FitchRatings

Public Finance
Government-Related Entities
France

Société du Grand Paris

Ratings

Foreign Currency

Long-Term IDR	AA
Short-Term IDR	F1+

Local Currency

Long-Term IDR	AA
Long-Term issues	AA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Issuer Profile

Established in 2010, SGP is the entity in charge of the completion of the 200 kilometres Grand Paris Express automated metro network. The project aims to double the Paris region's existing metro lines by 2030, and its total cost is currently estimated at close to EUR40 billion.

Financial Data

Société du Grand Paris (SGP)

(EURm)	End-2018	End 2019
Cash and liquid deposits	498	1,053
Total debt	3,085	6,037
Total assets	4,618	7,711

Source: Fitch Ratings, SGP

Applicable Criteria

Government-Related Entities Rating Criteria (November 2019)

Related Research

What Investors Wants to Know: The Status of EPs Is not Tantamount to a Guarantee (February 2018)

France (December 2019)

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Key Rating Drivers

Rating Derivation Summary: Fitch Ratings classifies Société du Grand Paris (SGP) as a government-related entity (GRE) of the state of France (AA/Stable) and equalises its ratings with those of the sovereign. This reflects a 'Very Strong' assessment of the following rating factors: status, ownership and control, support track record and expectations and financial implications of the GRE's default. It also reflects a 'Moderate' assessment of socio-political implications of default.

Status, Ownership, and Control – 'Very Strong': SGP is fully owned by the French state and has the status of "Etablissement Public Industriel et Commercial" (EPIC), meaning it cannot be liquidated or declared bankrupt. If SGP were closed, its assets and liabilities would transfer to the state or another designated public entity. The French state exercises direct control over SGP, which is ensured by majority representation of the state on the Supervisory Board (11 out of 21 voting members) and the nomination of the of Executive Board by state decree.

Support Track Record and Expectations – 'Very Strong': The French state supports SGP by dedicating a yearly share of four specific tax items to the project. Their combined proceeds amounted to EUR662 million in 2019, representing 94% of SGP's operating revenue (Fitch adjusted). As an établissement public, SGP would also have access to emergency liquidity support mechanisms in case of need. Our assessment also reflects the law of 16 July 1980 which, in Fitch's view, makes the French state liable for the debt of its EPICs, including SGP.

Socio-Political Implications of Default – 'Moderate': SGP is the agent implementing the 200km Grand Paris Express (GPE) automated metro network, a strategic project for the French state, and a default would have significant political implications. Our assessment of the factor reflects SGP's mission, which consists of delivering a long-term project. It thus does not cover the management of an essential public service nor the fulfilment of a government's core activity.

Financial Implications of Default – 'Very Strong': Fitch considers SGP as a proxy for state funding. As a result, we believe that a default of SGP would have direct consequences on funding cost for the sovereign. A default of SGP would also have a contagion effect on other French GREs, especially other EPICs, as investors could lose faith in the French state's ability or willingness to support these entities.

Sharp Debt Increase: SGP's project aims to double the Paris region's existing metro lines by 2030, and its total cost currently is estimated at close to EUR40 billion. According to the government's plan, debt would peak in 2030 at close to EUR35 billion and would progressively amortise until 2070.

ESG Considerations: The ESG credit relevant score is '3', meaning that ESG issues are credit-neutral on SGP's ratings. These issues are minimally relevant to the ratings given the missions of the entity and the institutional framework.

Rating Sensitivities

Change in Sovereign Rating: Any rating action on the sovereign's ratings would be reflected in SGP's ratings.

Weaker Support Factors: A downgrade could result from weaker assessment of the strength of linkage or incentives-to-support factors, leading to a score below '45' points under our *Government-Related Entities Rating Criteria*. This could result from a change in legal status or a lower financial support from the state, which Fitch views as unlikely.

Rating Synopsis

Fitch views SGP as a GRE of the French state and assigns a score of '45' to the entity under its GRE criteria. This reflects a 'Very Strong' assessment of the following rating factors: status, ownership and control, support track record and expectations and financial implications of the GRE's default. It also reflects a 'Moderate' assessment of socio-political implications of default.

The GRE score of '45' leads to an equalisation of SGP's ratings with those of the sovereign. Fitch does not assign a Standalone Credit Profile (SCP) to SGP given its close financing and operational links with the French state.

Rating History

Date	Long-Term Foreign-Currency IDR	Long-Term Local-Currency IDR
28 Sep 18	AA	AA

Source: Fitch Ratings

Notching Guideline Table

SCP of GRE vs. rating of government/overall support score	Equal or more than	Between		Between		Between		Between			Equal or less than
	45	35	42.5	27.5	32.5	20	25	15	17.5	12.5	10
Same or above	Standalone or constrained	Standalone or constrained		Standalone or constrained		Standalone or constrained		Standalone or constrained		Standalone or constrained	Standalone or constrained
Up to three notches away from government	Equalised	Equalised		Equalised		Top-down minus 1[a]		Bottom-up + 1 capped at government minus 1		Bottom-up + 1 capped at government minus 1	Standalone
Four notches away	Equalised	Top-down minus 1		Top-down minus 1		Top-down minus 2		Bottom-up + 1		Bottom-up + 1	Standalone
More than four notches away from government or standalone not derived/not meaningful[c]	Equalised	Top-down minus 1		Top-down minus 2		Top-down minus 3		Bottom-up + 2 or +3 capped at government minus 3[b]		Bottom-up + 1[b]	Standalone[b]

[a] If the SCP of the GRE is one notch below the government and the credit drivers of the GRE are largely independent from those of the government, a one-notch uplift to the same rating as the government can also be considered
[b] When the standalone is not assigned or not meaningful, entities for which the notching approach is bottom up or standalone would not be rated
[c] The SCP may be 'not meaningful' when it the issuer cannot be effectively de-linked from the government - notably when the GRE primarily acts on behalf of the government to perform a policy driven mission and does not generate its own cash flows or because of very tight operational and financial links with the government
Source: Fitch Ratings

Issuer Profile

Established in 2010, SGP is the entity in charge of the completion of the 200 km GPE automated metro network. The project aims to double the Paris region's existing metro lines by 2030, and its total cost is currently estimated at close to EUR40 billion.

Support Rating Factors

Société du Grand Paris – Assessment of Support

Status, ownership, and control	Support, track record and expectations	Socio-political implications of default	Financial implications of default	GRE score
Very Strong	Very Strong	Moderate	Very Strong	45

Source: Fitch Ratings

Status, Ownership and Control: Very Strong

Fitch considers SGP's status, ownership and control as 'Very Strong'.

SGP is fully owned by the French state and has the status of EPIC. This implies that it cannot be liquidated or declared bankrupt, and if SGP were closed, its assets and liabilities would be transferred to the state or another public entity designated by the state.

EPIC status also implies both full ownership from the French state and close monitoring by the French government. The French state exercises direct control over SGP, which is ensured by majority representation of the state on the Supervisory Board (11 out of 21 voting members) and the nomination of the of Executive Board by state decree. A state-appointed financial controller approves budgets, which are subject to public audit that are carried out by the Ministry of Finance and the Ministry of Transport; SGP is also subject to the ultimate control of the state's supervisory bodies.

Strategic decisions on the project and its financing are taken at government level. The French parliament must approve the nature and the level of the tax items that are earmarked for SGP through the finance bill.

Support Track Record and Expectations: Very Strong

Fitch considers SGP's track record and expectations as 'Very Strong'.

The French state supports SGP by dedicating every year a share of three specific tax items to the project: the office-space tax (TLB), the special equipment tax (TSE), and the tax on network businesses (IFER). Their combined proceeds amounted to EUR662 million in 2019, representing 94% of SGP's revenue.

The 2019 Finance Bill reinforced the financial viability of the project by dedicating additional tax proceeds, which should bring an increase in revenue of about EUR150 million a year as of 2020 (see *Operations*). Regulatory influence was also reinforced by the 2019 Finance Bill: the law required any additional expenditure imposed to be offset by an equivalent amount of revenue; it now also mentions a EUR35 billion debt ceiling for the project.

As an EPIC, SGP also has access to all of the state's emergency liquidity support mechanisms, including the purchase of short-term bonds by the Minister of Finance or the State Debt Fund (Caisse de la Dette Publique; CDP). There are no legal or regulatory restrictions on government support in such a scenario.

Our assessment also reflects the law of 16 July 1980 which, in Fitch's view, makes the French state liable for the debt of its EPICs, including SGP. We do not view the law as tantamount to a guarantee, but we believe it constitutes another form of support to EPICs[1].

[1] *What Investors Want to Know: The Status of EPs Is not Tantamount to a Guarantee* (February 2018)

Finally, the French state has agreed to guarantee the funding packages to SGP from Caisse des Dépôts et Consignations (CDC; AA/Stable; EUR2 billion, of which EUR1 billion so far has been signed) and the European Investment bank (EIB; AAA/Stable; EUR2.5 billion, of which EUR1 billion so far has been used).

Socio-Political Implications of Default: Moderate

Fitch considers the socio-political implications of SGP's default as 'Moderate'.

SGP is the agent for implementing the completion of the 200km GPE automated metro network, which is a strategic project for the French state. Although the project is regional in nature, under French law it is viewed as being of national interest, due to the significant weight that Ile-de-France's region has for the French economy (around 30% of GDP). The project's objective is to stimulate growth, and to increase French GDP by EUR100 billion over the long term. SGP also plays a significant role in the preparation for the 2024 Paris Olympics.

SGP depends greatly on external funding and its financing is closely monitored by the French stateA default by this entity would delay the calendar of new network delivery, leading to significant political repercussions.

Our assessment of the factor 'Socio-political implications of default' reflects SGP's mission, which consists of delivering a long-term project and does not cover the management of an essential public service nor the fulfilment of a government's core activity. Accordingly, we believe that a default of SGP would not have direct socio-political consequences.

Financial Implications of Default: Very Strong

Fitch considers the financial implications of SGP's default as 'Very Strong'.

Fitch considers SGP as a proxy for state funding. The state uses SGP as a financing vehicle for government projects via specific and pledged taxes. According to the financing plan, SGP aims to issue more than EUR2 billion a year in the next five years. As a result, we believe that a default of SGP would have direct consequences on funding cost for the sovereign. Further, SGP's debt is consolidated in French general government debt.

A default of SGP could also have a contagion effect on other French GREs, especially other EPICs, as investors could lose faith in the French state's ability or willingness to support these entities.

Overall GRE Assessment

SGP has a score of '45' points under the GRE criteria, which leads to an equalisation of its ratings with the French state. Fitch has not assigned a SCP to SGP due to the close financing and operational links between SGP and the French state.

Financial profile

Sharp Debt Increase Until 2030

Fitch expects SGP's debt to increase sharply and exceed EUR30 billion in 2030, up from EUR6 billion at end-2019. Fitch estimates the total cost of the project at close to EUR40 billion while total revenue is likely to remain below EUR10 billion until 2030. According to French law (2019 Finance Bill), SGP's debt may not exceed EUR35 billion.

In 2019, debt increased to EUR6 billion, from EUR3.1 billion at end-2018, and we expect it to increase by around additional EUR3.2 billion in 2020 (see chart below). This trend will continue as we expect financing needs to vary between EUR2 billion and EUR3 billion a year on average in the next 10 years.

The government's objective is that SGP's debt will decline after 2030 and be fully amortised by 2070.

Estimation of SGP's financing needs

EURm	2019	2020 budget
Revenue	702.0	889
Expenditure	2,993.0	4,188.0
Financing needs	**2,291.0**	**3,299.0**

Source: Fitch Rating, SGP

Increasing Dedicated Tax Revenue

In 2019, SGP's revenue totalled EUR702 million, up from EUR617.2 million (Fitch adjusted[2]) in 2018. Four dedicated tax items accounted for 94% of total (EUR662 million), including:

- The office-space tax (67% of revenue): this tax is specific to Ile-de-France territory and is based on the stock of office-space in the region;
- The special equipment tax (16%): this tax is based on the construction and extension operations in the region;
- The tax on network businesses (11%): this tax is paid by companies that use networks (transportation, communication, or energy networks).
- The tourist tax: this tax was allocated following the recommendation of a parliamentary report (the Rapport Carrez) to increase SGP resources (see below). This generated revenue of EUR1.5 million in 2019, but we expected it to become more significant in the coming years.

The office-space tax is stable, providing predictable revenue. The potential volatility of the other tax items is higher, as it is linked to the economic cycle. As a result, they will be negatively affected by the economic recession triggered by the coronavirus pandemic

The 2019 Finance Bill increased the tax proceeds dedicated to the project:

- Proceeds from the office-tax increased, thanks to a 10% increase in rate applied in some areas (Paris and department of Hauts-de-Seine); and a larger fiscal base as some exemptions were removed.
- The rate of Ile-de-France's municipalities' tourist tax was increased by 15%, and additional revenue was transferred to SGP in 2019.

[2] Operating revenue excluding non-cash items.

- A share of the regional parking tax will be dedicated to SGP in 2020: the region of Ile-de-France (AA/Stable) will continue to receive EUR66 million a year from the parking tax (2017 proceeds), but additional revenue will be transferred to SGP.

The amount of additional revenue in 2020 is not yet known, but is likely to be close to EUR150 million a year. In 2019, additional revenue amounted to EUR109 million. The 2019 Finance Bill followed some of the recommendations made by the Rapport Carrez, which recommended an increase in dedicated tax revenue by EUR200 million-EUR250 million a year.

Large Capex Programme

SGP's expenditure totalled EUR3.0 billion in 2019, composed mainly of direct investments made by SGP (EUR2.4 billion), and capital subsidies transferred to local and regional governments or transportation companies (EUR486 million). Current expenditure amounted to EUR150 million, including EUR40 million of staff costs and EUR71 million of financial charges.

The budget foresees expenditure increasing to around EUR4.2 billion in 2020 including EUR3.1 billion of direct investments. The lockdown measures imposed in France after 17 March 2020 have caused all construction work related to SGP's projects to stop for several weeks. The effect is difficult to evaluate immediately, but will result in some delay for the GPE project.

Debt and Liquidity

At end-2019, SGP's debt amounted to a little more than EUR6 billion and was composed of EUR1 billion of EIB loans, EUR5 billion of long-term bonds, and EUR42 million of commercial paper issues. Cash and cash equivalents totalled EUR1 billion at end-2019.

SGP has two funding packages from institutional lenders: EUR2.5 billion from EIB (EUR1 billion of which was raised in 2019) and EUR1 billion from CDC. Both benefit from an explicit guarantee from the French state.

SGP has access to the market through two programs: an EMTN program (current ceiling of EUR10 billion), and a EUR3 billion commercial paper program ('Neu CP' programme).

SGP's Debt and Liquidity Instruments

(EURm)	End-2018	End-2019
Debt	2,770	6,000
EMTN programme ceiling	5,000	10,000
Neu CP programme ceiling	3,000	3,000

Source: Fitch Ratings, SGP

Peer Analysis

SGP's ratings compare well with those of other French EPs, such as Agence française de développement (AFD; AA/Stable), Caisse des Dépôts et Consignations (CDC; AA/ Stable), or Regie Autonome des Transports Parisiens (RATP; AA/Stable). SNCF Reseau (AA/Stable), which manages France's railway infrastructure, is also a good peer for SGP in the transportation sector, although its EPIC status was removed in 2020.

Fitch expects the equalisation of the ratings of French national EPs (excluding hospitals) with those of the sovereign to remain the standard under its GRE criteria (See *What Investors Want to Know: The Status of EPs Is not Tantamount to a Guarantee*).

Peers

	Sponsor	GRE score	IDR	Rating approach
SGP	France	45	AA	Equalisation
AFD	France	50	AA	Equalisation
CDC	France	55	AA	Equalisation
RATP	France	45	AA	Equalisation
SNCF Réseau	France	50	AA	Equalisation

Source: Fitch Ratings

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3' – ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit https://www.fitchratings.com/site/esg.

Appendix A

Société du Grand Paris

(EURm)	2015	2016	2017	2018	2019
Profit and loss					
Turnover	508.2	508.3	532.1	565.8	671.9
Staff expenses	-17.6	-21.9	-24.8	-26.5	-37.5
Depreciation	-0.9	-26.8	-4.2	-6.2	-1.3
Other operating revenue and expenditure	-31.7	-110.0	-110.0	-300.2	-190.9
Operating balance before grants and subsidies	458.0	349.7	393.2	232.9	442.2
Transfers and grants from public sector	0.0	0.0	0.0	0.0	0.0
Operating balance after revenue from public sector	458.0	349.7	393.3	232.9	442.2
Interest revenue	0.0	0.0	0.0	1.6	1.2
Interest expenditure	0.0	0.1	-3.2	-25.8	-70.9
Operating balance after financing	458.0	349.7	390.0	208.7	372.6
Surplus on disposal of fixed assets	0	0.1	0.0	1.0	0.0
Non-operating revenue and expenditure	-247.7	-324.2	-394.9	-468.4	-411.8
Profit (loss) before taxation	210.3	25.54	-4.9	-258.7	-39.25
Taxation	0.0	0.0	0.0	-0.0	0.0
Profit (loss) after tax	210.3	25.54	-4.9	-258.7	-39.3
Memo EBITDA	*459.0*	*376.4*	*371.9*	*234.6*	*435.3*

Balance sheet					
Assets					
Tangible assets	508.7	1,011.0	2,104.7	3,866.0	6,273.2
Intangible assets	8.3	12.5	265.7	16.1	20.2
Other long-term assets	0	0	0	0	0
Long-term investments	0	0.7	1.3	1.3	1.2
Stock	5.6	7.0	10.2	27.0	62.1
Trade debtors	59.3	0	144.2	206.2	263.4
Other current assets	0.2	0.2	0.6	4.4	38.0
Total cash, liquid investments and sinking funds	1,198.1	847.2	285.2	497.5	1,052.5
Total assets	**1,780.2**	**1,878.6**	**2,811.9**	**4,618.5**	**7,710.6**

Liabilities and equity					
Long-term liabilities	8.2	55.3	34.7	36.3	35.5
Long-term debt	0	0	700.0	2,770.0	5,995.0
Trade creditors	252.3	384.7	531.9	207.8	160.3
Other short-term liabilities	2.8	3.8	4.5	11.0	36.8
Short-term debt	0	0	3.3	314.6	42.1
Equity	0	0	0	0	0
Reserves	1,516.8	1,542.3	1,537.4	1,278.7	1,440.9
Total liabilities and equity	**1,780.0**	**1,986.1**	**2,811.8**	**4,618.3**	**7,710.6**

Société du Grand Paris (Cont.)

Debt statement (EURm)	2015	2016	2017	2018	2019
Short-term debt	0	0	3.3	314.6	42.1
Long-term debt	0	0	700.0	2,770.0	5,995.0
Total debt	0	0	703.3	3,084.6	6,037.1
Other Fitch-classified debt	0	0	0	0	0
Finance leases	0	0	0	0	0
Adjusted debt	0	0	703.3	3,084.6	6,037.1
Cash, liquid deposits and sinking fund	1,198.1	847.2	285.2	497.5	1,052.5
Net adjusted debt	-1,198.1	-847.2	418.1	2,587.1	4,984.7
Contingent liabilities	0	0	0	0	0
Net overall debt	-1,198.1	-847.2	418.1	2,587.1	4,984.7

Source: Fitch Ratings, SGP

Appendix B

Société du Grand Paris

(%)	2015	2016	2017	2018	2019
Ratio analysis					
Profitability ratios					
Personnel costs/operating revenue (%)	3.4	4.3	4.4	4.3	4.9
Transfers and grants from public sector/total operating revenue					
EBITDA/operating revenue (%)	89.8	73.4	66.1	37.7	57.1
Balance sheet ratios					
Current assets/total assets (%)	71.0	45.5	15.7	15.9	18.4
Current assets/total liabilities (%)			62.6	23.8	23.5
Return on equity (%)	13.9	1.7	-0.3	-20.2	-2.7
Return on assets (%)	11.8	1.4	-0.2	-5.6	-0.5
Debt ratios					
Net adjusted debt/EBITDA (x)			1.9	13.1	11.5
EBITDA/interest coverage (x)			116.1	9.1	6.1
Total debt/equity and reserves (%)			45.7	241.2	419.0
Total debt/total assets (%)			25.0	66.8	78.3

Source: Fitch Ratings, SGP

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.