

ERRATUM

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

Page 23 over 120 of the PDF document (page 21 of the printed document), Consolidated Income Statement :

Line “Non-recurring income” column “31 Dec. 2008”: **1,013** should be read **10,130.0** , total of Operating Profit (Loss) by **8,810.1** being correct.

2008 STATUTORY FINANCIAL STATEMENTS

Page 88 over 120 of the PDF document (page 86 of the printed document), Income statement (continued) :

Line “Other non-recurring income” column “31 Dec. 2008”: **1,013** should be read **10,130.0** , total of Other non-recurring income by **10,202.8** being correct.

FINANCIAL REPORT

2008

SECURITE—AMENAGEMENT

—ILE DE FRANCE—LANGUEDOC ROUSSILLON—MIDI PYRÉNÉES—NORD PAS DE CALAIS PICARDIE—PROVENCE ALPES CÔTE D'AZUR—RHÔNE ALPES AUVERGNE
COMTÉ—BRETAGNE PAYS DE LA LOIRE—CENTRE LIMOUSIN—HAUTE ET BASSE NORMANDIE—ÎLE DE FRANCE—LANGUEDOC ROUSSILLON—MIDI PYRÉNÉES—NORD PAS DE CALAIS PICARDIE—PROVENCE ALPES CÔTE D'AZUR—RHÔNE ALPES AUVERGNE

—CENTRE LIMOUSIN—HAUTE ET BASSE NORMANDIE—ÎLE DE FRANCE—LANGUEDOC ROUSSILLON—MIDI PYRÉNÉES—NORD PAS DE CALAIS PICARDIE—PROVENCE ALPES CÔTE D'AZUR—RHÔNE ALPES AUVERGNE
SECURITE—AMENAGEMENT—COMMUNICATION—SECURITE—AMENAGEMENT

—FRANCE

—ILE DE FRANCE—LANGUEDOC ROUSSILLON—MIDI PYRÉNÉES—NORD PAS DE CALAIS PICARDIE—PROVENCE ALPES CÔTE D'AZUR—RHÔNE ALPES AUVERGNE
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—SECURITE—AMENAGEMENT—COMMUNICATION—SECURITE—AMENAGEMENT

PUBLICA—DEUTSCHLAND—LIECHTENSTEIN—FRANCE

—NORD PAS DE CALAIS PICARDIE—PROVENCE ALPES CÔTE D'AZUR—RHÔNE ALPES AUVERGNE



RÉSEAU FERRÉ DE FRANCE



➤ ***GENERAL CONTENTS***

02	General information
06	Directors' report on the consolidated financial statements
18	Consolidated financial statements for the year ended 31 December 2008
68	Statutory Auditors' report on the consolidated financial statements
70	Directors' report on the financial statements
82	2008 statutory financial statements
115	Statutory Auditors' report on the financial statements



 ***GENERAL
INFORMATION***

1.

General information about Réseau Ferré de France

1.1. Name and registered office

Réseau Ferré de France – abbreviated to “RFF”
Registered office: 92, avenue de France –
75648 Paris Cedex 13, France

1.2. Legal status, applicable legislation and legal oversight

Réseau Ferré de France is a State-owned company (*Établissement Public Industriel et Commercial* – EPIC). It was established by Act n°. 97-135 of 13 February 1997 on reforming French rail transport, as amended in particular by Act n°. 2006-10 of 5 January 2006.

The above Act and enabling legislation (Decree nos. 97-444, 97-445 and 97-446 of 5 May 1997, as amended) respectively set out Réseau Ferré de France’s responsibilities, articles of association and initial assets, as well as fees for the use of the national rail network.

Article 3 of the 1997 Act stipulates that Réseau Ferré de France is subject to the rules applicable to industrial and commercial companies with respect to its financial management and accounting. Réseau Ferré de France keeps its accounts in accordance with the French general chart of accounts (*plan comptable général*) and its financial statements are certified by statutory auditors.

RFF is also subject to the economic, financial and technical oversight of the French State. Oversight procedures are set forth in Articles 56 to 65 inclusive of Section 4 (“State Oversight”) of Decree n°. 97-444 of 5 May 1997.

In accordance with this Decree, administrative and technical matters are overseen by the Transport Minister.

The Economic and Financial Oversight Committee for Transport is responsible for overseeing RFF’s economic and financial affairs, on behalf of the Ministers of the Economy and Budget. The Committee’s role is also to:

- advise and inform RFF;
- verify the amounts paid to RFF by the State and other public authorities;
- ensure compliance with competitive tendering procedures and that contracts are awarded in a fair and proper manner.

1.3. Governing legislation

Réseau Ferré de France is governed by French and European law.

1.4. Date of incorporation

Réseau Ferré de France was incorporated on 1 January 1997, in accordance with Article 1 of the Act of 13 February 1997 on reforming French rail transport.

1.5. Corporate purpose

Réseau Ferré de France’s corporate purpose, as specified in Article 1 of Act n°. 97-135 of 13 February 1997, is to promote French rail transport within a sustainable development framework, by regenerating and enhancing the national rail infrastructure and ensuring its consistency, in accordance with public service principles.

Given safety requirements and the need for uninterrupted public service, SNCF manages rail traffic and the operation and maintenance of technical and safety equipment on behalf of RFF and in line with RFF’s management principles and objectives. SNCF is paid by RFF for these services.

Decree n°. 97-444 of 5 May 1997 sets out the methods and procedures to be adopted by Réseau Ferré de France in performing its activities and when acting as prime contractor for investments in the national rail network (Article 3).

It also stipulates that:

- each year, RFF shall submit an investment plan to the French government, with details as to how this plan is to be financed (Article 4);
- RFF shall act as prime contractor or shall delegate such authority to SNCF for certain activities (Article 6). In order to ensure the safety of persons, SNCF shall be responsible for operating the network on behalf of RFF;
- RFF shall define the management principles and objectives relating to the operation and maintenance of technical and safety equipment for the French national rail network. RFF shall also define the principles and objectives for managing the network’s rail traffic (Articles 7 and 11);
- RFF shall provide SNCF with the necessary facilities and equipment to carry out the above tasks (Article 12);
- SNCF shall use the French rail network to provide rail transport services (Article 13);





— RFF shall be responsible for managing the assets transferred to it as outright owner (Article 17).

In addition, under Decree n°. 2003-194 of 7 March 2003 as amended by Decree n°. 2006-1534 of 6 November 2006 in particular, Réseau Ferré de France is responsible for allocating national rail network infrastructure capacity and for ensuring that all train operators that comply with regulatory requirements have equal access to the national rail network.

1.6. Incorporation particulars

PARIS B 412 280 737.

1.7. Legal documents concerning Réseau Ferré de France may be consulted at the registered office

1.8. Financial year

Réseau Ferré de France's financial year begins on 1 January and ends on 31 December.

1.9. Appropriation of income pursuant to the Articles of Association

See Section II below.

1.10. Board meetings

In accordance with Act n°. 83-675 on the liberalisation of the public sector, RFF, as a State-owned company, is managed by a Board of Directors that meets at least four times a year. The Chairman of the Board of Directors is appointed from among its members.

RFF's Board of Directors deliberates on matters relating to the corporate purpose of the Company, pursuant to Articles 31 and 34 of Decree n°. 97-444 of 5 May 1997.

The composition of the Board complies with the provisions of the aforementioned Act n°. 83-675 of 26 July 1983. The Board has eighteen members, seven of whom represent the French State and six of whom represent employees.

1.11. Statutory auditors

In accordance with Article 3 of Act n°. 97-135 of 13 February 1997 on reforming French rail transport, Réseau Ferré de France is subject to the rules applicable to industrial and commercial companies with respect to its financial management and accounting. Réseau Ferré de France keeps its accounts in accordance with the French general chart of accounts (*plan comptable général*).

As a State-owned company formed by the Act of 13 February 1997, Réseau Ferré de France is overseen by the Economic and Financial Oversight Committee for Transport, which reports directly to the Minister of the Economy. RFF's financial statements are examined by the *Cour des Comptes* (French National Audit Office).

It is also subject to examination by the *Inspection Générale des Finances* (audit body of the French Finance Ministry).

The statutory auditors of Réseau Ferré de France are KPMG and PricewaterhouseCoopers. They were appointed by order of the Minister of the Economy, Finance and Industry on 13 May 2003, based on the recommendation of the Chairman of the former French stock market authority (*Commission des Opérations de Bourse*) and the Chairman of the French Institute of Statutory Auditors, pursuant to the provisions of Article 30 of Act n°. 84-148 of 1 March 1984.

As the term of office as statutory auditor of these two firms expires in 2009 at the end of the Shareholders' Meeting held to adopt the 2008 financial statements, the procedure for the appointment of new statutory auditors is currently in progress.

1.12. Person responsible for the information provided

Hubert du Mesnil
Chairman of Réseau Ferré de France



2.

General information about the share capital

As a State-owned company, Réseau Ferré de France does not have any share capital in the legal sense of the term. RFF's capital at its date of incorporation amounted to €0.86 billion, corresponding to the difference in value between its assets and liabilities. From its incorporation until 2002, this amount was supplemented by yearly capital injections by the French

State. At 31 December 2008, the cumulative amount of capital injections amounted to €9.8 billion.

At 31 December 2008, total equity amounted to €8.6 billion, including the profit for 2008 and net investment grants.



***DIRECTORS' REPORT
ON THE CONSOLIDATED
FINANCIAL STATEMENTS***

Presentation of the consolidated financial statements for the year ended 31 December 2008

RFF reported a consolidated net profit for 2008 of **€11,849 million**, including net non-recurring income of **€9,207.2 million** and deferred tax income of **€3,811 million**, compared to a net loss of **€771 million** in 2007.

The 2008 net non-recurring income reflects the impact of the new business model on the assets of the infrastructure CGU, materialised by the signature of the performance contract between the French State and RFF.

The new RFF business model incorporates the positive aspects of reforms to both the toll fee scale and the State grants to RFF.

These changes generated a substantial increase in the recoverable value of RFF infrastructure assets, resulting

in the reversal to non-recurring items of the entire asset impairment recognised in 2005 on the first-time application of CRC Regulation 2002-10.

This new business model also provides the company with visibility over its future results, which from now on should be positive. As such, RFF recognised a deferred tax asset in the balance sheet, mainly corresponding to residual tax losses carried forward. A deferred tax asset of €3,890.9 million was recognised, including €3,811.0 million against net profit.

Investment expenditure totalled **€2,967.3 million** in 2008, compared to **€2,468.3 million** in 2007.

Consolidated equity remains negative, at **(€1,532.7) million** at 31 December 2008.

Financial performance during the year and comments on key figures

1. Profit for the year

Improvement in net profit for the year.

RFF reported a net profit for 2008 of **€11,849 million**, compared to a net loss of €771 million in 2007.

Operating profit improved by €8,952 million on 2007 (from a loss of €141.9 million to a profit of €8,810.1 million), due to an increase of €9,341.4 million in non-recurring items (from a net expense of €134.2 million to net income of €9,207.2 million).

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Recurring operating loss	(397.1)	(7.7)
Non-recurring income and expenses	9,207.2	(134.2)
Net finance costs	(772.0)	(629.1)
Income tax	3,811.0	—
PROFIT (LOSS) FOR THE YEAR	11,849.0	(771.0)

The recurring operating loss increased by €389.4 million on 2007 to €397.1 million, mainly due to an increase in delegated management fees, the recording of provisions and an increase in the depreciation charge following the impairment reversal.

Other non-recurring income and expenses totalled €9,207.2 million and solely comprised the impact of the reversal of infrastructure asset impairment.

Net finance costs totalled €772 million, representing an increase of €142.9 million on 2007, due to an increase in the level of net debt and an increase in the cost of debt of 6 basis points on average in 2008.





1.1. Change in operating profit (loss)

(in millions of euros)	31 Dec. 2008	31 Dec. 2007	Change
Network fees	2,986.5	2,729.7	256.8
Non-traffic income	63.9	64.8	(1.0)
Other income	48.2	53.3	(5.1)
Operating grants	716.6	931.1	(214.5)
Delegated management fees	(2,950.4)	(2,863.4)	(87.0)
Other network expenses	(152.5)	(145.0)	(7.5)
Taxes other than on income	(43.2)	(41.7)	(1.5)
Other operating expenses	(203.8)	(258.6)	54.8
Depreciation, amortisation and impairment, net	(844.7)	(642.0)	(202.7)
Net charge to provisions for doubtful receivables, including non-traffic income	(14.0)	(0.8)	(13.2)
Investment grants released to profit or loss	256.2	216.7	39.5
Other recurring income	72.9	90.3	(17.5)
Other recurring expenses	(332.7)	(142.2)	(190.5)
RECURRING OPERATING LOSS	(397.1)	(7.7)	(389.4)
Non-recurring income	10,130.0	29.7	10,100.3
Non-recurring expenses	(922.8)	(163.9)	(758.9)
OPERATING PROFIT (LOSS)	8,810.1	(141.9)	8,952.0

1.1.1. Infrastructure fees

Toll fees totalled €2,675.8 million, up €227.3 million (9.3%) on 2007.

This increase can be broken down as follows:

(in millions of euros)	31 Dec. 2008	31 Dec. 2007	Change
Access rights	100.8	93.6	7.2
Route reservation fees	1,631.0	1,485.1	145.9
Station stop reservation fees	440.3	424.8	15.5
Traffic fees	503.7	445.0	58.7
Total infrastructure fees	2,675.8	2,448.5	227.3

The increase in fees is mainly due, for all categories, to increases in the fee scale (+€175.5 million), in particular for N (high-speed), B and C (medium-density lines and high-density inter-city lines) pricing bands, and for traffic fees, and the change in national passenger transport and freight activities.

The entry into operational service of the East European high-speed line in June 2007 led to an increase in the level of activity in the region served by the line. The volume effect of €51.8 million is mainly due to the inclusion of the East European high-speed line for a full year and the development of regional passenger transport activities.

The table below shows changes in traffic levels during the year:

(in millions of train-kilometres)	31 Dec. 2008	31 Dec. 2007	Change
High speed trains	133.6	122.6	11.0
National/Inter-city express trains	53.5	57.7	(4.2)
Regional express trains	172.4	163.2	9.2
Greater Paris regional services	59.5	57.4	2.1
Freight	99.6	107.2	(7.6)
Other	15.3	17.6	(2.3)
Sub-total SNCF	533.9	525.8	8.1
New rail operators	7.4	3.7	3.7
Total	541.3	529.5	11.8

Traffic levels are up 2.2% on 2007 (+11.8 million train-kilometres). The 1.5% increase in SNCF traffic levels (+8.1 million train-kilometres) was accompanied by a 100% increase in traffic levels of new rail operators (+3.7 million train-kilometres).

Passenger transport activities enjoyed growth of 4.5% (+18.1 million train-kilometres). High-speed train (+8.9%), regional express train (+5.6%) and Greater Paris regional service (+3.6%) activities reported growth, while Corail national and inter-city express trains reported a fall in activity levels (-7.3%).

Freight activities fell 3.5% (-3.9 million train-kilometres), with SNCF Freight reporting a drop of 7.1%, while new rail operators enjoyed a doubling of activity levels.

The traffic/reservations ratio expressed as a percentage of train-kilometres to route kilometres was 90.3% (90.5% in 2007).

The majority of the increase in infrastructure fees is offset by a fall in the State contribution to infrastructure costs, which decreased by €169.8 million on 2007 to €658.2 million.

Overall, infrastructure fees plus the State contribution to infrastructure costs increased €57.5 million (+1.8%).

— Additional electricity fees: fees for the availability of overhead lines for network users totalled €92.9 million, steady on 2007.

— Additional electrical traction fees: RFF purchases the electric power used in its installations under a contract signed on 1 March 2007 with EDF Entreprise, mainly in the form of Joule effect losses. Under the same contract, EDF-Entreprise (via the so-called Responsable d'équilibre adjustment system) provides RFF with the additional power supply it requires. RFF network access contracts with RTE (CART contract), EDF-ERD

(CARD contract) and Électricité de Strasbourg provide for the transmission, via the high-voltage and medium-voltage grid upstream of substations, of the energy used by all rail operators. Together these services represented an expense of €152.5 million in 2008, taking account of an annual CSPE public service electricity levy capped at €0.5 million.

— This expense is rebilled on a monthly basis to users of the national rail network in the form of additional electrical traction fees, calculated in proportion to traffic volumes. The total amount of fees rebilled in 2008 was €154.2 million.

— Other service fees totalled €63.5 million, up €18.5 million (41.1%) on 2007. This increase is mainly due to the increase in the fee scale for access to and use of marshalling yards and, to a lesser extent, new services concerning the use of the Motteville-Montérolier-Buchy section by Freight trains.

1.1.2. Property rental income

Property rental income totalled €63.9 million in 2008, compared with €64.8 million in 2007.

2008 income includes credit notes of €7.6 million, fully offset in profit or loss by the reversal of corresponding provisions. In addition, the dispute with SNCF concerning jointly-owned stations was settled in 2008, leading to the issue of a credit note of €4.2 million, partially offset by the reversal of a provision in the amount of €1.8 million.

After adjustment for these items, 2008 income is €75.7 million compared to €71.5 million in 2007 (after adjustment for credit notes issued and deferred income in 2007), representing an increase of 5%.

From 2008, non-traffic income is allocated to five major categories: rail (14.5%), land and property (58%), telecommunications (21%), networks (3%) and sundry authorisations (3.5%).





Telecommunications income totalled €16.3 million in 2008, compared to €14.8 million in 2007 (excluding an adjustment of €3.9 million to deferred income recognised in 2007).

Note that the rail category includes income relating to the occupation of RFF property by SNCF EF, invoiced for an annual amount of €3.1 million from 2008.

1.1.3. Other income

1.1.3.1. Private sidings

Since 1 January 2007, RFF has taken over the full management of private sidings income.

RFF recognised income of €9.1 million in 2008 from the management of private sidings installed at the request of industrial customers, including an adjustment of (€2.6) million in respect of prior years.

1.1.3.2. Sales of materials

This income relates to the sale and salvage of old materials by SNCF on behalf of RFF in connection with maintenance and investment work and totalled €34.1 million in 2008, compared to €34.2 million in 2007.

1.1.4. Delegated management fees

1.1.4.1. Rail network infrastructure and platform management fees

Delegated infrastructure management fees are paid within the scope of the 2007-2010 infrastructure management agreement entered into by RFF and SNCF on 25 May 2007 and amendments setting projected annual basic fees for 2008 at €2,732.9 million.

Various adjustments must be added to these basic fees for 2008, such as the €50 million impact of re-indexing, the 2008 performance bonus, fees for other study services and additional standard maintenance costs and major maintenance operations in the Greater Paris region for a total amount of €17.9 million. In addition, adjustments in respect of prior years were recorded in the amount of €9 million. The total amount recorded in 2008 was therefore €2,809.8 million, compared to €2,718.0 million in 2007 (including adjustments in respect of prior years of (€3.9) million).

Malicious damage by identified and unidentified third parties, and the impact of accidents and damage caused by adverse weather conditions totalled €25.5 million, down €2.7 million on 2007.

Legal actions were instigated when the damage was caused by an identified third-party, in order to obtain financial reparation. Slow progress on these cases prevented RFF from recognising any accrued insurance income on these incidents at 31 December 2008.

The delegation of platform management to SNCF is covered by a separate management agreement. An expense of €46 million was recognised in 2008 in respect of platform management fees, including an adjustment of €2.5 million in respect of prior years.

1.1.4.2. Property management

Previously entrusted entirely to SNCF, property management activities have been split between SNCF and Adyal and Nexity since 2007.

These activities include the management of property assets (rent, expenses, construction and maintenance), assistance with disposals, tax planning, and the management of land use and urban planning procedures.

In addition, new assignments have been awarded to new management service providers, including assistance provided to RFF within the scope of its ownership and management of property occupied by SNCF. This new organisational structure allows RFF to control its information system and update inventory data (performed by Adyal IBM).

Contractual relations with SNCF are now governed by two agreements: a services contract for activities entrusted to SNCF and a financial agreement for the reimbursement of charges relating to property owned by SNCF and occupied for delegated management purposes, which were included from 1999 to 2006 in the Property Management Agreement entered into by RFF and SNCF.

RFF recognised an expense of €42.1 million in respect of the services contract in 2008 and an expense of €14.9 million in respect of the financial agreement.

Property managed by the new service providers Adyal, Nexity and Adyal IBM are governed by separate agreements. Amounts recognised under these agreements in 2008 totalled €11.2 million for Adyal and Nexity, and €0.9 million for Adyal IBM.

Lastly, RFF recognised €3.9 million in adjustments to estimated charges recorded in previous years.

1.1.5. Other network expenses: electricity

RFF electricity charges for 2008 were €152.5 million (excluding VAT). These include the CSPE public service electricity levy of €0.5 million, which was capped at this amount in the 2004 Amended Finance Act.

The annual expense is rebilled on a monthly basis to users of the national rail network in the form of additional electrical traction fees, calculated in proportion to distance travelled and adjusted to take account of train profiles. The amount rebilled monthly is adjusted on a quarterly basis to reflect actual use.

Total fee income of €154.2 million was recognised in 2008.

Since 1 January 2006, RFF has rebilled traction electricity management fees to rail network operators (0.25% of additional electrical traction fees). The CSPE public service electricity levy of €0.5 million was also charged to the various operators on a pro rata basis.

1.1.6. Taxes other than on income

This account includes taxes managed on behalf of and rebilled to SNCF and other non-income based taxes paid by RFF, in the amount of €43.2 million.

1.1.7. Other operating expenses

(in millions of euros)	31 Dec. 2008	31 Dec. 2007	Change
Study costs net of capitalised production	(44.8)	(52.2)	7.4
Railway works and equipment net of capitalised production	(9.6)	(56.1)	46.5
Other external expenses net of capitalised production	(82.4)	(92.8)	10.4
Personnel costs net of capitalised production	(67.0)	(57.5)	(9.5)
Total	(203.8)	(258.6)	54.8

The decrease on 2007 in the cost of railway works is mainly due to adjustments recorded in 2007 to charges for expenditure on PPP projects previously capitalised in the amount of €57.6 million. This adjustment was offset in 2007 in the amount of €47.5 million by a matching reversal of corresponding investment grants in recurring profit or loss.

1.1.7.1. Study costs

Costs of studies and project management assistance break down as follows:

(in millions of euros)	31 Dec. 2008
Extension of high-speed network	(5.7)
Conventional track development	(14.4)
Other studies and appraisals	(23.7)
Adjustments to study costs recorded in prior periods	(1.0)
Total 2008	(44.8)
Total 2007	(52.2)

Study costs include only amounts expensed in profit or loss and exclude capitalised expenses of €44.8 million.

1.1.7.2. Personnel costs

Personnel costs increased 16.5% year-on-year to €67.0 million in 2008, compared with €57.5 million in 2007.

Headcount increased from 843 at 31 December 2007 to 939 at 31 December 2008, representing a year-on-year rise of 11.4%.

They also include changes in provisions for decontamination recorded during the year and concerning two asbestos-removal programmes. The first programme concerns buildings in the RFF property portfolio, while the second programme covers signalling equipment cabins, battery housing and accumulator shelters.

1.1.7.3. Other external expenses

Other external expenses totalled €82.4 million in 2008, compared to €92.8 million in 2007 and mainly include €9.6 million for work on projects managed by sub-contractors (€18.4 million in 2007) and demolition and decontamination costs of €7.6 million (€13.1 million in 2007).

— The first programme concerns the elimination of asbestos from the Company's property assets. An initial provision of €5.7 million was recognised in respect of two programme tranches, one concerning additional work on the asbestos technical files and the second concerning part of the cost of asbestos removal. The total amount of the provision at 31 December 2008 is €9.2 million, including the cost of asbestos removal work at the Gobelins station site.

Other external expenses are presented net of amounts included directly in the production cost of property, plant and equipment.





— The second programme led to the recognition of an initial provision of €12.6 million at 31 December 2005, based on currently available information regarding the “pool” of assets to be treated (i.e. several thousand installations). A new programmed tranche of work led to the recognition of an additional charge to provisions of €0.3 million in 2008, representing a cumulative provision at 31 December 2008 of €14.2 million.

Furthermore, the overall provision was reversed in the amount of €2.2 million in 2008 (bringing cumulative reversals to €8.1 million since the start of the project), corresponding to expenditure incurred and expensed in the year. The provision balance at 31 December 2008 was €6.1 million.

RFF has also implemented a clean-up programme involving the decontamination or removal of railway equipment containing PCB. The detailed analysis performed under the programme led to the initial recognition of a provision of €17.0 million at 31 December 2005, based on currently available information regarding the “pool” of assets concerned. This provision was reversed in the amount of €2.7 million in 2008 (bringing cumulative reversals to €5.6 million since the start of the project), corresponding to expenditure incurred and expensed in the period. The provision balance at 31 December 2008 was €11.4 million.

1.1.8. Depreciation, amortisation and impairment, net

The net charge to **depreciation and amortisation** increased from €642.0 million in 2007 to **€844.7 million** in 2008. The impairment reversal led to the recognition of an additional charge to depreciation in the second half of 2008 estimated at €150 million.

Impairment of projects in progress

Since 2004, RFF has recorded impairment in respect of projects in progress in the pre-project or post pre-project phase, where there is a risk of non-completion of the project.

An impairment charge of €24.8 million was recorded at 31 December 2008, alongside a reversal of €9.1 million. The provision therefore stands at €24.4 million at the year-end. It concerns 245 projects and covers only the portion of expenditure that is equity-financed.

Impairment of commissioned projects: see section 2.1.3.

1.1.9. Investment grants released to profit or loss

Investment grants are released to profit or loss at the same rate as the depreciation charged on the related assets. Grants released in 2008 totalled €256.2 million, including €75.0 million of grants for upgrade and compliance work.

1.1.10. Other recurring income and expenses

Other recurring income totalled €72.9 million in 2008, compared to €90.3 million for the same period in 2007. Other recurring expenses increased from €142.2 million in 2007 to €332.7 million in 2008.

Other recurring income and expenses mainly include the impact of provision movements following a change in the estimated risk associated with certain disputes and litigation.

Provisions recorded at 31 December 2008 mainly concern the Paris Left-Bank development project (“ZAC Paris Rive Gauche”). Analyses were carried out in order to estimate the loss to completion expected by RFF on this development project. Completion of phase 1 of this project is scheduled for 2021. On this basis, the loss already recognised on this project was adjusted via the recognition of a provision.

Provisions recorded at 31 December 2008 also reflect the content of the final arbitration decisions issued by the authorities for the remaining disputes opposing RFF and SNCF regarding the allocation of assets. 2008 profit or loss was impacted by a net charge to provisions of €17.1 million, mainly consisting of a charge of €20.5 million in respect of compensation payable to SNCF in respect of investment incurred by SNCF on assets whose ownership was finally awarded to RFF. The practical means of settling the net cash balance relating to these disputes (€58.7 million payable to RFF) have still to be defined, in particular concerning the interest payable on the different components of this net amount.

Other recurring income includes gains on disposal of €60.9 million in 2008, which generated capital gains of €30.8 million, compared to €67.9 million in 2007 (including capital gain realised in 2007 on assets transferred by RFF in 2006 and retroceded by Sovafim).

1.1.11. Other non-recurring income and expenses

Other non-recurring income and expenses consist solely of the impact of the reversal of impairment on infrastructure assets.

Significant movements in several indicators of loss in (recovery of) value, led RFF to carry out new impairment tests on its infrastructure assets at 31 December 2008. The movements in these indicators are tied to the redefinition of the Company's business model in conjunction with the signature of a performance contract between the French State and RFF, alongside a review of French State grants to RFF, which will take effect from 2009 on.

In this new context, the recoverable value of the assets of the infrastructure CGU appears significantly higher, resulting in the reversal of the entire impairment previously recognised. In accordance with accounting regulations, the reversal of the existing impairment led to the recognition on the one hand of an impairment reversal of €10,130 million and on the other hand of an additional depreciation estimated at €922.8 million, representing a net positive impact on profit or loss of €9,207.2 million.

1.2. Net finance costs

(in millions of euros)

Change in financial income and expenses	31 Dec. 2008	31 Dec. 2007	Change
Debt reduction grant	686.2	693.5	(7.3)
Cost of net debt	(1,470.7)	(1,335.6)	(135.1)
Other financial income	52.1	28.0	24.1
Other financial expenses	(39.6)	(15.0)	(24.6)
Net finance costs	(772.0)	(629.1)	(142.9)

Net finance costs totalled **€772.0 million** in 2008 compared to **€629.1 million** in 2007, representing an increase of €142.9 million.

1.2.1. Cost of net debt

The cost of net debt increased by **€135.1 million** year-on-year, from €1,335.6 million in 2007 to **€1,470.7 million** in 2008.

This downturn was due to an increase in the amount of net debt and an unfavourable interest rate effect in a more difficult market environment. The average cost of RFF debt in 2008 was 5.11%, compared to 5.05% in 2007.

For comparison, the average 3-month Euribor rate was 4.64% in 2008, compared to 4.28% in 2007.

The cost of net debt includes the inherent cost of the debt (€1,535.2 million), including gains and losses on derivative instruments (€127.1 million), less income from cash and cash equivalents (€64.4 million).

1.2.2. Other financial income and expenses

Other financial income and expenses comprise current account interest and late payment interest charged to RFF by suppliers and charged by RFF on late payments by customers.

2. Balance sheet

2.1. Property, plant and equipment

2.1.1. Capitalised production and acquisition of rail network assets

Total annual investment in rail network projects rose by €499 million (20%), from €2,468.3 million in 2007 to **€2,967.3 million** in 2008.

— Projects carried out by SNCF on behalf of RFF in 2008 amounted to €2,047.9 million, compared to €1,840.1 million in 2007 (up 11.3%).

— RFF direct production amounted to €910.1 million (including €568 million on the Rhin-Rhône high-speed line), compared to €621.3 million in 2007, representing an increase of 46.5%.

— Direct acquisitions of land and buildings not linked to rail infrastructure projects in progress totalled €5.6 million, including €3.8 million for advertising billboards.

The increase in this expenditure mainly concerns the Rhin-Rhône project, which recorded a €240 million increase in investment, as well as upgrade projects, which recorded an increase of €150 million.





2.1.2. Investment project assets commissioned during the year

Assets commissioned during the year totalled €167 million, compared to €4,684.8 million in 2007, when they mainly concerned the Eastern France high-speed line for €3,822.5 million.

2.1.3. Impairment testing at the balance sheet date

Property CGU: RFF found no indication of potential impairment of Property CGU assets.

Infrastructure CGU: the model used to calculate the net present value of infrastructure assets was updated to reflect the change in RFF's business model. The net present value of infrastructure assets calculated as at 31 December 2008 now significantly exceeds the corresponding carrying amount.

As such, the asset impairment of €10,130 million previously recognised was released in full through profit or loss. At the same time, an additional depreciation charge of €922.8 million was recognised to adjust accumulated depreciation previously calculated on the carrying amount net of impairment.

2.2. Investment grants

Grants included in non-current liabilities totalled €13,692.1 million at 31 December 2008, compared to €11,844.3 million at 31 December 2007, representing an increase of €1,847.8 million (15.6%).

2.3. Net debt

Net debt as presented in the following table includes all financial instruments recognised in the balance sheet, in accordance with IFRS.

2.3.1. Net debt

Net debt corresponds to loans and borrowings less cash and cash equivalents and liquid assets and includes the fair value of derivatives. Liquid assets are financial assets consisting of funds or securities with initial maturities of less than three months that are easily convertible into cash irrespective of their maturity and that are managed with a view to achieving liquidity objectives.

(in millions of euros)	31 Dec. 2008			31 Dec. 2007		
	Current	Non-current	Total	Current	Non-current	Total
Borrowings	5,022.8	24,249.0	29,271.8	4,711.2	23,740.9	28,452.1
Cash and cash equivalents	(1,890.8)	—	(1,890.8)	(1,294.3)	—	(1,294.3)
Net debt before impact of derivatives	3,132.1	24,249.0	27,381.1	3,416.9	23,740.9	27,157.8
Asset derivatives allocated to debt	(66.0)	(275.3)	(341.3)	(39.5)	(126.6)	(166.1)
Liability derivatives allocated to debt	170.4	1,948.9	2,119.4	152.0	849.2	1,001.2
Net debt	3,236.5	25,922.6	29,159.1	3,529.4	24,463.5	27,992.9

2.2.1. Grants (excluding grants for upgrade and compliance work)

— **Net grants on commissioned assets** totalled **€5,903.3 million**, compared to €6,014.8 million at the end of 2007.

Grants on newly commissioned assets totalled €75.9 million in 2008, while grants released to profit or loss in the same period amounted to €187.3 million.

— **Earned investment grants on assets under construction**, calculated on a percentage of completion basis, totalled **€3,462.0 million**, compared to €2,229.6 million at the end of 2007.

2.2.2. Grants for upgrade and compliance work

The 2004 Finance Act created a "regeneration" grant intended to finance investment in upgrade and compliance work on the national rail network.

These grants are recorded in investment grants and transferred to "Grants on commissioned assets" in the amount of upgrade and compliance investment commissioned during the period. Grants are then released to profit or loss over the weighted average useful life of the related assets, from the average date on which the assets are brought into service during the accounting period.

Grants for upgrade and compliance work released to profit or loss in 2008 totalled **€75.0 million**.

2.3.2. Breakdown of net debt

(in millions of euros)	31 Dec. 2008			31 Dec. 2007		
	Current	Non-current	Total	Current	Non-current	Total
RFF long-term debt	1,935.5	22,377.3	24,312.8	1,240.6	21,374.9	22,615.5
SNCF long-term debt	487.8	1,871.7	2,359.4	1,342.6	2,365.9	3,708.5
Short-term debt	2,599.6	–	2,599.6	2,128.1	–	2,128.1
Borrowings	5,022.8	24,249.0	29,271.8	4,711.2	23,740.9	28,452.1

RFF raised €2.95 billion on the international capital markets in 2008 through 15 public and private issues denominated in euros, pound sterling, US dollars and Swiss francs. In particular, RFF increased the liquidity of its benchmark public issues on the euro bond market by increasing its 15-year issue (RFF 4.375% 02/06/22) by €200 million, bringing total outstandings to €2.2 billion and by increasing its 10-year issue (RFF 4.45% 27/11/17), by €400 million bringing total outstandings to €1 billion.

Private issues performed in 2008 represent a total amortised cost of €1,451.5 million at 31 December 2008.

On the creation of RFF on 1 January 1997, €20.5 billion in debt was transferred from SNCF and recognised in RFF's opening balance sheet.

The total amortised cost of the remaining debt transferred from SNCF was €2,359.4 million at 31 December 2008.

In 2008, the current portion of the debt transferred from SNCF totalled €1,297.1 million.

Short-term debt raised by RFF in 2008 represented average outstandings of €2,203 million.

3. Cash flow statement

(in millions of euros)	2008	2007	Change
Operating cash flow before movements in working capital, cost of net debt and income taxes	457.8	503.6	(45.8)
Movements in operating working capital	20.3	22.3	(2.0)
Net cash from operating activities	478.1	525.9	(47.8)
Net cash used in investing activities	(646.7)	(361.7)	(285.0)
<i>(o/w movements in investing working capital)</i>	141.7	(18.4)	160.1
Net cash from financing activities	765.5	794.7	(29.2)
<i>(o/w movements in financing working capital)</i>	57.7	(47.9)	105.6
Increase in cash and cash equivalents net of bank overdrafts	596.7	958.9	(362.2)

Net cash from operating activities is down slightly on 2007.

The increase in net cash used in investing activities is due to the increase in investment expenditure not financed by investment grants.

Net cash from financing activities is relatively stable on 2007 at €765.5 million and mainly comprises an increase in borrowings net of repayments of €1,384.8 million and in interest paid, net of debt repayment grants received, of €635.5 million.

Overall, activities in 2008 generated an increase in cash and cash equivalents of €596.7 million.





Major events of the year

Impairment of infrastructure assets

Due to significant changes in the impairment loss (or reversal) indicators, RFF conducted new impairment tests for its infrastructure assets as at 31 December 2008. The changes in these indicators are related to the redefinition of the RFF economic model in relation to the drafting of the performance contract between the State and RFF. They include the reform of the scale for infrastructure fees and the consequences of the review of the State grants to RFF.

In this new context, the recoverable value of the assets of the infrastructure CGU appears significantly higher, resulting in the reversal of the entire impairment previously recognised. In accordance with accounting regulations, this reversal of existing impairment in the amount of €10,130 million was accompanied by the recognition of an additional depreciation charge estimated at €922.8 million, representing a net positive impact on non-recurring income of the year of €9,207.2 million.

Deferred taxes

RFF has a substantial net deferred tax asset position mainly due to tax losses available for carry forward indefinitely.

Prior to 31 December 2008, RFF had not recognised this asset due to the uncertainty surrounding its recovery.

As at 31 December 2008, RFF's new business model (see "Impairment of infrastructure assets" above) provides visibility over future results, which from now on should be positive.

As such, the necessary conditions exist to enable the recognition of a deferred tax asset in accordance with IAS 12. RFF therefore recognised a deferred tax asset of €3,890.9 million, including €3,811.0 million against profit for the year.

Loss to completion on the Paris Left-Bank ("ZAC Paris Rive Gauche") development project

Further analyses were carried out in order to estimate the loss to completion expected by RFF on the Paris Left-Bank development project.

Based on this analysis and taking into account the stage of completion as at 31 December 2008, the result already recognised on this project was adjusted via the recognition of a loss provision.

Termination of the arbitration procedure concerning the disputed allocation of assets with SNCF

The final arbitration decisions were issued by the Authorities for the remaining disputes opposing RFF and SNCF regarding the allocation of assets.

These arbitration decisions impacted 2008 net profit *via* a net movement in provisions of €17.1 million (charge of €20.5 million and reversal of €3.4 million).



III.

Change in accounting policy

No changes were made to accounting policies in 2008.

The only change concerned an adjustment to impairment tests performed on the infrastructure CGU to take account of RFF's new business context.

IV.

Subsequent events

None.



***CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2008***

Assets	20	Note 4 - Notes to the balance sheet	35
Equity and liabilities	20	4.1. Intangible assets	35
Consolidated income statement	21	4.2. Investment property	36
Consolidated cash flow statement	22	4.3. Property, plant and equipment	37
Consolidated statement of changes in equity	23	4.4. Current and non-current financial assets	39
Note 1 - Presentation of Réseau Ferré de France (RFF)	24	4.5. Deferred taxes	39
Note 2 - Comparability of the financial statements	24	4.6. Trade receivables	39
2.1. Change in accounting policy	24	4.7. Other receivables	40
2.2. Major transactions and events	24	4.8. Grants receivable	41
Note 3 - Summary of significant accounting policies and measurement methods	25	4.9. Cash and cash equivalents	41
3.1. Basis of preparation of the financial statements	25	4.10. Non-current assets held for sale and related liabilities	41
3.2. Use of estimates	26	4.11. Grants	41
3.3. Consolidation scope and methods	26	4.12. Provisions	43
3.4. Segment reporting	26	4.13. Net debt	45
3.5. Translation of foreign currency denominated transactions	26	4.14. Borrowings	45
3.6. Related parties	26	4.15. Management of financial risks and derivative instruments	48
3.7. Structure of the balance sheet, income statement and cash flow statement	27	4.16. Fair value of financial instruments	58
3.8. Intangible assets	27	4.17. Other non-current liabilities	59
3.9. Investment property	27	4.18. Trade payables	59
3.10. Property, plant and equipment	27	4.19. Other payables	59
3.11. Impairment of non-financial assets	28	4.20. Other current financial liabilities	59
3.12. Measurement and recognition of financial assets	29	4.21. Other disclosures	60
3.13. Asset and liability derivative financial instruments	30	Note 5 - Notes to the income statement	61
3.14. Deferred taxes	31	5.1. Revenue breakdown by type	61
3.15. Trade receivables and related accounts – Other receivables	31	5.2. Operating grants	62
3.16. Cash and cash equivalents	32	5.3. Delegated management fees	62
3.17. Capital injections	32	5.4. Other network expenses	63
3.18. Reserves and accumulated deficit	32	5.5. Taxes other than on income	63
3.19. Provisions	32	5.6. Other operating expenses	63
3.20. Employee benefits	32	5.7. Investment grants released to profit or loss	64
3.21. Grants	32	5.8. Other recurring income and expenses	64
3.22. Measurement and recognition of financial liabilities	33	5.9. Cost of net debt	64
3.23. Trade payables and related accounts – Other payables	33	5.10. Other financial income and expenses	65
3.24. Non-current assets and liabilities held for sale	34	Note 6 - Related parties	66
3.25. Leases	34	Note 7 - Off-balance sheet commitments	67
3.26. Revenue	34	Note 8 - Subsequent events	67



Balance sheet

ASSETS

(in millions of euros)	Note	31 Dec. 2008	31 Dec. 2007
Intangible assets	4.1	3.9	5.4
Investment property	4.2	491.6	522.8
Property, plant and equipment	4.3	37,344.8	26,028.3
Non-current financial assets	4.4	25.5	5.2
Derivative financial instruments	4.13	275.3	126.6
Deferred tax assets	4.5	3,890.9	–
NON-CURRENT ASSETS		42,032.0	26,688.3
Trade receivables	4.6	741.6	1,061.1
Other receivables	4.7	831.3	772.4
Grants receivable	4.8	1,713.0	1,902.7
Current financial assets	4.4	52.9	57.9
Derivative financial instruments	4.13	66.0	39.5
Cash and cash equivalents	4.9	1,890.8	1,294.3
Assets held for sale	4.10	4.0	3.5
CURRENT ASSETS		5,299.6	5,131.3
TOTAL ASSETS		47,331.6	31,819.6

EQUITY AND LIABILITIES

(in millions of euros)	Note	31 Dec. 2008	31 Dec. 2007
Capital injections		9,764.6	9,764.6
Reserves and accumulated deficit		(11,297.3)	(22,956.1)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		(1,532.7)	(13,191.5)
Minority interests		–	–
TOTAL EQUITY		(1,532.7)	(13,191.5)
Non-current provisions	4.12	30.9	34.7
Grants	4.11.1	13,692.1	11,844.3
Non-current borrowings	4.13	24,249.0	23,740.9
Derivative financial instruments	4.13	1,948.9	849.2
Deferred tax liabilities	4.5	–	–
Other non-current liabilities	4.17	107.2	32.5
NON-CURRENT LIABILITIES		40,028.2	36,501.7
Current provisions	4.12	425.7	139.3
Trade payables	4.18	850.6	892.7
Grants	4.11.4	883.4	743.4
Other payables	4.19	355.5	574.3
Current borrowings	4.13	5,022.8	4,711.2
Other current financial liabilities	4.20	1,089.5	1,180.3
Derivative financial instruments	4.13	170.4	152.0
Liabilities directly associated with assets held for sale	4.10	38.0	116.2
CURRENT LIABILITIES		8,836.0	8,509.5
TOTAL LIABILITIES AND EQUITY		47,331.6	31,819.6

Consolidated income statement

(in millions of euros)	Note	31 Dec. 2008 (12 months)	31 Dec. 2007 (12 months)
Revenue	5.1	3,098.5	2,847.8
Operating grants	5.2	716.6	931.1
Delegated management fees	5.3	(2,950.4)	(2,863.4)
Other network expenses	5.4	(152.5)	(145.0)
Taxes other than on income	5.5	(43.2)	(41.7)
Other operating expenses	5.6	(203.8)	(258.6)
Depreciation, amortisation and impairment, net		(844.7)	(642.0)
Net charge to provisions for contingencies and losses		–	–
Net charge to current asset provisions		(14.0)	(0.8)
Investments grants released to profit or loss	5.7	256.2	216.7
Other recurring income	5.8	72.9	90.3
Other recurring expenses	5.8	(332.7)	(142.2)
RECURRING OPERATING PROFIT (LOSS)		(397.1)	(7.7)
Non-recurring income		1,013	29.7
Non-recurring expenses		(922.8)	(163.9)
OPERATING PROFIT (LOSS)		8,810.1	(141.9)
Debt reduction grant		686.2	693.5
Cost of gross debt	5.9	(1,535.2)	(1,360.9)
Income from cash and cash equivalents	5.9	64.5	25.3
Cost of net debt		(1,470.7)	(1,335.6)
Other financial income	5.10	52.1	28.0
Other financial expenses	5.10	(39.6)	(15.0)
NET FINANCE COSTS		(772.0)	(629.1)
Income tax expense		3,811.0	–
PROFIT (LOSS) FOR THE YEAR		11,849.0	(771.0)
Minority interests		–	–
PROFIT (LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		11,849.0	(771.0)





Consolidated cash flow statement

(in millions of euros)

	Note	31 Dec. 2008 (12 months)	31 Dec. 2007 (12 months)
CASH FLOW FROM OPERATING ACTIVITIES			
Profit (loss) for the year		11,849.0	(771.0)
Net income from assets and liabilities held for sale		–	137.2
Capital (gains) losses on disposal		(28.3)	(67.9)
Depreciation, amortisation, impairment and charges to provisions, net		(8,155.3)	663.9
Investment grants released to profit or loss		(256.2)	(216.7)
Other non-cash income and expenses		75.0	115.9
Cost of net debt	5.9	1,470.7	1,335.6
Debt reduction grant		(686.2)	(693.5)
Income tax expense (including deferred taxes)		(3,811.0)	–
OPERATING CASH FLOW BEFORE MOVEMENTS IN WORKING CAPITAL, AND INCOME TAXES		457.8	503.6
Income taxes paid		–	–
Movements in working capital	4.21.1	20.2	22.3
NET CASH FROM OPERATING ACTIVITIES		478.0	525.9
CASH FLOW FROM INVESTING ACTIVITIES			
Cash outflow on acquisitions	4.21.2	(3,062.1)	(2,404.6)
Investment grants	4.21.2	2,392.2	2,006.9
Changes in other non-current financial assets		(0.3)	(0.6)
Disposals of/reductions in non-current assets		23.4	36.7
NET CASH USED IN INVESTING ACTIVITIES		(646.7)	(361.7)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of borrowings		(735.0)	(297.8)
New borrowings raised		2,119.8	1,769.0
Net interest paid (after debt reduction grant)		(635.5)	(676.6)
Increase in guarantee deposits received		16.3	0.1
Changes in other non-current financial assets		–	–
NET CASH FROM FINANCING ACTIVITIES		765.5	794.7
NET INCREASE IN CASH AND CASH EQUIVALENTS		596.7	958.9
Net cash and cash equivalents at beginning of year		1,291.0	332.1
Net cash and cash equivalents at end of year		1,888.1	1,291.0
NET INCREASE IN CASH AND CASH EQUIVALENTS		596.7	958.9

Consolidated statement of changes in equity

(in millions of euros)

	Capital injections	Reserves and accumulated deficit	Income and expenses recognised directly in equity	Equity attributable to equity holders of the parent	Minority interests	Total equity
EQUITY AT 1 JANUARY 2007	9,764.6	(22,215.5)	(308.2)	(12,759.1)	–	(12,759.1)
2007 net loss per the parent company financial statements	–	(795.8)	–	(795.8)	–	(795.8)
Fair value gains/(losses) on derivative financial instruments	–	24.8	338.6	363.4	–	363.4
Fair value gains/(losses) on available-for-sale financial assets	–	–	–	–	–	–
Other changes	–	–	–	–	–	–
EQUITY AT 31 DECEMBER 2007	9,764.6	(22,986.5)	30.4	(13,191.5)	–	(13,191.5)

(in millions of euros)

	Capital injections	Reserves and accumulated deficit	Income and expenses recognised directly in equity	Equity attributable to equity holders of the parent	Minority interests	Total equity
EQUITY AT 1 JANUARY 2008	9,764.6	(22,986.5)	30.4	(13,191.5)	–	(13,191.5)
2008 net profit per the parent company financial statements	–	8,098.0	–	8,098.0	–	8,098.0
Fair value gains/(losses) on derivative financial instruments	–	(60.0)	(270.2)	(330.2)	–	(330.2)
Fair value gains/(losses) on available-for-sale financial assets	–	–	–	–	–	–
Other changes *	–	3,811.0	79.9	3,890.9	–	3,890.9
EQUITY AT 31 DECEMBER 2008	9,764.6	(11,137.5)	(159.9)	(1,532.7)	–	(1,532.7)

* Recognition of a deferred tax asset for the first time in 2008 (see Note 2.2 Major transactions and events).





Notes

to the consolidated financial statements

The consolidated financial statements of the Group were approved by the Board of Directors on 9 April 2009.

Note 1

Presentation of Réseau Ferré de France (RFF)

Réseau Ferré de France is a State-owned industrial and commercial company (*Établissement public à caractère industriel et commercial*, EPIC), created by Act n°. 97-135 of 13 February 1997, with retroactive effect from 1 January 1997. Its registered office is located at 92, avenue de France, Paris 13th District.

This Act and the related enabling legislation (Decree nos. 97-444, 97-445 and 97-446) transferred ownership of the French rail infrastructure previously held by SNCF to Réseau Ferré de France, which was created as an independent entity. The Decree of 6 December 2006 confirmed the activities of RFF, while specifying the conditions under which they could be delegated to SNCF.

Note 2

Comparability of the financial statements

2.1. Change in accounting policy

There were no changes in accounting policy in 2008.

2.2. Major transactions and events

Valuation of infrastructure assets

Significant movements in several indicators of loss in (recovery of) value, led RFF to carry out new impairment tests on its infrastructure assets as at 31 December 2008.

The movements in these indicators are tied to the redefinition of the Company's business model in conjunction with the signature, on 3 November 2008, of a performance contract between the French State and RFF, alongside a review of French State grants to RFF, which will take effect in 2009.

Given these changes, impairment test application methods were adapted. These modifications concerned:

— The inclusion of upgrade assets in progress in asset values compared with recoverable values.

— The replacement of the former grant, State contribution to infrastructure costs and upgrade grant with the new, more significant, operating grant flow.

In this new context, the recoverable value of the assets of the Infrastructure CGU appears significantly higher, resulting in the reversal of the entire impairment previously recognised. In accordance with accounting regulations, the reversal of the existing impairment led to the recognition of an impairment reversal of €10,130 million and additional depreciation estimated at €922.8 million, representing a net positive impact on non-recurring income for the year of €9,207.2 million.

Deferred taxes

Prior to 31 December 2008, RFF had not recognised any deferred tax assets due to the uncertainty surrounding their

recovery. As at 31 December 2008, RFF's new business model (see "Asset Valuation" above) provides visibility as to the use of tax losses carried forward, thanks to forecast future profits.

As such, the necessary conditions exist to enable the recognition of a deferred tax asset as at 31 December 2008 in accordance with IAS 12. RFF therefore recognised a receivable of €3,890.9 million, of which €3,811 million against the profit for the year and €79.9 million against reserves.

Loss on completion on the Paris Left-Bank ("ZAC Paris Rive Gauche") development project

Further analysis was carried out during 2008 in order to estimate the loss on completion expected by RFF on the Paris Left-Bank development project.

Based on this analysis and taking into account the stage of completion as at 31 December 2008, the loss already recognised on this project was adjusted via the recognition of a loss provision.

Termination of the arbitration procedure concerning the disputed allocation of assets with SNCF

The final arbitration decisions were issued by the authorities for the remaining disputes opposing RFF and SNCF regarding the allocation of assets.

These arbitration decisions impacted 2008 net profit *via* an exceptional net movement in provisions for contingencies and losses of €17.1 million (charge of €20.5 million and reversal of €3.4 million).

The practical means of settling the net balance of receivables and payables in dispute (net RFF receivable of €58.7 million) have still to be defined, in particular concerning the interest payable on the different components of this net balance.

Transfer of assets to the Port Authorities

The Decree creating the port rail network of the Autonomous Port Authorities of La Rochelle, Le Havre, Nantes-Saint-Nazaire, Rouen, Bordeaux, Dunkerque and Marseille was published in the Official Journal on 4 September 2008.

This publication triggered payment of 80% of balancing amounts provided in the allocation orders and the transfer of ownership of the assets to the Autonomous Port Authorities. The remaining 20% is payable in 2011 subject to a number of conditions.

The impact of the provisions of this Decree were recorded in the accounts in the second half of 2008, without a material impact on 2008 net profit (–€1.8 million), as the estimated impact of these asset transfers to the port authorities was already recognised in the accounts as at 31 December 2007.

Note that the Decrees relating to the ports of Strasbourg and Paris have still to be published.

Note 3

Summary of significant accounting policies and measurement methods

3.1. Basis of preparation of the financial statements

Pursuant to European Regulation 1606/2002 of 19 July 2002, the consolidated financial statements of RFF Group have been prepared in accordance with IFRS.

At the 2008 year-end, the financial statements were prepared in accordance with standards adopted by the European Union and of mandatory application, as known at this date and available on the website <http://ec.europa.eu>.

The Group did not elect for the early adoption of the following IFRS standards, amendments and interpretations, which had been issued but whose application was not yet mandatory at the date the financial statements were authorised for issue:

- ___ IAS 23 revised, *Borrowing Costs*.
- ___ IFRS 8, *Operating Segments*.
- ___ IFRIC 12, *Service Concession Arrangements*.

IFRIC 12 is not applicable to the Group in 2008 as it has not entered into any concession arrangements. It will be applicable in 2009 in respect of the first public-private partnership agreement to be signed in 2009 concerning the GSMR project.





IFRS 8 should not impact the 2009 financial statements.

IAS 23 revised will be applicable in 2009 to new projects entering the capitalisation phase in 2009. The impact of this standard on RFF assets and net profit has not been estimated.

3.2. Use of estimates

The preparation of financial statements in accordance with IFRS requires certain significant accounting estimates to be made. RFF management also exercises judgement in applying the Group's accounting policies.

Changes in the business or financial environment, or adjustments to any of these assumptions, could lead to the amounts recognised in future financial statements being different from current estimates. The financial statements presented have been prepared based on the best possible estimates and information available at the date the financial statements were authorised for issue.

The resulting accounting estimates impact the following headings in particular:

— Provision for decontamination: the amount of the provision corresponds to an estimate of the Group's risk in respect of assets identified as requiring decontamination, based on information available at the year-end, pending a comprehensive inventory of the buildings and equipment requiring decontamination.

— Fair value of derivatives and other financial instruments: the fair value of all financial assets and liabilities has been determined at the year-end, either for the purposes of accounting recognition or in order to provide disclosures in the notes to the financial statements (see note 4.16).

Fair value is determined:

- based on quoted prices in an active market; or
- based on internal valuation techniques using standard mathematical calculation methods that take account of observable market data (forward rates/prices, interest-rate curves, etc.); or
- if no observable market data is available, based on internal valuation techniques using parameters estimated by the Group.

Prices quoted on an active market

Where prices quoted on an active market are available, they are used in preference to other methods for the determination of market value. Marketable securities and certain quoted bonds are valued in this manner.

Fair values determined using models that take account of observable market data

Most derivative financial instruments (swaps, caps, floors, etc.) are traded on over-the-counter (OTC) markets on which quoted prices are not available. Accordingly, they are valued based

on models commonly used by market participants to measure such financial instruments.

Valuations of derivative instruments calculated in-house are tested, every six months, for consistency with the valuations provided by our counterparties.

The fair value of quoted bonds/debt is calculated by discounting the contractual cash flows at market interest rate.

For receivables and payables due in less than one year and certain floating-rate debt and receivables, the carrying amount is considered to represent a reasonable approximation of fair value on account of the short settlement periods used by the Group.

— Recoverable amount of property, plant and equipment: the value in use of infrastructure assets is calculated by discounting future cash flows, which requires the use of estimates and long-term assumptions.

— Earned grants: proceeds relating to earned grants are calculated in accordance with the percentage completion of the work, which is estimated based on expenditure incurred and the forecast cost of projects.

— Investment property: these assets are identified in conjunction with experts in RFF's property management department.

3.3. Consolidation scope and methods

RFF presents consolidated financial statements with a scope of consolidation that includes only the parent company.

3.4. Segment reporting

As RFF only has a single business segment, located solely in France, no segment reporting is provided.

3.5. Translation of foreign currency denominated transactions

The consolidated financial statements are presented in euros, RFF's presentation currency. Foreign currency denominated transactions are translated into the functional currency at the exchange rate prevailing at the transaction date, with the impact on profit or loss recognised on settlement of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet date. Foreign currency gains and losses arising on translation are recognised through profit or loss.

3.6. Related parties

All entities over which the French State exercises control or significant influence and their management are considered as related parties for the purposes of the consolidated financial statements.

3.7. Structure of the balance sheet, income statement and cash flow statement

Structure of the balance sheet

Assets and liabilities generated in the normal operating cycle, together with those maturing less than one year after the balance sheet date, are classified as current. Cash and cash equivalents and bank overdrafts are also classified as current. Any assets and liabilities that do not meet the criteria set out above are classified as non-current.

Non-current assets and liabilities held for sale are presented on a separate line in balance sheet assets and liabilities.

Structure of the income statement

The Income Statement is presented by type of income and expense and is structured around the following indicators:

- Recurring operating profit (loss): this account includes income and expenses directly relating to the Group's activities. The "Operating grants" and "Other operating expenses" accounts are presented separately in order to highlight both the contribution of the French State and local authorities to results and the Group's operating expenses (personnel costs, studies and other operating expenses).
- Operating profit (loss): this account corresponds to recurring operating profit (loss) stated after items of income and expense that are material, non-recurring, and which do not therefore arise in the context of the entity's usual business activities.
- Net finance costs: net finance costs correspond to the cost of net debt adjusted for "Other financial income and expenses" and the debt reduction grant provided by the French State. The cost of net debt comprises all income and expenses items arising during the period in respect of net debt components, including income and expenses relating to interest rate and foreign currency hedges:
 - interest expense on financing transactions;
 - income/expense on interest-rate and foreign currency hedges on debt.

Structure of the cash flow statement

The cash flow statement is structured around operating cash flow before movements in working capital and income taxes.

The purpose of this statement is to analyse the change in balance sheet cash and cash equivalents from one year to the next. For this purpose, the entity's activities are broken down into three main components: operating activities, investing activities and financing activities.

Operating activities correspond to the business of operating the infrastructure assets.

Investment activities include flows relating to investments made and investment grants received in the period.

Financing activities include flows arising on financial operations (short-, medium- and long-term) and cash flows relating to the cost of net debt.

Cash and cash equivalents in the cash flow statement include cash and cash equivalents as stated in the balance sheet less bank overdrafts.

3.8. Intangible assets

Intangible assets include purchased software and software developed in-house.

Purchased software is recognised at purchase cost, equal to the purchase price plus any ancillary costs necessary to bring the software into operational use. These costs are amortised on a straight-line basis over the estimated useful life of the software, i.e. twelve months.

Software developed in-house is capitalised in assets at production cost where it meets the corresponding IFRS criteria, and amortised on a straight-line basis over its estimated useful life, i.e., three years.

Subsequent expenditure is capitalised if it increases the future economic benefits of the specific asset to which it relates and if this cost can be reliably allocated to the asset. Costs associated with software development before the detailed design stage, and costs associated with maintaining software in operational condition, are expensed as incurred.

3.9. Investment property

Investment property corresponds to property assets held by the Group with a view to earning rentals or for capital appreciation, or both.

Items of investment property are recognised at cost and depreciated on a straight-line basis over their respective useful lives.

On first-time adoption of IFRS, the balance sheet valuation of investment property was determined using the most appropriate estimate based on the overall value of the land and buildings.

This amount has subsequently been subject to depreciation and is reduced by the value of disposals.

3.10. Property, plant and equipment

Property, plant and equipment mainly comprises the infrastructure of the national rail network and is measured at purchase or production cost.

Investments made through acquisitions are relatively immaterial.





On the creation of RFF on 1 January 1997, property, plant and equipment transferred by SNCF was recognised for an amount of €22.5 billion.

3.10.1. Production cost

The production cost of projects is capitalised in balance sheet assets from the “pre-project” phase. The cost of preliminary studies is expensed in the period incurred.

The production cost of projects carried out under contracts granted by RFF includes amounts invoiced by the companies performing the work plus project management and prime contractor costs.

For projects carried out directly by RFF, production cost includes the cost of studies, construction work, purchase cost and compensation paid for land acquisitions and direct operating expenses.

Borrowing costs incurred on debt used to finance installations are not included in production cost but expensed in the period incurred.

3.10.2. Depreciation of property, plant and equipment

RFF has established a list of component types for its infrastructure assets. This classification includes 11 families comprising approximately 100 components. In addition, tracks are classified based on the International Union of Railways (UIC) line traffic indicators.

RFF has defined useful lives for each component in its list. Depreciation is calculated on a straight-line basis. Asset useful lives are defined based on recommendations of technical experts in the relevant field and are summarised in the following table:

Asset type	Useful life
Land	not depreciated
Improvements to land	30 years
Buildings	15 to 50 years
Improvements to buildings	10 years
Earthworks	10 years
Tracks	20 to 100 years
Electricity supply equipment	10 to 75 years
Signalling equipment	15 to 50 years
Telecommunications	5 to 30 years
Level crossings	15 years
Civil engineering structures	30 to 70 years

Operating property, plant and equipment is depreciated on a straight-line basis over the following useful lives:

Asset type	Useful life
Fixtures and fittings	10 years
Furniture and office equipment	5 to 7 years
IT and telecommunications	3 to 5 years
Vehicles	5 years

3.11. Impairment of non-financial assets

Assets are grouped into cash-generating units (CGUs). A CGU is defined as the smallest identifiable group of assets whose use generates independent cash inflows. RFF has identified two CGUs: “Infrastructure” and “Property”.

3.11.1. Impairment of infrastructure in operational use (“Infrastructure” CGU)

At each balance sheet date, RFF assesses whether there is any indications of loss or gain in value. If necessary, an impairment test is performed.

Indications of impairment loss (or reversal)

RFF has adopted the following indicators of impairment:

- changes in market interest rates,
- obsolescence or physical deterioration of assets that was not foreseen in the depreciation schedules,
- material changes in the extent or the manner in which an asset is used,
- material changes in asset performance.

Changes in these indicators are compared with changes in:

- RFF’s borrowing rate and, by implication, its discount rate,
- the amount of future maintenance expenditure,
- the amount of future toll fees,
- the amount of future State contributions to infrastructure costs and other operating grants,
- the remaining average useful lives of the assets.

Impairment tests involve comparing the net carrying amount of assets, net of grants on commissioned assets not yet released to profit or loss, to the present value of future cash flows to be generated by these assets.

The recoverable amount of the assets of the Infrastructure CGU corresponds to their value in use (no net selling price exists for these assets), calculated based on the present value of the estimated future cash flows expected from the continued use of these assets and their disposal at the end of their useful lives.

Cash flows are based on figures presented in the performance contract for the period 2008-2012.

The discount rate used is based on the cost of the Group's long-term debt. A risk premium of 1.5% is added to this rate. Construction risks are excluded. If the net carrying amount of the Infrastructure CGU is greater than the present value, an impairment loss is recognised. This impairment loss is allocated to each of the assets in the CGU in proportion to their net carrying amounts. If the net carrying amount of the CGU is less than the present value of future cash flows and an impairment loss was previously recognised, this impairment loss is reversed to increase the net carrying amount of the CGU to the lesser of: — the recoverable amount, or — the net carrying amount that would have been recorded (net of depreciation) if no impairment loss had been recognised in prior periods.

3.11.2. Impairment of assets under construction

RFF performs annual impairment tests on assets under construction. These involve comparing their net carrying amount to their recoverable amount, corresponding to their value in use. The aim is to identify the risk of non-completion of the project, which would result in costs being capitalised in circumstances where no asset will ultimately be created.

When investment on a project is stopped, the expenditure recorded is written down to its recoverable amount.

If an exceptional event calls the completion of a project into question, capitalised costs are impaired in full.

Impairment losses are calculated net of earned grants relating to the projects in question.

3.11.3. Impairment of investment property ("Property" CGU)

The recoverable value of the assets in the Property CGU is equal to the higher of their fair value net of costs to sell and their value in use.

The assets in this CGU consist of land and buildings. The land (including goods yards) is owned by RFF but not used in rail activities. The fair value of land, net of costs to sell, is estimated based on:

- the geographical location of the land,
- a market value per square metre, which takes account of the land's probable use after sale.

At each balance sheet date, RFF assesses whether there is any indication of loss or gain in value. Where such indication exists, an impairment test is performed and a provision recognised where appropriate.

The future depreciation schedule of each asset is adjusted to reflect the impairment loss allocated to it.

If the test produces a net carrying amount for the CGU which is less than the recoverable amount, and an impairment has previously been recognised on this CGU, this impairment is reversed to increase the net carrying amount in line with the recoverable amount.

3.12. Measurement and recognition of financial assets

Pursuant to IAS 39, the Group's financial assets are classified in one of the following categories: financial assets at fair value through profit or loss; loans and receivables; available-for-sale financial assets; and financial assets held to maturity. This classification depends on the reasons underlying the acquisition of the assets.

On initial recognition, financial assets are measured at fair value plus directly attributable transaction costs. For assets measured at fair value through profit or loss, any transaction costs are expensed directly in profit or loss.

Financial assets are recognised at the transaction date.

Financial assets at fair value through profit or loss

This category includes:

a) Monetary mutual funds, negotiable debt instruments and other short-term cash investments for which the fair value option has been retained. Use of this option is justified by the fact that these instruments are managed at fair value and the profit or loss resulting from this management is specifically reported to general management.

b) Derivatives not designated as hedging instruments (trading derivatives). These derivatives are acquired to hedge foreign currency and interest rate risks but do not satisfy the effectiveness criteria set out in IAS 39 (see Note 3.13.4).

These financial assets are measured at fair value and changes in fair value are recognised through profit or loss.

Loans and receivables

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. In RFF, they comprise operating receivables and guarantee deposits paid.

Short-term receivables are recognised at fair value, which corresponds to the present value of estimated future cash flows. This value equals their nominal amount if the impact of discounting is not considered to be material. Long-term receivables are recognised in the balance sheet at fair value and are subsequently measured in accordance with the effective interest method.





Where the impact of discounting remains immaterial, these receivables are accounted for in the same manner as short-term receivables, with the possible recognition of a provision for doubtful receivables where the net carrying amount exceeds the estimated recoverable amount. Such a provision may be reversed if objective indications of improvement are identified. Note 3.15 provides additional information on the calculation of the provision for doubtful receivables.

These receivables are recognised in the balance sheet in the "Trade receivables" and "Other receivables" headings.

Available-for-sale financial assets

These assets include non-consolidated investments. They are measured at fair value, with unrealised gains and losses recognised in equity until the assets are sold.

However, if there is objective indication of impairment of available-for-sale financial assets, the cumulative loss is recognised through profit or loss. Any impairment of equity instruments cannot be reversed.

If the fair value of investments not quoted on a market cannot be estimated reliably, they remain stated at acquisition cost less any provisions for impairment. Impairment losses on investments measured at cost are recognised through profit or loss and are irreversible.

These investments are recognised in "Non-current financial assets" in the balance sheet.

Financial assets held to maturity

These assets consist solely of securities with fixed or determinable payments and fixed maturity, other than loans and receivables, which are acquired with the intention of being held to maturity and which RFF has the ability to hold until this date. After their initial recognition at fair value, they are measured and recognised at amortised cost in accordance with the effective interest rate method.

RFF has not classified any financial asset in this category at 31 December 2008.

3.13. Asset and liability derivative financial instruments

3.13.1. Application scope

RFF manages market risks relating to changes in interest rates and exchange rates using derivative financial instruments and particularly interest rate swaps and swaptions, forward currency contracts, cross currency swaps and currency options.

3.13.2. Recognition and measurement

Derivative instruments are recognised in the balance sheet at fair value. Changes in fair value are recognised through profit or loss, with the exception of derivatives designated as cash flow hedges.

Fair value is determined on the basis of market data from external sources or on the basis of models developed in-house that are recognised by market participants.

The method of recognising changes in fair value calculated at the balance sheet date depends on whether a derivative is designated as a hedging instrument.

Derivative financial instruments designated as hedges are split between current and non-current items in assets and liabilities based on their maturity dates. Derivative financial instruments not designated as hedges are presented in current financial assets or current financial liabilities.

3.13.3. Derivatives designated as hedges

The Group applies hedge accounting where the hedge is a designated derivative whose fair value or cash flows are expected to offset changes in the fair value or cash flows of the hedged item. The hedging relationship is clearly defined and documented at the inception of the hedge and its high degree of effectiveness is demonstrated by tests carried out at each balance sheet date throughout the period of the hedging relationship. From the inception of the hedge, and throughout the period of the hedging relationship, documentation is updated at each balance sheet date, thereby ensuring that the hedge remains highly effective.

Derivative financial instruments designated as hedges are split between current and non-current items in assets and liabilities based on their maturity dates.

The Group uses two types of hedges: fair value hedges and cash flow hedges.

Fair value hedges

The purpose of fair value hedges is to hedge exposure to the risk of changes in the fair value of an asset, liability or firm commitment that could impact profit or loss.

Changes in the fair value of the hedged item are recognised through profit or loss and offset by matching changes in the fair value of the derivative instrument. Any net impact on profit or loss reflects the ineffective portion of the hedge.

Cash flow hedges

The purpose of cash flow hedges is to hedge exposure to changes in cash flows attributable to assets, liabilities or highly probable forecast transactions that could impact profit or loss. The purpose of the derivative is to stabilise the interest rate or the exchange rate which was initially likely to vary.

The portion of the gain or loss on the derivative that is considered to be effective is recognised in equity and then released to profit or loss when the hedged item impacts profit or loss. The ineffective portion of the hedge, which corresponds to the excess of changes in the fair value of the hedging instrument over changes in the fair value of the hedged item, is recognised immediately through profit or loss.

The hedging relationship is immediately terminated when:

- hedge accounting qualification criteria are no longer met;
- the derivative instrument is sold or expires;
- the Group decides to revoke the designation as a hedge through a management decision;
- for cash flow hedges, the forecast future transaction ceases to be probable.

3.13.4. Derivatives not designated as hedges

The Group mainly uses derivative instruments to protect against the risks to which it is exposed, in accordance with the risk management policy authorised by the RFF Board of Directors.

Derivatives not designated as hedges partly include instruments that are hedges from a management perspective but are not designated as such by management in order to simplify their accounting treatment. This is the case for forward currency contracts hedging short-term debt. Similarly, certain embedded derivatives cannot be designated as hedging instruments. However, for the most part, they act as economic hedges. Lastly, certain transactions that were designated as hedges at the outset no longer meet the criteria for hedge accounting when they arrive at a point close to the maturity date, leading to disqualification from hedge accounting.

These derivative instruments are measured at fair value and are presented in other financial assets or liabilities, with changes in fair value recognised immediately through profit or loss.

3.13.5. Embedded derivatives

An embedded derivative is a component of a contract which meets the definition of a derivative and whose economic characteristics are not closely related to those of the host contract. An embedded derivative must be separated from the host contract and accounted for in accordance with the rules applicable to derivatives if, and only if, the following three conditions are satisfied:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- the embedded derivative meets the definition of a derivative under IAS 39, and
- the hybrid contract is not measured at fair value through profit or loss.

Several embedded derivatives have been identified in RFF's borrowings. These embedded derivatives were separated from the host debt contracts and have been measured in the balance sheet at fair value, with changes in fair value recognised through profit or loss.

A non-optional embedded derivative (such as a forward over-the-counter contract or an embedded swap) is separated from its host contract based on its key conditions, whether expressly stated or implicit, so as to have a nil fair value on initial recognition. An embedded derivative founded on an option is separated from its host contract based on the reported conditions of the option component. The initial carrying amount of the host instrument (debt at amortised cost) is the residual amount after separation of the embedded derivative.

3.14. Deferred taxes

Temporary differences between the tax base of assets and liabilities and their carrying amount in the consolidated financial statements, as well as tax losses that can be carried forward in the consolidated financial statements, lead to the recognition of deferred taxes in accordance with the balance sheet liability method. No deferred taxes are recognised on the initial recognition of assets or liabilities relating to transactions which did not impact either accounting or taxable profit or loss at the time of the transaction.

Only the existence of probable future taxable profits against which the temporary differences and tax losses carried forward can be offset leads to the recognition of deferred tax assets.

The impact of a change in tax rates is recognised in profit or loss for the year or in equity, depending on the item affected by the change in tax rate.

Deferred taxes are classified in non-current assets and liabilities.

3.15. Trade receivables and related accounts – Other receivables

On initial recognition, receivables are measured at fair value corresponding to their nominal value, with the exception of long-term receivables in respect of which the effects of discounting are material. Receivables are subsequently measured in accordance with the effective interest method. A provision for doubtful receivables is recognised when the fair value of the receivable at the year-end is lower than the carrying amount.

Provisions for doubtful receivables are recognised based on the risk of non-recovery, determined using both individual and statistical analyses.

"Other receivables" mainly include tax and employee-related receivables, receivables on the sale of property, plant and equipment and SNCF current accounts.





3.16. Cash and cash equivalents

Cash includes amounts held in cash and demand deposits with banks.

Cash equivalents include very short-term, highly liquid investments that are easily convertible into a known amount of cash and that are subject to a negligible risk of change in value, such as monetary mutual funds and certificates of deposit with maturities of less than three months at the date of acquisition. These securities are recognised at fair value with changes in fair value recognised in net finance costs (see Note 3.12).

3.17. Capital injections

As a State-owned industrial and commercial company, RFF has neither share capital, in the legal meaning of the term, nor shares and does not pay dividends.

RFF equity for accounting purposes at the date of incorporation amounted to €0.86 billion, and corresponded to the difference in value between its assets and liabilities. The French State subsequently increased this initial capital through additional capital injections up to the start of 2003. At 31 December 2008, the cumulative amount of capital injections totalled €9.8 billion.

3.18. Reserves and accumulated deficit

This heading comprises the accumulated deficit, convertible reserves, translation adjustment reserves and the profit for the year.

A reserve account records changes in the fair value of available-for-sale financial assets and cash flow hedging instruments (effective portion of outstanding cash flow hedges only), recognised since inception.

3.19. Provisions

The Group recognises a provision when the following three conditions are satisfied:

- the Group has a legal or constructive obligation which results from past events;
- an outflow of resources embodying economic benefits will probably be necessary to extinguish the obligation without receipt of consideration that is at least equivalent in amount;
- the amount of the provision can be estimated reliably.

3.19.1. Provision for decontamination and environmental risk

The Company has set up asbestos-removal programmes covering its assets and a clean-up programme involving the decontamination or elimination of railway equipment containing PCB. The amount provided is the best estimate of the expenditure expected to be necessary to extinguish the obligation. Such amounts are discounted where the impact of discounting is material.

3.19.2. Other provisions for contingencies and losses

All risks identified are regularly reviewed. Provisions used are released through profit or loss to offset the corresponding expenses.

3.20. Employee benefits

RFF has set up defined contribution and defined benefit retirement plans.

Under the defined contribution plan, RFF pays fixed contributions to an independent body. Once these contributions are paid, it no longer has any further obligation to make additional payments. The contributions are recognised in personnel costs when they fall due.

The defined benefit plan merely covers the entitlement of RFF employees to mandatory lump-sum payments on retirement due under statutory or industry-wide schemes (see below).

Lump-sum payments on retirement

The liability recognised in the balance sheet in respect of lump-sum payments on retirement is equal to the present value of the Group's obligation to its employees at the valuation date. This obligation is calculated in accordance with the projected unit credit method and is based on assumptions relating to increases in salaries, mortality, retirement age and employee turnover.

The discount rate for future payments is determined by reference to the iBoxx € corporate AA 10+ index.

Actuarial gains and losses generated by experience adjustments or by changes in actuarial assumptions are recognised in full in profit or loss for the year.

3.21. Grants

RFF receives two main types of grants: grants received under financing agreements for investment projects entered into with third parties (French State, local authorities, regions, etc.) and grants allocated in the French Finance Acts and notified by the French State.

a) Grants received under financing agreements for investment projects entered into with third parties

These grants follow the same accounting treatment as the corresponding expenditure:

- they are recognised in profit or loss in a specific account under "Operating grants", when they relate to operating expenses (general studies, preliminary studies).
- they are recognised in balance sheet non-current liabilities under "Grants" when they relate to capitalised expenditure. These grants are then released to profit or loss to match the depreciation recognised

on the commissioned property, plant and equipment. Where grants relate to non-depreciable land, RFF uses the average useful lives of the assets associated with the land.

The manner in which these grants are received differs depending on the investment project and the identity of the payer. They are paid in accordance with a payment schedule set out in the financing agreement or based on the actual stage of completion of the work. At each balance sheet date, and for each project, grant claims are reconciled with the amount of expenditure recognised. Adjustments are then made and recorded either in assets under "Grants receivable" or in the "Grants" headings in current liabilities for grants claimed in advance.

b) Government grants allocated in the French Finance Acts and notified by the French State

These grants are of an overall lump-sum nature and include:

— A debt reduction grant, intended to partially cover the interest expense on the debt. This grant is recognised in net finance costs.

— A regeneration grant, intended to finance investment in upgrading the national rail network and bringing it into compliance with regulations. This grant is recorded in non-current liabilities in the same way as other investment grants. These grants are transferred to "Grants for commissioned assets" in the amount of upgrade and compliance expenditure in the period. They are released to profit or loss over the weighted average useful life of the related assets, from the average date on which the assets are brought into service during the accounting period.

— "Contribution to infrastructure costs" grants, which are recognised as operating grants.

These grants allocated by the French parliament are recognised in the balance sheet on 1 January of the year to which they relate in the amount that was voted in the French Finance Act (*Loi de Finances*) at the end of the previous year and notified to the Company by the authorities. The contribution to infrastructure costs and the debt reduction grant are recognised in profit or loss on a straight-line basis. The regeneration grant is released to profit or loss to match the depreciation expense on the commissioned assets.

3.22. Measurement and recognition of financial liabilities

With the exception of liability derivative instruments and liabilities measured at fair value through profit or loss, financial liabilities are initially recognised at fair value and are subsequently recognised at amortised cost using the effective interest method.

Borrowings

Bonds issued by RFF are initially recognised at fair value, that is the amount of funds received net of transaction costs and issue premiums. They are subsequently recognised

at amortised cost using the effective interest method with separate recognition of embedded derivatives if necessary.

For debt denominated in foreign currencies, the effective interest method is applied to the foreign currency cash flows. At each balance sheet date, the amortised cost is translated into euros using the closing rate.

Bonds are classified in non-current borrowings and, for the portion maturing in less than one year, in current financial liabilities. Bank borrowings are classified in current financial liabilities.

Where the financial liability issued includes an embedded derivative requiring separate recognition, amortised cost is only calculated for the debt component. Amortised cost at the date of issue corresponds to the proceeds of the bond issue less the fair value of the embedded derivative (see Note 3.13.5).

Greater Paris Region loans

The Group receives loans at preferential interest rates from the Greater Paris Region. These loans are recognised at their fair value on inception (present value of contractual cash flows discounted at RFF's normal market financing rate).

The difference between this amount and the cash received is accounted for as a grant. The loan at market rate is subsequently accounted for using the amortised cost method and the grant is released to profit or loss on a straight-line basis over the average depreciable lives of the assets financed (approximately 30 years).

Other non-current liabilities

Other non-current liabilities mainly include guarantee deposits received from customers in the context of occupancy agreements.

Other current financial liabilities

These liabilities include the portion of long-term debt that is due in less than one year as well as short-term debt issues.

3.23. Trade payables and related accounts – Other payables

Trade payables and related accounts

This heading includes all payables arising on commercial activities. These liabilities are recognised at fair value. Payables bearing off-market interest rates are discounted where the effect of discounting is material.

Other payables

Other payables include tax and employee-related liabilities, advances received on disposals of property, plant and equipment, current year expenses that will not be settled until after the year-end and deferred income. These liabilities are recognised at fair value.





3.24. Non-current assets and liabilities held for sale

Pursuant to Article 63 of the 2006 Finance Act, property assets owned by RFF but not required for the fulfilment of its public rail service remit (as defined in Article 1 of the Act of 13 February 1997) may be declassified and the freehold interest in these assets transferred to a State-owned company with a remit to optimise their value. These transfers are made for consideration equal to the net carrying amount of the assets transferred at the balance sheet date preceding the transfer.

Assets in respect of which a decision to sell has been taken by the Board of Directors are classified within assets held for sale and are subject to a specific accounting treatment in accordance with IFRS 5. Liabilities relating to these assets are presented separately in the balance sheet under "Liabilities directly associated with assets held for sale".

Depreciation of these assets ceases as from the date of their classification in this category.

3.25. Leases

Finance leases

Assets purchased under finance leases are recognised in property, plant and equipment where the contract transfers substantially all the risks and rewards inherent to ownership of the leased assets to the lessee, irrespective of whether title is ultimately transferred or not. These assets are depreciated over the shorter of their useful lives and the lease term.

A corresponding debt is recognised in liabilities. Lease payments made under these contracts are allocated between interest expense and repayment of the debt.

At present, the main finance leases relate to photocopiers and company vehicles.

Operating leases

Leases under which the lessor retains the majority of the risks and rewards inherent to ownership are classified as operating leases. Lease payments are recognised in profit or loss.

3.26. Revenue

Revenue mainly comprises services rendered in the context of railway activities. It is recognised at the date at which these services are rendered. Infrastructure fees are broken down into access rights, route reservation fees, station stop reservation fees and traffic fees. In addition to these basic railway services, additional electricity fees are charged together with other service fees relating to intermodal transport depots, the use of marshalling yards and siding occupancy as well as the use of the "Futuroscope" station tracks.

In addition to these services, the Company also sells materials, mainly involving the sale and salvage of old goods and equipment.

Revenue also includes non-traffic income comprised of occupancy fees earned on the assets in the Property CGU.

Note 4

Notes to the balance sheet

4.1. Intangible assets

The net carrying amount of intangible assets at 31 December 2008 breaks down as follows:

(in millions of euros)	Operating software	Infrastructure software	Total
At 31 December 2007			
Cost	21.4	27.0	48.4
Accumulated amortisation	(19.3)	(23.6)	(42.9)
Accumulated impairment	–	–	–
CARRYING AMOUNT	2.1	3.3	5.4
Year ended 31 December 2008			
Carrying amount at beginning of year	2.1	3.3	5.4
Acquisitions	3.8	1.5	5.3
In-house production	–	–	–
Disposals	–	–	–
Translation differences	–	–	–
Reclassifications	(0.5)	(1.3)	(1.8)
Amortisation charges	(1.9)	(3.2)	(5.1)
Reversal of amortisation	–	–	–
Reversal of disposals	–	–	–
Reversal of amortisation	–	–	–
Impact of revaluations	–	–	–
Movements	–	–	–
Change in accounting policy	–	–	–
Restructuring	–	–	–
Entrants to the scope of consolidation	–	–	–
Change of method (previous method)	–	–	–
Change of method (new method)	–	–	–
Change of % interest for consolidation	–	–	–
Increase in interest rates	–	–	–
Exits from the scope of consolidation	–	–	–
Other movements	–	–	–
CARRYING AMOUNT AT END OF YEAR	3.5	0.4	3.9
At 31 December 2008			
Cost	24.7	27.2	51.9
Accumulated amortisation	(21.2)	(26.8)	(48.0)
Accumulated impairment	–	–	–
CARRYING AMOUNT	3.5	0.4	3.9





4.2. Investment property

Rental income from investment property totalled €63.9 million in 2008 compared with €64.8 million in 2007. Property management direct operating expenses totalled €69 million in 2008, including costs relating to the management of disposals.

Due to the valuation method used for investment property (see Note 3.9), it is not possible to allocate a market value to each of these assets as recommended in paragraph 79.e of IAS 40.

(in millions of euros)

	Investment property
At 1 January 2007	
Cost	554.8
Accumulated depreciation	(9.6)
Accumulated impairment	–
CARRYING AMOUNT	545.2
Year ended 31 December 2007	
Carrying amount at beginning of year	545.2
Disposals	(21.3)
Reclassifications and transfers to assets held for sale	–
Depreciation	(1.0)
Reversal of depreciation	–
Reversal of disposals	–
Other movements	–
CARRYING AMOUNT AT END OF YEAR	522.8
At 31 December 2007	
Cost	533.5
Accumulated depreciation	(10.7)
Accumulated impairment	–
CARRYING AMOUNT	522.8
Year ended 31 December 2008	
Carrying amount at beginning of year	522.8
Disposals	(32.7)
Acquisitions	3.8
Reclassifications and transfers to assets held for sale	–
Depreciation	(2.4)
Reversal of depreciation	–
Reversal of disposals	–
Other movements	–
CARRYING AMOUNT AT END OF YEAR	491.6
At 31 December 2008	
Cost	504.7
Accumulated depreciation	(13.1)
Accumulated impairment	–
CARRYING AMOUNT	491.6

4.3. Property, plant and equipment

4.3.1. Breakdown of property, plant and equipment

The net carrying amount of property, plant and equipment at 31 December 2008 breaks down as follows:

(in millions of euros)	Land, buildings and improvements	Track, earthworks, civil engineering structures and level crossings	Technical and electrical supply equipment, telecommunications	Operating equipment	Assets under construction	Total
At 1 January 2007						
Cost	5,407.8	21,822.1	6,662.8	28.8	7,105.0	41,026.5
Accumulated depreciation	(155.8)	(4,130.9)	(2,339.5)	(14.3)	–	(6,640.5)
Accumulated impairment	(1,981.3)	(6,553.7)	(1,595.1)	–	(6.5)	(10,136.6)
CARRYING AMOUNT	3,270.7	11,137.5	2,728.2	14.5	7,098.5	24,249.4
Year ended 31 December 2007						
Carrying amount at beginning of year	3,270.7	11,137.5	2,728.2	14.5	7,098.5	24,249.4
Acquisitions	6.9	–	–	3.1	–	10.0
In-house production	–	–	–	–	2,454.7	2,454.7
Disposals	(3.4)	–	(0.3)	(0.6)	–	(4.3)
Translation differences	–	–	–	–	–	–
Reclassifications and transfers to assets held for sale	612.5	3,334.0	707.0	–	(4,653.4)	–
Depreciation	(36.7)	(385.1)	(207.3)	(2.4)	(33.8)	(665.3)
Reversal of depreciation	–	–	–	–	–	–
Other movements	–	(16.2)	–	–	–	(16.2)
CARRYING AMOUNT AT END OF YEAR	3,850.0	14,070.1	3,227.6	14.6	4,866.0	26,028.3
At 31 December 2007						
Cost	6,023.7	25,156.1	7,369.5	31.3	4,906.3	43,486.8
Accumulated depreciation	(192.4)	(4,532.2)	(2,546.8)	(16.7)	–	(7,288.1)
Accumulated impairment	(1,981.3)	(6,553.7)	(1,595.1)	–	(40.3)	(10,170.4)
CARRYING AMOUNT	3,850.0	14,070.1	3,227.6	14.6	4,866.0	26,028.3





4.3.1. Breakdown of property, plant and equipment (continued)

(in millions of euros)	Land, buildings and improvements	Track, earthworks, civil engineering structures and level crossings	Technical and electrical supply equipment, telecommunications	Operating equipment	Assets under construction	Total
Year ended 31 December 2008						
Carrying amount at beginning of year	3,850.0	14,070.1	3,227.6	14.6	4,866.0	26,028.3
Acquisitions	1.9	–	–	6.4	–	8.3
In-house production	–	–	–	–	2,961.6	2,961.6
Disposals	(4.2)	(11.2)	(3.5)	(0.5)	–	(19.5)
Translation differences	–	–	–	–	–	–
Reclassifications and transfers to assets held for sale	31.4	72.8	61.8	(0.0)	(177.8)	(11.8)
Catch-up depreciation	95.7	(665.5)	(353.1)	–	–	(922.8)
Depreciation	(50.8)	(504.8)	(259.5)	(4.3)	(26.0)	(845.4)
Reversal of depreciation	1,981.3	6,553.7	1,595.1	–	–	10,130.1
Other movements	–	16.2	–	–	–	16.2
CARRYING AMOUNT AT END OF YEAR	5,905.3	19,531.5	4,268.3	16.2	7,623.8	37,344.8
At 31 December 2008						
Cost	6,052.7	25,217.7	7,427.7	37.2	7,690.1	46,425.3
Accumulated depreciation	(243.2)	(5,020.8)	(2,806.3)	(21.0)	–	(8,091.3)
Catch-up depreciation	95.7	(665.5)	(353.1)	–	–	(922.8)
Accumulated impairment	–	–	–	–	(66.3)	(66.3)
CARRYING AMOUNT	5,905.3	19,531.4	4,268.4	16.2	7,623.8	37,344.8

Study costs expensed in the period (IAS 38.126) totalled €52.2 million in 2007 and €44.8 million in 2008.

4.3.2. Production of property, plant and equipment

Property, plant and equipment produced totalled €2,958 million in 2008 and breaks down as follows:

- production of €2,047.9 million performed by agents on behalf of Réseau Ferré de France. The production cost of these projects includes amounts invoiced by sub-contractors working on behalf of the delegated prime contractor, the cost of services and supplies and project management and prime contractor fees specified in the contracts relating to the production of this property, plant and equipment.
- production of €910.1 million mainly concerning the Eastern European high-speed line and the Eastern branch of the Rhin-Rhône high-speed line.

4.3.3. Assets commissioned during the year

Property, plant and equipment totalling €166.9 million was commissioned in 2008, mainly corresponding to the Eastern France high-speed line (€77.6 million, compared to €3,822.5 million in 2007).

4.3.4. Recoverable amount of assets in use at the balance sheet date and impairment

Infrastructure CGU

The net present value of infrastructure assets calculated as at 31 December 2008 significantly exceeds the corresponding carrying amount. A discount rate of 6.45% was used for this calculation.

As such, the asset impairment of €10,130 million previously recognised was released in full at 31 December 2008. At the same time, an additional charge to depreciation of €922.8 million was recognised at 31 December 2008 to adjust accumulated depreciation previously calculated on the carrying amount net of impairment. Both of the above adjustments were recognised in non-recurring items in 2008.

Property CGU

RFF found no indication of potential impairment of Property CGU assets.

4.3.5. Breakdown of impairment of assets under construction

(in millions of euros)	Accumulated cost at 31 Dec. 2008	Impairment at 31 Dec. 2007	Charge	Reversal	Impairment at 31 Dec. 2008
Dormant projects	25.9	8.7	24.8	9.1	24.4
Port tracks under construction	41.9	31.6	41.9	31.6	41.9
Total	67.8	40.3	66.7	40.7	66.3

4.4. Current and non-current financial assets

(in millions of euros)	31 Dec. 2008			31 Dec. 2007			Change Total
	Current	Non-current	Total	Current	Non-current	Total	
Available-for-sale financial assets *	–	0.5	0.5	–	0.5	0.5	–
Long-term receivables and guarantee deposits paid	–	5.0	5.0	–	4.7	4.7	0.3
Receivables on disposal of non-current assets	27.5	20.0	47.5	44.0	–	44.0	3.5
Current accounts	23.6	–	23.6	13.2	–	13.2	10.5
Other financial assets	1.7	–	1.7	0.7	–	0.7	1.0
Total financial assets – gross	52.9	25.5	78.4	57.9	5.2	63.1	15.3
Provisions	–	–	–	–	–	–	–
Total financial assets	52.9	25.5	78.4	57.9	5.2	63.1	15.3

* RFF's investment in the simplified joint stock company, Lyon Turin Ferroviaire.

Long-term receivables and guarantee deposits paid are measured at amortised cost, which is considered to represent the best estimate of the fair value of these assets.

Subsidiary investments are presented in the following table:

(in millions of euros)	% of share capital owned
SAS Lyon Turin Ferroviaire	50%
GEIE ERTMS	16.67%
GIE S2IF	50%
GEIE SEA Vitoria Dax	50%
CORRIDOR C	47%
CORRIDOR D	25%

The investment in Lyon Turin Ferroviaire SAS was measured at historical cost, as the company is in the development stage and operations have not yet commenced. Fair value cannot thus be measured reliably.

Lyon Turin Ferroviaire SAS reported a net profit of nil in 2008. Capitalised production in the year totalled €78.8 million. The Company had total equity of €486.7 million at 31 December 2008.

Breakdown of current accounts

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
LTF	23.2	12.4
GIE S2IF	–	–
GEIE SEA Vitoria Dax	0.4	0.8
Total	23.6	13.2

4.5. Deferred taxes

Based on the Group's tax profit outlook, deferred tax assets of €3,890.9 million were recognised against net profit in the amount of €3,811 million and reserves in the amount of €79.9 million (see Note 2.2).

4.6. Trade receivables

The carrying amount of trade receivables breaks down as follows:

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Toll fees	157.4	466.8
Non-traffic income	426.5	333.8
Other	186.0	288.3
Provisions	(28.3)	(27.8)
Trade receivables – carrying amount	741.6	1,061.1





Provision for doubtful receivables

Movements in the provision for doubtful receivables were as follows:

(in millions of euros)	31 Dec. 2007	Charge	Reversal		31 Dec. 2008
			Utilised	Not utilised	
Toll fees	0.3	5.0	0.6	2.4	2.2
Non-traffic income	27.4	11.1	9.5	3.6	25.4
Other	0.1	0.7	–	0.1	0.7
Provision for doubtful receivables	27.8	16.8	10.2	6.1	28.3

The arbitration commission set up to finalise the allocation of assets and income between RFF and SNCF issued its final decisions. The impact of these decisions was taken into account in the financial statements for the year ended 31 December 2007.

The remaining provisions were released in 2008 on the recognition of credit notes receivable.

In addition, RFF recorded a provision adjustment of €0.5 million in respect of amounts receivable on income generated by assets on which the arbitration commission has yet to issue a decision.

4.7. Other receivables

Other receivables break down as follows:

(in millions of euros)	Tax and employee-related receivables	Prepaid expenses	Other receivables	Total other receivables
Gross amount at 31 Dec. 2007	479.3	228.5	68.4	776.3
Provisions	–	–	(3.9)	(3.9)
Net amount at 31 Dec. 2007	479.3	228.5	64.5	772.4
Gross amount at 31 Dec. 2008	492.3	234.7	104.3	831.3
Provisions	–	–	–	–
Net amount at 31 Dec. 2008	492.3	234.7	104.3	831.3

Most of the receivables in this account fall due within one year.

4.7.1. Breakdown of tax and employee-related receivables

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
VAT credit repayment request	176.2	156.3
VAT to be adjusted	190.8	192.3
VAT deductible	125.1	130.5
Other tax receivables	0.2	0.3
Total	492.3	479.3

4.7.2. Breakdown of prepaid expenses

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Infrastructure management agreements *	230.5	227.9
Other, including rent and expenses	4.2	0.6
Total	234.7	228.5

* This heading includes advance billings by SNCF for the month of January in respect of the agreement.

4.7.3. Breakdown of other receivables

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Credit notes receivable from suppliers and advances	103.4	62.8
Other miscellaneous receivables	0.9	1.8
Total	104.3	64.5

4.8. Grants receivable

Grants receivable break down as follows:

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Grants to be collected	1,252.6	1,289.0
Grants not yet claimed	460.4	613.7
Total	1,713.0	1,902.7

4.9. Cash and cash equivalents

(in millions of euros)	31 Dec. 2008	31 Dec. 2007	Change
Bank accounts (euro-denominated) and cash	19.1	3.6	15.5
Bank accounts (foreign currency) and cash	–	–	–
Cash and demand deposits	19.1	3.6	15.5
Monetary mutual funds	176.5	153.7	22.8
Negotiable debt instruments and related accrued interest receivable (maximum maturity of 3 months on purchase)	1,695.2	1,137.0	558.2
Cash equivalents	1,871.7	1,290.7	580.9
CASH AND CASH EQUIVALENTS IN THE BALANCE SHEET	1,890.8	1,294.3	596.4
Bank overdrafts in euros	0.5	3.2	(2.7)
Bank overdrafts in foreign currencies	0.2	0.1	0.1
Bank overdrafts repayable on demand	0.7	3.3	(2.6)
Net change in cash and cash equivalents*	1,890.1	1,291.0	599.0

* The net increase in cash and cash equivalents differs from that presented in the cash flow statement due to the inclusion of unrealised capital gains on UCITS.

4.10. Non-current assets held for sale and related liabilities

In 2008, the Board of Directors decided to sell a certain number of assets that were declared not to be necessary for railway activities. The net carrying amount of assets not yet sold at 31 December 2008 is €4 million.

4.11. Grants

4.11.1. Summary of non-current grants

(in millions of euros)	Grants for commissioned assets	Grants for assets under construction	
Grants for assets under construction	–	3,462.0	–
Net grants on commissioned assets	5,905.0	–	–
Grants in the form of loans at preferential rates	21.6	–	–
Reversal for port tracks	(1.6)	(36.7)	–
Release of grant on commissioned land	7.5	–	–
Grants for upgrade and compliance work	2,704.3	1,630.0	–
Total	8,636.7	5,055.4	13,692.1





4.11.2. Grants on commissioned assets

(in millions of euros)	Net amount at 31 Dec. 2007	Grants on assets commissioned in the year	Inter-account transfers	Share of grants released to profit or loss	Net amount at 31 Dec. 2008
Land, buildings and improvements	631.8	11.9	–	(27.0)	616.7
Track, earthworks, civil engineering structures and level crossings	4,221.0	43.3	–	(100.5)	4,163.8
Technical and electrical supply equipment, telecommunications	1,155.8	20.5	–	(55.4)	1,120.9
Operating equipment	6.2	0.2	–	(2.9)	3.5
Total	6,014.8	75.9	–	(185.7)	5,905.0

Grants on commissioned assets amount to €5,905 million.

4.11.3. Grants for assets under construction

The amount of earned grants relating to assets under construction is based on the percentage completion of the work.

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Total investment grants claimed since 1 January 1997	10,296.1	8,749.8
Total investment grants transferred to commissioned assets since 1 January 1997	(6,350.5)	(6,274.6)
Investment grants claimed in advance	(808.2)	(708.9)
Investment grants not yet claimed	324.6	463.3
Total	3,462.0	2,229.6

Earned grants total €3,462 million at 31 December 2008.

Grants for upgrade and compliance work

Up until 31 December 2005, only grants actually received were recognised in the accounts. Since 1 January 2006, grants receivable are recognised in the balance sheet in the amount notified by the French State. The difference between this amount and the amount effectively received is recognised in grants receivable.

Gross amount of grants for upgrade and compliance work

(in millions of euros)	Grant for the year	Amount recognised in 2004	Amount recognised in 2005	Amount recognised in 2006	Amount recognised in 2007	Amount recognised in 2008	Total amount recognised
2004	900.0	675.0	225.0	–	–	–	900.0
2005	900.0	–	675.0	225.0	–	–	900.0
2006	970.0	–	–	970.0	–	–	970.0
2007	985.2	–	–	–	985.2	–	985.2
2008	805.2	–	–	–	–	805.2	805.2
Gross amount	4,560.4	675.0	900.0	1,195.0	985.2	805.2	4,560.4

Grants for upgrade and compliance work – commissioned assets

(in millions of euros)	Year of transfer to commissioned assets	Date of transfer to operational use	Period of release (years)	Gross amount	Accumulated release	Net amount at 31 Dec. 2008
2004		01/07/2004	38	675.0	79.9	595.1
2005		25/03/2005	42	573.9	51.6	522.3
2006		09/05/2006	42	878.4	55.4	823.0
2007		21/03/2007	35	734.2	37.4	696.8
2008		17/04/2008	33	68.8	1.7	67.1
Total		–	–	2,930.3	226.0	2,704.3

Grants for upgrade and compliance work

(in millions of euros)	Gross amount	Accumulated release	Net amount at 31 Dec. 2008
Grants on commissioned assets	2,930.4	226.0	2,704.4
Grants for assets under construction	1,630.0	–	1,630.0
Total	4,560.4	226.0	4,334.4

4.11.4. Current grants

Grants presented in current liabilities correspond to grants claimed in advance.

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Operating grants claimed in advance	75.3	34.5
Investment grants claimed in advance	808.2	708.9
Total	883.4	743.4

4.12. Provisions

4.12.1. Breakdown between current and non-current provisions

(in millions of euros)	31 Dec. 2008			31 Dec. 2007		
	Current	Non-current	Total	Current	Non-current	Total
Infrastructure-related claims	425.7	–	425.7	139.3	–	139.3
Decontamination and environmental risks	–	26.6	26.6	–	31.0	31.0
Provisions for employee benefits	–	4.3	4.3	–	3.7	3.7
PROVISIONS	425.7	30.9	456.6	139.3	34.7	174.0

4.12.2. Movements in provisions

(in millions of euros)	31 Dec. 2007	Charge	Reversal		31 Dec. 2008
			Utilised	Not utilised	
Infrastructure-related claims	139.3	292.8	(1.6)	(4.8)	425.7
Decontamination and environmental risks	31.0	0.5	(4.8)	–	26.7
Provisions for employee benefits	3.7	0.5	–	–	4.2
Provisions for contingencies and losses	174.0	293.8	(6.4)	(4.8)	456.6

Provision for decontamination and environmental risks

RFF has implemented two asbestos removal programmes: one for buildings in the RFF property portfolio, and the other covering signalling equipment cabins, battery housing and accumulator shelters.

The first programme concerns the elimination of asbestos from the Company's property assets. A provision has been recorded in respect of two tranches of this programme. The first tranche concerns additional work on the asbestos technical files, while the second tranche concerns part of the cost of asbestos removal. The total amount of the provision at 31 December 2008 is €9.16 million, including the cost of asbestos removal work at the Gobelins station.

The second programme led to the recognition of an initial provision of €12.6 million at 31 December 2005, based

on currently available information regarding the "pool" of assets to be treated (i.e. several thousand installations). A new programmed tranche of work led to the recognition of an additional charge to provisions of €0.34 million in 2008, representing a cumulative provision at 31 December 2008 of €14.15 million.

Furthermore, the overall provision was reversed in the amount of €2.16 million in 2008 (bringing cumulative reversals to €8.06 million since the start of the project), corresponding to expenditure incurred and expensed in the year. The provision balance at 31 December 2008 is €6.09 million.

RFF has also implemented a clean-up programme involving the decontamination or removal of railway equipment containing PCB. The detailed analysis performed under the programme led to the initial recognition of a provision





of €17.0 million at 31 December 2005, based on currently available information regarding the “pool” of assets concerned.

This provision was reversed in the amount of €2.67 million in 2008 (bringing cumulative reversals to €5.6 million since the start of the project), corresponding to expenditure incurred and expensed in the period. The provision balance at 31 December 2008 is €11.4 million.

The amounts recognised in the provision for decontamination and environmental risks will be revised at each balance sheet date, based on the latest information available.

Litigation and claims in progress – Flooding in Arles in December 2003

The city of Arles, certain insurance companies and private individuals, initiated a legal expert review procedure in order to determine the origin and the amount of the damage caused by flooding of the Rhone river in December 2003. Following the issue of the expert’s report on the causes of the flooding, the first substantive compensation claims for damages incurred were brought before the Marseilles administrative court. RFF has therefore recognised a provision based on the amount of the damages known at the balance sheet date and the share it considers it will be required to bear.

The provision for employee benefits is analysed in Note 4.12.3.

4.12.3. Employee benefits

a) Change in the present value of the obligation

(in millions of euros)

Obligation at 31 Dec. 2007	3.8
Service cost for the period	0.8
Interest expense on the obligation	0.2
Actuarial gains and losses	(0.5)
Benefits paid	–
Plan curtailments and settlements	–
Other	–
Obligation at 31 Dec. 2008	4.3
Unrecognised actuarial gains and losses	–
Provisions recognised	4.3

Main assumptions underlying the calculation of the present value of the obligation

	31 Dec. 2008	31 Dec. 2007
Rate of increase in salaries	3.00%	3.00%
Rate of payroll taxes	47.00%	47.00%
Discount rate	3.88%	4.91%
Turnover	8.13%	8.81%

b) Long-term employee benefit expense

(in millions of euros)

	31 Dec. 2008	31 Dec. 2007
Wages and salaries	(43.2)	(40.5)
Payroll taxes	(19.1)	(13.3)
Pension expense - defined contribution plans	(4.7)	(3.7)
Pension expense - defined benefit plans	–	–
Other post-employment benefits	–	–
Long-term employee benefit expense	(67.0)	(57.5)

4.13. Net debt

Net debt as defined by the Group corresponds to loans and borrowings less cash and cash equivalents and liquid assets and includes the fair value of derivatives. Liquid assets are financial assets consisting of funds or securities with initial maturities of less than three months that are easily convertible into cash irrespective of their maturity and that are managed with a view to achieving liquidity objectives.

(in millions of euros)	Note	31 Dec. 2008			31 Dec. 2007		
		Current	Non-current	Total	Current	Non-current	Total
Borrowings	4.14	5,022.8	24,249.0	29,271.8	4,711.2	23,740.9	28,452.1
Cash and cash equivalents	4.9	(1,890.8)	–	(1,890.8)	(1,294.3)	–	(1,294.3)
Net debt before impact of derivatives		3,132.1	24,249.0	27,381.1	3,416.9	23,740.9	27,157.8
Asset derivatives allocated to debt	4.15.3	(66.0)	(275.3)	(341.3)	(39.5)	(126.6)	(166.1)
Liability derivatives allocated to debt	4.15.3	170.4	1,948.9	2,119.4	152.0	849.2	1,001.2
Net debt		3,236.5	25,922.6	29,159.1	3,529.4	24,463.5	27,992.9

4.14. Borrowings

Borrowings break down as follows:

(in millions of euros)	31 Dec. 2008			31 Dec. 2007		
	Current	Non-current	Total	Current	Non-current	Total
RFF long-term debt	1,935.5	22,377.3	24,312.8	1,240.6	21,374.9	22,615.5
Long-term debt transferred from SNCF	487.8	1,871.7	2,359.4	1,342.6	2,365.9	3,708.5
Short-term debt	2,599.6	–	2,599.6	2,128.1	–	2,128.1
BORROWINGS	5,022.8	24,249.0	29,271.8	4,711.2	23,740.9	28,452.1

4.14.1. RFF long-term debt

RFF raises funds on international capital markets in order to cover its long-term financing needs, mainly through bond issues and private placements and, to a lesser extent, through borrowings from banks and/or local authorities.

RFF raised total long-term resources of €2.95 billion in 2008 through 15 operations on the euro, pound sterling, US dollar and Swiss franc bond markets.

The total amount of new issues includes the carrying amount of private placements (€1,451.5 million), public issues and Greater Paris Region loans, as presented below.





4.14.1. RFF long-term debt (continued)

(in millions of euros)		31 Dec. 2008			
Type of loan	Nominal amount	Currency	Maturity date	Interest rate	Amortised cost
BONDS					
RFF 4.45% 27/11/2017	400.0	EUR	27/11/2017	4.45	396.2
RFF 4.375% 02/06/2022	200.0	EUR	02/06/2022	4.375	201.7
RFF 4.75% 25/01/2011	700.0	GBP	25/01/2011	4.75	783.1
OTHER DEBT					
Floating-rate loan from the Greater Paris region	0.4	EUR	15/09/2032	THO	0.5
Floating-rate loan from the Greater Paris region	1.2	EUR	15/09/2033	THO	1.2

Characteristics of RFF borrowings at 31 December 2008:

(in millions of euros)	Amount
Bonds	20,421.8
Other borrowings	3,891.0
Total	24,312.8

Bonds

(in millions of euros)						
Type of loan	Nominal amount	Currency	Maturity date	Interest rate	Margin	Amortised cost
RFF CNO/TEC 10 25/01/2009	381.1	EUR	25/01/2009	TEC10	(0.8)%	383.6
RFF 5.60% 25/04/2009	1,012.2	EUR	25/04/2009	5.60%	–	1,053.7
RFF 5.25% 14/04/2010	1,453.8	EUR	14/04/2010	5.25%	–	1,507.8
RFF 4.75% 25/01/2011	700.0	GBP	25/01/2011	4.75%	–	783.1
RFF 3.25% 01/06/2011	600.0	CHF	01/06/2011	3.25%	–	420.7
RFF 1.625% 20/12/2011	500.0	CHF	20/12/2011	1.63%	–	334.7
RFF 5.40% 26/02/2013	1,200.0	EUR	26/02/2013	5.40%	–	1,304.7
RFF 4.625% 17/03/2014	1,900.0	EUR	17/03/2014	4.63%	–	1,956.3
RFF 4.45% 27/11/2017	1,000.0	EUR	27/11/2017	4.45%	–	996.0
RFF 6% 12/10/2020	2,000.0	EUR	12/10/2020	6.00%	–	2,055.2
RFF 5.5% 01/12/2021	800.0	GBP	01/12/2021	5.50%	–	840.9
RFF 4.375 02/06/2022	2,200.0	EUR	02/06/2022	4.38%	–	2,236.2
RFF 5.25% 07/12/2028	650.0	GBP	07/12/2028	5.25%	–	669.1
RFF 3.25% 30/06/2032	250.0	CHF	30/06/2032	3.25%	–	174.1
RFF 5% 10/10/2033	2,000.0	EUR	10/10/2033	5.00%	–	2,091.1
RFF 5.25% 31/01/2035	375.0	GBP	31/01/2035	5.25%	–	417.7
RFF 4.70% 01/06/2035	300.0	CAD	01/06/2035	4.70%	–	217.2
RFF 5% 11/03/2052	550.0	GBP	11/03/2052	5.00%	–	594.6
RFF excluding inflation						18,036.8
RFF OAT Euro Infla Excl. Tobacco	2,000.0	EUR	28/02/2023	Inflation	2.45%	2,385.0
Total						20,421.8

Other borrowings

(in millions of euros)

Type of loan	Nominal amount	Currency	Average maturity	Interest rate	Amortised cost
Total EUR Fixed	605.0	EUR	2017	Fixed	658.7
Total EUR Floating	1,185.5	EUR	2025	Floating	1,211.8
Total GBP Fixed	364.5	GBP	2038	Fixed	152.1
Total GBP Inflation	50.0	GBP	2030	Inflation	67.0
Total JPY Fixed	44,000.0	JPY	2021	Fixed	359.9
Total USD Fixed	1,000.0	USD	2012	Fixed	613.5
Total USD Floating	200.0	USD	2010	Floating	144.1
Total CHF Fixed	110.0	CHF	2015	Fixed	75.0
PRIVATE PLACEMENTS					3,282.1
EIB LOANS	550.1	EUR	2016	Floating	553.0
LOANS FROM GREATER PARIS REGION	63.36	EUR	2028	Floating	55.8
Total	–	–	–	–	3,891.0

4.14.2. Long-term debt SNCF

On the creation of RFF on 1 January 1997, €20.5 billion in debt was transferred from SNCF and recognised in RFF's opening balance sheet under liabilities.

(in millions of euros)

Currency	Contractual interest rate	Nominal amount in foreign currency	Average maturity	Amortised cost
EUR	Floating	894.2	2,012	897.1
	Fixed	1,025.5	2,019	1,055.0
GBP	Fixed	–	–	–
	Floating	345.5	2,014	222.1
CHF	Fixed	174.9	2,016	185.2
	Floating	–	–	–
Total debt transferred from SNCF	–	–	–	2,359.4

The total amortised cost of debt transferred from SNCF was €2,359.4 million at 31 December 2008. The current portion of the debt transferred from SNCF, amounting to €487.8 million, is mainly at fixed interest rates.





4.14.3. Short-term debt

In order to manage its cash flow effectively, RFF uses domestic and international short-term financing instruments such as commercial paper, providing it with diversified access to liquid financial resources. Foreign currency denominated negotiable debt instruments are perfectly hedged by currency swaps.

Currency	Total amount in euros	Maturing in 0 to 6 months	Maturing in 6 to 12 months
EUR	804.0	666.4	137.7
USD	1,466.8	1,452.6	14.1
GBP	137.1	106.5	30.6
CHF	191.7	183.0	8.7
Total	2,599.6	2,408.5	191.1

Short-term debt raised by RFF in 2008 represented average outstandings of €2,203 million.

4.15. Management of financial risks and derivative instruments

RFF is exposed to the following risks relating to the use of financial instruments:

— Market risks:

- interest rate risk;
- currency risk;

— Liquidity risk.

— Credit risks, counterparty risks.

In RFF, management of transactions and financial risks is strictly governed by the document entitled "Principles and limits for trading on capital markets" issued by the Board of Directors. This document notably sets out the key policy focus in the areas of financing, treasury and overall debt management, the management principles and limits authorised in respect of interest rate, currency and counterparty risks, optimisation transactions, authorised instruments, the ceilings applicable to financing programmes, investment products, delegations of authority granted by the Board of Directors together with delegations of signature granted.

RFF also has a procedure manual which specifies the controls to be performed and the manner in which they are to be carried out in order to ensure that, on a day-to-day basis, transactions entered into comply with the defined limits and principles and the target debt structure. RFF also prepares different types of reports on a weekly or monthly basis which describe the transactions performed and control results.

4.15.1. Management of currency risk

As part of its financial strategy which aims to diversify access to sources of finance and optimise finance costs, RFF issues bonds in foreign currencies that are covered by currency hedges. The foreign currency denominated cash flows (principal payments and interest) are hedged by currency derivatives which convert this debt into euro debt.

RFF's foreign currency position at the balance sheet date can be summarised as follows (in notional amounts):

31 Dec. 2008	USD	GBP	YEN	CHF	CAD
Debt denominated in foreign currencies	1,000.0	3,416.3	44,000.0	1,731.0	300.0
Foreign currency derivatives	1,000.0	3,416.3	44,000.0	1,731.0	300.0
Net foreign currency exposure	—	—	—	—	—

31 Dec. 2007	USD	GBP	YEN	CHF	CAD
Debt denominated in foreign currencies	1,200.0	2,716.0	44,000.0	2,421.0	300.0
Foreign currency derivatives	1,200.0	2,716.0	44,000.0	2,421.0	300.0
Net foreign currency exposure	—	—	—	—	—

Closing exchange rates used at the balance sheet date for the main currencies are as follows:

ECB exchange rates	31 Dec. 2008	31 Dec. 2007
CAD	1.6998	1.4449
CHF	1.485	1.6547
GBP	0.9525	0.73335
USD	1.3917	1.4721
YEN	126.14	164.93

At 31 December 2008, a spot increase or decrease of 10% in the value of the euro against foreign currencies would not have a material impact on profit or loss or equity, all other things being equal.

4.15.2. Management of interest rate risk

In order to protect against interest rate risk and optimise finance costs over the medium term, RFF defines a target debt structure based on:

— Efficient interest rate structures (breakdown between fixed rates, floating rates and inflation-indexed rates) optimising the “expected cost/risk” trade-off.

— A maximum defined share of floating-rate debt, thereby limiting the additional finance costs incurred by RFF to an acceptable level should interest rates rise.

RFF operates within this management framework, either by selecting the type of financing (fixed rate, floating rate or inflation-indexed), or using derivative products within the limits set by the Board of Directors.

At the balance sheet date, the main characteristics of the debt in terms of exposure to interest rate risk, after adjustment for interest rate and foreign currency derivatives, are as follows:

(in millions of euros)	Exposure after hedging	
	31 Dec. 2008	31 Dec. 2007
Euro fixed-rate debt	18,303.0	19,171.2
Euro inflation-indexed debt	2,750.1	2,304.2
Euro floating-rate debt (net of cash equivalents)	6,327.9	5,682.4
Total	27,381.0	27,157.8

A breakdown of currency derivatives and interest rate derivatives hedging the debt is provided in Note 4.15.3.

Interest rate risk is defined by IFRS 7 as the risk that the fair value or the future cash flows of a financial instrument may vary as a result of changes in market interest rates.

Non-derivative fixed-rate instruments are thus subject to interest rate risk if they are recognised in the balance sheet at fair value through profit or loss. As such, non-derivative fixed-rate instruments (not hedged) recognised at amortised cost are not subject to interest rate risk.

Sensitivity analysis

The sensitivity of cash flows of floating-rate instruments was calculated taking account of all variable cash flows of non-derivative instruments and derivative instruments. Derivative instruments not designated as hedges and separately recognised embedded derivatives generate a certain degree of volatility in net finance costs. A breakdown of derivative

instruments not designated as hedges is provided in Note 4.15.3.

Conversely, changes in the value of derivatives designated as cash flow hedges generate a certain degree of volatility in equity. Sensitivity analyses are prepared assuming that the level of debt and financial instruments in the balance sheet at 31 December remains constant during one year.

A change of 100 basis points in euro interest rates at the balance sheet date would have the effect of increasing (or decreasing) equity and profit or loss in the amounts presented below. For the purposes of this analysis, other variables, and particularly exchange rates, have been assumed to remain constant. A similar analysis, prepared on the same basis, is presented for 2007.





Summary of interest rate impacts

Instrument	31 Dec. 2008				31 Dec. 2007			
	Profit or loss		Equity		Profit or loss		Equity	
	Impact after change in interest rates of +100 pb	Impact after change in interest rates of -100 pb	Impact after change in interest rates of +100 pb	Impact after change in interest rates of -100 pb	Impact after change in interest rates of +100 pb	Impact after change in interest rates of -100 pb	Impact after change in interest rates of +100 pb	Impact after change in interest rates of -100 pb
Derivatives designated as fair value hedges	(54.5)	59.2	–	–	(59.0)	64.0	–	–
Debt designated as fair value hedges	58.3	(62.9)	–	–	62.6	(67.7)	–	–
Sub-total ineffective portion of fair value hedges (A)	3.7	(3.8)	–	–	3.6	(3.7)	–	–
Ineffective portion of cash flow hedges	9.8	(11.6)	–	–	27.6	(32.2)	–	–
Derivatives designated as cash flow hedges			788.1	(972.4)	–	–	598.7	(726.6)
Sub-total impact of cash flow hedges (B)	9.8	(11.6)	788.1	(972.4)	27.6	(32.2)	598.7	(726.6)
Trading derivatives (C)	(6.3)	(0.9)	–	–	(3.9)	(3.9)	–	–
Floating-rate debt (including short-term debt) (D)	(77.3)	77.3	–	–	(72.0)	72.0	–	–
Inflation – indexed debt	–	–	–	–	–	–	–	–
Cash equivalents (E)	17.0	(17.0)	–	–	11.4	(11.4)	–	–
Total impact (A + B + C + D + E)	(53.2)	44.1	788.1	(972.4)	(33.3)	20.8	598.7	(726.6)

Sensitivity is measured as follows:

- (A) The ineffective portion of fair value hedges attributable to changes in the value of the hedged item and the hedging instrument.
- (B) The ineffective portion of cash flow hedges and the impact on equity (OCI) attributable to changes in the value of the hedging instrument.
- (C) Impact of the shift in the interest rate curve on derivatives not recognised using hedge accounting.
- (D) Impact on cash flows (income or expenses) of floating-rate borrowings or fixed-rate borrowings converted to floating rates.
- (E) Impact on cash flows (income or expenses) of cash equivalents.

4.15.3. Accounting position of derivative instruments

In order to hedge its exposure to interest rate and currency risks, RFF uses derivative instruments that may or may not be designated as hedges for accounting purposes.

The main derivatives used are interest rate swaps and swaptions, forward currency contracts, cross currency swaps and currency options.

The fair value of derivative instruments recognised in the balance sheet breaks down as follows:

(in millions of euros)	31 Dec. 2008				31 Dec. 2007			
	Assets		Liabilities		Assets		Liabilities	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
DERIVATIVES DESIGNATED AS HEDGES								
Fair value hedges								
Interest rate	5.1	135.5	–	–	–	73.2	–	1.1
Foreign currency and interest rate	–	69.8	–	110.4	–	–	12.4	88.3
Cash flow hedges								
Interest rate	–	4.4	–	197.7	0.9	35.8	–	20.0
Foreign currency and interest rate	–	65.6	–	1,640.9	–	17.6	46.9	739.8
Total derivatives designated as hedges	5.1	275.3	–	1,948.9	0.9	126.6	59.3	849.2
DERIVATIVES AND FORWARD CURRENCY TRANSACTIONS NOT DESIGNATED AS HEDGES								
Interest rate	26.1	–	13.4	–	35.0	–	4.4	–
Foreign currency and interest rate	34.0	–	93.3	–	0.5	–	44.3	–
Embedded derivatives	0.9	–	63.7	–	3.0	–	44.0	–
Total derivatives and forward currency transactions not designated as hedges	60.9	–	170.4	–	38.5	–	92.7	–
Total derivatives	66.0	275.3	170.4	1,948.9	39.5	126.6	152.0	849.3

Fair value hedges

RFF uses euro interest rate swaps and cross currency swaps to hedge against changes in the fair value of borrowings and financial receivables.

Hedge derivatives at the balance sheet date break down as follows:

	31 Dec. 2008			
	Carrying amount in millions of euros		Notional amount in foreign currencies (in millions)	
	Assets	Liabilities	Assets	Liabilities
DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES				
Fixed-rate/floating-rate swaps				
Euro/Euro	140.6	–	1,264.0	–
Fixed-rate/floating-rate cross currency swaps				
JPY/Euro	18.9	–	12,000.0	–
GBP/Euro	–	74.4	–	363.9
USD/Euro	12.0	36.0	200.0	507.6
CHF/Euro	34.0	–	350.0	–
CAD/Euro	4.9	–	156.0	–
Total	210.4	110.4	–	–





Fair value hedges (continued)

	31 Dec. 2007			
	Carrying amount in millions of euros		Notional amount in foreign currencies (in millions)	
	Assets	Liabilities	Assets	Liabilities
DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES				
Fixed-rate/floating-rate swaps				
Euro/Euro	73.2	1.1	1,214.0	50.0
Fixed-rate/floating-rate cross currency swaps				
JPY/Euro	–	9.0	–	19,000.0
USD/Euro	–	73.1	–	450.1
CHF/Euro	–	16.4	–	350.0
CAD/Euro	–	2.2	–	300.0
Total	73.2	101.8	–	–

Cash flow hedges

RFF uses euro interest rate swaps or cross currency swaps or a combination of both in order to hedge against changes in contractual cash flows relating to debt. In addition, RFF uses “advance” euro interest rates swaps to hedge future issues.

Contractual flows on derivatives are paid to match contractual flows on the debt and the amount deferred through equity is recognised in profit or loss in the period the interest expense on the debt impacts profit or loss. In the case of “advance” hedges of future debt issues, the gain or loss on the hedging instrument is recognised in profit or loss in the period in which the interest flow on the debt impacts profit or loss.

At the balance sheet date, derivatives hedging cash flows break down as follows:

	31 Dec. 2008				
	Balance sheet fair value (in millions of euros)		Cash flow hedge reserve	Notional amount in foreign currencies (in millions)	
	Assets	Liabilities		Assets	Liabilities
DERIVATIVES DESIGNATED AS CASH FLOW HEDGES					
Swaps lending floating rates/borrowing fixed rates in euros					
	–	31.7	(30.3)	–	245.1
Floating-rate/fixed-rate cross currency swaps					
GBP	–	145.0	(30.2)	–	197.4
Fixed-rate/fixed-rate cross currency swaps					
CHF	31.8	–	7.7	1,081.0	–
GBP	–	1,292.3	(301.3)	–	2,000.0
JPY	26.5	–	13.0	25,000.0	–
USD	2.8	1.8	28.4	100.0	250.0
Fixed-rate/floating-rate cross currency swaps + floating-rate/fixed-rate swaps					
CAD	–	–	–	–	–
GBP	4.5	–	(0.5)	288.0	–
USD	4.4	367.7	57.0	50.0	2,339.8
Advance hedges of future issues					
	–	–	16.4	–	–
Total	70.0	1,838.6	(239.7)	–	–

Cash flow hedges (continued)

	31 Dec. 2007				
	Balance sheet fair value (in millions of euros)		Cash flow hedge reserve	Notional amount in foreign currencies (in millions)	
	Assets	Liabilities		Assets	Liabilities
DERIVATIVES DESIGNATED AS CASH FLOW HEDGES					
Swaps lending floating rates/borrowing fixed rates in euros	1.4	0.8	1.7	75.1	170.0
Floating-rate/fixed-rate cross currency swaps					
GBP	9.1	69.2	(8.0)	50.0	147.4
Fixed-rate/fixed-rate cross currency swaps					
CHF	–	68.2	8.1	–	1,271.0
GBP	4.3	465.1	(101.1)	50	1,550.0
JPY	–	16.3	17.1	–	25,000.0
USD	–	68.4	18.1	–	450.0
Fixed-rate/floating-rate cross currency swaps + floating-rate / fixed-rate swaps					
GBP	39.4	101.3	77.5	1,584.5	838.7
USD	–	17.5	0.4	–	99.9
Advance hedges of future issues	–	–	16.6	–	–
Total	54.3	806.8	30.3	–	–

Derivatives not designated as hedges At 31 December 2008

	31 Dec. 2008			
	Fair value in millions of euros		Notional amount in foreign currencies (in millions)	
	Assets	Liabilities	Assets	Liabilities
DERIVATIVES NOT DESIGNATED AS HEDGES				
Interest rate swaps	26.1	13.4	305.5	581.8
Foreign currency swaps	–	–	–	–
GBP	–	23.5	–	132.0
CHF	7.0	0.5	515.0	70.0
USD	27.0	69.4	903.0	1,144.5
Embedded derivatives	0.9	63.7	381.1	581.5





Derivatives not designated as hedges (continued) At 31 December 2007

	31 Dec. 2007			
	Fair value in millions of euros		Notional amount in foreign currencies (in millions)	
	Assets	Liabilities	Assets	Liabilities
DERIVATIVES NOT DESIGNATED AS HEDGES	38.5	92.6	–	–
Interest rate swaps	35.0	4.4	950.6	200.0
Foreign currency swaps	–	–	–	–
GBP	–	8.7	–	223.9
CHF	0.3	3.9	66.0	890.0
USD	0.2	31.7	75.0	4,277.8
Embedded derivatives	3.0	44.0	381.1	581.5

Embedded derivatives

RFF holds two options over two credit lines for which it does not control the exercise decision. These options have been recognised as separate embedded derivatives in accordance with IAS 39 (see Note 3.13.5). The value of these embedded derivatives at 31 December 2008 is:

- (€56.6) million: borrowing maturing in 2015, including an option for the set-up in 2015 of a 14-year GBP loan bearing fixed-rate interest of 5.35%,
- (€4.8 million): borrowing maturing in 2019, including an option to change the interest rate in 2009 from 3-month Euribor to two-times 3-month Euribor minus 3-month LiborGBP.

4.15.4. Liquidity risk

Thanks to the proactive management of its liquidity, the quality of its signature and its frequent presence on international capital markets, RFF enjoys diversified access to both short-term (treasury notes, commercial paper) and long-term (public and private bond issues) financing sources. In addition, RFF has a 5-year credit line of €1.25 billion. This facility was not drawn in 2008.

The following tables present non-discounted contractual cash flows (corresponding to amounts to be repaid, including interest) for financial liabilities at 31 December 2008 and 31 December 2007. In addition to liquidity information, current assets are presented at the foot of these tables, with details of cash flows receivable within less than six months.

(in millions of euros)

	31 Dec. 2008							
	Carrying amount	Total cash flows	< 6 months	6 months to < 1 year	1 to < 5 years	5 to < 10 years	10 to < 20 years	> 20 years
NON-DERIVATIVE FINANCIAL LIABILITIES								
RFF long-term borrowings – euros	(18,449.1)	(26,711.3)	(1,862.3)	(336.3)	(6,029.9)	(5,997.3)	(9,024.9)	(3,460.6)
RFF long-term borrowings – foreign currencies	(5,863.7)	(11,188.1)	(119.4)	(119.4)	(3,001.4)	(1,101.7)	(3,871.1)	(2,975.0)
Total RFF long-term borrowings	(24,312.8)	(37,899.4)	(1,981.7)	(455.7)	(9,031.3)	(7,099.0)	(12,896.0)	(6,435.6)
Long-term borrowings transferred from SNCF – euros	(1,952.1)	(2,927.5)	(114.4)	(438.6)	(975.9)	(467.0)	(931.6)	(0.1)
Long-term borrowings transferred from SNCF – foreign currencies	(407.3)	(608.4)	(7.0)	(7.0)	(221.6)	(372.8)	–	–
Total long-term borrowings transferred from SNCF	(2,359.4)	(3,535.9)	(121.4)	(445.6)	(1,197.5)	(839.7)	(931.6)	(0.1)
Short-term debt – euros	(743.3)	(808.3)	(668.3)	(140)	–	–	–	–
Short-term debt – foreign currencies	(1,856.2)	(1,860.5)	(1,800.3)	(60.2)	–	–	–	–
Total short-term debt	(2,599.6)	(2,668.7)	(2,468.6)	(200.2)	–	–	–	–
Trade payables*	(850.6)	(850.6)	(850.6)	–	–	–	–	–
Other current financial liabilities	(1,089.5)	(1,089.5)	(1,089.5)	–	–	–	–	–
Total non-derivative financial liabilities	(A) (31,211.9)	(46,044.1)	(6,511.8)	(1,101.5)	(10,228.8)	(7,938.8)	(13,827.6)	(6,435.7)
DERIVATIVES ASSOCIATED WITH FINANCIAL LIABILITIES								
Interest rate swaps designated as hedges								
Cash inflows	–	2,637.4	69.8	53.3	442.3	342.9	1,326.7	402.4
Cash outflows	–	(367.2)	(29.3)	(29.3)	(153.9)	(74.5)	(52.6)	(27.7)
	(52.7)	2,270.2	40.5	24.1	288.4	268.4	1,274.1	374.7
Interest rate swaps not designated as hedges**								
Cash inflows	–	161.4	19.7	9.7	77.9	45.4	8.6	–
Cash outflows	–	(187.4)	(29.2)	(29.2)	(73.8)	(45.3)	(9.8)	–
	12.6	(26.1)	(9.5)	(19.5)	4.1	–	(1.2)	–
Cross currency swaps designated as hedges								
Cash inflows in foreign currencies	–	11,478.9	122.3	122.3	2,913.4	1,474.5	3,871.3	2,975.1
Cash outflows in euros	–	(15,322.9)	(189.0)	(180.5)	(3,417.4)	(2,039.7)	(5,677.4)	(3,818.7)
	(1,678.6)	(3,843.9)	(66.7)	(58.2)	(504.1)	(565.1)	(1,806.1)	(843.6)
Cross currency swaps not designated as hedges**								
Cash inflows in foreign currencies	–	318.2	4.2	4.2	309.8	–	–	–
Cash outflows in euros	–	(330.7)	(6.6)	(6.6)	(317.5)	–	–	–
	(17.4)	(12.5)	(2.4)	(2.4)	(7.6)	–	–	–
Forward currency contracts								
Cash inflows in foreign currencies	–	1,860.3	1,800.1	60.2	–	–	–	–
Cash outflows in euros	–	(1,865.1)	(1,804.8)	(60.3)	–	–	–	–
	(41.9)	(4.8)	(4.7)	(0.1)	–	–	–	–
Total derivatives associated with financial liabilities	(B) (1,778.0)	(1,617.1)	(42.8)	(56.2)	(219.2)	(296.6)	(533.3)	(468.9)
Total	(A + B) (32,989.9)	(47,661.2)	(6,554.6)	(1,157.7)	(10,448.0)	(8,235.4)	(14,360.8)	(6,904.6)
Sub-total of net flows in euros	–	(47,661.0)	(6,554.4)	(1,157.7)	(10,448.0)	(8,235.4)	(14,360.8)	(6,904.6)
Sub-total of net flows in foreign currencies	–	(0.2)	(0.2)	–	–	–	–	–
CURRENT ASSETS								
Trade receivables	741.6	741.6	741.6	–	–	–	–	–
Grants	1,713.0	1,713.0	1,713.0	–	–	–	–	–
Cash and cash equivalents	1,890.8	1,890.8	1,890.8	–	–	–	–	–
TOTAL CURRENT ASSETS	4,345.4	4,345.4	4,345.4	–	–	–	–	–

* Excluding credit notes to be issued.

** Although not qualifying for hedge accounting, these derivatives are not used in a trading activity and economically back cash flows on liabilities.



(in millions of euros)



	31 Dec. 2007							
	Carrying amount	Total cash flows	< 6 months	6 months to < 1 year	1 to < 5 years	5 to < 10 years	10 to < 20 years	> 20 years
NON-DERIVATIVE FINANCIAL LIABILITIES								
RFF long-term borrowings – euros	(16,465.7)	(24,531.1)	(396.4)	(349.1)	(5,535.6)	(6,579.9)	(8,874.1)	(2,796.0)
RFF long-term borrowings – foreign currencies	(6,149.8)	(12,092.2)	(297.7)	(803.5)	(1,973.4)	(1,313.4)	(3,226.1)	(4,478.1)
Total RFF long-term borrowings	(22,615.5)	(36,623.2)	(694.1)	(1,152.6)	(7,509.0)	(7,893.3)	(12,100.1)	(7,274.1)
Long-term borrowings transferred from SNCF – euros	(3,253.4)	(4,434.7)	(1,383.5)	(84.1)	(1,055.6)	(916.2)	(995.3)	–
Long-term borrowings transferred from SNCF – foreign currencies	(455.1)	(663.2)	(12.1)	(12.1)	(246.7)	(392.3)	–	–
Total long-term borrowings transferred from SNCF	(3,708.5)	(5,097.9)	(1,395.6)	(96.2)	(1,302.3)	(1,308.5)	(995.3)	–
Short-term debt – euros	(685.7)	(694.2)	(527.2)	(167.0)	–	–	–	–
Short-term debt – foreign currencies	(1,442.4)	(1,493.6)	(1,463.7)	(29.9)	–	–	–	–
Total short-term debt	(2,128.1)	(2,187.8)	(1,990.9)	(196.9)	–	–	–	–
Trade payables*	(793.8)	(793.8)	(793.8)	–	–	–	–	–
Other current financial liabilities	(1,180.3)	(1,180.3)	(1,180.3)	–	–	–	–	–
Total non-derivative financial liabilities	(A) (30,426.2)	(45,883.1)	(6,054.8)	(1,445.7)	(8,811.3)	(9,201.8)	(13,095.4)	(7,274.1)
DERIVATIVES ASSOCIATED WITH FINANCIAL LIABILITIES								
Interest rate swaps designated as hedges								
Cash inflows	–	3,183.3	80.6	157.1	589.5	465.9	1,448.2	442.2
Cash outflows	–	(574.5)	(34.7)	(34.7)	(251.6)	(127.1)	(82.2)	(44.0)
	88.8	2,608.9	45.8	122.3	337.8	338.8	1,366.0	398.2
Interest rate swaps not designated as hedges**								
Cash inflows	–	1,011.1	802.5	19.0	99.6	76.2	13.7	–
Cash outflows	–	(998.0)	(803.8)	(19.4)	(92.4)	(69.5)	(12.9)	–
	(10.3)	13.0	(1.3)	(0.4)	7.2	6.7	0.8	–
Cross currency swaps designated as hedges								
Cash inflows in foreign currencies	–	11,923.7	128.4	492.2	1,894.3	1,705.5	3,225.8	4,477.5
Cash outflows in euros	–	(15,286.5)	(195.9)	(636.4)	(2,379.4)	(2,183.4)	(4,828.2)	(5,063.2)
	(869.9)	(3,362.9)	(67.5)	(144.2)	(485.1)	(477.8)	(1,602.5)	(585.7)
Cross currency swaps not designated as hedges**								
Cash inflows in foreign currencies	–	831.7	181.4	323.4	325.8	0.1	0.3	0.7
Cash outflows in euros	–	(850.3)	(186.8)	(326.9)	(335.6)	(0.1)	(0.3)	(0.7)
	(2.9)	(18.6)	(5.3)	(3.5)	(9.8)	–	–	–
Forward currency contracts								
Cash inflows in foreign currencies	–	1,493.5	1,463.6	29.9	–	–	–	–
Cash outflows in euros	–	(1,491.5)	(1,461.1)	(30.4)	–	–	–	–
	(40.8)	2.0	2.5	(0.5)	–	–	–	–
Total derivatives associated with financial liabilities	(B)	(835.2)	(757.5)	(25.8)	(26.2)	(149.8)	(132.4)	(187.6)
Total	(A + B)	(31,261.5)	(46,640.6)	(6,080.6)	(1,472.0)	(8,961.1)	(13,331.1)	(7,461.7)
Sub-total of net flows in euros		(46,640.5)	(6,080.4)	(1,472.0)	(8,961.1)	(9,334.2)	(13,331.1)	(7,461.7)
Sub-total of net flows in foreign currencies		(0.1)	(0.1)	–	–	–	–	–
CURRENT ASSETS								
Trade receivables	1,061.06	1,061.06	1,061.06	–	–	–	–	–
Grants	1,902.68	1,902.68	1,902.68	–	–	–	–	–
Cash and cash equivalents	1,294.34	1,294.34	1,294.34	–	–	–	–	–
TOTAL CURRENT ASSETS	4,258.08	4,258.08	4,258.08	–	–	–	–	–

* Excluding credit notes to be issued.

** Although not qualifying for hedge accounting, these derivatives are not used in a trading activity and economically back cash flows on liabilities.

4.15.5. Credit risk

Credit risk is the risk of financial loss for RFF should a customer or a counterparty to a financial instrument fail to meet its contractual obligations.

The carrying amount of financial assets represents the maximum exposure to credit risk. The maximum exposure to credit risk at the balance sheet date is as follows:

(in millions of euros)		Carrying amount	
	Note	31 Dec. 2008	31 Dec. 2007
Long-term receivables and guarantee deposits paid	4.4	7.3	4.7
Fair value of derivatives not designated as hedges	4.15.3	60.9	38.5
Fair value of derivatives designated as hedges	4.15.3	280.4	127.5
Trade receivables	4.6	741.6	1,061.1
Grants receivable	4.8	1,713.0	1,902.7
Current accounts	4.4	23.6	13.2
Other receivables (excluding prepaid expenses)	4.7	596.6	543.9
Cash and cash equivalents	4.9	1,890.8	1,294.3
Total		5,314.3	4,985.8

Management of customer risk

The aged listing of trade receivables past due at 31 December 2008 is as follows:

(in millions of euros)		Current		Non-current
Outstanding amount		< 6 months	> 6 months	
Past due trade receivables not provided	359.1	359.1	—	—
Past due trade receivables provided	44.4	44.4	—	—
Provision for doubtful receivables	(26.2)	(26.2)	—	—
Total	377.3	377.3	—	—

This table does not include sales invoice accruals, receivables not yet due, nor related provisions for write-down.

The aged listing of grants receivable past due at 31 December 2008 is as follows:

(in millions of euros)		Current		Non-current
Outstanding amount		< 6 months	> 6 months	
Past due grants receivable not provided	884.5	884.5	—	—
Past due grants receivable provided	11.5	11.5	—	—
Provision for doubtful receivables	(13.1)	(13.1)	—	—
Total	882.9	882.9	—	—

This table does not include sales invoice accruals, receivables not yet due, nor related provisions for write-down.

Management of counterparty risk on cash and cash equivalents and derivatives

RFF is exposed to counterparty risk both in its day-to-day treasury management (investment of cash surpluses in certificates of deposit, commercial paper, etc.) and in the management of its medium- and long-term debt (transactions on derivatives, etc.).

In order to protect against a downturn in the financial position of counterparties:

— With which RFF invests cash, a limit is set on the nominal amount that can be invested per counterparty, based on its short-term credit rating (minimum A1/P1/F1).

— With which RFF carries out financial instrument transactions, an exposure limit is set per counterparty. This limit is expressed in terms of market value and is based on the counterparty's long-term credit rating (minimum BBB-/Baa3/BBB-) and equity. RFF has also set up a guarantee contract with all its derivative counterparties. This contract is triggered when the counterparty's credit rating falls below AA-/Aa3/AA-.





4.16. Fair value of financial instruments

(in millions of euros)

31 Dec. 2008

	Note	IAS 39 accounting categories							Total balance sheet carrying amount	Fair value
		Assets measured at fair value through profit or loss (trading)	Assets measured at fair value through profit or loss (fair value option)	Derivatives designated as hedges	Assets held to maturity	Available-for-sale assets	Loans and receivables	Liabilities at amortised cost		
ASSETS										
Asset derivatives allocated to debt	4.15.3	60.9	–	280.4	–	–	–	–	341.3	341.3
Trade receivables	4.6	–	–	–	–	–	741.6	–	741.6	741.6
Other financial assets	4.4	–	–	–	–	–	78.4	–	78.4	78.4
Cash and cash equivalents	4.9	–	1,890.8	–	–	–	–	–	1,890.8	1,890.8
Total		60.9	1,890.8	280.4	–	–	820.0	–	3,052.1	3,052.1
LIABILITIES										
RFF long-term debt	4.14	–	–	–	–	–	–	24,312.4	24,312.4	24,963.8
Long-term debt transferred from SNCF	4.14	–	–	–	–	–	–	2,359.4	2,359.4	2,970.9
Short-term debt	4.14	–	–	–	–	–	–	2,598.8	2,598.8	2,598.8
Liability derivatives allocated to debt	4.15.3	170.4	–	1,948.9	–	–	–	–	2,119.4	2,119.4
Trade payables	4.15.4	–	–	–	–	–	–	850.6	850.6	850.6
Other financial liabilities	4.17 and 4.20	–	–	–	–	–	–	1,196.8	1,196.8	1,196.8
Total		170.4	–	1,948.9	–	–	–	31,318.0	33,437.3	6,765.5

(in millions of euros)

31 Dec. 2007

	Note	IAS 39 accounting categories							Total balance sheet carrying amount	Fair value
		Assets measured at fair value through profit or loss (trading)	Assets measured at fair value through profit or loss (fair value option)	Derivatives designated as hedges	Assets held to maturity	Available-for-sale assets	Loans and receivables	Liabilities at amortised cost		
ASSETS										
Asset derivatives allocated to debt	4.15.3	38.5	–	127.5	–	–	–	–	166.0	166.0
Trade receivables	4.6	–	–	–	–	–	1,061.1	–	1,061.1	1,061.1
Other financial assets	4.4	–	–	–	–	–	63.1	–	63.1	63.1
Cash and cash equivalents	4.9	–	1,294.3	–	–	–	–	–	1,294.3	1,294.3
Total		38.5	1,294.3	127.5	–	–	1,124.2	–	2,584.5	2,584.5
LIABILITIES										
RFF long-term debt	4.14	–	–	–	–	–	–	22,615.5	22,615.5	22,302.4
Long-term debt transferred from SNCF	4.14	–	–	–	–	–	–	3,708.5	3,708.5	3,578.0
Short-term debt	4.14	–	–	–	–	–	–	2,128.1	2,128.1	2,128.1
Liability derivatives allocated to debt	4.15.3	92.7	–	908.5	–	–	–	–	1,001.2	1,001.2
Trade payables	4.15.4	–	–	–	–	–	–	793.8	793.8	793.8
Other financial liabilities	4.17 and 4.20	–	–	–	–	–	–	1,212.8	1,212.8	1,212.8
Total		92.7	–	908.5	–	–	–	30,458.7	31,460.0	31,016.4

4.17. Other non-current liabilities

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Guarantee deposits received	32.0	32.5
Other	75.2	–
Total other non-current liabilities	107.2	32.5

The amount of €75.2 million corresponds to sales promises relating to disposals in progress.

4.18. Trade payables

Trade payables break down as follows:

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Trade payables	323.5	333.9
Accrued liabilities	527.1	460.2
Credit notes to be issued	–	98.8
Total	850.6	892.7

4.19. Other payables

Other payables break down as follows:

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Tax and employee-related liabilities	205.5	248.9
Deferred income	44.8	230.4
Other payables	105.2	95.0
Total	355.5	574.3

4.20. Other current financial liabilities

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Liabilities relating to property, plant and equipment	1,050.4	1,177.5
Guarantee deposits	16.7	–
SNCF current accounts	22.4	2.8
Total	1,089.5	1,180.3

The amount of €16.7 million corresponds to a guarantee deposit received from a counterparty to a financial contract.





4.21. Other disclosures

4.21.1. Analysis of movements in operating working capital requirements

(in millions of euros)	31 Dec. 2007	Impact on cash flows	Inter-account transfers	Change in fair value	31 Dec. 2008
SNCF trade receivables	(946.9)	221.4	–	–	(725.4)
Other trade receivables	(35.4)	15.6	–	–	(19.8)
SNCF trade payables	816.7	79.1	–	–	895.8
Other trade payables	212.3	(54.7)	–	–	157.7
Tax and employee-related receivables	(371.1)	(14.5)	–	–	(385.6)
Tax and employee-related liabilities	192.0	(43.5)	–	–	148.5
SNCF current accounts – operating	(4.0)	7.5	–	–	3.5
Other current accounts (EIGs)	–	–	–	–	–
Other payables	3.7	(0.6)	–	–	3.1
Other receivables	(12.2)	4.8	–	–	(7.5)
Operating grants receivable	(12.6)	(3.2)	–	–	(15.8)
Operating grants recognised	–	–	–	–	–
Deferred income (other)	230.4	(185.6)	–	–	44.8
Prepaid expenses	(228.5)	(6.1)	–	–	(234.7)
Working capital requirements	(155.7)	20.3	–	–	(135.4)

Working capital requirements at 31 December 2007 presented above are €105.9 million less than the amount presented in the notes to the 2007 consolidated financial statements. This decrease follows the correction of classification errors in the table of movements in working capital requirements at 31 December 2007 (“31 December 2006” column and “Inter-account transfers” column). These corrections did not impact the movement of €22.2 million in working capital requirements presented in respect of 2007.

4.21.2. Analysis of cash flows relating to purchases of property, plant and equipment and intangible assets

(in millions of euros)	31 Dec. 2008	o/w movements in working capital	31 Dec. 2007	o/w movements in working capital
Gross amount of property, plant and equipment and intangible assets purchased in the year	(2,962.2)	–	(2,473.6)	–
Change in liabilities relating to property, plant and equipment and intangible assets	(99.8)	(99.8)	68.9	68.9
Cash outflows on purchases	(3,062.0)	(99.8)	(2,404.6)	68.9
Grants allocated in the year	2,113.3	–	2,179.1	–
Change in grants to be collected	3.1	3.1	(450.1)	(450.1)
Change in grants not yet claimed	135.8	135.8	5.5	5.5
Change in grants claimed in advance	140.0	140.0	272.4	272.4
Grants collected	2,392.2	278.9	2,006.9	(172.2)
Net cash flows	(669.8)	179.1	(397.8)	(103.3)

Note 5.

Notes to the income statement

5.1. Revenue breakdown by type

Revenue breaks down as follows:

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Infrastructure fees	2,675.8	2,448.5
Additional electricity fees	93.0	89.9
Other service fees	63.5	45.0
Income from private sidings	9.1	14.0
Sub-total infrastructure commercial revenue	2,841.4	2,597.3
Electricity transmission	154.2	146.4
Non-traffic income (direct management or outsourced)	63.9	64.8
Sales of materials	34.1	34.2
Other income from ancillary activities	5.0	5.1
Total revenue	3,098.5	2,847.8

Infrastructure fees totalled €2,675.8 million, an increase of €227.3 million or 9.28% on the same period in 2007. Infrastructure fees comprise the following:

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Access rights	100.8	93.6
Route reservation fees	1,631.0	1,485.1
Station stop reservation fees	440.3	424.8
Traffic fees	503.7	444.9
Total infrastructure fees	2,675.8	2,448.4

As agreed between RFF and SNCF, the difference between actual fees and benchmark fees (guaranteed revenue) is compensated by a subsequent adjustment to the fee scale. The increase in fees is mainly due, for all categories, to increases in the fee scale (€174.7 million). This price effect is mainly due to an increase in prices for the high-speed network, medium-density lines and high-density inter-city lines and to circulation rights for national passenger transport and freight activities. The volume effect of €51.6 million is mainly due to the inclusion of the Eastern France high-speed line for a full year and the development of regional passenger transport activities.

Additional electricity fees of €93 million remain broadly stable compared with 2007 (increase of 3.4%).

Other service fees relating to intermodal transport depots, the use of marshalling yards, extended siding occupancy and the use of tracks in the "Futuroscope" station totalled €63.5 million. The increase of €18.5 million (41.1%) on the same period in 2007 is due to the increase in the fee scale for the use of marshalling yards and, to a lesser extent, new services concerning the use of the Motteville-Montérolier-Buchy section by freight trains.

Private sidings

Income from private sidings totalled €9.1 million in 2008.

Property rental income

Property rental income totalled €63.9 million in 2008, compared with €64.8 million in 2007.

2008 income includes credit notes of €7.6 million, fully offset in profit or loss by the reversal of corresponding provisions.





In addition, the dispute with SNCF concerning jointly-owned stations was settled in 2008, leading to the issue of a credit note of €4.2 million, partially offset by the reversal of a provision in the amount of €1.8 million.

After adjustment for these items, 2008 revenue is €75.7 million compared with €71.5 million in 2007 (after adjustment for credit notes issued in 2007), representing an increase of 3.5%.

From 2008, non-traffic income is allocated to five major categories: rail (14.5%), land and property (58%),

telecommunications (21%), networks (3%) and sundry authorisations (3.5%).

Telecommunications income totalled €16.3 million in 2008, compared to €14.8 million in 2007 (excluding an adjustment of €3.9 million to deferred income recognised in 2007).

Note that the rail category includes income relating to the occupation of RFF property by SNCF EF, invoiced for an annual amount of €3.1 million from 2008.

5.2. Operating grants

Operating grants break down as follows:

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
State contribution to infrastructure costs	658.2	828.1
Other operating grants	58.4	103.0
Total	716.6	931.1

5.3. Delegated management fees

Delegated management fees break down as follows:

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Delegated management fees for infrastructure management	(2,809.8)	(2,718.0)
Delegated management fees for platform management	(46.0)	(37.9)
Malicious acts	(25.5)	(28.2)
Total delegated infrastructure management fees	(2,881.3)	(2,784.1)
Property management fees	(69.0)	(79.3)
Total delegated management fees	(2,950.4)	(2,863.4)

Réseau Ferré de France (RFF) is a State-owned industrial and commercial company (établissement public à caractère industriel et commercial - EPIC), established by Act n°. 97-135 of 13 February 1997 ("the 1997 Act"), with retrospective effect from 1 January 1997.

This Act and the related enabling legislation (Decree nos. 97-444, 97-445 and 97-446) transferred ownership of the French rail infrastructure previously held by SNCF to Réseau Ferré de France, which was created as an independent entity. The decree of 6 December 2006 recently confirmed the activities of RFF, while also specifying the conditions under which such activities could be delegated to SNCF.

RFF delegates performance of the following activities:

1. Management of the system organising all rail traffic on the network, referred to as "train running diagrams".
2. Management of safety and control systems and traffic management.

3. Supervision, maintenance, repair and other measures necessary for the operation of the network and technical equipment and facilities.

Pursuant to Article 15 of the aforementioned Decree, fees payable to SNCF are defined on a fixed-sum basis for each of the three activity categories.

Network management fees represented an expense of €2,809.8 million in 2008, including an adjustment of €9 million for prior years.

Platform management fees under the contract signed with SNCF represented an expense of €46 million in 2008, including an adjustment of €2.5 million for prior years.

The property management agreement between RFF and SNCF was replaced by a services contract and a financial agreement, with effect from 1 January 2007. Fees under the services contract totalled €42.1 million in 2008. Fees under the financial agreement in the same period totalled €14.9 million. Services

rendered by Adyal and Nexity as agents totalled €11.2 million while services rendered by the Adyal-IBM grouping totalled

€0.9 million. Total additional expenses of €3.9 million were also recognised in respect of prior years.

5.4. Other network expenses

Other network expenses concern the "Electricity" heading.

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Electricity	(152.5)	(145.0)
Total	(152.5)	(145.0)

RFF purchases the electric power used in its installations under a contract signed on 1 March 2007 with EDF Entreprise, mainly in the form of Joule effect losses.

Together these services represented an expense of €152.5 million in 2008, taking account of an annual CSPE public service electricity levy capped at €0.5 million.

Under the same contract, EDF-Entreprise (via the so-called "Responsable d'équilibre" adjustment system) provides RFF with the additional power supply it requires.

Expenses incurred, together with contract management costs, are recharged on a monthly basis to users of the network in proportion to traffic levels in the form of additional electrical traction fees, and represented an amount of €154.2 million in 2008.

RFF network access contracts with RTE (CART CONTRACT), EDF-ARD (CARD CONTRACT) and Électricité de Strasbourg provide for the transmission, via the high-voltage and medium-voltage grid upstream of substations, of the energy used by all rail operators.

The difference between income and expenses relating to additional electrical traction fees is partly attributable to certain contract management costs recharged by RFF to network users in proportion to traffic levels.

5.5. Taxes other than on income

This expense heading comprises the following items:

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Taxes other than on income – direct management	(8.8)	(6.2)
Taxes other than on income – delegated management	(34.5)	(45.5)
Net reversals of provisions for tax risks	–	10.0
Total	(43.2)	(41.7)

5.6. Other operating expenses

Other operating expenses break down as follows:

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Study costs net of capitalised production	(44.8)	(52.2)
Railway works and equipment net of capitalised production	(9.6)	(56.0)
Other external expenses net of capitalised production	(82.4)	(92.8)
Personnel costs net of capitalised production	(67.0)	(57.5)
Total	(203.8)	(258.6)





5.6.1. Personnel costs

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Salaries	(50.7)	(40.5)
Payroll taxes	(16.2)	(17.0)
Total	(67.0)	(57.5)

5.6.2. Workforce

At 31 December 2008, RFF had a workforce of 939, including 34 specifically-assigned civil servants and 75 seconded staff (68 from SNCF, 5 from RATP, 1 from GDF and 1 from CCF). At 31 December 2007, RFF had a workforce of 843.

5.6.3. Remuneration of key management personnel

Total remuneration of the members of the RFF Executive Committee in 2008 was €1,068,096. The Committee had an average of 6 members during the year.

5.7. Investment grants released to profit or loss

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Investment grants released to profit or loss	185.7	150.9
Grants for upgrade and compliance work released to profit or loss	70.5	65.8
Total	256.2	216.7

5.8. Other recurring income and expenses

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Bank charges	(0.5)	(0.2)
Other expenses	(332.2)	(142.0)
Other recurring expenses	(332.7)	(142.2)
Net gains on disposal of investment property	60.9	36.8
Gain (loss) on disposal of other property, plant and equipment	–	–
Other income	12.0	53.6
Other recurring income	72.9	90.3

5.9. Cost of net debt

The cost of net debt breaks down as follows:

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Expenses on liabilities recognised at amortised cost	(1,409.8)	(1,338.0)
Income (expense) on derivatives allocated to debt	(127.1)	(23.0)
Foreign currency gains and losses	1.7	0.1
Total cost of gross debt	(1,535.2)	(1,360.9)
Income (expense) on assets measured at fair value	64.5	25.3
Cost of net debt	(1,470.7)	(1,335.6)

5.9. Cost of net debt (continued)

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Net interest received on derivatives designated as fair value hedges	(10.3)	6.8
Change in value of derivatives designated as fair value hedges	152.1	(80.5)
Change in value of the adjustment to debt hedged by fair value hedges	(157.3)	80.7
Release to profit or loss of amounts deferred in equity*	(67.8)	(46.4)
Ineffective portion of cash flow hedges	(2.4)	5.9
Income (expense) on derivatives not designated as hedges	(41.4)	10.5
Income (expense) on derivatives allocated to debt	(127.1)	(23.0)

* Excluding currency derivatives designated as cash flow hedges.

Movement in cash flow hedge reserves

Income (expenses) deferred in equity include the foreign currency impact recognised on cash flow hedges. At 31 December 2008, amounts deferred in equity break down as follows (in millions of euros):

Balance at 1 January 2007	(308,2)
Released to profit or loss in 2007*	(344,0)
Change in equity	682,5
Balance at 1 January 2008	30,4
Released to profit or loss in 2008*	(787,9)
Change in equity	517,8
Balance at 31 Dec. 2008	(239,7)

* Including the impact of currency derivatives designated as cash flow hedges immediately transferred to profit or loss in the amount of €390.5 million in 2007 and €855.7 million in 2008.

5.10. Other financial income and expenses

Other financial income and expenses break down as follows:

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Interest income on current accounts	3.5	9.8
Other financial income	48.6	18.2
Other financial income	52.1	28.0
Interest expense on current accounts	(33.9)	(9.2)
Other financial expenses	(5.6)	(5.8)
Other financial expenses	(39.5)	(15.0)

Other financial income and expenses mainly comprise interest on SNCF current accounts and late payment interest charged by RFF to co-financing bodies and charged to RFF by suppliers.



Note 6.

Related parties

Relations with the French State

In accordance with legislation applicable to companies in which the French State is the sole shareholder, RFF is subject to the economic and financial control of the State, the *Cour des Comptes* (French National Audit Office), the French Parliament and audits performed by the *Inspection Générale des Finances* (audit body of the French Finance Ministry).

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Operating grant - State contribution to infrastructure costs	658.2	828.1
Grant for upgrade and compliance work	75.0	68.8
Debt reduction grant	686.2	693.5
Total	1,419.4	1,590.3

Impacts on the balance sheet

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Grant for upgrade and compliance work	4,334.4	3,604.2
Grant for upgrade and compliance work receivable	–	225.0
Debt reduction grant receivable	–	43.0
Total	4,334.4	3,872.2

Relations with SNCF

Relations between RFF and SNCF are governed by agreements. Act n°. 97-135 of 13 February 1997 which created RFF provides, in Article 1, that an agreement between RFF and SNCF must set, in particular, the conditions of performance and remuneration of the management services delegated to SNCF, which include traffic and circulation management, the operation and maintenance of the technical infrastructure and network safety. To this end, RFF and SNCF signed agreement n°. 98-007 on 26 October 1998. Decree n°. 97-444 of 5 May 1997 stipulates that this agreement can provide, if necessary, for the signature of specific agreements of appropriate terms for the performance of the different services entrusted to SNCF. A specific agreement was thus signed for the management of platforms, passenger departure and arrival

terminals and related facilities. Similarly, the agreement signed on 19 May 1999 sets out the respective obligations of RFF and SNCF for the performance of research relating to the national rail network. Two agreements govern capital investment by RFF; the first one defines the conditions of combined purchases, logistics and the transport of centrally managed supplies and the second one addresses services relating to these operations.

In addition to these agreements of a purely rail-related nature, a property management contract defines the conditions under which RFF delegates management of property to SNCF and the agreement concerning RFF's debt with SNCF sets out the components of the debt transferred and the manner in which it is to be repaid.

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Income: tolls	2,972.8	2,723.7
Expense: management agreements	2,912.8	2,825.0
Production of property, plant and equipment delegated to SNCF	2,047.9	1,840.1



Note 7.

Off-balance sheet commitments

Financial guarantees

RFF has received bank guarantees from Calyon in a total amount of €1.3 million in favour of:

— Various local authorities (Préfectures), to cover restoration costs related to sites operated under investment programmes (five guarantees for a total amount of €1.1 million);

— Crédit Suisse Asset Management to cover a commercial lease (one guarantee for €0.2 million).

Note 8.

Subsequent events

There were no subsequent events requiring disclosure in the notes to the financial statements.



***STATUTORY
→ AUDITORS' REPORT
ON THE CONSOLIDATED
FINANCIAL STATEMENTS***

Statutory auditors' report on the consolidated financial statements

Financial year ended 31 December 2008

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the consolidated financial statements. This information includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by the French Economy, Finance and Budget Minister, we hereby report to you, for the year ended 31 December 2008, on:

- the audit of the accompanying consolidated financial statements of Réseau Ferré de France;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

1. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, on a test basis or by selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2008 and of the results of its operations for the year then ended in accordance with IFRS as adopted by the European Union.

Without qualifying our opinion, we draw your attention to the following matters:

- Note 2.2 "Major transactions and events" to the consolidated financial statements, which discloses:
 - the €9.2 billion net reversal of the impairment provision following the revaluation of railway infrastructure assets in connection with the redefinition of the Company's business model, as described in the performance contract entered into between the French State and RFF;
 - the reasons for recognising a deferred tax asset in an amount of €3.9 billion;

— the arbitration decisions regarding the disputed allocation of assets with SNCF and the non-settlement of the corresponding debts and receivables;

— the consequences of the additional analyses carried out in order to estimate the loss on completion on the Paris Left-Bank development project.

- Notes 3.19.1 and 4.12.2 to the consolidated financial statements relating to the evaluation of provisions for (i) decontamination and environmental risks based on currently available information regarding the "pool" of assets to be treated and (ii) claims in progress in respect of the flooding in Arles in December 2003.

2. Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- Notes 3.19 et 4.12 "Provisions" to the consolidated financial statements present the nature of the provisions recorded by RFF. We have assessed the reasonableness of the manner in which these provisions were determined, on the basis of currently available information, as described in the last paragraph of the section relating to our opinion on the consolidated financial statements.

These assessments were made in the context of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion expressed in the first part of this report.

3. Specific verification

As required by law, we have also verified the information on the Group given in the Directors' report. We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Paris La Défense and Neuilly-sur-Seine, 10 April 2009

The Statutory Auditors

Salustro Reydel
Member of KPMG International
Philippe Arnaud *Partner*

PricewaterhouseCoopers Audit
Florence Pestie *Partner*



➤ ***DIRECTORS' REPORT
ON THE FINANCIAL
STATEMENTS***

Fiscal year 2008 was marked by a **net profit of €8,098 million, including net non-recurring income of €9,028.2 million**, compared to a net loss of €795.8 million in 2007.

The 2008 net non-recurring income reflects the impact of the new business model on the assets of the infrastructure CGU, materialised by the signature of the performance contract between the French State and RFF.

The new RFF business model incorporates the positive aspects of reforms to both the toll fee scale and the State grants to RFF. These changes generate a substantial increase in the recoverable value of RFF infrastructure assets, resulting in the reversal

to non-recurring items of the entire asset impairment recognised in 2005 on the first-time application of CRC Regulation 2002-10.

The recurring operating loss before tax stood at €930.3 million for the year ended 31 December 2008, compared to a loss of €725.5 million for 2007.

Investment expenditure amounted to **€2,967.3 million** for 2008, compared to €2,468 million for the full 2007 fiscal year.

Equity, including investments grants, amounted to **€8,564 million** as at 31 December 2008.

Financial performance over the year and comments on key headings

1. Income statement

Net profit for the year.

Net profit for 2008 amounted to €8,098 million taking into account non-recurring income of €9,028.2 million, against a loss of €795.8 million for the year ended 31 December 2007.

Income statement

(in millions of euros)	2008	2007	Change %
EBITDA	457.1	463.0	(1.3)
Operating loss	(213.7)	(68.7)	(211.1)
Net financial expense	(716.6)	(656.9)	(9.1)
Net non-recurring income (loss)	9,028.2	(70.3)	NA
Net profit (loss) for the year	8,098.0	(795.8)	—

The €213.7 million **operating loss** for the year ended 31 December 2008 deteriorated by €144.8 million year-on-year, essentially due to calculation methods. The following table breaks down the changes in the captions for operating income and expenses.

The €716.6 million **net financial expense** for the year ended 31 December 2008 declined by €59.7 million year-on-year.

Net non-recurring income for 2008 primarily reflects the reversal of the infrastructure CGU asset impairment.





Changes in operating income and expenses

(in millions of euros)	2008	2007	Change
Infrastructure fees	2,832.3	2,583.3	249.0
Non-traffic income	63.9	64.8	(0.9)
State contribution to infrastructure costs	658.2	828.1	(169.9)
Other operating income	202.9	202.6	0.3
Capitalised production	876.0	621.3	254.7
Delegated management fees	(2,924.8)	(2,835.2)	(89.6)
Studies and construction costs (net of grants)	(858.1)	(601.9)	(256.2)
Other external expenses	(104.4)	(115.2)	10.8
Other operating expenses	(288.8)	(285.1)	(3.7)
CHANGE IN EBITDA	–	–	(5.5)
Depreciation and amortisation expense	(829.1)	(639.8)	(189.3)
Charges to provisions for impairment of projects in progress (net of reversals)	(15.7)	(2.2)	(13.5)
Charges to provisions for operating liabilities and charges (net of reversals)	(75.0)	(116.0)	41.0
Charges to provisions for impairment of current assets (net of reversals)	(14.0)	3.1	(17.1)
Investment grants written back to income	260.7	219.7	41.0
Other	2.1	3.5	(1.4)
Change in operating profit	–	–	(144.8)

EBITDA was relatively stable between 2007 and 2008. The increase in infrastructure fees in 2008 is offset by a reduction in the State contribution to infrastructure costs (€169.9 million), and an increase in delegated management fees (€89.6 million).

The increase in the depreciation and amortisation expense is due to the write-back of asset impairment for approximately €150 million.

1.1. Changes in operating income

1.1.1. Infrastructure fees and State contribution to infrastructure costs

Infrastructure fees include:

Basic railway services

Access fees, route reservation fees, station stop reservation fees and traffic fees came in at €2,675.8 million, up by €227.3 million or 9.3% compared to 2007.

This increase breaks down by type as follows:

(in millions of euros)	2008	2007	Change
Access fees	100.8	93.6	7.2
Route reservation fees	1,630.9	1,485.1	145.8
Station stop reservation fees	440.3	424.8	15.5
Traffic fees	503.7	445.0	58.7
Total infrastructure fees	2,675.8	2,448.5	227.3

The €32.9 million in income recognised in the first half of 2008 with respect to the 2007 infrastructure fee guarantee was cancelled in the second half. As agreed between RFF and SNCF, the difference in the effective fees in relation to the defined benchmark (guaranteed receipts) will be offset by an additional ex post facto adjustment to the scale. With respect to the €227.3 million increase recognised between 2007 and 2008, the price impact (increase in fee scales) amounts to +€175.5 million, while the volume impact (impact of changes

in the cost allocation base invoiced) stood at +€51.8 million. The price impact is primarily attributable to the increase in the N (high-speed), B and C (medium-density lines and high-density inter-city lines) pricing categories and higher traffic fees arising from national passenger transport and freight activities. The volume impact is primarily explained by the entry into operational service of the East European high-speed line for a full-year and the development of regional passenger activities.

The table below shows changes in traffic during the year:

(millions of train-kilometres)	2008	2007	Change
High-speed trains	133.6	122.6	11.0
Corail and Corail intercity	53.5	57.7	(4.2)
TER Regional express trains	172.4	163.2	9.2
Greater Paris regional services	59.5	57.4	2.1
Freight	99.6	107.2	(7.6)
Other	15.3	17.6	(2.3)
Sub-total SNCF	533.9	525.8	8.1
New operators	7.4	3.7	3.7
Total	541.3	529.5	11.8

Traffic rose by 2.2% compared to 2007 (+11.8 million train-kilometres). The 1.5% increase in SNCF traffic (+8.1 million train-kilometres) is added to the 100% increase for new operators (+3.7 million train-kilometres).

Passenger activity rose by 4.5% (+18.1 million train-kilometres). Activity was up for high-speed trains (+8.9%), TER regional express trains (+5.6%) and Greater Paris regional services (+3.6%), while Corail and Corail intercity trains declined by 7.3%.

Freight activity declined by 3.5% (–3.9 million train-kilometres). SNCF Freight declined by 7.1%, while activity for new operators doubled.

The traffic/reservations ratio expressed as a percentage of train-kilometres to route-kilometres is 90.3% (90.5% in 2007). The increase in infrastructure fees is largely cancelled by the decrease in the contribution to infrastructure costs paid by the State. Standing at €658.2 million for 2008, the contribution shrank by €169.8 million compared to 2007.

Finally, total 2008 infrastructure fees added to the contribution to infrastructure costs rose by €57.5 million, or 1.8%.

Additional electricity fees, standing at €92.9 million, are virtually equivalent to the amount recorded in 2007.

Other service fees amounted to €63.5 million, up by €18.5 million, or 41.1%, compared to 2007. The rise is primarily due to an increase in the fee scale concerning the access to marshalling yards and their operation and to, a lesser extent, new services for the access of Freight trains to the Motteville-Montérolier-Buchy section.

1.1.2. Private sidings

RFF recognised revenue of €9.1 million with respect to private sidings in 2008. The amount includes the 2008 revenue for €11.7 million and the adjustment of revenue previously recorded, based on transfers by the service provider in the amount of €2.6 million.

1.1.3. Electricity

RFF's electricity charges for 2008 amounted to €152.5 million (excluding VAT). This includes the CSPE public service electricity levy of €0.5 million, according to the annual cap set by the 2004 Amended Finance Act

The expense for the year is rebilled on a monthly basis to rail operators in the form of additional electrical traction fees, calculated in proportion to distance travelled and adjusted to take account of train profiles. The monthly rebilling is adjusted on a quarterly basis.





The total amount of fees recognised in income by RFF for 2008 is €154.2 million. This income includes traction electricity management fees rebilled to rail network operators (0.25% of additional electrical traction fees).

The CSPE public service electricity levy cap of €0.5 million was charged to the various operators.

1.1.4. Rental income from property assets

Rental income stood at €63.9 million in 2008, compared to the €64.8 million recorded in 2007.

The income for 2008 includes credit notes for €7.6 million which were fully offset in profit or loss by the reversal of the corresponding provisions.

In addition, the litigation with SNCF involving shared railway stations was settled in 2008, giving rise to the issue of a €4.2 million credit note partially offset by a provision reversal for €1.8 million.

Following the restatement of these adjustments, 2008 income stood at €75.7 million, compared to €71.5 million in 2007

1.1.6. Capitalised production

Capitalised production, comprising expenditure on directly managed projects, increased by 41%. Construction and maintenance increased from €541.1 million in 2007 to €803.5 million in 2008, for an increase of €262.4 million.

(in millions of euros)	2008	2007	Change %
Construction and maintenance	803.5	541.1	48.5
Studies	55.0	103.9	(47.1)
Other expenditure*	17.5	34.0	(48.5)
Adjustment to PPP assets	–	(57.7)	NA
Capitalised production	876.0	621.3	41.0

* Personnel and other operating costs that can be capitalised.

1.1.7. Investment grants written back to income

Investment grants are written back to income on the same basis as the depreciation charged on the related assets.

Grants written back in 2008 amounted to €260.7 million, including €75 million in grants relating to upgrading and compliance work.

1.2. Change in operating expenses

1.2.1. Rail network infrastructure and platform management fees

The delegated infrastructure manager is remunerated based on the 2007-2010 long-term infrastructure management agreement signed by RFF and SNCF on 25 May 2007, and

(following the restatement of accrued credit notes and deferred income in 2007), for an increase of 5%.

Beginning in 2008, non-traffic income is broken down into five major categories: rail (14.5%), property and real estate (58%), telecommunications (21%), networks (3%) and various authorisations (3.5%).

Telecommunications income represented €16.3 million, compared to €14.8 million in 2007 (excluding the €3.9 million deferred income adjustment posted in 2007).

The rail category includes the income relating to the SNCF EF occupation of RFF land billed for an annual amount of €3.1 million beginning in 2008.

1.1.5. Sales of materials

This item represents sales and recoveries of old materials by SNCF on behalf of RFF in connection with maintenance and construction works.

The amount of €34.1 million for 2008 is comparable to the €34.2 million recorded in 2007.

the amendments thereto setting the 2008 basic projected annual fee at €2,732.9 million.

Various other adjustments were added to the 2008 basic fee, namely a re-indexation impact of €50 million, the bonus relating to 2008 objectives, the remuneration relating to other research services, and additional major maintenance operations in the Greater Paris Region for an overall amount of €17.91 million. In addition, prior-year adjustments were recorded for €9 million. The total amount recognised in 2008 amounted to €2,809.8 million, compared to €2,718.0 million in 2007 (including –€3.9 million in prior-year adjustments).

Malicious damage by identified and unidentified third parties, and the impact of accidents and damage caused by adverse

weather conditions totalled €25.5 million for 2008, (including prior-year adjustments for €1.0 million), for a decrease of €2.7 million year-on-year.

The cost of platform management delegated to SNCF amounted to €43.5 million for 2008. Prior-year adjustments were also recorded for a total of €2.5 million. The total expense was €46.0 million in 2008, compared to €37.9 million in 2007 (including a negative prior-year adjustment for €2.1 million).

1.2.2. Property management

Property management has been divided between SNCF on the one hand and Adyal and Nexity on the other.

This includes the management of property assets (rental, expenses, construction and maintenance), assistance with disposals, tax planning, and the management of land use and urban planning procedures.

SNCF property management is governed by two agreements: — a services contract for assignments conferred to SNCF. The cost of this agreement amounts to €38.16 million for the

year ended 31 December 2008, to which is added various adjustments for a total €1.7 million, as well as €1.4 million in remuneration for tax planning; — a financial contract for the reimbursements of the charges for property belonging to SNCF and occupied by infrastructure installations or SNCF delegated management services. The cost of this agreement amounts to €14.87 million for the year ended 31 December 2008.

An additional management mandate was awarded to SNCF in 2008 for the management of property. The amount expended for the year ended 31 December 2008 is €0.8 million.

The total charge to SNCF as agent amounts to €56.9 for the year ended 31 December 2008 (including €0.2 million in prior-year adjustments).

Management fees for the other service providers Adyal and Nexity amounted to €12.1 million for the year ended 31 December 2008.

1.2.3. Study costs

In 2008, RFF recorded €99.9 million in study costs related to direct project management assistance, for an increase of 20%. Project management assistance including construction and maintenance phases represents €35.6 million.

These costs break down as follows:

(in millions of euros)	Capitalised study costs	Operating study costs	Total
Conventional track development	16.2	15.4	31.6
Extension of high-speed network	36.1	5.7	41.8
PPP projects	0.8	6.5	7.3
GSMR systems (including PPP)	(0.4)	4.9	4.4
Network maintenance and safety/compliance	1.9	3.3	5.2
Strategic studies	–	6.5	6.5
Property studies	0.4	0.5	0.9
Sales studies	0.1	0.8	0.9
Other	–	1.3	1.3
Total 2008	55.1	43.8	99.9
Total 2007	39.4	42.9	82.3

Of these study costs, 56% are capitalised. At €36.1 million, capitalised study costs for the extension of the high-speed network were up sharply, including €19.4 million for project management assistance, whereas the item had amounted to €15.2 million in 2007. The increase is due to the balance of the East European high-speed line contracts and the ramp-up of the Rhin-Rhône high-speed line.





1.2.4. Construction and maintenance work, and railway equipment

Costs recognised in this line item, totalling €816.1 million in 2008, relate to projects conducted by RFF itself. Practically all of these costs are included in capitalised production.

In 2008, the main items of expenditure for construction and maintenance concern the Rhin-Rhône high-speed line for €547.4 million, the Eastern France high-speed line for €36 million, and the Haut Bugey rail link project for €109.3 million.

1.2.5. Personnel costs

The headcount increased from 843 at 31 December 2007 to 939 at 31 December 2008, a year-on-year rise of 11.4%.

Personnel costs represented €65.2 million as at 31 December 2008, compared to €56.5 million in 2007, for a 15.4% increase.

1.2.6. Other external expenses

Other external expenses amount to €104.4 million for the year ended 31 December 2008, compared to €115.2 million year-on-year, for a decrease of €10.8 million. The item includes work on projects managed by sub-contractors for €9.6 million, compared to €18.4 million in 2007, demolition and decontamination costs for €7.6 million, compared to €13.1 million in 2007, and project-related temporary occupancy costs for €2.7 million, compared to €2 million in 2007. The latter project-related costs are recorded in capitalised production.

The cost of personnel seconded to RFF amounted to €9.7 million, compared to €10.2 million year-on-year.

1.2.7. Taxes other than on income

This account includes taxes managed on behalf of and rebilled to SNCF and other non-income based taxes paid directly by RFF, in the amount of €43.2 million.

1.2.8. Depreciation and amortisation expense

The total expense for the year amounted to €829.1 million, compared to €639.8 million for 2007.

1.2.9. Impairment of assets under construction

RFF records impairment provisions on projects in the pre-project or post pre-project phase to reflect the risk of non-completion.

An impairment charge was recorded in the amount of €24.8 million for the year ended 31 December 2008, in tandem to a reversal of €9.1 million. The provision thus amounted to €24.4 million, covering 245 projects and the portion of expenditure financed by RFF.

1.2.10. Charges to provisions for operating liabilities and charges

1.2.10.1. Decontamination

The *Plan Comptable Général* and CNC (*Conseil National de la Comptabilité*) opinion 00-01 on liabilities require entities that are under an obligation in respect of decontamination or environmental risks to recognise a provision. This applies in particular to provisions for asbestos removal and the removal of PCBs in railway equipment.

RFF has implemented two asbestos removal programmes: one for buildings in the RFF property portfolio, and the other covering signalling equipment cabins, battery housing and accumulator shelters

The amount of provisions for decontamination and environmental risks is revised at each balance sheet date to reflect the latest information obtained by RFF on these issues.

The first programme concerns the elimination of asbestos from the company's property assets. The balance of the provision at 31 December 2008 amounts to €9.16 million, including the cost of asbestos removal from the Gare des Gobelins site.

With respect to the second programme, a new tranche of programmed work led to the recognition of an additional provision of €0.34 million for the year ended 31 December 2008. Furthermore, the overall provision was reversed in the amount of €2.16 million in 2008, corresponding to the expenditure incurred and recognised in expenses. The balance of the provision at 31 December 2008 amounts to €6.09 million.

RFF has also implemented a clean-up programme involving the decontamination or removal of railway equipment containing PCBs. This provision was reversed in the amount of €2.67 million in 2008, corresponding to the expenditure incurred and recognised in expenses. The balance of the provision at 31 December 2008 is €11.4 million.

1.2.10.2. Other risks

RFF has also updated the other provisions existing at the balance sheet date based on changes in risks for the various files concerned.

1.3. Net financial expense

Net financial expense deteriorated year-on-year by an amount of €59.7 million, from €656.9 million one year ago to €716.6 million in 2008.

(in millions of euros)	2008	2007	Change
Short-term debt	(24.6)	(39.2)	14.6
Long-term debt	(1,391.7)	(1,325.0)	(66.7)
<i>Change in inflation indexation provision</i>	<i>(76.0)</i>	<i>(54.8)</i>	<i>(21.4)</i>
Net financial expense from ordinary financing activities	(1,416.4)	(1,364.2)	(52.2)
Debt reduction grant	686.2	693.5	(7.3)
Net financial expense net of debt reduction grant	(730.2)	(670.7)	(59.5)
Other financial items	13.6	13.8	(0.2)
Net financial expense	(716.6)	(656.9)	(59.7)

The net financial expense prior to the debt reduction grant deteriorated by €52.2 million, standing at €1,416.4 million, compared to €1,364.2 million for the year ended 31 December 2007.

The decline is explained by an increase in net debt in terms of volume and a more challenging interest rate market. The average cost of RFF debt in 2008 was 5.11%, compared to 5.05% in 2007.

By way of illustration, the average 3-month Euribor stood at 4.64% in 2008, compared to 4.28% in 2007.

Total debt for the year ended 31 December 2008 broke down as follows: 70% fixed rate, 21% floating rate, and 9% indexed to inflation.

1.4. Net non-recurring income

The line item largely comprises the gain or loss on reversal of the infrastructure asset impairment for the year 31 December 2008.

The impact of this reversal amounts to +€9,207.2 million, breaking down as follows:

— impairment reversal for €10,130 million;
— depreciation and amortisation adjustment for €922.8 million.

The item also includes a provision for losses with respect to the Paris Left-Bank development project, and the impact of the latest arbitration proceedings regarding the asset allocation litigation with SNCF:

Paris Left-Bank development project (“ZAC Paris Rive Gauche”)

Studies were conducted to estimate the loss on completion expected by RFF with respect to the development of the Paris Left-Bank development project. Completion of the first phase of this operation is tentatively scheduled for 2021.

On this basis, the loss already recognised on this project was adjusted via the recognition of a provision for non-recurring expenses.

Asset allocation litigation with SNCF

The latest arbitration decisions have been rendered by the Authorities concerning the most recent asset allocation litigation opposing RFF and SNCF.

The impact of this arbitration on 2008 net profit is a change in the provision for contingencies and losses for €17.1 million. It mainly includes a €20.5 million charge for the compensation of SNCF with respect to SNCF capital expenditure for assets whose ownership was finally attributed to RFF.

Net non-recurring income also included asset disposal gains for €30.8 million, compared to €67.9 million in 2007, which included an amount of €52.4 million corresponding to an additional payment received from Sovafim.

Lastly, the item includes the net residual impact of the 2008 asset transfers to seven ports for a negative amount of €1.8 million.





2. Balance sheet

2.1. Property, plant and equipment

2.1.1. Capitalised production and acquisition of rail network assets

Total annual investment in rail network projects amounted to **€2,967.3 million** at 31 December 2008, compared to €2,468.3 million in 2007, for an increase of €499 million (20%).

— projects carried out by SNCF on behalf of RFF amounted to €2,047.9 million at 31 December 2008, compared to €1,840.1 million in 2007, up by 11.3%;

— RFF's direct capitalised production amounted to €910.1 million at 31 December 2008 (including €568 million for the Rhin-Rhône high-speed line), compared to €621.3 million in 2007, up 46.48%;

— direct acquisitions (land, buildings, etc.) amounted to €5.6 million, including €3.8 million in advertising panels.

This increase is related to the increase in expenditure for the Rhin-Rhône high-speed line project for €240 million and the increase in upgrading and compliance work expenditure for €150 million.

2.1.2. Assets commissioned during the year

Assets commissioned during the year amounted to €167.0 million at December 31, 2008, compared to €4,684.8 million at 31 December 2007, the significance of the 2007 figure being due to the commissioning of the Eastern France high-speed line.

2.1.3. Impairment testing at the balance sheet date

Property CGU

RFF found no indications of potential impairment for Property CGU assets.

Infrastructure CGU

The model used to calculate the net present value of infrastructure assets was updated to adapt to changes in the RFF economic model. The net present value is now much higher than the corresponding net carrying amount.

Consequently, the €10,130 million in asset impairment previously recorded was fully reversed in the income statement. At the same time, a re-estimated additional depreciation and amortisation expense for €922.8 million was recorded as an adjustment of the expense previously calculated net of impairment.

2.2. Investment grants

2.2.1. Grants for upgrading and compliance work

The 2004 Finance Act created a "regeneration" grant intended to finance investment in upgrading and compliance work on the national rail network.

This grant is recorded under investment grants. As upgrading and compliance investments are brought into service, the relevant tranche of the grant is transferred to in-service investment grants and written back to income over the weighted average useful life of the related assets, from the average date on which the asset is brought into service during the accounting period.

Total upgrading grants recognised in 2008 amounted to €805.2 million.

Grants on commissioned assets amounted to €68.8 million as at 31 December 2008 and will be transferred to income over a period of 33 years.

Regeneration grants written back to income totalled €75 million as at 31 December 2008.

2.2.2. Other investment grants

Other grants included in equity amounted to €9,328.7 million at 31 December 2008, compared to €8,214.7 million at 31 December 2007, for an increase of €1,114 million (13.6%).

— **Net grants on commissioned assets** amounted to €5,903.4 million at 31 December 2008, compared to €6,014.8 million at the end of 2007. Transfers to in-service investment grants amounted to €75.9 million at 31 December 2008. Reversals to income over this same period amounted to €185.7 million.

— **Earned investment grants on assets under construction**, calculated on a percentage of completion basis, totalled €3,425.3 million at 31 December 2008, compared to €2,199.9 million at the end of 2007. Earned investment grants relating to expenditure over the period amounts to €1,321.4 million.

2.3. Breakdown of net debt

(in millions of euros)

	2008	2007	Change
Total outstanding			
Long-term debt			
Debt transferred from SNCF	2,440.0	3,682.1	(1,242.1)
Debt contracted by RFF	24,982.9	22,786.9	2,196.0
Total long-term debt (A)	27,422.9	26,469.0	954.0
Short-term debt (B)	3,222.4	2,757.2	465.2
Cash and cash equivalents net of bank overdrafts (C)	1,888.2	1,291.5	596.7
Net debt (A + B – C)	28,757.3	27,934.7	822.6
Net debt excluding accrued interest	28,202.8	27,362.0	840.9

In 2008, RFF raised an amount of €2.95 billion on the international capital markets in 15 public and private operations denominated in euros, US dollars, pounds sterling, or Swiss francs.

3. Statement of cash flows

(in millions of euros)

	2008	2007	Change
Operating cash flow	(160.2)	(233.8)	73.6
Change in working capital requirements	205.6	(40.9)	246.5
o/w operating	147.7	8.7	–
o/w financial	57.9	(49.6)	–
Net cash used in investing activities (excluding change in WCR)	(2,901.7)	(2,385.1)	(516.6)
Net cash from financing activities (excluding change in WCR)	3,453.0	3,619.2	(166.2)
Change in net cash position	596.7	959.4	(362.7)
Net cash at beginning of year	1,291.5	332.1	–
Net cash at end of year	1,888.2	1,291.5	–

The change in working capital requirements is an inflow of €205.6 million, breaking down as €57.9 million for the portion relating to net financial income and €147.7 million for the other income components. The improvement in financial working capital requirements is related to the receipt of the €43 million balance of the debt reduction grant not collected as at 31 December 2007.

Net cash used in investing activities amounted to 2,901.7 million, essentially representing 2008 investments for €2,962.6 million.

The increase is related to the capital expenditure for projects.

Net cash from financing activities amounted to €3,453 million and was related to the increase in borrowings and investment grants.

Overall, the net cash position increased by €596.7 million during 2008.





II.

Significant events in 2008

Impairment of infrastructure assets

Due to significant changes in the impairment loss (or reversal) indicators, RFF conducted new impairment tests for its infrastructure assets as at 31 December 2008. The changes in these indicators are related to the redefinition of the RFF economic model in relation to the drafting of the performance contract between the State and RFF. They include the reform of the infrastructure fee scale and the consequences of the review of the State grants to RFF.

In this new context, the recoverable value of the assets of the infrastructure CGU appears significantly higher, resulting in the reversal of the entire impairment previously recognised. In accordance with accounting regulations, this reversal of existing impairment in the amount of €10,130 million was accompanied by the recognition of an additional depreciation charge estimated at €922.8 million, representing a net impact on non-recurring income of the year for +€9,207.2 million.

Loss on completion on the Paris Left-Bank development project

Further analysis was carried out in order to estimate the loss on completion expected by RFF on the Paris Left-Bank development project.

Based on this analysis and taking into account the stage of completion as at 31 December 2008, the loss already recognised on this project was adjusted via the recognition of a loss provision.

Termination of the arbitration procedure concerning the disputed allocation of assets with SNCF

Final arbitration decisions were issued by the authorities for the remaining disputes opposing RFF and SNCF regarding

the allocation of assets. 2008 profit or loss was impacted by a net charge to provisions of €17.1 million, of which a charge of €20.5 million and a reversal of €3.4 million. The practical means of settling the net cash balance relating to these disputes (€58.7 million payable to RFF) have still to be defined, in particular concerning the interest payable on the different components of this net amount.

Transfers to port authorities

The decree creating the rail network for the La Rochelle, Le Havre, Nantes-Saint-Nazaire, Rouen, Bordeaux, Dunkirk and Marseilles port authorities was published in the French official journal of 4 September 2008.

This publication resulted in the issue of balancing payments as provided in the allocation decrees, 80% of which to be paid within 2 months of the date of publication. It also gave rise to a transfer of ownership for the assets transferred to the Port Authorities. The residual balancing payments are due in 2011 subject to conditions.

These two consequences arising from the decree's publication were reflected in the accounts in the second half of 2008, without a material impact on 2008 net profit –€1.8 million, the estimated impacts of these transfers to the port authorities having been incorporated in the 31 December 2007 financial statements.

The ports of Paris and Strasbourg were not concerned by the decree of 4 September 2008 but will be the subject of an upcoming decree.



III.

Change in accounting policy

No changes were made to accounting policies in 2008. There was an adjustment to the impairment tests performed on the infrastructure CGU to take into account RFF's new business context.

IV.

Subsequent events

None.



***2008 STATUTORY
FINANCIAL STATEMENTS***

Assets	84	3. Changes in accounting policies	94
Equity and liabilities	84	4. Significant events	94
Income statement	85	5. Subsequent events	95
Statement of cash flows	87	6. Notes to the balance sheet and income statement	95
1. Presentation of Réseau Ferré de France (RFF)	89	6.1. Notes to the balance sheet	96
2. Accounting policies	89	6.2. Notes to the income statement	110
2.1. Property, plant and equipment	89	7. Off-balance sheet commitments	112
2.2. Grants	92	7.1. Commitments given and received on financial instruments	112
2.3. Receivables	92	7.2. Other commitments given and received	114
2.4. Short-term investments	92		
2.5. Transactions in foreign currencies and provisions for foreign exchange losses	92		
2.6. Derivative financial instruments	93		
2.7. Borrowings	93		
2.8. Provision for decontamination and environmental risks	93		
2.9. Insurance	93		

Balance sheet

ASSETS

(in millions of euros)	Note	31 Dec. 2008		31 Dec. 2007	
		Gross	Depreciation, amortisation and provisions	Net	Net
Intangible assets	6.1.1/6.1.2	51.9	48.1	3.9	5.4
Property, plant and equipment (rail network)	6.1.1/6.1.2	–	–	–	–
Land	6.1.1/6.1.2	4,967.1	–	4,967.1	3,233.0
Other assets in service	6.1.1/6.1.2	34,243.5	9,007.7	25,235.7	18,441.1
Assets under construction	6.1.4	7,690.1	66.3	7,623.8	4,865.9
Property, plant and equipment (operating)	6.1.1/6.1.2	33.4	19.5	13.9	14.6
Long-term investments	6.1.5	5.5	–	5.5	5.2
NON-CURRENT ASSETS		46,991.4	9,141.6	37,849.8	26,565.2
Trade receivables	6.1.6	54.8	23.4	31.4	87.8
SNCF receivables	6.1.6	728.8	4.9	723.9	973.1
SNCF current accounts	6.1.6	–	–	–	–
Other receivables	6.1.6	2,569.4	17.5	2,551.9	2,696.3
Short-term investments, cash and cash equivalents, cash instruments	6.1.7	1,888.9	–	1,888.9	1,294.8
Prepaid expenses	6.1.8	301.0	–	301.0	302.2
CURRENT ASSETS		5,543.0	45.9	5,497.1	5,354.3
Deferred charges	6.1.9	549.6	355.0	194.6	195.3
Bond redemption premiums		12.6	7.5	5.1	5.9
Unrealised foreign exchange losses	6.1.10	246.7	–	246.7	170.5
TOTAL ASSETS		53,343.2	9,550.0	43,793.2	32,291.0

EQUITY AND LIABILITIES

(in millions of euros)	Note	31 Dec. 2008	31 Dec. 2007
Initial capital endowment	6.1.11	856.2	856.2
Capital injections	6.1.11	8,908.5	8,908.5
Accumulated deficit	6.1.11	(22,961.6)	(22,165.8)
Net income/(loss)	6.1.11	8,098.0,	(795.8)
Investment grants	6.1.12	9,328.7	8,214.7
Grants for upgrading and compliance	6.1.12	4,334.4	3,604.2
EQUITY		8,564.0	(1,378.1)
PROVISIONS FOR CONTINGENCIES AND LOSSES	6.1.13	703.3	344.4
Borrowings	6.1.14	30,647.8	29,231.6
Advances on asset disposals		77.8	77.7
Operating payables	6.1.15	540.9	660.6
SNCF current accounts	6.1.6	22.4	2.8
SNCF debt	6.1.15	1,646.7	1,658.5
Other payables	6.1.15	1,169.0	1,064.1
Deferred income	6.1.16	421.4	629.4
TOTAL LIABILITIES		34,525.9	33,324.7
Unrealised foreign exchange gains			
TOTAL EQUITY AND LIABILITIES		43,793.2	32,291.0

Income statement

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
OPERATING INCOME		
Infrastructure fees	2,675.8	2,448.5
Electricity transmission	154.2	146.4
Additional electricity fees	93.0	89.9
Other service fees	63.5	45.0
Income from private sidings	9.1	14.0
Non-traffic income from assets managed by RFF or under outsourced management	63.9	64.8
Sales of materials	34.1	34.2
Other	5.5	6.8
NET REVENUE	3,099.0	2,849.6
Capitalised production	876.0	621.3
State contribution to infrastructure costs	658.2	828.1
Investment grants written back to income	185.7	150.9
Other grants	57.9	101.3
Grants for upgrading and compliance written back to income	75.0	68.8
Releases of provisions for operating contingencies and losses	7.8	23.9
Releases of provisions for impairment of current assets	18.9	21.7
Releases of provisions for impairment of projects in progress	9.1	4.8
Other operating income	–	1.2
Operating expense reclassifications	2.1	3.5
Total	4,989.9	4,675.1
OPERATING EXPENSES		
Delegated network management fees	2,809.8	2,718.0
Delegated property management fees	69.0	79.3
Delegated platform management fees	46.0	37.9
Malicious damage	25.5	28.2
Studies costs	99.9	82.3
Construction and maintenance work, railway equipment	816.1	620.9
Electricity	152.5	145.0
Bank charges	2.4	3.5
Other external purchases	104.4	115.2
Taxes other than on income	43.2	51.7
Personnel costs	65.2	56.5
Depreciation and amortisation of operating assets	8.4	9.6
Rail network depreciation and amortisation	820.7	630.2
Charges to provisions for impairment of projects in progress	24.8	7.0
Charges to provisions for operating contingencies and losses	82.8	139.9
Charges to provisions for impairment of current assets	32.9	18.6
Total	5,203.6	4,743.8
NET OPERATING INCOME/(LOSS)	(213.7)	(68.7)





Income statement (continued)

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
FINANCIAL INCOME		
Other financial income	498.6	529.0
Foreign exchange gains	4.6	10.3
Interest on short-term investments	1,110.0	43.3
Contribution to debt reduction	686.2	693.5
Total	1,300.3	1,276.1
FINANCIAL EXPENSES		
Interest on SNCF borrowing	174.7	267.4
Interest on loans contracted by RFF	1,027.6	953.8
Interest on short-term loans	77.6	72.8
Other financial expenses	625.9	564.5
Foreign exchange losses	13.9	1.6
Charges to provisions for indexation risks	76.2	54.8
Amortisation of deferred charges	20.9	18.0
Total	2,016.9	1,933.0
NET FINANCIAL INCOME/(LOSS)	(716.6)	(656.9)
NET INCOME/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAX	(930.3)	(725.5)
NON-RECURRING INCOME		
Proceeds from the sale of assets	60.9	89.1
Releases of provisions for exceptional contingencies and losses	11.9	–
Other non-recurring income	1,013	29.7
Total	10,202.8	118.8
NON-RECURRING EXPENSES		
Net book value of assets sold	32.6	21.2
Charges to provisions for exceptional contingencies and losses	219.2	–
Other non-recurring expenses	922.8	167.8
Total	1,174.6	189.1
NET NON-RECURRING INCOME/(LOSS)	9,028.2	(70.3)
Corporate income tax	–	–
NET INCOME/(LOSS) FOR THE YEAR	8,098.0	(795.8)

Statement of cash flows

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss) for the year	8,098.0	(795.8)
EXPENSES/(INCOME) WITH NO CASH IMPACT		
Net book value of assets sold	32.6,	21.2
Proceeds from asset disposals	(60.9)	(36.7)
Assigned capital gains	–	(52.4)
Depreciation and amortisation	–	–
Of rail network	820.7	630.2
Of operating assets	8.4	9.6
Grants for upgrading and compliance written back to income	(75.0)	(68.8)
Investment grants written back to income	(185.7)	(150.9)
Exceptional grants written back to income	(11.9)	(29.7)
Charges to provisions for impairment of projects in progress	24.8	7.0
Releases of provisions for impairment of projects in progress	(9.1)	(4.8)
Charges to provisions for operating contingencies and losses	82.8	139.9
Releases of provisions for operating contingencies and losses	(7.8)	(23.9)
Charges to provisions for financial contingencies and losses	76.2	54.8
Charges to provisions for exceptional contingencies and losses	219.2	51.6
Charges to provisions for impairment of current assets	32.9	18.6
Releases of provisions for impairment of current assets	(18.9)	(21.7)
Amortisation of deferred charges (financial)	20.9	18.0
Releases of provisions for exceptional impairment	(10,130.0)	–
Exceptional depreciation and amortisation	922.8	–
OPERATING CASH FLOW BEFORE CHANGES IN WORKING CAPITAL REQUIREMENTS	(160.2)	(233.8)
Changes in working capital requirements	205.6	(40.9)
Trade receivables	47.1	(42.0)
Other debtors	130.8	(539.4)
Cash instruments	–	–
Prepaid expenses	1.2	(18.0)
Operating payables	(119.8)	66.0
SNCF current accounts	19.6	5.9
SNCF receivables	258.1	162.8
SNCF payables	(11.8)	(147.5)
Unrealised foreign exchange losses	–	–
Other payables	88.2	426.7
Deferred income	(208.0)	11.8
Unrealised foreign exchange gains	–	–
Advances on asset disposals	0.1	32.7
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	45.5	(274.7)





Statement of cash flows (continued)

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures on acquisitions	(2,962.3)	(2,473.6)
Intangible assets	(3.7)	(9.0)
Network fixed assets	(2,956.0)	(2,461.5)
Operating fixed assets	(2.6)	(3.1)
Long-term investments	–	–
Change in bond portfolio	–	–
Change in accrued interest	–	–
Changes in long-term investments excluding bond portfolio	(0.3)	(0.6)
Equity investments	–	–
Change in guarantee deposits	(0.3)	(0.6)
Reduction in capital and reserves	–	–
Disposals and reductions of fixed assets	60.9	89.1
Net proceeds from disposals of property, plant and equipment	60.9	36.7
Assigned capital gains	–	52.4
NET CASH USED IN INVESTING ACTIVITIES	(2,901.7)	(2,385.1)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of borrowings	(778.1)	(254.3)
SNCF long-term borrowings	(1,242.1)	(1,352.6)
RFF long-term borrowings	–	–
RFF short-term borrowings	483.5	1,127.0
Issue premiums	(19.4)	(28.7)
Bond redemption premiums	–	–
Increase in equity	2,113.3	2,179.1
Capital injections	–	–
Grants for upgrading and compliance	805.2	985.2
Change in investment grants	1,308.2	1,193.9
Increase in borrowings	2,101.5	1,694.3
RFF long-term borrowings	2,119.8	1,714.2
SNCF borrowings	–	–
Change in accrued interest	(18.3)	(19.9)
Increase in guarantee deposits received	16.2	0.1
Cash instruments (liabilities)	–	–
NET CASH FROM FINANCING ACTIVITIES	3,453.0	3,619.2
CHANGE IN NET CASH POSITION	596.7	959.4
NET CASH POSITION AT THE BEGINNING OF THE YEAR	1,291.5	332.1
NET CASH POSITION AT THE END OF THE YEAR	1,888.2	1,291.5
CHANGE IN NET CASH POSITION	596.7	959.4

1.

Presentation of Réseau Ferré de France (RFF)

Réseau Ferré de France (RFF) is a State-owned industrial and commercial company (*établissement public à caractère industriel et commercial* – EPIC), established by Act n° 97-135 of 13 February 1997 (“the 1997 Act”), with retrospective effect from 1 January 1997.

This Act and the related enabling legislation (Decree nos. 97-444, 97-445 and 97-446) transferred ownership of the French rail infrastructure previously held by SNCF to Réseau Ferré de France, which was created as an independent entity.

The purpose of this legislation was to separate ownership of the rail infrastructure (devolved to RFF) from its operation (devolved to SNCF). Pursuant to the 1997 Act, SNCF is responsible for managing and maintaining the infrastructure on behalf of RFF. The services to be provided by SNCF and the related fee arrangements are specified in an agreement between RFF and SNCF. The Act of 5 January 2006 and the accompanying Decree n° 2006-1534 of 7 December 2006 provided additional clarifications regarding the functions

of both companies and the manner in which they are to be carried out.

The principles applied to prepare RFF’s opening balance sheet at 1 January 1997 were as follows:

— The assets taken over by RFF as of 31 December 1996 were recorded at their net book value in SNCF’s accounts.
— Grants transferred to RFF’s balance sheet included all grants relating to 1) investments in the Paris commuter network for a total of €1,068.8 million (€556 million for commissioned assets, and €512.8 million for assets under construction) and 2) assets under construction for the main network amounting to €164.5 million (total grants relating to assets under construction thus amounted to €677.3 million).

As provided for under the 1997 Act of 13 February 1997, Réseau Ferré de France also recorded €20.5 billion worth of debt transferred from SNCF in its opening balance sheet.

2.

Accounting policies

Article 3 of the 1997 Act stipulates that RFF is subject to the rules applicable to industrial and commercial entities with respect to its finances and accounts. The financial statements of RFF have been prepared in accordance with French generally accepted accounting principles (*1999 Plan Comptable Général*).

2.1. Property, plant and equipment

RFF is free to manage these assets as it thinks fit and may either develop or dispose of them, subject to compliance with the rules governing public land (Article 11 of the 1997 Act and Article 5 of Decree n° 97-445 of 5 May 1997). RFF has full title to the assets transferred to the Company at the time of its formation, including the French rail network and other land and buildings.

The public land owned by RFF may not be sold and cannot be subject to attachment (Article 46 of Decree n° 97-444).

The net book value of assets transferred to RFF by SNCF on 1 January 1997 amounted to €22.5 billion.

2.1.1. Property, plant and equipment under construction

2.1.1.1. Production cost of property, plant and equipment

Property, plant and equipment is stated at acquisition or production cost.

The production cost of projects is capitalised in the balance sheet as from the “pre-project” phase.

The production cost of projects carried out under contracts granted by RFF includes amounts invoiced by the companies performing the work and project management and prime contractor fees are specified in the contract between the two companies.





For projects carried out directly by RFF, production cost includes the cost of studies, construction work, purchase cost and compensation paid for land acquisitions and direct operating expenses.

2.1.1.2. Impairment of projects in progress

RFF recognises impairment provisions for projects in progress which are recorded in property, plant and equipment under construction. The objective is to represent the risk of non-completion of the project, which would result in costs being capitalised in circumstances where no asset will ultimately be created.

Two types of criteria are used in determining impairment provisions:

— The exception procedure: this is used when an exceptional event calls the completion of the project into question. If the risk of non-completion is greater than 50%, the project costs are written down in full.

— The fixed-percentage procedure: capitalised project costs are written down by 25%, 55% or 100%, where the investments have been discontinued for 2, 3 or 4 or more years, respectively. Studies related to upgrading and compliance work projects are written down only if the work is not scheduled for future years.

Impairment losses are calculated net of earned grants related to the projects in question

2.1.2. Property, plant and equipment commissioned

2.1.2.1. Commissioning procedure

RFF applies the following commissioning procedures:

— At the start of the construction phase, when the detailed estimate is prepared, projected costs for each technical tranche are allocated between assets on the basis of the PP&E categories used by RFF.

— As the project advances and tranches reach technical completion, all expenditure incurred is allocated between assets; the assets for any given project are commissioned upon technical completion or on handover to the delegated infrastructure manager.

— Commissioned project expenditure includes accrued expenses.

2.1.2.2. Property, plant and equipment categories

In accordance with French Accounting Regulations Committee (CRC – *Comité de la Réglementation Comptable*) regulation 2002-10, RFF has established a list of component types for its infrastructure assets.

This classification includes 11 families comprising approximately 100 components. In addition, tracks are classified based on International Union of Railways (UIC) line traffic indicators.

The classification of property assets, mainly for the buildings category, has yet to be reviewed.

2.1.2.3. Depreciation of property, plant and equipment

As part of the CRC regulation 2002-10 compliance process, RFF has defined useful lives for each component in its list. Depreciation is calculated on a straight-line basis. Useful lives, which are defined on the basis of recommendations from technical experts in the relevant field, are summarised in the following tables:

	Useful life
Improvements to land	30 years
Line earthworks and buildings	15 – 50 years
Improvements to buildings	10 years
Track	20 – 100 years
Electrical supply equipment	10 – 75 years
Signalling	15 – 50 years
Telecommunications	5 – 30 years
Level crossings	15 years
Civil engineering structures	30 – 70 years

Operating property, plant and equipment is depreciated on a straight-line basis over the following useful lives:

	Useful life
Fixtures and fittings	10 years
Office furniture and equipment	5 – 7 years
Computer and telecommunications equipment	3 – 5 years
Vehicles	5 years
Software	1 – 3 years

2.1.2.4. Valuation of commissioned property, plant and equipment

Step 1. Allocation of assets to cash-generating units

CRC regulation 2002-10 specifies methods for calculating the recoverable amount of assets and the circumstances in which assets must be tested for impairment.

In the case of RFF, it is not possible to estimate the recoverable amounts of stand-alone assets. Consequently, RFF departed from CRC regulation 2002-10 and used the concept of the cash-generating unit as defined by IFRS (IAS 36).

A cash-generating unit (CGU) is the smallest identifiable group of assets which includes the asset and which generates cash inflows that are largely independent of the cash inflows generated by other groups of assets.

The first group identified by RFF comprises assets used in its infrastructure management activities. They include land and

buildings dedicated to these activities, and all infrastructure assets. Cash inflows and outflows generated by this asset group are separately identifiable and largely independent of RFF's other cash flows.

The second group identified by RFF comprises assets not used in its infrastructure management activities. These include land and buildings regarded as ultimately saleable, some of which may be occupied by third parties under tenancy agreements. They generate cash inflows and outflows that can be distinguished from those generated by RFF's other assets, using allocation criteria.

RFF thus identified two CGUs for the performance of impairment tests: an "Infrastructure" CGU and a "Property" CGU.

Step 2. Asset valuations

Definition

The recoverable amount of Infrastructure CGU assets is their value in use (these assets do not have a net realisable value).

The recoverable amount of Property CGU assets is their market value.

Calculation of value in use of the infrastructure CGU

The value in use of Infrastructure assets is the present value of the estimated future cash flows from the continuing use of such assets and from their retirement at the end of their useful lives.

a) Scope of the Infrastructure CGU

The Infrastructure CGU comprises all assets included in the following asset families in the asset classification structure used by RFF.

Improvements to Land and Buildings, Electrical Supply Equipment, Signalling Equipment, Telecommunications Equipment, Civil Engineering Structures, Track, Level Crossings, Line Earthworks.

The Land and Buildings asset families have been split between the Infrastructure CGU and the Property CGU according to their use.

RFF's buildings have been 90% allocated to the Infrastructure CGU at 1 January 2005. Pending a complete asset inventory and based on the information currently available to RFF, 90% of buildings are occupied by the delegated infrastructure manager.

Land has been allocated as follows:

- All trackbed land has been allocated to the Infrastructure CGU.
- Other land not classified as investment land or goods yards has also been allocated to the Infrastructure CGU.

The allocation of land and buildings between the two CGUs is somewhat arbitrary and could be improved.

b) Breakdown of future cash flows

Inflows:

- infrastructure fees;
- private sidings fees;
- occupancy income attributable to infrastructure assets;
- contributions to infrastructure costs or other operating grants;
- grants for upgrading and compliance.

Outflows:

- network management fees;
- property management fees attributable to infrastructure assets;
- platform management fees;
- investments in upgrading and compliance.

The change in WCR relating to these flows is also taken into consideration.

c) Cash flow projections

The annual budget preparation process used by RFF does not enable it to prepare cash flow projections covering several years. Projected cash flows are based on the figures contained in the most recent budget, which are extrapolated over the remaining average useful lives of the different asset categories. The data shown in the 2008-2012 performance contract approved by the ministerial authorities is also taken into account.

d) Discounting cash flows to present value

The discount rate used is based on the cost of the company's long-term debt. A 1.5% risk premium is added to this rate. Construction risks are excluded.

Valuation method used for Property CGU assets

a) Scope of Property CGU assets

The Property CGU assets consist of land and buildings.

Land

This includes saleable land belonging to RFF on which there is no railway activity. Such land is considered as not usable for infrastructure or transport purposes. Saleable land also includes goods yards.

Buildings

Buildings included in the Property CGU comprise buildings not used by the delegated infrastructure manager.

b) Valuation method used for land

The land and buildings allocated to the Property CGU were valued on an overall basis at 1 January 2005, particularly based on:

- the geographical region in which they are located;
- a market value per square metre, which takes account of the probable use of the land after sale.





This valuation is updated at each balance sheet date to take account of disposals in the period.

Step 3. Impairment of Infrastructure CGU assets

Indications of impairment

RFF has adopted the following indications of impairment:

- ___ changes in market interest rates;
- ___ obsolescence or physical deterioration of assets that was not foreseen in the depreciation schedules;
- ___ material changes in the extent or the manner in which an asset is used;
- ___ material changes in asset performance.

Changes in these indicators are compared with changes in:

- ___ RFF's borrowing rate and, by implication, its discount rate;
- ___ the amount of future maintenance expenditure;
- ___ the amount of future toll fees;
- ___ the amount of future State contributions to infrastructure costs or other operating grants;
- ___ the remaining average useful lives of the assets.

Impairment testing

At each balance sheet date, RFF assesses whether there is any indications of loss or gain in value. If necessary, an impairment test is performed.

Impairment tests involve comparing the carrying amount of assets, net of grants on commissioned assets not yet released to profit or loss, to the present value of future cash flows to be generated by these assets, to which the residual value of the assets at the end of their useful lives is added.

Calculation of impairment losses

If the net carrying amount of the Infrastructure CGU is greater than the present value, an impairment loss is recognised. The impairment loss is allocated to each of the assets in the CGU in proportion to their carrying amounts.

The future depreciation schedule of each asset is adjusted to reflect the impairment loss allocated to it.

If the test results in a carrying amount of the CGU that is below the present value of the future cash flows and if impairment had previously been recognised, a reversal of impairment is recognised so that the carrying amount is increased to the value in use.

2.1.3. Disposals

Assets may be sold either by RFF itself or by delegated agents acting on behalf of RFF. In the latter case, the delegated agents inform RFF of the disposal proceeds and the net book value of the assets sold.

2.2. Grants

RFF receives three types of grants.

a) RFF receives grants under financing agreements for investment projects signed with third parties (French State, local authorities, Regions, etc.).

They follow the same accounting treatment as the corresponding expenditure:

- ___ They are included in operating income when they relate to operating expenses (general studies, preliminary studies).
- ___ They are recorded under equity when they cover capitalised costs (assets under construction, from the pre-project phase onwards). These grants are then released to profit or loss to match the depreciation recognised on the commissioned property, plant and equipment.

b) The 2004 French Finance Act created two additional grants of an overall lump-sum nature

___ A "debt reduction" grant, intended to partially cover the interest expense on the debt. This grant is recorded under financial income.

___ A "regeneration" grant, intended to finance investment in upgrading the national rail network and bringing it into compliance with regulations. This grant is recorded in equity in the same manner as other investment grants. These grants are transferred to "Grants for commissioned assets" in the amount of upgrade and compliance expenditure in the period. They are released to profit or loss over the weighted average useful life of the related assets, from the average date on which the assets are brought into service during the accounting period.

2.3. Receivables

Receivables are stated at their nominal amount. A provision for impairment is recorded at year-end if their fair value is less than their carrying amount.

Occupancy fees receivable are written down in full if they are more than 12 months overdue at the balance sheet date, and by 50% if they are more than six months overdue. Disputed receivables are also written down in full.

2.4. Short-term investments

The market value of short-term investments is calculated at the balance sheet date and a provision is recorded for any impairment losses.

2.5. Transactions in foreign currencies and provisions for foreign exchange losses

Monetary assets and liabilities denominated in foreign currencies are translated into euros at the year-end exchange rate, except for assets and liabilities effectively hedged by currency swaps, which are translated at the hedging rate.

Differences between the euro equivalent amount originally recognised and the euro equivalent amount arising from retranslation at the year-end rate are recorded under assets (unrealised foreign exchange losses) and liabilities (unrealised foreign exchange gains). A provision is recorded for any unrealised foreign exchange losses.

2.6. Derivative financial instruments

RFF manages market risks relating to changes in interest rates and exchange rates using derivative financial instruments and particularly interest rate swaps and swaptions, forward currency contracts, cross currency swaps and currency options.

RFF uses derivatives for hedging purposes and does not carry out any speculative transactions on derivatives. Any gains and losses on these hedging instruments are recognised in the income statement to match the recognition of gains and losses on the hedged items.

Differences in interest receivable and payable arising from interest rate swaps and caps, and any premiums and balancing cash payments on such instruments, are recorded as an adjustment to interest expense over the duration of the contract.

In the case of forward currency contracts and currency swaps, the initial difference between the contractual forward rate and the spot rate is recorded in foreign exchange gains or losses in the income statement over the duration of the contract.

2.7. Borrowings

a) Debt transferred from SNCF

When RFF was established on 1 January 1997, a €20.5 billion debt was transferred to RFF's opening balance sheet from SNCF. The term, interest rate and currency of this borrowing were representative of SNCF's debt structure at the time of the formation of RFF.

The characteristics of the debt were modified in 2001 due to loan extension clauses. No further modifications have been made since then.

Unamortised issuance costs on the SNCF debt transferred to RFF on 1 January 1997, amounting to around €21.4 million, are being amortised by RFF over the average residual term

of the borrowing. Issue premiums and issuance costs on debts contracted by RFF are amortised on a straight-line basis in proportion to the accrued interest on the borrowings.

b) RFF debt

Since 1 November 2003, zero-coupon bonds have been recognised in liabilities at issue price rather than redemption price. The redemption premium was reversed out. Capitalised accrued interest is recognised as a financial expense and is added to the principal borrowing amount in liabilities at each balance sheet date.

For inflation-indexed issues, RFF revalues the redemption premium based on changes in inflation. A provision for contingencies and losses is recorded at each year-end, representing the amount of the unrealised loss at year end.

2.8. Provision for decontamination and environmental risks

The Plan Comptable Général and CNC opinion 00-01 on liabilities require entities that have obligations in respect of decontamination or environmental risks to recognise a provision. This applies to RFF.

Obligations of this type may relate to remediation of past environmental damage or prevention of future environmental damage, and include asbestos removal provisions.

2.9. Insurance

Until 31 December 2006, RFF had chosen to self-insure. RFF decided to change its strategy on this subject and subscribed insurance policies as from 1 January 2007. These policies cover financial liability for loss or injury risks related to all of its activities and risks of damages to its assets and consequential loss of toll revenues.

These "all risks subject to exclusions" policies also cover natural disasters and are taken out with leading insurers.





3.

Changes in accounting policies

No changes were made to accounting policies in 2008. Only a change in calculation method was implemented to adapt

the Infrastructure CGU impairment test to RFF's new economic context (see below Significant events).

4.

Significant events

Impairment of infrastructure assets

Significant movements in several indicators of loss in (recovery of) value led RFF to carry out new impairment tests on its infrastructure assets as at 31 December 2008.

The movements in these indicators are tied to the redefinition of the Company's business model in conjunction with the signature, on 3 November 2008, of a performance contract between the French State and RFF, alongside a review of French State grants to RFF, which will take effect in 2009.

Given these changes, impairment test application methods were adapted. These modifications concerned:

- the inclusion of upgrade assets in progress in asset values compared with recoverable values;
- the replacement of the former grant, State contribution to infrastructure costs and upgrade grant with the new, more significant, operating grant flow.

In this new context, the recoverable value of the assets of the Infrastructure CGU appears significantly higher, resulting in the reversal of the entire impairment previously recognised. In accordance with accounting regulations, the reversal of the existing impairment led to the recognition of an impairment reversal of €10,130 million and additional depreciation estimated at €922.8 million, representing a net impact on non-recurring income of the year of +€9,207.2 million.

Loss on completion on the Paris Left-Bank development project ("ZAC Paris Rive Gauche")

Further analysis was carried out during 2008 in order to estimate the loss on completion expected by RFF on the Paris Left-Bank development project.

Based on this analysis and taking into account the stage of completion as at 31 December 2008, the loss already recognised on this project was adjusted via the recognition of a loss provision.

Termination of the arbitration procedure concerning the disputed allocation of assets with SNCF

The final arbitration decisions were issued by the authorities for the remaining disputes opposing RFF and SNCF regarding the allocation of assets.


These arbitration decisions impacted 2008 net profit via an exceptional net movement in provisions for contingencies and losses of €17.1 million (charge of €20.5 million and reversal of €3.4 million).

The practical means of settling the net balance of receivables and payables in dispute (net RFF receivable of €58.7 million) have still to be defined, in particular concerning the interest payable on the different components of this net balance.

Transfer of assets to the Port Authorities

The Decree creating the port rail network of the Autonomous Port Authorities of La Rochelle, Le Havre, Nantes-Saint-Nazaire, Rouen, Bordeaux, Dunkirk and Marseille was published in the Official Journal on 4 September 2008.

This publication triggered payment of 80% of balancing amounts provided in the allocation orders and the transfer of ownership of the assets to the Autonomous Port Authorities. The remaining 20% is payable in 2011 subject to a number of conditions.



The impact of the provisions of this Decree were recorded in the accounts in the second half of 2008, without a material impact on 2008 net profit (−€1.8 million), as the estimated impact of these asset transfers to the port authorities was already recognised in the accounts as at 31 December 2007.

Note that the Decrees relating to the ports of Strasbourg and Paris have still to be published.

5.

Subsequent events

None.

6.

Notes to the balance sheet and income statement





6.1. Notes to the balance sheet

6.1.1. Property, plant and equipment and intangible assets

(in millions of euros)	Gross value at 31 Dec. 2007	Increases	Transfers	Expense reclassifications	Decreases	Gross value at 31 Dec. 2008
Intangible assets						
Operating software	20.5	1.9	0.6	(0.1)	–	22.9
Infrastructure software	27.0	1.5	0.0	(1.3)	–	27.2
Software in progress	0.8	1.9	(0.6)	(0.2)	–	1.8
Total intangible assets: gross value	48.3	5.3	–	(1.6)	–	51.9
Network assets						
Land	4,997.6	1.8	–	(0.2)	(32.1)	4,967.1
Improvements to land	673.7	–	16.1	–	(0.4)	689.4
Line earthworks	4,766.2	–	9.7	–	–	4,775.9
Buildings	813.4	0.1	11.8	–	(0.6)	824.8
Improvements to buildings	75.8	–	4.2	–	–	80.0
Tracks	11,338.2	–	49.9	–	(8.4)	11,379.6
Level crossings	497.3	–	1.2	–	(0.7)	497.7
Civil engineering structures	8,554.4	–	12.0	–	(2.0)	8,564.4
Electrification	2,735.2	–	35.8	(0.2)	(1.3)	2,769.5
Signalling	3,757.3	–	24.1	–	(2.2)	3,779.2
Telecommunications	874.5	–	1.9	–	–	876.4
Computer equipment	2.4	–	0.2	–	–	2.6
Billboards	–	3.8	–	–	–	3.8
PP&E under construction	4,906.3	2,961.6	(166.9)	(10.9)	–	7,690.1
Total network assets: gross value	43,992.4	2,967.3	–	(11.4)	(47.8)	46,900.6
Operating assets						
Fixtures and fittings	18.8	0.9	(0.1)	–	–	19.7
House alterations on Mediterranean high-speed line trajectory	1.2	–	–	–	–	1.3
Vehicles	0.1	–	–	–	–	0.1
Office equipment	0.5	0.1	–	–	–	0.5
Computer equipment	6.3	1.2	–	–	(0.5)	6.9
Telecommunications equipment	1.1	0.1	–	–	–	1.3
Furniture	3.4	0.3	0.1	–	–	3.8
Total operating assets: gross value	31.4	2.6	–	–	(0.5)	33.4
GRAND TOTAL	44,072.0	2,975.2	–	(13.0)	(48.3)	46,986.0

Capital expenditure

Capital expenditure (excluding software and operating assets) in 2008 totalled €2,967.3 million.

This capital expenditure comprised:

— infrastructure investment projects for €2,958 million:

- of which production carried out by agents on behalf of RFF for €2,047.9 million,
- of which direct production for €910.1 million.

— land and building purchases, excluding infrastructure investment projects, for €1.8 million;

— net increase in down payments in respect of investment land for €3.8 million;

— billboard purchases for €3.8 million.

PP&E production in 2008 totalled €2,957.9 million, excluding investment land.

Assets commissioned during the year

Assets commissioned in 2008 totalled €167 million.

6.1.2. Depreciation and amortisation schedules

Depreciation and amortisation for the period

(in millions of euros)	Accumulated depreciation and amortisation at 31 Dec. 2007	Charges	Transfers	Reversals	Decreases	Accumulated depreciation and amortisation at 31 Dec. 2008
Intangible assets						
Operating software	19.3	1.9	—	—	—	21.3
Infrastructure software	23.6	3.2	—	—	—	26.8
Total amortisation of intangible assets	42.9	5.1	—	—	—	48.1
Network assets	—	133.4	—	—	—	—
Line earthworks	652.2	85.8	—	101.8	—	839.8
Improvements to land	21.4	23.6	—	1.1	(0.4)	45.7
Buildings	144.4	24.0	—	(103.5)	(0.4)	64.4
Improvements to buildings	37.4	6.4	—	6.7	—	50.4
Track	2,453.1	307.8	—	389.0	(8.4)	3,141.5
Level crossings	420.7	10.5	—	23.2	(0.7)	453.8
Civil engineering structures	989.9	111.9	—	151.4	(2.0)	1,251.1
Electrification	673.4	85.6	—	103.0	(1.3)	860.8
Signalling	1,314.3	138.6	—	188.4	(2.2)	1,639.0
Telecommunications	558.7	38.8	—	61.7	—	659.2
Computer equipment	0.4	—	—	—	—	0.4
Billboards	—	1.5	—	—	—	1.5
Total depreciation of network assets	7,265.9	834.5	—	922.	(15.5)	9,007.7
Operating assets						
Fixtures and fittings	7.5	1.9	—	—	—	9.5
House alterations on Mediterranean high-speed line trajectory	0.5	0.1	—	—	—	0.7
Vehicles	0.1	—	—	—	—	0.1
Office equipment	0.4	—	—	—	—	0.4
Computer equipment	5.1	0.2	—	—	—	5.3
Telecommunications equipment	0.8	0.1	—	—	—	1.0
Furniture	2.3	0.3	—	—	—	2.6
Total depreciation of operating assets	16.8	2.8	—	(0.1)	—	19.5
GRAND TOTAL	7,325.6	842.3	—	922.8	(15.5)	9,075.3





6.1.3. Recoverable amount of assets at the balance sheet date

Infrastructure CGU

The net present value calculation model was adapted to changes in RFF's business model. The net present value calculation for the infrastructure assets at 31 December 2008 exceeded the corresponding net carrying amount.

Hence, the previously recognised asset impairment of €10,130 million was fully reversed to profit or loss in 2008.

At the same time, additional depreciation and amortisation reestimated at €922.80 million was recorded. Both these entries had an impact on non-recurring income for the year ended 31 December 2008.

Property CGU

RFF found no indications of potential impairment of Property CGU assets.

6.1.4. Impairment of intangible assets and property, plant and equipment under construction (See note 2.1.1.1.)

(in millions of euros)	Accumulated costs at 31 Dec. 2008	Impairment at 31 Dec. 2007	Charges	Reversals	Impairment at 31 Dec. 2008
Dormant projects	25.9	8.7	24.8	9.1	24.4
Port tracks under construction	41.9	31.6	41.9	31.6	41.9
Total	67.8	40.3	66.7	40.7	66.3

6.1.5. Long-term investments

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Guarantee deposits	5.0	4.7
Equity investments	0.5	0.5
Total long-term investments	5.5	5.2

Subsidiaries and affiliates

RFF holds a €500,000 investment, representing 50% of the capital, in Lyon Turin Ferroviaire (LTF), a simplified French joint stock company (SAS) whose registered office is at 1091 avenue de la Boisse, Chambéry, France. Pursuant to the agreement of 29 January 2001 between the French and Italian governments, the company's purpose is to conduct research, explorations and preliminary work on the international rail's common French-Italian section in order to build a new Lyons-Turin railway line.

Lyon-Turin-Ferroviaire SAS broke even in 2008; capitalised production in the period amounted to €78.8 million. The company's equity amounted to €486.7 million at 31 December 2008.

RFF also has equity interests in the following EIGs and EEIGs:

- EEIG ERTMS: 16.67% interest.
- EIG S2IF: 50% interest.
- EEIG SEA Vitoria-Dax: 50% interest.
- CORRIDOR C: 47% interest.
- CORRIDOR D: 25% interest.

6.1.6. Receivables

6.1.6.1. SNCF current account

The current account heading comprises the following items:

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Investment current account (Géode)	(18.9)	(6.8)
Operating current account	(3.5)	4.0
Total	(22.4)	(2.8)

6.1.6.2. Other receivables

Other receivables in the balance sheet comprise the following items:

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
VAT credit reimbursement request	176.2	156.3
VAT to be adjusted on purchase invoice accruals	176.6	175.9
VAT recoverable	125.1	130.5
VAT on accrued credit notes	13.4	16.3
Other tax receivables	0.9	0.3
Amounts receivable on sales of fixed assets	47.5	44.0
Regeneration grant to be collected	–	225.0
Regeneration grant receivable	–	–
Debt reduction grant and infrastructure cost contribution to be collected	–	43.0
Other grants to be collected	1,252.6	1,020.9
Grants not yet claimed *	477.9	613.7
Accrued income on debt instruments	184.8	192.4
Employee receivables	–	–
Credit notes receivable from suppliers and advances	89.7	66.6
Other miscellaneous receivables	24.5	15.1
<i>Of which LTF</i>	23.2	12.4
<i>Other</i>	1.3	2.7
Total	2,569.4	2,700.2

* Including operating grants of €88.3 million at 31 December 2008 (€113.1 million at 31 December 2007).

6.1.6.3. Receivables by maturity

(in millions of euros)	Gross amount at 31 Dec. 2008	Due within less than 1 year	Due in over one year
Trade receivables and related accounts	54.8	54.8	–
SNCF receivables	728.9	728.9	–
SNCF credit notes receivable	13.7	13.7	–
SNCF sales invoice accruals	215.3	215.3	–
SNCF receivables on grants	–	–	–
Other SNCF receivables (non-traffic income, electricity sales and infrastructure fees)	499.8	499.8	–
Other receivables	2,569.4	2,539.4	30.0
Other operating receivables	2,384.6	2,354.6	30.0
<i>Tax and employee-related receivables</i>	492.4	492.4	–
<i>Amounts receivable on sales of fixed assets</i>	47.5	17.5	30.0
<i>Grants to be collected</i>	1,252.6	1,252.6	–
<i>Grants not yet claimed</i>	477.9	477.9	–
<i>Other operating receivables</i>	114.2	114.2	–
Other financial receivables	184.8	184.8	–
<i>Debt reduction grant receivable from French State</i>	–	–	–
<i>Accrued income on debt instruments</i>	184.8	184.8	–
Total	3,353.1	3,323.1	30.0





6.1.6.4. Provisions for doubtful receivables

Movements in provisions for doubtful receivables in 2008 were as follows:

(in millions of euros)	Amounts at 31 Dec. 2007	2008 additions	2008 reversals		Amounts at 31 Dec. 2008
			Utilised	Not utilised	
Provisions for doubtful receivables	18.1	32.2	0.8	8.5	41.0
Provisions for non-traffic income due from SNCF	13.8	0.7	9.4	0.2	4.9
Non-traffic income subject to arbitration	7.6	0.5	7.6	–	0.5
Interest on shared station receivables	2.0	0.2	–	0.2	2.1
Shared stations	4.1	–	1.8	–	2.3
Total	31.8	32.9	10.2	8.8	45.8

Provisions for non-traffic income due from SNCF

The arbitration commission set up to finalise the split of assets and income between RFF and SNCF rendered its decisions.

Their impacts were taken into consideration in the 31 December 2007 financial statements.

In 2008, the remaining provisions were reversed at the same time as credit note accruals were recognised.

In addition, RFF provided for the €0.5 million adjustment of the receivables relating to income on the assets for which no arbitration decision has yet been rendered.

Provisions for doubtful receivables

They mainly concern the impairment of grant receivables and other receivables relating to the Property business segment.

6.1.7. Short-term investments and similar instruments

This heading comprises:

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Short-term investments	1,869.8	1,291.2
Money market securities	1,695.5	1,137.6
Mutual funds	174.1	153.2
Accrued interest receivable on euro-denominated money market securities	0.2	0.4
Cash at bank	19.1	3.6
Euro-denominated accounts	19.1	3.6
Foreign currency-denominated accounts	–	–
Total	1,888.9	1,294.8

All mutual fund investments are in money market funds.

6.1.8. Prepaid expenses

Prepaid expenses break down as follows:

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Interest on euro and foreign currency commercial paper	10.3	14.7
Interest on French commercial paper	0.3	0.9
Balancing cash payments on interest rate swaps	53.3	57.4
Premiums and discounts	2.4	0.7
Infrastructure management fees *	230.5	227.9
Other, including rent and associated charges	4.2	0.6
Total	301.0	302.2

* The balance comprises the infrastructure management fees for January 2009 billed in advance by SNCF.

6.1.9. Deferred charges

This heading breaks down as follows:

(in millions of euros)	Gross amount at 31 Dec. 2008	Amortisation for the year	Amortisation of the premium	Accumulated amortisation	Net amount at 31 Dec. 2008
Premiums and costs on RFF debt issues	330.2	20.1	–	135.6	194.6
Unamortised issuance costs on debt transferred from SNCF	21.4	–	–	21.4	–
Discount/premium on bond portfolio	198.0	–	–	198.0	–
Sub-total	549.6	20.1	–	355.0	194.6
Redemption premiums on RFF bond issues	12.6	0.8	–	7.5	5.1
Total	562.2	20.9	–	362.5	199.7

6.1.10. Unrealised foreign exchange losses

(in millions of euros)	Amounts at 31 Dec. 2007	2008 additions	2008 reversals		Amounts at 31 Dec. 2008
			Utilised	Not utilised	
Provisions for inflation-indexed issues	170.5	76.2	–	–	246.7
Total unrealised foreign exchange losses	170.5	76.2	–	–	246.7

6.1.11. Statement of changes in equity

(in millions of euros)	Initial capital endowment	Capital injections	Accumulated deficit	Net income/(loss) for the year	Investment grants*	Total
Equity at 31 December 2007	856.2	8,908.5	(22,165.8)	(795.8)	11,818.9	(1,378.1)
Capital injection	–	–	–	–	–	–
Accumulated deficit	–	–	(795.8)	795.8	–	–
Net income for the year	–	–	–	8,098.0	–	8,098.0
Impact of change in method on retirement benefit obligations	–	–	–	–	–	–
Net investment grants on commissioned assets	–	–	–	–	(107.5)	(107.5)
Net investment grants for assets under construction	–	–	–	–	1,221.6	1,221.6
Net grants for upgrading and compliance work on commissioned assets	–	–	–	–	(6.3)	(6.3)
Net grants for upgrading and compliance work on assets under construction	–	–	–	–	736.4	736.4
31 December 2008	856.2	8,908.5	(22,961.6)	8,098.0	13,663.1	8,564.1

* See breakdown in Note 6.1.12.





6.1.12. Investment grants

1) Investment grants for commissioned assets

Investment grants for the period

(in millions of euros)	Net amount at 31 Dec. 2007	Grants on assets commissioned in year	Transfers	Written back to income	Net amount at 31 Dec. 2008
Land and improvements to land	440.3	6.1	–	(21.0)	425.3
Line earthworks	1,023.4	13.3	–	(21.5)	1,015.2
Buildings	182.0	3.3	–	(4.0)	181.2
Improvements to buildings	9.5	2.6	–	(1.9)	10.1
Civil engineering structures	1,923.2	13.6	–	(30.8)	1,906.0
Track	1,258.3	15.7	–	(46.2)	1,227.1
Level crossings	16.1	0.7	–	(2.0)	14.8
Electrification	500.4	9.5	–	(17.4)	492.6
Signalling	573.7	9.7	–	(28.6)	554.0
Telecommunications	81.7	1.2	–	(9.4)	73.5
Intangible assets	6.2	0.2	–	(2.9)	3.5
Total	6,014.8	75.9	–	(185.7)	5,905.0

2) Investment grants for assets under construction

Earned grants related to assets under construction are recognised under the percentage-of-completion method. They are included in equity under “Investment grants – assets under construction”.

(in millions of euros)	31 Dec. 2008
Total investment grants claimed since 1 January 1997	10,296.1
Total investment grants for commissioned assets since 1 January 1997	(6,350.5)
Investment grants claimed in advance	(808.2)
Investment grants not yet claimed	324.6
Investment grants for assets under construction	3,462.0

(in millions of euros)	31 Dec. 2008
Reversal of investment grants for port track under construction	(36.7)
Reversal of investment grants for commissioned port track	(1.6)
Reversal of investment grants for port track under construction	(38.3)

3) Grants for upgrading and compliance (see note 2.2 b)

Gross amount of grants for upgrading and compliance

(in millions of euros)	Grant for the year	Amount booked in 2004	Amount booked in 2005	Amount booked in 2006	Amount booked in 2007	Amount booked in 2008	Total amount booked
Year							
2004	900.0	675.0	225.0	–	–	–	900.0
2005	900.0	–	675.0	225.0	–	–	900.0
2006	970.0	–	–	970.0	–	–	970.0
2007	985.2	–	–	–	985.2	–	985.2
2008	805.2	–	–	–	–	805.2	805.2
Total	4,560.4	675.0	900.0	1,195.0	985.2	805.2	4,560.4

Grants for upgrading and compliance – commissioned assets

(in millions of euros) Year of commissioning	Date of commissioning	Write-back period (years)	Gross amount	Accumulated write-backs	Net amount in equity
2004	01/07/2004	38	675.0	79.9	595.1
2005	25/03/2005	42	573.9	51.6	522.4
2006	09/05/2006	42	878.4	55.4	823.0
2007	21/03/2007	35	734.2	37.4	696.8
2008	17/04/2008	33	68.8	1.7	67.1
Total	–	–	2,930.3	226.0	2,704.3

Grants written back to income during 2008 amounted to €75.0 million.

Net grants for upgrading and compliance

(in millions of euros)	Gross amount	Accumulated write-backs	Net amount in equity
Grants for commissioned assets	2,930.3	226.0	2,704.3
Grants for assets under construction	1,630.0	–	1,630.0
Total	4,560.4	226.0	4,334.4

4) Summary of investment grants at 31 December 2008

(in millions of euros)	Grants for commissioned assets	Grants for assets under construction	Total
Grants for assets under construction	–	3,423.7	
Grants for commissioned assets	5,905.0	–	
Total	5,905.0	3,423.7	9,328.7

6.1.13. Provisions for contingencies and losses

(in millions of euros)	Amounts at 31 Dec. 2007	Charges	Reversals		Amounts at 31 Dec. 2008
			Utilised	Not utilised	
Provisions for contingencies and losses	170.2	293.3	6.4	4.8	452.3
Infrastructure disputes	139.2	292.8	1.6	4.8	425.6
Decontamination and environmental risks	31.0	0.5	4.8	–	26.6
Provisions for retirement benefit obligations	3.7	0.5	–	–	4.3
Provisions for inflation-indexed issues	170.5	76.2	–	–	246.7
Total	344.4	370.0	6.4	4.8	703.3

Unrealised losses on inflation-indexed issues are recorded in assets under “Unrealised foreign exchange losses”.

Most of the provision for infrastructure disputes relates to legal risks.

Provision for decontamination and environmental risks
RFF has implemented two asbestos removal programmes: one for buildings in the RFF property portfolio, and the other covering signalling equipment cabins, battery housing and accumulator shelters.

— The first programme concerns the elimination of asbestos from the Company’s property assets. A provision has been recorded in respect of two tranches of this programme. The first tranche concerns additional work on the asbestos technical files, while the second tranche concerns part of the cost of asbestos removal. The total amount of the provision at 31 December 2008 is €9.16 million, including the cost of asbestos removal work at Gobelins station.

— The second programme led to the recognition of an initial provision of €12.6 million at 31 December 2005, based





on currently available information regarding the “pool” of assets to be treated (i.e. several thousand installations). A new programmed tranche of work led to the recognition of an additional charge to provisions of €0.34 million in 2008, representing a cumulative provision at 31 December 2008 of €14.15 million.

Furthermore, the overall provision was reversed in the amount of €2.16 million in 2008 (bringing cumulative reversals to €8.06 million since the start of the project), corresponding to expenditure incurred and expensed in the year. The provision balance at 31 December 2008 is €6.09 million.

RFF has also implemented a clean-up programme involving the decontamination or removal of railway equipment containing PCB. The detailed analysis performed under the programme led to the initial recognition of a provision of €17.0 million at 31 December 2005, based on currently available information regarding the “pool” of assets concerned.

This provision was reversed in the amount of €2.67 million in 2008 (bringing cumulative reversals to €5.6 million since the start of the project), corresponding to expenditure incurred and expensed in the period. The provision balance at 31 December 2008 was €11.4 million.

The amounts recognised in the provision for decontamination and environmental risks will be revised at each balance sheet date, based on the latest information available.

Litigation in progress – Flooding in Arles in December 2003

The city of Arles, certain insurance companies and private individuals, initiated a legal expert review procedure in order to determine the origin and the amount of the damage caused by flooding of the Rhone river in December 2003. Following the issue of the expert’s report on the causes of the flooding, the first substantive compensation claims for damages incurred were brought before the Marseilles administrative court. RFF has therefore recognised a provision based on the amount of the damages known at the balance sheet date and the share it considers it will be required to bear.

Provision for retirement benefit obligations

The provision was calculated by applying a 3.88% discount rate.

6. 1.14. Borrowings

RFF raises funds on the bond market to cover its long-term financing needs.

Funds raised in 2008 totalled €2.95 billion, based on 15 operations on the euro, pound sterling, US dollar and Swiss franc bond markets.

In order to manage its cash flow effectively, RFF uses domestic and international short-term financing instruments such as French and international commercial paper.

The variety of short-term financing instruments used by RFF provides it with access to liquid financing. RFF also has a syndicated loan of €1.25 billion expiring in December 2012 that is used as a safety line for short-term cash requirements.

Borrowings break down as follows:

(in millions of euros)	31 Dec. 2008 Y	31 Dec. 2007 Y - 1	Change Y - (Y - 1)
Debt transferred from SNCF	2,480.0	3,780.7	(1,300.6)
Principal outstanding	2,440.0	3,682.1	(1,242.1)
<i>Transferred debt (historical rate)</i>	2,158.6	3,400.5	(1,242.0)
<i>Impact of foreign exchange rate on Swiss-franc debt</i>	–	–	–
<i>Greater Paris Region loans</i>	7.9	8.1	(0.1)
<i>Rollover of EIB line</i>	273.5	273.5	–
Accrued interest	40.0	98.6	(58.6)
RFF debt issues	28,167.7	25,450.9	2,716.8
Principal outstanding	27,650.9	24,971.4	2,679.5
<i>Short-term</i>	2,668.0	2,184.5	483.5
<i>Long-term</i>	–	–	–
<i>At hedged rate</i>	24,476.4	22,364.8	2,111.6
<i>Inflation-indexed portion</i>	246.6	170.5	76.1
<i>Greater Paris Region loans</i>	63.4	64.6	(1.2)
<i>Zero coupon bonds</i>	196.6	187.0	9.6
Accrued interest	514.4	474.1	40.3
Bank overdrafts	0.7	3.3	(2.6)
Guarantee deposits received	1.6	2.1	(0.5)
Total borrowings (A)	30,647.8	29,231.6	1,416.2
Cash - Short-term investments (B)	1,888.9	1,300.0	588.8
<i>Of which accrued interest</i>	0.2	0.4	(0.2)
Net borrowings (A) – (B)	28,758.9	27,931.6	827.3
Net borrowings excluding accrued interest	28,204.4	27,358.8	845.6





6.1.14.1. RFF debt

The following tables provide a breakdown by currency and interest rate type of RFF's short and long-term debt:

(in millions of euros)	Gross	Due within 1 year	Due after more than 1 year but less than 5 years	Due after more than 5 years
Debt before swaps				
A - RFF debt issues	27,650.9	4,064.6	5,662.6	17,923.7
1 – Bond issues	24,982.9	1,396.6	5,662.6	17,923.7
Total fixed rate	20,279.0	1,012.3	4,717.4	14,549.3
Total inflation-indexed	2,634.6	–	–	2,634.6
Total floating rate	2,069.3	384.4	945.2	739.8
EUR fixed rate	13,371.1	1,012.3	2,653.8	9,705.0
EUR inflation-indexed	2,634.6	–	–	2,634.6
EUR floating rate *	1,830.1	384.4	788.6	657.2
Total EUR	17,835.8	1,396.6	3,442.4	12,996.8
CAD fixed rate	208.3	–	–	208.3
CAD floating rate	–	–	–	–
Total CAD	208.3	–	–	208.3
CHF fixed rate	938.3	–	708.6	229.7
CHF floating rate	–	–	–	–
Total CHF	938.3	–	708.6	229.7
GBP fixed rate	4,793.2	–	914.0	3,879.2
GBP floating rate	82.6	–	–	82.6
Total GBP	4,875.8	–	914.0	3,961.8
JPY fixed rate	326.0	–	–	326.0
JPY floating rate	–	–	–	–
Total JPY	326.0	–	–	326.0
USD fixed rate	642.1	–	441.0	201.1
USD floating rate	156.6	–	156.6	–
Total USD	798.7	–	597.6	201.1
2 – Money market securities	2,668.0	2,668.0	–	–
French Commercial Paper	222.4	222.4	–	–
Euro Commercial Paper	2,445.6	2,445.6	–	–
<i>EUR</i>	585.3	585.3	–	–
<i>CHF</i>	185.8	185.8	–	–
<i>GBP</i>	162.9	162.9	–	–
<i>JPY</i>	–	–	–	–
<i>USD</i>	1,511.7	1,511.7	–	–
US Commercial Paper	–	–	–	–

* Including Greater Paris Region loans: €63.4 million.

(in millions of euros)	Gross	Due within 1 year	Due after more than 1 year but less than 5 years	Due after more than 5 years
Debt before swaps				
B – Accrued interest	514.4	514.4	–	–
Bond issues	514.4	514.4	–	–
Total fixed rate	442.3	442.3	–	–
Total inflation-indexed	46.9	46.9	–	–
Total floating rate	25.2	25.2	–	–
EUR fixed rate	342.0	342.0	–	–
EUR inflation-indexed	46.9	46.9	–	–
EUR floating rate	24.0	24.0	–	–
Total EUR	413.0	413.0	–	–
CAD fixed rate	0.7	0.7	–	–
CAD floating rate	–	–	–	–
Total CAD	0.7	0.7	–	–
CHF fixed rate	11.7	11.7	–	–
CHF floating rate	–	–	–	–
Total CHF	11.7	11.7	–	–
GBP fixed rate	81.1	81.1	–	–
GBP floating rate	0.8	0.8	–	–
Total GBP	81.9	81.9	–	–
JPY fixed rate	2.5	2.5	–	–
JPY floating rate	–	–	–	–
Total JPY	2.5	2.5	–	–
USD fixed rate	4.3	4.3	–	–
USD floating rate	0.4	0.4	–	–
Total USD	4.7	4.7	–	–
C – Prepaid interest	10.5	10.5	–	–
French Commercial Paper	0.3	0.3	–	–
Euro Commercial Paper	10.2	10.2	–	–
<i>EUR</i>	3.9	3.9	–	–
<i>CHF</i>	0.3	0.3	–	–
<i>GBP</i>	1.5	1.5	–	–
<i>JPY</i>	–	–	–	–
<i>USD</i>	4.5	4.5	–	–
US Commercial Paper	–	–	–	–





6.1.14.2. SNCF debt

The following table provides a breakdown of the debt transferred from SNCF by category:

(in millions of euros)	Gross	Due within 1 year	Due after more than 1 year but less than 5 years	Due after more than 5 years
A – Debt transferred from SNCF	2,440.0	447.7	793.2	1,199.1
Total fixed rate	1,200.4	–	412.3	788.1
Total floating rate	1,239.7	447.7	380.9	411.0
EUR fixed rate	1,025.5	–	412.3	613.2
EUR floating rate	894.2	447.7	209.6	236.9
<i>Including Greater Paris Region loans</i>	7.9	0.5	1.8	5.6
Total EUR	1,919.7	447.7	621.9	850.1
CHF fixed rate	174.9	–	–	174.9
CHF floating rate	–	–	–	–
Total CHF	174.9	–	–	174.9
GBP fixed rate	–	–	–	–
GBP floating rate	345.5	–	171.3	174.2
<i>Including EIB rollover</i>	273.5	–	99.3	174.2
Total GBP	345.5	–	171.3	174.2
B – Accrued interest	40.0	40.0	–	–
Total fixed rate	32.2	32.2	–	–
Total floating rate	7.8	7.8	–	–
EUR fixed rate	29.5	29.5	–	–
EUR floating rate	7.6	7.6	–	–
Total EUR	37.0	37.0	–	–
CHF fixed rate	2.7	2.7	–	–
CHF floating rate	–	–	–	–
Total CHF	2.7	2.7	–	–
GBP fixed rate	–	–	–	–
GBP floating rate	0.3	0.3	–	–
Total GBP	0.3	0.3	–	–
Total (A) + (B)	2,480.0	487.8	793.2	1,199.1

6.1.14.3. Long-term debt (summary)

The table below shows long-term debt by interest rate type, with year-on-year comparisons. Figures are shown after taking into account the impact of interest rate and currency swaps:

Currency	Fixed rate		Inflation-indexed		Floating rate		Total outstanding long-term debt	
	31 Dec. 2007	31 Dec. 2008	31 Dec. 2007	31 Dec. 2008	31 Dec. 2007	31 Dec. 2008	31 Dec. 2007	31 Dec. 2008
EUR	19,068.8	19,678.5	2,206.3	2,634.6	5,193.9	5,109.8	26,469.0	27,422.9
<i>RFF</i>	17,285.0	18,232.0	2,206.3	2,634.6	3,295.6	4,116.3	22,786.9	24,982.9
<i>SNCF</i>	1,783.8	1,446.5			1,898.3	993.5	3,682.1	2,440.0
CHF	–	–	–	–	–	–	–	–
Total	19,068.8	19,678.5	2,206.3	2,634.6	5,193.9	5,109.8	26,469.0	27,422.9
In % terms	72.04	71.76	8.34	9.61	19.62	18.63	100.00	100.00
							Total principal outstanding	26,469.0
							Accrued interest on RFF debt issues	474.1
							Accrued interest on transferred debt	98.6
							TOTAL	27,041.7
								27,977.4

6.1.15. Maturity of payables at 31 December 2008

(in millions of euros)

	Gross	Due within 1 year	Due after more than 1 year but less than 5 years	Due after more than 5 years
Payables *				
Operating payables	540.9	540.9	–	–
Trade payables	335.4	335.4	–	–
Tax and employee-related liabilities	205.5	205.5	–	–
Due to SNCF	1,646.7	1,646.7	–	–
SNCF purchase invoice accruals	802.1	802.1	–	–
SNCF credit note accruals	81.1	81.1	–	–
Other amounts due to SNCF	763.4	763.4	–	–
Other payables	1,169.0	1,169.0	–	–
Other operating payables	973.3	973.3	–	–
Grants claimed in advance**	883.4	883.4	–	–
Amounts due to investments (LTF)	–	–	–	–
Other payables	89.9	89.9	–	–
Other liabilities on financial instruments	195.6	195.6	–	–
Interest and charges payable on debt instruments	171.0	171.0	–	–
Currency swap accounts	7.9	7.9	–	–
Bilateral guarantee deposit	16.7	16.7	–	–
Total	3,356.5	3,356.5	–	–

* Excluding advances and grants received for assets under construction.

** Including operating grants for €75.27 million.





6.1.16. Deferred income

Deferred income breaks down as follows:

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Prepaid occupancy fees	39.9	41.5
Prepaid infrastructure fees	4.9	188.9
Bond issue premiums	213.3	226.7
Balancing cash payments on interest rate swaps	150.0	157.9
Prepaid income on bonds and other instruments	13.1	13.6
Income on debt reduction grant	(0.1)	–
Premiums/discounts	0.2	0.9
Total	421.4	629.4

6.2. Notes to the income statement

6.2.1. Analysis of revenue

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Infrastructure fees	2,675.8	2,448.5
Electricity	154.2	146.4
Additional electricity fees	93.0	89.9
Other service fees	63.5	45.0
Income from private sidings	9.1	14.0
Due to SNCF	63.9	64.8
Sales of materials	34.1	34.2
Other income	5.5	6.8
Total	3,099.0	2,849.6

6.2.2. Network management fees

The purposes and principles for the management of the French national rail network are set out in Article 11 of Decree 97-444 of 5 May 1997, relating to the functions and bylaws of RFF.

SNCF performs three main services on behalf of RFF:

1. Management of the system organising all rail traffic on the network, referred to as “train running diagrams”.
2. Management of safety and control systems and traffic management.
3. Supervision, maintenance and repair necessary for the operation of the entire rail infrastructure.

Pursuant to Article 15 of the aforementioned decree, the fees payable to SNCF are defined on a fixed-sum basis for each of the three categories of services.

Various other adjustments were added to the 2008 basic fee of €2,732.9 million, namely a re-indexation impact of €50 million, the bonus relating to 2008 objectives, the remuneration relating to other research services, and additional major maintenance operations in the Greater Paris Region for an overall amount of €17.91 million. In addition, prior-year

adjustments were recorded for €9 million. The total amount recognised in 2008 amounted €2,809.8 million

6.2.3. Other fees paid under management contracts

Property management was split by RFF between SNCF and new service providers. The service agreement defines the assignments conferred to SNCF. The cost of this agreement amounts to €38.16 million in 2008, to which is added various adjustments for €3.89 million. The financial agreement for the reimbursements of the charges for property belonging to SNCF and SNCF delegated management services amounted to €14.87 million.

For the property management assignments conferred by RFF to Adyal and Nexity, each for a different geographical area, as well as the update of its property inventory entrusted to the Adyal-IBM grouping, RFF recorded expenses of €11.20 million and €0.9 million respectively in 2008.

Fees of €43.5 million were incurred under the platform management agreement signed with SNCF for 2008.

In addition, a negative adjustment of €2.5 million was booked in respect of prior years.

6.2.4. Purchase and resale of traction electricity

RFF purchases the electric power used in its installations under a contract signed on 1 March 2007 with EDF Entreprise, mainly in the form of Joule effect losses.

Under the same contract, EDF-Entreprise (via the so-called *Responsable d'équilibre* adjustment system) provides RFF with the additional power supply it requires.

RFF network access contracts with RTE (Cart contract), EDF-ARD (Card contract) and Électricité de Strasbourg provide for the transmission, via the high-voltage and medium-voltage grid upstream of substations, of the energy used by all rail operators.

Together these services represented an expense of €152.5 million in 2008, taking account of an annual CSPE public service electricity levy capped at €0.5 million.

Expenses incurred, together with contract management costs, are recharged on a monthly basis to rail operators in proportion to traffic levels in the form of additional electrical traction fees, and represented an amount of €154.2 million in 2008. The difference between income and expenses relating to additional electrical traction fees is due to the impact of contract management costs on income.

6.2.5. Personnel costs

Direct personnel costs

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Salaries	45.7	39.5
Payroll taxes	19.5	17.0
Total	65.2	56.5

The cost of personnel seconded to RFF is recorded under "Other external expenses".

(in millions of euros)	31 Dec. 2008	31 Dec. 2007
Personnel seconded to RFF	9.7	10.1

Workforce and total payroll

At 31 December 2008, RFF had a workforce of 939, including 34 specifically-assigned civil servants and 75 seconded staff (68 from SNCF, 5 from RATP, 1 from GDF and 1 from CCF).

At 31 December 2007, RFF had a workforce of 843.

Total remuneration of the members of the RFF Executive Committee in 2008 was €1,076,518. The Committee had an average of 6 members during the year.

6.2.6. Statutory auditors' fees

Statutory auditors' fees totalled €478,960 in 2008.

6.2.7. Non-recurring items

Non-recurring items in 2008 mainly include the impact of the updated impairment of infrastructure assets:

— Previous impairment reversal for €10,130 million.

— Additional charge to depreciation re-estimated at €922.8 million to adjust accumulated depreciation previously calculated on the carrying amount net of impairment.

They also include the impact of the adjustment made to losses recorded on the ZAC Paris Left Bank operation.

Income from disposals totalled €60.9 million in 2008, generating a gain of €30.8 million.





7.

Off-balance sheet commitments

7.1. Commitments given and received on financial instruments

RFF is exposed to market risk in connection with the management of its debt. RFF uses a variety of financial instruments to optimise borrowing costs, based on an analysis of its general exposure to its risks, primarily arising from changes in interest and exchange rates, within the limits set by the Board of Directors.

Long-term debt management

Allocation between fixed-rate, floating-rate and inflation-indexed debt

RFF manages a structural fixed-rate/floating-rate/inflation-indexed rate position in euros to reduce borrowing costs, using interest rate swaps and swaptions, within the limits set by the Board of Directors.

Management of signature and counterparty risks

— Principles and limits

In RFF, management of transactions and financial risks is strictly governed by the document entitled "Principles and limits for trading on capital markets" issued by the Board of Directors. This document notably sets out the key policy focus in the areas of financing, treasury and overall debt management, the management principles and limits authorised in respect of interest rate, currency and counterparty risks, optimisation transactions, authorised instruments, the ceilings applicable to financing programmes, investment products, delegations of authority granted by the Board of Directors together with delegations of signature granted.

RFF also has a procedure manual which specifies the controls to be performed and the manner in which they are to be carried out in order to ensure that, on a day-to-day basis, transactions entered into comply with the defined limits and principles and the target debt structure. RFF also prepares different types of report on a weekly or monthly basis which describe the transactions performed and control results.

— Counterparty risk exposure limits

RFF's counterparty risks involve the use of over-the-counter off-balance sheet currency and interest rate instruments and correspond to the risks of default by the counterparty on the contract due dates in the event of a favorable difference for RFF.

— Counterparty authorisation criteria

Only counterparties with a minimum long-term rating of BBB-/Baa3/BBB- issued by at least two of the three agencies below are authorised:

- Fitch.
- Moody's.
- Standard and Poor's.

These limits are set on the nominal amount.

The counterparties must have a minimum short-term rating of A1/P1/F1 (S&P/Moody's/Fitch respectively) and this rating also determines the counterparty's maximum outstanding. Mutual fund custodians are assessed in the same manner.

RFF assesses these risks by valuing at mark to market its commitments vis-a-vis its counterparties on a weekly basis.

— Determination criteria

An exposure limit per counterparty is determined according to its long-term rating and equity. The percentage applied to equity results in an absolute number that is reviewed annually.

— Exceeded counterparty exposure limits

Any exceeded exposure limit shall be officially authorised by the Chairman.

Collateral contracts are established with all counterparties. Collateral must be put up as soon as the counterparty's credit rating falls below AA-/Aa3. The rating attributed by at least two of the following three rating agencies is taken into account: Fitch-IBCA, Moody's, Standard & Poor's.

— Notional amount of derivative instruments

The contracts or notional amounts presented below do not constitute the amounts payable or receivable and consequently do not represent the risk to which RFF is exposed through its use of derivatives.

I. Futures and options market

(in millions of currency units)		31 Dec. 2008	Mark to market	31 Dec. 2007	Mark to market
OVER-THE-COUNTER INTEREST RATE INSTRUMENTS					
Firm hedging transactions					
EUR swaps					
Specific hedges	< 1 year	531.1 EUR	3.9 EUR	834.7 EUR	16.4 EUR
	1 to 5 years	514.0 EUR	36.0 EUR	531.1 EUR	2.6 EUR
	> 5 years	2,834.3 EUR	(80.3) EUR	3,239.8 EUR	100.7 EUR
General hedges	< 1 year	– EUR	– EUR	– EUR	– EUR
	1 to 5 years	– EUR	– EUR	– EUR	– EUR
	> 5 years	– EUR	– EUR	– EUR	– EUR
Swaps in other currencies					
Specific hedges	< 1 year	– EUR	– EUR	– EUR	– EUR
	1 to 5 years	– EUR	– EUR	– EUR	– EUR
	> 5 years	– EUR	– EUR	– EUR	– EUR
EUR caps					
Specific hedges	< 1 year	– EUR	– EUR	– EUR	– EUR
	1 to 5 years	– EUR	– EUR	– EUR	– EUR
	> 5 years	– EUR	– EUR	– EUR	– EUR
General hedges	< 1 year	– EUR	– EUR	– EUR	– EUR
	1 to 5 years	– EUR	– EUR	– EUR	– EUR
	> 5 years	– EUR	– EUR	– EUR	– EUR

II. Forex transactions

(in millions of currency units)		31 Dec. 2008	Mark to market	31 Dec. 2007	Mark to market
OVER-THE-COUNTER HEDGING TRANSACTIONS					
EUR forward contracts	< 1 year	285.0 CHF	5.6 EUR	156.0 CHF	(0.8) EUR
		132.0 GBP	(23.4) EUR	160.0 GBP	(8.6) EUR
		– JPY	– EUR	2,500.0 JPY	(0.1) EUR
		2,047.5 USD	(41.7) EUR	1,652.8 USD	(31.3) EUR
	1 to 5 years	–	–	–	–
	> 5 years	–	–	–	–
EUR currency swaps	< 1 year	– CHF	– EUR	800.0 CHF	(21.3) EUR
		– USD	– EUR	400.0 USD	(61.6) EUR
		1,100.0 CHF	(43.1) EUR	1,100.0 CHF	(43.1) EUR
		806.9 GBP	(221.4) EUR	106.9 GBP	(31.7) EUR
		750.0 USD	(28.9) EUR	450.0 USD	(53.9) EUR
	> 5 years	300.0 CAD	9.5 EUR	300.0 CAD	(2.2) EUR
		631.0 CHF	24.1 EUR	521.0 CHF	(22.6) EUR
		2,609.4 GBP	(1,495.9) EUR	2,609.4 GBP	(566.2) EUR
		44,000.0 JPY	43.4 EUR	44,000.0 JPY	(44.0) EUR
		250.0 USD	7.8 EUR	350.0 USD	(24.8) EUR





III. Other off-balance sheet commitments

(in millions of currency units)	31 Dec. 2008	31 Dec. 2007
Financing commitments received		
Syndicated multi-currency loan	1,250.0 EUR	1,250.0 EUR
EIB loan	– EUR	– EUR
Greater Paris Region loan	0.3 EUR	1.0 EUR
Greater Paris Region loan	– EUR	

A €1,250 million five-year credit facility was set up on 11 December 2007. No drawdowns had been made under this facility at 31 December 2008.

RFF also has renewal or early redemption options on certain lines of credit, whose amounts are immaterial. RFF is free to exercise or waive these options as it sees fit.

RFF also has options on two other lines of credit. However, the decision on whether or not to exercise them resides with the counterparties:

— Option on a credit facility maturing in 2019: swap of Euribor3M exchange rate against 2Euribor3M-LibGBP3M; the value of the option at 31 December 2008, is a negative €4.8 million.

— Option on a credit facility maturing in 2015: extension in 2015 of a GBP loan for 14 years at a fixed rate of 5.35%; the value of this option at 31 December 2008 amounts to a negative €56.6 million.

7.2. Other commitments given and received

Bank guarantees

RFF has received bank guarantees in a total amount of €1.2 million in favour of:

— Different local authorities (préfectures) to cover restoration costs related to sites operated in the context of investment programmes (four guarantees for a total amount of €1.0 million).

— Crédit Suisse Asset Management to cover a commercial lease (one guarantee for €0.2 million).

Other commitments given relating to asset disposals

RFF directly sells property assets not necessary for railway activities on a regular basis.

Agreements to sell that have been signed but not yet exercised amount to €172.27 million at 31 December 2008, compared with €178.3 million at 31 December 2007. The change mainly relates to an agreement to sell relating to the Batignoles site in Paris for €158.6 million.



***STATUTORY
AUDITORS' REPORT
ON THE FINANCIAL
STATEMENTS***



Statutory auditors' report on the financial statements

Financial year ended 31 December 2008

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the financial statements. This information includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by the French Economy, Finance and Budget Minister, we hereby report to you, for the year ended 31 December 2008, on:

- the audit of the accompanying financial statements of Réseau Ferré de France;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

1. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, on a test basis or by selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company, as at 31 December 2008, and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

Without qualifying our opinion, we draw your attention to the following matters:

- Note 4. "Significant events" to the financial statements, which discloses:
 - the €9.2 billion net reversal of the impairment provision following the revaluation of railway infrastructure assets in connection with the redefinition of the Company's business model, as described in the performance contract entered into between the French State and RFF;
 - the arbitration decisions regarding the disputed allocation of assets with SNCF and the non-settlement of the corresponding debts and receivables;

— the consequences of the additional analyses carried out in order to estimate the loss on completion on the Paris Left-Bank development project.

- Note 6.1.13 to the financial statements relating to the evaluation of provisions for (i) decontamination and environmental risks based on currently available information regarding the "pool" of assets to be treated and (ii) claims in progress in respect of the flooding in Arles in December 2003.

2. Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we draw your attention to the following matters:

- Note 6.1.13 "Provisions for contingencies and losses" to the financial statements presents the nature of the provisions recorded by RFF. We have assessed the reasonableness of the manner in which these provisions were determined, on the basis of currently available information, as described in the last paragraph of the section relating to our opinion on the financial statements. These assessments were made in the context of our audit of the financial statements taken as a whole, and therefore contributed to the opinion expressed in the first part of this report.

3. Specific verifications and information

We have also performed the specific verifications required by law.

We have no matters to report regarding the fair presentation and the consistency with the financial statements of the information given in the Directors' report, and in the documents addressed to the Shareholders with respect to the financial position and the financial statements.

Paris La Défense and Neuilly-sur-Seine, 10 April 2009

The Statutory Auditors
Salustro Reydel

Member of KPMG International
Philippe Arnaud *Partner*

PricewaterhouseCoopers Audit
Florence Pestie *Partner*

RFF's 2008 annual report may be viewed on the RFF website: <http://www.rff.fr>
RFF Communications Department – Tel.: 33 (0)1 53 94 30 10 – Fax: 33 (0)1 53 94 38 10

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92, avenue de France
75648 Paris Cedex 13 – France
Tel. : +33 (0)1 53 94 30 00
Fax : +33 (0)1 53 94 38 00
www.rff.fr



RÉSEAU FERRÉ DE FRANCE