

MOODY'S

INVESTORS SERVICE

Credit Opinion: SNCF Mobilités

Global Credit Research - 22 Sep 2015

Paris, France

Ratings

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

Contacts

Analyst	Phone
Lorenzo Re/Milan	39.02.9148.1100
Paolo Leschiutta/Milan	
Patrick Mispagel/London	44.20.7772.5454

Key Indicators

[1]SNCF Mobilités	12/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010
Revenue (\$ Billion)	\$36.2	\$35.9	\$41.4	\$45.4	\$40.4
EBITA Margin	3.2%	3.5%	4.7%	4.6%	2.5%
EBITA / Avg. Assets	2.0%	2.2%	3.4%	3.3%	1.6%
Debt / Book Capitalisation	65.8%	67.2%	63.4%	60.9%	65.4%
Debt / EBITDA	5.6x	5.5x	4.7x	4.7x	6.8x
FCF / Debt	0.5%	-0.9%	-3.2%	-0.5%	-0.4%
RCF / Net Debt	19.8%	21.4%	17.7%	18.7%	12.8%
(FFO + Interest) / Interest	8.0x	11.3x	7.6x	7.9x	6.0x

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Rating Drivers

- Operating performance in 2014 was resilient despite a challenging environment
- The operating performance of SNCF Voyages remains the main concern
- SNCF Mobilités' exposure to domestic railway competition is limited, and market opening will be slow
- Probability of support is 'very high', and default dependence is 'very high'

- Credit impact from the reform of the French railway system is limited

Corporate 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 250,000 people. The group 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 fully owned by the holding SNCF, which in turn is fully controlled by the French state. At the end of December 2014, the group generated consolidated revenues of EUR27.24 billion (EUR27.00 billion as of December 2013 pro forma excluding the SNCF Infra division).

Rating Rationale

In accordance with our government-related issuer rating methodology, SNCF Mobilités' Aa3 issuer rating reflects the combination of the following inputs:

- A baseline credit assessment (BCA), which is a measure of the group's standalone financial strength without the assumed benefit of government support, of baa1
- The Aa2 local-currency rating of the French government
- 'Very high' support
- 'Very high' dependence

SNCF Mobilités' baa1 BCA reflects its solid business profile, underpinned by 1) its large scale with a degree of international diversification, with approximately one fourth of revenues generated outside France; 2) its role as a quasi-monopolist in the domestic passenger railway segment; and 3) the large share of revenue derived from French government-related authorities (approximately 35%, including under public service remit mass transit activities for French regional and local authorities and excluding the management and maintenance of the French railway network, that, following the reform, will be done directly by the owner SNCF Réseau), which provides some stability and visibility of top-line.

However, the group's BCA is constrained by its credit metrics, and low profitability. The group's EBITA margin have been worsening in the last four years from 4.6% in 2011 (as adjusted by Moody's) to 3.2% in 2014, largely due to the deteriorating operating performance of SNCF Voyage division (high speed trains and long distance passenger services). The company is implementing a number of cost-savings and efficiency measures, such as improving the utilization rate of trains. We expect that these measures will allow for some recovery in profitability, although EBITA margins are unlikely to return to pre-crisis levels.

DETAILED RATING CONSIDERATIONS

OPERATING PERFORMANCE IN 2014 WAS RESILIENT DESPITE A CHALLENGING ENVIRONMENT

Like in 2013, SNCF Mobilités' operating performance in 2014 was under pressure, mainly because of the revenue loss caused by a 15-day rail strike in June and the poor performance in the SNCF Voyages divisions (high-speed passenger trains services in France and Europe, long-distance passengers travel with iDbus and distribution with VoyagesSNCF.com). Nonetheless, revenue increased by 1.5% (at constant exchange rates), and the decline in operating profit was very limited, dropping to EUR678 million from EUR721 million in 2013 (pro forma). Free cash flow generation improved slightly. SNCF Mobilités was able to maintain net indebtedness, on a reported basis, stable at EUR 7.4 billion; as a result, leverage metrics remained overall unchanged, with adjusted debt/EBITDA reaching 5.6x from 5.5x in 2013 pro-forma.

Revenue growth in 2014 was driven by the expansion of SNCF Mobilités' international business, represented by Keolis' and SNCF Logistics' activities abroad. Both Keolis (local transport services) and SNCF Logistics (freight transportation and logistics services) generate half of their revenues abroad, and posted respectively a 20.0% and 5.8% revenue increase in international markets in 2014. This helped the group withstand a number of factors that negatively affected operating performance, including (1) a 15-day strike in June 2014 that caused the loss of EUR220 million of revenue and EUR180 million of EBITDA; (2) the increase of value-added tax from 7% to 10% on domestic passenger fares, which further hurt the already weak demand, especially for TGV and intercity services (standard medium & long-distance trains); and (3) an additional increase of track access fees of 5%. On a more positive side, continued cost reduction and efficiency measures have supported profitability, with reported

EUR400 million savings (including the SNCF Infra business unit) achieved in 2013 and 2014. In particular, in the SNCF Logistics business unit, which has been negatively affected by the unfavourable macroeconomic environment in Europe, the implementation of cost-cutting programmes and the reorganisation of the business model have started bearing fruits. The business unit saw a EUR43 million operating profit in 2014, up from a EUR118 million loss in 2013, and an increase in the EBITDA margin to 4.8% in 2014 from 3.7% in 2013.

THE OPERATING PERFORMANCE OF SNCF VOYAGES REMAINS THE MAIN CONCERN

Amid a sluggish macroeconomic environment in Europe, SNCF Voyages' gross profit in 2014 continued to decline, dropping by 13% from the previous year (to EUR680 million from EUR782 million). This reflected mainly the combination of a continued increase in track access charges and declining sales. Especially for TGV France, ticket revenues were severely hit by the increase in value-added tax rate and the rail strike in June. SNCF Mobilités is implementing a number of cost-saving and efficiency measures, such as improving the utilisation rate of trains. We expect that these measures will allow for some recovery in profitability, although EBITDA margins are unlikely to return to pre-crisis levels.

SNCF MOBILITES' EXPOSURE TO DOMESTIC COMPETITION IS LIMITED, AND MARKET OPENING WILL BE SLOW

SNCF Mobilités is the main rail company in France 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 important and developed passenger rail markets in the world.

The market opening in France will likely be very slow and driven by the changes in the European regulation. In this respect, the European Parliament drastically changed the original proposal of the European Commission for a new legislation aimed at opening domestic rail passenger services to competition. Although the new legislation is still under discussion, the liberalisation of national railway markets will likely take significantly longer than previously expected, with tender bids for public service contracts to become mandatory only from 2022 and only in some circumstances.

PROBABILITY OF SUPPORT IS 'VERY HIGH', AND DEFAULT DEPENDENCE IS 'VERY HIGH'

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 that are perceived as central to the core missions of the state; (2) SNCF Mobilités' legal status of EPIC and its 100% ownership by the French State; and (3) 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 revenues that is derived from French government-related entities (approximately 35%, including under public service remit mass transit activities for French regional and local authorities, and excluding the management and maintenance of the French railway network that, following the reform, will be done directly by the owner SNCF Réseau); and (3) the importance of the group's rail passenger/freight transportation network to the French economy.

CREDIT IMPACT FROM THE REFORM OF THE FRENCH RAILWAY SYSTEM IS LIMITED

The reform of the railway system took effect in January 2015 and entails the establishment of a new group consisting of three entities, all benefitting from an EPIC legal status: (1) an infrastructure manager, SNCF Réseau, which includes the previous Réseau Ferré de France (RFF, the owner of the French railway network), DCF (Direction de la Circulation Ferroviaire) and SNCF Infra (the former SNCF's division dedicated to the management of the infrastructure); (2) an operator, SNCF Mobilités, which takes care of all freight and passenger railways operations previously carried out by SNCF; and (3) a new holding company called SNCF, which strategically coordinates the group activities.

Under the reform, the scope of SNCF Mobilités' activities is narrowing, as part of its activities will be transferred to the newly created holding company and SNCF Réseau. These activities has been already reclassified in SNCF Mobilités accounts as assets held for sale, with a 10% reduction in EBITDA in 2014. As of FY 2014, the assets to be transferred amount to EUR4.09 billion versus EUR3.10 billion in liabilities. As a result, SNCF Mobilités' leverage (adjusted debt/EBITDA) peaked to 5.6x in 2014, a level that remains compatible with its current BCA of baa1.

Liquidity

We consider SNCF Mobilités' liquidity profile to be solid. As of the end of December 2014, SNCF Mobilités had available cash of approximately EUR5.4 billion, and we expect that it will generate operational cash flow around EUR2.5 billion within the next 12 months. In addition to its self-generated liquidity, SNCF Mobilités has access to committed credit lines amounting to EUR780 million at the parent company level at the end of December 2014, of which EUR330 million will remain in place over the next twelve months and until 2018.

SNCF Mobilités' main cash requirements for the next 12 months will be (1) the group's intensive gross investment programme, which we expect will amount to approximately EUR2 billion; and (2) approximately EUR2 billion in debt maturities.

Rating Outlook

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

What Could Change the Rating - Up

We would consider upgrading SNCF Mobilités' rating only if there were an increase in the level of state support available to the group, although we currently do not expect this to occur. We would consider raising SNCF Mobilités' BCA if (1) the group's EBITA margin were to increase to above 5%, (2) its debt/EBITDA ratio were to decrease comfortably below 6x and (3) its RCF/net debt ratio were to approach the mid-teens in percentage terms.

What Could Change the Rating - Down

Government support for SNCF Mobilités is currently at a very high level, and we expect this to remain the case as long as the group's current ownership and legal structure do not change. Any reduction in the expected level of available support would most likely have a negative impact on the rating. While the rating will not necessarily change if there is a change in the level of dependence, the BCA could come under pressure if, inter alia, (1) SNCF Mobilités' EBITA margin decreases below 2.5%, (2) its debt/EBITDA ratio rises above 7x and (3) its RCF/net debt ratio falls below 10%. Any significant deterioration in SNCF Mobilités' BCA and/or liquidity could affect the group's final rating. In addition, a downgrade of the sovereign rating could negatively affect SNCF Mobilités' rating.

Rating Factors

SNCF Mobilités

Passenger Railway Industry Grid [1][2]	Current FY 12/31/2014		[3]Moody's 12-18 Month Forward ViewAs of 9/21/2015	
	Measure	Score	Measure	Score
Factor 1 : SIZE (15%)				
a) Revenue (\$ Billion)	\$36.2	Aa	\$32 - \$35	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	3.2%	B	3.2% - 3.4%	B
b) EBITA / Avg. Assets	2.0%	B	2.1% - 2.4%	B
Factor 4 : CAPITAL STRUCTURE (15%)				
a) Debt / Book Capitalisation	65.8%	A	68% - 72%	Baa
b) Debt / EBITDA	5.6x	Ba	5.6x - 6.2x	Ba
Factor 5 : CASH FLOW AND INTEREST COVERAGE (15%)				
a) FCF / Debt	0.5%	Baa	-3.5% - 0%	Ba
b) RCF / Net Debt	19.8%	Baa	16% - 19%	Baa

c) (FFO + Interest) / Interest	8.0x	Aa	8x - 8.5x	Aa
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 12/31/2014; Source: Moody's Financial Metrics [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.

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 <http://www.moody.com> for the most updated credit rating action information and rating history.



© 2015 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO,

COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.

For Japan only: MOODY'S Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of MOODY'S Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a

Nationally Recognized Statistical Rating Organization (“NRSRO”). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000. MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.