

CREDIT OPINION

31 March 2017

Update

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RATINGS

SNCF Mobilités

Domicile	Paris, France
Long Term Rating	Aa3
Type	LT Issuer Rating
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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SNCF Mobilités

Update Following Fiscal Year 2016 Results

Summary Rating Rationale

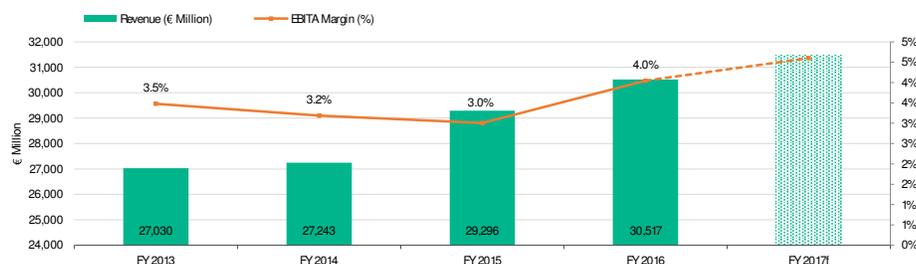
In accordance with our Government-Related Issuers rating methodology, SNCF Mobilités' Aa3 issuer rating incorporates a four-notch uplift from the baa1 baseline credit assessment (BCA), reflecting the strong relationship between the company and the French government (Aa2 stable).

SNCF Mobilités' BCA is constrained by the company's weak profitability, owing mainly to the poor operating performance of some TGV (high-speed trains) lines, the intercity services and the freight division. We expect the company's Moody's-adjusted EBITA margin will remain flat at around 3.0% in 2017, a level that is weak for the current BCA. More positively, the BCA is supported by our expectation that leverage will remain broadly stable at around 5.7x-6.0x throughout 2017, in line with 2016, a level that we deem compatible with a BCA in the baa category.

SNCF Mobilités' baa1 BCA reflects the company's solid business profile, underpinned by (1) its large scale and good degree of international diversification, with approximately 30% of revenue generated outside France; (2) the company's role as a quasi-monopoly in the domestic passenger railway segment; and (3) the large share of its revenue derived from French-government-related authorities (approximately 26%, including under public service remit mass transit activities for French regional and local authorities and excluding Keolis business), which provides some stability to and visibility into the top line.

Exhibit 1

SNCF Mobilités' Margin Will Remain Low



All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer. Periods are Financial Year-End unless indicated
 Source: Moody's Financial Metrics™

Credit Strengths

- » Credit metrics are commensurate with the current BCA
- » SNCF Mobilités' exposure to competition in the domestic railway market is limited and opening up of the market to competition will be slow
- » There is a very high probability of support from the French government

Credit Challenges

- » Strikes and fears related to terrorist attacks have affected operating performance
- » Increasing competition from alternative modes of transportation leads to continued pressure on margins

Rating Outlook

The outlook on SNCF Mobilités' rating is stable, reflecting the stable outlook on the sovereign rating.

Factors that Could Lead to an Upgrade

- » An upgrade of the sovereign rating

We could raise SNCF Mobilités' BCA if

- » EBITA margin increases to more than 5%
- » Debt/EBITDA declines to 5.5x or below
- » Retained cash flow/net debt remains in the mid-to-high teens in percentage terms

Factors that Could Lead to a Downgrade

- » A downgrade of the sovereign rating
- » A reduction in the expected level of government support
- » A significant deterioration in BCA
- » A significant deterioration in liquidity

The BCA could come under pressure if

- » EBITA margin decreases below 2.5%
- » Debt/EBITDA rises above 7.0x
- » Retained cash flow/net debt falls below 10%

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.moody's.com for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2

SNCF Mobilités' Key Indicators

SNCF Mobilités

EJRMillions	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
Revenue	32,225	27,030	27,243	29,296	30,517
EBITA Margin	4.7%	3.5%	3.2%	3.0%	4.0%
EBITA / Average Assets	3.4%	2.2%	2.0%	2.1%	3.1%
Debt / Book Capitalisation	63.4%	67.2%	65.4%	66.8%	70.6%
Debt / EBITDA	4.7x	5.5x	6.1x	5.6x	6.0x
FCF / Debt	-3.2%	-0.9%	0.5%	-0.8%	-5.8%
FCF / Net Debt	17.7%	21.4%	19.9%	17.7%	13.5%
(FFO + Interest Expense) / Interest Expense	7.6x	11.3x	8.0x	7.9x	6.2x

Source: Moody's Financial Metrics™. All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months

2012 figures are not comparable with the following years as 2012 includes the SNCF Infra division (infrastructure maintenance). SNCF Infra was reclassified as "Asset held for sale" in 2013 and 2014. All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics™

Detailed Rating Considerations

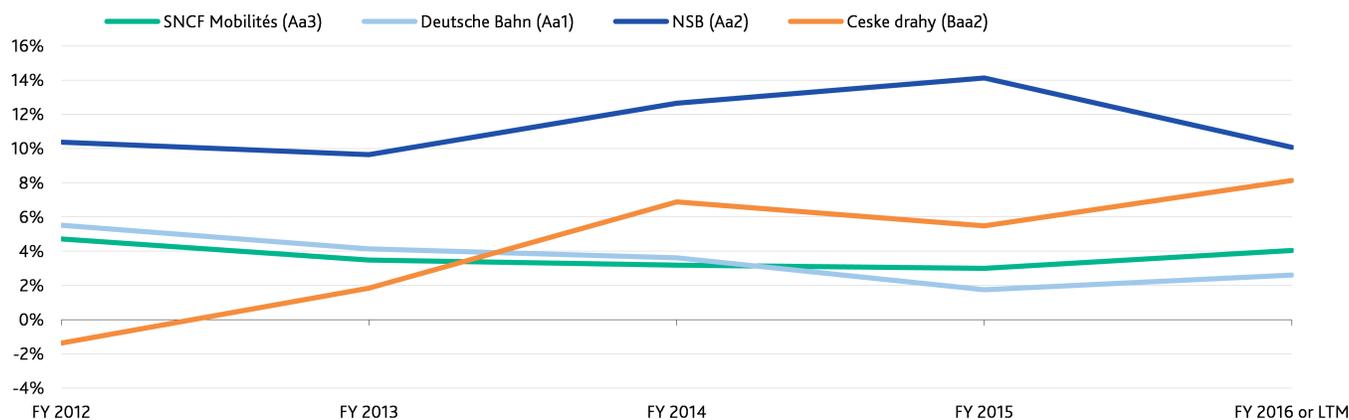
Weak margins remain the main credit concern

We expect SNCF Mobilités' profitability will remain under pressure in 2017, and in line with 2016, with the Moody's-adjusted EBITA margin remaining between 3.0% and 3.2%. The continuing weakness in operating performance in 2016 reflected a number of headwinds, including (1) the terrorist attacks in France and Belgium that reduced the number of travellers, especially on international lines; (2) the negative one-off impact of labour strikes and adverse weather conditions; and (3) low oil prices, which favour road and air transportation in both passenger and freight segments.

We expect the competitive environment will remain challenging, as increasing and aggressive competition from alternative transportation means, such as long-distance buses, car sharing and low-cost flights, will continue to exert pressure on prices and erode volume. The opening of new TGV lines in 2017 will further increase track access costs, adding additional pressure on margins in this business.

SNCF Mobilités has developed a more aggressive sales policy (namely offering passengers special fares for high-speed trains) in order to defend its market share and is implementing a number of cost-saving and efficiency measures that should bring some benefits over time. Also, the renegotiation of the service contract with the French state for certain long-distance trains (the Trains d'Équilibre du Territoire service agreement) could potentially improve the group's profitability from 2017. However, the new contract has not been signed yet and will likely be signed no sooner than in late 2017. Therefore, we believe it will be difficult for SNCF Mobilités' profitability to reach significantly higher levels from current low single-digit EBITA margins.

Exhibit 3

EBITA Margin of SNCF Mobilités is weaker than that of directly comparable peers

Source: Moody's Financial Metrics™

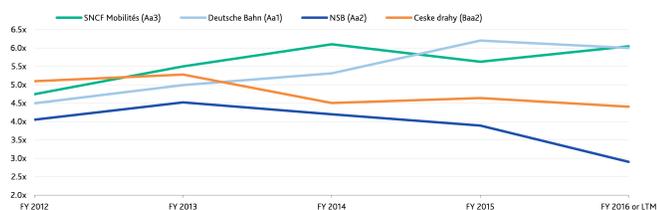
The long-term sustainability of the current French railway system structure remains uncertain, in our view, in light of the high and increasing debt of SNCF Réseau (Aa2 stable). This increasing debt could add pressure to SNCF Mobilités in the long run via a change in the current track-access fee system or dividend requirements from SNCF, the holding company, thereby adding further pressure on SNCF Mobilités' profitability. Following the 2014 reform, the French railway system is operated by three entities: the holding company SNCF (in charge of strategic coordination, and central and administrative functions), SNCF Réseau (the infrastructure owner and manager) and SNCF Mobilités (the railway operator).

Leverage is commensurate with the current BCA

We expect SNCF Mobilités' leverage (Moody's-adjusted gross debt/EBITDA) will remain broadly stable at current levels throughout 2017, after marginally deteriorating in 2016 to 6.0x (from 5.6x as of the end of fiscal year 2015) due to a slight increase in gross debt, which was not fully compensated by an equal increase in EBITDA. Similarly, retained cash flow/net debt worsened to 13.5% in 2016, down from 17.7% in 2015, and we expect this ratio will not exceed the mid-teen level in percentage term over the next 12 months. However, these metrics would still comfortably position SNCF Mobilités' BCA at its current baa1 level, leaving some headroom for underperformance.

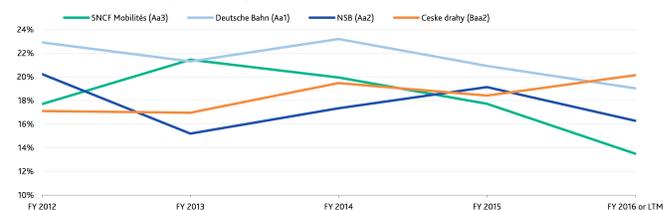
SNCF Mobilités' cash flow generation deteriorated further in 2016, with cash from operations dropping to €1.6 billion from €2.3 billion in 2015, due to both a deterioration in the company's operating performance and unfavourable working capital movements. We forecast a modest recovery in cash from operations to €1.8 billion in 2017, but it would not entirely cover for the expected net capex of €2.0 billion-€2.2 billion per annum (from €1.7 billion-€1.9 billion annually in the past two years), causing free cash flow (FCF) to remain negative, broadly at the same level as that in 2016 (€1 billion deficit, compared with a near-zero FCF in 2015). In the past few years, SNCF Mobilités has slightly reduced its huge cash position (to €4.6 billion as of the end of 2016 from €5 billion as of the end of 2013) to cover for the negative FCF. We believe that headroom on this side is now more limited, as reflected in the modest increase in gross leverage.

Exhibit 4

Debt/EBITDA to remain broadly stable at current relatively high levels

Source: Moody's Financial Metrics™

Exhibit 5

Retained Cash Flow/Net Debt to increase modestly and to remain lower than comparable peers

Source: Moody's Financial Metrics™

Our debt calculation excludes approximately €4 billion that are backed by financial credits towards SNCF, SNCF Réseau and the French state, and includes €3.1 billion of our standard adjustments for operating leases and pension liabilities.

SNCF Mobilités' exposure to competition in the domestic railway market is limited, and opening up of the market to competition will be slow

We expect SNCF Mobilités' dominant market position in France will remain unchallenged in the near future. SNCF Mobilités is the main railway company in its domestic market and operates in a particularly favourable operating environment, mainly because the group has a de-facto monopoly in both domestic long-distance and regional transportation passenger rail services in one of the most developed passenger rail markets in the world.

In our view, the French railway market will be very slow to open to competition and any such move will be driven by changes in European regulations. In this respect, the European Parliament and the European Council have drastically changed the original proposal of the European Commission for new legislation aimed at opening domestic rail passenger services to competition. Although the new legislation was approved in late 2016, the liberalisation of national railway markets will likely take significantly longer than originally expected, with tender bids for public service contracts to become mandatory only in the long term and with several exceptions allowed.

Probability of support is very high and so is default dependence

In accordance with our Government-Related Issuers rating methodology, SNCF Mobilités' Aa3 issuer rating reflects a combination of the following inputs:

- » The BCA of baa1 (BCA is a measure of the group's standalone financial strength without the assumed benefit of government support)
- » The Aa2 local-currency rating of the French government
- » Very high probability of support
- » Very high default dependence

Our assessment of a very high probability of extraordinary financial support from the French government reflects (1) SNCF Mobilités' strategic role as the current dominant provider of public railway services in France, which are central to the core missions of the state; (2) the company's legal status as an "Etablissement Public à Caractère Industriel et Commercial" (EPIC) and its 100% ownership by the French state; and (3) the strong financial support provided by the government in the past when needed, as evidenced by the 2009 transfer of unfunded pension commitments to a third independent entity, which relieved the group of a significant financial burden.

SNCF Mobilités' very high default dependence on the French government reflects (1) the large share of SNCF Mobilités' business derived from France; (2) the high level of group revenue that is derived from French-government-related entities (at approximately 26%, including under public service remit mass transit activities for French regional and local authorities and excluding Keolis business); and (3) the importance of the group's rail passenger and freight transportation network to the French economy.

Liquidity Analysis

We consider SNCF Mobilités' liquidity profile to be excellent. As of the end of December 2016, the company's liquidity consisted of approximately €4.6 billion of cash and available committed credit lines of €780 million at the parent company level, and €600 million at the subsidiary level. We expect this liquidity, together with an estimated operational cash flow of approximately €2 billion over the next 12 months, to abundantly cover the company's main cash requirements including (1) the group's intensive investment programme, which we expect to be in the range of €2.1 billion-€2.3 billion annually, and (2) approximately €180 million of debt maturities through the end of 2017.

Profile

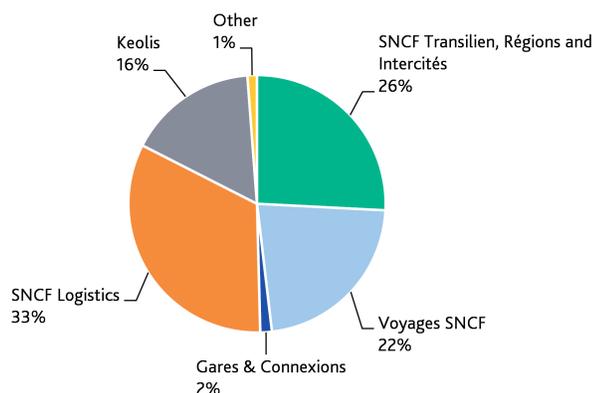
SNCF Mobilités (formerly SNCF) is the national railway operator in France and one of the world leaders in transport services and logistics, with operating activities in 120 countries and a workforce of 194,000 people. SNCF Mobilités is a French public entity with autonomous management, established under the special status of an Etablissement Public à Caractère Industriel et Commercial (EPIC). SNCF Mobilités

is under the control of the holding company SNCF, which is also the parent company of the French railway network SNCF Réseau (Aa2 stable) and is fully owned by the French state (Aa2 stable).

SNCF Mobilités operates four business segments: SNCF Voyageurs (commuter transport in the Paris region, regional and inter-city public transport, high-speed rail in France and Europe); SNCF Gares & Connexions (management and development of stations); SNCF Logistics (freight transport and logistics worldwide); and Keolis (mass transit and public transport in Europe and around the globe). In fiscal year 2016, SNCF Mobilités reported consolidated revenue of €30.5 billion (€29.3 billion in fiscal year 2015) and EBITDA (on a Moody's-adjusted basis) of €3.0 billion (€2.9 billion in 2015).

Exhibit 6

SNCF Mobilités' Revenue Breakdown by Business Sub-Segments Fiscal year 2016



Source: SNCF Mobilités' 2016 annual report

Rating Methodology and Scorecard Factors

SNCF Mobilités' BCA of baa1 is one notch below the indication received from the application of our forward-looking Global Passenger Railway Companies rating methodology grid, owing mainly to the weak profitability. This weakness is partially offset by the company's solid business profile and market position.

Exhibit 7

Rating Factors

SNCF Mobilités			Moody's 12-18 Month Forward View	
Passenger Railway Industry Grid [1][2]			As of 3/10/2017 [3]	
	Current FY 12/31/2016		Measure	Score
Factor 1 : SIZE (15%)				
a) Revenue (\$ Billion)	\$33.8	Aa	\$33.5 - \$34.5	Aa
b) Number of Passenger Transported (PKM billion)	Aa	Aa	Aa	Aa
Factor 2 : MARKET POSITION (40%)				
a) Stability of Operating Environment	Baa	Baa	Baa	Baa
b) Market Characteristics	Aaa	Aaa	Aaa	Aaa
c) Competitive Environment	Aaa	Aaa	Aaa	Aaa
Factor 3 : COST POSITION AND PROFITABILITY (15%)				
a) EBITA Margin	4.0%	B	3% - 4%	B
b) EBITA / Avg. Assets	3.1%	Ba	2.5% - 3%	B
Factor 4 : CAPITAL STRUCTURE (15%)				
a) Debt / Book Capitalisation	70.6%	Baa	66% - 68%	A
b) Debt / EBITDA	6.0x	B	5.7x - 6x	Ba
Factor 5 : CASH FLOW AND INTEREST COVERAGE (15%)				
a) FCF / Debt	-5.8%	B	-9% - -5%	B
b) RCF / Net Debt	13.5%	Baa	15% - 15.5%	Baa
c) (FFO + Interest) / Interest	6.2x	A	5.7x - 7.5x	A
Rating:				
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned				Aa3
Government-Related Issuer				
	Factor			
a) Baseline Credit Assessment	baa1			
b) Government Local Currency Rating	Aa2/Stable			
c) Default Dependence	Very High			
d) Support	Very High			
e) Final Rating Outcome	Aa3/Stable			

(1) All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. (2) As of 12/31/2016. (3) This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics™

Ratings

Exhibit 8

Category	Moody's Rating
SNCF MOBILITES	
Outlook	Stable
Issuer Rating	Aa3
Senior Unsecured	Aa3
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	(P)P-1

Source: Moody's Investors Service

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