SNCF Mobilités

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	AA
Short-Term IDR	F1+

Outlook

Foreign-Currency Long-Term IDR	Stable

Financial Data

SNCF Mobilités (Consolidated)

(EURm)	31 Dec 16	31 Dec 15
Total operating revenues (EURm)	30,517	29,296
Rev. from pub. sector (EURm)	0	0
Operating balance	1,004	-2,186
Total risk (EURm)	18,297	17,714
Total assets (EURm)	37,920	37,621
Equity and reserves (EURm)	4,452	4,328
Fitch-calculated EBITDA margin (%)	7.49	7.21
ROA (%)	1.3	-5.8
ROE (%)	10.74	-48.81
Total debt/Fitch-calculated EBITDA (x)	6.9	7.1

Related Research

France (July 2017)

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Key Rating Drivers

Strong Support, Strategic Position: The recent affirmation of SNCF Mobilités' ratings reflects its unchanged links with the French state (AA/Stable/F1+) over the last 12 months. Fitch Ratings classifies SNCF Mobilités as credit-linked to France, in light of the strong expected extraordinary support from the state stemming from the entity's Etablissement Public Industriel et Commercial (EPIC) status. The ratings reflect strong oversight from the French government and a strategic role in government policy. The Stable Outlook reflects that on France.

Supportive Legal Status: Given its EPIC legal status, Fitch considers that SNCF Mobilités would benefit from strong state support in case of need. Although the French government has no legal obligation to prevent a default, Fitch assumes that it is highly motivated and has the means to enable SNCF Mobilités to service its debt on time.

Tight State Control: The state closely monitors SNCF Mobilités' activities and finances. It is represented on SNCF Mobilités' Board of Directors, the Chairman of which is nominated by state decree. The state also monitors SNCF Mobilités' finances through the state participations agency. Finally, SNCF Mobilités' activities are controlled and regulated by ARAFER, the public authority in charge of transport and rail transport regulation.

Strategic Importance: SNCF Mobilités has strategic importance for the French public sector. It also controls several subsidiaries active in road and sea transport, logistics, special types of railway transport and multimodal public transport. Public service orders contracted with the state, the French regions and SNCF Réseau (AA/Stable/F1+) made up 18% of SNCF Mobilités' turnover in 2016. SNCF Mobilités also received operating grants and investment support from regional transport authorities.

High Debt, Adequate Liquidity: The group's net debt increased to EUR8.0 billion at end-2016 (end-2015: EUR7.7 billion). The liquidity buffer comes from EUR4.6 billion of cash and equivalents and EUR2.7 billion of receivables owed by Caisse de la Dette Publique (CDP), SNCF Réseau and SNCF Group Holding. At end-2016, this covered 2017 and 2018 debt servicing by more than 1.8x. The liquidity profile is underpinned by EUR780 million in available committed bank lines.

Market Liberalisation Concerns: Ongoing market liberalisation may challenge the timeliness of state support in the medium term. Extraordinary liquidity support could be viewed as unlawful state aid under EU regulations if it is used to support competitive businesses. However, SNCF Mobilités has adapted its funding policy to avoid a breach of state aid regulations; the debt taken for competitive businesses within the SNCF Mobilités group is charged at market prices for these segments.

Rating Sensitivities

Sovereign Downgrade, Status Change: A change in France's sovereign ratings would lead to an equivalent change in SNCF Mobilités' ratings. An adverse change in the entity's EPIC status could also trigger a rating review.

Declining Liquidity Reserves: SNCF Mobilités' ratings could be downgraded if its liquidity reserves declined to levels below two years of debt servicing.

Rating History

Date	Foreign-Currency IDR	Local-Currency IDR
1999	AAA	AAA
2013	AA+	AA+
2014	AA	AA

Public-Sector Entity Support Factors

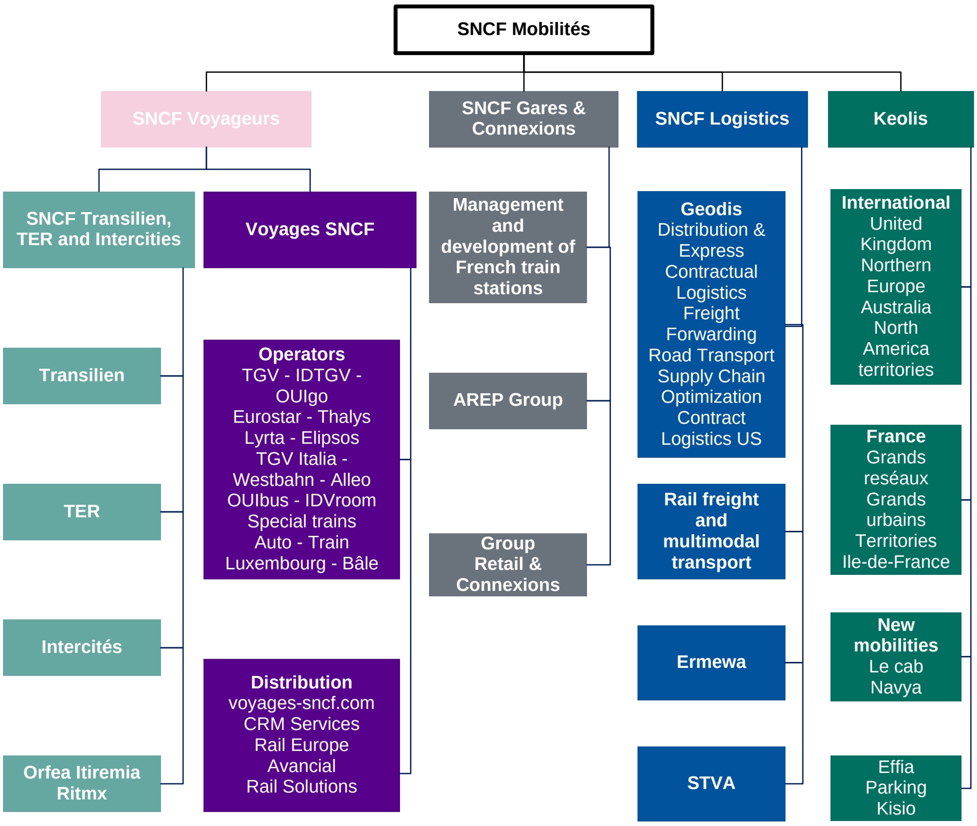
Profile and Overview

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, the parent company that also holds railway network manager SNCF Réseau. In turn, SNCF is fully owned and controlled by the French state.

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

Along with the EPIC's divisions, the subsidiaries are pooled through four main business units: SNCF Voyageurs (regional and national public-service lines as well as high-speed lines), 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 Mobilities

The subsidiaries, taken with the EPIC as a whole, form the SNCF Mobilités group. As of June 2017, the latter employed 190,723 persons, of whom 85,599 were employed within the EPIC.

Principal Rating Factors

Summary

	Legal status	Strategic importance	Control and oversight	Integration/ financial
Support factors	Stronger	Stronger	Stronger	Midrange

Source: Fitch

Related Criteria

Rating of Public-Sector Entities – Outside the United States (February 2016)

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

Legal Status

Fitch considers SNCF Mobilités' legal status as an EPIC as highly supportive of its credit quality.

As an EPIC, SNCF Mobilités cannot be liquidated or file for bankruptcy proceedings. It can only be dissolved by law, which would entail an automatic unconditional transfer of all its assets and liabilities to the state, or to another public entity designated by the state. However, an EPIC's debt is not explicitly guaranteed by the state. Although a bailout procedure would involve parliament, a timely bailout is still possible for a strategic entity such as SNCF Mobilités.

Fitch considers that the EPIC would benefit from very strong state support in case of need. According to Law 80-539 of 16 July 1980, the state is ultimately responsible for the financial commitments of its EPICs: if ordered to do so by an administrative judge, the state must mobilise all necessary resources to enable an EPIC to repay its debt. Although the French government has no legal obligation to prevent a default, Fitch assumes that the government is highly motivated to provide support and that it has the legal and financial means to enable EPICs to meet their debt-service obligations on time.

This benefit only applies to the parent entity of the SNCF Mobilités group, ie the EPIC. The latter's status does not apply to SNCF Mobilités' subsidiaries.

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, 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.

Fitch does not expect SNCF Mobilités' ownership structure to change in the short term, particularly given social importance and the risk of disruption (190,723 people employed, of whom 105,124 are in subsidiaries, backed by powerful unions, as evidenced by regular strikes such as those in June 2014 and June 2016, as well as the maintenance of existing protected employment status and benefits). Fitch understands that the new French government is contemplating an overhaul of the transport sector, but the potential impact on SNCF Mobilités is as yet unclear.

Strategic Importance

Fitch considers SNCF Mobilités' strategic importance to France as highly supportive of its credit quality.

SNCF Mobilités enjoys an important position and a strategic, socio-economic and political significance in the French transport sector. SNCF Mobilités has been entrusted with a public mission, which is to ensure the continuity of, and enable the largest number of people to have access to, rail transport services. For this reason, it receives substantial state subsidies intended to offset the relatively low rail fares and finance the maintenance of loss-making lines.

Among other public missions, SNCF is a key instrument in the state's economic development and its territory planning policy.

Control and Oversight

Fitch considers the control and oversight by the state as highly supportive of SNCF Mobilités' credit quality.

State oversight is ensured by strong representation on SNCF Mobilités' board of directors and nomination of its chairman by state decree. SNCF Mobilités' chairman, Guillaume Pepy, had his term of office extended by two years following the railway system reform in 2015, pushing the end of his term to February 2020. Of the board of directors' 18 members, seven are representatives of the central government (including the chairman) and five are appointed by the government (the other six are representatives of SNCF Mobilités' employees).

SNCF Mobilités is subject to state controls 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 Shareholding Ministers (the Minister of Finance through Agence des Participations de l'Etat) an annual business report. Shareholding Ministers, who are board members, are kept informed of significant developments at SNCF Mobilités on an ongoing basis as required.

Integration

Fitch considers the entity's integration into the general government accounts as moderately supportive of its credit quality.

SNCF Mobilités' debt is not consolidated into general government debt, according to the Eurostat definition. However, integration within the wider public sector is significant: French regions contribute significantly to railways sector investment in new and refurbished rolling stock and by boosting the frequency of services.

Orders received from the wider public sector (including SNCF Réseau) amounted to EUR5.58 billion in 2016. SNCF Mobilités also received indirect financial support, with grants worth EUR1.5 billion from the transport organising authorities (mostly regions). The latter and other investment grants received from public transport are not registered as revenue but come as a deduction from assets in the balance sheet.

The revenue realised with SNCF Réseau was primarily generated by the SNCF Infra division transferred on 1 July 2015 as part of the rail reform.

Orders and Financial Contributions From the Public Sector

(EURm)	2012	2013	2014	2015	2016
Orders from SNCF Réseau	4,631	4,960	5,174	2,839	159
Orders from regions and STIF	4,210	4,268	4,306	4,675	4,900
Orders from the French state	443	530	495	463	517
Public orders	**9,284**	**9,758**	**9,975**	**7,977**	**5,576**
Operating grants – state	42	99	41	42	50
Payment and investment grants for intangible assets and PP&E– region & state	700	931	1,111	1,334	1,431
Grants & contribution	**742**	**1,030**	**1,152**	**1,376**	**1,481**

Source: Fitch, SNCF Mobilités

SNCF Mobilités did not pay any dividends to the state in 2016 (2015: EUR63 million) as the state has decided not to receive any dividends from SNCF Mobilités over the coming years. Instead, SNCF Mobilités paid EUR126 million of dividends to EPIC SNCF.

Overall Assessment

In view of the above factors, Fitch has classified SNCF Mobilités as a credit-linked public-sector entity under its rating of public-sector entities criteria. This is due to the entity's strong legal status, the strong control and oversight by the French state, its strategic importance to France and, to a lesser extent, the integration with the French state. As a result, the ratings of SNCF Mobilités are equalised and credit linked with those of the sponsor.

Extraordinary Support From the State Very Likely, But to be Challenged With Competition

Given SNCF Mobilités' important role in government transport and planning policies and the still predominant share of its revenue related to regulated, public-sector activities, there is a strong likelihood that the state would provide additional support and even extend it in a timely manner. SNCF Mobilités' EPIC status is akin to an implicit solvency guarantee from the state.

However, this benefit only applies to the parent entity of the SNCF Mobilités group, ie the EPIC, and not to its subsidiaries.

EU regulations on state aid do not enable cash advances for deregulated/competitive activities. Extraordinary liquidity support could be classed as unlawful state aid under EU regulations if it was used to support competitive businesses while the liquidity buffer decreased. However, a significant share of SNCF Mobilités' activities (40%-50% of revenue for the SNCF Mobilités group and above 60% for the EPIC) is still regulated. These segments are not subject to EU regulations on state aid.

Fitch considers that SNCF Mobilités will slowly but increasingly be exposed to competition, increasing the pressure on the issue of state aid. However, SNCF Mobilités has adapted its funding policy in such a way that it would not be in breach of state aid regulations, as it can justify that debt raised − at the EPIC level − for competitive businesses within the SNCF Mobilités group is charged at the market price for these business segments and, as such, does not benefit from the solvency guarantee embedded in the EPIC status.

Although Fitch has some concerns about the timeliness of cash advances (and their size, as they need to be restated every year in the state annual budget) from the central government through the Treasury, the agency recognises the complementary, indirect means of financing provided by CDP, a public entity dependent on the state. CDP can purchase debt issued by an EPIC (such as commercial paper; CP) to provide it with liquidity support. CDP's by-laws state that its objective is to implement financial operations to enhance or protect the credit quality of the French state.

Moreover, CDP owes SNCF Mobilités EUR1.407 billion (as of end-2016, in nominal terms). This debt facility allows CDP to legally overcome the state aid regulatory hurdles by qualifying any disbursement to SNCF Mobilités as repayment of pre-existing debt. The reimbursement of the CDP debt is subject to a predetermined schedule, and mirrors the reimbursement of similar amounts on SNCF Mobilités' debt repayment schedule.

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

Due to SNCF Mobilités' strong links to its sponsor, Fitch expects there would be timely government intervention to prevent SNCF Mobilités from failing to meet its obligations, particularly given both the large amount of debt it has issued in the international markets and its strategic importance to France.

Situation Within SNCF Group

The 2015 railway reform led to the creation of a unified, integrated public rail group. SNCF Mobilités and SNCF Réseau are both EPICs placed under the supervision of a "parent" EPIC, SNCF, created 1 December 2014. The "parent" EPIC is responsible for strategic control and steering, economic coherence, and the public rail group's industrial integration. It is, in turn, overseen by a supervisory council, on which the presidents of both SNCF Mobilités and SNCF Réseau serve, along with representatives of the regions and railway staff. The government has majority representation.

Within SNCF Group, SNCF Mobilités' activities are limited to transport services. SNCF Réseau is the unique infrastructure manager. It combines the former Réseau Ferré de France with former infrastructure divisions of SNCF Mobilités (SNCF Infra) (as of 1 July 2015).

The provision of non-discriminatory access to the network in keeping with European law is undertaken by the rail regulator ARAFER, which recently gained enhanced powers, including regulation of infrastructure management activities.

Operations

Moderate but Increasingly Competitive Context

In its capacity as an EPIC, SNCF Mobilités has a public mission to allow access to rail transport services for the largest possible number of people. However, it is exposed to increasing competition as an effect of the EU legislation opening railways up to competition.

Under the first two EU rail packages (1998, 2004), freight was opened to competition. Competitors are now operating around 30% of the French rail freight market.

The third rail package, adopted in 2007, opened international rail passenger transport to competition, allowing foreign companies to operate in France. However, international links are only a small part of the network and are extensions of lines serving the most densely populated areas. Since then, only one French-Italian operator, Thello, has launched night services between Paris, Lyon and Venice, with an insignificant impact in terms of turnover for SNCF Mobilités.

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

Liberalisation of regional services is not governed by the EU rail packages, but by the PSO Regulation, dated December 2007. Regions (which are in charge of defining and funding the services) were authorised to allow competition after 10 years from when the regulation took effect in December 2009. Since then, the European Parliament has decided to postpone to 2022 the deadline for open competition in public markets. The date has since been further postponed to 2023. Until then, SNCF Mobilités remains, *de facto*, the unique operator for regional networks. Afterwards, regions will need to organise tenders.

Financial Performance

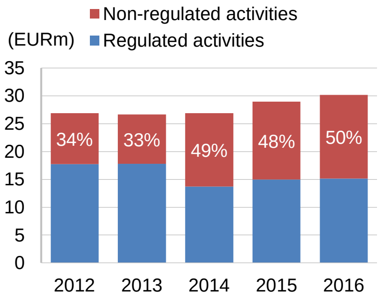
SNCF Mobilités presents its accounts in consolidated form, which includes the accounts of the EPIC and its subsidiaries. Around 50% of SNCF Mobilités' total turnover was generated by the EPIC in 2016.

2016 Turnover Mostly Driven by External Growth

SNCF Mobilités' operating performance has been challenged over the last few years, as evident in the downward trend in freight and sluggish domestic passenger transport activities.

While revenue grew by 4% in 2016, this was mainly driven by growth in international markets, notably via the acquisition of OHL in the United States. At constant FX and perimeter, turnover was down 1% in 2016, mostly because of the negative impact of 24 days of strikes, bad weather and terrorist attacks in France.

Regulated vs. Non-Regulated Revenue



Note: Former SNCF Infra is excluded
Source: SNCF Mobilités, Fitch

The SNCF Voyageurs division's revenue grew 1% in 2016 (including Gares & Connexions). At constant FX and perimeter, revenue was down 2% for the above-mentioned reasons. Consolidated revenue benefited from the full consolidation of Eurostar. Traffic is being affected by fierce competition from other modes of transportation (low-cost airlines, carpooling), in a context of weak economic growth. 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 to competition after 2023.

Rail freight transport has been on a downward trend for a number of years in France. Total railway freight annual volume declined 32% from 2003 to 2013 in France (vs 40% growth in Germany), due to heavy infrastructure fees paid to SNCF Réseau to access the network and sluggish economic growth. In 2016, revenue from SNCF Mobilités' logistics division (mainly freight activities) fell by 1% at constant scope (+11% adjusted for the OHL acquisition and exchange rate fluctuations).

As a whole, SNCF Mobilités' activities in non-regulated areas such as logistics make up an ever-growing share of its revenue. While this helps prepare the company for the liberalisation of the passenger transportation sector in France from 2020, it may in future give the competition authorities cause to question the implicit support SNCF Mobilités receives from the state due to its EPIC status.

SNCF Mobilités Revenue by Business Segments

	31 Dec 16[a]		31 Dec 15[a]	
	(EURm)	**(%)**	**(EURm)**	**(%)**
Transilien, Régions, Intercités	7,876	25.8	7,872	26.9
Voyages SNCF	6,816	22.3	6,746	23.0
Gares & Connexions	443	1.5	356	1.2
SNCF Logistics	10,040	32.9	9,070	31.0
Keolis	4,978	16.3	4,907	16.7
Corporate	364	1.2	345	1.2
Total (excl. SNCF infra)	**30,517**	**100.0**	**29,296**	**100.0**

[a] External revenue
Source: SNCF Mobilités, Fitch

The sluggishness of the group's activity in 2016 was mirrored in operating costs, which decreased by 1% during the year (at constant FX and perimeter), driven by lower access charges (−2%), lower external energy costs (−9%) and a reduction in other operating expenses (−2%). This more than offset growth in staff costs (+1% in 2016). Overall operating expenditure was, however, up 5% in 2016, mostly due to the integration of OHL and Eurostar.

The profitability of SNCF Mobilités slightly weakened in 2016, with consolidated reported EBITDA of EUR2.3 billion or 7.5% of revenue, down from EUR2.4 billion or 8.2% in 2015. Despite high investments, outstanding assets and regular increased tariffs, profitability on high-speed lines (mostly Voyages SNCF) remains below historical levels, with an operating margin of 9% in 2016, down from 18% in 2007 and 13% in 2015.

SNCF Mobilités' reliance on international markets has increased in recent years. The Keolis (mass transit) and Geodis (freight and logistics) subsidiaries are expanding well abroad and are playing the role of growth drivers for the whole group, while domestic segments are sluggish. Among other services, Keolis now operates about 30% of rail travel in the UK as well as tramway networks (Nottingham), plus Boston's rail network in the US. In 2015, Geodis enhanced its contractual freight-forwarding and logistics offering in the US with the acquisition of OHL (renamed Geodis America, with annual revenue of EUR1.2 billion). About a third of the group's turnover was made outside France in 2016, against 20% in 2010, with a goal of reaching 50% (25% in Europe, 25% outside Europe) in the medium term (2016: a third).

In 2016, the group posted a positive net result of EUR0.5 billion, from a negative EUR2.2 billion in 2015. The apparent strong improvement was due to the large EUR2.7 billion impairment losses recognised in 2015. The latter formed part of the total EUR11.8 billion losses incurred by SNCF group (EUR9.6 billion for SNCF Réseau). For SNCF Mobilités, impairment losses relate mostly to TGV (high-speed lines) asset valuation, in a context of flat revenue growth, higher infrastructure/network access fees unrelated to revenue growth, and significant investments with the necessary renewal of a portion of the fleet, despite the implementation of performance plans for TGV operating costs and capital productivity.

Net of capital subsidies received, net capital expenditure increased 6% to EUR2.0 billion in 2016 (2015: EUR1.8 billion). Capital expenditure mostly related to the acquisition of rolling stock, investments in rail infrastructure, and the renovation and development of stations and multimodal exchange hubs. Outlays financed by transport-organising authorities (mostly regions) were significant (EUR1.5 billion), bringing total gross investments to EUR3.5 billion.

Medium-Term Challenges: Preparing for Market Liberalisation From 2020

For the medium term, Fitch expects the major constraints on SNCF Mobilités' profitability to remain.

Intermodal competition is likely to exacerbate, as low-cost flights and carpooling will benefit from low oil prices, while the medium- to long-distance bus line markets have been open to competition since 2015 in France. Therefore, domestic rail transport activities will be increasingly challenged by intermodal competition, and SNCF Mobilités' profitability could be further constrained as it is cutting prices to fill up trains. The industrial performance plans launched by the entity should mitigate this risk. Financial results at end-June 2017 displayed a 2.4% increase in revenue (at constant FX and perimeter, and excluding the 2016 strikes), driven by dynamic activity in France, while the reported EBITDA margin almost doubled to 7.5% (vs 4.9% at end-June 2016).

Bringing the medium- to long-distance links (*Trains d'Equilibre du Territoire*, or TETs) back on track is a key challenge for the medium term. A dedicated parliamentary committee (Duron Commission) issued a report on the TETs in 2015 in which it pointed out that these lines are structurally loss-making and balanced only by state transfers. The governance of these TETs is changing as the state is now transferring the oversight of 18 of these lines to the regions; six will remain under the direct responsibility of the state. The state will, however, maintain its capital transfers to fund the renovation and refurbishment of these ageing lines.

The levels of TET offering and funding are contracted with the state through a multi-year convention. A new convention was adopted in February 2017 for 2016-2020, with a possible extension to 2023. The new convention confirms the suppression of some railway connections (night trains) and ensures the "economic balance" of TET offerings. SNCF Mobilités is, however, likely to keep covering part of the operating deficit of these lines over the medium term.

TGV profitability will also remain challenged. We expect that SNCF Mobilités will continue to develop its subsidiaries operating in alternative transport modes (low-cost train connections, car-pooling platform, buses) to benefit from the traffic growth in these segments, while its strong development abroad will partly offset the sluggish turnover in domestic freight and passenger rail transport.

SNCF Mobilités is committed to improving its overall operating margin to above 10% in the medium to long term (2016: 7.6%) through the implementation of industrial and commercial performance plans.

Fitch views SNCF Mobilités' commitment to restoring its profitability as positive. However, we believe SNCF Mobilités' profitability will remain constrained in the medium term. Sluggish traffic prospects, combined with the impact of growing competition and a continuous increase in infrastructure fees, mean that the decline in operating performance and profitability is likely to drive further impairments losses, as evidenced by the EUR0.7 billion, EUR1.4 billion and EUR2.7 billion losses in the 2011, 2013 and 2015 income statements, respectively. This could lead to negative net results in the medium term.

Debt, Liquidity and Contingent Liabilities

Debt

Total gross debt amounted to EUR18.3 billion at end-2016, up 3% from EUR17.7 billion at end-2015. Total gross debt/reported EBITDA reached 8.0x at end-2016 (end-2015: 7.4x). Of the group's gross debt, 92% is carried by the EPIC. Net of marketable securities, cash, CDP and SNCF Réseau receivables, net debt amounted to EUR8.0 billion at end-2016, up from EUR7.8 billion at end-2015. Net debt represented 3.5x reported EBITDA (end-2015: 3.2x).

Total gross debt reached EUR18.6 billion at end-June 2017 as SNCF Mobilités issued a EUR1 billion bond in February 2017 to cover the 2018 debt amortisation. The EUR0.3 billion increase in debt was matched by a EUR1.1 billion increase in cash.

Most of SNCF Mobilités' debt is in the form of bonds (81%), with bank loans accounting for 13% of the total and finance lease obligations for 6%. At end-2016, 96% of total borrowings were fixed rate (after hedging).

SNCF Mobilités had EUR4.0 billion of short-term financial liabilities at end-2016, including CP issues. This compared adequately with EUR4.6 billion of short-term financial assets. SNCF Mobilités issues foreign-currency debt and systematically covers the exchange risk by using cross-currency swaps.

Net Debt Calculation – SNCF Group

(EURm)	Dec 16	Jun 17
Total gross debt	**18,297**	**18,605**
SNCF Réseau receivables	697	724
SNCF group receivables	456	462
CDP receivables	1,545	1,570
Other financial receivables and cash collateral assets	1,393	1,066
Positive fair value of derivatives	1,648	1,362
Cash and cash equivalents	4,584	5,719
Total net debt	**7,974**	**7,702**

Source: Fitch

Liquidity

In 2016, SNCF Mobilités' liquidity profile was underpinned by cash and cash equivalents of EUR4.6 billion (EUR4.0 billion in 2015) and EUR1.5 billion of receivables from CDP (excluding accrued interest). The liquidity volume increased in 2016, in line with the growth in short-term debt (cash borrowings and overdrafts: EUR2.7 billion at end-2016, from EUR2.1 billion at end-2015).

At end-2016, cash and cash equivalents net of short-term borrowings covered the gross debt service requirements for 2017 by 1.8x. 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 reaches 1.8x (vs 1.9x in 2016).

The bulk of cash needs for 2017 will be the debt repayments and the intensive capital expenditure programme, which would not be fully covered by the cash flow from operations and asset disposals and should generate negative free cash flow. Fitch forecasts that free cash flow may remain negative in 2017, considering the significant planned capital expenditure, and then slowly improve as investment levels recede. Taking into account expected net free cash flows, we expect liquid items to adequately cover cash needs over 2017 and 2018. In addition, the revenue from the EUR1 billion bond issuance in early 2017 strengthens SNCF Mobilités' liquidity cushion.

Liquidity Coverage (Fitch Estimates)

(EURbn)	2017	2018
Annual debt service, excl. cash borrowings	-1.0	-1.8
Free cash flow	-0.6	0.0
Cash needs (a)	**-1.6**	**-1.8**
Cash reserves at 1/1	4.6	5.9
CDP receivables[a]	1.9	1.8
SNCF holding receivables[a]	0.5	0.4
SNCF Réseau receivables[a]	1.0	0.9
Cash and liquid items	8.0	9.0
Cash borrowings	2.7	2.7
Net cash liquid items (b)	**5.2**	**6.3**
Coverage ratio (b/a) (x)	**3.2**	**3.5**
Total liquid items/cash needs over 2 rolling years (%)	**152.5**	**213.6**

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

To cover its liquidity shortfalls, SNCF Mobilités has a euro CP programme of EUR2 billion and a French CP programme of EUR3 billion. SNCF Mobilités also relies on committed credit facilities, totalling EUR780 million (as of June 2017). At end-2016, total cash borrowings and overdrafts amounted to EUR2.7 billion (EUR2.0 billion at end-June 2017).

Along with the committed credit lines, the CP back-up package mainly consists of the possible liquidity advances the French Treasury could extend to SNCF Mobilités (as an EPIC) in a liquidity crisis scenario, and the purchase of SNCF long-term bonds or short-term notes by the state's public debt fund (CDP).

Contingent Liabilities

At end-2016, SNCF Mobilités' off-balance-sheet liabilities were large at EUR12.7 billion (end-2015: EUR11.5 billion). Off-balance-sheet commitments mainly consisted of rail equipment purchase commitments (35% of the total), other purchase commitments (20%) and equipment and property leases (23%). At the same date, total commitments received totalled EUR8.3 billion. The group is not involved in any major litigation or disputes.

Appendix A

SNCF Mobilités (EURm)	2012	2013	2014	2015	2016
Income statement summary and profitability					
Total operating revenue (exc. transfers and grants from public sector)	32,225.0	32,232.0	27,243.0	29,296.0	30,517.0
Operating revenue growth (%)	-0.9	0.7	-15.2	7.5	4.1
Transfers and grants from public sector	0.0	0.0	0.0	0.0	0.0
Transfers and grants from public sector/total revenues* (%)	0.0	0.0	0.0	0.0	0.0
Operating balance	2,089.0	1,231.0	1,692.0	-2,186.0	1,004.0
Interest expense	1,251.0	732.0	679.0	790.0	796.0
Profit (loss) after tax	375.0	-180.0	604.0	-2,179.0	492.0
Personnel costs/total revenues* (%)	39.6	40.1	37.2	35.8	35.4
Fitch-calculated EBITDA margin (%)	8.7	7.8	7.9	7.2	7.5
FFO margin (%)	7.0	7.4	9.8	5.9	6.7
FCF margin (%)	3.3	1.5	2.3	0.2	-1.2
Return on equity and reserves (%)	5.3	-2.7	8.7	-48.8	10.7
Return on assets (%)	0.9	-0.5	1.4	-5.8	1.3
Balance sheet summary					
Total assets	42,474.0	39,817.0	42,195.0	37,621.0	37,920.0
Stock	990.0	1,018.0	666.0	621.0	661.0
Cash and liquid investments	5,291.0	5,060.0	5,408.0	4,024.0	4,584.0
Reserves	2,042.0	1,699.0	1,907.0	-643.0	481.0
Equity	4,971.0	4,971.0	4,971.0	4,971.0	3,971.0
Cash flow summary					
EBITDA (Fitch-calculated)	**2,829.0**	**2,554.0**	**2,175.0**	**2,143.0**	**2,318.0**
Cash interest paid	-280.0	-319.0	-294.0	-309.0	-291.0
Other items before FFO	-276.0	165.0	828.0	-83.0	32.0
FFO: Funds from operations	**2,273.0**	**2,400.0**	**2,709.0**	**1,751.0**	**2,059.0**
Changes in working capital	-293.0	-42.0	-180.0	294.0	-697.0
CFO: Cash flow from operations	**1,980.0**	**2,358.0**	**2,529.0**	**2,045.0**	**1,362.0**
Net capital expenditure	-668.0	-1,620.0	-1,717.0	-1,907.0	-1,563.0
Dividends paid	-234.0	-236.0	-184.0	-86.0	-176.0
FCF: Free cash flow	**1,078.0**	**502.0**	**628.0**	**52.0**	**-377.0**
Equity injection	0.0	0.0	0.0	0.0	0.0
Other cash financing	1,056.0	-868.0	814.0	-729.0	706.0
Cash flow before debt movement	**2,134.0**	**-366.0**	**1,442.0**	**-677.0**	**329.0**
New borrowing	1,128.0	607.0	480.0	434.0	1,187.0
Debt repayment	-1,087.0	-300.0	-1,226.0	-982.0	-607.0
Cash flow after net debt movement	**2,175.0**	**-59.0**	**696.0**	**-1,225.0**	**909.0**

* Includes revenue from the public sector
Source: Issuer and Fitch calculations

Appendix B

SNCF Mobilités

(EURm)	2012	2013	2014	2015	2016
Debt summary					
Short-term debt	4,920.0	3,098.0	4,637.0	3,406.0	3,798.0
Long-term debt	12,653.0	12,195.0	11,459.0	11,825.0	12,224.0
Total debt	**17,573.0**	**15,293.0**	**16,096.0**	**15,231.0**	**16,022.0**
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Finance leases	1,606.0	1,606.0	1,153.0	1,100.0	860.0
Other Fitch classified debt	997.0	928.0	1,520.0	1,383.0	1,415.0
Total risk	**20,176.0**	**17,827.0**	**18,769.0**	**17,714.0**	**18,297.0**
Unfunded pension liabilities					
Contingent liabilities					
Overall risk	**20,176.0**	**17,827.0**	**18,769.0**	**17,714.0**	**18,297.0**
Cash, liquid deposits and sinking fund	5,291.0	5,060.0	5,408.0	4,024.0	4,584.0
Net overall risk	**14,885.0**	**12,767.0**	**13,361.0**	**13,690.0**	**13,713.0**
% debt in foreign currency	5.0	5.5	0.9	5.6	4.2
% debt at fixed interest rate	66.2	66.0	68.8	72.0	71.0
% issued debt	72.1	72.9	71.6	72.4	71.4
Coverage and leverage					
Fitch-calculated EBITDA gross interest coverage (x)	10.1	8.0	7.4	6.9	8.0
FFO gross interest coverage (x)	8.1	7.5	9.2	5.7	7.1
FFO debt service coverage (x)	1.7	3.9	1.8	1.4	2.3
FFO/net capital expenditure (%)	340.3	148.2	157.8	91.8	131.7
FFO gross leverage (x)	7.7	6.4	5.9	8.7	7.8
Net debt/(CFO-capex) (x)	-16.4	-12.9	-13.7	-7.3	-5.0
Total debt/Fitch-calculated EBITDA (x)	6.2	6.0	7.4	7.1	6.9
Net debt/Fitch-calculated EBITDA (x)	4.3	4.0	4.9	5.2	4.9
Total risk/Fitch-calculated EBITDA (x)	7.1	7.0	8.6	8.3	7.9
Overall risk/Fitch-calculated EBITDA (x)	7.1	7.0	8.6	8.3	7.9
Total debt/equity and reserves (%)	250.6	229.3	234.0	351.9	359.9
Total debt/total assets (%)	41.4	38.4	38.2	40.5	42.3
Sector-specific data					
Total km in operation	n.a.	n.a.	n.a.	n.a.	n.a.
Passengers per km	n.a.	n.a.	n.a.	n.a.	n.a.
Public funding per passenger	n.a.	n.a.	n.a.	n.a.	n.a.
Operating costs per passenger	n.a.	n.a.	n.a.	n.a.	n.a.
Revenue – fare box	22,467.0	22,257.0	16,865.0	21,319.0	24,941.0
Revenue – fare box/operating costs (%)	74.1	71.0	65.0	66.8	83.3
Revenue – fare box/operating revenues and revenue from public sector (%)	69.4	68.3	61.0	71.7	80.6

n.a. : data non available
Source: Issuer and Fitch calculations

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.