

# Region of Bretagne

## Key Rating Drivers

**Ratings Affirmed, Negative Outlook:** The affirmation reflects Fitch Ratings' expectation that the Region of Bretagne's debt metrics will be commensurate with its current rating under our rating case scenario. The Negative Outlook reflects that on the sovereign rating (AA/Negative).

**Rating Derivation Summary:** Bretagne's 'AA' Long-Term Issuer Default Rating (IDR) is solely based on its Standalone Credit Profile (SCP) of 'aa'. The SCP is driven by a 'High Midrange' risk profile and debt sustainability metrics assessed in the middle of the 'aa' category under Fitch's rating case scenario. The region's IDR is not capped by the French sovereign and no other rating factors affect the rating.

**Risk Profile - 'High Midrange':** Fitch assesses the region's risk profile as 'High Midrange', reflecting a combination of 'Stronger' attributes (revenue robustness, expenditure sustainability, liabilities and liquidity robustness and flexibility) and 'Midrange' attributes (revenue and expenditure adjustability). Fitch believes the risk of an unexpected weakening of the region's ability to cover its debt service needs over the rating scenario horizon is low.

**Debt Sustainability - 'aa' Category:** In Fitch's rating case scenario, the region's payback ratio would increase to about 7.5x by 2024 (2019: 3.9x), debt service coverage (Fitch's synthetic calculation) would be in the 1.5x-2x range (2019: 3.6x), while the fiscal debt burden would weaken to above 150% (2019: 93%). The expected deterioration in debt ratios in the coming years is due to the economic consequences of the coronavirus pandemic and the region's large investment programme.

**Neutral Additional Rating Factors:** The region's Long-Term IDR is not capped by the sovereign. Its rating does not take into account any extraordinary support from the French state. In addition, we have not identified any additional risk factors. However, the region's Negative Outlook is currently constrained by the sovereign.

**ESG Considerations:** 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.

## Rating Sensitivities

**Stronger Payback, Sovereign Outlook:** Bretagne's Outlook could be revised to Stable if the payback ratio decreases to below 7.5x on a sustained basis in our rating case scenario, provided that the Outlook on the sovereign is also revised to Stable.

**Weaker Payback, Sovereign Downgrade:** Bretagne's Long-Term IDRs could be downgraded if the region's payback ratio remains above 7.5x on a sustained basis in our rating case scenario. This could happen if the drop in tax revenue is larger than currently expected and not matched by additional transfers or a decrease in expenditure due to the economic consequences of the pandemic.

A downgrade of the sovereign's ratings would lead to a similar action on Bretagne's ratings.

## Ratings

Foreign Currency	
Long-Term IDR	AA
Short-Term IDR	F1+
Local Currency	
Long-Term IDR	AA
Senior Unsecured Debt – Long-Term Rating	AA

## Outlooks

Long-Term Foreign-Currency IDR	Negative
Long-Term Local-Currency IDR	Negative

## Issuer Profile

Bretagne is located in the west of France on the Atlantic coast, with a population of 3.3 million. The region is responsible for local transportation infrastructure, vocational training, high school infrastructure and economic development.

## Financial Data

Bretagne		
(EURm)	2019	2024rc
Payback (x)	3.9	7.6
Synthetic coverage (x) <sup>a</sup>	3.6	1.7
Actual coverage (x)	4.7	1.5
Fiscal debt burden (%)	93	173
Net adjusted debt	1,125	2,113
Operating balance	287	279
Operating revenue	1,215	1,221
Debt service	61	191
Mortgage-style debt annuity <sup>a</sup>	80	160

rc: Fitch's rating case scenario

<sup>a</sup> Fitch's calculation (see Appendix C)

Source: Fitch Ratings, Bretagne

## Applicable Criteria

International Local and Regional Governments Rating Criteria (September 2020)

## Related Research

French Regions – Portfolio Review 2020 (June 2020)

## Analysts

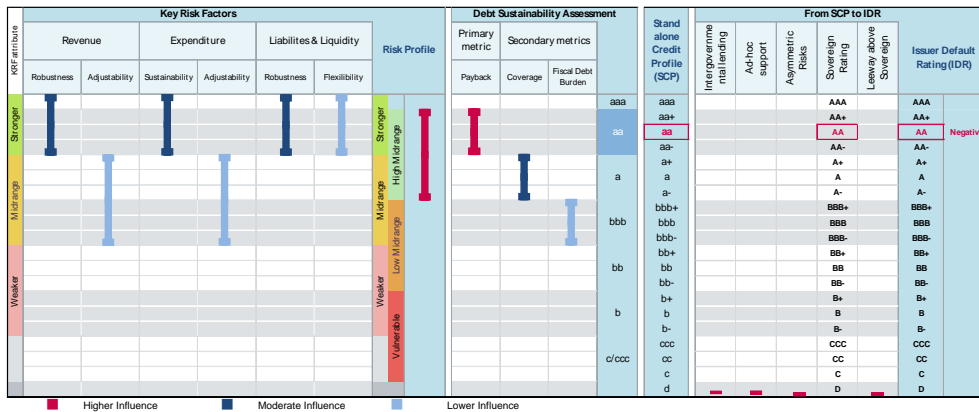
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## Rating Synopsis

Bretagne's 'AA' Long-Term Foreign-Currency IDR is driven by its SCP, which we assess at 'aa'. This reflects the combination of a 'High Midrange' risk profile (see [Risk Profile: High Midrange](#)) and debt sustainability that Fitch assesses in the middle of the 'aa' category under its rating case scenario (see [Debt Sustainability: 'aa' category](#)). The region's IDR is not capped by the French sovereign (AA/Negative) and no other rating factors affect the rating (see [Other Rating Factors](#)). However, the region's Outlook is currently constrained by that of the French state.

## Bretagne – Rating Building Blocks Overview



## Rating History

Date	Long-Term Foreign-Currency IDR	Long-Term Local-Currency IDR
5 Feb 13	AA	AA

Source: Fitch Ratings

## Bretagne



Source: Fitch Ratings

## Issuer Profile

Bretagne is a French region located in the west of France on the Atlantic coast. It consists of four departments (Cotes d'Armor, Finistere, Ille-et-Vilaine and Morbihan) and has a population of about 3.3 million. Its annual rate of population growth between 2012 and 2017 was 0.5% on average (0.4% at the French metropolitan level), mainly driven by net migration.

Bretagne's economy is well diversified; it has a large agricultural sector and strong industrial base (eg. agri-food industries, car manufacturing, electronics and shipping yards), supported by the development of marine biotechnology and maritime energy (eg offshore wind farms). Bretagne also benefits from a dense network of educational institutions and good connections with national and European decision centres, notably through the high-speed rail linked to Paris since 2017.

The region has wealthy socio-economic indicators compared with international peers. Its GDP per capita was EUR29,700 in 2018 – slightly below the EU average (EUR31,000). Bretagne's unemployment rate of 6.7% in 4Q17 was below the French national average of 7.8%, and its poverty rate is one of the lowest among French regions (10.9% in 2017).

## Risk Profile: 'High Midrange'

Fitch assesses Bretagne's risk profile as 'High Midrange'. This reflects a combination of 'Stronger' attributes (revenue robustness, expenditure sustainability and liabilities and liquidity attributes) and 'Midrange' attributes (revenue and expenditure adjustability).

## Bretagne – Risk Profile Assessment

Risk profile	Revenue robustness	Revenue adjustability	Expenditure sustainability	Expenditure adjustability	Liabilities & liquidity robustness	Liabilities & liquidity flexibility
High midrange	Stronger	Midrange	Stronger	Midrange	Stronger	Stronger

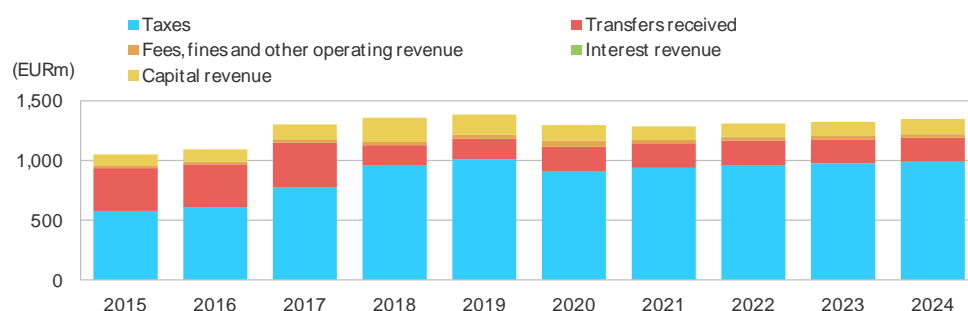
Source: Fitch Ratings

## Socioeconomic Indicators

	Bretagne	France
Population, 2017 (m)	3.3	64.6
2012-2017 average annual population growth (%)	0.5	0.4
GDP per capita, 2018 (EUR)	29,700	35,000
Unemployment rate, 4Q19 (%)	6.7	7.8
Poverty rate, 2017 (%)	10.9	14.5

Source: Fitch Ratings, INSEE, Eurostat

Revenue Structure



Source: Fitch Ratings, Bretagne

Revenue Robustness: 'Stronger'

Bretagne benefits from highly stable revenue sources and solid long-term revenue growth prospects. Operating revenue is mostly made up of growing and predictable tax items and stable resources transferred by the French state with a low counterparty risk. The latter include both transfers from the state and fuel tax proceeds, which are mostly guaranteed by the state (20% of operating revenue in 2019).

About half of the region's operating revenue is linked to the economic cycle. In 2019, this included the corporate value-added tax (CVAE) proceeds based on local companies' CVAE (28% of operating revenue), a share of VAT proceeds collected at the national level (16%) and vehicle registration fees, which are linked to vehicle purchases (11%). According to the draft Finance Bill for 2021, CVAE proceeds will be replaced by additional VAT proceeds, which will then account for more than 40% of the region's operating revenue as of 2021 and will be a source of revenue growth in the medium term.

The main consequences of the economic recession triggered by the coronavirus pandemic will be a sharp decline in vehicle registration fees and of VAT proceeds in 2020, although the latter will be limited to 6% as regions benefit from a minimum amount guaranteed by the state. By contrast, CVAE proceeds will increase by 4% in 2020 as this tax item is based on profits recorded one or two years earlier. In addition, the replacement of the CVAE proceeds by a share of VAT in 2021 will be credit-positive for French regions, including Bretagne, as they will not face the sharp expected decline in CVAE proceeds in 2021-2022.

Revenue Adjustability: 'Midrange'

Fitch views Bretagne's revenue adjustability as moderate, because the region's rate-setting power is limited to the vehicle registration tax. The region's current tax rate is the second-highest in France at EUR51, almost the same as that of the Region of Provence-Alpes-Côte-d'Azur (AA-/Stable).

An increase of the tax rate to EUR60 (Fitch's assumed maximum rate for French regions)<sup>1</sup> would have increased operating revenue by only 2% (or EUR23 million) in 2019. However, this would cover, in Fitch's view, more than 50% of a reasonably expected revenue decline in case of an economic downturn (estimated at 2%-3% by Fitch).

Fitch views the affordability of additional taxation on this tax item as strong compared with international peers, as an increase in vehicle registration fees would be only a marginal proportion of the region's median income.

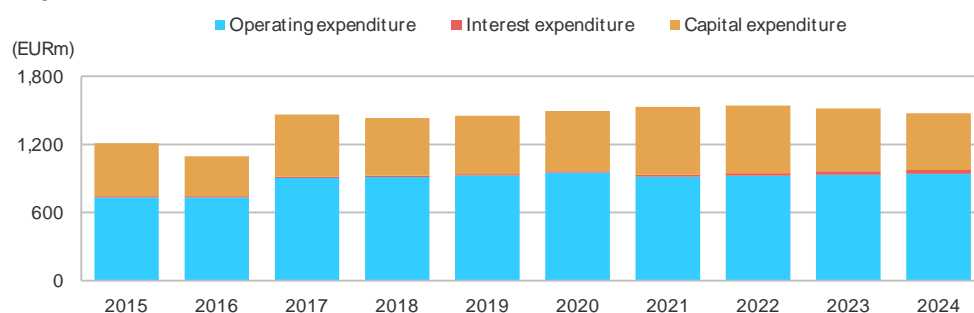
Revenue Breakdown, 2019

(%)	Operating revenue	Total revenue
Levy on corporate value added	28	-
VAT	16	-
Vehicle registration tax	11	-
Transfers	14	-
Miscellaneous	31	-
<b>Operating revenue</b>	<b>100</b>	<b>88</b>
<b>Financial revenue</b>	-	<b>0</b>
<b>Capital revenue</b>	-	<b>12</b>

Source: Fitch Ratings, Bretagne

<sup>1</sup>As French law does not provide any ceiling on this tax rate, Fitch assumes a maximum theoretical rate at EUR60, which represents an about 20% increase of the current highest rate and close to 2x the current lowest rate (see [French Regions - Portfolio Review 2020](#) published 04 June 2020).

### Expenditure Structure



Source: Fitch Ratings, Bretagne

### Expenditure Sustainability: 'Stronger'

Bretagne has a proven strong record and good prospects of control over expenditure, and the region aims to stabilise its operating expenditure (opex) in the coming years. The region was largely below the targeted 1.2% of current expenditure growth a year on average (excluding perimeter effects) set by the French state in the Finance Programming Bill for 2018-2022. The region's operating spending, for the same scope of competencies, has declined in recent years. The 1.2% threshold was put on hold in 2020 to allow local and regional governments (LRGs) to cope with the pandemic and to support the local economy (see [Sound Operating Performance and Debt Ratios](#)).

Bretagne's responsibilities mainly include non-cyclical expenditure that is unlikely to increase in a typical economic downturn (planned investments, transportation and secondary education). In response to the pandemic in 2020, the region has increased its spending to EUR67 million for employment, EUR30 million to sustain enterprises and EUR18 million for public transportation. However, this increase will be partially mitigated by reduced expenditure linked to the containment measures (eg temporary closing of high schools and delays in building works) and most of this extra-spending comprises one-off items limited to 2020.

### Expenditure Adjustability: 'Midrange'

Bretagne's opex is mainly made of mandatory transfers relative to transportation, vocational training or secondary education. Staff costs (18% of operating spending in 2019) are also rigid spending items as most of the region's employees have the status of civil servants. However, cost-cutting measures may still be implemented, as evidenced by the tight control exercised by the region over operating spending in recent years.

Fitch believes the region retains some flexibility to scale down expenditure, in case of need, given its significant level of capital expenditure (capex; 35% of total expenditure (totex) in 2019). The latter could be postponed or scaled down, in case of need, although this flexibility is partially offset by the region's high investment needs, which are driven by population growth. Overall, we estimate the share of inflexible expenditure to be between 70% and 90%.

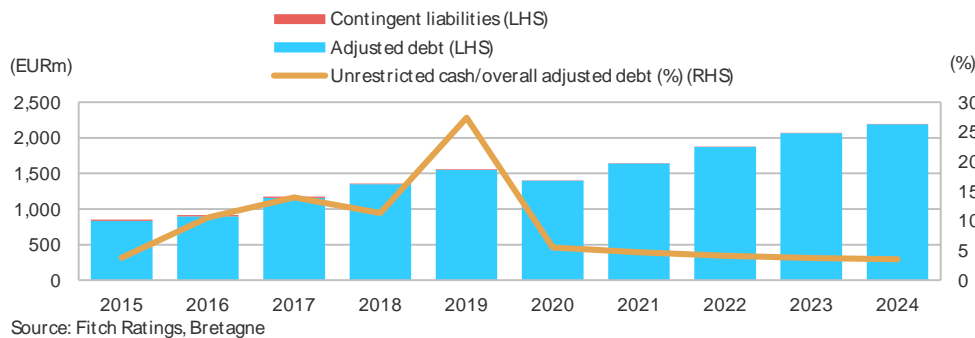
We view the level of service and investments within the region as high compared with international peers, and, therefore, see a stronger affordability to reduce spending.

### Expenditure Breakdown, 2019

(%)	Opex	Total expenditure
Staff costs	18	-
Transportation	28	-
Secondary education	9	-
Vocational training	27	-
Other	18	-
<b>Operating expenditure</b>	<b>100</b>	<b>64</b>
<b>Financial charges</b>	-	<b>1</b>
<b>Capital expenditure</b>	-	<b>35</b>

Source: Fitch Ratings, Bretagne

**Overall Adjusted Debt Structure**



**Liabilities & Liquidity Robustness: ‘Stronger’**

Bretagne operates under a robust national and individual debt management framework, with a low appetite for risk. Its liabilities carry little risk. At end-2019, debt was 58% fixed rate and 99.8% was considered risk-free by national regulation (Gissler Charter). The debt amortisation profile is smooth with some bullet repayments as of 2020.

At end-2019, 39% of the region’s debt consisted of bonds from its EUR1 billion euro medium-term notes (EMTN) programme, which became its largest channel of financing, followed by 33% of loans from the European Investment Bank (EIB; AAA/Stable), 25% from Caisse des Dépôts et Consignations (CDC; AA/Negative) and the remaining 3% from commercial banks loans. Bretagne has also one funding package of EUR90 million contracted with the EIB in 2018 for the financing of the port of Brest and renewable energy infrastructures.

The region’s short-term debt consisted of EUR350 million of NeuCP issues and was 23% of total debt at end-2019. Fitch does not consider this debt as a risk for the region as it was fully backed up by committed credit lines.

Bretagne’s contingent liabilities are very low as they were less than 0.1x the operating balance in 2019. Guarantees were EUR6 million at end-2019. The region holds a majority share in one real-estate developer, Sembreizh (Société d’Economie Mixte pour l’Amenagement et l’Equipement de la Bretagne), which is in charge of developing secondary education facilities and other public infrastructure. This entity’s net debt is negligible compared with the region’s budget and thus, in Fitch’s view, is not a risk for the region.

**Liabilities & Liquidity Flexibility: ‘Stronger’**

Fitch believes that a solid framework applies to French LRGs regarding the allocation of emergency funding by the state. LRGs’ cash is deposited at the National Treasury, leading to a “cash pooling” mechanism between LRGs and the French state. Accordingly, the state may provide cash advances to LRGs. The counterparty risk of this mechanism is low due to the high sovereign rating.

At end-2019, Bretagne had EUR428 million of unrestricted cash. The region also had EUR200 million of committed lines with counterparties rated in the ‘A’ category and EUR150 million of revolving loans with the CDC.

Bretagne has a EUR350 million NeuCP programme, which has increased from EUR240 million in 2019, and is fully backed by its committed lines. The region issued EUR1,445 million in 1Q20 (cumulative issues) and EUR350 million were outstanding at end-2019.

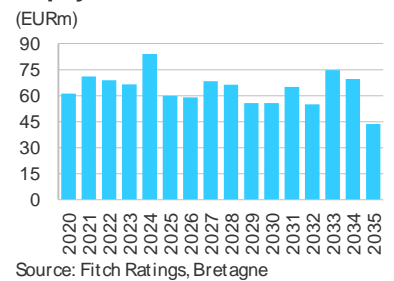
The assessment also factors in the possible access French LRGs have to some institutional lenders, especially the CDC, which may support them in case of borrowing difficulties with commercial banks.

**Debt Analysis**

	(End-2019)
Fixed rate (% of total debt)	58
Short term debt (% of total debt)	23
Apparent cost of debt (%)	0.7
Average maturity (year)	9.7
Debt service (2019, EURm)	61
Operating balance (2019, EURm)	287

Source: Fitch Ratings, Bretagne

**Debt Amortisation Schedule 2020-2035 – Capital Repayments**



**Liquidity**

(EURm)	(End-2019)
Available cash	428
Unrestricted cash	428
Undrawn committed credit lines and revolving loans	350

Source: Fitch Ratings, Bretagne

## Debt Sustainability: 'aa' category

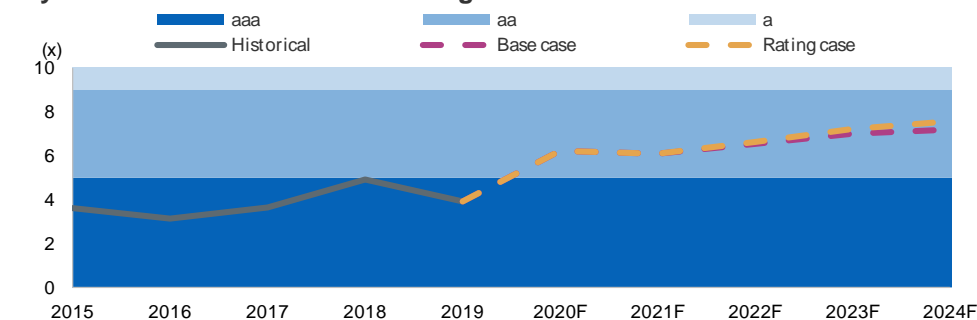
### Bretagne - Debt Sustainability Assessment

	Primary metric	Secondary metrics	
	Payback (x)	Coverage (x)	Fiscal debt burden (%)
aaa	$X \leq 5$	$X \geq 4$	$X \leq 50$
aa	$5 < X \leq 9$	$2 \leq X < 4$	$50 < X \leq 100$
a	$9 < X \leq 13$	$1.5 \leq X < 2$	$100 < X \leq 150$
bbb	$13 < X \leq 18$	$1.2 \leq X < 1.5$	$150 < X \leq 200$
bb	$18 < X \leq 25$	$1 \leq X < 1.2$	$200 < X \leq 250$
b	$X > 25$	$X < 1$	$X > 250$

Source: Fitch Ratings

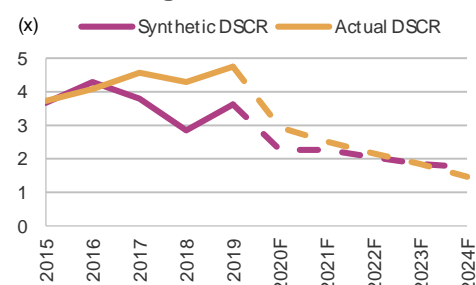
Bretagne's debt sustainability is assessed in the middle of the 'aa' category. In our rating case scenario, we expect the payback ratio to be close to 7.5x in the medium term, the synthetic debt service coverage to be in the 1.5x-2x range and the fiscal debt burden to increase to above 150%.

#### Payback Ratio - Fitch's Base and Rating Case Scenarios



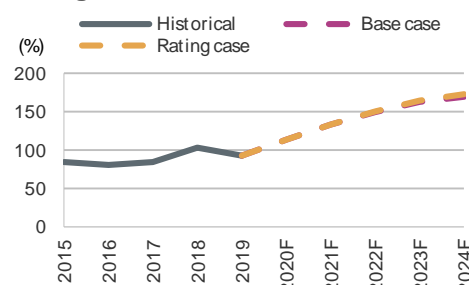
Source: Fitch Ratings, Bretagne

#### Synthetic and Actual Coverage Ratios - Fitch's Rating Case Scenario



Source: Fitch Ratings, Issuer

#### Fiscal Debt Burden - Fitch's Base and Rating Case Scenarios



Source: Fitch Ratings, Issuer

Fitch's rating case scenario is a "through-the-cycle" scenario, which relies on the assumptions presented below and includes a lower GDP due to the coronavirus pandemic. It is based on 2015-2019 figures and 2020-2024 projected ratios.

#### Debt Sustainability Ratios:

- **Payback:** Net adjusted debt/operating balance (x)
- **Synthetic coverage:** Operating balance/mortgage style debt annuity; Fitch's synthetic calculation (x; see Appendix C)
- **Fiscal debt burden:** Net adjusted debt/operating revenue (%)

#### Debt Sustainability Ratios - Fitch's Rating Case Scenario

	2019	2024rc
Payback (x)	3.9	7.6
Synthetic coverage (x)	3.6	1.7
Fiscal debt burden (%)	93	173

rc: Fitch's rating case  
Source: Fitch Ratings, Bretagne

## Fitch's Rating Case Main Assumptions

	Pro-forma past 5y CAGR <sup>b</sup>	Pro-forma 2020- 2024 <sup>b,rc</sup>
National nominal GDP growth (Fitch's assumption) <sup>1</sup>	2.6	1.1
Operating revenue growth (%)	2.5	1.4
Tax revenue growth (%)	4.2	1.2
Central government primary balance/GDP (%) <sup>a</sup>	-1.8	-
Transfers received growth (%)	3.0	-1.0
GDP deflator <sup>a</sup>	1.0	0.8
Operating expenditure growth (%)	1.7	2.0
Net capital expenditure (average per year; EURm)	-339	-436
Sovereign benchmark (10Y bond, beginning of October 2020)	-0.26	-
Apparent cost of debt (%), 2019	0.7	1.2

rc; Fitch's rating case scenario

<sup>1</sup> Sovereign assumptions are based on Fitch's [Global Economic Outlook](#) for 2020-2022 published on 7 September 2020.

For 2023-2024, we have assumed a return to the 2015-2019 average for growth and the GDP deflator.

<sup>b</sup> 2015-2019 and 2020-2024 data include several changes in perimeters that occurred during the period.

Source: Fitch Ratings

Bretagne was affected by several perimeter effects and non-recurring items in recent years, which we expect will continue. These include general cuts in state transfers, vocational plans financed by the French state, EU-funded programmes and transfers of responsibilities (transportation in 2017 and apprenticeship in 2020). Some of these effects could be neutralised in the pro-forma calculation.

### Sound Operating Performance and Debt Ratios

Bretagne's operating balance increased to EUR287 million in 2019 from EUR243 million in 2018 (see [Appendix C: Data Adjustments](#)), which was a comfortable 24% of operating revenue. The region has also maintained sound debt ratios in recent years with a robust payback ratio of 3.9x in 2019 from 4.9x in 2018. This reflects the region's growing tax revenue and the tight control it exercises over its opex.

Bretagne has decreased its opex at constant perimeters in recent years to maintain a sound debt repayment capacity. This has enabled the region to easily meet the prudential rules set by the French state in 2018 and 2019, capping its current expenditure growth at 1.2% a year over 2018-2022 (excluding perimeter effects). This threshold was put on hold to allow LRGs to cope with the pandemic and to support the local economy.

### Expected Weakening in 2020 followed by Rebound from 2021

Fitch has revised its rating case scenario to include the consequences of the economic recession triggered by the coronavirus pandemic and containment measures. The main expected impacts for Bretagne in 2020 are a decline by 6% in VAT proceeds (to the level guaranteed by the state), a drop of 15% in vehicle registration fees and additional operating spending.

The region estimates its extra-spending to sustain local employment, enterprises and public transportation in the territory in 2020 at EUR114 million (excluding provisions), of which EUR89 million of opex and EUR25 million of capex. However, this will be partially mitigated by reduced expenditure during the containment (estimated at EUR73 million), such as the temporary closing of high schools or delays in building works. This should lead to a sharp deterioration of the operating balance to EUR212 million (18% of operating revenue in 2020) and a deterioration of the payback ratio to above 6x in 2020.

However, Fitch expects a recovery as soon as 2021, as VAT proceeds should rebound strongly, and given that most exceptional expenses were one-off items in 2020. In our rating case scenario, we expect Bretagne's operating balance to be about EUR280 million in the medium term.

As of 2020, Bretagne will lose its apprenticeship competencies, which Fitch expects to have a minimal impact on its operating balance as the loss of revenue should be compensated for by an



equivalent loss of spending. By contrast, the expected replacement of the CVAE proceeds by a share of the nationally collected VAT as of 2021 will be credit-positive as it will avoid a drop in the region's CVAE proceeds in 2021-2022.

### Sustained Capex and Expected Debt Increase

Bretagne's capex totalled EUR514 million in 2019, accounting for 35% of totex. The region is implementing a large capex programme of about EUR3 billion over 2016-2021, mostly allocated to transportation and high schools, including the renovation of the port of Brest and the financing of the subway in the city of Rennes. In our rating case scenario, we expect the region's capital balance to be close to EUR440 million a year in the coming years.

The deterioration of the operating balance in the coming years, along with the region's high capex, should lead to a weakening of its self-financing capacity (current balance + capital revenue/capital expenses) to about 70% (from about 90% in 2019) and an increase in net adjusted debt of close to EUR2.1 billion in the medium term, resulting in a net payback of about 7.5x in 2024 in our rating case scenario.

### Other Rating Factors

Bretagne's final IDR results from its SCP. The rating is not capped by the sovereign and does not take into account any extraordinary support from the French state. No other rating factor affects the final ratings. However, the region's Outlook is currently constrained by that of the French state.

### From SCP to IDR: Factors Beyond the SCP

SCP	Sovereign rating	Support				Cap	Notches above the sovereign	IDR
		Intergovern. financing	Ad-hoc support	Floor	Asymmetric risks			
aa	AA	-	-	-	-	-	-	AA

Source: Fitch Ratings

Fitch believes that the region's governance is robust, which is reflected in tight expenditure control and prudent debt management. The considerations relating to governance are reflected in our 'Stronger' assessment of the factors expenditure sustainability and liability and liquidity robustness, and in our rating case assumptions for opex.

### Peer Analysis

#### Peer Comparison

French regions	Risk profile	Primary metric (x)	SCP	IDR	Outlook
Bretagne	High Midrange	7.6	aa	AA	Negative
Centre-Val de Loire	High Midrange	7.9	aa	AA	Negative
Ile-de-France	High Midrange	5.8	aa	AA	Negative
Occitanie	High Midrange	6.4	aa	AA	Negative
Provence-Alpes-Cote d'Azur	High Midrange	8.7	aa-	AA-	Stable

#### International peers

Territory of Alava Historical	High Midrange	3.6	aaa	AA-	Stable
City of, Tallinn	Midrange	3.0	aa-	AA-	Stable
The Flemish Community	Stronger	8.5	aa+	AA	Negative

Source: Fitch Ratings



Bretagne shares the same 'High Midrange' risk profile as other metropolitan French regions. It has the same SCP (aa) as that of Centre-Val de Loire (AA/Negative), Ile-de-France (AA/Negative) and Occitanie (AA/Negative), reflecting debt sustainability metrics assessed in the middle of the 'aa' category. Bretagne's SCP is stronger than that of Provence-Alpes-Cote d'Azur (AA-/Stable; SCP: aa-), which reflects stronger debt sustainability metrics.

## **ESG Considerations**

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: Financial Data

### Region of Bretagne

(EURm)	2016	2017	2018	2019	2020rc	2024rc
Taxes	611	774	958	1,011	909	989
Transfers received	358	376	170	173	209	202
Fees, fines and other operating revenue	19	27	27	31	48	30
<b>Operating revenue</b>	<b>988</b>	<b>1,177</b>	<b>1,155</b>	<b>1,215</b>	<b>1,165</b>	<b>1,221</b>
Operating expenditure	-734	-904	-913	-928	-953	-942
<b>Operating balance</b>	<b>254</b>	<b>273</b>	<b>243</b>	<b>287</b>	<b>212</b>	<b>279</b>
Interest revenue	2	2	2	2	2	2
Interest paid	-12	-11	-11	-11	-11	-34
Current balance	244	264	234	279	203	247
Capital revenue	104	125	202	169	130	126
Capital expenditure	-349	-550	-508	-514	-529	-498
Capital balance	-245	-425	-306	-346	-399	-372
Total revenue	1,094	1,303	1,359	1,385	1,297	1,349
Total expenditure	-1,095	-1,465	-1,431	-1,453	-1,493	-1,474
Surplus (deficit) before debt variation	-1	-162	-72	-67	-196	-125
New borrowing	110	147	160	145	258	282
Debt repayment	-51	-49	-46	-50	-61	-157
Net debt movement	60	98	114	95	196	125
Overall results	59	-63	42	28	0	0
Debt						
Short-term	0	165	240	350	0	0
Long-term	895	993	1,108	1,203	1,399	2,191
Intergovernmental debt	0	0	0	0	0	0
<b>Direct debt</b>	<b>895</b>	<b>1,158</b>	<b>1,348</b>	<b>1,553</b>	<b>1,399</b>	<b>2,191</b>
Other Fitch classified debt	0	0	0	0	0	0
<b>Adjusted debt</b>	<b>895</b>	<b>1,158</b>	<b>1,348</b>	<b>1,553</b>	<b>1,399</b>	<b>2,191</b>
Guarantees issued (excluding adjusted debt portion)	18	18	12	6	5	3
Majority-owned GRE debt and other contingent liabilities	0	0	0	0	0	0
Overall adjusted debt	913	1,176	1,360	1,558	1,404	2,194
Total cash, liquid deposits, and sinking funds	97	164	154	428	78	78
Restricted cash	0	0	0	0	0	0
Unrestricted cash	97	164	154	428	78	78
<b>Net adjusted debt</b>	<b>798</b>	<b>994</b>	<b>1,194</b>	<b>1,125</b>	<b>1,321</b>	<b>2,113</b>
Net overall debt	816	1,012	1,206	1,131	1,327	2,117
Enhanced net adjusted debt	798	994	1,194	1,125	1,321	2,113

rc: Fitch's rating case, based on conservative assumptions (see *Debt Sustainability of 'aa'*). 2024 is the last year of the rating case scenario.

Source: Fitch Ratings, Bretagne

## Appendix B: Financial Ratios

### Region of Bretagne

	2016	2017	2018	2019	2020rc	2024rc
<b>Fiscal performance ratios (%)</b>						
Operating balance/operating revenue	25.7	23.2	21.0	23.6	18.2	22.9
Current balance/current revenue	24.6	22.4	20.2	22.9	17.4	20.2
Operating revenue growth (annual % change)	3.5	19.1	-1.8	5.2	-8.0	1.1
Operating expenditure growth (annual % change)	0.3	23.1	1.0	1.7	-2.8	0.9
Surplus (deficit) before net financing/total revenue	-0.1	-12.4	-5.3	-4.9	-15.1	-9.3
Surplus (deficit) before net financing/GDP	0.0	-0.2	-0.1	-0.1	-0.2	-
Total revenue growth (annual % change)	4.0	19.1	4.3	1.9	-9.8	1.7
Total expenditure growth (annual % change)	-9.7	33.8	-2.3	1.5	-0.8	-2.9
<b>Debt ratios</b>						
Primary metrics						
Payback ratio (x)	3.1	3.6	4.9	3.9	6.2	7.6
Enhanced payback ratio (x)	3.1	3.6	4.9	3.9	6.2	7.6
Overall payback ratio (x)	3.2	3.7	5.0	3.9	6.2	7.6
Secondary metrics						
Fiscal debt burden (%)	80.8	84.5	103.3	92.6	113.4	173.1
Synthetic debt service coverage ratio (x)	4.3	3.8	2.8	3.6	2.3	1.7
Actual debt service coverage ratio (x)	4.1	4.6	4.3	4.7	2.9	1.5
<b>Other debt ratios</b>						
Liquidity coverage ratio (x)	4.6	6.2	7.2	7.3	8.8	1.9
Direct debt maturing in one year/total direct debt (%)	5.5	18.2	21.5	26.5	0.0	0.0
Direct debt annual change (%)	7.1	29.4	16.3	15.2	-9.9	6.1
Apparent cost of debt (%)	1.4	1.1	0.9	0.7	0.8	1.6
<b>Revenue ratios (%)</b>						
Tax revenue/total revenue	55.8	59.4	70.5	73.0	70.1	73.3
Current transfers received/total revenue	32.7	28.8	12.5	12.5	16.1	15.0
Interest revenue/total revenue	0.2	0.1	0.1	0.1	0.1	0.1
Capital revenue/total revenue	9.5	9.6	14.9	12.2	10.0	9.3
<b>Expenditure ratios (%)</b>						
Staff expenditure/total expenditure	13.8	10.9	11.5	11.5	-	-
Current transfers made/total expenditure	44.7	42.2	41.1	40.8	-	-
Interest expenditure/total expenditure	1.1	0.7	0.7	0.7	0.8	2.3
Capital expenditure/total expenditure	31.9	37.5	35.5	35.4	35.4	33.8

rc: Fitch's rating case, based on conservative assumptions (see *Debt Sustainability of 'aa'*). 2024 is the last year of the rating case scenario.

Source: Fitch Ratings, Bretagne

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## Appendix C: Data Adjustments

### Net Adjusted Debt Calculation

Fitch's adjusted debt includes the region's short-term debt (EUR350 million at end-2019) and long-term direct debt (EUR1.2 billion at end-2019).

Fitch's net adjusted debt corresponds to the difference between Fitch's adjusted debt and the cash at the end of the year considered as unrestricted by Fitch (EUR428 million at end-2019).

### Synthetic Coverage Calculation

Fitch's synthetic coverage calculation assumes a mortgage-style amortisation over 15 years of the entity's net adjusted debt, using its average cost of debt. This synthetic calculation is used to assess French LRGs' debt sustainability.

### Specific Adjustments for Bretagne

Fitch considers the share of national fuel tax designated for environmental projects (TICPE Grenelle; EUR36 million in 2019) as capital rather than operating revenue for all French regions.

Fitch also considers two revenue items as "pass-through" revenue and deducts them from both operating revenue and expenses: (i) the proceeds from the European Agricultural Fund for Rural Development (Feader; EUR52 million in 2019) and (ii) the share of the CVAE tax offset by a fixed transfer from the region to the departments (EUR25 million in 2019).

Fitch believes these restatements allow for a meaningful comparison with other LRGs. The restatements on the two "pass-through" revenue items are neutral for the region's operating balance, and, therefore, on the payback and coverage assessment, while the share of national fuel tax designated for environmental projects is negative for the region's operating balance. They reduce the level of operating revenue and are negative for the fiscal debt burden assessment.

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