

CREDIT OPINION

29 September 2017

Update

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RATINGS

SNCF Mobilités

| | |
|------------------|------------------|
| Domicile | Paris, France |
| Long Term Rating | Aa3 |
| Type | LT Issuer Rating |
| Outlook | Stable |

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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SNCF Mobilités

Update to credit analysis

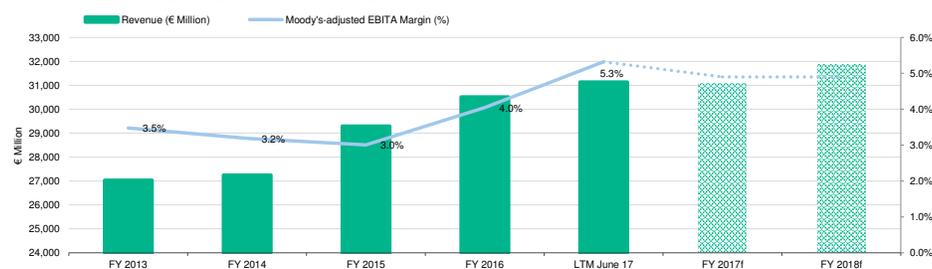
Summary

In accordance with our Government-Related Issuers rating methodology, [SNCF Mobilités'](#) Aa3 issuer rating incorporates a four-notch uplift from the baa1 Baseline Credit Assessment (BCA), reflecting the strong relationship between the company and the [Government of France](#) (Aa2 stable). SNCF Mobilités' BCA is constrained by the company's weak profitability, owing mainly to the poor operating performance of some TGV (high-speed trains) lines, the intercity services and the freight division. We expect the company's Moody's-adjusted EBITA margin to rise to around 5% in 2017-18, a level that is, however, weak for the current BCA. More positively, the BCA is supported by our expectation that leverage too will moderately improve to around 5.7x in the next 12-18 months from 6.0x in 2016.

SNCF Mobilités' baa1 BCA reflects the company's solid business profile, underpinned by (1) its large scale and good degree of international diversification, with around one third of its revenue generated outside France; (2) the large share of its revenue derived from French-government-related authorities (around 26%, including under public service remit mass-transit activities for French regional and local authorities, and excluding the Keolis business), which provides some stability to and visibility into the top line; and (3) the company's role as a quasi-monopoly in the domestic passenger railway segment. In this regard, we acknowledge that the ongoing talks at the government level, with the establishment of the Assises de la Mobilité to open domestic rail services to competition are still at a preliminary stage and that market liberalisation, which would be credit negative for SNCF Mobilités, will be gradual and will likely have a limited impact on the credit profile of the company in its initial phase. In addition, we deem any market opening before 2021 as unlikely.

Exhibit 1

SNCF Mobilités' profit margins are improving but will remain low Revenue and Moody's-adjusted EBITA margin



Moody's Forecasts (f) are Moody's opinion and do not represent the views of the issuer. Periods are Financial Year-End unless otherwise indicated.

Source: Moody's Financial Metrics™

Credit strengths

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

Credit challenges

- » Profitability is low by international standards, and future improvements are challenged by uncertainties over the long-term sustainability of the current French railway system.
- » Increasing competition from alternative modes of transportation leads to continued strain on margins.

Rating outlook

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

Factors that could lead to an upgrade

- » An upgrade of the sovereign rating

We could raise SNCF Mobilités' BCA if:

- » Moody's-adjusted EBITA margin increases to more than 5%
- » Moody's-adjusted debt/EBITDA declines to 5.5x or below
- » Moody's-adjusted retained cash flow (RCF)/net debt remains in the mid-to-high teens in percentage terms

Factors that could lead to a downgrade

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

The BCA could come under pressure if:

- » Moody's-adjusted EBITA margin decreases below 2.5%
- » Moody's-adjusted debt/EBITDA rises above 7.0x
- » Moody's-adjusted RCF/net debt falls below 10%

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

SNCF Mobilités' key indicators

| EUR Millions | Dec-13 | Dec-14 | Dec-15 | Dec-16 | LTM (Jun-17) | Dec-17(f) |
|--|--------|--------|--------|--------|-----------------|-----------|
| Revenue | 27,030 | 27,243 | 29,296 | 30,517 | 31,135 | 31,100 |
| EBITA Margin % | 3.5% | 3.2% | 3.0% | 4.0% | 5.3% | 4.9% |
| EBITA / Average Assets | 2.2% | 2.0% | 2.1% | 3.1% | 4.1% | 3.8% |
| Debt / Book Capitalization | 67.2% | 65.4% | 66.8% | 70.6% | 70.6% | 69.6% |
| Debt / EBITDA | 5.5x | 6.1x | 5.6x | 6.0x | 5.4x | 5.7x |
| FCF / Debt | -0.9% | 0.5% | -0.8% | -5.8% | -1.6% | -6.0% |
| RCF / Net Debt | 21.4% | 19.9% | 17.7% | 13.5% | 16.4% | 15.2% |
| (FFO + Interest Expense) / Interest Expense | 11.3x | 8.0x | 7.9x | 6.2x | 7.7x | 7.4x |

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer. Periods are Financial Year-End unless otherwise indicated. LTM = Last 12 Months.

Source: Moody's Financial Metrics™

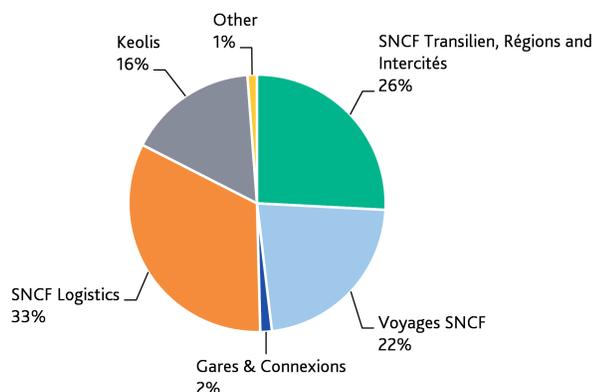
Profile

SNCF Mobilités (formerly SNCF) is the national railway operator in France and one of the world leaders in transport services and logistics, with operating activities in 120 countries and a workforce of 194,000 people. SNCF Mobilités is a French public entity with autonomous management, established under the special status of an 'établissement public à caractère industriel et commercial'. SNCF Mobilités is under the control of the holding company SNCF, which is also the parent company of the French railway network [SNCF Réseau](#) (Aa2 stable) and is fully owned by the French state.

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

Exhibit 3

SNCF Mobilités' revenue breakdown by business sub-segment 2016



Source: SNCF Mobilités' 2016 annual report

Detailed credit considerations

Weak margins remain the main credit concern, despite some recovery

We expect SNCF Mobilités' profitability (measured as Moody's-adjusted EBITA margin) to reach around 5% in 2017 and to remain overall flat in 2018, reflecting a modest recovery from 2016 (4%), when operating performance was affected by a number of problems. These problems included (1) lower passenger volume following terrorist attacks; (2) labour strikes; and (3) low oil prices which have supported road and air transportation in both passenger and freight segments.

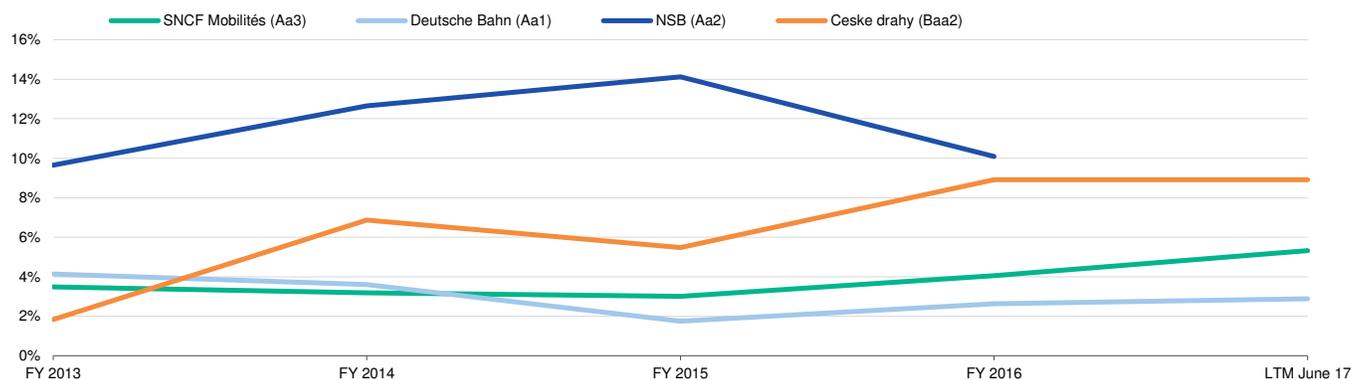
The improvement in operating performance was driven by a recovery in travellers' confidence and traffic volume, as well as by SNCF Mobilités' more aggressive sales policy, which has enabled the company to regain some market share in the TGV business by offering passengers special fares for high-speed trains. Besides the improved market conditions, the company's profitability is also benefitting from its ongoing cost-savings programme and the recently renegotiated service contract with the French state for certain long-distance trains (the 'Trains d'Équilibre du Territoire' service agreement for 2016-20). The renegotiation is credit positive because it involves less burdensome service requirements for the company and, as a result, will help pursue the financial self-sustainability of the traditionally loss-making intercity services.

Despite the improved operating environment, SNCF Mobilités' profitability levels are low by international standards. In our view, Moody's-adjusted EBITA margin is unlikely to grow close to the high single digits in percentage terms because the competitive landscape will remain challenging owing to increasing and aggressive competition from long-distance buses, car sharing and low-cost flights, which will continue to strain prices and erode volume while market liberalisation could add further pressure in the longer-term.

Exhibit 4

SNCF Mobilités' EBITA margin is weaker than that of its peers

Moody's-adjusted EBITA margin



Source: Moody's Financial Metrics™

Additionally, the continuing increase in track access fees in the passenger segment is the main obstacle to SNCF Mobilités' profitability. According to the company, with an average increase of 4.6% per year, track access costs will account for a high 50% of its cost base by 2020, causing further deterioration in profit margins, especially in the high-speed business, thereby jeopardising the company's financial sustainability.

In this respect, the long-term sustainability of the current French railway system remains our key credit concern, in light of the high and increasing debt of SNCF Réseau, which will add pressure to SNCF Mobilités in the long run via a change in the current track access fee system or dividend requirements from the holding company. Following the 2014 reform, the French railway system is operated by three entities: the holding company SNCF (in charge of strategic coordination, and central and administrative functions), SNCF Réseau (the infrastructure owner and manager) and SNCF Mobilités (the transport services operator). The Government recently launched the Assises de la Mobilité (Transportation Council) in order to redefine the national transportation policies. In this context, the set-up of the railways system could be somehow reshaped, including the market opening to competition, although the outcome of any discussion is still very uncertain.

Leverage is commensurate with the current BCA

We expect SNCF Mobilités' leverage (measured as Moody's-adjusted gross debt/EBITDA) to remain high but to marginally decrease to 5.7x by the end of 2017 and to remain overall stable through 2018-19 at that level, down from 6.0x in 2016. Similarly, we expect Moody's-adjusted RCF/net debt to increase to around 15%-16% in 2017 and in 2018 from 13.5% in 2016. We believe these metrics comfortably position SNCF Mobilités' BCA at its current baa1 level, leaving some space for underperformance.

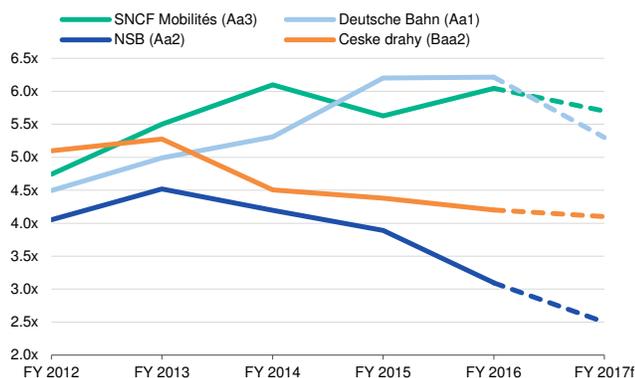
According to our forecast, SNCF Mobilités' free cash flow generation in 2017 will remain negative but overall stable versus the prior year (around €1 billion deficit) as we expect the increase in operating cash flow generated in the year to be absorbed by higher gross capital spending, estimated at around €2.4 billion in 2017, up from €2.0 billion in 2016. However, as annual capital investments decline from the peak in 2017, we expect SNCF Mobilités' free cash flow to improve gradually in the next 12-18 months and to reach the break-even point by 2019.

Our debt calculations exclude around €4 billion that is backed by financial credits towards SNCF, SNCF Réseau and the French state, and include €3.1 billion of our standard adjustments for operating leases and pension liabilities.

Exhibit 5

SNCF Mobilités' financial leverage will decline slowly but will remain relatively high

Moody's-adjusted debt/EBITDA

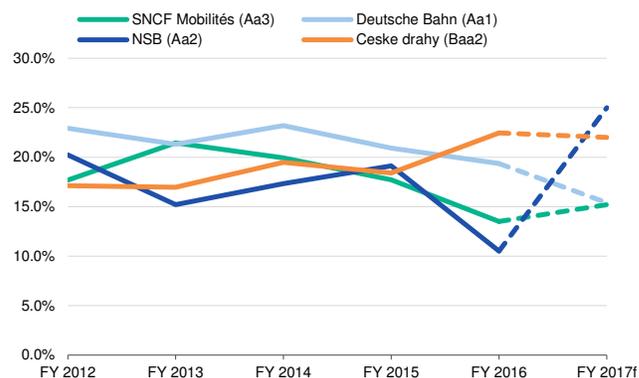


Source: Moody's Financial Metrics™

Exhibit 6

RCF/net debt will improve modestly and will remain lower than that of its peers

Moody's-adjusted RCF/net debt



Source: Moody's Financial Metrics™

SNCF Mobilités' quasi-monopoly in the domestic passengers rail services will be challenged by future plans for market liberalisation, but opening up the market to competition will be slow

SNCF Mobilités is the main railway company in its domestic market and operates in a particularly favourable operating environment, mainly because the group has a de facto monopoly in both domestic long-distance and regional transportation passenger rail services in one of the most developed passenger rail markets in the world.

However, the ongoing talks at the government level to open domestic rail services to competition will challenge SNCF Mobilités' current quasi-monopolistic position, which is credit negative. Based on European regulation and the company's expectations, the market could open to competition in 2020 for the regulated regional services (TER) and the TGV business, and in 2023 for the intercity services. However, in our view, the market opening will entail a lengthy process that will likely take significantly longer than currently envisaged. With details surrounding the implementation not yet defined, the whole process is currently at a very preliminary stage and market liberalisation will hardly have an impact on the credit profile of the group before 2021.

Probability of support is very high and so is default dependence

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

- » The BCA of baa1 (BCA is a measure of the group's standalone financial strength without the assumed benefit of government support)

- » The Aa2 local-currency rating of the French government
- » Very high probability of support
- » Very high default dependence

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

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

Liquidity analysis

We consider SNCF Mobilités' liquidity profile excellent. As of the end of June 2017, the company's liquidity consisted of around €5.7 billion of cash and available committed credit lines of €790 million at the parent company level, and €600 million at the subsidiary level. We expect this liquidity, together with an estimated operational cash flow of around €2 billion over the next 12 months, to abundantly cover the company's main cash requirements, including (1) the group's intensive investment programme, which we expect to be €2.0 billion-€2.3 billion in the next year; and (2) around €900 million of debt maturities through the end of 2018.

Methodology and scorecard

SNCF Mobilités' BCA of baa1 is one notch lower than the outcome of our rating methodology grid for Global Passenger Railway Companies, published in June 2017.

Exhibit 7

Rating factors

| SNCF Mobilités | | | Moody's 12-18 Month Forward View As of 9/19/2017 [3] | |
|---|---------------------------------|-------|--|-------|
| Passenger Railway Industry Grid [1][2] | Current LTM 6/30/2017 | | | |
| Factor | Measure | Score | Measure | Score |
| Factor 1 : SIZE (15%) | | | | |
| a) Revenue (\$ Billion) | \$33.9 | Aa | \$34 - \$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 | 5.3% | Ba | 4.9% - 5% | B |
| b) EBITA / Avg. Assets | 4.1% | Ba | 3.8% - 4% | Ba |
| Factor 4 : CAPITAL STRUCTURE (15%) | | | | |
| a) Debt / Book Capitalisation | 70.6% | Baa | 67% - 69% | A |
| b) Debt / EBITDA | 5.4x | Ba | 5.5x - 5.7x | Ba |
| Factor 5 : CASH FLOW AND INTEREST COVERAGE (15%) | | | | |
| a) FCF / Debt | -1.6% | Ba | -2% - 0% | Ba |
| b) RCF / Net Debt | 16.4% | Baa | 15% - 16% | Baa |
| c) (FFO + Interest) / Interest | 7.7x | Aa | 7.5x - 7.6x | 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 6/30/2017(L). [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics™

Appendix

Exhibit 8

Peer comparison table

| (in US millions) | SNCF Mobilités Aa3 Stable | | | Deutsche Bahn AG (P)Aa1 Stable | | | Norges Statsbaner AS Aa2 Developing | | | Česke drahy, a.s. Baa2 Stable | | |
|-------------------------|------------------------------|----------|----------|-----------------------------------|----------|----------|--|---------|---------|----------------------------------|---------|---------|
| | FYE | FYE | LTM | FYE | FYE | LTM | FYE | FYE | FYE | FYE | FYE | LTM |
| | Dec-15 | Dec-16 | Jun-17 | Dec-15 | Dec-16 | Jun-17 | Dec-14 | Dec-15 | Dec-16 | Dec-15 | Dec-16 | Dec-16 |
| Revenue | \$32,527 | \$33,766 | \$33,943 | \$45,506 | \$45,535 | \$46,000 | \$2,440 | \$1,910 | \$1,735 | \$1,346 | \$1,363 | \$1,363 |
| EBITDA | \$3,280 | \$3,374 | \$3,792 | \$5,396 | \$5,614 | \$5,597 | \$608 | \$488 | \$290 | \$389 | \$413 | \$413 |
| EBITDA Margin | 3.0% | 4.0% | 5.3% | 1.7% | 2.6% | 2.9% | 12.7% | 14.1% | 9.8% | 7.6% | 8.9% | 8.9% |
| EBITDA / Avg. Assets | 2.1% | 3.1% | 4.1% | 1.2% | 1.8% | 2.0% | 6.9% | 7.4% | 4.7% | 2.7% | 3.2% | 3.2% |
| FFO + Int Exp / Int Exp | 7.9x | 6.2x | 7.7x | 7.5x | 7.7x | 8.4x | 8.1x | 10.8x | 13.3x | 5.3x | 6.3x | 6.3x |
| Total Debt/Capital | 66.8% | 70.6% | 70.6% | 68.9% | 71.0% | 69.7% | 63.7% | 58.2% | 42.8% | 53.1% | 52.6% | 52.6% |
| Debt / EBITDA | 5.6x | 6.0x | 5.4x | 6.2x | 6.2x | 6.1x | 4.2x | 3.9x | 3.1x | 4.4x | 4.2x | 4.2x |
| FCF / Debt | -0.8% | -5.8% | -1.6% | -4.8% | -0.6% | -2.8% | -5.0% | -3.4% | -1.0% | -2.6% | -1.6% | -1.6% |
| FCF / Net Debt | 17.7% | 13.5% | 16.4% | 20.9% | 19.4% | 20.6% | 17.3% | 19.1% | 10.5% | 18.4% | 22.5% | 22.5% |

All figures and ratios calculated using Moody's estimates and standard adjustments. FYE = Financial Year-End. LTM = Last 12 Months.

Source: Moody's Financial Metrics™

Exhibit 9

Moody's-adjusted debt breakdown

SNCF Mobilités

| (in EUR Millions) | FYE | FYE | FYE | FYE | FYE | LTM Ending |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Dec-12 | Dec-13 | Dec-14 | Dec-15 | Dec-16 | Jun-17 |
| As Reported Debt | 20,184 | 17,835 | 18,783 | 18,989 | 19,473 | 19,795 |
| Pensions | 319 | 311 | 342 | 403 | 470 | 470 |
| Operating Leases | 2,819 | 2,292 | 2,318 | 1,923 | 2,581 | 2,581 |
| Non-Standard Adjustments | -4,487 | -2,567 | -3,540 | -4,697 | -4,093 | -3,972 |
| Moody's-Adjusted Debt | 18,835 | 17,871 | 17,903 | 16,618 | 18,431 | 18,874 |

All figures are calculated using Moody's estimates and standard adjustments

Source: Moody's Financial Metrics™

Exhibit 10

Moody's-adjusted EBITDA breakdown

SNCF Mobilités

| (in EUR Millions) | FYE | FYE | FYE | FYE | FYE | LTM Ending |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Dec-12 | Dec-13 | Dec-14 | Dec-15 | Dec-16 | Jun-17 |
| As Reported EBITDA | 3,357 | 2,672 | 2,373 | 2,228 | 2,481 | 2,877 |
| Pensions | -2 | -2 | -1 | 12 | -2 | -2 |
| Operating Leases | 802 | 654 | 665 | 641 | 617 | 617 |
| Interest Expense – Discounting | -131 | -70 | -94 | 0 | 0 | 40 |
| Non-Standard Adjustments | -54 | -5 | -7 | 73 | -47 | -54 |
| Moody's-Adjusted EBITDA | 3,972 | 3,249 | 2,936 | 2,954 | 3,049 | 3,478 |

All figures are calculated using Moody's estimates and standard adjustments

Source: Moody's Financial Metrics™

Ratings

Exhibit 11

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

Source: Moody's Investors Service

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