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CREDIT OPINION
20 December 2019

Update

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RATINGS

**SNCF Mobilites**

| | |
|---|---|
| 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.*

Contacts

Francesco Bozzano +33.1.5330.1037
*AVP-Analyst*
francesco.bozzano@moodys.com

Jeanine Arnold +33.1.5330.1062
*Associate Managing Director*
jeanine.arnold@moodys.com

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# SNCF Mobilités (to be renamed SNCF SA)

## Update to credit analysis

## Summary

SNCF Mobilités (to be renamed SNCF SA on 1 January 2020, referred to as SNCF or SNCF Group hereafter)' Aa3 issuer rating, which is one notch below France's (Aa2 positive) sovereign rating, reflects our expectation that the company's credit quality will continue to benefit from a high level of support from the French government despite a gradual erosion of the company's quasi-monopoly in France and the loss of its special legal status (EPIC) starting from 1 January 2020.

The a3 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, which provides some stability and visibility into the top line; and (3) the company's vertically integrated business model, including the monopolistic railway infrastructure activities and the quasi-monopoly in the domestic passenger railway segment.

The BCA is constrained by (1) the company's high leverage, expected to remain above 7.0x in the next 12-18 months, and measured as Moody's-adjusted (gross) debt/EBITDA and pro forma the €35 billion debt relief from the French State; (2) the company's weak profitability, as measured by Moody's-adjusted EBITA margin, expected to average 7.5% in the next 12-18 months; and (3) the expected gradual erosion of market share in the French passenger railways market starting from 2020 as the French market is gradually liberalising.

## Credit strengths

» High probability of support from the French government

» Large scale and good degree of diversification

» Vertically integrated business model, including the monopolistic railway infrastructure activities and the quasi-monopoly in the domestic passenger railway segment

» Strong liquidity

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## Credit challenges

» High leverage, expected to remain above 7.0x in the next 12-18 months

» Highly unionised workforce and exposure to the risk of industrial actions

» High, self-funded, capital spending requirements, which will erode liquidity gradually

## Rating outlook

The stable outlook of SNCF Group reflects our expectations that the company's rating will continue to benefit from a high level of support from the French government, and that the reform of the French railways system and the new group organisation will reinforce the company's business model, notably, through the integration of the monopolistic infrastructure activities of SNCF Réseau (Aa2 positive) and the €35 billion debt relief programme.

## Factors that could lead to an upgrade

An upgrade of the sovereign rating is unlikely to result in an upgrade of SNCF Group's rating because, following the railway reform, the company will lose its EPIC legal status in 2020 and its monopolistic position in France.

An upgrade of the BCA is unlikely in the near term, given the high leverage, expected to remain above 7.0x in the next 12-18 months, measured as Moody's-adjusted (gross) debt/EBITDA and pro forma the €35 billion debt relief from the French State. However, we could consider upgrading SNCF Group's BCA if:

» Moody's-adjusted EBITA margin increases to more than 8% on a sustained basis

» Moody's-adjusted debt/EBITDA declines below 6.0x on a sustained basis

» Moody's-adjusted retained cash flow (RCF)/net debt reaches the mid-to-high teens in percentage terms

## Factors that could lead to a downgrade

» A downgrade of the sovereign rating

» Any evidence of a further reduction in the perceived level of government support

» A significant deterioration in the company's BCA

» A significant deterioration in liquidity

SNCF Group's BCA could come under pressure if:

» Moody's-adjusted EBITA margin decreases below 5%

» Moody's-adjusted debt/EBITDA remains above 7.0x on a sustained basis

» Moody's-adjusted RCF/net debt falls below 10% on a sustained basis

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.moodys.com for the most updated credit rating action information and rating history.



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## Key indicators

Exhibit 1
**SNCF Group (historical data include SNCF Mobilites perimeter only)**

| EUR Millions | Dec-13 | Dec-14 | Dec-15 | Dec-16 | Dec-17 | Dec-18 | Jun-19 (LTM) | Dec-20 f |
|---|---|---|---|---|---|---|---|---|
| Revenue | 27,030 | 27,243 | 29,296 | 30,517 | 31,831 | 31,681 | 33,389 | 36,266 |
| EBITA Margin % | 3.5% | 3.2% | 3.0% | 4.0% | 5.4% | 3.6% | 4.2% | 7.6% |
| EBITA / Average Assets | 2.2% | 2.0% | 2.1% | 3.1% | 4.2% | 2.6% | 3.1% | 2.8% |
| Debt / Book Capitalization | 67.2% | 65.4% | 66.8% | 69.0% | 69.7% | 60.2% | 61.7% | 61.3% |
| Debt / EBITDA | 5.5x | 6.1x | 5.6x | 5.9x | 5.4x | 5.6x | 5.1x | 7.7x |
| FCF / Debt | -0.9% | 0.5% | -0.8% | -5.9% | -1.0% | -6.0% | -6.6% | -4.6% |
| RCF / Net Debt | 21.4% | 19.9% | 17.7% | 13.9% | 19.8% | 14.9% | 15.3% | 10.6% |
| (FFO + Interest Expense) / Interest Expense [1] | 11.3x | 8.0x | 7.9x | 6.2x | 8.0x | 7.9x | 15.6x | 7.0x |

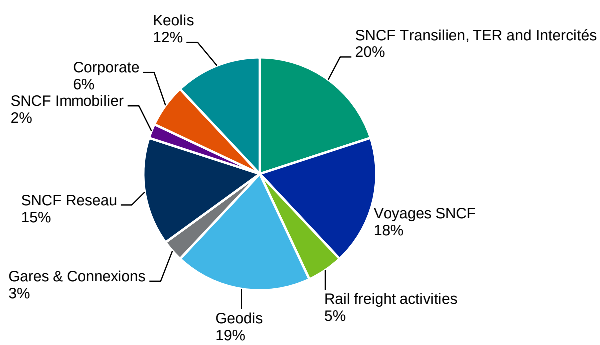
All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end unless otherwise indicated. LTM = Last 12 months. [1] LTM 2019 figures reflect IFRS16 figures in H1 2019 and adjusted IAS17 figures in H2 2018. Metrics until LTM2019 incorporate SNCF Mobilites perimeter only and 2020 forward reflects SNCF Group consolidated perimeter.
*Source: Moody's Financial Metrics™*

## Profile

From the 1st of January 2020, SNCF SA will have under its control the railway infrastructure activities of SNCF Reseau, and the railway operation and logistics activities of SNCF Voyageurs , Geodis, Keolis and SNCF Rail Freight (refer to the organizational chart in detailed considerations section).

The group is one of the world leaders in transport services and logistics, with operating activities in 120 countries and a workforce of around 272,000 people in FY2018. In FY2018, the combined group reported consolidated revenue of €33.3 billion and EBITDA (on a Moody's-adjusted basis) of €5.7 billion.

Exhibit 2
**Further diversification from January 2020 by incorporating rail infrastructure activities**
**% of SNCF 2018 consolidated revenues**




Based on SNCF group 2018 consolidated results
*Source: SNCF annual report*

## Detailed credit considerations

### SNCF will benefit from the integration of SNCF Reseau's predictable revenue stream

As part of France's railway reform act of June 2018, on 1 January 2020, SNCF Mobilités will merge with SNCF EPIC and become SNCF SA, the holding company of the SNCF group. From 1 January 2020 SNCF SA will control, with 100% ownership, SNCF Réseau, SNCF Voyageurs, a new subsidiary that will combine passenger operations and rolling stock activities of the former SNCF Mobilités, and



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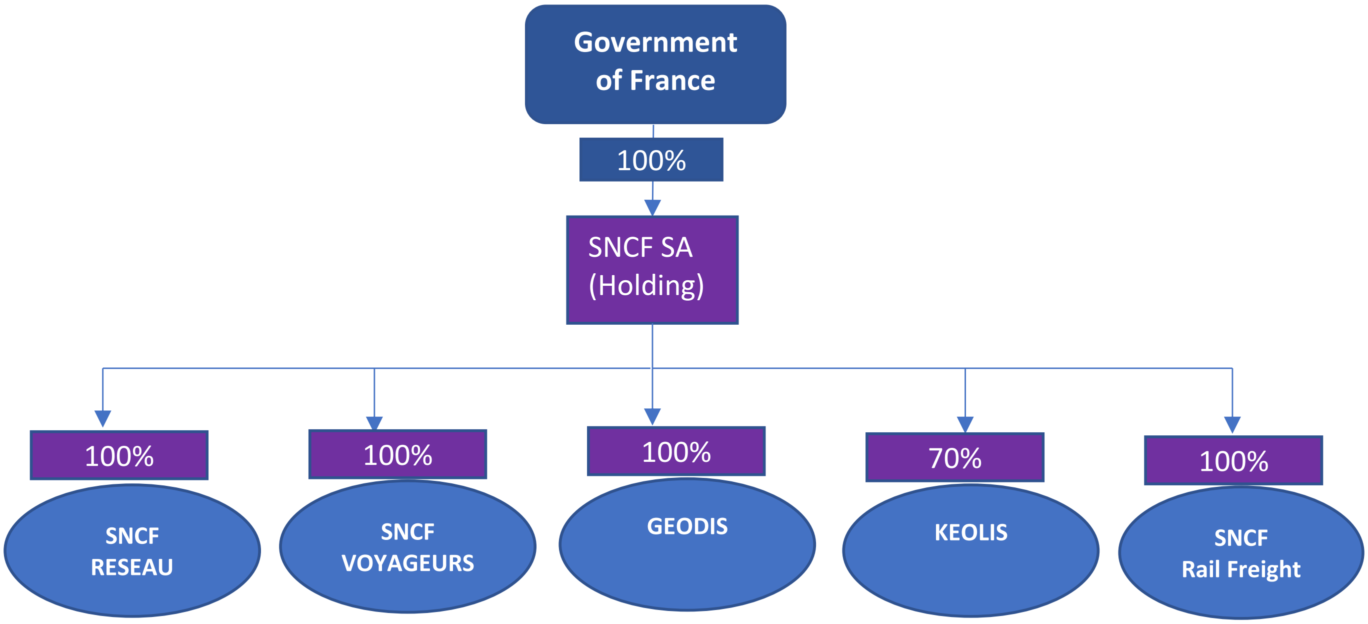
several other subsidiaries. Effective 1 January 2020, SNCF SA will act as the group's sole issuer in the financial markets, entrusted with raising financing for the entire group. SNCF Réseau's existing debt will remain on the company's balance sheet until its maturity.

Exhibit 3




*Source: Moody's Financial Metrics™, Company information*

SNCF SA (SNCF) will become a vertically integrated group including the monopolistic railway infrastructure activities of SNCF Reseau. SNCF Reseau benefits from the high predictability of future revenue and operating cash flow provided by a multiyear service contract with the French government. The improvement in the company's business is partially counterbalanced by the high leverage expected for the combined group of 6.8x, measured as Moody's-adjusted (gross) debt/EBITDA in 2018 and pro forma the €35 billion debt relief from the French State, as discussed in the leverage section below.

The railway reform approved in June 2018 has several other implications for SNCF, including (1) the gradual liberalisation of the French railway market in compliance with European Union directives; (2) the end of the current so-called Cheminot status and certain benefits of some of the company's categories of employees; and (3) the reduction in future track access fees increases.

On balance, we believe that these changes will gradually reshape the French railway sector, but have, on balance, no immediate impact on SNCF credit quality.

### Significant social costs offset profitability improvements

The significant social cost of the reform in the form of repeated industrial actions in 2018 had a negative impact of around €600 million on the company's profit reducing the company's Moody's-adjusted EBITA margin to 3.6% from 5.4% in 2017. While the reform was approved in 2018, the company still has a high number of unionised employees and remains fundamentally exposed to the risk of collective bargaining and industrial actions. We expect profits in the second half of 2019 to be affected by the planned industrial actions in relation to the government's ongoing pension reform that will take place in December. From 2020, we expect that strikes will have a negative impact on the consolidated group (i.e. on both SNCF Reseau and the previous SNCF Mobilites perimeter).

Besides the repeated strikes, the gradual improvement in profitability in recent years has been driven by a recovery in travellers' confidence and traffic volume, as well as by SNCF's 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. Alongside improved market conditions, the company is also benefiting from its ongoing cost-saving programme. In the next 12-18 months, the competitive landscape will remain difficult in light of



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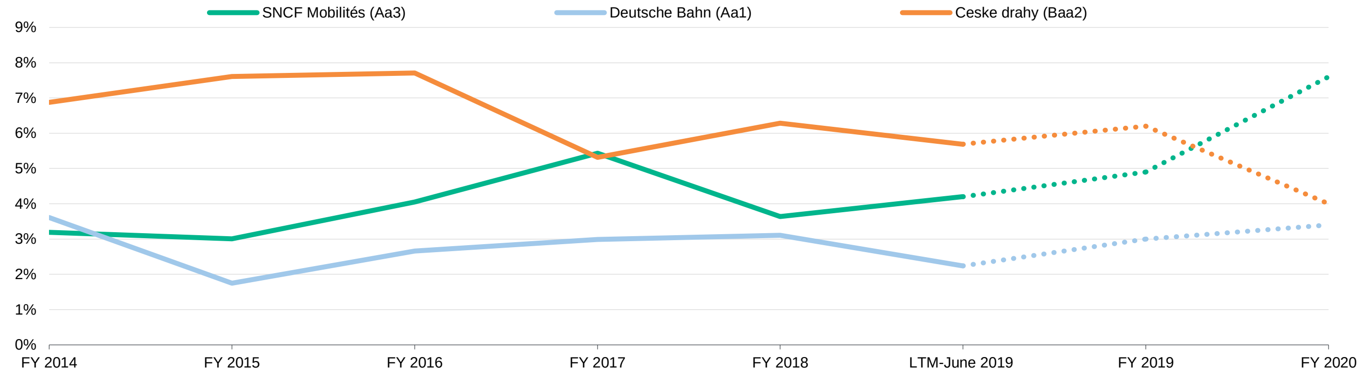
aggressive competition from long-distance buses, car sharing and low-cost flights, which will continue to strain prices and erode volume, while the rail market liberalisation could add further pressure in the long term.

With the integration of SNCF Reseau, we expect the company's Moody's-adjusted EBITA margin to grow to around 7% in FY2020 because of the internalisation of the higher margins of SNCF Reseau.

Exhibit 4

**SNCF's EBITA margin expected to improve**

**Moody's-adjusted EBITA margin**




2019 and 2020 margins are estimates for the consolidated group following the planned corporate reorganisation.
Metrics until FY2019 incorporate SNCF Mobilites perimeter only and 2020 forward reflects SNCF Group consolidated perimeter.
*Sources: Moody's Financial Metrics™ and Moody's Investor Service estimates*

## Leverage will remain high despite the €35 billion debt relief from the French government

SNCF's leverage increased to 5.6x in 2018 from 5.4x in 2017, mainly because of the €600 million loss from strikes in 2018. We expect leverage to further deteriorate in 2019 to 6.7x, reflecting our assumption of further strike-related losses during H2 2019 related to the French pension reform.

From 2020, with the integration of SNCF Reseau, leverage is likely to remain high, above 7.0x, measured as Moody's-adjusted (gross) debt/EBITDA and pro forma the €35 billion debt relief from the French State. As part of the railway reform, in 2020-22, the French State will provide a €35 billion debt relief to SNCF Réseau, which will help substantially decrease the leverage of the consolidated group to 6.8x (in 2018, pro forma the €35 billion relief) from the current high level of 13.0x, measured as Moody's-adjusted (gross) debt/EBITDA in 2018. The first phase of the debt relief in the amount of €25 billion will be implemented in January 2020 and the second phase in the amount of €10 billion in January 2022. In 2020, leverage is likely to remain high, above 7.0x, measured as Moody's-adjusted (gross) debt/EBITDA and pro forma the €35 billion debt relief from the French State. We expect leverage to decrease to 7.0x by 2022.

We expect free cash flow (FCF) generation of the company to remain negative as capital spending remains high. However, we expect FCF to improve over time and move towards zero by 2022-23 as the company grows its top line and implements ongoing cost efficiencies.



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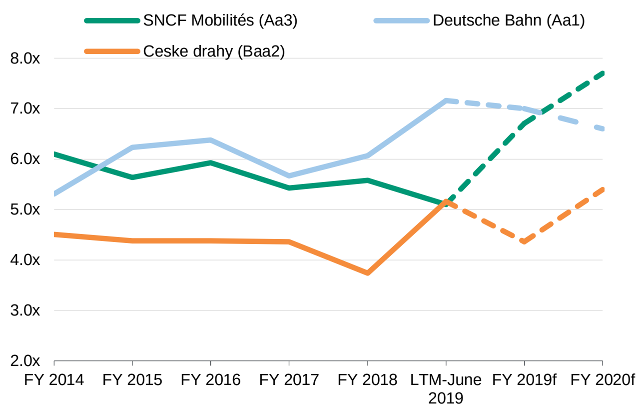
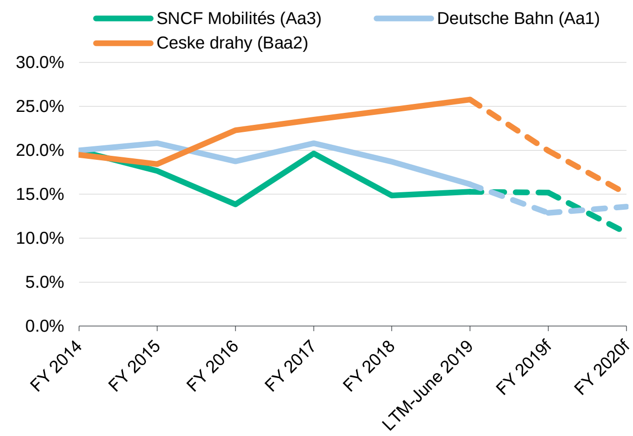
Exhibit 5
**Leverage will go above 7.0x in 2020**
**Moody's-adjusted (gross) debt/EBITDA**




2020F is an estimate for the consolidated SNCF SA group, pro forma the €35 billion debt relief.
Metrics until FY2019 incorporate SNCF Mobilites perimeter only and 2020 forward reflects SNCF Group consolidated perimeter.
*Source: Moody's Financial Metrics™*

Exhibit 6
**RCF/net debt to remain lower than that of peers in 2020**
**Moody's-adjusted RCF/net debt**




2020F is an estimate of the consolidated SNCF SA group, pro forma the €35 billion debt relief.
Metrics until FY2019 incorporate SNCF Mobilites perimeter only and 2020 forward reflects SNCF Group consolidated perimeter.
*Source: Moody's Financial Metrics™*

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

SNCF 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 opening up of the domestic rail services to competition will challenge SNCF Mobilités' quasi-monopolistic position, which is credit negative. As per the railway reform, the market will open to competition in 2020 for the regulated regional services (TER) and from 2021 for the TGV business and intercity services. However, we believe that the market opening will entail a lengthy process and it is unlikely that potential new entrants will start operating in the French market and pose any threat to SNCF's credit profile before 2022.

## Current probability of support is high and default dependence is very high

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

» The BCA of a3 (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

» High probability of support

» Very high default dependence

Our current assessment of a high probability of extraordinary financial support from the French government reflects:

1. SNCF's strategic role as the dominant provider of public railway services in France, which are central to the core missions of the state

2. our expectation that, although the company will change its legal status from EPIC to "société nationale à capitaux publics" in 2020, the government, which will remain by force of law the sole owner of SNCF, will continue to support the company in case of need



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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's very high default dependence on the French government reflects (1) the large share of SNCF's 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.

## Environmental, social and governance (ESG) considerations

We take into account the impact of ESG factors when assessing companies' credit quality. In the case of SNCF, the main ESG-related drivers are the following:

» Shift to greener forms of transport supports SNCF's volume growth. Passenger railways tend to be environmentally cleaner and more energy efficient than other forms of transportation. With most rail lines electrified in France (including roughly all of the main lines) as of December 2018, rail transport produces lower emissions than air, bus or car travel. Passenger railway volumes will be driven by increasing awareness among travellers as well as government or local authorities' incentives to choose public transportation.

» Social risks stem from the company's high exposure to human capital, with 205,893 employees as of June 2019 and a high number of unionised employees. Passenger railways are highly exposed to the risk of collective bargaining and industrial actions. Strikes can have both reputational and financial consequences. In 2018, an estimated profit of €600 million was lost because of a three-month long strike, which was triggered by a railway reform in France. Based on the 2018 experience, strikes on their own, even though they deteriorated the credit quality of the company, did not change the company's BCA or the final rating.

» The company's current board of directors was appointed in 2019, including the chairman-CEO. The board includes government representatives, members elected by the state and employees' representatives. We expect the new management team to maintain a degree of continuity with the current strategy of the group. Despite high leverage, the group's financial policy is relatively balanced with a track record of support from the French government.

## Liquidity analysis

SNCF's liquidity is excellent. As of the end of June 2019, the company's liquidity consisted of around €5 billion of cash and available committed credit lines of €815 million. We expect these liquidity sources, together with an estimated operating cash flow of around €2.3 billion in 2019, to cover the company's main cash requirements, including the group's intensive investment programme, which we estimate to be €2.0 billion-€2.3 billion in 2019, and its debt maturities through to year-end 2019. Beyond 2019, we expect that the company will ensure that policies related to liquidity will adequately cover the liquidity requirements of the entire group, including those of SNCF Réseau.



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## Methodology and scorecard

We use the Global Passenger Railway Companies rating methodology (published in June 2017) and Government-Related Issuers rating methodology, published in June 2018, to rate SNCF. The BCA is one notch below the scorecard-indicated outcome, reflecting the company's sustained high leverage and negative FCF in the context of the gradual erosion of its quasi-monopoly in the French passenger railway market.

Exhibit 7

**Rating factors**

SNCF

| SNCF Mobilites | | | | |
|---|---|---|---|---|
| Passenger Railway Industry Grid [1][2] | **Current LTM 6/30/2019** | | **Moody's 12-18 Month Forward View As of 11/29/2019 [3]** | |
| **Factor 1 : SIZE (15%)** | **Measure** | **Score** | **Measure** | **Score** |
| a) Revenue ($ Billion) | $38.1 | Aa | $39 - $41.4 | Aaa |
| b) Number of Passenger Transported (PKM billion) | Aa | Aa | Aa | Aa |
| **Factor 2 : MARKET POSITION (40%)** | | | | |
| a) Stability of Operating Environment | Baa | Baa | Aa | Aa |
| b) Market Characteristics | Aaa | Aaa | Aaa | Aaa |
| c) Competitive Environment | Aa | Aa | Aa | Aa |
| **Factor 3 : COST POSITION AND PROFITABILITY (15%)** | | | | |
| a) EBITA Margin | 4.2% | B | 8% | Baa |
| b) EBITA / Avg. Assets | 3.1% | Ba | 3% | Ba |
| **Factor 4 : CAPITAL STRUCTURE (15%)** | | | | |
| a) Debt / Book Capitalisation | 61.7% | A | 58% - 62% | A |
| b) Debt / EBITDA | 5.1x | Ba | 7x - 8x | Caa |
| **Factor 5 : CASH FLOW AND INTEREST COVERAGE (15%)** | | | | |
| a) FCF / Debt | -6.6% | B | -5% - 3% | Ba |
| b) RCF / Net Debt | 15.3% | Baa | 10% - 12% | Ba |
| c) (FFO + Interest) / Interest | 15.6x | Aaa | 5x - 7x | A |
| **Rating:** | | | | |
| a) Indicated Rating from Grid | | A3 | | A2 |
| b) Actual Rating Assigned | | | | Aa3 |
| | | | | |
| Government-Related Issuer | **Factor** | | | |
| a) Baseline Credit Assessment | a3 | | | |
| b) Government Local Currency Rating | Aa2 / Positive | | | |
| c) Default Dependence | Very high | | | |
| d) Support | 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 12/31/2019. [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.
Metrics until FY2019 incorporate SNCF Mobilites perimeter only and 2020 forward reflects SNCF Group consolidated perimeter.
*Source: Moody's Financial Metrics™*



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## Appendix

Exhibit 8
### Peer comparison

| (in US millions) | SNCF Mobilites Aa3 Stable FYE Dec-17 | FYE Dec-18 | LTM Jun-19 | Deutsche Bahn AG (P)Aa1 Negative FYE Dec-17 | FYE Dec-18 | LTM Jun-19 | Ceske drahy, a.s. Baa2 Stable FYE Dec-17 | FYE Dec-18 | LTM Jun-19 |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | $35,965 | $37,412 | $38,095 | $48,985 | $52,784 | $51,505 | $1,460 | $1,801 | $1,865 |
| EBITDA | $4,127 | $3,986 | $4,299 | $6,318 | $6,517 | $5,524 | $389 | $449 | $423 |
| EBITA Margin | 5.4% | 3.6% | 4.2% | 3.0% | 3.1% | 2.4% | 5.3% | 6.3% | 5.7% |
| EBITA / Avg. Assets | 4.2% | 2.6% | 3.1% | 2.1% | 2.2% | 1.7% | 2.0% | 2.7% | 2.5% |
| FFO + Int Exp / Int Exp | 8.0x | 7.9x | 15.6x | 7.9x | 7.6x | 7.8x | 6.6x | 7.4x | 9.6x |
| Total Debt/Capital | 69.8% | 60.2% | 61.7% | 68.8% | 71.2% | 72.8% | 49.3% | 46.6% | 53.6% |
| Debt / EBITDA | 5.4x | 5.6x | 5.1x | 5.7x | 6.2x | 7.2x | 4.4x | 3.7x | 5.2x |
| FCF / Debt | -1.4% | -6.0% | -6.6% | -6.9% | -3.9% | -5.5% | 3.8% | -3.7% | -6.1% |
| RCF / Net Debt | 19.6% | 14.9% | 15.3% | 20.8% | 18.4% | 16.1% | 23.5% | 24.6% | 25.8% |

All figures and ratios are calculated using Moody's estimates and standard adjustments. FYE = Financial year-end. LTM= Last 12 months.
Historic metrics incorporate SNCF Mobilites perimeter only.
*Source: Moody's Financial Metrics™*

Exhibit 9
### Moody's-adjusted debt breakdown

**SNCF Mobilites**

| (in US Millions) | FYE Dec-14 | FYE Dec-15 | FYE Dec-16 | FYE Dec-17 | FYE Dec-18 | LTM Ending Jun-19 |
|---|---|---|---|---|---|---|
| **As Reported Debt** | **22,728.4** | **20,627.7** | **20,539.2** | **24,707.6** | **21,286.5** | **25,723.1** |
| Pensions | 413.8 | 437.8 | 495.7 | 528.4 | 511.0 | 509.0 |
| Operating Leases | 2,805.3 | 2,088.9 | 2,722.1 | 3,218.5 | 3,729.8 | 0.0 |
| Securitizations | 0.0 | 54.3 | 52.7 | 145.3 | 194.3 | 191.3 |
| Non-Standard Adjustments | -4,283.6 | -5,102.3 | -4,743.2 | -4,790.0 | -4,202.2 | -4,551.8 |
| **Moody's-Adjusted Debt** | **21,663.9** | **18,106.4** | **19,066.6** | **23,809.8** | **21,519.4** | **21,871.7** |

Historic metrics incorporate SNCF Mobilites perimeter only.
*Source: Moody's Financial Metrics™*

Exhibit 10
### Moody's-adjusted EBITDA breakdown

| (in US Millions) | FYE Dec-14 | FYE Dec-15 | FYE Dec-16 | FYE Dec-17 | FYE Dec-18 | LTM Ending Jun-19 |
|---|---|---|---|---|---|---|
| **As Reported EBITDA** | **3,152.9** | **2,473.7** | **2,745.1** | **3,329.7** | **3,056.2** | **3,910.0** |
| Pensions | -1.3 | 13.3 | -2.2 | -2.3 | 2.4 | 2.3 |
| Operating Leases | 883.6 | 711.7 | 682.7 | 841.8 | 962.4 | 464.9 |
| Interest Expense – Discounting | -124.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Securitizations | 0.0 | 2.8 | 0.8 | 1.4 | 3.1 | 3.5 |
| Unusual | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -52.5 |
| Non-Standard Adjustments | -9.3 | 81.1 | -52.0 | -44.1 | -37.8 | -29.7 |
| **Moody's-Adjusted EBITDA** | **3,900.9** | **3,282.5** | **3,374.4** | **4,126.6** | **3,986.3** | **4,298.6** |

Historic metrics incorporate SNCF Mobilites perimeter only.
*Source: Moody's Financial Metrics™*



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## 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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