

31 August 2018 – Neuss, Germany

Rating Action / Monitoring:

Creditreform Rating has set EPIC SNCF Mobilités' unsolicited corporate issuer rating to AA- / negative

Creditreform Rating (CRA) reaffirms EPIC SNCF Mobilités' unsolicited corporate issuer rating at AA-. The rating outlook has been set to negative.

Please find the complete corporate issuer rating history at the end of this rating action paper.

Key rating drivers

CRA has revised the rating of EPIC SNCF Mobilités as a result of its periodic monitoring process for the following reasons:

- Upgrade of the Sovereign Rating of France to AA / stable from AA- / stable by Creditreform Rating AG.
- Within the framework of the new French railway Pact, expected change of legal status of SNCF Mobilités from an *Établissement Public à caractère Industriel et commercial* (EPIC) into a public limited liability company with public capital (*société anonyme à capitaux publics*) from 2020 onwards.
- Progressive opening up of the competition of the passenger rail services by allocating public service contracts for the passenger rail transport under the tendering and publicity rules between 3 December 2019 and 24 December 2023.

Rating rationale

SNCF Mobilités' unsolicited corporate issuer rating was primarily driven by its special status as an EPIC (*Établissement Public à caractère Industriel et Commercial*) and its linkage with the French Republic, as the company is fully owned, controlled and supervised by the French government.

Despite the fact that no unconditional and irrevocable guarantees have been granted by the French government 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. The EPIC status makes the French government ultimately responsible for the fulfillment of the commitments of its EPIC.

Since the promulgation of the French law n°2018-515 on 28 June 2018, it is expected that SNCF, SNCF Réseau and SNCF Mobilités will turn into national publicly funded companies (*sociétés nationales à capitaux publics*) from 2020 onwards. SNCF will hold the capital of SNCF Réseau and SNCF Mobilités. The French government will hold the totality of the capital of SNCF, which will be non-transferrable. The capital held by SNCF into SNCF Réseau and SNCF Mobilités will also be non-transferrable. Furthermore, the law foresees a progressive opening up to competition for rail passenger services.

Creditreform Rating's reaffirmation of SNCF Mobilités' unsolicited corporate issuer at AA- is driven by two opposite factors.

On the one hand, despite the expected change in legal status of SNCF Mobilités into a *société nationale à capitaux publics*, we hold the view that the company will still benefit from an extraordinary support from the French government in case of need. Following our rating methodology, we consider the company as being government-related. As the Sovereign rating of the French Republic has been upgraded by Creditreform Rating AG on 28 May 2018 to AA / stable from AA- / positive, an upgrade of the corporate issuer rating of SNCF Mobilités may be contemplated.

On the other hand, the expected further internationalization of the company as well as the liberalization of the passenger rail transport services will most likely negatively affect the further business development of SNCF Mobilités, which will lose market share at the profit of other operators. This weakens, in our view, the willingness of the French government to offer extraordinary support to SNCF Mobilités in a crisis scenario. This assumption of weakening of the link with the French gov-

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ernment suggests a distance of one notch with the sovereign rating of the French Republic and a rating downgrade. Therefore, we assign an unsolicited corporate issuer rating of AA- to SNCF Mobilités.

Outlook

We consider the outlook of SNCF Mobilités' unsolicited corporate issuer rating as negative. This reflects our view that the credit rating of the company stand-alone may deteriorate due to an increase in leverage as well as additional costs following strike actions in the first half-year 2018.

Best-case scenario

Best case scenario: AA-

In our best-case scenario for one year, we assume a rating of AA-. In our opinion, given the current business development of the company, it is unlikely that the corporate issuer rating of SNCF Mobilités would experience an upgrade within one year.

Worst case scenario: A+

Worst-case scenario

In our worst-case scenario for one year, we assume a rating of A+, linked to a deterioration of key financials of SNCF Mobilités, in case of a (currently improbable) downgrade of the sovereign rating of the French Republic or if we assume further changes in the expected extraordinary support from the French government. A deterioration of the stand-alone rating of SNCF Mobilités following current business development could also lead to a rating downgrade.

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.

Current business development

EPIC SNCF Mobilités 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.

In 2017, EPIC SNCF Mobilités recorded increasing consolidated revenue at EUR 31.8 bn (2016: EUR 30.5 bn) and improved EBIT at EUR 1.7 bn (2016: EUR 1.2 bn) and an EAT of EUR 1.1 bn (2016: EUR 0.5 bn). The company employed 201,816 people and invested EUR 2.2 billion in 2017, of which 51% for the acquisition and maintenance of rail and road rolling stocks and 35% for the acquisition and developments of railway stations.

Net debt amounted to EUR 7.9 bn as of 31 December 2017 and has decreased by EUR 60 million since end 2016. Financial debt amounted to EUR 22.7 bn, of which 64% are bond issues. The liquidity of the company as of 31 December 2017 was adequate with cash and cash equivalents amounting to EUR 6.4 bn, covering 136% of the financial short-term obligations. Furthermore, SNCF Mobilités benefits from confirmed credit lines amounting to EUR 1.4 bn.

The following table shows some key financials of SNCF Réseau for the last 2 years.

Table 1: Financials of EPIC SNCF Réseau | Source: EPIC SNCF Réseau annual report 2017, standardized by CRA

Financial ratios´ extract Basis: consolidated annual statement per 31.12 (IFRS)	CRA standardized figures	
	2016	2017
Revenues	EUR 30,517 million	EUR 31,831 million
EBITDA	EUR 2,633 million	EUR 3,087 million
EBIT	EUR 1,191 million	EUR 1,665 million
EAT	EUR 511 million	EUR 1,136 million
Total assets adj.	EUR 34,736 million	EUR 36,471 million
Equity ratio adj.	5.2 %	6.7 %
Capital lock-up period	54,3 days	52,1 days
Short-term capital lock-up	26.5 %	27.2 %
Return on investment	2.3 %	4.0 %
Net debt / EBITDA adj.	11.5	9.9

Ratio of interest expenses to debt	0.9 %	0.9 %
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In 2018, the company prepared a 2019-2028 strategic plan, including several scenarios taking into account the arrival of the rail competition. In addition, the company reorganized its segments and is now composed of four business units:

- Daily Mobilities
- Long-Distance
- SNCF Gares & Connexions
- SNCF Logistics

We expect SNCF Mobilités to be negatively affected in 2018 by exceptional loss of revenue of EUR 846 million resulting from strikes actions that took place during the period March until June. This had a negative impact on the operating margin of SNCF Mobilités as of 30 June 2018 (-44.9% in comparison with 30 June 2017). In addition to the loss of revenues, the company had to reimburse and indemnify passengers.

Nevertheless, the negative impact of the strike actions has been partly compensated by productivity gains of EUR 204 million. Furthermore, within the framework of the new French railway Pact in June 2018, it has been decided a limited increase of the network access charges for the TGV, which led to revaluation of TGV lines of EUR 3.2 bn.

In addition, SNCF Mobilités invested EUR 1.6 bn, of which EUR 1.1 bn in rolling stocks and 59.5% financed by own resources. We however expect an increase in leverage, as net debt increased to EUR 8.2 bn as of 30 June 2018 (30 June 2017: EUR 7.9 bn).

CRA's ratings at a glance

Rating objects	Detail information	
	Date	Rating
EPIC SNCF	31.08.2018	AA- / negative
EPIC SNCF Réseau	31.08.2018	AA / stable
EPIC SNCF Mobilités	31.08.2018	AA- / negative
Long-term LC senior unsecured issues of EPIC SNCF Réseau	31.08.2018	AA
Long-term LC senior unsecured issues of SNCF Mobilités	31.08.2018	AA-
Sovereign Rating French Republic	28.05.2018	AA / stable
Other	--	n.r.

Appendix

Rating history

Table 5: Corporate issuer EPIC SNCF Mobilités I Source: CRA

Event	Rating date	Publication date	Monitoring period until	Result
Initial rating	01.02.2017	10.02.2017	Withdrawal of the rating	AA- / stable
Monitoring	24.04.2017	25.04.2017	Withdrawal of the rating	AA- / stable
Monitoring	31.08.2018	10.09.2018	Withdrawal of the rating	AA- / negative

Table 6: LT LC senior unsecured issues issued by EPIC SNCF Mobilités I Source: CRA

Event	Rating date	Publication date	Monitoring period until	Result
Initial rating	31.08.2018	10.09.2018	Withdrawal of the rating	AA-

Regulatory and legal disclosures

The present rating is an unsolicited rating. Creditreform Rating AG was not commissioned by the issuer 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 last annual report of the issuer, the base prospectuses 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.

The rating was conducted on the basis of Creditreform Rating's "Corporate Issue Ratings" methodology. A complete description of Creditreform Rating's rating methodologies is published on the following internet page: www.creditreform-rating.de.

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodology. A complete description of Creditreform Rating's rating methodologies and Creditreform's basic document "Rating Criteria and Definitions" is published on the following internet page:

www.creditreform-rating.de/en/regulatory-requirements/

This rating was carried out by analysts Marie Watelet (m.watelet@creditreform-rating.de) and Rudger van Mook (r.vanmook@creditreform-rating.de), both located in Neuss, Germany. A management meeting did not take place.

The rating was presented to the rating committee on 31 August 2018. The company examined the rating report prior to publication and was given at least one full working day to appeal the rating committee's decision and to provide additional information. The rating decision was not amended following this examination.

The rating will be monitored until 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 (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Please note:

This report exists in an English version only. This is the only binding version.

Conflict of interests

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 in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our 'Rating Committee' policy, all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

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

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the CRA website. Furthermore, CRA considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

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

The 'Basic Data' information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the 'Basic Data' card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within 'Basic Data' information card.

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