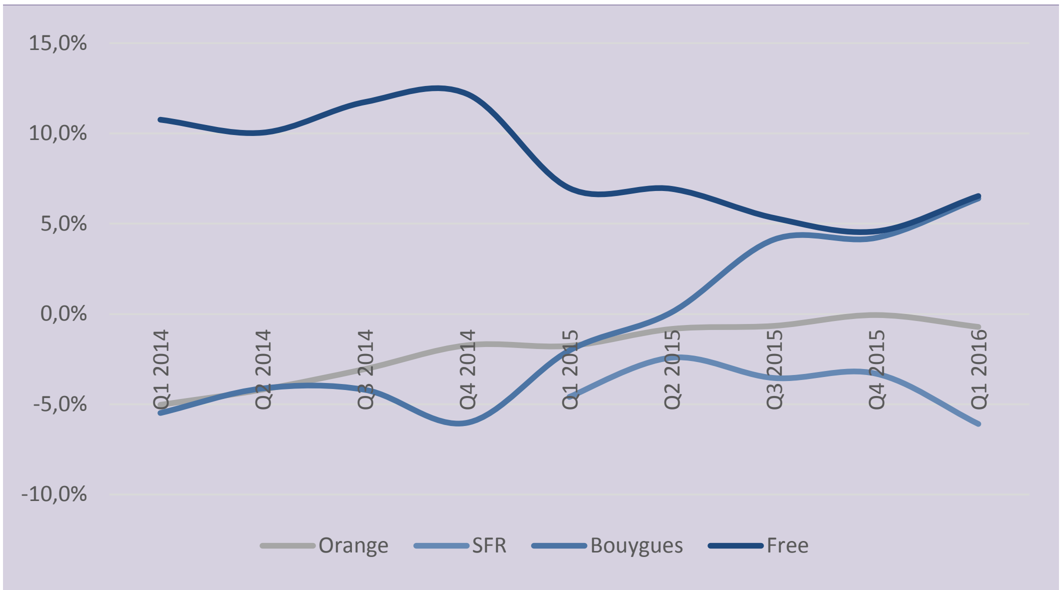
Source: Company Data

Such price increases made simultaneously by 3 of the 4 operators, both in the fixed and mobile segments, **had not been seen since Free Mobile was introduced in 2012**. At the same time, it seems that the promotional intensity that prevailed in recent quarters has gone down a notch. This will most probably be reflected in the ARPUs to be reported by operators as part of their next quarterly results.

We do not expect Free to significantly increase its mobile rates, since we believe it is not in the interest of its positioning or short-term strategy, as the company's mobile network is still generally of poorer quality than its competitors'. On the other hand, we think it is very likely that Free will follow the upward price trend in the fixed segment when it launches its Freebox v7, a new premium router that should not be released before September 2016. Iliad also needs some financial capacity to be able to invest massively.

The first signs of a trend recovery can be observed in the revenue and ARPU growth trends of the different market players.

Fig. 13: Annualised revenue growth



Source: Company Data; Bryan, Garnier & Co ests.

Orange's revenue has declined by less than 1% for 4 quarters in a row. Bouygues Telecom has found its way back to fast growth, catching up with Free's growth rate that is now declining only very slowly. Despite high prices (excluding promotions), SFR's revenue continues to be strongly affected by a lack of competitiveness and high customer churn in 2015.

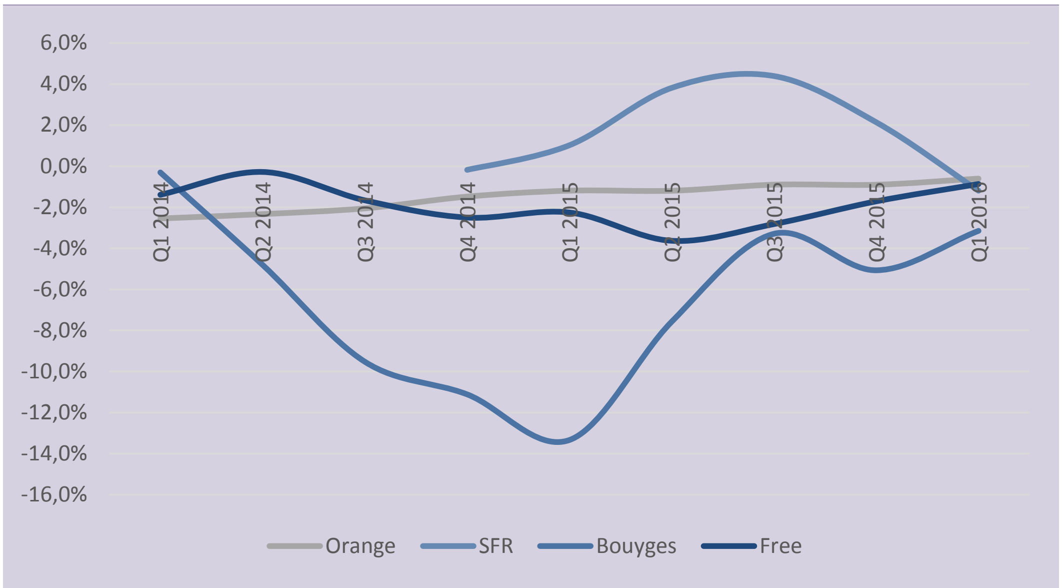
Fig. 14: Annualised growth in mobile user ARPUs

Source: Company Data; Bryan, Garnier & Co ests.

Note: Free's estimated ARPU; Orange's ARPU calculated over a 12-month rolling period.

For now, none of the operators can boast an increase in its mobile user ARPUs. We are still observing the latest consequences of the market repricing related to Free in 2012/2013, the merger of B&You's and Bouygues Telecom's product ranges at the end of 2014 and, to a greater extent, intensified promotional efforts in 2015. Nevertheless, the position of Orange and Bouygues Telecom has been improving for some quarters, and Free Mobile seems to be progressing towards stabilisation. SFR, which had decided to increase its mobile rates in early 2015, was forced to strengthen its promotional policy in H2 2015 in order to address its lack of competitiveness.

Fig. 15: Annualised growth in fixed user ARPUs



Source: Company Data; Bryan, Garnier & Co ests.

Note: Orange's ARPU calculated over a 12-month rolling period.

In the fixed segment, the impacts of the market repricing initiated by Bouygues Telecom at the beginning of 2014 are about to disappear. Bouygues is still experiencing these impacts, which Orange and Free have almost absorbed. At the beginning of 2015, SFR managed to improve its ARPU through price hikes but was forced, as in the mobile segment, to make a large number of promotions in order to restore its sales performance.

Therefore, all of the price increases described above should help **confirm, or even amplify, these emerging positive trajectories**, both in the fixed and mobile segments.

In our opinion, the **two main risks** that might jeopardise these trajectories are as follows:

- Bouygues is attempting to accelerate revenue recovery through ARPUs, in order to **fund its own investments on reasonable terms, especially in terms of ROCE**. The company is thus assuming that its price increases, supported in the mobile segment by its status as the very close second 4G provider, will not undermine its sales performance and, more importantly, that its competitors will follow suit. If this were not to happen, **Bouygues Telecom would likely need to move back to a stronger promotional policy**, dragging the market down again.

- SFR, whose **service quality is not yet commensurate with its ambitions** and its premium prices, is being forced to compensate for this lack of competitiveness with strong promotional campaigns. **Intense promotional efforts** can be expected for as long as the operator's sales and operational performance does not become more solid.

SFR's difficulties have given Orange the free reigns in the premium operator segment.

While **SFR's current situation** poses the risk mentioned above, **it represents an opportunity for Orange.**

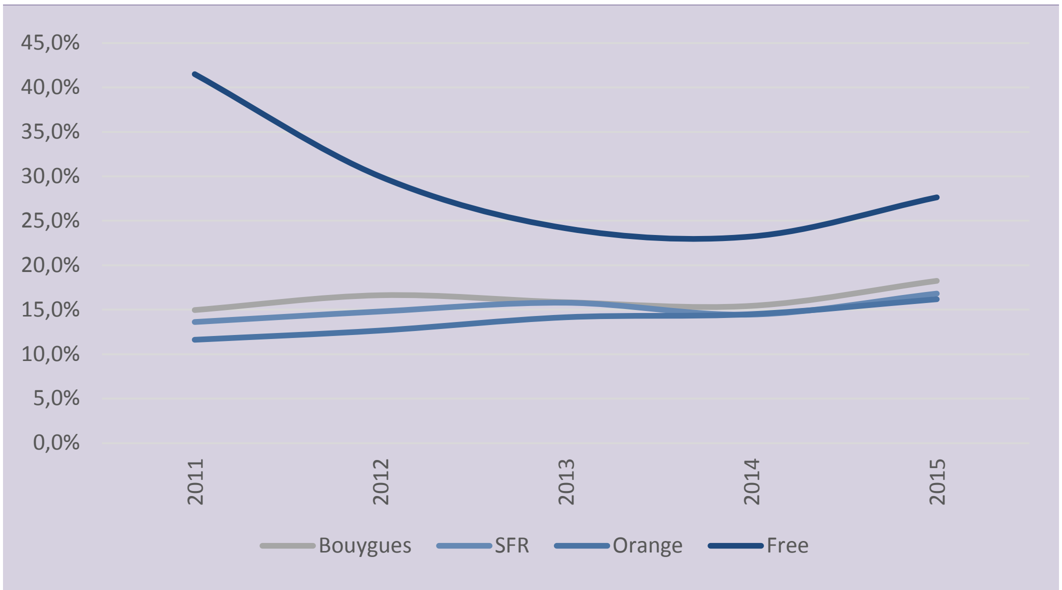
Because it is behind in the development of 4G infrastructures and it is experiencing difficulties in using its cable network to gain market share in the fixed segment, **SFR has given Orange the free reigns in the segment for large premium non-specialist operators.** Orange is now the only player in this category, and will be for a while.

We reckon that SFR's recovery will be gradual starting in 2017, in the wake of the spontaneous market repair described above. If Orange's sales volumes were to be impacted, increased ARPUs would probably take over. Until then, Orange will be attracting new customers.

In any case, Orange has the means to maintain its leadership as a 4G provider and to catch up in the field of fixed very high speed internet. **Thanks to its size, it is able to invest more than its competitors and place itself in the ideal position for the capex war that has already begun.**

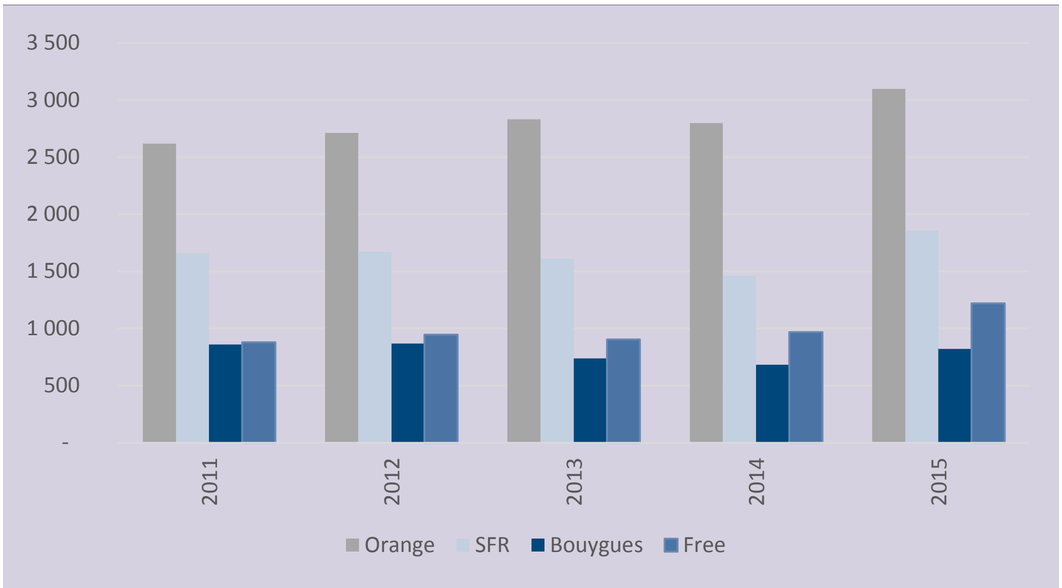
The upward capex trend is shown in the graph below for all operators. While **investing less than its competitors as a percentage of revenue**, Orange France is spending as much **capex as the second (SFR) and third (Free) largest operators combined** to address the same geographic areas.

Fig. 16: Comparison of telcos' capex in the French market (as a % of revenue)



Source: Company Data; Bryan, Garnier & Co ests.

Fig. 17: Comparison of telcos' capex in the French market (in €m)



Source: Company Data; Bryan, Garnier & Co ests.

It should also be highlighted that the **government is favourable to Orange's investments in fixed very high speed internet**. A government decree now provides a framework for the use of the term "fibre" in operators' marketing communications, in order for consumers to be able to differentiate between fibre-to-the-home (FTTH) and cable (fibre-to-the-building). This will have a direct impact on SFR, which has used the term "fibre" in all its marketing communications when referring to its fixed very high speed network.

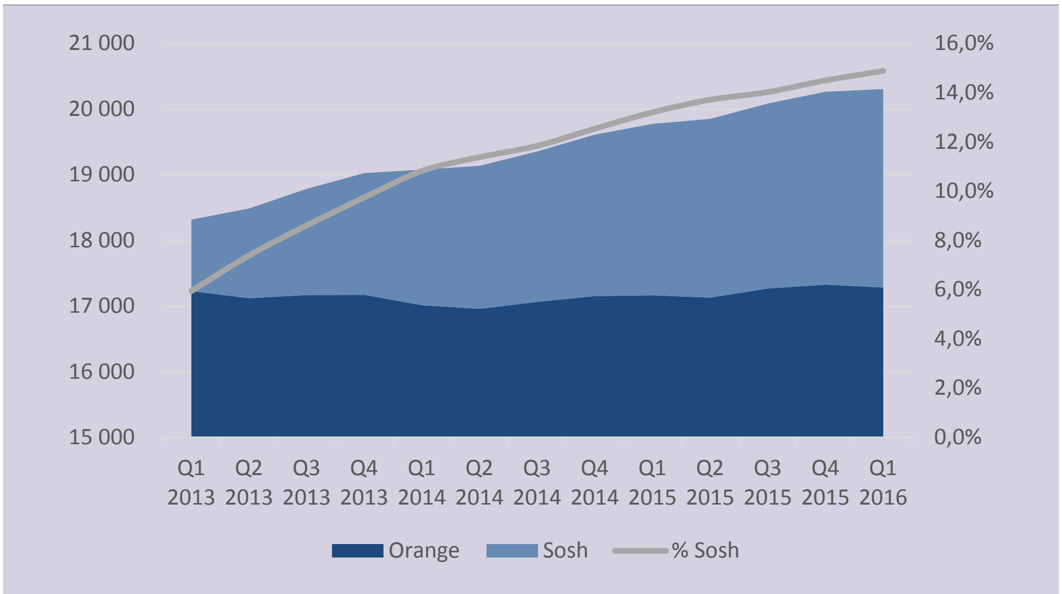
The low-cost threat has become an opportunity for Orange; cannibalisation is being replaced by growth.

Despite these long-term competitive advantages, **the low-cost threat still exists against Orange, especially in mobile services.** For some years now, low-cost offerings have been penetrating the market and Orange's own product range, as shown in the graph below. This growth in low-cost offerings is supported by the expansion of alternative purchasing and financing plans for mobile devices, and that of online distribution. However, there are still two main reasons to remain optimistic about this threat to Orange:

- The low-cost model generates lower recurring unit margins (in terms of absolute amounts, not rates) than comprehensive, high-end offerings, and it requires switching to **a high-volume strategy**. But in the French market, having a high-quality proprietary network is essential for low-cost operators to succeed (except maybe for Free). **Orange, via Sosh, its low-cost subsidiary, is thus well positioned to continue to generate strong sales volumes in this segment**.

- But more importantly, as shown below, the **low-cost segment is more a source of growth than cannibalisation for Orange**. Thanks to successful segmentation (and, let us recall it, a temporary competiveness deficit for SFR), Orange is able to combine Sosh's growth and that of its Origami plans. Over the past 12 months, **78% of the growth in Orange's mobile user base was achieved by Sosh**.

Fig. 18: Orange's mobile user base



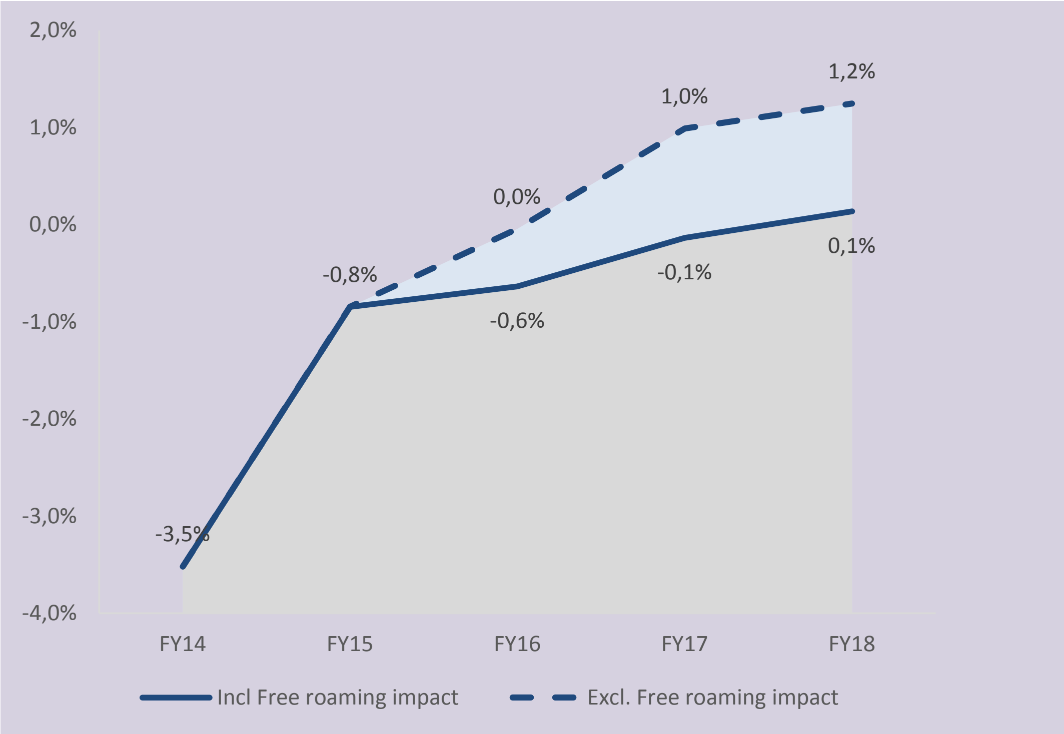
Source: Company Data; Bryan, Garnier & Co ests.

A rebound in retail revenue will be necessary to offset the shortfall related to the decline from the roaming agreement with Free.

All the encouraging trends described above are coming at a **good time**, as they will enable Orange **to offset declining revenues due to the roaming agreement with Free**, which is approaching its end date. Discussions currently underway should result in the extension of the agreement until 2020 instead of the beginning of 2018 as initially agreed. The terms of the agreement will be closely monitored by ARCEP, the French telecommunications regulator.

We anticipate that this agreement will generate revenues of €700m in 2015. According to our estimates presented below, the overall gradual decline should be offset by other revenue sources.

Fig. 19: Estimated growth in Orange France's revenue, including and excluding the impact of the roaming agreement with Free Mobile



Source: Company Data; Bryan, Garnier & Co ests.

3.2. The fibre plan: turning a limitation into an opportunity

3.2.1. A complex economic equation

As discussed earlier, Orange's position as the incumbent operator provides it with a size and investment capacity representing a significant, long-term competitive advantage in the French market. Conversely, due to this status the company is forced to manage optimally the decline of its legacy activities and the migration to new infrastructures and services. For instance, this is what happened with the shift from traditional telephony to triple play access with voice over IP (shift still underway), and this is what is happening today with the gradual migration of the internet access market from copper networks and DSL technology to a fibre network.

With **5.464m** FTTH sockets installed, Orange ranks second behind SFR, which has renovated **8.131m** cable sockets, and far ahead of Iliad and Bouygues, which have **2.8m** and **1.5m** sockets, respectively. Orange has announced a €4.5bn plan to invest in the fibre in 2015-2018 (global scale), implying a **tripling in fibre investments in France** to **12m** connected households by 2018, and **20m** by 2022.

The economic rationale behind these investments is open to debate, as Orange's interest in a massive migration of its customers from DSL to fibre is not self-evident. Accelerating the expansion of fibre optic networks means **accelerating the decline in wholesale revenue related to**

DSL unbundling. It also means giving up a regular income and having to make substantial investments. And wholesale fibre revenues will never replace wholesale DSL revenues.

Orange's investments in its fibre network is both a defensive move and a response to the objectives of the state as shareholder

We believe that Orange's fibre plan can be explained by three factors:

- The acceleration of the expansion of Orange's fibre optic network is a response to the threat from the business combination of Numericable and SFR. The company is therefore making a **defensive move** which, even if it does not create value, will at least destroy less value than it would have if SFR had become the only leader in fixed very high speed internet infrastructures. Orange's promotional aggressiveness, which has focused on its fibre optic offerings, demonstrates its intention to pre-empt the market as part of a sunk costs approach, instead of trying to make past investments more profitable by moving upmarket.

- Developing a proprietary, fixed very high speed network is **essential to Orange's brand image**, which relies on its position as the leader in terms of infrastructure. It would be unthinkable for Orange to be seen as the No. 2 player in terms of fixed infrastructure and this would most probably have a negative impact on all its business activities. Therefore, what is usually a strength for the incumbent operator is ironically a weakness when it requires it to invest in technologies with uncertain ROIs.

- Finally, it can be assumed that **the state's stake in Orange** has an influence on the company's proactive approach to fibre deployment, which is an important theme of **territorial development**. It is therefore difficult for us to imagine that the incumbent operator, whose largest shareholder is the French state, will not play along with the public authorities' top priority to bridge the digital divide.

It is unclear whether investing in the fibre will create value for the incumbent operator

It remains to be proven whether investing in its fibre optic network will be profitable for the incumbent operator. Costs savings will only become apparent in the very long run, when copper networks begin to be dismantled. Return on investment will probably come from incremental ARPUs or market share gains, which need to be very significant in order to justify the investment. The following paragraph presents a simplified overview of the return on investment which may be expected from fibre sockets installed in a moderately dense area. Even based on ambitious assumptions, it is still uncertain whether a positive return on investment can be obtained.

Let us focus on investments in moderately dense areas. We use the term "moderately dense" to refer to urban areas excluding very densely populated areas, and which are not the subject of a public initiative. These areas include about **10m sockets**, i.e. over **30% of the socket development potential** in France. They enjoy a **regulatory framework that is favourable to sharing agreements**, which are intended to reduce/facilitate investments. An operator that decides to cover a new area is required to offer access to other operators at reasonable prices, and calls for co-investments must be made in order for competitors to acquire the right to use the infrastructure.

In order to do so, operators have two options: **to buy or to rent**. In the first case, the co-investor purchases the right to use the socket for an estimated price of **€568**, and then pays **€5** per month for maintenance. In the second case, the third-party operator rents a socket to the network operator for **€15** per month. Therefore, the activities of a commercial operator, whose business is to market retail, very high speed internet products, can be distinguished from those of a network operator, which deploys sockets with a view to selling or renting them to third-party operators.

Therefore, concerning its own sockets, Orange will either act exclusively as a network operator (for third-party operators with which it has concluded agreements), or as a network operator and commercial operator for those sockets it will market on its own. In our model, we estimate the proportion of sockets deployed where Orange will act as a network operator at **50%** (including **5%** rented and **45%** sold), the proportion of sockets marketed by Orange at **35%**, and the share of sockets deployed but never operated at **15%**.

As regards the company's activities as a network operator, we assume a **margin of 40%** calculated over **30 years** (capital gains on the resale of the socket + margin charged on maintenance services). This margin covers, in particular, the time gap between the moment the socket is built and the moment it is sold/rented, as well as the risk taken by the network operator that some sockets deployed might never be operated (neither by a third party nor by Orange itself). The cost of connecting a customer to the network is estimated at **€400** on average in these areas.

In addition, we estimate that the sockets marketed by Orange will generate **an incremental ARPU of €5 excluding taxes**. However, we believe this assumption to be optimistic, since only bundles, which account for 45% of fixed customers, show a price premium of €5 including taxes when they include the fibre as compared to DSL. It is uncertain whether a customer switching from ADSL to the fibre will immediately start spending more on high value-added services.

Finally, we assume that sockets marketed by Orange will allow for a net adds performance **5%** higher, thanks to greater marketing effectiveness for sockets marketed as a commercial operator.

Based on these assumptions, **the net present value of the project to build a fibre network in moderately dense areas is near 0**, as shown in the table below (NPV per socket built, by using the WACC from our DCF model).

Fig. 20: NPV for fibre deployment in moderately dense areas

(EUR per HSP rolled out)	Y1	Y2	Y3	Y4	Y5	--- Y30
Orange as a network operator - co investment (45%)						
One off revenues	-	-	568	-	-	-
Recurrent maintenance revenues	-	-	60	60	60	60
HSP roll out costs	- 457	-	-	-	-	-
Recurrent maintenance costs	- 30	-30	-30	-30	-30	-30
Orange as a network operator - rental (5%)						
Rental revenues	-	-	186	186	186	186
HSP roll out costs	- 457					
Recurrent maintenance costs	- 30,0	-30	-30	-30	-30	-30
Orange as a commercial operator (35%)						
ARPU uplift	-	60 €	60	60	60	60
Incr. recurrent margin from Net Adds uplift	-	19	19	19	19	19
HSP roll out costs	-457	-	-	-	-	-
Connection costs	-	-400	-	-	-	-
Recurrent maintenance costs	-30	-30	-30	-30	-30	-30
HSP built but never sold/commercialised (15%)						
HSP roll out costs	-457	-	-			-
Recurrent maintenance costs	-15	-15	-15	-15	-15	-15
NPV analysis						
Cash Flow	-487	-139	295	34	34	34
WACC	6,6%	-	-	-	-	-
DCF	-485	-135	254	27	25	5
NPV (30 years)	**-6**					

Source: Company Data; Bryan, Garnier & Co ests.

An analysis of sensitivity to the main factors shows that it is **difficult to make investments profitable**.

Fig. 21: Analysis of sensitivity of the NPV from fibre deployment in moderately dense areas

VAN (EUR)	**Margin on co-investment model - over 30 year period:**		
Incremental market share:	30%	40%	50%
0%	**-167**	**-48**	**-31**
5%	**-125**	**-6**	**11**
10%	**-83**	**37**	**54**

Source: Garnier & Co ests.

It is interesting to note that, according to our estimates, **Orange is most profitable as a network operator**: this activity does not depend on the company's ability to generate ARPUs or incremental market share, and it is not affected by a connection cost of €400. However, it does depend on the ability of alternative operators to buy bulk capacity. Ironically, Orange **needs competitors that are financially healthy with which to co-invest in fibre deployment**, in order to make its own investments profitable and make up for the revenue shortfall from DSL unbundling. It is not desirable for Orange to massively deploy without being accompanied by its competitors. This is one of the reasons why a consolidation in the French market was in Orange's interest: **without strong competitors, it is hard to ensure in an efficient manner that massive fibre investments are actually profitable**. While Iliad has announced its commitment to accompany Orange in all deployments in moderately dense areas, SFR has withdrawn its commitments made for such areas in 2011, as the operator intends to deploy its own network and does not wish to duplicate the FTTH and cable networks in the same areas. **At this stage, it is still difficult to be fully confident in the co-investment commitments made by competitors**.

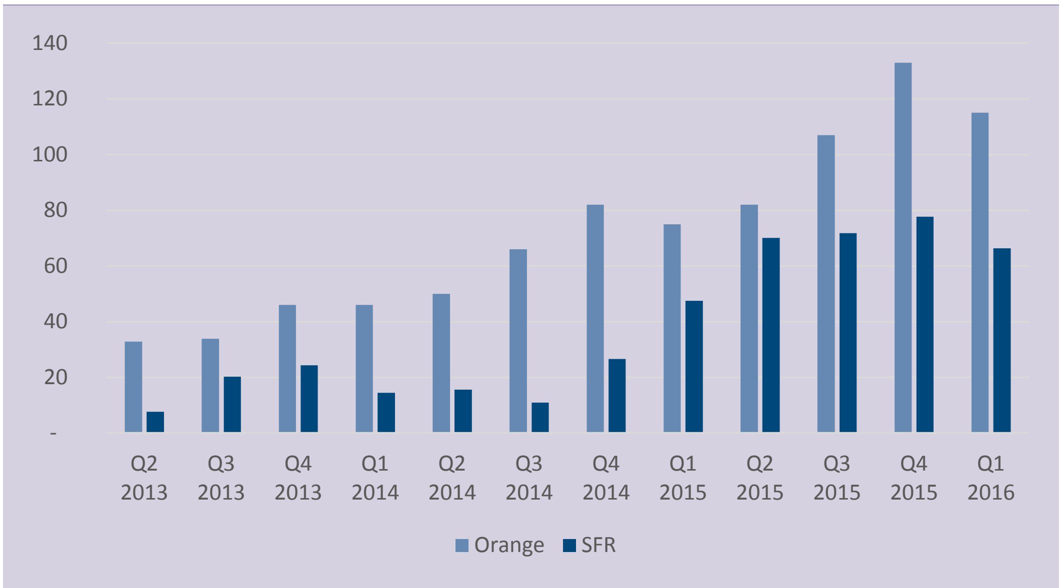
3.2.2. The fibre plan is of strategic importance to Orange

Orange's fibre plan provides a substantial competitive advantage, even compared to SFR

Putting aside the ROI calculations presented above, we still consider Orange's strategy to be appropriate. **For Orange, it is now or never to step up another gear!**

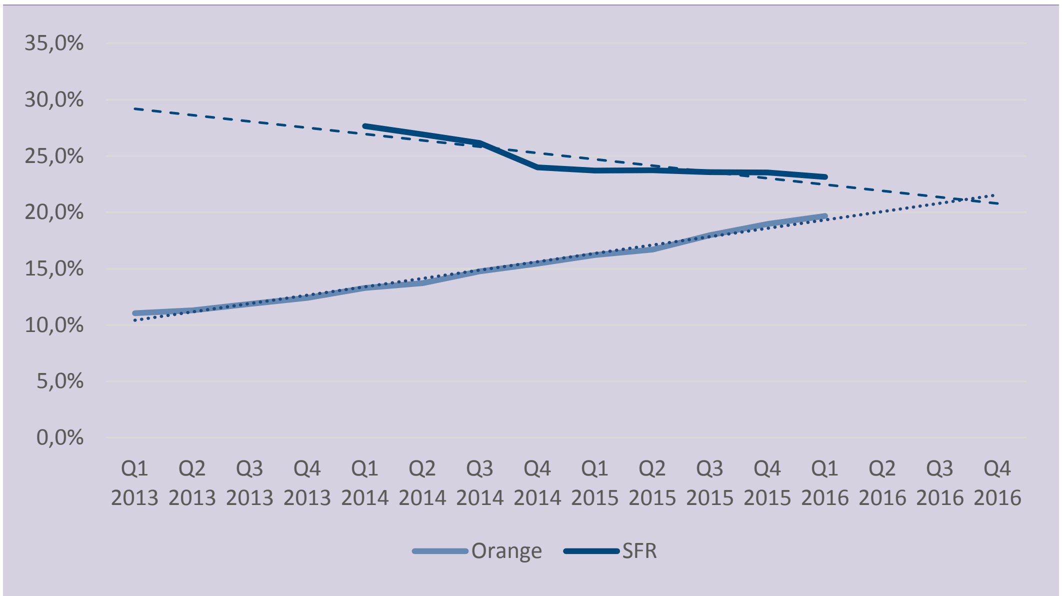
Although it is behind in terms of coverage, **Orange seems more effective than SFR in attracting new fibre customers.** As shown in the two graphs below, Orange has been able to attract more customers than SFR, even after the latter merged with Numericable, and its rising conversion rate (portion of marketed fibre sockets) will soon exceed that of SFR, which is undergoing difficulties.

Fig. 22: Net sales of fixed very high speed internet – Orange vs. SFR



Source: Company Data; Bryan, Garnier & Co ests.

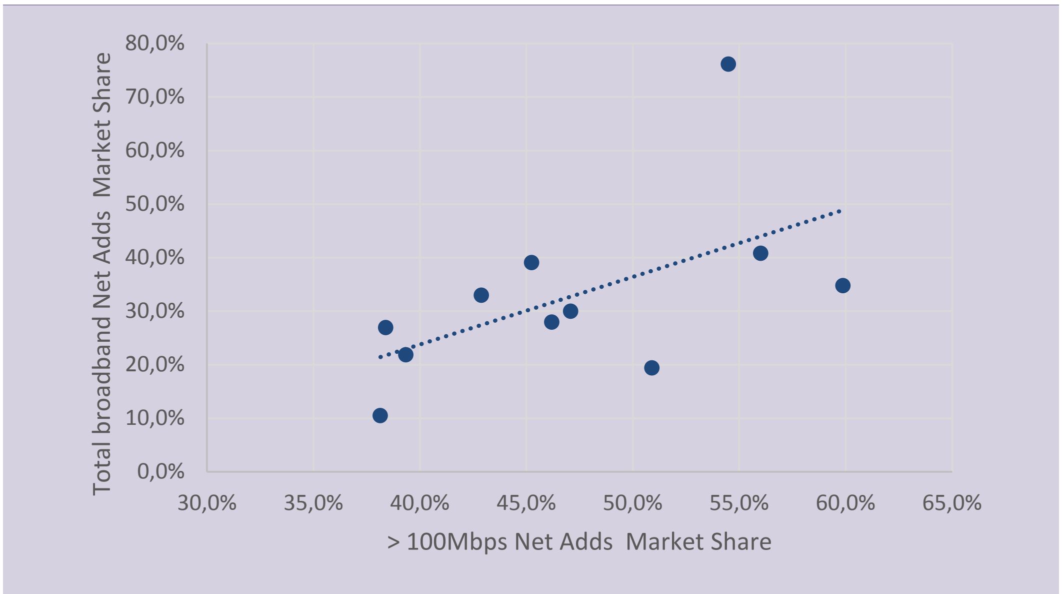
Fig. 23: Portion of FTTH/cable sockets built and marketed by Orange and SFR



Source: Company Data; Bryan, Garnier & Co ests.

Furthermore, the graph below shows a clear correlation between Orange's net adds market share for >100mbps access (fibre and portion of cable) and its total net adds market share: **Orange's fibre performance is boosting its total broadband performance**.

Fig. 24: Correlation between total broadband market share and >100Mbps market share (since Q2 2013)



Source: Company Data; ARCEP; Bryan, Garnier & Co ests.

The timing is perfect for Orange: **it is taking advantage of SFR's current difficulties to maximise the incremental market share** it can achieve with each new socket installed. In other words, the ROI of a socket installed today is very likely to be much higher than that of a socket installed tomorrow, when SFR becomes more efficient again. It would be unfortunate for Orange not to take advantage of the free reign SFR has given it to prepare for future challenges.

But Orange is not wasting this opportunity and by cleverly distinguishing between the cable and the fibre, **it is strengthening its brand image as a premium operator**, despite a lack of very high speed internet coverage. This leaves little opportunity for its main competitor to regain its own status as a premium operator. **While many feared that the merger of Numericable and SFR had a potential for destabilising Orange, that latter's response to this risk combined with SFR's underperformance have allayed these concerns.**

As regards its other competitors, by stepping up its fibre plan, Orange is implementing a **capex-based foreclosure strategy**. Free and Bouygues Telecom are unable to keep pace. They will need to buy FTTH sockets later, at a higher price and with a lower impact on incremental market share.

Beyond the ROI *per se*, the fibre plan is providing Orange with valuable assets and a strong market positioning.

3.3. The French market should be enough to compensate for a declining wholesale revenue

In this context, we believe that Orange is well equipped to **continue to grow its mobile and fixed customer base,** while **achieving a gradual recovery of its ARPUs by 2017/2018**. In the short and medium term, these should **offset part of the decline related to lower revenues from the roaming agreement with Free and DSL unbundling**. As a result, the overall revenue should be **stabilized by 2017**, **after declining -0.6% in 2016**.

In the mobile segment, the revenue decline is expected to reach -0.4% by 2018, as the growing contract customer base and stabilising ARPUs will absorb the losses from the roaming agreement with Free Mobile (estimated at -€550m per year by 2018). In the fixed segment, the decrease of telephony (-11% per year) should be offset by the expansion of high speed and very high speed internet (between +4% and +4.5% in annual growth in 2016-2018). Furthermore, by 2018, revenue from co-investments in FTTH sockets should further offset the loss of income from unbundling (estimated at -€150m per year until 2018, out of a total of €1.5bn in 2015).

Fig. 25: Mobile KPIs in France

Mobile KPIs	FY14	FY15	FY16	FY17	FY18
Contract cust. base (excl. M2M and MVNOs)	19 611	20 264	20 659	20 995	21 280
Contract net adds		653	395	336	285
Prepaid cust. base	5 126	4 283	3 641	3 276	3 113
Prepaid net adds		-843	-642	-364	-164
blended ARPU	24,2	22,8	22,7	23,0	23,3
- contract ARPU	29,1	26,9	26,0	25,9	26,0
- prepaid ARPU	5,6	5,4	5,5	5,5	5,5

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 26: Fixed KPIs in France

Fixed KPIs	FY14	FY15	FY16	FY17	FY18
broadband customers	10 354	10 734	11 166	11 576	11 945
broadband net adds		380	432	410	369
- xDSL	9 743	9 721	9 615	9 443	9 161
xDSL net adds		-22	-106	-172	-282
- FTTH customers	563	960	1 494	2 076	2 727
FTTH net adds		397	534	582	651
internet broadband ARPU	33,4	33,1	32,8	32,8	33,1

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 27: Orange France's revenue

EURm	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
revenues	19 304	19 141	19 019	18 993	19 019	-0,8%	-0,6%	-0,1%	0,1%
mobile services	7 675	7 507	7 405	7 328	7 298	-2,2%	-1,4%	-1,0%	-0,4%
mobile equipment sales	601	730	776	815	856	21,5%	6,3%	5,0%	5,0%
fixed services	10 479	10 327	10 246	10 243	10 252	-1,5%	-0,8%	0,0%	0,1%
fixed services retail	6 606	6 411	6 284	6 243	6 252	-3,0%	-2,0%	-0,7%	0,1%
fixed narrowband	2 541	2 252	2 013	1 792	1 595	-11,4%	-10,6%	-11,0%	-11,0%
- fixed broadband	4 065	4 159	4 271	4 452	4 658	2,3%	2,7%	4,2%	4,6%
fixed wholesale	3 873	3 917	3 960	4 000	4 000	1,1%	1,1%	1,0%	0,0%
other revenues	549	576	593	608	614	4,9%	2,9%	2,5%	1,0%

Source: Company Data; Bryan, Garnier & Co ests.

3.4. Consolidation is back in the French telecom sector: an opportunity that should not be overestimated

The failed merger discussions between Orange and Bouygues in early April have led to the following three conclusions:

- **Both companies wanted the deal to go through**, as it was in each one's interest and each one had made an important effort to achieve a positive outcome until the end of the negotiations.
- **The lack of mutual trust** between the different players and the **attitude adopted by the French government** played a major role in the failure.
- **It is difficult to understand what Martin Bouygues really thinks about this potential merger**, after he changed his mind several times in just a few months.

We believe all options remain open for the future, with the same questions and limitations:

- We consider it likely that a new government will be less reluctant to see a private shareholder increase its stake in Orange. However, the **deal would still be complex, execution risks** would remain, and a greater degree of **mutual trust** would be needed for the operators to overcome these difficulties.
- **Execution risks** are low in the case of a deal with Free, but Free appears **less and less as the natural buyer** as it is deploying its own mobile network. And recent events have not really brought Martin Bouygues and Xavier Niel closer together, to say the least. If Martin Bouygues were forced to sell, wouldn't he want to find another buyer at all costs?
- No criticism has been made about Altice's behaviour during the discussions at the beginning of the year. Will this help warm relations between Martin Bouygues and Patrick Drahi? We are not so sure. Even though the **network sharing agreement** between Bouygues and SFR suggests that a business combination would be natural, Altice would need to be able to **find the necessary funding** for the transaction, and Martin Bouygues would need to be willing to exit the telecom business…

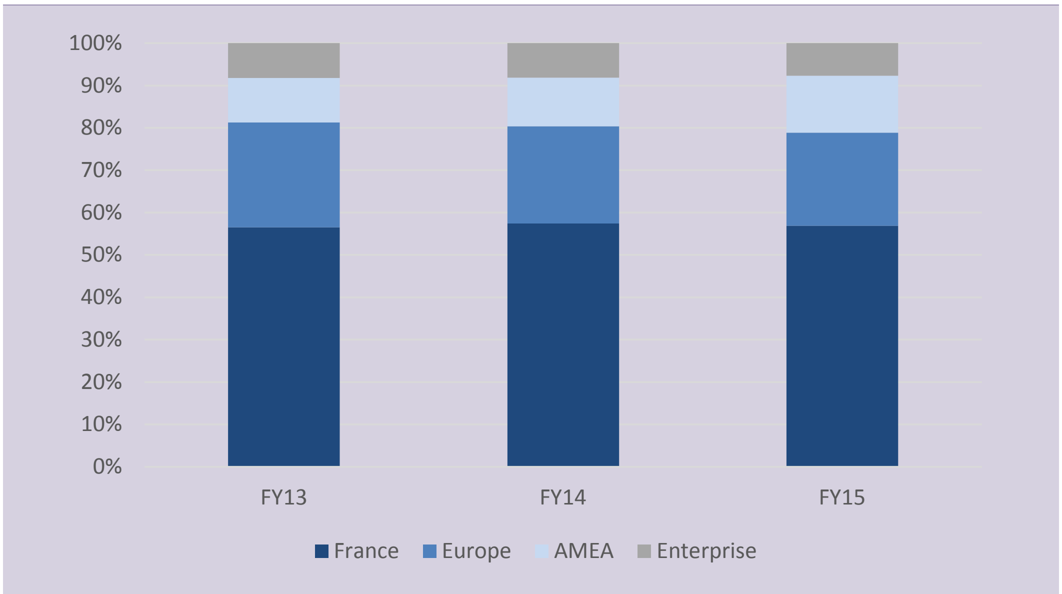
As of today, no seller/buyer pair comes immediately to mind, and ARCEP now wishes to move forward on roaming matters, thus we believe that **market consolidation should not be back on the agenda before the next presidential election in May 2017, at the earliest**. Until then, Bouygues Telecom will need to confirm its recovery by maintaining its sales performance and demonstrating its ability to play a role in the fibre segment.

4. Foreign markets: a real growth opportunity

4.1. Diversification is not without risks

For several years now, **the contribution from the French market to the Group's consolidated EBITDA has been stable at around 55%.** EBITDA decreases in France have been either coupled with difficulties in other countries (Poland for instance), or with changes in scope of consolidation on an international scale (Orange Austria, Orange Armenia).

Fig. 28: Contribution from the different regions/business activities to the Orange Group's EBITDA

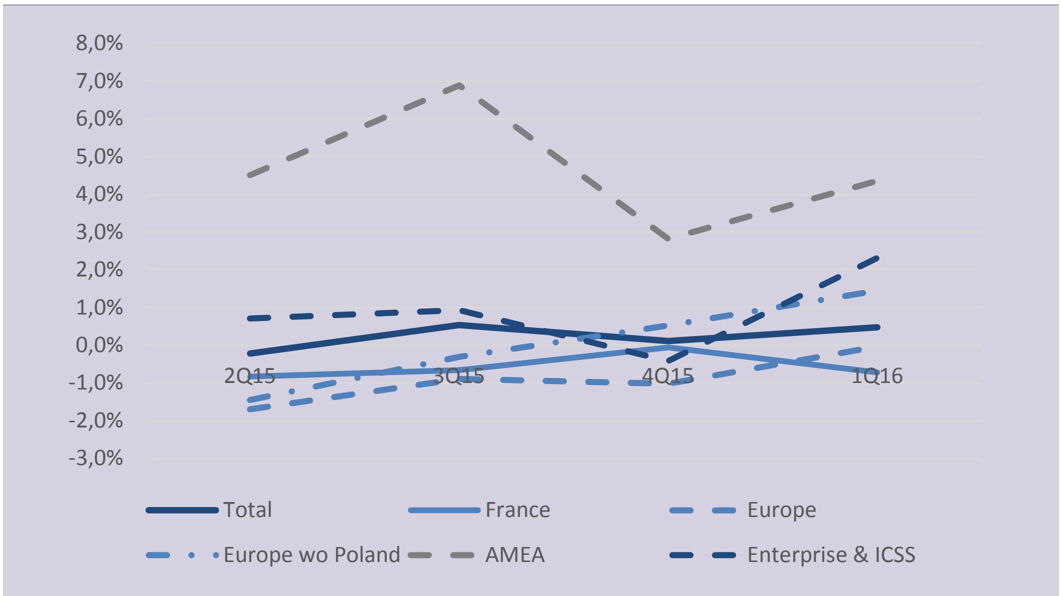


Source: Company Data; Bryan, Garnier & Co ests.

Foreign markets are the Group's main growth driver

The Group has not become substantially more international in the last few years. Nevertheless, **foreign markets have been the main contributors to the Group's *pro forma* growth** in the last four quarters, as indicated in the following graph (this is even more obvious in the scope excluding Poland since the latter division experienced difficulties in the past few years).

Fig. 29: Growth in the Group's *pro forma* revenues by region/business activity



Source: Company Data; Bryan, Garnier & Co ests.

Foreign markets entail several risks, reflected in the goodwill depreciation recorded in the financial statements

However, expanding to mostly emerging areas poses **risks that must be well taken into account** in the analysis, and that weigh on the company's valuation.

First of all, depending on the competitive and economic environment in each country, **strong economic growth does not necessarily mean there is also strong growth in the telecommunications sector**. The best example is Egypt where, despite **4.2%** GDP growth in 2015, the revenues from telecommunications services only increased by **1.9%**, with a **2.2% decrease** in the mobile segment. Several factors might impact the sector's performance: more restrictive regulations, security circumstances affecting roaming, decrease in historic fixed activities, which are not always offset by the development of a broadband network…

In addition to this, there are issues regarding **political and institutional stability** and **volatile exchange rates**: the Egyptian pound was devalued by **13%** in March 2016, the most significant change in the Jordanian dinar (vs. the euro) in the past 12 months reached **9%**, and that of the Moroccan dirham reached **4%**. As of today, Orange Africa remains relatively protected since **45%** of its revenues are denominated in CFA Francs, which has a fixed exchange rate against the euro.

Finally, Orange must cope with having **foreign states among the shareholders** of several of its subsidiaries. This is the case in Poland, where the state holds a 5% stake in Orange Polska, but also in Senegal or Jordan where the state holds a 27% and 30% stake, respectively, and these three countries represent **20%** of Orange's total international sales. This participation of foreign states in the share capital may sometimes **constitute a burden**. The main example of this is in Kenya where, following repeated disagreements with the government (the co-shareholder), Orange was forced to admit it had lost control of the company despite its 70% stake and ended up selling its subsidiary in November 2015.

All the elements mentioned above have an impact Orange's risk profile, and **the danger of overestimating the value of investments** made abroad **is real**. The following table shows goodwill depreciations recorded in Orange's financial statements.

Fig. 30: Orange's accumulated goodwill depreciation as of 31 December 2015

Orange Goodwill (EUR m)	Gross	Accumulated depreciation	%
Total	**32606**	**-5535**	**-17%**
Europe (excl. France)	**13506**	**-3398**	**-25%**
of which Poland	2825	-2056	-73%
of which Belgium & Lux.	1006	-713	-71%
AMEA	**2576**	**-1459**	**-57%**
of which Egypt	1308	-1216	-93%
of which DRC	111	-111	-100%
France and others	**16524**	**-678**	**-4%**

Source: Company Data

Goodwill depreciation in AMEA has reached 57%, mainly because of adjustments in Egypt and DRC, whereas the **goodwill in Europe (excluding France) only lost a quarter of its value**, especially thanks to Poland and Belgium. However, since goodwill cannot be revalued upwards, only bad news is reflected. Nevertheless, this still shows that the above mentioned regions have gone through very turbulent times.

4.2. Foreign markets should keep driving the Group's growth

In spite of the risks described above, we have identified **three main benefits** of the internationalisation of the Orange Group:

- **Innovation**: designing **alternative offerings and business models** which generate revenues in **adjacent markets**. This is the case in AMEA markets (Africa, Middle East, and Asia) and for **banking services**, for instance. In particular, the launch of Orange Money in France was greatly facilitated by the already significant implementation of the service in the African market. Orange's initiatives with Google in Africa should also be noted, as well as the development of e-commerce activities with the investment of €75m in the capital of AIG (Africa Internet Group).

- **Diversification**: combining **riskier activities in high-potential emerging markets** with **reliable revenue streams from mature markets**. This diversification also offers more **flexibility when it comes to choosing where to invest** according to specific needs: ability to take advantage of the cash flow generated in one area to finance increasing needs in another area.

- **Development**: taking advantage of **organic growth** in growing markets where the Group is present, and seizing **external growth** opportunities.

Organic growth is expected to continue, spurred by the economic development of the countries where the Group operates

With regard to **organic growth**, we believe **international activities will represent most of the Group's *pro forma* growth** in the next three years, as shown in the following table.

Fig. 31: Breakdown of Orange's revenues by region

EURm	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
Group	**40 283**	**40 236**	**41 219**	**41 684**	**41 977**	**-0,1%**	**2,4%**	**1,1%**	**0,7%**
France	19 304	19 141	19 019	18 993	19 019	-0,8%	-0,6%	-0,1%	0,1%
Europe	10 139	9 963	10 423	10 519	10 662	-1,7%	4,6%	0,9%	1,4%
Africa & Middle East	4 659	4 899	5 266	5 371	5 453	5,2%	7,5%	2,0%	1,5%
Enterprise	6 465	6 405	6 475	6 527	6 584	-0,9%	1,1%	0,8%	0,9%
International carrier & shared services	1 845	1 915	1 904	1 904	1 904	3,8%	-0,6%	0,0%	0,0%
New M&A (DRC and Liberia)	-	-	235	470	470	0,0%	0,0%	100,0%	0,0%
eliminations	- 2 129	- 2 087	- 2 104	- 2 101	- 2 116	-2,0%	0,8%	-0,2%	0,7%

Source: Company Data; Bryan, Garnier & Co ests.

In Spain, the positive results observed following the acquisition of Jazztel should continue, since good sales performance was made possible by the **growing importance of bundles** and **price increases the fixed segment**, offsetting the pressure on mobile ARPUs. In Poland, the situation will remain tricky for several quarters, since Orange will still be subject to fierce competition from cable operators **until FTTH investments pay off**. Belgium and Luxembourg continue to grow, driven by the **opening of cable networks to competition**.

Fig. 32: Detailed revenues from Orange Spain

EURm	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
revenues	4 355	4 253	4 810	4 947	5 076	-2,3%	13,1%	2,8%	2,6%
mobile services	2 517	2 403	2 452	2 510	2 563	-4,5%	2,0%	2,4%	2,1%
mobile equipment sales	530	470	445	445	445	-11,3%	-5,4%	0,0%	0,0%
fixed services	1 300	1 375	1 914	1 992	2 068	5,8%	39,2%	4,1%	3,8%
o/w fixed broadband	933	1 001	1 476	1 551	1 627	7,3%	47,5%	5,1%	4,9%
other revenues	7	5	-	-	-	-28,6%	-100,0%		

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 33: Detailed revenues from Orange Polska

EURm	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
revenues	2 914	2 831	2 695	2 647	2 651	-2,8%	-4,8%	-1,8%	0,1%
mobile services	1 366	1 314	1 278	1 272	1 273	-3,8%	-2,7%	-0,5%	0,0%
mobile equipment sales	102	154	179	179	179	51,0%	15,9%	0,0%	0,0%
fixed services	1 319	1 215	1 105	1 064	1 066	-7,9%	-9,0%	-3,8%	0,3%
other revenues	128	147	133	133	133	14,8%	-9,4%	0,0%	0,0%

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 34: Detailed revenues from Orange Belgium and Luxembourg

EURm	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
revenues	1 249	1 235	1 251	1 256	1 262	-1,1%	1,3%	0,4%	0,4%
mobile services	1 019	1 006	1 028	1 035	1 040	-1,3%	2,2%	0,6%	0,5%
mobile equipment sales	131	128	127	127	127	-2,3%	-0,8%	0,0%	0,0%
fixed services	92	80	71	70	70	-13,0%	-11,3%	-1,9%	0,5%
other revenues	6	22	25	25	25	266,7%	13,6%	0,0%	0,0%

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 35: Detailed revenues from other European countries

EURm	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
revenues	1 625	1 648	1 670	1 673	1 678	1,4%	1,3%	0,2%	0,3%
Romania	909	947	957	961	966	4,2%	1,1%	0,4%	0,5%
Slovakia	580	561	606	606	606	-3,3%	8,0%	0,0%	0,0%
Moldova	134	135	125	124	125	0,7%	-7,6%	-0,4%	0,5%
others	28	26	-	-	-	-7,1%	-100,0%		
eliminations	- 26	- 21	- 18	- 18	- 18	-19,2%	-12,4%	0,0%	0,0%

Source: Company Data; Bryan, Garnier & Co ests.

In the AMEA region, growth is expected to continue, in line with previous quarters, driven by the development of the countries where the Group operates and by **favourable macroeconomic factors**: demographic growth, rise of the middle class, deployment of infrastructures… The following table presents GDP growth estimates in the main AMEA countries where Orange operates. At the same time, internet use and internet access rates should continue to rise.

Fig. 36: GDP growth rate in the main AMEA countries where Orange operates

% GDP growth (constant prices)	2014	2015	2016	2017	2018
Cameroon	5.9	5.9	4.9	4.6	4.9
Ivory Coast	7.9	8.6	8.5	7.9	7.6
Mali	7.5	6.1	5.0	5.2	4.8
Senegal	4.3	6.5	6.6	6.8	6.9
Egypt	2.2	4.2	3.3	4.3	4.5
Jordan	3.1	2.5	3.2	3.7	4.0
Morocco	2.4	4.5	2.3	4.1	4.4

Source: IMF estimates.

Fig. 37: Detailed revenues from the AMEA region

EURm	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
revenues	4 659	4 899	5 266	5 371	5 453	5,2%	7,5%	2,0%	1,5%
Egypt	1 286	1 340	1 343	1 363	1 384	4,2%	0,2%	1,5%	1,5%
Senegal	740	746	755	763	770	0,8%	1,2%	1,0%	1,0%
Ivory Coast	680	760	806	838	855	11,8%	6,0%	4,0%	2,0%
Marocco	256	257	511	519	526	0,4%	98,8%	1,5%	1,5%
Mali	436	476	498	514	525	9,2%	4,7%	3,2%	2,0%
Jordan	439	429	442	450	459	-2,3%	2,9%	2,0%	2,0%
Cameroon	285	284	292	296	301	-0,4%	2,8%	1,5%	1,5%
Guinea	216	249	259	264	268	15,3%	3,8%	2,1%	1,5%
Niger	104	103	103	103	103	-1,0%	0,0%	0,0%	0,0%
Democratic Republic of Congo	105	149	160	166	170	41,9%	7,7%	3,7%	2,0%
others	221	228	228	229	230	3,2%	0,0%	0,5%	0,5%
Eliminations	- 107	- 124	- 133	- 135	- 138	15,9%	7,1%	2,0%	1,5%

Source: Company Data; Bryan, Garnier & Co ests.

Thanks to the Group's healthy financial situation, an increase in the number of external growth transactions in foreign markets is possible

As regards **external growth**, some transactions were already completed in Q2 (acquisition of Tigo in the Democratic Republic of the Congo and acquisition of Cellcom in Liberia) and others will come in the course of the year (Airtel in Burkina Faso and Sierra Leone).

Orange enjoys a **healthier balance sheet**, thanks to the **€4.5bn cash inflow from the sale of its subsidiary Everything Everywhere** (EE). By estimating the cash price of the above mentioned acquisitions at **€1bn**, we anticipate that Orange's consolidated net debt will stand at **€23.2bn at the end of 2016**, with a net debt / EBITDA ratio **below 2x** (below those of comparable companies of the sector: Deutsche Telekom 2.4x, Telecom Italia 3.4x, Telefonica 2.9x, KPN 3.5x). Therefore, we believe that **Orange will be able to make several targeted acquisitions in markets with a high growth potential**, by **funding them exclusively by debt**.

For a while, an IPO of Orange Africa was contemplated in order to raise capital to finance growth. Today, since it no longer seems necessary to resort to this solution, **visibility regarding a possible capital increase** related to the IPO of Orange Africa **should improve**. (It should also be noted that, by carrying out an analysis entity by entity instead of at a consolidated level, we can see that Orange's subsidiaries have low debt levels and that debt is mainly incurred by the parent company. Orange Egypt and Medi Telecom hold a debt of €862m and €436m respectively, with net debt / EBITDA ratios of 0.6 and 1.7 respectively, at the end of 2015.)

External growth transactions should be focused on targets with a strong growth potential instead of combinations with European companies which are not likely to create value, in our opinion

However, **we do not believe that the Group's internationalisation is likely to create synergies** strictly speaking. Orange's position in a given market is not very much impacted by its position in another market, even if it is adjacent. It has not been demonstrated that its global scale fundamentally impacts its bargaining power with telecommunications equipment manufacturers. If it did, its leadership (as well as that of other global telecom operators, such as Vodafone) would be overwhelming in all markets, which is far from being the case.

It is for that very reason that we did not identify major synergies in potential intra-European M&A deals, and even less with regard to deals outside the European Union, and thus we did not deem it appropriate to assign a premium to Orange.

5. Despite being the incumbent telecom operator, the Group can still become more nimble

Several factors intrinsic to Orange still impact negatively stock performance and investors' perception

We are aware that Orange's status as the incumbent operator, and especially **1/ the state's influence as a shareholder, 2/ the social environment** and **3/** doubts regarding its **ability to control costs**, are still impacting negatively investors' perception and stock performance. However, we believe that these elements **do not justify the substantial discount observed**, and are likely **to improve in time**.

With regard to the influence of the French state on Orange, it has consequences at several levels:

- **Influence on the investment policy**: as previously discussed, we believe that the state does exert an influence on Orange's aggressive fibre strategy, a project whose economic interest is not self-evident outside very densely populated areas. In this regard, the company may look like the government's "tool" to implement its territorial development policy.

- **Defending conflicting interests**: as is the case with many public-sector companies that are in the public eye, the government has to manage conflicting interests, sometimes at the expense of clarity of the company's strategy, or even its efficiency. Stéphane Richard himself mentioned this issue regarding the failed discussions with Bouygues at the beginning of the year: "the only question is why does the government want to remain a shareholder in Orange? Is it to receive a dividend, to assist its African expansion, to keep prices as low as possible? It sometimes feels like we are caught between contradictory instructions: we must create value, safeguard consumers, protect jobs, while speeding up investments but not always seeking to optimise their profitability!".

Today the state still has a 23% stake in Orange (including 13.5% through Agence des Participations de l'État [*French government shareholding agency*] and 9.5% through BPI France [*French public investment bank*]). The state had previously reduced its stake by 200 bps in 2014 before decreasing it again by 200 bps in 2015. But regarding market consolidation, it may have seemed that the state was more interested in **safeguarding its influence as a shareholder** than **maximising value creation** for the Group. Similarly, in the case of Dailymotion, the government's intervention had prevented the sale of the company to Yahoo! and later to PCCW before it was finally sold to Vivendi two years later.

The government's influence as a shareholder will not always be that decisive: there are early signs of change

Nevertheless, we believe that **favourable changes are very likely**. Several recent declarations (more or less contradictory) from public authorities indicate that the question of the state's status as a shareholder has been raised. Beyond the latest declarations on this matter (which have little binding force due to the forthcoming presidential election), we believe positions may become more flexible following a **change of government or even of parliamentary majority**. During the discussions with Bouygues, the government already seemed ready to consider reducing its stake, and it is possible to imagine that it will gradually sell off its stake, driven by the **search for the necessary resources to reduce the country's debt and/or to finance other public projects** (recapitalisation of EDF, Areva…). If the influence of the French state was to remain, even with a reduced stake, dilution would be less of an issue and it could **encourage the emergence of a new main shareholder**: could it represent an opportunity for Martin Bouygues? Vivendi?

Employee opinion has an impact Orange's flexibility, but recent initiatives undertaken in a pacified climate are headed in the right direction

With regard to the relationship with employees, there are multiple challenges: it is a major hindrance to the **withdrawal of the state** (each reduction in the state's stake is faced with negative reactions from employee representative bodies), and it may also **limit Orange's ability to reduce costs**. Aside from renegotiations with providers, cost reductions also mean decreasing team budgets or even cancelling projects. Improving operational efficiency often involves streamlining, that is to say reducing or merging, business functions. This is often accompanied by staff cutbacks. The **Lombard/Wenès plan in the 2000s has left its mark**, and forced Orange to be particularly careful in its relationships with employees. Expensive plans have been implemented to help the older ones transition to retirement. The "Part Time for Seniors" plan represents more than €2bn in the net position as of 31 December 2015, and adjustments to assumptions regarding this plan (as well as the extension of existing programmes) represented €547m in 2015.

However, Orange has the opportunity to **gradually modify its total payroll as older employees retire** (37.3% of employees are over 50) and through specific plans. In France, **25k** employees should leave the company over the 2015-2020 period, that is to say near **25%** of the entire workforce. According to the social contract signed with trade unions, **1 replacement is scheduled for every 3 departures**, which will lead to a net reduction in the workforce of around **-8%** in 6 years. Although the extent of this decrease is limited, it allows the introduction, as replacements are introduced, of **more flexibility by adapting the recruitment policy** (decrease in the number of civil servants and permanent contracts in favour of temporary contracts which currently represent only 2.4% of the internal workforce). Beyond costs reductions, estimated to **€340m** vs. 2015, this policy should very gradually contribute to an **improvement of the company's risk profile** in France. These changes are possible due to **more peaceful employer-employee relationships,** largely thanks to Stéphane Richard's management.

Although it is difficult to measure its true impact, a new cost reduction plan has been implemented, thus showing a strong commitment to the OPEX issue

Regarding Orange's general ability to reduce costs, we believe that the decrease in Orange France's total OPEX neared **-13%** over the 2011-2015 period. As a comparison, Bouygues Telecom's reduction reached **-16%** over the same period. Instead of resting on its laurels as the revenue outlook becomes brighter, Orange has launched a **4-year** cost-reduction plan of **€3bn** (excluding workforce), as part of the Essentiels2020 project. However, we believe it is unfortunate that it is difficult to **reconcile this plan**, which combines real savings, avoided costs and restrictions to the natural increase in expenses, **with the P&L account**, as this also makes it difficult for **investors to understand the importance of the plan**. For instance, while Orange achieved **€1bn** in savings in 2015, we only observe a net cost reduction of **€200m** (excluding interconnection and workforce). Moreover, **very conservative medium-term guidance** does not make us very optimistic about the impact of the plan on the company's results. In the Essentiels2020 project, the EBITDA objective for 2018 was to exceed that of 2014… which it was already the case in 2015.

We believe this plan will help:

- Ensure an **EBITDA increase** over the 2015-2018 period, from a **30.9%** adjusted EBITDA in 2015 to **31.4%** in 2018. Each region where Orange operates should contribute to this growth, as shown in the following table.

- **Prepare the Orange Group**, and especially Orange France, to face the period after 2018 when the decrease in historical revenues generated by the copper network and its unbundling will continue to accelerate, in parallel with the rise of the fibre network.

Finally, we should not underestimate the **benefits of this type of plan** in terms of **employee commitment** to ambitious objectives of budgetary discipline, **awareness regarding the OPEX issue** and **measures to help the company become more nimble**.

Fig. 38: Breakdown of Orange's EBITDA by region

EURm	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
Group	12 416	12 426	12 774	12 966	13 201	0,1%	2,8%	1,5%	1,8%
% Restated EBITDA	30,8%	30,9%	31,0%	31,1%	31,4%				
France	7 001	7 076	7 075	7 093	7 111	1,1%	0,0%	0,2%	0,3%
% Restated EBITDA	36,3%	37,0%	37,2%	37,3%	37,4%				
Europe	2 855	2 732	2 831	2 844	2 913	-4,3%	3,6%	0,4%	2,4%
% Restated EBITDA	28,2%	27,4%	27,2%	27,0%	27,3%				
Spain	1 072	1 068	1 272	1 308	1 335	-0,4%	19,1%	2,8%	2,1%
% Restated EBITDA	24,6%	25,1%	26,4%	26,4%	26,3%				
Poland	920	841	713	686	709	-8,6%	-15,3%	-3,7%	3,4%
% Restated EBITDA	31,6%	29,7%	26,4%	25,9%	26,8%				
Belgium & Luxembourg	275	276	291	292	298	0,4%	5,3%	0,4%	2,0%
% Restated EBITDA	22,0%	22,3%	23,2%	23,2%	23,6%				
Central European countries	589	546	556	557	570	-7,3%	1,8%	0,3%	2,3%
% Restated EBITDA	36,2%	33,1%	33,3%	33,3%	34,0%				
Africa & Middle East	1 591	1 668	1 798	1 881	1 944	4,8%	7,8%	4,6%	3,4%
% Restated EBITDA	34,1%	34,0%	34,1%	35,0%	35,7%				
Enterprise	956	954	1 009	1 043	1 097	-0,2%	5,7%	3,4%	5,1%
% Restated EBITDA	14,8%	14,9%	15,6%	16,0%	16,7%				
International carrier & shared services	13	- 4	15	14	45	-130,8%	-478,5%	-6,7%	220,5%
New M&A	-	-	46	92	92	0,0%	0,0%	100,0%	0,0%

Source: Company Data; Bryan, Garnier & Co ests.

6. Appendices

Fig. 39: Orange Group's P&L

EURm	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
revenues	**40 283**	**40 236**	**41 220**	**41 684**	**41 977**	**-0,1%**	**2,4%**	**1,1%**	**0,7%**
external purchases	- 17 740	- 17 697	- 18 347	- 18 645	- 18 696	0,0%	0,0%	0,0%	0,0%
labour expenses	- 8 572	- 8 460	- 8 326	- 8 239	- 8 242	-1,3%	-1,6%	-1,0%	0,0%
other operating income & expenses	- 1 570	- 1 692	- 1 742	- 1 804	- 1 809	7,8%	3,0%	3,6%	0,2%
gain/loss on disposals of assets	50	66	-	-	-	0,0%	0,0%	0,0%	0,0%
restructuring costs	- 34	- 26	- 33	- 33	- 33	-23,5%	25,7%	1,1%	-0,1%
restated EBITDA	**12 417**	**12 426**	**12 772**	**12 962**	**13 197**	**0,1%**	**2,8%**	**1,5%**	**1,8%**
% of revenues	**30,8%**	**30,9%**	**31,0%**	**31,1%**	**31,4%**	**0,3%**	**0,3%**	**0,4%**	**1,1%**
restatements	- 1 403	- 1 149	- 1 069	- 990	- 1 030	-18,1%	-6,9%	-7,4%	4,0%
reported EBITDA	**11 014**	**11 277**	**11 703**	**11 972**	**12 167**	**2,4%**	**3,8%**	**2,3%**	**1,6%**
% of revenues	27,3%	28,0%	28,4%	28,7%	29,0%	2,6%	1,4%	1,2%	0,9%
depreciation & amortisation	- 6 219	- 6 465	- 6 700	- 6 807	- 6 831	4,0%	3,6%	1,6%	0,4%
remeasurement resulting from business combinations	-	6	-	-	-	0,0%	0,0%	0,0%	0,0%
impairment of goodwill and fixed assets	- 242	- 38	-	-	-	0,0%	0,0%	0,0%	0,0%
share of profit/loss of associates	- 222	- 38	- 129	- 83	- 106	-82,9%	238,2%	-35,2%	27,2%
EBIT	**4 331**	**4 742**	**4 875**	**5 082**	**5 230**	**9,5%**	**2,8%**	**4,2%**	**2,9%**
% of revenues	10,8%	11,8%	11,8%	12,2%	12,5%	9,3%	0,2%	3,1%	2,2%
financial result		**- 1 583**	**- 1 234**	**- 1 155**	**- 1 137**		**-22,1%**	**-6,4%**	**-1,5%**
income tax		- 649	- 746	- 805	- 921		15,0%	7,9%	14,4%
net income after tax of continuing operations		2 510	2 894	3 122	3 172		15,3%	7,9%	1,6%
net income after tax of discontinued operations (EE)		448	-	-	-		0,0%	0,0%	0,0%
consolidated net income after tax		**2 958**	**2 894**	**3 122**	**3 172**		**-2,1%**	**7,9%**	**1,6%**
non controlling interests		306	306	306	306		0,0%	0,0%	0,0%
consolidated net income, Group share		**2 652**	**2 588**	**2 816**	**2 866**		**-2,4%**	**8,8%**	**1,8%**

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 40: Earnings and dividend per share

	FY14	FY15	FY16	FY17	FY18
number of ordinary shares at the end of the period (m)	2 649	2 649			
weighted average number of ordinary shares outstanding - basic (m)	2 637	2 649	2 649	2 649	2 649
weighted average number of ordinary shares outstanding - diluted (m)	2 637	2 701	2 701	2 701	2 701
Earnings per share		0,82	0,96	1,04	1,06
Dividend per share		0,6	0,6	0,8	0,8
Pay out		72%	63%	67%	75%

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 41: Orange's cash flow and net debt

EURm	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
restated EBITDA	12 158	12 418	12 772	12 962	13 197	2,1%	2,9%	1,5%	1,8%
CAPEX	-5 636	-6 486	-6 886	-7 092	-7 089	15,1%	6,2%	3,0%	0,0%
spectrum and licences paid	-294	-410	-1 367	-333	-333	39,5%	233,3%	-75,6%	0,0%
net interest paid	-1 363	-1 151	-1 234	-1 155	-1 137	-15,6%	7,2%	-6,4%	-1,5%
income tax paid	-758	-727	-746	-805	-921	-4,1%	2,7%	7,9%	14,4%
change in WCR	-236	275	195	43	-57	-216,5%	-29,1%	-77,7%	-231,7%
other operational items	-1 009	-830	-1 069	-990	-1 030	-17,7%	28,9%	-7,4%	4,0%
dividends to Orange shareholders	-1 846	-1 589	-1 621	-1 891	-2 161	-13,9%	2,0%	16,7%	14,3%
minority shareholders rem. in subs;	-294	-306	-225	-225	-225	4,1%	-26,5%	0,0%	0,0%
purchase of own shares	125	31	-	-	-				
net of acquisitions and disposals	1 007	-4 214	3 550	-	-	-518,5%	-184,2%	-100,0%	0,0%
subordinated notes issuances & coupons	5 715	-272	830	-	-				
escrow for acquisition of Jazztel	-2 901	2 901	-	-	-				
other financial items	-32	-102	-	-	-				
net debt variation ((+) decrease)	**4 636**	**-462**	**4 199**	**515**	**244**				
net financial debt	**26 090**	**26 552**	**23 183**	**22 668**	**22 424**				
Leverage ratio		**2,1**	**1,8**	**1,7**	**1,7**				

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 42: Orange capex by geographic area

EURm	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
group	**5 935**	**6 486**	**6 886**	**7 092**	**7 089**	**9,3%**	**6,2%**	**3,0%**	**0,0%**
France	2 799	3 097	3 337	3 470	3 470	10,6%	7,7%	4,0%	0,0%
Europe	1 718	1 784	1 945	2 017	2 014	3,8%	9,0%	3,7%	-0,1%
Spain	821	864	1 005	1 055	1 055	5,2%	16,3%	5,0%	0,0%
Poland	418	463	484	506	504	10,8%	4,5%	4,5%	-0,5%
Belgium & Luxembourg	215	193	193	193	193	-10,2%	0,0%	0,0%	0,0%
Central European countries	264	263	263	263	263	-0,4%	0,0%	0,0%	0,0%
Africa & Middle East	850	922	922	922	922	8,5%	0,0%	0,0%	0,0%
Enterprise	336	325	324	324	324	-3,3%	-0,3%	0,0%	0,0%
International carrier & shared services	232	359	359	359	359	54,7%	0,0%	0,0%	0,0%

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 43: Orange France's P&L

EURm	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
revenues	19 304	19 141	19 019	18 993	19 019	-0,8%	-0,6%	-0,1%	0,1%
external purchases	-7 395	-7 201	-7 223	-7 239	-7 252	-2,6%	0,3%	0,2%	0,2%
labour expenses	-4 346	-4 252	-4 143	-4 075	-4 078	-2,2%	-2,6%	-1,6%	0,1%
other operating income & expenses	-546	-591	-558	-567	-559	8,2%	-5,5%	1,6%	-1,5%
gain/loss on disposals of assets	-	2	-	-	-	0,0%	0,0%	0,0%	0,0%
restructuring costs	-16	-23	-20	-20	-20	43,8%	-14,4%	0,0%	0,0%
restated EBITDA	7 001	7 076	7 075	7 093	7 111	1,1%	0,0%	0,2%	0,3%
% of revenues	36,3%	37,0%	37,2%	37,3%	37,4%				

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 44: Orange Spain's P&L

EURm	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
revenues	4 355	4 253	4 810	4 947	5 076	-2,3%	13,1%	2,8%	2,6%
external purchases	- 2 837	- 2 736	- 3 071	- 3 167	- 3 264	-3,6%	12,2%	3,1%	3,1%
labour expenses	- 239	- 235	- 230	- 225	- 226	-1,7%	-2,2%	-1,9%	0,2%
other operating income & expenses	- 208	- 214	- 237	- 246	- 251	2,9%	10,8%	3,9%	1,9%
restated EBITDA	1 072	1 068	1 272	1 308	1 335	-0,4%	19,1%	2,8%	2,1%
% of revenues	24,6%	25,1%	26,4%	26,4%	26,3%				

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 45: Orange Polska's P&L

EURm	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
revenues	2 914	2 831	2 695	2 647	2 651	-2,8%	-4,8%	-1,8%	0,1%
mobile services	1 366	1 314	1 278	1 272	1 273	-3,8%	-2,7%	-0,5%	0,0%
mobile equipment sales	102	154	179	179	179	51,0%	15,9%	0,0%	0,0%
fixed services	1 319	1 215	1 105	1 064	1 066	-7,9%	-9,0%	-3,8%	0,3%
other revenues	128	147	133	133	133	14,8%	-9,4%	0,0%	0,0%
external purchases	- 1 460	- 1 501	- 1 500	- 1 488	- 1 470	2,8%	-0,1%	-0,8%	-1,2%
labour expenses	- 446	- 419	- 398	- 392	- 389	-6,1%	-5,1%	-1,4%	-0,8%
other operating income & expenses	- 99	- 84	- 85	- 81	- 82	-15,2%	1,8%	-5,3%	1,6%
gain/loss on diposals of assets	10	14	-	-	-	40,0%	-100,0%		
restated EBITDA	920	841	713	686	709	-8,6%	-15,3%	-3,7%	3,4%
% of revenues	31,6%	29,7%	26,4%	25,9%	26,8%				

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 46: Orange Belgium and Luxembourg's P&L

EURm	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
revenues	1 249	1 235	1 251	1 256	1 262	-1,1%	1,3%	0,4%	0,4%
mobile services	1 019	1 006	1 028	1 035	1 040	-1,3%	2,2%	0,6%	0,5%
mobile equipment sales	131	128	127	127	127	-2,3%	-0,8%	0,0%	0,0%
fixed services	92	80	71	70	70	-13,0%	-11,3%	-1,9%	0,5%
other revenues	6	22	25	25	25	266,7%	13,6%	0,0%	0,0%
external purchases	- 809	- 793	- 795	- 796	- 796	-2,0%	0,3%	0,1%	0,1%
labour expenses	- 136	- 134	- 134	- 136	- 136	-1,5%	0,0%	1,5%	-0,4%
other operating income & expenses	- 29	- 33	- 31	- 32	- 32	13,8%	-5,3%	3,9%	-1,2%
restated EBITDA	275	276	291	292	298	0,4%	5,3%	0,4%	2,0%
% of revenues	22,0%	22,3%	23,2%	23,2%	23,6%				

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 47: Orange's P&L in other European countries

EURm	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
revenues	**1 625**	**1 648**	**1 670**	**1 673**	**1 678**	**1,4%**	**1,3%**	**0,2%**	**0,3%**
Romania	909	947	957	961	966	4,2%	1,1%	0,4%	0,5%
Slovakia	580	561	606	606	606	-3,3%	8,0%	0,0%	0,0%
Moldova	134	135	125	124	125	0,7%	-7,6%	-0,4%	0,5%
others	28	26	-	-	-	-7,1%	-100,0%	x	x
eliminations	-26	-21	-18	-18	-18	-19,2%	-12,4%	0,0%	0,0%
external purchases	-862	-925	-940	-941	-933	7,3%	1,7%	0,0%	-0,8%
labour expenses	-140	-139	-139	-141	-141	-0,7%	0,3%	1,3%	-0,3%
other operating income & expenses	-35	-32	-34	-33	-34	-8,6%	6,7%	-2,3%	1,6%
gain/loss on diposals of assets	-	-6	-	-	-	x	x	x	x
restated EBITDA	589	546	556	557	570	-7,3%	1,8%	0,3%	2,3%
% of revenues	36,2%	33,2%	33,3%	33,3%	34,0%	x	x	x	x

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 48: Orange AMEA's P&L

EURm	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
revenues	4 659	4 899	5 266	5 371	5 453	5,2%	7,5%	2,0%	1,5%
external purchases	-2 204	-2 335	-2 532	-2 546	-2 557	5,9%	8,5%	0,5%	0,4%
labour expenses	-411	-418	-421	-418	-419	1,7%	0,8%	-0,8%	0,3%
other operating income & expenses (1)	-449	-478	-513	-524	-532	6,5%	7,3%	2,3%	1,4%
restructuring costs	-5		-2	-2	-2	-100,0%		0,0%	0,0%
restated EBITDA	1 591	1 668	1 798	1 881	1 944	4,8%	7,8%	4,6%	3,4%
% of revenues	34,1%	34,1%	34,1%	35,0%	35,7%				

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 49: Enterprise P&L

EURm	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
revenues	6 465	6 405	6 475	6 527	6 584	-0,9%	1,1%	0,8%	0,9%
external purchases	-3 776	-3 714	-3 723	-3 730	-3 737	-1,6%	0,2%	0,2%	0,2%
labour expenses	-1 615	-1 612	-1 610	-1 609	-1 609	-0,2%	-0,2%	0,0%	0,0%
other operating income & expenses	-107	-147	-128	-139	-135	37,4%	-13,1%	9,0%	-2,9%
gain/loss on diposals of assets	-6	24	-	-	-				
restructuring costs	-6	-1	-6	-6	-6	-83,3%	521,9%	0,0%	0,0%
restated EBITDA	956	954	1 009	1 043	1 097	-0,2%	5,7%	3,4%	5,1%
% of revenues	14,8%	14,9%	15,6%	16,0%	16,7%				

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 50:

Fig. 51: Enterprise KPIs

Enterprise financial KPIs	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
revenues	6 465	6 405	6 475	6 527	6 584	-0,9%	1,1%	0,8%	0,9%
voice	1 615	1 528	1 491	1 454	1 418	-5,4%	-2,4%	-2,5%	-2,5%
data	3 008	2 959	2 933	2 918	2 904	-1,6%	-0,9%	-0,5%	-0,5%
IT & Integration Services	1 843	1 918	2 052	2 155	2 262	4,1%	7,0%	5,0%	5,0%

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 52: IC&S P&L

EURm	FY14	FY15	FY16	FY17	FY18	% var. 15	% var. 16	% var. 17	% var. 18
revenues	1 845	1 915	1 904	1 904	1 904	3,8%	-0,6%	0,0%	0,0%
external purchases	- 2 982	- 3 022	- 3 002	- 2 982	- 2 963	1,3%	-0,7%	-0,6%	-0,6%
labour expenses	- 1 241	- 1 251	- 1 251	- 1 243	- 1 245	0,8%	0,0%	-0,7%	0,2%
other operating income & expenses	2 352	2 326	2 369	2 341	2 355	-1,1%	1,9%	-1,2%	0,6%
gain/loss on diposals of assets	46	31	-	-	-	-32,6%	-100,0%		
restructuring costs	- 7	- 2	- 5	- 5	- 5	-71,4%	174,6%	0,0%	0,0%
restated EBITDA	13	- 4	15	14	45	-130,8%	-478,5%	-6,7%	220,5%
% of revenues	0,7%	-0,2%	0,8%	0,7%	2,4%				

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 53: IC&S detailed revenues

IC&S detailed revenues	FY14	FY15	FY16	FY17	FY18	YoY 15	YoY 16	YoY 17	YoY 18
revenues	1 845	1 915	1 904	1 904	1 904	3,8%	-0,6%	0,0%	0,0%
international carrier services	1 528	1 555	1 560	1 560	1 560	1,8%	0,3%	0,0%	0,0%
shared services	317	360	344	344	344	13,6%	-4,4%	0,0%	0,0%

Source: Company Data; Bryan, Garnier & Co ests.

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