

CREDIT OPINION

17 February 2023

Update



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RATINGS

SNCF Réseau

| | |
|------------------|--------------------------------|
| Domicile | Paris, France |
| Long Term Rating | Aa2 |
| Type | Senior Unsecured - Fgn Curr |
| 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 Réseau

Update to credit analysis

Summary

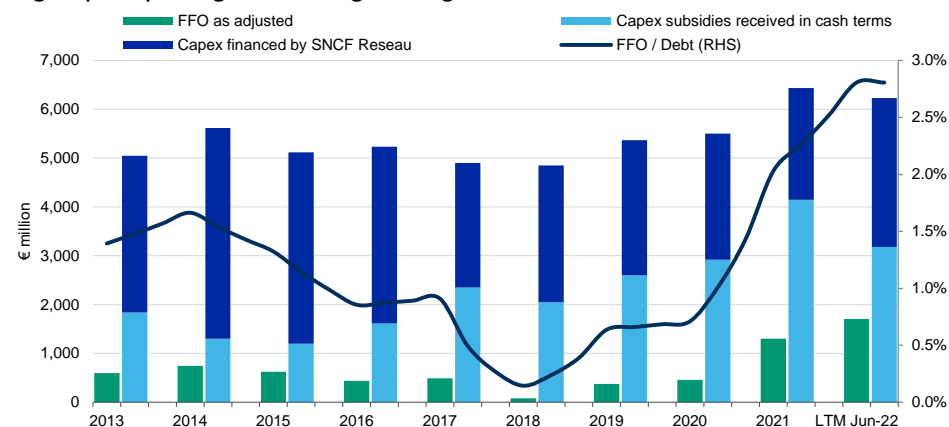
SNCF Réseau's credit profile is aligned with that of the [Government of France](#) (Aa2 stable), reflecting the long-standing strong links between SNCF Réseau and the government, and the direct credit support from the government, which will likely continue.

The credit profile of SNCF Réseau and the senior unsecured bonds issued under its €55 billion euro medium-term notes programme reflect the essential public service nature of SNCF Réseau's rail infrastructure network, which is strategically important to the government; the company's natural monopoly position; the high predictability of revenue and operating cash flow provided by a multiyear service contract between the company and the French government; and the very high likelihood of support from the French government if necessary.

SNCF Réseau's financial profile is weak because of the sizeable capital spending requirement to maintain and renew the extensive French railway infrastructure network. This leads to negative free cash flow (FCF) until 2024 at the earliest and high leverage, as illustrated by funds from operations (FFO)/debt of 2.8% for the 12 months ending 30 June 2022.

Exhibit 1

High capital spending has led to high leverage and weak credit metrics



Sources: Company and Moody's Financial Metrics™

Credit strengths

- » Essential public service nature of SNCF Réseau's rail infrastructure network, which is strategically important to the French government
- » Natural monopoly position and multiannual performance contract, which provides revenue and operating cash flow visibility
- » Very high probability of support from the government, illustrated by the debt relief in 2020 and 2022 and the coronavirus pandemic support package

Credit challenges

- » Sizeable investment requirements to maintain and renew the extensive French railway infrastructure network, leading to negative FCF until 2024 at the earliest
- » High leverage
- » Liquidity to remain dependent on the receipt of government subsidies and investment grants, as well as financial support from [SNCF S.A.](#) (SNCF, Aa3 stable)

Rating outlook

SNCF Réseau's stable rating outlook is in line with that of the Government of France, and it mainly reflects the very strong financial links and relationship between the company and its ultimate owner.

Factors that could lead to an upgrade

We could upgrade SNCF Réseau's debt ratings if the French sovereign rating were to be upgraded, provided support from the state remains intact.

Factors that could lead to a downgrade

We could downgrade SNCF Réseau's debt ratings if France's government bond rating were to be downgraded or if we perceived a weakening of the government support.

Key indicators

Exhibit 2

SNCF Réseau

| | Dec-17 | Dec-18 | Dec-19 | Dec-20 | Dec-21 | LTM June 2022 |
|----------------------------|--------|--------|--------|--------|--------|---------------|
| Debt / Book Capitalization | 132.4% | 147.7% | 148.1% | 92.3% | 89.3% | 76.3% |
| FFO Interest Coverage | 1.3x | 1.1x | 1.2x | 1.2x | 1.6x | 1.8x |
| FFO / Debt | 0.9% | 0.1% | 0.6% | 0.7% | 2.0% | 2.8% |
| FCF / Debt | -3.5% | -4.3% | -3.2% | -4.1% | -0.9% | -1.6% |

LTM: Last 12 months. All ratios are based on "Adjusted" financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Source: Moody's Financial Metrics™

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Profile

SNCF Réseau is a 100% indirectly state-owned entity, created in 1997, with full ownership of the French rail infrastructure; since 1 January 2020, it has directly been owned by SNCF S.A. following the corporate restructuring of SNCF. SNCF Réseau's purpose is to manage, develop and maintain around 30,000 kilometers (km) of railway lines, including more than 2,700 km of high-speed lines on 108,000 hectares of land. The entity is financed through charges paid by rail operators for their network usage and the significant subsidies that it receives from the French state, local governments and the EU.

Detailed credit considerations

SNCF Réseau's credit profile benefits from strong links with the French government

SNCF Réseau's credit profile remains aligned with that of the Government of France, reflecting the long-standing strong links between SNCF Réseau and the government, and the direct credit support from the government. Extraordinary support is illustrated by:

1. the €4.7 billion support package, including the €4.1 billion capital injection and the €0.6 billion support to the railway system, which the government provided in 2021 to compensate for pandemic-related losses and to finance future capital spending;
2. the €35 billion debt relief, with a first-phase debt relief in the amount of €25 billion in January 2020, and the final €10 billion completed in January 2022.
3. ongoing direct subsidies from the government.

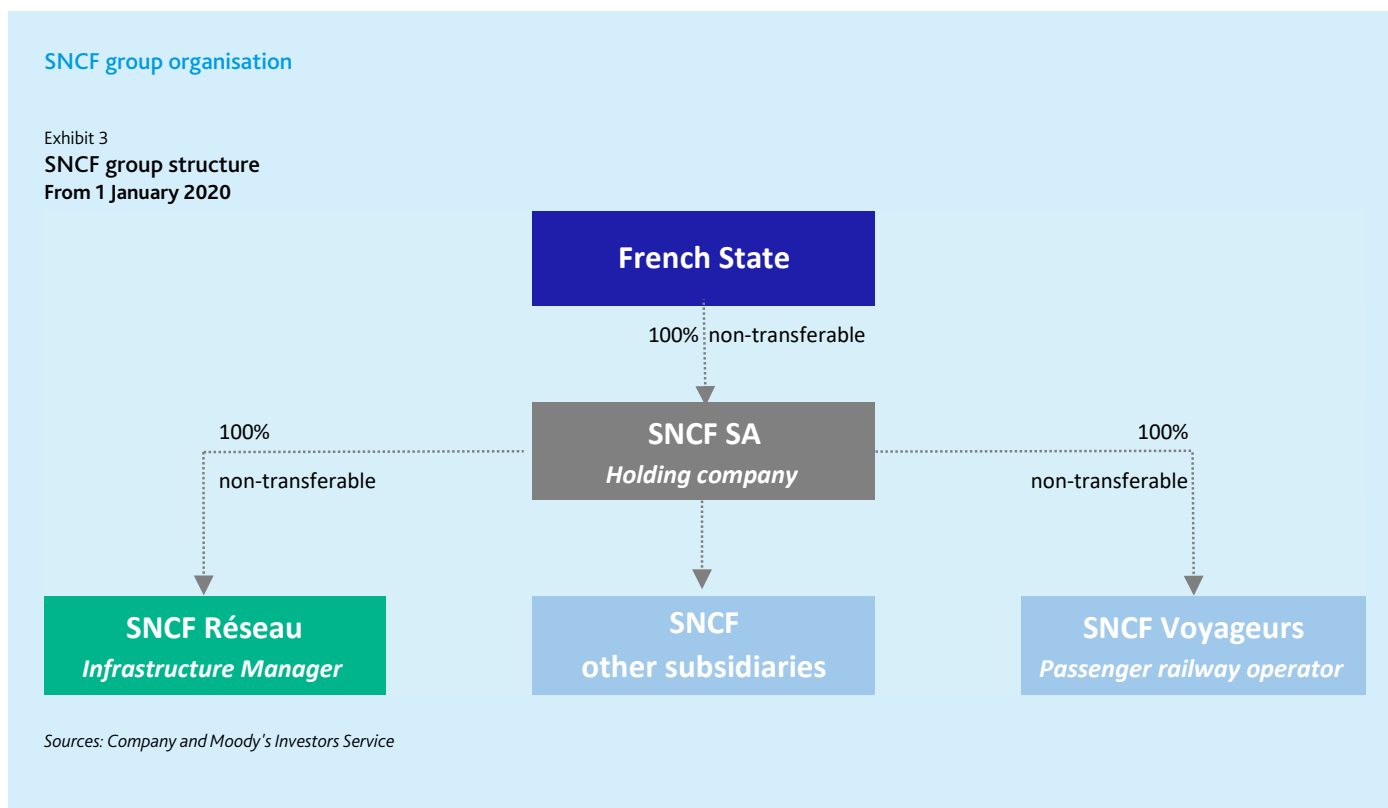
Following the railway reform adopted in 2018, the government also committed to withhold any dividends from SNCF at least until 2022, to reinvest these funds into SNCF Réseau. As SNCF Réseau's heavy investment programme will drive negative FCF for the next three years, we expect the company to remain dependent on public funds through public subsidies and capital spending grants.

SNCF Réseau will continue to benefit from very high government support, given the company's strategic and political importance as France's sole railway infrastructure manager; and the continued 100% ownership by the French state without any possibility to sell or transfer the shares to any third parties (that is, no privatisation possible). At the same time, the strong relationship between SNCF Réseau and the French government remains characterised by the company's importance to the French economy as the owner and developer of the French rail network and the close operational links between the company and the French government.

SNCF Réseau's public limited liability status and ownership through SNCF does not lessen state support

From 1 January 2020, SNCF Réseau became a public limited liability company, a wholly owned subsidiary of SNCF, the holding company of the SNCF group. As a public limited liability company, SNCF Réseau's shares cannot be sold or transferred, restricting any future privatisation. Also, since July 2020, SNCF Réseau no longer issues debt directly and all of its existing debt and ongoing funding requirements are funded by SNCF. SNCF Réseau's existing debt will remain on its balance sheet until its maturity.

The change in SNCF Réseau's direct ownership or ability to issue debt does not weaken the links between the company and the government, or affect the company's credit profile. As a direct shareholder, SNCF is able to vote on all of SNCF Réseau's decisions, except for regulated activities (mainly tariff policy and investment plans), which remain a prerogative of the state. EU directives about the separation of the infrastructure managers from other railway activities subject to competition will also limit the influence of SNCF in the company. For instance, government subsidies will continue to flow directly to SNCF Réseau without going through its parent entity. The company will also receive funds from SNCF through intercompany loans or capital increases to cover its funding needs.



Natural monopoly position and a multiannual performance contract provide visibility into SNCF Réseau's revenue and operating cash flow

SNCF Réseau benefits from a natural monopoly position as the sole owner and manager of the national rail infrastructure network, an essential public service provider in France. While the rail reform legislation will gradually end the monopoly of SNCF passenger train services in France, SNCF Réseau, even as a public limited company, will maintain its natural monopoly because of the lack of possible competitors.

SNCF Réseau's revenue is derived from the significant subsidies that it receives from the French state, local governments and the EU, as well from the charges paid by rail operators for their network usage. Those charges are defined under a multiyear contract (performance plan) signed between the company and the French government, which endorses the full-cost recovery principle and above-inflation tariff increases applied to rail tolls. This framework is designed to allow SNCF Réseau to amortise its debt and face the financial obligations created by the high-speed lines.

Through a decree published in March 2019, the French state established that from 2021, SNCF Réseau will determine the level of charges for a period of three years (instead of five years in the past) in collaboration with the regulator Arafér, which will liaise between the infrastructure manager and the railway companies, and ensure that tariffs and guidelines are in line with legislation. The inclusion of Arafér in the tariff determination reduces the scope for any unfavourable opinion from the regulator after the contract has been approved — as has been the case in the past.

The €35 billion debt relief programme significantly reduces SNCF Réseau's leverage, but further funding will be required to cover its capital spending

The €35 billion debt relief is equivalent to around 63% of the company's net debt reported in 2020. SNCF Réseau's financial leverage is, therefore, decreasing significantly as a result of the debt relief, moving from Moody's-adjusted net debt/EBITDA of 24.8x in 2020 to below 5x on a pro forma basis for LYM June 2022, including the full impact of the €35 billion debt reduction.

While the debt reduction significantly reduces interest expenses, improving the company's cash flow profile for the next three years, the large investments planned over the next years will continue to drive negative FCF and require additional funding either directly in the form of government grants or via SNCF as intercompany loans or a capital increase.

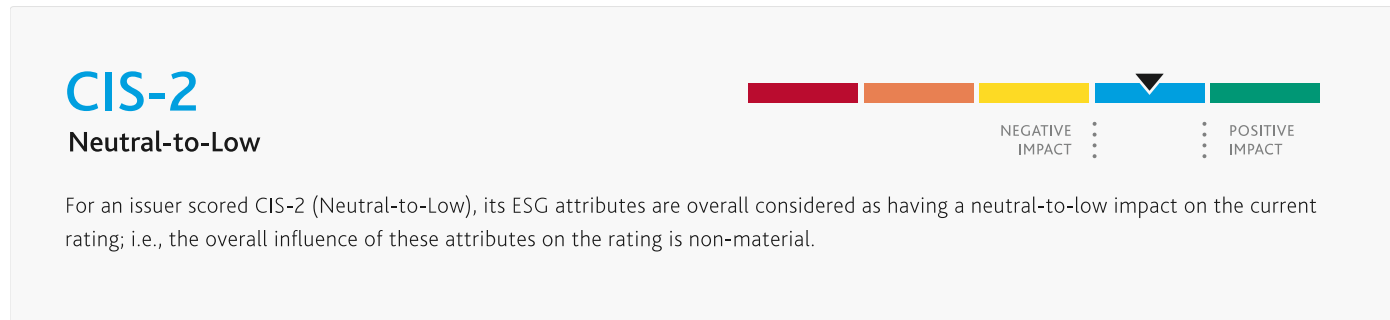
To prevent SNCF Réseau from developing new projects that would increase its debt beyond a certain level, the French legislator set up a "golden rule" where the company was not permitted to raise debt for "development investments", if its net debt/gross profit exceeded 18x. From 1 January 2020, and considering the changed structure and debt relief programme, the French government lowered this threshold to 6x. However, it gives flexibility to the company to progressively attain financial equilibrium and the new ceiling in two stages: a transitional period of six years until 31 December 2026, during which SNCF Réseau should achieve the new threshold and will continue to be prohibited from participating in development investments if the cap is breached; and the second period, starting 1 January 2027, when all capital investments — that is, development and maintenance — will be constrained, if the threshold is exceeded.

ESG considerations

SNCF Réseau's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 4

ESG Credit Impact Score

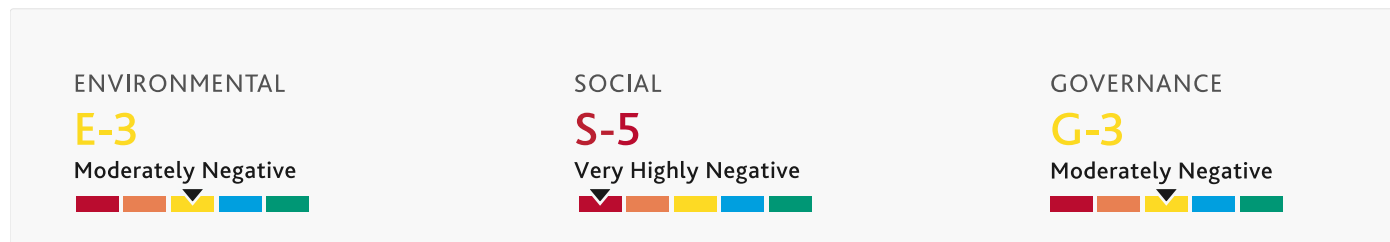


Source: Moody's Investors Service

ESG scores and narratives are aligned with those of SNCF S.A.. SNCF's ESG Credit Impact Score is neutral-to-low (**CIS-2**). This reflects SNCF's government ownership and high level of government support which offsets the ESG risks identified for SNCF in the IPS scores. As a standalone entity without government support SNCF's credit rating would be impacted by Environmental, Social and Governance risks.

Exhibit 5

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

ESG scores and narratives are aligned with those of SNCF S.A.. SNCF's Environmental Issuer Profile Score (IPS) risk is moderately negative (**E-3**). This reflects moderate exposure to natural capital, in light of the company's logistics and freight segments which rely on the transport of natural resources such as coal and metals. SNCF intends to cut direct carbon emissions to zero by 2050.

Social

ESG scores and narratives are aligned with those of SNCF S.A.. SNCF has very highly negative exposure to social risks (**S-5**). This is driven by Human Capital risks. The company has a very high fixed cost base related to employees which is difficult to reduce or restructure in line with revenue trends. This is particularly true given the government ownership. State-owned enterprises face a level of political pressure to protect employment and are therefore unlikely to embark on significant redundancy programmes. Human Capital risk also include the risk of industrial action, strikes and pressure to increase salaries. SNCF experiences by far the highest level of regular strike action among national rail operators in Europe, at a cost of around €25 million per day. SNCF is moderately exposed to Health and Safety, as well as customer relations because managing sensitive consumer information creates data privacy risks.

Governance

ESG scores and narratives are aligned with those of SNCF S.A.. SNCF is moderately exposed to governance risks (**G-3**). Governance risks are moderate and linked primarily to financial policy, and concentrated ownership. The company's governance risks are also linked to the sovereign governance score; for France this is positive (G-1).

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

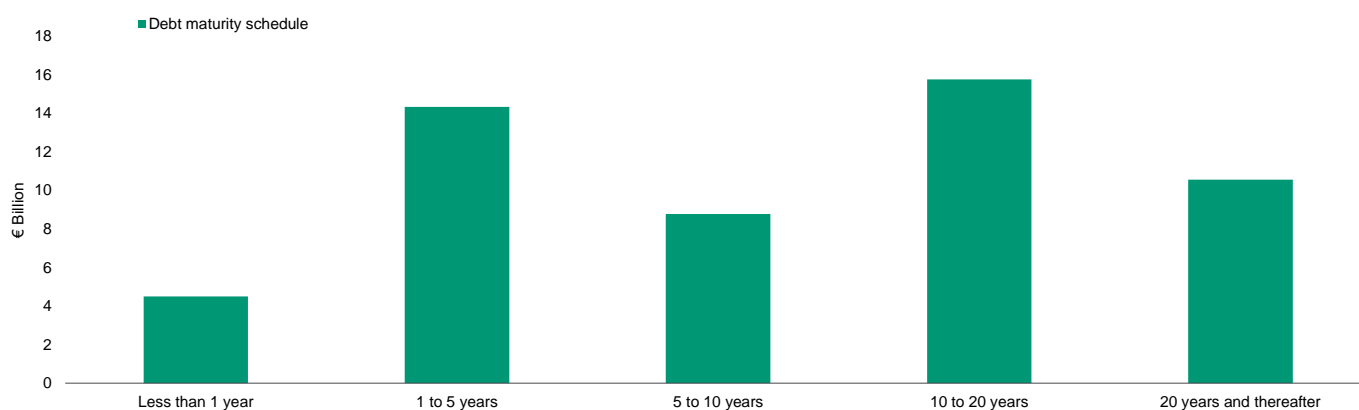
Liquidity analysis

Since July 2020, SNCF Réseau no longer issues debt directly and all of its existing debt and ongoing funding requirements are funded by SNCF. We expect SNCF to maintain good liquidity over the next 12 months, supported by its cash position of €9.2 billion as of June 2022; its fully available €8 billion commercial paper programme; and unused committed credit lines of €3.5 billion.

In addition, our liquidity assessment incorporates our assumption that, in case of need, the company would receive additional support from the government in the form of timely cash injections.

Exhibit 6

SNCF Réseau has a long-dated debt maturity profile As of 31 December 2021



As reported. Does not take into consideration the €35 billion debt relief programme.

Sources: Company and Moody's Investors Service

Methodology and scorecard

In our assessment of SNCF Réseau's credit profile, we apply our global rating methodology for [Passenger Railways and Bus Companies](#), published in January 2021.

Appendix

Exhibit 7

Peer comparison

| (in EUR millions) | SNCF Réseau Aa2 Stable | | | Infrabel Aa3 Stable | | | Infraestruturas de Portugal, S.A. Baa2 Stable | | | ADIF Baa2 Stable | | |
|----------------------------|---------------------------|------------|------------|------------------------|------------|------------|--|------------|------------|---------------------|------------|------------|
| | FYE Dec-20 | FYE Dec-21 | LTM Jun-22 | FYE Dec-19 | FYE Dec-20 | FYE Dec-21 | FYE Dec-20 | FYE Dec-21 | LTM Jun-22 | FYE Dec-19 | FYE Dec-20 | FYE Dec-21 |
| Revenue | 6,744 | 7,612 | 8,107 | 1,020 | 941 | 650 | 1,051 | 1,102 | 1,170 | 611 | 327 | 391 |
| EBITDA | 2,596 | 4,659 | 5,220 | 805 | 91 | 117 | 500 | 554 | 602 | 364 | 111 | 162 |
| Total Debt | 64,571 | 64,062 | 60,660 | 3,253 | 3,563 | 3,567 | 7,002 | 5,975 | 5,685 | 16,215 | 16,691 | 17,485 |
| Cash & cash equivalents | 257 | 834 | 139 | 123 | 292 | 390 | 256 | 178 | 232 | 366 | 278 | 156 |
| EBIT margin % | 16.9% | 25.0% | 29.3% | 10.8% | 6.1% | 13.4% | 24.9% | 27.3% | 28.9% | 1.5% | -80.3% | -55.2% |
| FFO Interest Coverage | 1.2x | 1.6x | 1.8x | 1.1x | 0.9x | 1.3x | 1.3x | 1.5x | 1.9x | 0.9x | -0.1x | 0.2x |
| FFO / Debt | 0.7% | 2.0% | 2.8% | 0.2% | -0.1% | 0.7% | 1.2% | 2.5% | 3.8% | -0.2% | -1.9% | -1.3% |
| FCF / Debt | -4.1% | -0.9% | -1.6% | -2.1% | -0.4% | 2.7% | -15.8% | -20.2% | -20.2% | -5.3% | -5.6% | -8.6% |
| Debt / Book Capitalization | 92.3% | 89.3% | 76.3% | 70.9% | 73.6% | 73.5% | 45.1% | 37.0% | 34.2% | 36.4% | 36.9% | 37.8% |

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 8

Adjusted debt breakdown

SNCF Réseau

| (in EUR Millions) | FYE Dec-18 | FYE Dec-19 | FYE Dec-20 | FYE Dec-21 | LTM Jun-22 |
|------------------------------|---------------|---------------|---------------|---------------|---------------|
| As Reported Debt | 57,725 | 60,420 | 66,043 | 64,038 | 60,636 |
| Pensions | 15 | 16 | 28 | 24 | 24 |
| Non-Standard Adjustments | -1,164 | -1,485 | -1,500 | 0 | 0 |
| Moody's-Adjusted Debt | 56,576 | 58,951 | 64,571 | 64,062 | 60,660 |

All figures are calculated using Moody's estimates and adjustments. FYE = Financial year-end. LTM = Last 12 months.

Source: Moody's Financial Metrics™

Exhibit 9

Adjusted EBITDA breakdown

SNCF Réseau

| (in EUR Millions) | FYE Dec-18 | FYE Dec-19 | FYE Dec-20 | FYE Dec-21 | LTM Jun-22 |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| As Reported EBITDA | 2,785 | 2,962 | 3,869 | 4,659 | 5,220 |
| Unusual | -60 | -68 | -94 | 0 | 0 |
| Non-Standard Adjustments | -1,035 | -967 | -1,179 | 0 | 0 |
| Moody's-Adjusted EBITDA | 1,690 | 1,927 | 2,596 | 4,659 | 5,220 |

All figures are calculated using Moody's estimates and adjustments. FYE = Financial year-end. LTM = Last 12 months.

Source: Moody's Financial Metrics™

Exhibit 10

Adjusted FFO breakdown

SNCF Réseau

| (in EUR Millions) | FYE Dec-18 | FYE Dec-19 | FYE Dec-20 | FYE Dec-21 | LTM Jun-22 |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| As Reported FFO | 1,551 | 1,867 | 1,200 | 2,059 | 2,367 |
| Capitalized Interest | -222 | -208 | -131 | -228 | -225 |
| Alignment FFO | -1,247 | -1,284 | -613 | -532 | -440 |
| Moody's-Adjusted FFO | 82 | 375 | 456 | 1,299 | 1,702 |

All figures are calculated using Moody's estimates and adjustments. FYE = Financial year-end. LTM = Last 12 months.

Source: Moody's Financial Metrics™

Exhibit 11

Select historical Moody's-adjusted financial data
SNCF Réseau

| (in EUR Millions) | FYE Dec-18 | FYE Dec-19 | FYE Dec-20 | FYE Dec-21 | LTM Jun-22 |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Income Statement | | | | | |
| Revenue | 6,301 | 6,501 | 6,744 | 7,612 | 8,107 |
| EBITDA | 1,690 | 1,927 | 2,596 | 4,659 | 5,220 |
| EBITDA Margin % | 26.8% | 29.6% | 38.5% | 61.2% | 64.4% |
| EBIT | 619 | 710 | 1,137 | 1,903 | 2,378 |
| EBIT Margin % | 9.8% | 10.9% | 16.9% | 25.0% | 29.3% |
| Interest Expense | 1,522 | 1,582 | 2,182 | 2,080 | 2,228 |
| Balance Sheet | | | | | |
| Cash & Cash Equivalents | 2,797 | 2,627 | 257 | 834 | 139 |
| Total Assets | 50,760 | 53,740 | 84,912 | 120,615 | 129,180 |
| Total Debt | 56,576 | 58,951 | 64,571 | 64,062 | 60,660 |
| Total Equity | (18,275) | (19,156) | 5,384 | 7,658 | 18,921 |
| Cash Flow | | | | | |
| FFO | 82 | 375 | 456 | 1,299 | 1,702 |
| FFO / Net Debt | 0.2% | 0.7% | 0.7% | 2.1% | 2.8% |
| Capital Expenditures | 2,583 | 2,650 | 2,543 | 2,161 | 2,923 |
| RCF | 82 | 375 | 456 | 1,299 | 1,702 |
| FCF | (2,458) | (1,915) | (2,640) | (553) | (970) |
| FCF / Net Debt | -4.6% | -3.4% | -4.1% | -0.9% | -1.6% |
| Interest Coverage | | | | | |
| EBITDA / Interest Expense | 1.1x | 1.2x | 1.2x | 2.2x | 2.3x |
| (FFO + Interest) / Interest Expense | 1.1x | 1.2x | 1.2x | 1.6x | 1.8x |
| Leverage | | | | | |
| Debt / EBITDA | 33.5x | 30.6x | 24.9x | 13.8x | 11.6x |
| Net Debt / EBITDA | 31.8x | 29.2x | 24.8x | 13.6x | 11.6x |
| Debt / Book Capitalization | 147.7% | 148.1% | 92.3% | 89.3% | 76.3% |

All figures are calculated using Moody's estimates and adjustments. FYE = Financial year-end. LTM = Last 12 months.

Source: Moody's Financial Metrics™

Ratings

Exhibit 12

| Category | Moody's Rating |
|----------------------------|----------------|
| SNCF RÉSEAU | |
| Outlook | Stable |
| Senior Unsecured | Aa2 |
| Commercial Paper -Dom Curr | P-1 |
| Other Short Term -Dom Curr | (P)P-1 |
| PARENT: SNCF S.A. | |
| 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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