SNCF Mobilités

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1

Outlook

Foreign-Currency Long-Term IDR	Stable

Financial Data

SNCF Mobilites

	31 Dec 17	31 Dec 16
Operating revenues (EURm)	31,830	30,517
Operating balance (EURm)	1,314	1,004
Total debt (EURm)	17,213	16,022
Adjusted net risk (EURm)	11,944	12,696
Total assets (EURm)	39,832	37,920
Equity and reserves (EURm)	5,295	4,452
EBITDA/oper. rev. inc. rev. from pub. sector (%)	8.5	7.3
ROA (%)	2.9	1.3
ROE (%)	21.5	10.7
Adjusted net risk/EBITDA (x)	4.4	5.6

Related Research

France (July 2018)

Analysts

Nicolas Miloikovitch
+33 1 44 29 91 89
nicolas.miloikovitch@fitchratings.com

Christophe Parisot
+33 1 44 29 91 34
christophe.parisot@fitchratings.com

Key Rating Drivers

Downgrade to ‘A+’: Fitch Ratings downgraded SNCF Mobilités’ Long-Term IDR by two notches in July 2018, reflecting the entity’s transformation into a limited-liability company *(société nationale à capitaux publics*) in the context of the gradual opening-up to competition of French domestic passenger rail transport. We still believe SNCF Mobilités would benefit from substantial state support in case of need but view the loss of its EPIC status as evidence of a loosening of state linkages that is incompatible with a ratings equalisation with the sovereign.

Full State Ownership to Continue: The law dated 28 June 2018 transforms SNCF Mobilités into a limited-liability company from 1 January 2020, removing its protective public establishment (EPIC) status. The law states that the state will retain 100% capital ownership in SNCF, which will in turn own 100% of the capital of SNCF Mobilités and Réseau; the capital of the three companies is non-transferrable, which Fitch views as a credit positive.

Tight State Control: The state closely monitors SNCF Mobilités’ activities and finances and is represented on the company’s Board of Directors, the chairman of which is nominated by state decree. The state also monitors SNCF Mobilités’ finances through the state participations agency. Details of future group governance still need to be clarified, but Fitch believes the state, as sole shareholder, will maintain control. SNCF Mobilités’ activities are controlled and regulated by ARAFER, the public authority in charge of transport and rail transport regulation.

Gradual Market Liberalisation: Fitch considers the opening-up to competition of the regional trains market from 2020 and the long-distance trains market from 2021 will reduce the state’s incentive to prevent a default of SNCF Mobilités as substituting the incumbent will be easier. Competition will materialise only gradually as some multi-year agreements with regions for regional trains run until 2025 and as barriers to entry on long-distance trains may remain high.

Contagion Risk of Default: A default could have an indirect impact on the cost of financing for SNCF Réseau (AA/Stable/F1+), the infrastructure manager not exposed to competition, as the two entities will be part of the same group in 2020. As Fitch believes the state will remain committed to fully supporting SNCF Réseau and as SNCF Mobilités will maintain a large market share in the medium term as the incumbent operator, Fitch believes the state will retain an incentive to prevent SNCF Mobilités from defaulting on its financial obligations.

High Debt, Adequate Liquidity: The group’s adjusted net risk was more or less unchanged at EUR12.0 billion at end-1H18 (end-2017: EUR11.9 billion). The liquidity buffer comes from EUR5.0 billion of cash and equivalents and EUR2.7 billion of receivables owed by Caisse de la Dette Publique (CDP), SNCF Réseau and SNCF Holding. At end-2017, this covered 2018 and 2019 debt servicing by more than 2.5x. The liquidity profile is underpinned by EUR815 million in available committed bank lines.

Rating Sensitivities

Sovereign Ratings Change: A rating action on the French sovereign would be reflected in SNCF Mobilités’ ratings.

Weaker State Support: A downgrade could result from a weakening of the state’s support through a significantly lower assessment of the “strength of linkage” or “incentive to support” rating factors, which we consider unlikely in the medium term.

Rating History

Date	Long-Term Foreign IDR	Long-Term Local IDR
13 Jul 18	A+	A+
28 Feb 18	AA	AA
13 Jul 17	AA	AA
18 Jul 16	AA	AA
21 Jul 15	AA	AA
18 Dec 14	AA	AA
16 Oct 14	AA+	AA+
28 May 14	AA+	AA+
18 Dec 13	AA+	AA+
15 Oct 13	AA+	AA+
17 Jul 13	AA+	AA+
23 Apr 13	AAA	AAA
23 Nov 12	AAA	AAA
20 Dec 11	AAA	AAA
9 Mar 11	AAA	AAA
22 Jul 09	AAA	AAA
18 Apr 08	AAA	AAA
25 Oct 06	AAA	AAA
7 Feb 06	AAA	AAA
6 Feb 04	AAA	AAA
16 Oct 00	AAA	AAA
14 Apr 99	AAA	AAA

Related Criteria

Government-Related Entities Rating Criteria (February 2018)

International Local and Regional Governments Rating Criteria – Outside the United States (April 2016)

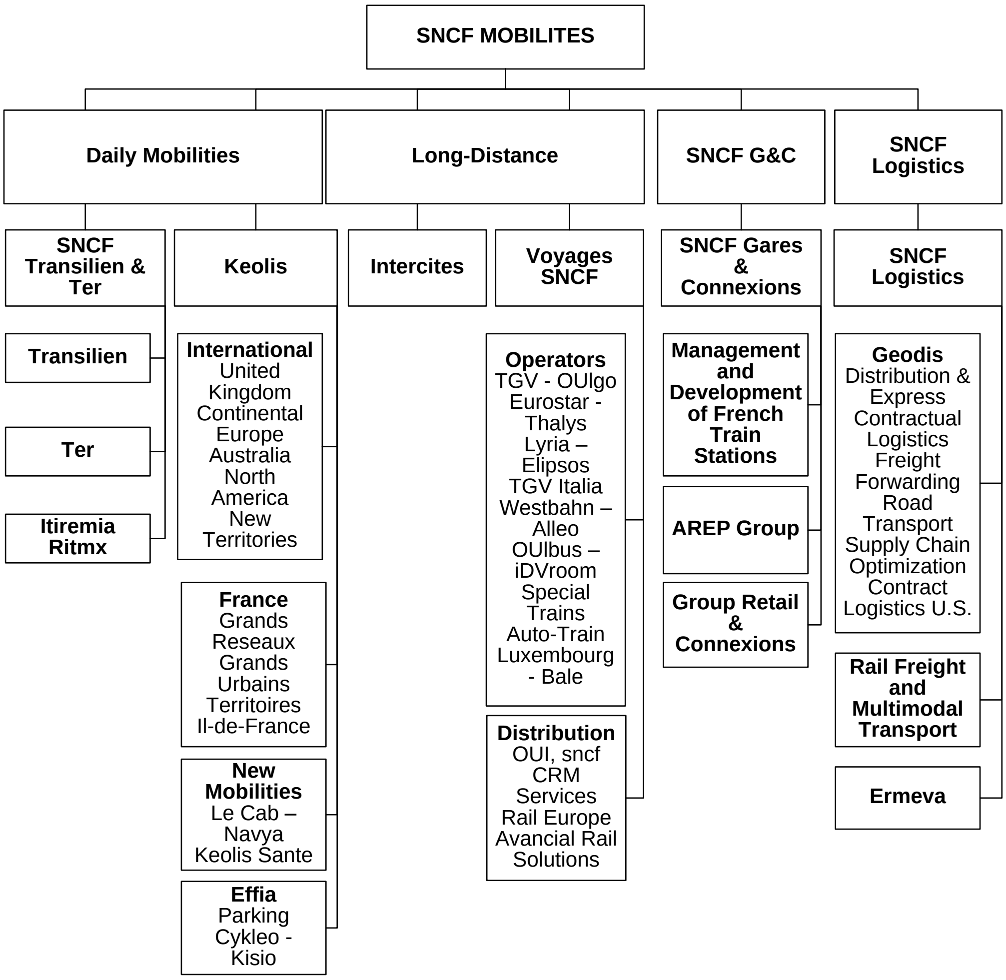
Profile and Overview

SNCF Mobilités is one of Europe's largest passenger and freight transport operators, with a quasi-monopoly in rail passenger transport in France. SNCF Mobilités is a public commercial and industrial establishment (EPIC) with legal capacity and financial autonomy. It is fully owned by another EPIC, SNCF Holding, the parent company that also holds 100% of railway network manager SNCF Réseau. In turn, SNCF is fully owned and controlled by the French state.

SNCF Mobilités controls several subsidiaries operating in the deregulated rail passenger and freight railway transport markets, as well as in logistics.

Along with the EPIC's divisions, the subsidiaries are pooled through four main business units: SNCF Voyageurs (which encompasses Daily Mobilities and Long-Distance), SNCF Gares & Connexions (train stations management), SNCF Logistics (logistics and freight railway services) and Keolis (mass transit and public transport in Europe and worldwide).

Structure Diagram



Source: SNCF Mobilités

The subsidiaries, taken with the EPIC as a whole, form the SNCF Mobilités group. As of June 2018, the latter employed 200,853 persons, of whom 90,443 (45%) were employed within the EPIC. The EPIC carries 90% of the group's external debt.

On 28 June 2018, the President of France signed into law a reform overhauling the French railway system to prepare it for gradual opening-up to competition from 2020. The main points of the reform include as of 1 January 2020:

- the transformation of SNCF Mobilités into a limited-liability company with full public ownership;
- the transfer of the SNCF Gares & Connexions station management unit to SNCF Réseau; and
- suppression of the '*cheminot*' special status for new hires.

GRE Support Factors

Summary

	Status, ownership and control	Support track record and perspective	Socio-political implications of default	Financial implications of default
Rating factors	Very strong	Strong	Moderate	Strong

Source: Fitch

Strength of Linkage

Status, Ownership and Control

Legal Status and Ownership

SNCF Mobilités is currently an EPIC, a public establishment not exposed to bankruptcy risk. On 28 June 2018, the French president promulgated a law transforming SNCF Mobilités, SNCF Réseau and SNCF Holding into limited-liability companies with capital fully owned by the state. This transformation will take place on 1 January 2020. The law clearly states, in its first article, that the state cannot sell its shares in SNCF Holding, which in turn cannot sell its shares in SNCF Mobilités and SNCF Réseau.

Fitch understands that this change of status will help prepare SNCF Mobilités for the opening-up to competition of the domestic passenger railway transport market in 2020. In a competitive market, the European regulator has interpreted the EPIC status as conferring an unfair advantage on the operator. The EPIC status could be construed as an implicit solvency guarantee with automatic asset and liability transfers to the state or another public entity in case of dissolution. The removal of it is aimed at levelling the playing field for competitors to enter the market after 2020. It is also aimed at strengthening the intrinsic profile of the company by reducing the moral hazard the EPIC status may seem to create.

Fitch considers that the 100% state ownership and the legal provision preventing the state from selling its shares are positive for SNCF Mobilités and illustrate the state's ongoing involvement with the company.

Governance

SNCF Mobilités is governed by a Board of Directors made up of 16 members and chaired by Guillaume Pepy, the company's Chief Executive Officer. Mr Pepy is a high-ranking French civil servant nominated to this position in 2008 for a five-year term by then President Nicolas Sarkozy and confirmed in it in 2013 by former President François Hollande for another five-year term, later extended until 2020. He has claimed he does not intend to request an extra term. He is also Chairman of the Board of SNCF Holding.

SNCF Mobilités' Board of Directors is made up of three state representatives, two other members nominated by the state, five members nominated by management and six employee representatives.

The future governance of SNCF Mobilités and of the railway group as a whole remains unclear, but Fitch is confident that the French state, as sole shareholder, will retain its dominant position on the Board of Directors.

Control

SNCF Mobilités is subject to state control through the central government's Court of Auditors *(Cour des Comptes)*, and its activities are regulated nationwide through ARAFER *(Autorité de régulation des activités ferroviaires et routières)*. It is required to provide the Agence des Participations de l'Etat (APE) – the office inside the Ministry of Finance in charge of managing state participations – an annual business report. APE, which has representatives on the Board, is kept informed of significant developments at SNCF Mobilités on an ongoing basis as required.

Support Track Record and Expectations

Ordinary Support

SNCF Mobilités, as France's main passenger rail transport operator, benefits from substantial grants and subsidies from the French public sector, notably from the regions and the state:

- The regions' contributions to operate regional trains, whose expenses are not covered by the sale of tickets, are defined in multi-year agreements between each region and SNCF Mobilités. These agreements states specific objectives for SNCF Mobilités in terms of safety and punctuality in particular, as well as penalties if these objectives are not met. They also state the regions' extra contribution if traffic is lower than expected. As of end-1H18, ongoing agreements with the regions were set to run until 2020 and 2025, with a few being under negotiation.
- In the Paris region, SNCF Mobilités operates its *Transilien and RER* activities under an agreement with Ile-de-France Mobilités. The current agreement covers 2016-2019.
- Non-high-speed intercity trains (*Trains d'Equilibre du Territoire*) are mostly covered by an agreement with the state (a few regions have directly taken over this responsibility) for 2016-2020.

As well as the public contributions to balance the accounts of the lines covered by the agreements, the state and the regions finance the renewal of rolling stock. The state finances 100% of the rolling stock for intercity trains, while the regions are in charge of regional trains.

In 2017, public service orders contracted with the state, the French regions and SNCF Réseau amounted to EUR5.6 billion, or 18% of SNCF Mobilités' consolidated turnover (EUR5.0 billion from regions, EUR0.5 billion from the state and EUR0.2 billion from SNCF Réseau). SNCF Mobilités also received investment grants worth EUR1.2 billion in 2017 from the transport organising authorities (mostly regions) to fund its investments.

Orders and Financial Contributions from the Public Sector

(EURm)	2012	2013	2014	2015	2016	2017
Orders from SNCF Réseau	4,631	4,960	5,174	2,839	159	185
Orders from regions and Ile-de-France Mobilités	4,210	4,268	4,306	4,675	4,900	4,992
Orders from the French state	443	530	495	463	517	460
Public orders	**9,284**	**9,758**	**9,975**	**7,977**	**5,576**	**5,637**
As a % of consolidated turnover (%)	*29*	*36*	*37*	*27*	*18*	*18*
Payment and investment grants for intangible assets and PP&E– regions & state	700	931	1,111	1,334	1,431	1,346
As a % of total investments (%)	*25*	*30*	*34*	*42*	*43*	*38*

Source: Fitch

Fitch considers that, after the opening-up of the market, the competitor winning a contract for a regional line will benefit from similar support mechanisms (regional operating contribution and investment grants) as SNCF Mobilités does today.

SNCF Mobilités did not pay any dividends to the state in 2016 or 2017. Instead, SNCF Mobilités paid EUR110 million of dividends to SNCF Holding.

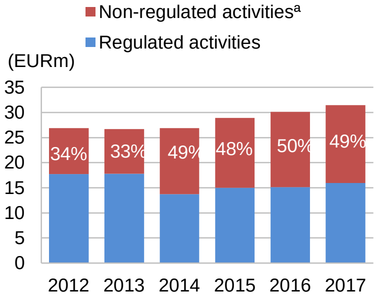
Extraordinary Support

As an EPIC, SNCF Mobilités is allowed to access state emergency financial support mechanisms such as emergency loans from the Treasury or, to a larger extent, through the purchase of SNCF long-term bonds or short-term notes from the state's public debt fund (CDP). These mechanisms would not require the approval of the French parliament, and Fitch assumes that they would be actioned in a timely manner in case of need.

As a limited-liability company from 2020, SNCF Mobilités will not have automatic access to these emergency liquidity mechanisms. However, Fitch is confident that the State Participation Agency will provide SNCF Mobilités with easy access to liquidity mechanisms if needed.

With the expected gradual opening-up of the market to competition, Fitch considers that the extent of extraordinary support from the state will be capped by European regulation regarding state aid.

Regulated vs. Non-Regulated Activities



[a] SNCF Logistics and Keolis
Source: SNCF Mobilités, Fitch

Public Financial Receivables

CDP owes SNCF Mobilités EUR1.407 billion (as of end-2017, in nominal terms). This debt facility allows CDP to legally overcome the state aid regulatory hurdles by classifying any disbursement to SNCF Mobilités as the repayment of pre-existing debt. Reimbursement of the CDP debt is subject to a predetermined schedule, and mirrors the reimbursement of similar amounts on SNCF Mobilités' debt repayment schedule. Fitch believes that in a case of financial stress for SNCF Mobilités, the repayment by CDP could be expedited.

CDP Receivables Owed to SNCF Mobilités

(EURm)	2013	2014	2015	2020	2023
Received	1,177	0	92	500	907
Outstanding at year-end	1,499	1,499	1,407	907	0

Source: Fitch based on SNCF Mobilités

Incentive to Support

Socio-Political Implications of the GRE's Default

Low Reliance on External Financing to Fund Operations

SNCF Mobilités' railway operations are financed through ticket sales and contributions from the public sector. A default on a financial obligation triggering an increase in financing costs would therefore only have a minimal impact on its operating activities, if any.

SNCF Mobilités' investments are also partially covered by public transfers, notably for the renewal of rolling stock, but a significant share is still covered by own funds (62% in 2017). A default on a financial obligation triggering an increase in financing costs could have an impact on SNCF Mobilités' investment programme through a postponement or a reduction.

In terms of short-term liquidity needs, the consequences of default on a financial obligation would be limited by the sound liquidity of SNCF Mobilités, at 70 days of cash on hand on average over 2012-2017.

Opening-Up to Competition to be Gradual

As of end-2017, about half of SNCF Mobilités' turnover was coming from regulated activities not exposed to competition (SNCF Transilien, SNCF Gares et Connexions and Voyages SNCF). Activities exposed to competition include SNCF Logistics (freight forwarding) and Keolis (local public transportation in France and abroad).

The opening-up to competition of the railway sector in Europe is a long-term trend that gained pace with the two first Railway Packages in 2001 and 2004, which opened the freight transport up to competition. Competitors are now operating around 30% of the French rail freight market.

The third railway package, adopted in 2007, opened international rail passenger transport up to competition, allowing foreign companies to operate in France. Since then, only one French-Italian operator, Thello, has launched night services between Paris, Lyon and Venice, with a negligible impact on turnover for SNCF Mobilités. SNCF Mobilités has kept a de facto monopoly on the fast-growing routes between France and the UK and between France and the Benelux countries through with its Eurostar and Thalys subsidiaries, respectively.

The fourth railway package, adopted in 2016, will open domestic passenger services up to competition by 2020 at the latest. Loss-making services (Intercités) and regional railways do not fall under the third rail package, but under the Public Service Obligation (PSO) Regulation (1370/2007), and are set to be opened up to competition from 2023.

However, the cost of entry into the French domestic passenger rail transport market is high and would require significant investment. Notably, it would require capital-intensive high-speed trains to compete with SNCF Mobilités on the country's major routes. In addition, the infrastructure fees paid to access the network are considerable and would be a significant barrier to market entry. Technical norms also only allow certain trains to run on the French network. As the world leader in high-speed trains, SNCF Mobilités benefits from a huge technical advantage (particularly in terms of maintenance) and strong commercial know-how.

Regions will have the possibility to use tenders from as early as 2020, public tenders being mandatory from 2023 onwards. However, some multi-year agreements signed between SNCF Mobilités and the regions run until 2025, postponing the actual competition risk. For the Paris region, the RER operations will remain an SNCF Mobilités monopoly until 2040.

The law promulgated by the President on 28 June 2018 gives the government, in its article 11, six months to issue decrees (*ordonnances*) to transpose the European Directive on the opening-up to competition of the domestic passenger railway system into French law.

Moderate Socio-Political Implications of a Default

Overall, Fitch considers the socio-political implications of a default to be moderate, with more of an impact on long-term investment plans than day-to-day activity. As the incumbent, SNCF Mobilités is bound to remain the main operator in France after the market liberalisation; as such, a default could become a political topic due to the public ownership and the vocal railway unions.

Financial Implications of the GRE's Default

A New Presence on the Financial Markets

SNCF Mobilités is a large issuer on the capital markets through its EUR12 billion EMTN programme, its EUR2 billion European commercial paper (ECP) programme and its EUR3 billion French CP (NeuCP) programme. A default on financial obligations would therefore have a direct impact on its cost of financing as market debt constitutes most of SNCF Mobilités' debt.

A Contagion Risk

Fitch believes that a default by SNCF Mobilités on its financial obligations could have a contagion effect on the cost of financing for other public companies, first among them being SNCF Réseau, which shares the same shareholder and economic sector and belongs to the same public group, SNCF, even though the two companies have completely distinct and independent debt programmes.

Fitch believes the state will remain committed to fully supporting SNCF Réseau, which will retain its monopoly over the French railway infrastructure network. Fitch therefore believes that this contagion risk reinforces the incentive for the state to prevent SNCF Mobilités from defaulting on its financial obligations.

Financial Implications of a Default Assessed as Strong

Fitch considers that a default by SNCF Mobilités on its financial obligations could have a negative impact on its own cost of funding, but also on the cost of funding for SNCF Réseau. As such, the incentive for the state to prevent a default is assessed as 'Strong'. As SNCF Mobilités is set to lose its EPIC status, the contagion risk no longer applies to the entire EPIC sector in France.

Overall Assessment of Support Factors

The assessment of the four support factors under the GRE criteria translates into a score of 30 out of a possible 60. This leads to a top-down approach for rating SNCF Mobilités and a two-notch notching-down from the sponsor.

Financial Performance

SNCF Mobilités presents its accounts in consolidated form, which includes the accounts of the EPIC and its subsidiaries. Around 50% of SNCF Mobilités' total turnover was generated by the EPIC in 2017.

Turnover Driven by Recovery in Traffic

SNCF Mobilités' revenue grew by 4.7% in 2017 at constant scope of consolidation and exchange rates, reaching EUR32 billion. This was mainly driven by the recovery of passenger transportation with turnover up 8.6%, as 2016 was negatively impacted by terrorist attacks and bad weather. Passenger transportation (SNCF Transilien, Voyages SNCF and Keolis) makes up 65% of group turnover, and Logistics 32%.

SNCF Mobilités' Revenue by Business Segment

	31 Dec 16[a]		31 Dec 17[a]	
	(EURm)	(%)	(EURm)	(%)
Transilien, Régions, Intercités	7,876	25.8	8,071	25.4
Voyages SNCF	6,816	22.3	7,373	23.2
Gares & Connexions	443	1.5	493	1.5
SNCF Logistics	10,040	32.9	10,218	32.1
Keolis	4,978	16.3	5,295	16.6
Corporate	364	1.2	380	1.2
Total (excl. SNCF infra)	**30,517**	**100.0**	**31,830**	**100.0**

[a] External revenue
Source: SNCF Mobilités, Fitch

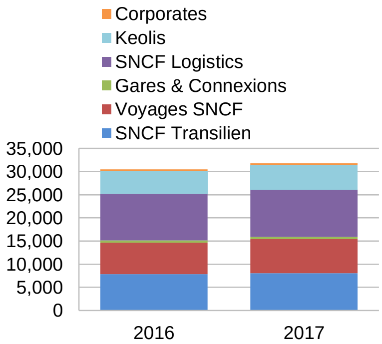
Sound Demand

SNCF Mobilités' turnover is driven, in the long term, by the traffic handled by its passenger and freight units.

At end-2017, the number of passengers using the railway network in France had increased by 40% since 2004, closely matching the average for Western Europe (Eurostat figures). The increase is linked to sustained demographic and economic growth, as well as to the opening of new high-speed lines. Rail's modal share of passenger transportation is close to 11%, up from a low of 8% in the mid-1990s. This is a relatively high share, which compares well with other European countries: around 9% in Germany and the UK, around 6% in Spain and Italy. With no large new lines to be built in the medium term, Fitch expects the number of passengers to loosely track GDP growth going forward.

New modes of transportation, such as the recently liberalised buses and car sharing, have proven successful over the last few years, and SNCF Mobilités has benefited from this with its own bus network, but further growth away from the rail network seems unlikely for now. Moreover, one-off events such as terrorist attacks and large-scale strikes do not seem to have a long-term impact on passenger ridership.

Turnover Split (EURm)



Source: SNCF Mobilités, Fitch

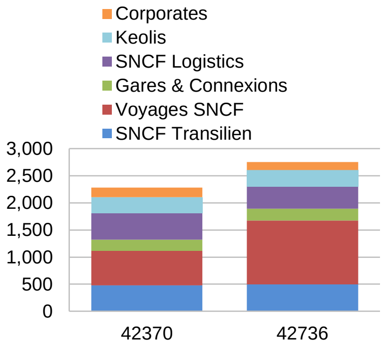
As for logistics, France has not yet recovered from the 2008 crisis, and the tonnage transported remains 30% below the 2004 level. Likewise, the modal share of rail in freight forwarding is close to 11%, stable over the years and well below that of Germany (close to 20%) and Italy (15%). The freight sector is more sensitive to one-off events such as terrorist attacks and strikes, which can undermine the reliability of the supply chain. Fitch expects the freight activity in France to slowly recover. Geodis, SNCF Mobilités' main logistics subsidiary, also has a strong non-domestic operation and is the fourth-largest logistics company in Europe. The overall growth of the sector will therefore track global trade levels. Higher tariffs on a global scale could therefore significantly reduce growth opportunities for Geodis. Overall, the share of non-regulated activities has been stable at around 50% of revenue since 2014.

Moderate Pricing Power

SNCF Mobilités' pricing ability is constrained by the agreements it signed with the state and regions for regulated activities and by the competitive environment for liberalised activities.

Regional and intercity trains (25% of revenue in 2017) are regulated by multi-year agreements with the regions and the state stating the obligations and rights of each party. These regulated activities are by nature loss-making and therefore benefit from large public subsidies. SNCF Mobilités' pricing power is therefore limited as one profitable regional agreement cannot be expected to finance another loss-making regional agreement or activity. Contractual relations with regions have become tougher. Regions are claiming stricter specifications and covenants in their operating agreements, particularly regarding punctuality, quality of service and tariffs. Pressure is likely to be further increased once tenders for regional lines are progressively opened up to competition after 2023.

EBITDA Split (EURm)



Source: SNCF Mobilités, Fitch

SNCF Mobilités has more leeway to set prices on high-speed trains and international passenger trains. Its pricing power is, however, constrained by increasing intermodal competition, with long-distance buses and car sharing, and the competitiveness of planes being more linked to gas prices. For domestic high-speed trains, SNCF Mobilités has thus developed Ouigo, the low-cost option of the standard inOui trains, expecting to offset lower prices with higher demand.

SNCF Mobilités is the fourth-largest logistics player in Europe behind Deutsche Post DHL (BBB+/Stable/F2), Maersk and DB Mobility Logistics AG (part of Deutsche Bahn Group: AA/Stable/F1+). As such, it is largely a price taker.

Operating Costs to Remain Contained

Operating costs increased by 3% in 2017, reaching EUR29 billion. Personnel costs represent the main cost item at 39% of operating costs, a stable share over the past three years. Flexibility over this item is limited by the share of special-status employees. Future flexibility will largely be determined by the railway sector collective agreement to be negotiated between trade unions and employers before the market liberalisation in 2020.

The second-largest single cost item (13% of total costs) is the access charge paid to SNCF Réseau to use the tracks. This charge increased by 1.5% in 2017, reaching EUR3.8 billion, and has been rising by 1% per year on average since 2012. The access charge is determined by SNCF Réseau within the framework set by ARAFER, the railway regulator, which has a right to veto. In May 2018 and in accordance with ARAFER, the state capped future price hikes on the high-speed train and freight access charge to the inflation rate, giving SNCF Mobilités more visibility over its future trajectory.

Other cost items are linked to energy costs, payments to subcontractors and external purchases. SNCF Mobilités initiated in 2017 a performance plan aimed at saving EUR1.3 billion by 2020, both through lower structural costs (optimisation of procurement processes, cutback in corporate staff) and through industrial processes (optimisation of product offering, internal productivity, etc).

Uneven Profitability Among Business Segments

The profitability of SNCF Mobilités improved in 2017, with consolidated reported EBITDA of EUR2.8 billion or 8.7% of revenue, up from EUR2.3 billion or 7.5% in 2016. The improvement was due almost entirely to the high-speed train segment, the EBITDA of which almost doubled to EUR1.2 billion in 2017 (16% margin vs 9% in 2016).

The high-speed train segment is the main contributor to group profitability, representing 43% of consolidated EBITDA. The EBITDA margin of this segment has significantly deteriorated over the past decade, from more than 20% in 2010 to a low 9% in 2016, due to high prices and the competition from low-cost airlines, long-distance buses and car sharing. This led SNCF Mobilités to reduce the value of its high-speed trains by EUR4 billion over 2011-2015. The trend is now reversing with a more supportive macroeconomic environment, the steady increase in tariffs, the development of the low-cost Ouigo option, and the cap on future access charge hikes. This led SNCF Mobilités to post an impairment reversal of EUR3.2 billion in 1H18 for this segment only.

In the long term, the profitability of this segment may be increased by the 100 new high-speed trains SNCF Mobilités officially ordered from Alstom in July 2018: these updated trains will boost revenues with a higher passenger capacity and increased adaptability of carriages, but should also contain operating expenditure as SNCF Mobilités expects maintenance costs to be 20% lower than on the current fleet.

The second-largest contributor to group profitability is the regional trains segment (18%). Profitability on this highly regulated activity is stable at around 6% each year, enabling SNCF Mobilités to cover the cost of related capital. Profitability could be under pressure as the market liberalises but the multi-year agreements are expected to state a minimum profitability level.

SNCF Logistics makes up 15% of the group's profitability but boasts the lowest EBITDA margin at 4% in 2017. This is due to the competitive intensity of this sector and the historically low modal share of rail in freight transportation in France. In the near to medium term, profitability could be threatened by higher international trade barriers.

The local transportation subsidiary Keolis makes up 11% of SNCF Mobilités' profitability and boasts a 6% EBITDA margin, in line with the regional trains segment. Keolis' activities are regulated by multi-year agreements in the locations in which it operates, limiting its ability to increase tariffs unilaterally.

The group posted a EUR1.1 billion net profit for 2017, up from EUR0.5 billion in 2016 thanks to the large impairment reversal on its high-speed trains activity.

At end-June 2018, SNCF Mobilités' EBITDA reached EUR650 million (4% of turnover), only half its level at end-June 2017 due to the large strikes that negatively impacted the activity in France (impact estimated at EUR846 million by SNCF Mobilités). Fitch expects SNCF Mobilités' profitability to recover and remain stable in the medium term as revenue may be pressured by the market's opening-up to competition, while operating expenditure should remain contained, notably with access charge increases capped by inflation.

Adjusted Net Risk Calculation – SNCF Group

(EURm)	Dec 17	Jun 18
Short-term debt	4,331	3,272
Long-term debt	12,882	12,819
Fair value of derivatives	1,229	1,119
Finance lease	858	853
Pension	1,669	1,628
Total risk	**20,969**	**19,691**
SNCF Réseau receivables	691	718
SNCF group receivables	407	413
CDP receivables	1,533	1,558
Cash and cash equivalents	6,394	5,024
Adjusted net risk	**11,944**	**11,978**

Source: Fitch

Debt, Liquidity and Contingent Liabilities

Debt

Total risk net of cash and cash equivalents amounted to EUR14.6 billion at end-2017, down 5% from EUR15.4 billion at end-2016. Net risk/EBITDA reached 5.3x (end-2016: 6.8x). Net of CDP, SNCF Groupe and SNCF Réseau receivables, adjusted net risk amounted to EUR11.9 billion at end-2017, down from EUR12.7 billion at end-2016. Adjusted net risk represented 4.4x EBITDA (end-2016: 5.6x). Adjusted net risk reached EUR12.0 billion at end-June 2018.

Most of SNCF Mobilités' financial debt is in the form of bonds (74%), with bank loans accounting for 12% of the total, and finance lease obligations for 5%. At end-June 2018, 72% of net debt was at fixed rates at the EPIC level.

SNCF Mobilités had EUR4.7 billion of short-term financial liabilities at end-2017, including CP issues. This compared positively with EUR7.5 billion of short-term financial assets. SNCF Mobilités issues foreign-currency debt and systematically covers the exchange risk by using cross-currency swaps.

The purchase by SNCF Mobilités of 100 new high-speed trains from Alstom, as announced in July 2018 at an estimated cost of EUR3 billion, will have only a moderate impact on SNCF Mobilités' debt. This purchase will be fully financed by SNCF Mobilités' own funds as no public subsidy is expected. With stable overall profitability, Fitch expects SNCF Mobilités' adjusted net risk/EBITDA to remain close to 5x in the medium term.

Liquidity

In 2017, SNCF Mobilités' liquidity profile was underpinned by cash and cash equivalents of EUR6.4 billion (EUR4.6 billion in 2016) and EUR1.5 billion of receivables from CDP (excluding accrued interest). SNCF Mobilités issued a EUR1 billion fixed-rate bond in February 2017 to refinance a large EUR959 million cash borrowing repayment in 1H18.

At end-2017, cash and cash equivalents net of short-term borrowings covered gross debt service requirements for 2018 by 2.3x. Including financial receivables with CDP, SNCF Réseau and SNCF Group, which perfectly match the repayment of the financial debt they relate to, debt service coverage by liquid assets for the next two years reached 2.6x at end-2017 (vs 2.1x at end-2016).

The bulk of cash needs for 2018 will be debt repayments, as the capital expenditure programme should be covered by cash flow from operations, asset disposals and investment grants. Fitch forecasts that free cash flow may be slightly positive in 2018 and may slowly improve as investment levels recede in the following years. Taking into account expected net free cash flows, we expect liquid items to adequately cover cash needs over 2018 and 2019.

Liquidity Coverage (Fitch Estimates)

(EURbn)	2018	2019
Annual debt service, excl. cash borrowings	-1.6	-1.2
Free cash flow	-0.1	-0.1
Cash needs (a)	**-1.8**	**-1.2**
Cash reserves at 1/1 net of cash borrowings	3.8	3.8
CDP receivables[a]	1.9	1.8
SNCF holding receivables[a]	0.5	0.4
SNCF Réseau receivables[a]	1.0	0.9
Net cash liquid items (b)	**7.1**	**6.9**
Coverage ratio (b/a) (x)	**4.0**	**5.6**
Total liquid items/cash needs over 2 rolling years (%)	**236.6**	**296.7**

[a] Including interest
Source: Fitch based on SNCF Mobilités

To cover its liquidity shortfalls, SNCF Mobilités has an ECP programme of EUR2 billion and a NeuCP programme of EUR3 billion. SNCF Mobilités also relies on committed credit facilities, totalling EUR1.4 billion as of end-2017 (of which EUR815 million for the EPIC alone). At end-2017, total cash borrowings and overdrafts amounted to EUR2.6 billion (EUR1.7 billion at end-June 2018).

Contingent Liabilities

At end-2017, SNCF Mobilités' off-balance-sheet liabilities were large at EUR15.8 billion (end-2016: EUR12.7 billion). Off-balance-sheet commitments mainly consisted of rolling stock purchase commitments (43% of the total), other purchase commitments (20%) and equipment and property leases (19%). At the same date, total commitments received totalled EUR11.4 billion (end-2016: EUR8.4 billion). The group is not involved in any major litigation or disputes.

Appendix A

SNCF Mobilités

(EURm)	2013	2014	2015	2016	2017
Income statement					
Operating revenues	32,232	27,243	29,296	30,517	31,830
Staff expenses	-13,141	-10,269	-10,629	-10,944	-11,224
Depreciation	-1,553	-1,498	-1,581	-1,442	-1,422
Other operating revenues and expenditure	-17,501	-14,775	-19,272	-17,127	-17,870
Operating balance before grants and subsidies	37	701	-2,186	1,004	1,314
Revenue from public sector	0	0	0	-	-
Operating balance after revenue from public sector	37	701	-2,186	1,004	1,314
Interest revenue	432	369	530	516	356
Interest expenditure	-221	-679	-790	-796	-628
Operating balance after financing	248	391	-2,446	724	1,042
Surplus on disposal of fixed assets	180	238	240	138	302
Non-operating revenue and expenditure	8	234	682	73	70
Profit (loss) before taxation	436	863	-1,524	935	1,414
Taxation	-166	-241	-652	-443	-245
Profit (loss) after tax	270	622	-2,176	492	1,169
Minority interests	17	19	3	-18	33
Profit or loss for the financial year	253	603	-2,179	510	1,136
Balance sheet					
Assets					
Tangible assets	14,917	14,316	12,394	12,802	13,546
Intangible assets	2,614	2,471	4,264	4,156	4,115
Other long-term assets	2,139	2,125	1,416	1,525	1,640
Long-term investments	5,459	5,822	6,341	5,988	5,474
Stock	1,018	666	621	661	682
Trade debtors	7,492	5,690	6,765	6,854	6,906
Other current assets	1,118	5,697	1,796	1,350	1,075
Cash and liquid investments	5,060	5,408	4,024	4,584	6,394
Total assets	39,817	42,195	37,621	37,920	39,832
Liabilities and equity					
Long-term liabilities	1,379	1,803	3,193	2,965	2,988
Pension	2,224	1,674	1,590	1,681	1,669
Long-term debt	14,224	13,797	13,876	14,305	14,607
Trade creditors	11,614	9,871	10,627	10,395	10,446
Other short-term liabilities	4	3,094	33	0	0
Short-term debt	3,603	4,972	3,838	3,992	4,693
Equity	4,971	4,971	4,971	3,971	3,971
Reserves	1,699	1,907	-643	481	1,324
Minority interests	99	106	136	130	134
Liabilities and equity	39,817	42,195	37,621	37,920	39,832
Debt statement					
Short-term debt	3,098	4,637	3,406	3,798	4,331
Long-term debt	12,195	11,459	11,825	12,224	12,882
Total debt	15,293	16,096	15,231	16,022	17,213
Other Fitch classified debt	928	1,520	1,383	1,415	1,229
Total risk	20,051	20,443	19,304	19,978	20,969
Cash, liquid deposits and sinking fund	5,060	5,408	4,024	4,584	6,394
Net risk	14,991	15,035	15,280	15,394	14,575
Contingent liabilities	-	-	-	-	-
Net overall risk	14,991	15,035	15,280	15,394	14,575
% debt in foreign currency	5.5	0.9	5.6	4.2	4.2
% issued debt	72.9	71.6	72.4	71.4	72.5
% debt and fixed interest rate	66.0	68.8	72.0	68.5	67.2

Source: Issuer and Fitch calculations

Appendix B

SNCF Mobilités

	2013	2014	2015	2016	2017
Cash flow statement					
Funds from operations	1	1	1	1	1
Other cash flow movements	-	-	-	-	-
Changes in working capital	1	1	1	1	1
Cash flow before net capital expenditure	2,358	2,529	2,045	1,362	2,394
Net capital expenditure	-1,620	-1,717	-1,907	-1,563	-1,467
Cash flow before financing	738	812	138	-201	927
New borrowing	607	480	434	1,187	1,810
Other cash financing	-868	814	-729	706	-49
Debt repayment	-300	-1,226	-982	-607	-393
Cash flow after financing	-59	696	-1,225	909	2,166
Ratio analysis					
Profitability ratios					
Personnel costs/oper. rev including revenue from public sector (%)	40.31	37.15	35.77	35.36	34.8
Revenue from the public sector/oper. rev including revenue from public sector (%)	0.0	0.0	0.0	-	-
EBITDA/oper. rev including revenue from public sector (%)	8.36	8.25	8.06	7.31	8.5
Balance sheet ratios					
Current assets/total assets (%)	36.89	41.38	35.1	35.47	37.8
Current assets/total liabilities (%)	44.44	49.59	39.83	40.34	43.8
Return on equity (%)	3.99	8.91	-48.75	10.74	21.5
Return on assets (%)	0.68	1.47	-5.78	1.3	2.9
Debt ratios					
Net debt/EBITDA (x)	3.8	4.7	4.7	5.1	3.9
Long-term debt/oper. rev including revenue from public sector (%)	37.4	41.46	39.79	39.5	39.9
Total debt/EBITDA (x)	5.6	7.1	6.4	7.1	6.3
Debt/equity (%)	229.28	234.02	351.92	359.88	325.1
EBITDA/gross interest expenditure (x)	-	-	-	-	-
Debt servicing/operating balance before revenue from public sector (%)	1,408.11	271.75	-81.06	139.74	77.7
Debt servicing/operating balance after revenue from public sector (%)	1,408.11	271.75	-81.06	139.74	77.7

n.a.: not available
Source: Issuer and Fitch calculations

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.