Transportation/France
Credit Update

Societe Nationale des Chemins de fer Francais (SNCF)

Ratings

Security Class	Current Rating	Previous Rating	Date Changed
Société Nationale des Chemins de fer Francais (SNCF)			
Foreign Currency			
IDR*	AAA	NR	Feb 2006
Senior Unsecured	AAA	NR	Apr 1999
Short-Term	F1+	NR	Apr 1999
Rating Outlook			Stable

* IDR – Issuer Default Rating, NR- Not Rated

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Profile

Société Nationale des Chemins de fer Français (“SNCF”), fully owned and controlled by the state, is France’s main passenger and freight rail transport operator, with a monopoly in passenger transport (except in the Parisian area). It also controls several subsidiaries active in road and sea transport, logistics, and special types of railway transport (cars, cereals, etc.), regrouped under a holding company, SNCF Participations. SNCF’s FY05 consolidated EBITDA was EUR1.8bn, 83% generated by passenger activities and 8% by freight activities. Subsidies under various forms amounted to EUR4.2bn in FY05, including EUR2.6bn for pensions.

Rating Outlook

The Rating Outlook is Stable given the remote probability that SNCF’s current legal status will be modified over the rating horizon. Future rating or Outlook changes may be affected by:

Positive Rating Factors

- Not applicable given the current rating category.

Negative Rating Factors

- A downgrade of France’s Sovereign rating.
- A demand by the EU to end the state guarantee
- Other signs of a potential loss of the EPIC status or change of its main characteristics.

Rating Rationale

SNCF’s rating is based on its status as an Etablissement Public Industriel et Commercial (“EPIC”), which means that this entity’s debt is implicitly guaranteed by the State (but not that of its subsidiaries). Given the social sensitivities related to its staff (170,000 staff at the parent company level, with protected employment status and powerful unions), and a liberalisation calendar which is still very uncertain, a change of legal status for this company is unlikely in the near to medium-term. The EU plans to liberalise international passenger traffic in FY10, but postponed sine die an initial deadline to end European entities’ passenger transport monopolies for domestic traffic, which further alleviates immediate pressure on SNCF’s EPIC status. Some regional authorities may want to see domestic competition to enhance service quality on regional trains. It should be noted that a change in status is not a specific event of default in SNCF’s normal bonds, and there are no provisions to “grandfather” this status or of implied support should SNCF’s status change.

SNCF’s financial profile is characterised by high leverage, due to past heavy investments in infrastructure and high-speed trains. However this extensive high-speed train network accounted for virtually all of the group’s FY05 operating profits. The freight activities remained loss-making in FY05, although the operating margin’s loss was reduced to -0.8% versus -3.8% in FY04. These activities continue to suffer from the structural non-competitiveness of rail freight compared with road transport, essentially due to service quality issues and the slow average speed of freight trains. The passenger activities, on the other hand, further improved revenues and profit margins in FY05, on the back of good traffic growth (+2.9% for the high speed network), also aided by accounting changes reducing amortisation charges. The robust traffic growth persisted in H106.

Recent Developments

Rail freight activities (including domestic) have been fully open to competition since March 2006. This was a condition of the EU’s agreement to a EUR1.5bn recapitalisation plan (EUR800m from the state, EUR700m from SNCF) of Fret SNCF. However, strikes during H106 as well as lower than planned productivity have impacted the operating and financial performances of this activity, which deepened its losses in H106. This could potentially lead Brussels to revisit the terms of the recapitalisation plan, although SNCF has not been notified of such an intent. Competition has made some larger than initially expected inroads, especially with large corporate customers. Although the impact on market shares is still very low, it could become significant in the future.

Liquidity and Debt Structure

Net consolidated debt (EUR7.1bn at FYE05 net of the RFF receivable) mainly consists of bonds raised by the parent company SNCF. FY05 off-balance-sheet commitments are sizeable at EUR13.8bn (including pensions: EUR8.2bn). SNCF has a EUR3bn domestic CP programme, of which EUR1.5bn was drawn at FYE05, with a back-up line of EUR500m. As long as SNCF remains an EPIC, it can be allowed to access the state’s liquidity lines in case of a liquidity crisis.

27 October 2006

Financial Summary

SOCIETE NATIONALE DES CHEMINS DE FER FRANCAIS (SNCF)

	31 Dec 2005 EURm Original	31 Dec 2004 EURm Original	31 Dec 2003 EURm Original	31 Dec 2002 EURm Original
Income Statement				
Revenues	20,994.0	22,059.0	22,523.0	22,176.0
Revenue Growth	-4.8	-2.1	1.6	0.0
EBIT	1,639.0	787.0	371.0	450.0
Interest Expense Net of Interest Income	355.0	375.0	410.0	328.0
Net Income	1,271.0	323.0	11.0	63.0
Balance Sheet				
Cash and Equivalents	1,891.0	1,493.0	1,677.0	2,162.0
Total Assets	35,543.0	35,150.0	37,489.0	39,620.0
Short-term Debt	4,902.0	4,435.0	5,037.0	3,863.0
Senior Long-Term Debt	10,905.0	13,326.0	14,671.0	18,376.0
Subordinated Debt	n.a.	n.a.	n.a.	n.a.
Total Debt	15,807.0	17,761.0	19,708.0	22,239.0
Common Equity	4,760.0	3,220.0	2,931.0	4,280.0
Off-Balance Sheet Debt	4,490.0	5,080.0	4,919.0	4,124.0
Total Adjusted Capitalisation	25,266.0	26,240.0	27,768.0	30,971.0
Total Adjusted Debt	20,297.0	22,841.0	24,627.0	26,363.0
Preferred Stock + Minority Interests	209.0	179.0	210.0	328.0
Cash Flow				
Operating EBITDAR (Op. EBITDAR)	2,104.0	2,150.0	1,760.0	1,543.0
Cash Interest Paid, Net of Interest Received	348.0	352.0	317.0	325.0
Cash Tax Paid	34.0	25.0	31.0	29.0
Associate Dividends	20.0	12.0	12.0	10.0
Other Changes before Funds From Operations**	-280.0	-488.0	-260.0	-194.0
FUNDS FROM OPERATIONS	1,462.0	1,297.0	1,164.0	1,005.0
Working Capital	120.0	-58.0	218.0	469.0
CASH FLOW FROM OPERATIONS	1,582.0	1,239.0	1,382.0	1,474.0
Non-Operational Cash Flow*	-260.0	11.0	128.0	71.0
Capital Expenditure	2,225.0	2,066.0	2,117.0	2,097.0
Dividends Paid	9.0	12.0	7.0	7.0
FREE CASH FLOW	-912.0	-828.0	-614.0	-559.0
Receipts from Asset Disposals	262.0	245.0	193.0	338.0
Business Acquisitions	0.0	0.0	26.0	230.0
Business Divestments	905.0	130.0	19.0	n.a.
Exceptional & Other Cash Flow Items	9.0	0.0	-13.0	112.0
NET CASH IN/OUTFLOW	264.0	-453.0	-441.0	-339.0
Equity Issuance/(Buyback)	250.0	n.a.	n.a.	n.a.
FX movement	n.a.	n.a.	-4.0	9.0
Other Items Affecting Cash Flow**	1,838.0	2,216.0	2,491.0	2,853.0
NET CASH FLOW AVAILABLE FOR FINANCING	2,352.0	1,763.0	2,046.0	2,523.0
CLOSING NET DEBT	13,916.0	16,268.0	18,031.0	20,077.0
Profitability				
Op. EBITDAR/Revenues (%)	10.0	9.8	7.8	7.0
EBIT/Revenues (%)	7.8	3.6	1.7	2.0
FFO Return on Adjusted Capital (%)	8.4	7.9	7.1	5.3
Credit Ratios				
Funds From Operations/Gross Interest Expense (x)	5.1	4.5	3.8	4.1
FFO Fixed Charge Cover (x)	3.2	2.7	2.5	2.6
Op. EBITDAR/Net Fixed Charges (x)	3.2	2.8	2.2	2.5
FFO Adjusted Leverage (x)	9.6	11.0	12.5	16.2
Total Adjusted Debt Net of Cash/Op. EBITDAR(x)	8.8	9.9	13.0	15.7
Total Adjusted Debt/Total Adjusted Capitalisation (%)	80.3	87.1	88.7	85.1

Off Balance sheet debt reflects 8 times gross rent expense plus off balance sheet debt with full/limited recourse.

* Includes Analyst Estimate

** Balancing Item