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CREDIT OPINION
16 January 2018

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RATINGS

**Societe du Grand Paris**

| | |
|---|---|
| Domicile | Paris, France |
| Long Term Rating | Aa2 |
| Type | LT Issuer Rating - Fgn Curr |
| Outlook | Stable |

*Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*

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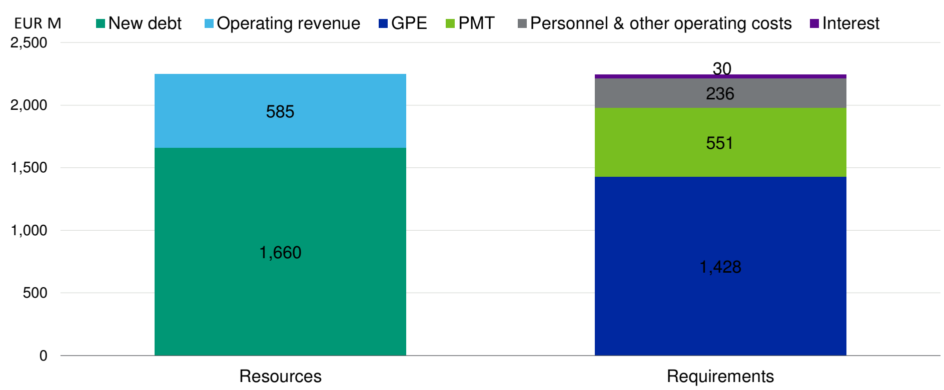
# Société du Grand Paris (France)

## Update following P-1 short-term debt rating assignment

## Summary

The credit profile of the Société du Grand Paris (SGP, Aa2 stable) reflects a strong institutional and operational framework that links it very closely to its owner, the Government of France (Aa2 stable). It also takes account of SGP's clear public policy mandate and its key role in the development of the Greater Paris area. SGP is a public entity with the special legal status of an EPIC (Etablissement Public Industriel et Commercial) whose purpose is to develop the infrastructure network in the Greater Paris area, in particular to build the 200 kilometre Grand Paris Express (GPE) automated metro network. As such, SGP is endowed with three taxes dedicated to reimbursing future debt. Given SGP's legal status, its importance to the capital region, and the project's international visibility, we consider the likelihood of extraordinary support from the central government as very high.

Exhibit 1
**SGP's borrowing needs will amount to €1.7 billion in 2018**




Note: GPE - Grand Paris Express; PMT - Plan de Mobilisation des Transports
*Sources: SGP, Moody's*

## Credit strengths

» Very strong links with its owner, the Government of France

» Key role in the development of the Greater Paris area

» Adequate funding available to cover future fixed capital investments

## Credit challenges

» Uncertainty regarding GPE's increasing costs and potential new mandates

## Rating outlook

The outlook is stable. This reflects our expectation that, given the importance of the Grand Paris Express, its size and resulting debt, the strong institutional links with and very high likelihood of support from the central government will persist.

## Factors that could lead to an upgrade

Upward pressure on SGP's rating could arise from an upgrade of the Government of France. However, this is unlikely in the current environment, given the stable outlook on France's rating.

## Factors that could lead to a downgrade

A weakening of the French government's credit profile, reflected in a downgrade of the sovereign rating or any material change in SGP's institutional framework, could negatively affect the rating. Negative rating pressure would also arise should the support provided by the central government show any signs of dilution.

## Key indicators

Exhibit 2
**SGP**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Tax revenues | 346 | 346 | 490 | 508 | 509 |
| Net income (€ million) | 282 | 267 | 393 | 210 | 26 |
| Total assets | 668 | 950 | 1,368 | 1,780 | 1,986 |
| Total capital | 646 | 913 | 1,307 | 1,525 | 1,572 |

*Sources: SGP, Moody's*

## Detailed credit considerations

The credit profile of Société du Grand Paris, as expressed in an Aa2 stable rating reflects our assessment of a very high likelihood of extraordinary support from the central government in the event SGP faced acute liquidity stress.

### Very strong links with its owner, the Government of France

Since its creation in 2010, SGP has benefitted from the special legal status of an EPIC (Etablissement Public Industriel et Commercial). As such, it mainly operates under the dual authority of the Ministry for Economic Affairs and Finance, and the Ministry of Transport. As a result, SGP's finances and operations benefit from a high degree of central government supervision. The central government bears ultimate responsibility for all legal measures, frameworks and policies affecting SGP and is therefore in a position to preempt any deterioration in the company's finances. SGP's management and organisational structure reflect the government's influence. Moreover, under its EPIC status, SGP has no share capital, cannot go bankrupt, and cannot have its assets seized as a result of nonpayment of claims. Because the state would ultimately be responsible for its financial obligations in the event of insolvency, this acts as a strong incentive for the central government to intervene at an early stage in the process.

Given this legal framework, we consider the entity to be a government-related issuer (GRI). From a credit risk perspective, it is not meaningful to distinguish between SGP and the French government, because of the intrinsic operational and financial ties between them. SGP's operations are tightly controlled by the government, which appoints its management and board of directors, decides the level of tax revenue, and approves its annual budget, debt levels and future investments. As a result, we believe SGP's standalone financial metrics are essentially irrelevant to the credit risk its bondholders face. We consider that the viability of the business model can be ensured solely by the central government. Therefore, the very high likelihood of government support, reflecting our assessment of the reputational risk to the French government if SGP were to default, is the most important consideration behind SGP's credit profile.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

### Key role in the development of the Greater Paris area

Transport infrastructure is one of the four pillars of the "Greater Paris" urban development project for the French capital. SGP plays a pivotal role in the project, given its explicit public mandate to build the new automated metro network, the Grand Paris Express (GPE), and to participate in the financing of the refurbishment of the existing network (Plan de Mobilisation des Transports, or PMT). The GPE is intended to double the Paris region's existing metro lines by 2030. It is also recognised by the European Union (EU) as a trans-European transport network hub, which entitles it to European Union subsidies.

Initially drawn up during the centre-right presidency of Nicolas Sarkozy, the project's rapid development under the left-wing government of President François Hollande demonstrates cross-party support for the initiative. In 2017, Emmanuel Macron's government reaffirmed the strategic importance of the project. As such, there is strong political will to complete the project by 2030, with commissioning of the first line scheduled for 2022. Moreover, the project's importance is underlined by the city of Paris hosting the Olympics in 2024 and its bid to host Expo 2025.

### Adequate funding available to cover future fixed capital investments

French legislation sets the general framework under which SGP operates, and the revenue it can raise and costs it can incur. The law creating Greater Paris urban development project explicitly states that infrastructure funding is to be ensured by the central government. The overall GPE project is divided into seven investment programmes. Under French transport law, an assessment of the socio-economic impact of all publicly funded projects must be undertaken before construction work begins. SGP has completed appraisals for all seven investment programmes. Additionally, the programmes have been submitted to the French Conseil d'Etat to obtain the declaration of public utility (Declarations d'utilite publique, or DUP) granted by decree.

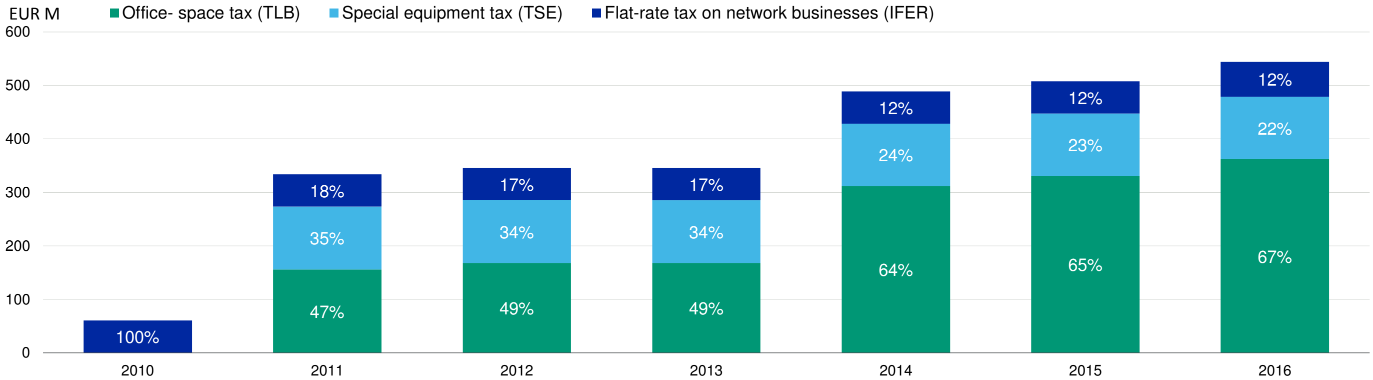
SGP initially estimated the total capital investment at €28.1 billion (at 2012 prices), of which €24.7 billion was earmarked for the GPE project. The remaining €3.4 billion will be channeled into other infrastructure operations designed to improve the existing transport network.

In 2017, as initial work started, SGP reevaluated the total cost of the project. Although, the business plan is under review, we understand that SGP now estimates the total cost of the GPE project to be between €28 billion and €35 billion. Given the significant scale of the project and its short delivery schedule, the investment will mainly be financed by new debt, with a maturity of up to 40 years after the final phases are commissioned. According to SGP's initial business plan, the total debt required to cover its financing needs over the construction and ramp-up periods will be €25.8 billion. Bank finance will amount to €8.2 billion, of which €4.1 billion will come from the Caisse des Depots et Consignations (CDC, 1 billion loan contract signed in 2016), and a further €4 billion from the European Investment Bank (EIB, two €1 billion loan contracts signed in 2017). Both loans carry favourable interest rates and maturity conditions. SGP benefits from an explicit central government guarantee on its bank loans, underscoring the government's strong support of the company. While this guarantee confirms our support assumptions, we do not regard it as an important enhancement of SGP's credit quality. This is because SGP's EPIC status already gives it an implicit and unlimited guarantee. The remaining part of the financing will be raised on the financial markets within SGP's euro medium-term note (EMTN) programme, planned for 2018.

SGP will repay debt from its own revenue, which comes from three taxes levied in the region of Ile-de-France, subject to a limit set out in the annual General Budget Law. SGP receives a share of office-space tax (TLB) receipts, with revenue from this source capped at €350 million per year since 2014. The TLB tax proceeds are based on the stock of office space, rather than transaction flows, giving a better degree of predictability. We regard this as credit positive.

SGP also receives revenue from a special equipment tax (TSE) created in 2010 specifically to fund the Grand Paris urban project (€117 million per year), as well as a share of a flat-rate tax on network businesses (IFER, capped at €65 million per year). The funding limit specified in the General Budget Law can be increased if necessary as the project progresses.

Exhibit 3
**SGP's revenue from taxes**




*Sources: SGP, Moody's*

The EU considers SGP a trans-European transport network hub and therefore it qualifies for EU subsidies. Support from this source amounted to €31 million in 2015, equivalent to about 50% of the cost of preliminary studies undertaken for three SGP investment programmes. The French prime minister announced in March 2013 that if SGP's funding requirements were to increase, the central government's direct financial contribution would rise to as much as €1 billion, while local governments would provide a further €225 million. SGP did not include this potential revenue in its financial model, but the promise of additional support is credit positive, as it further underlines the central government's commitment to the project.

The law creating SGP stipulates that it will charge the operator of the metro network a fee for the use of the infrastructure. In 2011, as part of an agreement between the central government and the Ile-de-France region, the annual limit on this fee was set at 0.8% of total investment expenditure. The exact conditions will be decided by a Decree of the Conseil d'Etat. Given the current timetable for completion, SGP projects total fee income of €1.3 billion up to 2030.

Since 2010, SGP's tax revenue allowed it to accumulate a significant cash reserve (€847 million as of the end of 2016), as its spending had been limited to preliminary studies and land acquisition. These reserves were rapidly depleted in 2017 as SGP launched the first phase of construction. Its debt is also building up at a rapid pace, with €700 million currently drawn down from the EIB. In 2018, we expect SGP's financing needs to amount to €1.7 billion.

SGP presents a comfortable liquidity profile, as its cash flows are secured and predictable. SGP receives its tax revenue on a regular basis following a pre-established schedule. In 2018, SGP plans to use its €3 billion commercial paper (CP) programme for a maximum of €1 billion, with single issues comprising between €250 million and €500 million for three-month periods. It currently has access to €2.3 billion facilities signed with the EIB and CDC, deemed adequate to amply cover its short-term liquidity requirements.

### Uncertainity regarding GPE's increasing costs and potential new mandates assigned to SGP

As the cost of the GPE project was re-evaluated in 2017 to €28 billion-€35 billion, from €24.7 billion, we expect the French Government to reassess the parameters of the project in the context of national fiscal consolidation. However, SGP's credit quality remains strongly underpinned by the central government's close oversight.

The legislation creating SGP does not limit the projects that it may participate in. This creates some leeway regarding SGP's mandate, and reduces visibility over its potential financing needs. However, we believe that if new projects were to be assigned to SGP, the central government would increase its revenue to compensate. There is no legal provision for such compensation, but the government has taken this approach in the past. SGP received an additional €20 million in tax revenue in 2017 after it was given a role in funding the EOLE project, which will extend the RER E line, in February 2016. Given SGP's importance in the development of the capital region, we expect the central government to refrain from measures that might hinder it from fulfilling its responsibilities or impair its funding model.

## Rating methodology and scorecard factors

In our assesment of SGP's credit profile, we apply our global rating methodology for Government-Related Issuers, published in August 2017. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

## Ratings

Exhibit 4

| Category | Moody's Rating |
|---|---|
| **SOCIETE DU GRAND PARIS** | |
| Outlook | Stable |
| Issuer Rating | Aa2 |
| Commercial Paper -Dom Curr | P-1 |

*Source: Moody's Investors Service*

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