

Rating object	Rating information	
ÉPIC SNCF Mobilités	Rating: AA-	Outlook: stable
Creditreform ID: 400974433 Incorporation: 1937 (Main) Industry: railway transport Management: Guillaume Pepy, CEO	Prepared on: February 1, 2017 Monitoring until: withdrawal of the rating Publication: February 10, 2017 Rating type: unsolicited Rating systematic: corporate rating Rating history: www.creditreform-rating.de	

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Abstract**Company**

The *Établissement Public à caractère Industriel et Commercial* (« ÉPIC ») SNCF Mobilités (formerly *Société Nationale des Chemins de fer Français - SNCF*) is a French transportation group that is part of the *Groupe Public Ferroviaire SNCF*, composed of 3 ÉPICs. An ÉPIC cannot be liquidated or file for bankruptcy proceedings, It can only be dissolved by law. The company offers transport services (passengers and freight) as well as mass transit in urban areas and is responsible for the management of French railway stations. The company operates in 120 countries and is fully owned by the holding company SNCF which is 100% owned and controlled by the French State.

In 2015, SNCF Mobilités generated EUR 29.3 billion in revenues (2014: EUR 27.2 billion) and a negative EAT amounting to EUR -2.2 billion (2014: EUR 604 million), mainly due to high impairments on TGV assets. The company invested EUR 3.2 billion, of which 70% was in railway rolling stock, financed at 60% by own funds. The ÉPIC employed 196,152 people on average in 2015.

Rating Result

The current rating attests a very high level of creditworthiness to SNCF Mobilités, which represents a very low default risk in comparison with the sector and the overall economy.

Relevant rating aspects are the sustainable business model and the predominant market position of the company. SNCF Mobilités shows a strong ability to provide funding through external financing. Even with the moderate growth expected in the coming years, the financial stability would, in our opinion, not be jeopardized, assuming that the company is able to meet the various challenges on the basis of active risk management.

Due to its special status, SNCF Mobilités' rating is chiefly related to the Sovereign Rating of the French Republic. We classify the company as government related, with high system relevance. The French Republic sovereign rating published by Creditreform Rating AG is AA- / stable. Despite the fact that no unconditional and irrevocable guarantees have been granted by the French State to the company, we assume a very high degree of willingness on the part of the French Republic, to financially support SNCF Mobilités in a crisis scenario. Any changes in the status of the company or in the expected support of the French State would have an impact on SNCF Mobilités' corporate rating.

Outlook

The yearlong outlook of the rating is stable, linked with the stability of the rating of the ultimate shareholder. This appraisal is based on the assumption that the company structure remains stable and that the company successfully renovates its equipment and realizes its internationalization.

Analysts

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Relevant rating factors

Excerpts from the financial ratios analysis 2015

- + Increased EBITDA
- + Lower ratio of interest expenses to debt
- Low EBITDA margin and overall profitability
- Decreasing and low equity ratio
- Negative EAT due to impairments

Financial ratios' extract Basis: consolidated annual statement per 31.12 (IFRS)	Standardized balance sheet	
	2014	2015
Total assets	EUR 39,641 million	EUR 34,080 million
Turnover	EUR 27,243 million	EUR 29,296 million
EBITDA	EUR 2,382 million	EUR 2,401 million
EBIT	EUR 273 million	EUR 223 million
EAT	EUR 623 million	EUR -2,176 million
Equity ratio	12.40%	4.08%
Capital lock-up period	132.25 days	73.40 days
Short-term capital lock-up	24.90%	17.29%
Net Debt / EBITDA adj.	12.31	11.94
Return on investment	2.61%	-5.60%
Ratio of interest expenses to debt	1.18%	0.81%

General rating factors

- + ÉPIC status (ultimate shareholder is 100% French State) and assumed high probability of French State's support in the case of financial distress
- + Strategic importance for the French Republic - sole operator of passenger rail services and very important operator in freight transport
- + Ongoing contributions from the French State and from local authorities
- + Part of the second largest rail Group in Europe
- + High entry barriers regarding the liberalization of the domestic and regional passenger services
- Capital intensive business and high fixed costs
- Limited flexibility to raise fares

Current factors (rating 2016)

- + Increasing revenues with an organic growth in 2015
- + Until now limited railway competition in freight and international passenger transport
- Large impairment losses in 2015 affecting the EAT
- Low assets coverage ratio and significant capex requirements
- High debt level
- Weak margins and overall profitability due to a pricing policy oriented towards low fares imposed by government policy

-Prospective rating factors

- + Further internationalization, modernization and digitalization
- + Better profitability thanks to cost optimization and efficiency program
- + Potential growth with the commissioning of four new high-speed railway lines
- Risk of stagnation in rail traffic due to deteriorated macroeconomic conditions
- Increased intermodal competition and aggressive sales policy putting pressure on cash flow
- Extraordinary events impacting 2016 turnover amounting to approx. EUR 1.0 billion
- Significant investment program which will have a negative impact on cash flow

Best case scenario: AA-

Worst case scenario: A+

Note:

The scenarios are based on the information available at the time of the rating. Within the forecast horizon, some circumstances could occur that would lead to a rating change out of the indicated range.

Best-case scenario

In our best case scenario for one year, we assume a rating of AA-. Given its systemic importance for the French State as well as its special status, we assume support from the French State in the event of distress.

Worst-case scenario

In our worst case scenario for one year, we assume a rating of A+, linked to a (currently improbable) downgrade of the sovereign rating of the French Republic or if CRA thinks that support from the French State has diminished, e.g. following an increased competition within the framework of the internationalization of the company.

Business development and outlook

During the business year 2015, the company achieved revenues amounting to EUR 29.3 billion and registered an absolute growth of 7.5% in comparison with 2014. Organically, the turnover stagnated (+2%). SNCF Mobilités receives public service orders within a monopoly legislative and regulatory framework as well as operating and investment grants, primarily for SNCF Transilien, Régions and Intercités amounting to EUR 9.4 billion.

SNCF Mobilités revenues are generated at 26.9% by SNCF Transilien, Régions and Intercités (local transport services, medium-distance links, rail transport regulated services and other services), 23.0% by Voyages SNCF (passengers transport services in France and in Europe as well as travel-related products), 1.2% by Gare & Connexions (railway stations management and development), 31.0% by SNCF Logistics (transport and freight logistics businesses) and 16.7% by Keolis (mass transit operator).

December 31	Revenues			EBITDA		
	2014	2015	%	2014	2015	%
SNCF Transilien, Régions et Intercités	7,610	7,872	26,9%	426	539	22,45%
Voyages SNCF	5,848	6,746	23,0%	680	867	36,11%
Gares et Connexions	275	356	12,2%	251	220	9,16%
SNCF Logistics	8,812	9,070	31,0%	431	295	12,29%
Keolis	4,361	4,907	16,7%	261	261	10,87%
Corporate	337	345	11,8%	333	219	9,12%
Summe	27,243	29,296	100%	2,382	2,401	100%

SNCF Infra has been transferred to SNCF Réseau as of July 1, 2015. The main contributors to the operating profit are Voyages SNCF and SNCF Transilien, Régions and Intercités. The business unit Voyages SNCF is the most profitable but also requires the most investment, chiefly for the renewal of the fleet. The EUR 3.2 billion in total investments are composed of EUR 1.4 billion in investment grants and EUR 1.8 billion in net investments from the company itself.

In 2015, SNCF Logistics acquired Ozbum-Hessey Logistics (OHL) in the USA and created THI Factory (Thalys) in collaboration with SNCB (Belgian railway company) in order to operate passenger transport under the brand Thalys. Furthermore, SNCF Mobilités took control of Eurostar International Limited (EIL) with 55% shares.

The year 2015 was marked by significant impairments, i.e. EUR 2.2 billion in SNCF Voyages for the TGV assets and EUR 38 million at the corporate level. Further impairments on tangible and intangible assets for the segment Gare & Connexions amounting to EUR 450 million are due to the decision of the regulator ARAFER. In total, impairments amounting to EUR 2.7 billion have

been registered and the company thus achieved a negative EAT of EUR -2.2 billion in 2015. The French State nevertheless received EUR 63 million in dividends in 2015.

The company also faced extraordinary events, such as an antitrust fine amounting to EUR 196 million decided by the *Autorité de la Concurrence* in the freight business and the provision that had to be made for the activity of Intercités.

Within the framework of the creation of the GPF, a financial trajectory has been put in place until 2025. The Group should concentrate on mass transit, international business and digital technology. SNCF Mobilités has set a revenue growth of +2.0% at constant scope and exchange rates. The performance plan aims at generating an additional cash flow of +EUR 2 billion by 2020. The equity investment should remain at EUR 2.0 billion annually. In 2016, SNCF Mobilités' objective was to increase its international revenue to 34% (2015:29%). In Q1-2016, the company generated a turnover of EUR 15.1 billion (Q1-2015: 14.3 billion) despite the stagnation of rail traffic, however the net result is negative (EUR -0.03 billion) (Q1-2015: EUR 0.3 billion) mostly based on social movements, terror attacks and difficult climatic conditions (floods). Approx. EUR 1.6 billion has been invested in passenger transport, with over 65% investments in rolling stock, financed at 68% with SNCF Mobility capital.

Structural risks

The company prepares financial statements in accordance with IFRS.

Since January 1, 2015 and following the legislation of August 4, 2014, the French rail companies' organization has been profoundly modified with the establishment of a *Groupe public ferroviaire* (GPF) composed of three companies established with the special status ÉPIC. **SNCF**, new ÉPIC created on December 1, 2014, is the group's holding and administrative center in charge of the strategic management of the group; **SNCF Réseau** (formerly *Réseau Ferré de France*) is the owner and the manager of the French railway infrastructure network; **SNCF Mobilités** (formerly *Société National des Chemins de fer Français*) offers transport services (passengers and freight) as well as mass transit in urban areas.

SNCF Mobilités is organized into three segments:

- SNCF Voyageurs, which is organized into the following segments: Voyages SNCF (door-to-door passenger services in France and Europe), SNCF Transilien, Régions and Intercités (local transport activities) as well as Gares & Connexions (railway stations management).
- SNCF Logistics (freight and logistics) and
- Keolis (intermodal transport)

The company has a virtual monopoly on passenger transport and has two thirds of the market share for freight transport in France. The ultimate unique shareholder of the company is the French State at 100%, which is responsible for all obligations of the company, given its ÉPIC status.

The company's management is autonomous. The Board of Directors of SNCF Mobilités is composed of 18 members, among whom are four members of the French State, appointed for a term of five years. The executive committee is composed of five members appointed by the Board.

SNCF Mobilités is subject to the authority of the *Autorité de Régulation des Activités Ferroviaires et Routières* ("ARAFER"). The regulator must approve the Document de Référence des Gares (DRG) that defines the fare tariffs for French territory. The French Government sets out

the objectives and the financial trajectory of SNCF Mobilités through an operational contract and performance agreements for ten years, renewed every 3 years for ten years.

There are in our opinion no core risks associated either with the organizational structure or shareholder structure of the Group. The control and supervision, as well as the support of the French State, have a positive impact on the rating. The further internationalization pursued by the company nevertheless entails integration risks and the risk of the non-realization of expected gains and synergies. The ongoing market liberalization could lower the French State support in a medium term perspective.

Business risks

The group is subject to several risks: traction energy and fuel prices risks, exchange rate and interest rate risks, regulatory risks (overall French legislation) and counterparty risks. There are country risks within the framework of the internationalization of the company outside of Europe.

The business is fundamentally dependent on consumers mobility needs. These are currently growing everywhere. In developing countries, growing demography, increase in the standard of living and urbanization create mobility needs. In developed countries, labor specialization, longer distances between home and workplace, etc. also increase mobility needs, albeit at a slower pace.

The Group faces new challenges in terms of digitalization and the emergence of new practices in terms of mobility. The fall in oil prices also put pressure on the company's cash flows as its clientele preferred to travel by plane, bus or car instead of using the train. A liberalization of the market or an increase of competition in multimodal transport could have very strong negative impacts on the company. Potential acquisitions could increase the exposure of the group to competitive markets.

The group is highly dependent on the French State. Any changes in the ultimate shareholding of the company or in the regulatory framework (in France or in the other countries where SNCF is present) could have negative impacts on the company.

SNCF's business has a capital-intensive nature with high fixed costs, which requires continuous capex. Moreover, the profitability is hampered by political constraints regarding fare increases, which reduces its flexibility. Nevertheless, due to its dominant position in France, and under consideration of its ÉPIC status, as well as its large scale and international diversification, we assess SNCF Mobilités as having a low business-risk profile. The activities of the company are system-relevant and CRA assumes a significant support from the State and from the transport authorities, thus ensuring the stability and sustainability of the company.

Financial risks

For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. The following descriptions and indicators are based solely on those adjustments.

The overall capital structure of the Group contains some weaknesses as the company shows a high level of debt and high equipment intensity. The adjusted assets cover ratio is low at 54.0%. The adjusted equity (after deduction of goodwill in the amount of EUR 2.6 billion and deferred taxes of EUR 0.9 billion) amounted to EUR 1.4 billion as of December 31, 2015.

SNCF Mobilités possesses confirmed credit lines amounting to EUR 1.4 billion and financial debt amounting to EUR 21.8 billion. SNCF Mobilités benefits from diversified access to financial

resources: treasury bills, commercial papers and bond issues (public and private). SNCF Mobilités has put in place a Euro Commercial Paper Program of max EUR 2.0 billion, with EUR 457 million utilized as of December 31, 2015 and on average for EUR 788 million during the fiscal year 2015. The company benefits furthermore from bilateral bank loans at a total amount of EUR 780 million. SNCF uses hedging and trading derivatives to mitigate the transactional impact of foreign currencies, interest rates and commodity prices on the company's performance.

Within the Groupe Public Ferroviaire, only SNCF Mobilités and SNCF Réseau are allowed to issue debt on the market. Total bond issues by SNCF Mobilités amounted to EUR 13.5 billion as of December 31, 2015. The French State is not directly guaranteeing the debt of SNCF Mobilités but we assume that the Group, thanks to its special status would benefit from State support if needed. The ratio of net financial debt on EBITDA is high at 11.94 (2014: 12.31).

The overall liquidity of the company is adequate cash and cash equivalents amounting to EUR 4.0 billion as of December 31, 2015, which met liquidity needs related to debt service in 2016 (EUR 1.5 billion in 2016). As of December 31, 2015, off-balance commitments received amounted to EUR 7.8 billion and commitments given were EUR 12.8 billion.

Overall, despite its high level of debt and low profitability, we assess the financial risks of SNCF as moderate. The weak margins combined with the significant capex program of the company will continue to put pressure on SNCF Mobilités cash flow. This nevertheless has to be relativized with the expected moderate turnover growth, positive liquidity and with the cost control and efficiency program foreseen by the company.

Financial ratio analysis

Appendix: key ratios

Asset Structure	2013	2014	2015
Fixed asset intensity (%)	85,56	55,95	61,25
Asset turnover	--	0,71	0,79
Asset coverage ratio (%)	64,48	68,99	54,04
Liquid funds to total assets (%)	12,35	13,64	11,81
Capital Structure			
Equity ratio (%)	17,86	12,40	4,08
Short-term-debt ratio (%)	40,45	49,16	47,12
Long-term-debt ratio (%)	37,31	26,21	29,01
Capital lock-up period (in days)	139,57	132,25	73,40
Trade-accounts-payable ratio (%)	21,27	24,90	17,29
Short-term capital lock-up (%)	22,27	23,87	21,87
Gearing	3,91	5,97	20,59
Financial Stability			
Debt / EBITDA adj.	18,63	14,58	13,61
Net Debt / EBITDA adj.	15,83	12,31	11,94
ROCE (%)	3,97	4,36	4,34
Debt repayment period	--	234,64	14,47
Profitability			
Gross profit margin (%)	49,93	48,25	46,42
EBIT interest coverage	0,78	1,65	2,11
EBITDA interest coverage	1,96	5,80	9,03
Ratio of personnel costs to total costs (%)	44,97	37,32	36,26
Ratio of material costs to total costs (%)	50,07	51,75	53,58
Cost income ratio (%)	96,89	97,55	98,11
Ratio of interest expenses to debt (%)	2,73	1,18	0,81
Return on investment (%)	-2,32	2,61	-5,60
Return on equity (%)	--	10,88	-69,00
Net profit margin (%)	-4,88	2,29	-7,43
Operating margin (%)	3,15	2,49	1,92
Liquidity			
Cash ratio (%)	0,04	27,75	25,06
Quick ratio (%)	-8,05	77,92	71,20
Current ratio (%)	35,68	89,60	82,22

Regulatory requirements

The present rating is an unsolicited corporate rating. Creditreform Rating AG was not commissioned by the company with the preparation of the rating. The present analysis was prepared on a voluntary basis.

The rating is based on the analysis of published information and on internal evaluation factors. The quantitative analysis is primarily based on the annual report for 2015, intermediate reports, and on press releases of the company. The information and documents meet the requirements and are in accordance with the published Creditreform Rating AG's rating methodology. An electronic version of our rating methodology can be found on our website www.creditreform-rating.de.

The rating was prepared by analysts Marie Watelet (lead analyst) and Rudger van Mook (co-analyst).

A Rating Committee of highly qualified analysts of Creditreform Rating AG was called on February 1, 2017. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant risk factors, the Rating Committee arrived at a unanimous rating decision.

The rating result and a draft of the present rating report were communicated to SNCF Mobilités on February 2, 2017. The final version of the rating report has been sent to SNCF Mobilités on February 13, 2017.

The rating will be monitored as long as CRA removes the rating and sets it to non-rated (n.r.).

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRAG) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

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No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

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To prepare this credit rating, CRAG has used following substantially material sources:

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of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

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An explanatory statement of the meaning of Creditreform`s default rates are available in the credit rating methodologies disclosed on the website.

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