

| Rating object | Rating information | |
|--|--|---------------------------|
| ÉPIC SNCF Réseau | Rating: AA- | Outlook: stable |
| Creditreform ID: 412280737 Incorporation: 1997 (Main) Industry: railway transport Management: Guillaume Pepy, CEO | Prepared on: February 1, 2017 Monitoring until: withdrawal of the rating Publication: February 10, 2017 Rating type: unsolicited Rating systematic: corporate rating Rating history: www.creditreform-rating.de | |

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Abstract

Company

The *Établissement Public à caractère Industriel et Commercial* (« ÉPIC ») SNCF Réseau is responsible for the management of the French rail infrastructure that guarantees fair network access for all rail companies. The company results from the merger on January 1, 2015 of Réseau Ferré de France (RFF), SNCF Infra and Direction de la Circulation Ferroviaire (DCF). On that date, the company changed its name into SNCF Réseau and has since then been part of the *Groupe Public Ferroviaire* (GPF) SNCF, which is composed of 3 ÉPICs. The Group is economically integrated and placed under the authority of the French State. An EPIC cannot be liquidated or file for bankruptcy proceedings; it can only be dissolved by law. The company is fully owned by the holding company SNCF which is 100% owned and controlled by the French State.

In 2015, SNCF Réseau generated EUR 6.3 billion in revenues and a negative EAT of EUR -9.9 billion due to a large asset impairment of EUR 9.6 billion. The company employed 53,694 people and invested EUR 6.2 billion in 2015, mainly for development projects but also in renewal of the current infrastructure and network performance.

Rating Result

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

Due to its special status, SNCF Réseau'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 SNCF Réseau in a crisis scenario. Following Art. L. 20111-10-1. 2° of the new legislation of August 4, 2014, the French State has to finance the investments of the company if some financial ratios are overstepped. Any changes in the status of the company or in the expected support of the French State would have an impact on SNCF Réseau'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

- + Absolute revenues growth
- + Lower short term capital lock-up
- Decreasing equity ratio
- Very high ratio net debt / EBITDA
- Negative profitability because of impairments

| Financial ratios' extract Basis: consolidated annual statement per 31.12 (IFRS) | Standardized balance sheet | |
|--|----------------------------|--------------------|
| | 2014 | 2015 |
| Total assets | EUR 72,996 million | EUR 70,144 million |
| Turnover | EUR 6,026 million | EUR 6,264 million |
| EBITDA (without impairments) | EUR 2,736 million | EUR 2,729 million |
| EBIT | EUR 1,153 million | EUR -8,647 million |
| EAT | EUR -213 million | EUR -9,916 million |
| Equity ratio | 23.26% | 12.14% |
| Capital lock-up period | 130.77 days | 133.03 days |
| Short-term capital lock-up | 110.57% | 103.53% |
| Net Debt / EBITDA adj. | 19.82 | 22.18 |
| Return on investment | 1.49% | -12.39% |
| Ratio of interest expenses to debt | 2.32% | 1.99% |

General rating factors

- + ÉPIC status (ultimate 100% shareholder is the French State) and assumed high probability of French State's support in the case of financial distress
- + Very tight dependence on the French State with ongoing contributions from the French State and from regional authorities
- + Part of the second largest rail Group in Europe
- Capital intensive business and high fixed costs
- Safety risks
- Weather dependence

Current factors (rating 2016)

- + Optimization of the organizational structure
- + Absolute revenue growth
- Stagnation in traffic that generate very low organic growth
- Large impairment losses in 2015 affecting the EAT
- Very high indebtedness and derogation from the golden rule

-Prospective rating factors

- + Potential growth driver with the commissioning and operating of new high speed lines
- + Control of the indebtedness of SNCF Réseau with the golden rule
- Decline in revenue in Q1-2016 and negative EAT (6 months)
- Increased intermodal competition and further deterioration of the macroeconomic environment
- Significant investment program, which will have a negative impact on cash flow

Best case scenario: AA-

Worst case scenario: A+

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.

Best-case scenario

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 a (currently improbable) downgrade of the sovereign rating of the French Republic or if CRA thinks that the support of the French State has diminished. This could be the case if the financial ratios of the company are lastingly overstepped without any financial intervention from the French State.

Business development and outlook

During the business year 2015, SNCF Réseau achieved revenues amounting to EUR 6.3 billion, mainly composed of infrastructure fees (89.5% of the revenues), rate compensation paid by the French State for freight activity (0.5%) and other income (10.0%). This absolute growth of 3.9% in comparison with 2014 is mainly due to the positive development of passenger transport Transilien and Trains Express Régionaux (TER), but masks an organic stagnation in traffic. The net result for 2015 is negative at EUR -9.9 billion due to large impairments amounting to EUR 9.6 billion mainly on tangible assets.

The activities of SNCF Réseau are facility regeneration and maintenance. The new economic trajectory foresees significant regeneration efforts, notably on high-speed lines. Therefore the maintenance costs should be decreasing in the medium term with the modernization of the infrastructure. In 2015, the company puts in place a 10-year strategic plan (Réseau 2020) that defines performance level targets and a plan to balance the finance of the company.

In first half year 2016, SNCF Réseau recorded negative revenue growth of -3.7% down to EUR 3.2 billion and a negative result of EUR -167 million resulting from the setup of SNCF Réseau's safety programs and its focus on maintenance and renovation. Approx. EUR 2.4 billion has been invested in the rail network, of which 74% with SNCF Réseau capital.

In the years 2016 and 2017 the commissioning of new high-speed lines and connections should start. Furthermore the French Government decided on an investment road map for SNCF Réseau from EUR 2.5 billion in 2015 up to EUR 3 billion in 2020 with a priority to existing lines, hyper-dense regions and core network.

Structural risks

The company prepares financial statements in accordance with IFRS.

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.

SNCF Réseau is grouped around 4 business units:

- Network access
- Traffic flow
- Maintenance and construction sites
- Engineering and projects

The ultimate unique shareholder of the company is the French State. The French Government sets out the objectives of SNCF Réseau through an operational contract that formulates the financial trajectory and the targets of the company until 2025. This contract has a period of ten years and is updated every 3 years for ten years.

SNCF Réseau is subject to the economic, financial and technical control of the French State. It has to follow the applicable laws and decrees, in particular those stipulated in the French Transport Code. The Board of the company is composed of 24 members, among which 4 are representatives of the French State.

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. As we assume support from the French State in the event of distress, any negative change in the French sovereign rating would have a negative impact on the corporate rating of SNCF Réseau.

Business risks

The business is fundamentally dependent on the mobility needs of consumers and on the need for freight transport. SNCF Réseau is currently facing a decline in rail traffic evolution. This is due to increased intermodal competition and to the current weak macroeconomic situation that burdens European rail transport activities. The company has to deal with the aging of its infrastructure along with its consequences in terms of safety and network performance.

A potential new growth driver is the commissioning and operation of high-speed lines and their junctions in 2016-2017. The main challenges for the company are (1) to secure a high level of network safety, (2) to reduce its ecological footprint and consolidate its environmental assets, (3) to improve social performance and (4) to reinforce regional involvement.

The group is highly dependent on the French State. Its assets are owned by the French State. Any changes in shareholdership could have negative impacts on the company.

SNCF Réseau's business is by nature capital-intensive with high fixed costs, which requires continuous capex (maintenance and development projects). Security risks and obsolescence of the equipment are problems SNCF Réseau has to deal with. Nevertheless, under consideration of its ÉPIC status and given the tight links between the company and the French State, we assess the SNCF Réseau as having a low business-risk profile.

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 is weak as the company shows a high level of debt and high equipment intensity. The adjusted equity (under consideration of the subsidies)

amounted to EUR 8.52 billion as of December 31, 2015, which represents an equity ratio of 12.14% (2014: 23.26%). The decrease in equity was due to the negative result of the year.

Total debt of SNCF Réseau amounted to EUR 61.6 billion, of which EUR 40.0 billion is related to bonds as of December 31, 2015 and EUR 2.5 billion liquidity (EUR 2.2 billion investments and EUR 0.3 billion cash). In addition to its own resources and the public funding it receives, SNCF Réseau has access to several financing programs: an EMNT program of EUR 45 billion, Euro Commercial Paper program of EUR 5 billion and treasury bills program of EUR 3 billion. Long term financing is denominated in EUR or in pounds sterling. The average maturity of debts is 12.8 years at an average rate of 1.27%. The company furthermore benefits from undrawn credit lines amounting to EUR 1.25 billion. Since July 2015, SNCF Réseau has become one of the issuers whose debt can be purchased by the ECB under the Public Sector Purchase Program. The French State does not expressly guarantee the debt of SNCF Réseau, however we assume that the company, thanks to its special status would benefit from a State support if needed. The ratio of net financial debt on EBITDA is very high at 22.18 (2014: 19.82).

With regards to its network investments and project studies, SNCF Réseau receives co-financing from public and private partners. The grants obtained by SNCF Réseau in 2015 amounted to EUR 1.7 billion. Basically, the company faces market risks such as interest rate risks, liquidity risks, counterparty risks and currency risks, but adequate risk management has been put in place to monitor and minimize the impact of those risks.

Under the new legislation of August 4, 2014, the indebtedness of SNCF Réseau has to be controlled by the French State. All costs (investments and replacements) should be covered by revenues (infrastructure charge and public subsidies). Only the new rail lines may be financed by external financial sources. The contribution of SNCF Réseau to the financing of these development investments is supervised: the future revenues should serve to reimburse the entirety of SNCF Réseau's capital and the interest over the duration of the project. The rail reform law therefore strengthened the rules governing the financing of investments to develop the French national rail network in order to limit SNCF Réseau's debt. The legislator has defined a golden rule: should the net debt / gross profit ratio exceed 18, the investment projects will be funded by the State, local authorities or any other party. The current ratio is higher than 18 (21 following our calculations), which implies that the French State should provide liquidity to SNCF Réseau. Nevertheless, the Government adopted in September 2016 an amendment to derogate from this golden rule regarding the financing of "Charles-de-Gaulle Express" connection.

SNCF Réseau receives two major types of grants: those received under financing agreements for investment projects and grants allocated in the French Finance Act and notified by the French State. The grant given to the company by the State in 2015 for the freight activity (in order to cover the marginal cost of freight traffic) amounted to EUR 31 million. Total investment grants received from the State under financing agreements for financing projects are EUR 26.0 billion (long term) and EUR 1.7 billion (current). Investment grants released to P&L in 2015 came to EUR 618 million. Impact on cash flow in 2015 was EUR 1.2 billion in 2015.

Off-balance commitments received amounted to EUR 2.4 billion and commitments given amounted to EUR 2.3 billion as of December 31, 2015. These are related to public-private partnerships within the framework of the high-speed lines project.

Overall and despite its very high level of debt, we assess the financial risks of SNCF Réseau as moderate. The company can count on diversified sources of financing from the French State, other States, French local governments, International investors, etc. and therefore benefits from a high financing capacity given its systemic relevance and ÉPIC status. Moreover, the golden rule should limit the further indebtedness of the group, which aims at balancing its financials until 2020, but we see the latest derogation to the golden rule as critical.

Financial ratio analysis

Appendix : key ratios

| Asset Structure | 2013 | 2014 | 2015 |
|---|--------|--------|---------|
| Fixed asset intensity (%) | 57,98 | 86,84 | 85,30 |
| Asset turnover | -- | 0,11 | 0,09 |
| Asset coverage ratio (%) | 33,96 | 27,49 | 16,61 |
| Liquid funds to total assets (%) | 16,46 | 4,85 | 3,84 |
| Capital Structure | | | |
| Equity ratio (%) | 12,55 | 23,26 | 12,14 |
| Short-term-debt ratio (%) | 42,37 | 12,94 | 14,46 |
| Long-term-debt ratio (%) | 7,14 | 0,61 | 2,02 |
| Capital lock-up period (in days) | 72,69 | 130,77 | 133,03 |
| Trade-accounts-payable ratio (%) | 14,34 | 2,96 | 3,25 |
| Short-term capital lock-up (%) | 25,72 | 110,57 | 103,53 |
| Financial Stability | | | |
| Debt / EBITDA adj. | 14,83 | 21,16 | 23,19 |
| Net Debt / EBITDA adj. | 12,04 | 19,82 | 22,18 |
| ROCE (%) | 8,32 | 2,13 | 1,90 |
| Debt repayment period | -- | 2,67 | -11,27 |
| Profitability | | | |
| Gross profit margin (%) | 48,54 | 38,63 | 54,53 |
| EBIT interest coverage | -1,87 | 0,89 | -7,06 |
| EBITDA interest coverage | 3,38 | 2,11 | -5,61 |
| Ratio of personnel costs to total costs (%) | 36,83 | 2,19 | 19,19 |
| Ratio of material costs to total costs (%) | 51,46 | 61,37 | 45,47 |
| Cost income ratio (%) | 101,93 | 82,78 | 223,86 |
| Ratio of interest expenses to debt (%) | 0,87 | 2,32 | 1,99 |
| Return on investment (%) | 0,33 | 1,49 | -12,39 |
| Net profit margin (%) | -0,60 | -3,53 | -158,30 |
| Operating margin (%) | -1,97 | 19,13 | -138,04 |
| Liquidity | | | |
| Cash ratio (%) | 31,82 | 30,31 | 24,88 |
| Quick ratio (%) | 86,30 | 89,21 | 80,75 |
| Current ratio (%) | 99,16 | 101,67 | 101,65 |

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 Réseau on February 2, 2017. The final version of the rating report has been sent to SNCF Réseau 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.

Conflict of Interests

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

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

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Please note:

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