

31 August 2018 – Neuss, Germany

Rating Action / Monitoring:

Creditreform Rating upgraded EPIC SNCF Réseau's unsolicited corporate issuer rating by one notch to AA / stable

Creditreform Rating (CRA) has upgraded EPIC SNCF Réseau's corporate issuer rating to AA from AA-. The rating outlook is stable.

Please find the complete corporate issuer rating history at the end of this rating action paper.

Key rating drivers

CRA has revised the rating of EPIC SNCF Réseau as a result of its periodic monitoring process for the following reasons:

- Upgrade of the Sovereign Rating of France to AA / stable from AA- / stable by Creditreform Rating AG.
- Within the framework of the new French railway Pact, expected change of legal status of SNCF Réseau from an *Établissement Public à caractère Industriel et commercial* (EPIC) into a public limited liability company with public capital (*société anonyme à capitaux publics*) from 2020 onwards.
- Commitment by the French government to take over EUR 35 bn debt of SNCF Réseau.

Rating rationale

SNCF Réseau's credit rating upgrade was primarily driven by its special status as an EPIC (*Établissement Public à caractère Industriel et Commercial*), its strategic importance for the French economy and its linkage with the French Republic, as the company is fully owned, controlled and supervised by the French government.

Despite the fact that no unconditional and irrevocable guarantees have been granted by the French government 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. The EPIC status makes the French government ultimately responsible for the fulfillment of the commitments of its EPIC. Furthermore, following Art. L. 20111-10-1. 2° of the law as of 4 August 2014, the French government has to finance the investments of the company if some financial ratios exceed a certain threshold.

Since the promulgation of the French law n°2018-515 on 28 June 2018, it is expected that SNCF, SNCF Réseau and SNCF Mobilités will turn into national publicly funded companies (*sociétés nationales à capitaux publics*) from 2020 onwards. SNCF will hold the capital of SNCF Réseau and SNCF Mobilités. The French government will hold the totality of the capital of SNCF, which will be non-transferrable. The capital held by SNCF into SNCF Réseau and SNCF Mobilités will also be non-transferrable.

Furthermore, the law foresees a progressive opening up to competition for rail passenger services. This measure mainly concerns EPIC SNCF Mobilités. In our opinion, it should not have any negative impact on the infrastructure fees collected by SNCF Réseau, as some currently unused paths will be allocated to new operators.

In addition, the French government made the commitment to take over EUR 35 bn of the debt of SNCF Réseau, of which EUR 25 bn from January 2020 and EUR 10 bn in 2022. This will allow SNCF Réseau to spare EUR 1 bn annual financial charges.

Following the change in legal status of SNCF Réseau, we still hold the view that the company, given its system relevance and strategic importance for the French Republic, will still be granted of a very strong support from the French government in the event of distress.

Following our rating methodology, we consider the company as being government-related. As the Sovereign rating of the French Republic has been upgraded by Creditreform Rating AG on 28 May

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2018 to AA / stable from AA- / positive, we align the rating of SNCF Réseau with the Sovereign Rating of the French Republic and assign an unsolicited corporate issuer rating of AA to SNCF Réseau.

Outlook

We consider the outlook of SNCF Réseau's corporate issuer rating as stable. This reflects our expectation that the company will still benefit from an extraordinary support from the French government if needed, also after its transformation into a public limited liability company with public capital. We hold the view that the takeover of part of SNCF Réseau's debt by the French government is another clear sign of the willingness of the French government to support financially the company.

Best-case scenario

Best case scenario: AA

In our best-case scenario for one year, we assume a rating of AA. Given the alignment of the unsolicited corporate issuer rating of EPIC SNCF Réseau with the sovereign rating of the French Republic, this reflects our expectation of stable ratings in the short-term.

Worst case scenario: AA-

Worst-case scenario

In our worst-case scenario for one year, we assume a rating of AA-, linked to a (currently improbable) downgrade of the sovereign rating of the French Republic or if CRA thinks that the support of the French government has lowered. Any changes in the expected support of the French Republic would have an impact on SNCF Réseau's unsolicited corporate issuer rating. This could be the case if the financial ratios of the company are lastingly overstepped without any financial intervention from the French government.

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.

Current business development

EPIC SNCF Réseau ensures the maintenance and operational security of a 30,000 km network of rail lines, manages customer access to the network and service infrastructures as well as the rail traffic and offers project management and engineering services in France and abroad.

In 2017, EPIC SNCF Réseau recorded increasing consolidated revenue at EUR 6.5 bn (2016: EUR 6.4 bn) and stable EBIT at 29.2% of revenue but a negative EAT of EUR -201 million, due to finance costs of EUR 1,2 bn. The company employed 54,299 people and invested EUR 5.4 billion in 2017 for the renewal of track, catenaries and switches. On April 2017, the company signed a multi-year performance contract with the French government, providing investment amounting to EUR 46 bn over ten years. This plan foresees network updates but also targets performance ameliorations from SNCF Réseau. This should allow the company to improve efficiency while realizing the necessary investments to modernize the network.

Net debt amounted to EUR 46.6 bn as of 31 December 2017 and has increased by EUR 1.7 bn since end 2016. The large majority of the company's long-term debt is constituted by bond issues. As of December 2017, the ratio net debt / gross profit amounted to 23.85 (2016: 22.24). Thereby the company exceeded the golden rule of 18 over which SNCF Réseau may no longer finance development investment. Investment financing has therefore to be covered by the requesting parties (French government, regional authorities, etc.).

The liquidity of the company as of 31 December 2017 was adequate with cash and cash equivalents amounting to EUR 3.3 bn, covering 85% of the financial short term obligations. Furthermore, SNCF Réseau benefits from a syndicated credit line of EUR 1.5 bn from 15 banks, which has not been drawn by end-2017.

The following table shows some key financials of SNCF Réseau for the last 2 years.

Table 1: Financials of EPIC SNCF Réseau | Source: EPIC SNCF Réseau annual report 2017, standardized by CRA

| Financial ratios´ extract Basis: consolidated annual statement per 31.12 (IFRS) | CRA standardized figurest | |
|---|---------------------------|--------------------|
| | 2016 | 2017 |
| Revenues | EUR 6,441 million | EUR 6,496 million |
| EBITDA | EUR 2,527 million | EUR 2,864 million |
| EBIT | EUR 1,016 million | EUR 1,100 million |
| EAT | EUR -120 million | EUR -201 million |
| Total assets adj. | EUR 73,690 million | EUR 77,864 million |
| Equity ratio adj. | 14.9 % | 16.2 % |
| Capital lock-up period | 123,5 days | 123,5 days |
| Short-term capital lock-up | 124,33 % | 112,13 % |
| Return on investment | 1.4 % | 1.3 % |
| Net debt / EBITDA adj. | 23.3 | 23.1 |
| Ratio of interest expenses to debt | 1.9 % | 1.8 % |

In the first half-year of 2018, the SNCF Group has been affected by strike actions, which had a negative impact on the operating margin of the Group (EUR -790 million). Those actions mainly had a negative impact on SNCF Mobilités but SNCF Réseau has also been affected in its revenues (EUR -211 million) because of the reduction in traffic on the railway lines. The negative impact of the strike actions has been partly compensated by productivity gains at the level of SNCF Réseau of EUR 42 million. Furthermore, within the framework of the new French railway Pact in June 2018, it has been decided a limited increase of the network access charges for the TGV, which led to impairments on TGV lines of EUR 3.4 bn. Nevertheless, SNCF Réseau invested EUR 2.3 bn in the network during the first half-year 2018. Net debt increased to EUR 48.6 bn as of 30 June 2018 (30 June 2017: EUR 46.6 bn), of which EUR 1.4 bn have been financed by bond issues.

CRA's ratings at a glance

| Rating objects | Detail information | |
|--|--------------------|----------------|
| | Date | Rating |
| EPIC SNCF | 31.08.2018 | AA- / negative |
| EPIC SNCF Réseau | 31.08.2018 | AA / stable |
| EPIC SNCF Mobilités | 31.08.2018 | AA- / negative |
| Long-term LC senior unsecured issues of EPIC SNCF Réseau | 31.08.2018 | AA |
| Long-term LC senior unsecured issues of SNCF Mobilités | 31.08.2018 | AA- |
| Sovereign Rating French Republic | 28.05.2018 | AA / stable |
| Other | -- | n.r. |

Appendix

Rating history

Table 5: Corporate issuer EPIC SNCF Réseau | Source: CRA

| Event | Rating date | Publication date | Monitoring period until | Result |
|----------------|-------------|------------------|--------------------------|--------------|
| Initial rating | 01.02.2017 | 10.02.2017 | Withdrawal of the rating | AA- / stable |
| Monitoring | 24.04.2017 | 25.04.2017 | Withdrawal of the rating | AA- / stable |
| Monitoring | 31.08.2018 | 10.09.2018 | Withdrawal of the rating | AA / stable |

Table 6: LT LC senior unsecured issues issued by EPIC SNCF Réseau | Source: CRA

| Event | Rating date | Publication date | Monitoring period until | Result |
|----------------|-------------|------------------|--------------------------|--------|
| Initial rating | 31.08.2018 | 10.09.2018 | Withdrawal of the rating | AA |

Regulatory and legal disclosures

The present rating is an unsolicited rating. Creditreform Rating AG was not commissioned by the issuer 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 last annual report of the issuer, the base prospectuses 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.

The rating was conducted on the basis of Creditreform Rating's "Corporate Issue Ratings" methodology. A complete description of Creditreform Rating's rating methodologies is published on the following internet page: www.creditreform-rating.de.

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodology. A complete description of Creditreform Rating's rating methodologies and Creditreform's basic document "Rating Criteria and Definitions" is published on the following internet page:

www.creditreform-rating.de/en/regulatory-requirements/

This rating was carried out by analysts Marie Watelet (m.watelet@creditreform-rating.de) and Rudger van Mook (r.vanmook@creditreform-rating.de), both located in Neuss, Germany. A management meeting did not take place.

The rating was presented to the rating committee on 31 August 2018. The company examined the rating report prior to publication and was given at least one full working day to appeal the rating committee's decision and to provide additional information. The rating decision was not amended following this examination.

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

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Please note:

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

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

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

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the CRA website. Furthermore, CRA considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

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In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

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

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