CREDIT OPINION
19 May 2025

Update

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RATINGS

Ceske drahy, a.s.

Domicile	Czech Republic
Long Term Rating	Baa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Ceske drahy, a.s.

Update following outlook change to positive

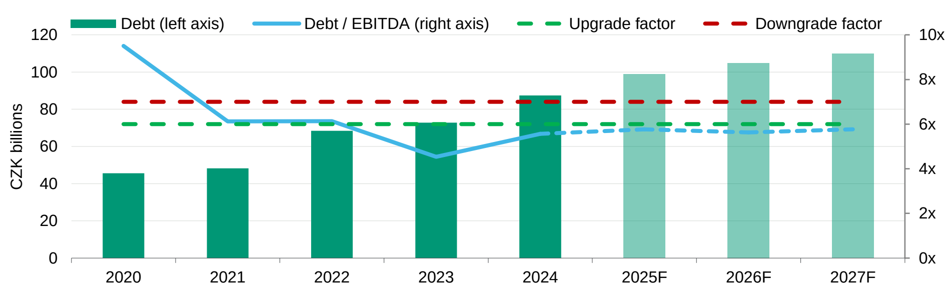
Summary

Ceske drahy, a.s.'s (CD) Baa2 long-term issuer rating factors in its ba2 Baseline Credit Assessment (BCA); our expectation of high support from the Government of Czech Republic (Aa3 stable) in times of need; and our assessment of a very high default dependence between the company and the government. This assessment results in a three-notch uplift from the ba2 BCA, in accordance with our Government-Related Issuers Methodology. The uplift reflects the continued strong relationship between CD and its sole shareholder, the Czech Republic.

CD's ba2 BCA is underpinned by the company's solid market position in the Czech Republic and high revenue visibility because of its contracts with the government and the country's 14 municipalities for passenger railway operations.

The BCA is constrained by high capital spending needs, which drive negative free cash flow (FCF) and higher leverage. Capital spending will be mainly allocated to the continued modernisation of the passenger and freight rolling stock, which is key to remaining competitive.

Exhibit 1
Leverage will remain below 6.0x for the next 24 months



All figures and ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for Non-Financial Corporations. E = estimation. The forecasts are our opinion and do not represent the views of the issuer. Upgrade and downgrade factor refers to Debt/EBITDA ratio.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Credit strengths

» High probability of extraordinary support from the Czech government

» Solid operating performance, illustrated by growth in traffic and EBITDA

» Strong market position in the domestic passenger rail market

» Good revenue visibility because of long-term service contracts with central and local authorities

Credit challenges

» Persistent negative FCF driven by high capital spending

» Relatively high leverage

» Modest reduction in market share in light of the ongoing liberalisation of the railway market

Rating outlook

The change in outlook to positive reflects the improvement in CD's liquidity management following the signing of several new credit facilities. We expect the company to develop a good track record of proactively managing its liquidity and to plan well in advance of maturing debt in the next 12-18 months. The positive outlook also reflects the company's solid operating performance over the past few years since the pandemic, supported by steady increases in ticket sales and higher compensation from the regions. We expect a solid underlying operating performance over the next 12-18 months.

Factors that could lead to an upgrade

» We could upgrade CD's rating if the rating of the Czech government is upgraded.

» Upward momentum on the BCA could result from a sustained improvement in the company's operating performance; EBIT margin increasing to high single digits (in percentage terms); and Moody's-adjusted debt/EBITDA decreasing to around 6.0x on a sustained basis, and a good track record of pro-active liquidity management.

Factors that could lead to a downgrade

» A downgrade of the Czech Republic's sovereign rating could result in a downgrade of CD's ratings.

» In addition, we could downgrade CD's ratings if the likelihood of extraordinary support from the government decreases or if the BCA deteriorates and is not adequately compensated by stronger sovereign support or increasing strategic importance to the Czech Republic.

» CD's BCA could be downgraded if the company does not perform in line with our expectations and maintains leverage above 7.0x in the next 12-18 months. The BCA could also come under pressure if liquidity deteriorates.

Key indicators

Exhibit 2
Ceske drahy, a.s.

(in CZK billions)	2020	2021	2022	2023	2024	2025F	2026F	2027F
Revenue	35.9	38.5	44.2	49.1	51.6	55.6	58.0	59.7
EBIT Margin %	-8.2%	-0.9%	4.4%	13.1%	8.1%	10.8%	11.7%	11.6%
Debt / EBITDA	9.5x	6.1x	6.1x	4.5x	5.6x	5.8x	5.6x	5.8x
EBITDA / Interest Expense	4.4x	6.6x	5.5x	5.7x	5.0x	4.3x	4.2x	4.1x
RCF / Net Debt	14.4%	17.1%	13.8%	16.3%	12.9%	10.5%	12.5%	12.0%
FCF / Debt	-11.0%	-11.8%	-22.3%	-6.2%	-16.5%	-15.0%	-13.5%	-5.4%
(FFO + Interest Expense) / Interest Expense	6.3x	7.5x	5.0x	4.7x	4.2x	3.4x	3.9x	3.8x
EBITDA Margin %	13.3%	20.5%	25.2%	32.6%	30.4%	30.9%	32.1%	31.9%

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Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Profile

Ceske drahy, a.s. (CD) is the national railway operator in the Czech Republic. The company is mainly engaged in passenger and freight transportation and associated activities.

CD was formed in 2002 when the state-owned company, Czech Railways, split into two separate companies: Ceske drahy, a joint-stock company, and the Railway Infrastructure Administration (Sprava zeleznicni dopravni cesty), a state-owned company. CD is 100% controlled by the Czech Republic, which exercises its shareholding rights through a steering committee. This committee has three representatives from the Czech Ministry of Transportation, and one representative each from the ministries of finance, defence, industry and trade, and regional development.

In 2024, CD recorded total revenue from principal operations of CZK51.6 billion, of which around 70% (including other income) was from passenger transportation and around 30% was from freight transportation. The company is one of the largest employers in the Czech Republic, with around 21,550 employees as of 31 December 2023.

Detailed credit considerations

Strong passenger revenue performance to continue over 2025-26

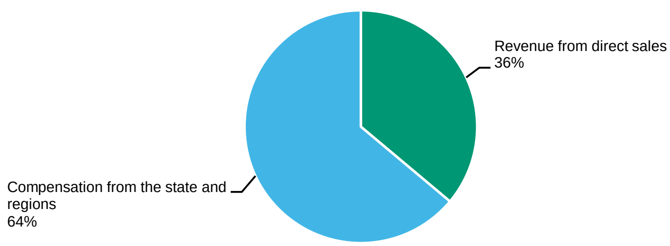
CD’s operating performance was strong in 2024 with around 5% increase in total revenue from 2023, driven mainly by higher ticket sales and increased compensation from the state and regions, amounting to CZK2.3 billion. However, revenue was strained by a slightly weaker performance in freight transport amid lower volumes, in line with the market trend across Europe. EBITDA was down by around 3% to CZ15,654 million, mainly because of a decrease in other operating income, aligning with the company’s plan. We expect revenue and EBITDA to increase by around 8% and 9%, respectively, in 2025. This growth will be driven by stronger passenger demand, partly due to the delivery of new rolling stock; higher freight volumes; increased state compensation; and lower employee costs at CD Cargo following a restructuring.

Over the next 12-18 months, we expect leverage to remain relatively stable at around 5.8x despite higher EBITDA, given an increase in capex-related borrowing.

CD's business profile is underpinned by its solid market position and revenue visibility

CD's BCA reflects its limited size, with annual revenue of around €1.9 billion, which is smaller than many of its major European peers. However, the ba2 BCA also positively reflects CD's role as the dominant provider of rail transportation in the Czech Republic and the high visibility into its revenue from its passenger transportation activities, in light of the company's contracts with the government and the country's 14 municipalities. There is a gradual increase in the proportion of revenue from public entities as regions switch to availability-based contracts (Brutto contracts) and away from contracts with revenue risk from the ticket sales (Netto contracts). This has led to a higher proportion of revenue coming from government, from around 59% in 2019 to 64% in 2024. Higher pricing in contracts will continue to boost EBITDA in the next 12-18 months.

Exhibit 3
Passenger revenue breakdown in 2024



Source: Company information

Tenders will continue, but we expect CD to retain a market share of more than 80%

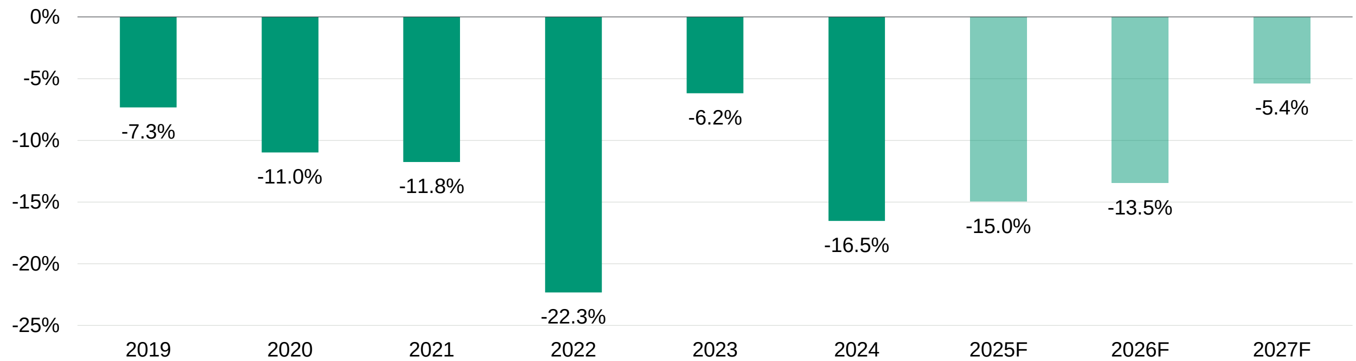
The company has service contracts with the state for 21 national long-distance services and with 14 local authorities for regional services. CD remains exposed to the risk of losing market share from the tender of maturing contracts. The expiry of both long-distance and regional contracts is phased such that less than 10% of the total passenger railway market is up for renewal every year. We expect CD to continue to win a large portion of the contracts tendered because of its position as the incumbent operator, boosted by its ongoing efforts to improve its service and modernise its fleet. For example, in 2022, the company deployed 10 new five-wagon non-traction units on the R15 and Ex6 routes, significantly improving the quality and attractiveness of the services for passengers. New trains are expected in 2025 and 2026.

CD's market share has been stable in the past couple of years and was 84.5% for passenger transport in 2024. The company has won 88% of tenders since 2019. We expect CD's market share to remain stable at well above 80% for at least the next 18-24 months.

Higher debt levels and negative FCF because of capital spending

We expect high levels of capital spending to continue because of CD's need to renew its train fleet, with a target to reduce the average age of fleet to 19 years by 2035 compared with 32 years in 2024. This will be key to ensuring that the company remains competitive. Capital spending needs are likely to peak over 2025-26 and decrease from 2027. The increase in capital spending will strain FCF, which will remain negative at least until 2027 because internal cash flow generation will not be sufficient to fund future capital spending needs.

Exhibit 4
Negative FCF driven by capital spending requirements
Moody's-adjusted FCF/debt



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Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

We expect the company to continue borrowing to fund its capital spending needs. However, the pressure on financial metrics, particularly leverage, will be significantly offset by growth in EBITDA and cash from asset sales.

High probability of government support

As the national railway operator in the Czech Republic, CD is 100% owned by the Czech government and, therefore, we have applied our Government-Related Issuers rating methodology. In accordance with this methodology, the Baa2 rating of CD reflects the combination of the following inputs:

» the BCA of ba2

» the Aa3 local-currency rating of the Czech government with a stable outlook

» our assessment of a high probability of government support

» a very high default dependence between the company and the government

The high probability of support reflects the company's 100% state ownership and significant control by the Czech government. The Czech government does not explicitly guarantee CD's obligations, but we expect that it would likely provide extraordinary support to the company in case of financial stress.

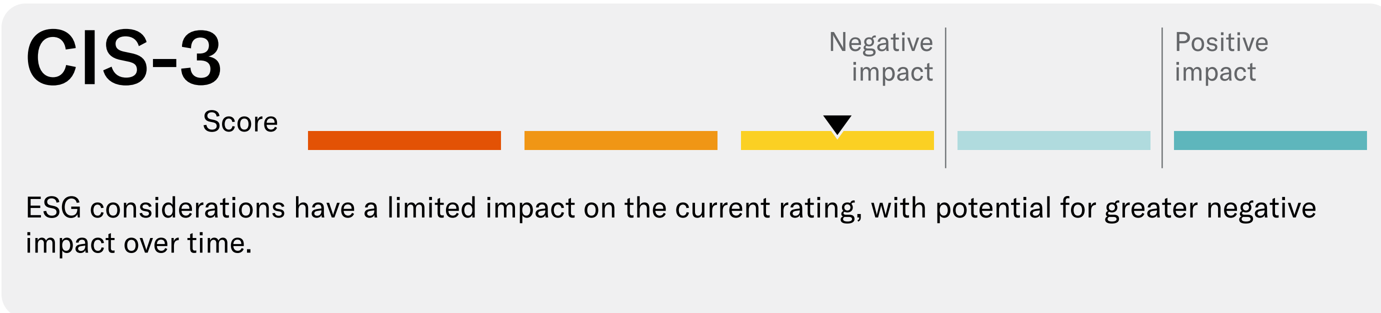
In 2022, the government provided extraordinary support in the form of a subsidy of around CZK380 million to partly compensate CD for the renewable energy surcharge it pays because of its internal combustion engine vehicles.

The very high default dependence currently assigned to CD reflects the high level of operational and financial links between CD and its sole shareholder because around 64% of the company's passenger transport revenue was received directly from the state and the regions (40% of the company's total revenue). It also reflects the very high degree of overlap between the revenue bases of CD and its sole shareholder because both entities generate most of their income in the Czech Republic.

ESG considerations

Ceske drahy, a.s.'s ESG credit impact score is CIS-3

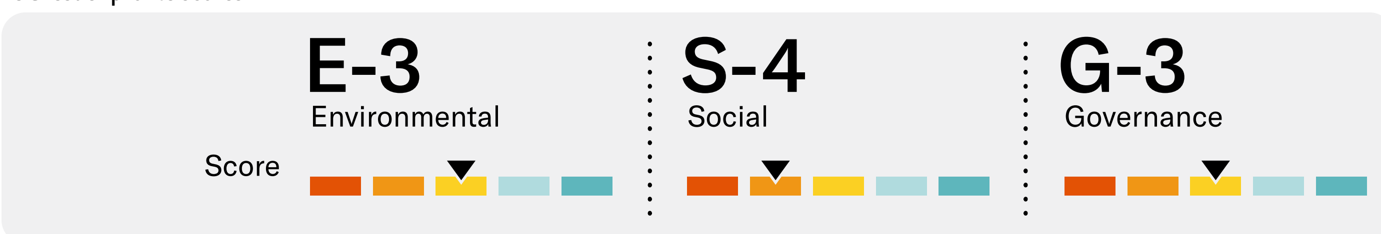
Exhibit 5
ESG credit impact score



Source: Moody's Ratings

Ceske Drahy's ESG Credit Impact Score (**CIS-3**) reflects CD's government ownership and high level of government support which partially offset the ESG risks identified for CD in the IPS scores. As a standalone entity without government support CD's credit rating would be more impacted by ESG risks.

Exhibit 6
ESG issuer profile scores



Source: Moody's Ratings

Environmental
CD's Environmental Issuer Profile Score (IPS) reflects the company's moderate exposure to natural capital, in light of the company's rail freight segment which represents around one third of revenues in and relies on the transport of natural resources such as coal and metals.

Social
CD's exposure to social risks (**CIS-4**) is mainly driven by the company's high fixed cost base related to employees which is difficult to reduce or restructure in line with revenue trends due to the government ownership. Human Capital risk also includes the risk of industrial action, strikes and pressure to increase salaries. CD is moderately exposed to Health and Safety, and well as customer relations because managing sensitive consumer information creates data privacy risks.

Governance
CD's governance risk (**G-3**) is linked primarily to high levels of senior management turnover and concentrated ownership. The company's governance risks are supported by the sovereign governance score; for the Czech Republic this is positive (G-1).

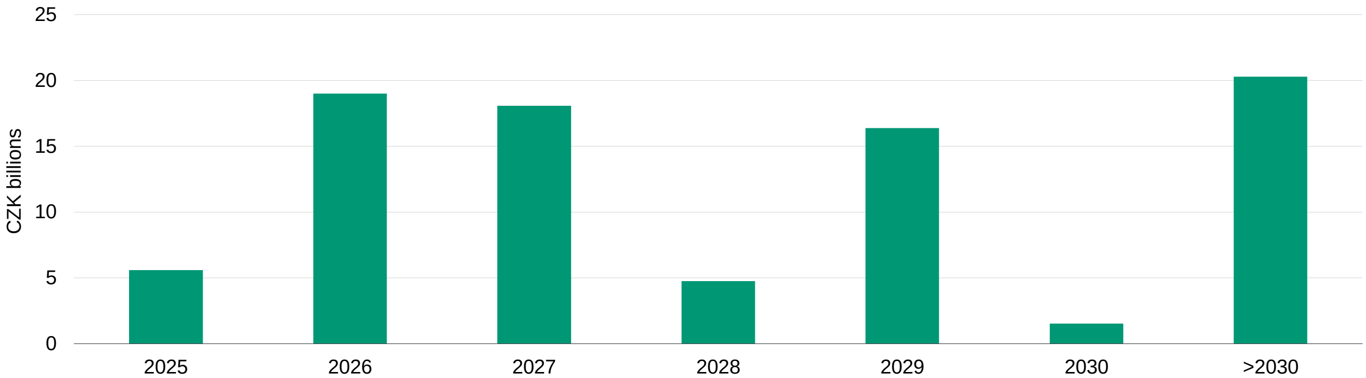
ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis
CD has good liquidity. It is supported by CZK9 billion of unrestricted cash on balance sheet as of December 2024, around CZK25 billion of availability under committed facilities (with maturities greater than 12 months), a Eurofima loan of CZK9.7 billion, EIB loans of

CZK8.6 billion, and operating cash flow, which we estimate at around CZK9.3 billion over the next 12 months. This available liquidity will comfortably cover the expected capital spending of nearly CZK23.3 billion (post IFRS 16) and debt repayments of CZK5.6 billion in 2025.

Exhibit 7

CD has upcoming refinancing needs in 2026 and 2027



Source: Company

Methodology and scorecard

To provide an overall indication of CD's credit quality on a standalone basis (that is, the BCA), we have applied our Passenger Railways and Bus Companies Methodology. The ba2 BCA is two notches lower than the scorecard-indicated outcome of Baa3, reflecting the company's increasing capital spending needs.

Exhibit 8
Rating factors
Ceske drahy a.s.

Passenger Railways and Bus Companies Industry Scorecard	Current FY Dec-24		Moody's 12-18 nonth forward view	
Factor 1 : Scale (15%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue ($ billions)	2.2	Ba	2.35	Ba
Factor 2 : Business Profile (25%)				
a) Regulatory Environment	Baa	Baa	Baa	Baa
b) Market Characteristics	Baa	Baa	Baa	Baa
c) Competitive Environment	A	A	A	A
Factor 3 : Profitability and Efficiency (10%)				
a) EBIT Margin	8.1%	Baa	11.0%	A
Factor 4 : Leverage and Coverage (35%)				
a) Debt / EBITDA	5.6x	Ba	5.7x	Ba
b) EBITDA / Interest Expense	5.0x	A	4.3x	Baa
c) RCF / Net Debt	12.9%	Ba	12.0%	Ba
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa3		Baa3
b) Actual BCA Assigned				ba2
Government-Related Issuer	**Factor**			
a) Baseline Credit Assessment	ba2			
b) Government Local Currency Rating	Aa3/Stable			
c) Default Dependence	Very High			
d) Support	High			
e) Actual Rating Assigned	Baa2/Positive			

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Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Appendix

Exhibit 9

Peer comparison

Ceske drahy a.s.

	Ceske drahy, a.s. Baa2 Positive			Deutsche Bahn AG Aa1 Stable			SNCF S.A. A1 Stable		
(in $ millions)	FY Dec-22	FY Dec-23	FY Dec-24	FY Dec-22	FY Dec-23	FY Dec-24	FY Dec-22	FY Dec-23	FY Dec-24
Revenue	1,898	2,215	2,229	54,894	28,210	28,352	43,684	45,159	46,909
EBITDA	479	723	678	5,319	787	2,698	8,188	8,435	8,617
EBIT Margin	4.4%	13.1%	8.1%	2.0%	-8.7%	-2.6%	8.7%	8.9%	8.4%
EBITDA/Interest Expense	5.5x	5.7x	5.0x	9.7x	6.4x	4.4x	4.2x	4.0x	4.6x
Debt / EBITDA	6.1x	4.5x	5.6x	7.8x	1.0x	2.7x	9.8x	9.2x	8.5x
FCF / Debt	-22.3%	-6.2%	-16.5%	-2.3%	-10.9%	-9.5%	0.6%	2.0%	-0.6%
RCF / Net Debt	13.8%	16.3%	12.9%	16.3%	8.8%	13.6%	17.7%	14.5%	13.8%

All figures and ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for Non-Financial Corporations. E = estimation. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 10

Moody's-adjusted debt reconciliation

Ceske drahy, a.s.

(in CZK millions)	2020	2021	2022	2023	2024
As reported debt	**45,548.0**	**48,299.0**	**68,405.0**	**72,760.0**	**87,427.0**
Non-Standard Adjustments	-	-	-	-	-
Moody's-adjusted debt	**45,548.0**	**48,299.0**	**68,405.0**	**72,760.0**	**87,427.0**

All figures and ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for Non-Financial Corporations. E = estimation.
Source: Moody's Financial Metrics™

Exhibit 11

Moody's-adjusted EBITDA reconciliation

Ceske drahy, a.s.

(in CZK millions)	2020	2021	2022	2023	2024
As reported EBITDA	**4,533.0**	**8,587.0**	**11,469.0**	**16,038.0**	**15,710.0**
Unusual Items	260.0	(705.0)	(309.0)	-	-
Moody's-adjusted EBITDA	**4,793.0**	**7,882.0**	**11,160.0**	**16,038.0**	**15,710.0**

All figures and ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for Non-Financial Corporations. E = estimation.
Source: Moody's Financial Metrics™

Exhibit 12

Overview on select historical and forecast Moody's-adjusted financial data

Ceske drahy a.s.

(in CZK millions)	2020	2021	2022	2023	2024	2025F	2026F	2027F
INCOME STATEMENT								
Revenue	35,915	38,534	44,222	49,148	51,643	55,575	57,993	59,663
EBITDA	4,793	7,882	11,160	16,038	15,710	17,148	18,625	19,039
EBIT	(2,955)	(359)	1,966	6,433	4,159	5,979	6,788	6,911
Interest Expense	1,091	1,191	2,041	2,836	3,126	3,973	4,444	4,643
BALANCE SHEET								
Cash & Cash Equivalents	5,751	3,434	8,761	8,119	9,338	9,374	2,106	2,159
Total Debt	45,548	48,299	68,405	72,760	87,427	98,887	104,839	109,813
Net Debt	39,797	44,865	59,644	64,641	78,089	89,513	102,733	107,654
CASH FLOW								
Funds from Operations (FFO)	5,731	7,687	8,253	10,516	10,089	9,375	12,794	12,916
Cash Flow From Operations (CFO)	3,736	6,421	6,457	11,209	10,929	9,217	12,824	12,896
Capital Expenditures	(8,725)	(12,101)	(21,740)	(15,715)	(25,382)	(24,020)	(26,944)	(18,817)
Dividends	12	-	-	-	-	-	-	-
Retained Cash Flow (RCF)	5,719	7,687	8,253	10,516	10,089	9,375	12,794	12,916
RCF / Debt	12.6%	15.9%	12.1%	14.5%	11.5%	9.5%	12.2%	11.8%
Free Cash Flow (FCF)	(5,001)	(5,680)	(15,283)	(4,506)	(14,453)	(14,803)	(14,120)	(5,921)
FCF / Debt	-11.0%	-11.8%	-22.3%	-6.2%	-16.5%	-15.0%	-13.5%	-5.4%
PROFITABILITY								
% Change in Sales (YoY)	-11.7%	7.3%	14.8%	11.1%	5.1%	7.6%	4.4%	2.9%
EBIT Margin	-8.2%	-0.9%	4.4%	13.1%	8.1%	10.8%	11.7%	11.6%
EBITDA Margin	13.3%	20.5%	25.2%	32.6%	30.4%	30.9%	32.1%	31.9%
INTEREST COVERAGE								
(FFO + Interest Expense) / Interest Expense	6.3x	7.5x	5.0x	4.7x	4.2x	3.4x	3.9x	3.8x
EBIT / Interest Expense	-2.7x	-0.3x	1.0x	2.3x	1.3x	1.5x	1.5x	1.5x
EBITDA / Interest Expense	4.4x	6.6x	5.5x	5.7x	5.0x	4.3x	4.2x	4.1x
LEVERAGE								
Debt / EBITDA	9.5x	6.1x	6.1x	4.5x	5.6x	5.8x	5.6x	5.8x
Net Debt / EBITDA	8.3x	5.7x	5.3x	4.0x	5.0x	5.2x	5.5x	5.7x

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Ratings

Exhibit 13

Category	Moody's Rating
CESKE DRAHY, A.S.	
Outlook	Positive
Issuer Rating	Baa2
Senior Unsecured	Baa2

Source: Moody's Ratings

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