

Rating object		Rating information	
Groupe Public Ferroviaire SNCF		Rating: AA-	Outlook: stable
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Abstract

Company

The *Groupe Public Ferroviaire* (« GPF ») SNCF consists of three *Établissements Public à caractère Industriel et Commercial* (« ÉPIC »): SNCF, SNCF Réseau and SNCF Mobilités.

An ÉPIC cannot be liquidated or file for bankruptcy proceedings. It can only be dissolved by law. GPF SNCF is fully owned and controlled by the French State.

The Group is the French railway operator and a world leader in passenger transport and merchandise logistics with 30,000 km of rail lines. In 2015, the Group generated EUR 31.4 billion in revenues, of which 33% was outside France, employed 259,399 people in 120 countries and invested EUR 8.2 billion in its infrastructure. The annual result of the Group was negatively impacted by high asset impairments, resulting in an EAT of EUR -12.2 billion as of December 31, 2015.

Rating Result

The current rating attests a very high level of creditworthiness to GPF SNCF, which represents a very low default risk in comparison with the sector and the overall economy.

Due to its special status, the GPF SNCF's rating is chiefly related to the Sovereign Rating of the French Republic. We classify the company as government related, with high system relevance. The French Republic sovereign rating published by Creditreform Rating AG is AA- / stable. Despite the fact that no unconditional and irrevocable guarantees have been granted by the French State to the company, we assume a very high degree of willingness on the part of the French Republic, to financially support the GPF SNCF in a crisis scenario. Any changes in the status of the company or in the expected support of the French State would have an impact on the GPF SNCF's corporate rating.

Outlook

The yearlong outlook of the rating is stable. This appraisal is based on the assumption that the company's structure remains stable.

Analysts

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Relevant rating factors

Excerpts from the financial ratios analysis 2015

- + Better financing costs
- + Shorter capital lock-up
- + Turnover increase

- High equipment intensity and low assets' coverage ratio
- Negative equity ratio
- High ratio net debt / EBITDA
- Low EBIT and EBITDA interest coverage
- Negative result because of significant impairments

Financial ratios' extract Basis: consolidated annual statement per 31.12 (IFRS)	Standardized balance sheet	
	2014	2015
Total assets	EUR 81,769 million	EUR 73,751 million
Turnover	EUR 29,898 million	EUR 31,393 million
EBITDA	EUR 4,365 million	EUR 4,114 million
EBIT	EUR 1,759 million	EUR 1,257 million
EAT	EUR 279 million	EUR -12,216 million
Equity ratio	-1.34%	-19.35%
Capital lock-up period	151.04 days	157.54 days
Short-term capital lock-up	30.05%	24.62%
Net Debt / EBITDA adj.	16.66	19.47
Return on investment	2.45%	-14.53%
Ratio of interest expenses to debt	2.08%	1.70%

General rating factors

- + Government-related Group (100% shareholder is the French State) and assumed high probability of French State's support in the case of financial distress
- + Strategic importance for the French Republic - only operator of passenger rail services and very important operator in freight
- + Ongoing contributions from the French State and from the transport authorities
- + Second largest rail Group in Europe
- + Control of Group's indebtedness by the French State

- Capital intensive business and high fixed costs
- + High entry barriers regarding the liberalization of domestic and regional passenger services

Current factors (rating 2016)

- + Increasing revenues with an organic growth in 2015
- + Until now limited railway competition in freight and international passenger transport

- Large impairment losses in 2015 affecting the EAT
- Low asset coverage ratio and significant capex requirements
- High indebtedness
- Weak margins and overall profitability due to political constraints
- Increased intermodal competition

-Prospective rating factors

- + Further internationalization, modernization and digitalization
- + Better profitability in 2016 thanks to cost optimization

- Extraordinary events impacting 2016 turnover amounting to approx. EUR 1.0 billion
- Significant investment program, which will have a negative impact on cash flow

Best-case scenario

Best case scenario: AA-

Worst case scenario: A+

In our best case scenario for one year, we assume a rating of AA-. Given its systemic importance for the French State and its special status, we assume support from the French State in the event of distress.

Worst-case scenario

In our worst case scenario for one year, we assume a rating of A+, linked to an improbable downgrade of the sovereign rating of the French Republic or if CRA thinks that the support of the French State has lowered.

Note:

The scenarios are based on the information available at the time of the rating. Within the forecast horizon, some circumstances could occur that would lead to a rating change out of the indicated range.

Business development and outlook

During the business year 2015, the group achieved revenues amounting to EUR 31.4 billion and registered an absolute growth of 5.0% in comparison with 2014. This was mainly due to the positive development of passenger transport and freight. SNCF's external revenues are generated at 47.1% by SNCF Voyageurs (+9.0%), 28.7% by SNCF Logistics (+2.3%), 15.2% by Keolis (mass transit) (+12.2%), 7.7% by SNCF Réseau (+1.0%) and the rest by SNCF Immobilier and Corporate (+4.9%). Revenues include contributions by the State and transport authorities. SNCF received grants from the French State for network investments and public orders as well as operating and investment subsidies. Public orders amounted to EUR 7.0 billion in 2015 (22.2% of annual consolidated turnover) as well as operating and investment subsidies amounting to EUR 2.6 billion (8.3%). In total, the contribution of the French State to the Group's turnover was approx. 30.5% in 2015.

The charges were affected by a fine of EUR 0.2 billion and depreciations were affected by the takeover of Eurostar for EUR 0.1 billion. The group's EBITDA decreased by 5.8% to EUR 4.1 billion and the operating margin decreased by 1.5% down to 13.1% of the revenue. The net result for 2015 is negative at EUR -12.2 billion due to large impairments amounting to EUR 12.3 billion and related to SNCF Réseau assets for EUR 9.6 billion, TGV for EUR 2.2 billion and UGT Gare & Connexions for EUR 0.5 billion. These impairment losses are notably associated with new asset's valuation of railway infrastructure and TGV assets within the framework of the new group's constitution.

SNCF invested EUR 8.2 billion in 2015 (2014: EUR 8.7 billion), of which 70% was financed by own resources. Approx. EUR 5.1 billion was used for the renovation and development of SNCF Réseau railway infrastructure and approx. EUR 3.1 billion served to buy new trains for SNCF Mobilités and to modernize railway stations. The group hired 9,500 people in France in 2015. The group paid dividends amounting to EUR 63.0 million to the state in 2015 (2014: EUR 175 million).

The Group aimed at realizing a revenue growth of 2% and investments amounting to EUR 9.0 billion EUR in 2016, of which 65% with own resources. The group should hire approx. 10,000 people in 2016, of which 5,400 are in France. In the first half year of 2016, turnover was in line with the forecast (+2.6%) but the Group's results were negatively impacted by the consequences of the terror attacks, strikes and floods. The EAT in Q1 was therefore negative (EUR -159 million). The company could reduce its costs and realize productivity gains of approx. EUR 300 million. Investments amounted to EUR 4.0 billion in Q1-2016.

In 2017, four new high speed rail lines should be put into service (800 km) with a potential of 4.5 million additional passengers (today high speed lines transport 100 million passengers per year). The company has to deal with new lost cost offers, with the digitalization of the offer and with the increase of multimodal services for consumers. Mass Transit should extend its offer by 17% by the horizon 2025. TER (Transport Express Regional) should be adapted in a context of regional budget constraints. The stations should be practical, useful and welcoming for the

passengers. The group aims at achieving operational excellence and the improvement of services quality in merchandise transport and logistic business.

The group has its international development as medium term objective: 50% of the revenues should be realized internationally (33% currently) half of which are to be outside of Europe. One of the international development focuses is the high speed lines (Eurostar with UK, Thalys with Belgium, the Netherlands and Germany, Lyria with Switzerland and foreign partnerships).

The group would like to modernize its infrastructure by an investment renovation effort of EUR 35 billion during the period 2015-2025. Other investments comprise new rail lines, renovation and transformation of stations and maintenance workshops as well as renewal, improvement and development of its fleet of vehicles. All in all, SNCF Group will invest EUR 50 billion of its equity capital until 2025.

Structural risks

The company prepares financial statements in accordance with IFRS. The unique shareholder of the group is the French State.

Since January 1, 2015 and following the legislation of August 4, 2014, the French rail companies' organization has been profoundly modified with the establishment of a *Groupe public ferroviaire* (GPF) composed of three companies established with the special status *ÉPIC*. **SNCF**, new *ÉPIC* created on December 1, 2014, is the group's holding and administrative center in charge of the strategic management of the group; **SNCF Réseau** (old *Réseau Ferré de France*) is the owner and the manager of the French railway infrastructure network; **SNCF Mobilités** (formerly *Société Nationale des Chemins de fer Français*) offers transport services (passengers and freight) as well as mass transit in urban areas.

The group's competences are joined in five *métiers*: SNCF Réseau, responsible of the infrastructure; SNCF Voyageurs, responsible for the transport of passengers; Keolis, responsible for mass transit in urban areas; SNCF Logistics (all three form together SNCF Mobilités) and SNCF Immobilier, group's land and properties manager.

The French Government sets out the objectives to SNCF Réseau and SNCF Mobilités through operational contracts. The financial trajectory and the objectives of the entire group are formulated in a framework contract. These contracts have a period of 10 years and are updated every 3 years.

The group is subject to the authority of the *Autorité de Régulation des Activités Ferroviaires et Routières* ("ARAFER"). ARAFER can provide an opinion on the contract project of SNCF Réseau and of the group. The contracts are subjected to an annual monitoring / follow up presented to the governance bodies and transmitted to ARAFER, to French *Haut Comité du système de transport ferroviaire* and to the Parliament.

Under the new legislation of August 4, 2014, the indebtedness of the group must be controlled by the French State. All the costs (investments and replacements) should be covered by revenues (infrastructure charge and public subsidies). Only the new rail lines may be financed by an external financial source.

There are in our opinion no core risks associated either with the organizational structure or shareholder structure of the Group. The control and supervision as well as the support of the French State have a positive impact on the rating. The further internationalization aimed by the company nevertheless entails integration risks and the risk of non-realization of expected gains

and synergies. The ongoing market liberalization could reduce French State support of SNCF Mobilités in a long term perspective.

Business risks

The group is subject to several risks: traction energy and fuel price risks, exchange rate and interest rate risks, regulatory risks (overall the French legislation) and counterparty risks. There are country risks within the framework of the internationalization of the company outside Europe.

The business is fundamentally dependent on consumers mobility needs. These are currently growing everywhere. In developing countries, growing demography, increase in the standard of living and urbanization create mobility needs. In developed countries, labor specialization, longer distances between home and workplace, etc. also increase mobility needs, albeit at a slower pace.

The Group faces new challenges in terms of digitalization and the emergence of new practices in terms of mobility. The fall in oil prices also put pressure on the company's cash flows as its clientele preferred to travel by plane, bus or car instead of using the train. A liberalization of the market or an increase of competition in multimodal transport could have very strong negative impacts on the company. Potential acquisitions could increase the exposure of the group to competitive markets.

The group is highly dependent on the French State. Some real estate assets are the property of the French State but are being managed by SNCF (presently on the balance sheet of SNCF), i.e. 529 million EUR in land and 340 million EUR in buildings. Any changes in the shareholder-ship of the company or in the regulatory framework (in France or in the other countries where SNCF is present) could have negative impacts on the company.

SNCF's business has a capital intensive nature with high fixed costs, which requires continuous capex. Security risks and obsolescence of equipment are problems SNCF has to deal with. Moreover, the profitability is hampered by political constraints, which reduces its flexibility. Nevertheless, because of its dominant position in France and under consideration of its ÉPIC status, we assess the Group SNCF as having a low business-risk profile. The activities of the GPF SNCF are system-relevant and we assume a support from the State and from the transport authorities, thus ensuring the stability and sustainability of the company.

Financial risks

For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. The following descriptions and indicators are based solely on those adjustments.

The overall capital structure of the Group contains some weaknesses as the company shows a relatively high level of debt and high equipment intensity. The adjusted assets cover ratio is low at 57.2%. The adjusted equity (after the deduction of goodwill in the amount of EUR 2.6 billion and deferred taxes of EUR 4.7 billion) is negative at EUR -14.3 billion as of December 31, 2015. The company's funding mainly consists of bonds amounting to EUR 52.9 billion as of December 31, 2015) (2014: EUR 50.0 billion) as well as bank loans amounting to EUR 14.0 billion. Derivative liability instruments amount to EUR 3.06 billion. In total, financial debt amounts to EUR 59.62 billion, of which 71.6% (EUR 42.69 billion) is due in more than 5 years. The French State does not expressly guarantee the debt of the GPF SNCF, however we assume that the Group, thanks to its special status would receive State support if needed. The ratio of net financial debt on EBITDA is high at 14.59 (2014: 12.66).

The Group benefits from a total of EUR 2.6 billion confirmed credit lines. Bonds can be issued by SNCF Mobilités or SNCF Réseau, as the ÉPIC SNCF is not permitted to issue debt on the market.

The overall liquidity of the company is adequate cash and cash equivalents amounting to EUR 6.8 billion as of December 31, 2015, which met liquidity needs related to debt service in 2016 (EUR 3.5 billion in 2016).

Off-balance commitments are related to the concession and to public-private partnerships. As of December 31, 2015, the amounts due were EUR 1.2 billion and amounts pending recovery were EUR 1.1 billion. Financial guarantees given to third parties amounted to EUR 757 million as of December 31, 2015.

SNCF uses hedging and trading derivatives to mitigate the transactional impact of foreign currencies, interest rates and commodity prices on the company's performance.

Overall, despite its high level of debt, we assess the financial risks of the GPF SNCF as moderate. The high equipment intensity requires high capex, however investments are largely financed by own funds. The new bond amounting to EUR 1.5 billion in Q1-2016, issued within the framework of the significant Group's capex program, could further deteriorate financials. This has to be relativized given the foreseen moderate turnover growth and cost control program. The control of the indebtedness of the Group and the assumed financial support of the French State has a positive impact on the rating assessment.

Financial ratio analysis

Appendix : key ratios

Asset Structure	2013	2014	2015
Fixed asset intensity (%)	60,80	74,74	73,15
Asset turnover	--	0,50	0,40
Asset coverage ratio (%)	70,47	69,76	57,18
Liquid funds to total assets (%)	16,49	12,42	10,73
Capital Structure			
Equity ratio (%)	12,43	-1,34	-19,35
Short-term-debt ratio (%)	44,13	28,58	31,92
Long-term-debt ratio (%)	30,41	53,47	61,17
Capital lock-up period (in days)	156,82	151,04	157,54
Trade-accounts-payable ratio (%)	30,99	15,13	18,37
Short-term capital lock-up (%)	13,34	30,05	24,62
Gearing	5,72	-66,58	-5,61
Financial Stability			
Debt / EBITDA adj.	14,84	18,98	21,40
Net Debt / EBITDA adj.	12,04	16,66	19,47
ROCE (%)	4,41	3,36	2,81
Debt repayment period	--	180,92	-11,32
Profitability			
Gross profit margin (%)	48,54	59,65	58,83
EBIT interest coverage	2,54	1,02	0,84
EBITDA interest coverage	7,82	2,53	2,74
Ratio of personnel costs to total costs (%)	36,83	41,79	42,32
Ratio of material costs to total costs (%)	51,46	40,35	41,17
Cost income ratio (%)	97,37	94,21	96,06
Ratio of interest expenses to debt (%)	0,86	2,08	1,70
Return on investment (%)	0,32	2,45	-14,53
Return on equity (%)	--	15,64	--
Net profit margin (%)	-0,60	0,93	-38,91
Operating margin (%)	2,66	5,88	4,00
Liquidity			
Cash ratio (%)	30,60	35,37	29,03
Quick ratio (%)	82,67	83,64	79,41
Current ratio (%)	88,83	88,36	84,14

Regulatory requirements

The present rating is an unsolicited corporate rating. Creditreform Rating AG was not commissioned by the company with the preparation of the rating. The present analysis was prepared on a voluntary basis.

The rating is based on the analysis of published information and on internal evaluation factors. The quantitative analysis is primarily based on the annual report for 2015, intermediate reports, and on press releases of the company. The information and documents meet the requirements and are in accordance with the published Creditreform Rating AG's rating methodology. An electronic version of our rating methodology can be found on our website www.creditreform-rating.de.

The rating was prepared by analysts Marie Watelet (lead analyst) and Rudger van Mook (co-analyst).

A Rating Committee of highly qualified analysts of Creditreform Rating AG was called on February 1, 2017. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant risk factors, the Rating Committee arrived at a unanimous rating decision.

The rating result and a draft of the present rating report were communicated to SNCF on February 2, 2017. The final version of the rating report has been sent to SNCF on February 13, 2017.

The rating will be monitored as long as CRA removes the rating and sets it to non-rated (n.r.).

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRAG) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

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No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

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The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRAG has used following substantially material sources:

1. Annual Report
2. Website
3. Internet research.

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website. Furthermore CRAG considers satisfactory the quality and extent

of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

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The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the "Basic data" card as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data“ information card.

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An explanatory statement of the meaning of Creditreform`s default rates are available in the credit rating methodologies disclosed on the website.

Please note:

This report exists in an English version only. This is the only binding version.

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