Rating Action: Moody's places Ceské dráhy's Baa1 ratings on review for downgrade

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Approximately EUR 600 million of debt affected

Milan, February 15, 2013 -- Moody's Investors Service has today placed the Baa1 issuer and senior unsecured ratings of Ceské dráhy a.s. on review for downgrade.

"We are placing Ceské dráhy's ratings on review for downgrade as we are concerned that its credit and liquidity profile may no longer support its Baa1 ratings given its reduced revenue from its freight activities and the lower-than-expected proceeds from the ongoing sale of its assets," says Marco Vetulli, a Moody's Vice President - Senior Credit Officer and lead analyst for Ceské dráhy.

RATINGS RATIONALE

The review for downgrade reflects the risk that Ceské dráhy's credit and liquidity profile as embedded in the current BCA of ba1, may not be sufficiently robust to support the Baa1 ratings, as a result of (1) the decrease in its cargo division revenue during the past year due to both the slowdown of economic activity in the Czech Republic and the aggressive pricing policy operated by some of the company's competitors; and (2) lower-than-expected proceeds from its ongoing assets sale programme.

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 ratings of Ceské dráhy reflect the combination of the following inputs:

- A baseline credit assessment (BCA) -- a measurement of its standalone credit profile -- of ba1

- 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

The BCA of ba1 takes account of the following factors: (1) Ceské dráhy's role as quasi-monopoly provider of rail transportation in the Czech Republic; (2) the good visibility of the revenues the company derives from its passenger transportation activities in light of the 10-year management contracts that it signed with the government and the country's 14 municipalities; (3) the good performance of its freight franchise; and (4) the company's strong asset base and plan to sell its non-core assets.

Furthermore, the Baa1 ratings assume not only that Ceské dráhy will be largely successful in implementing its "non-core assets" divestment plan over the next few years, but also that it will utilise the divestment proceeds to partially fund its capital investment programme.

Moody's review will focus mainly, but not exclusively, on (1) the impact of the weaker-than-expected performance of Ceské dráhy's cargo activities on its FYE2012 operations; (2) measures undertaken by the company to maintain an adequate liquidity cushion and sufficient financial flexibility to support its capital investment plan; and (3) the progress of the assets disposal plan during 2012 and the company's performance expectations for the next two years.

At this stage, Moody's expects that the review will be concluded in the next three months.

WHAT COULD CHANGE THE RATING DOWN/UP

Ceské dráhy's Baa1 ratings are somewhat sensitive to any reduction in Moody's current assessment of a high probability of government support. Downward pressure could be exerted on the ratings, however, if the company's debt/EBITDA were to increase above 5.5x for 2012 and/or its EBITA margin were to remain below 5% after 2012. Furthermore, evidence of increased liquidity risks would have immediate downward rating implications.

Given the current review for downgrade, Moody's does not currently expect upward rating pressure.

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 June 2012, the company recorded total revenues of CZK34 billion ($1.6 billion) on a last-12-months basis, and employed approximately 26,400 people.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was the Global Passenger Railway Companies published in December 2008. Other methodologies used include the Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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Marco Vetulli
VP - Senior Credit Officer
Corporate Finance Group
Moody's Italia S.r.l
Corso di Porta Romana 68
Milan 20122
Italy
Telephone:+39-02-9148-1100

Eric de Bodard
MD - Corporate Finance
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Italia S.r.l
Corso di Porta Romana 68
Milan 20122
Italy
Telephone:+39-02-9148-1100