MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Ceské dráhy's ratings to Baa2; assigns stable outlook

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Approximately EUR600 million of debt affected

Milan, June 21, 2013 -- Moody's Investors Service has today downgraded to Baa2 from Baa1 the issuer and senior unsecured ratings of Ceské dráhy, a.s., the national railway operator in the Czech Republic, and assigned a stable outlook. Concurrently, the rating agency has lowered to ba2 from ba1 the company's baseline credit assessment (BCA), which is a measure of the company's standalone financial strength (without the assumed benefit of state support). This concludes the review for downgrade initiated by Moody's on 15 February 2013.

RATINGS RATIONALE

"We have downgraded Ceské dráhy's rating to Baa2 because the company's credit and liquidity profile no longer support its Baa1 ratings, given the reduced profitability of the company's freight activities and the lower-than-expected proceeds from the ongoing sale of its non-core assets," says Marco Vetulli, a Moody's Vice President - Senior Credit Officer and lead analyst for Ceské dráhy.

"Another important consideration that has led us to downgrade Ceské dráhy's issuer rating is the fact that the company remains over-reliant on short-term, uncommitted funding, which exposes the company to possible liquidity shocks," adds Mr. Vetulli.

However, Moody's recognises that Ceské dráhy's 100% ownership by the Czech government means that the company is more likely to be able to continue to access capital markets than companies that have similar credit profiles but do not benefit from state support.

As Ceské dráhy is a 100% state-owned company, Moody's has applied its rating methodology for government-related issuers (GRIs), last updated in July 2010. In accordance with this methodology, the Baa1 rating of Ceské dráhy reflects the combination of the following inputs:

- A BCA of ba2

- The A1 stable local-currency rating of the Czech government

- The rating agency's assessment of a high probability of government support

- Very high default dependence

Ceské dráhy's BCA of ba2 and Baa2 issuer rating factor in (1) the company's role as a quasi-monopoly that provides rail transportation in the Czech Republic; (2) the predictable revenues it derives from its passenger transportation activities in light of its 10-year management contracts with government and public authorities; and (3) its strong asset base.

Nonetheless, these credit-positive factors are partially offset by (1) the execution risk related to Ceské dráhy's capital investment programme and the associated expected negative free cash flow, which could have an effect on credit metrics, and, therefore, the credit profile of the company, if it were unable to achieve the anticipated level of improvement in terms of both its efficiency and market penetration; (2) the company's fairly weak liquidity position given its overreliance on short-term, uncommitted financing; (3) the relatively low profitability of the company's freight activities; and (4) the lower-than-expected proceeds from the ongoing sale of its non-core assets.

RATIONALE FOR STABLE OUTLOOK

The stable outlook on the ratings reflects Moody's expectation that Ceské dráhy will be able to modestly improve its current credit metrics in the next 12-18 months as a result of an increase in its EBITDA generation compared with 2012 levels (including on-going disposal of assets). Moreover, the outlook assumes that not only will Ceské dráhy successfully finalise the negotiation of the sale of its stations to the Czech Infrastructure Manager during 2013, but also that it will utilise the proceeds from this transaction to partially reduce its leverage starting from 2014.

WHAT COULD CHANGE THE RATING UP/DOWN

Upward rating pressure could be driven by a positive change in Ceské dráhy's BCA to ba1 from the current ba2, as a result of a sustainable improvement in the company's operating performance and credit metrics. Such an improvement would be reflected by, for example, a debt/EBITDA ratio below 5.0x or and/or an EBITA margin sustainably above 6%. In addition, in order to be upgraded, the company would need to strengthen its liquidity position, reducing substantially its reliance on short-term financing.

Conversely, further negative rating pressure could arise if Moody's were to lower Ceské dráhy's BCA to ba3 from ba2. Moody's could lower Ceské dráhy's BCA if the company were to exhibit weakened credit metrics by the end of 2013, including a debt/EBITDA ratio above 6.0x, and/or its EBITA margin were to remain below 4% after 2013. Furthermore, immediate downward pressure could be exerted on the ratings if the company's liquidity were to become constrained. A downgrade of Ceské dráhy's issuer rating level could also be triggered by a downgrade of the rating of the Czech Republic and/or a weakening of the close links between the company and its sole shareholder.

Ceské dráhy, a.s. is the national railway operator in the Czech Republic. The company is mainly engaged in the passenger and freight transportation industries and associated activities. Ceské dráhy is 100% controlled by the Czech Republic. As of December 2012, the company recorded total revenues of CZK33.6 billion ($1.6 billion) and employed approximately 26,000 people.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was the Global Passenger Railway Companies published in March 2013. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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