

CRA
RATING
Agency



A Moody's Investors Service affiliate

State Fund of Transport Infrastructure

A +/ czAaa
czP-1

CRA Rating as per June 23, 2004

Analysts:
Pavel Rudiš a Michal Severa



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Results of Rating Analysis:

CRA Rating Agency, a.s. keeps positively assessing the stability of realized tax revenues, transferred to the Fund's budget without being dependent on the central State Budget of the Czech Republic, a well elaborated system of rules and legal agreements regulating the allocations of financial means to other bodies, the cash-flow management and control avoiding the use of available current account credit lines, recently strengthened supervision over the use of the allocated resources and its efficiency at allocating its financial means as measured by ratio of its operating activity costs and its total budget. Considering its supra-regional nature, CRA views the Fund as an institution realizing considerable savings and returns to scale in light of assured operations volume while enabling variable distribution of sources in case of need. On the other hand, CRA negatively views possible legal changes that might result in tax revenues reduction. CRA Rating Agency, a. s., believes that such potential reduction of budget means must inevitably be accompanied by narrowing the scope of duties exercised by the Fund. CRA also warns that this circumstance could also limit the Fund's chances to acquire additional means of outside financing. As uncleared CRA also views conditions arising from the reduction and subsequent losses of budget funds from State Property Fund of the Czech Republic in 2005 and 2006, or after 2006 as the case may be.

We have assessed the current economic development of the State Fund of Transport Infrastructure [Statni fond dopravni infrastruktury] and its short-term prospective development. In the opinion of CRA Rating Agency, a.s., the State Fund of Transport Infrastructure is well able to honor all its financial obligations and commitments, in due time and amount. Therefore, CRA Rating Agency, a. s., has decided to award the State Fund of Transport Infrastructure a short-term CRA Rating at the level of

czP-1.

Having evaluated all available information, including that on the possible effects on the Fund of the expected course of development of the transport infrastructure, having taken into account the future Fund revenues that have been guaranteed by the Law, and with respect also to the expected development of those tax- and non-tax revenues as well as to the fact that the expenses are claimless, CRA Rating Agency, a. s., finds the State Fund of Transport Infrastructure to be able to adequately meet its financial commitments and obligations in the future. Therefore, CRA Rating Agency, a. s., sets the long-term rating for the State Fund of Transport Infrastructure at the level of

A+ / czAaa.

Prague, June 23, 2004

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A. BASIC CHARACTERISTIC

Name of Institution: **Státní fond dopravní infrastruktury [State Fund of Transport Infrastructure]**
 IČO [Czech Company Identification No]: **70 85 65 08**
 Headquarters: **Sokolovská 278, 180 44 Praha 9**
 Telephone: **266 097 298**
 Fax: **266 312 561**
 WEB: **www.sfdi.cz**
 Legal Statute: **Other State Organization**
 Date of Inception: **July 1, 2000**

Principal Economic Data

	As on December, 31 2003	Approved Budget for 2004
REVENUES	48,569,399	44,000,000
Tax Revenues	19,209,805	21,200,000
Non-Tax Revenues	1,559,594	-
FNM* Allocations Received	27,800,000	20,000,000
SR** Allocations Received	-	2,800,000
EXPENSES	41,296,266	44,000,000
Current expenses	16,177,119	16,174,499
Capital Expenses	25,119,147	27,825,501

In CZK Thousands

* FNM = FOND NARODNIHO MAJETKU [National Property Fund]

** SR = STÁTNÍ ROZPOČET [State budget]

Statutory Bodies

Committee:

Chairman: Ing. Milan Šimonovský, Minister of Transport of the Czech Republic

Vice Chairman: Doc. Ing. Jiří Volf, Csc.

Members:

- Ing. Vojtěch Kocourek
- Ing. Jiří Kubínek
- Václav Krása
- Ing. Miroslav Máče, CSc.
- Ing. Jaromír Schling
- Ladislav Šustr
- Ing. Miroslav Václavek

The Committee is the final authority in the approving of the budget. It makes decisions on the disposition and allocation of the Fund's means. The Committee also appoints and dismisses the Director of the Fund.

Supervisory Board:

Ing. Pavel Sehoř – Chairman of the Supervisory Board

JUDr. Pavel Němec – Vice Chairman of the Supervisory Board

Ing. Pavel Hojda

Miroslav Kapoun

Ing. Pavel Šustr

Director:

Ing. Pavel Švagr, CSc.

Auditor:

LUCA AUDIT, s. r. o., Praha 5 – Trávníčkova 1766

Scope of Activity:

The operations of the Fund deal with the use of Fund's revenues for further development, construction, maintenance and modernization of highways and expressways, of rail routes, and of inland waterways, as specified in § 2 of the Law No. 104/2000 Coll.

B. SWOT ANALYSIS

Strengths and Opportunities	Weaknesses and Threats
<ul style="list-style-type: none"> • Exact definition of tax revenues by law • Financial means are transferable from one year to another one • Investment and non-investment expenditure funding depending on the Fund's budget • Co-financing of investment projects by the means provided by the European Commission • State Budget allocations compensate the anticipated decrease of receipts from FNM (National Property Fund) • Introduction of electronic toll – possible future revenue 	<ul style="list-style-type: none"> • High share in the revenues of the contributions provided by the FNM (Fund of National Property) • Increased VAT rate for construction works not included in 2004 Budget • Non-linear supply of financial means from FNP and Sate Budget in 2004 • Changes in legislature • Possible decrease of revenue share of excise duty from hydrocarbon fuels and oils • Actual state of the wear and tear of the road and rail communications • Pressure on construction and modernization of the infrastructure generated in connection with the entry in the EU

C. CHARACTERISTIC OF THE FUND

Legal Frame

Státní fond dopravní infrastruktury [The State Fund of Transport Infrastructure] (hereinafter "SFDI" or "Fund") was established by Law 104/2000Sb. [Statute Book of Czech Laws and Regulations], effective on July 1, 2000. The purpose of the Fund is the collection of means and their allocation to the development of transport infrastructure, specifically the building, maintenance and modernization of highways and roads, railway lines and inland waterways. The rules and range of such financing are set in § 2 of the Law 104/2000Sb. The Law charges the Fund with the responsibility for the funds to be invested effectively.

In its operations, the Fund must also respect the provisions of other special laws related to the transport infrastructure: Law No. 13/1997Sb. on surface communications, Law No. 266/1994Sb. on railways, and finally Law No. 114/1995 on inland navigation, as amended by later ordinances.

Bodies of the Fund

Fund Bodies are represented by the Committee, the Supervisory Board and the Director. The Committee of nine members headed by the Minister is appointed by the Government for a four-year term of office. Among other things, the Committee appoints and recalls the Director of the Fund, approves the Budget Plan, the time schedule of revenues and expenditure, and an annual program of competition tenders for the realization of investment projects selected under a special legal regulation. The Committee also decides, in accordance with the valid Statutes of the Fund, on the release of means on the investment projects under way. The Supervisory Board consists of five members elected by the Chamber of Deputies of the Czech Parliament for a four-year term of office. The Supervisory Board monitors and supervises the operations of the Fund and the management of its economics. The Director appointed by the Committee is the statutory authority representing the Fund. The Director manages the operations of the Fund's staff and effects the Fund's decisions on the release of allocated means.

Organization Structure of the Fund

The inner structure of the Fund is specified in the Organization Order of the Fund. The structure of the Fund is divided as follows:

- SFDI Director
- SFDI Secretary
- Sections
- Departments
- Independent Divisions
- Secretariats respective to the Units

The Fund is headed by the **Director of SFDI** managing directly the Secretariat of the Director of the Fund, the latter being mostly responsible for the organizational aspects related to the exercise of the Director's managing duties.

The SFDI Secretary is directly subordinated to the Director of the Fund while heading the unit of inner administration, the independent division of supervision, and also a regional office in Brno. By virtue of their position, the Secretary is responsible for the organizational and operational affairs being there senior to all executive officers. He/she is also responsible for personnel policies (human resources), designs the organization chart and management system of SFDI, and guarantees its effective functioning.

The inner administration unit provides all investment activities in the premises occupied by the Fund, ensures services necessary for the operation of the Fund and is also responsible for the maintenance and repairs of movable and fixed assets and inventories on the books of SFDI. In general, it carries out duties in fields such as labour security and hygienic measures, fire prevention etc. The Independent Division of Supervision [*Samostatne oddeleni kontroly (SOK)*] passes judgements on legality and effectiveness of the use of Fund's monies and conducts supervision and checks concerning issues both internal (observance of

inner organizational rules) and external (correct use of allocated means) while proposing necessary remedies if any discrepancy is found.

The existing organizational chart of SFDI includes the **Section for Financial Sources Management** and the **Section for Realization**.

The **Section for Financial Sources Management** is headed by a Deputy Director who is directly subordinated to the Director of SFDI. This Deputy Director manages the following units subordinated to him/her:

- Secretariat of the Section
- Department of Financial Sources Administration [*Odbor správy finančných zdrojů (OSFZ)*]
- Department of Strategy Concepts and Methodology [*Odbor koncepce a metodiky (OKM)*]

The **Section for Realization** is headed by a Deputy Director directly responsible to the SFDI Director. He/She manages the following subordinated units:

- Secretariat of the Section
- Department for the Realization of Resources [*Odbor realizace zdrojů (ORZ)*]
- Department of Realization Technology [*Odbor techniky realizace (OTR)*]

The Department of Financial Sources Administration and the Department for the Realization of Resources represent elements of key importance for the operations of the Fund.

Among the tasks carried out by the **Department of Financial Sources Administration** there are the administrative processing of tax revenues and other cash transfers belonging to SFDI, the preparation, organization and execution of credits, administering of credits, interest receivables, penalties, insurance payments, as well as other payments by physical and legal entities. The Department also obtains means from the European Commission, provided by respective European funds.

Furthermore, it participates in the financial management of the Fund, including the contacts with suppliers and clients, preparation of budget plans and cooperation in the execution of supervision and checking mechanisms. Another function of key importance secured by the Department is keeping records of all bank accounts of the Fund and ensuring the operations connected with accounting, salaries and related registers.

The **Department of Strategy Concepts and Methodology** [Odbor koncepcie a metodiky] prepares the conceptual and methodology drafts for the Fund. It works out the mandatory procedures regulating the financing of transport infrastructure and ensures complete legal services for the Fund. The Department cooperates in its operations with the individual regions, cities, towns, communities, and with the respective Government and non-governmental institutions.

The **Department for the Realization of Resources** [Odbor realizace zdrojů (ORZ)] prepares data and background material for the decisions by the SFDI Committee on releases of means regulated by the provisions of § 2 of Law No. 104/2000Sb., negotiates and signs agreements with the recipients of SFDI allocations and takes other measures related to the financing and distribution of the SFDI funds. The Department keeps records of certain data on the recipients of SFDI allocations in order to enable checking the effectiveness of the utilization of the allocated funds. During construction stages of any project, the Department enters into relationships with investors and participates in the investigations and checks conducted on the recipients of the funds.

The **Department of Realization Technology** [Odbor techniky realizace (OTR)] serves as a rear support area of the Department for the Realization of Resources (ORZ). It accepts and records the applications for financial allocations, administers the information system ISPROFIN, and carries out other technical and administrative duties within the framework of channeling the Fund's allocations.

Information System

Following an agreement with the Ministry of Finance, the Fund was assigned Budget Chapter No. 5 beginning from 2002. On the basis of this decision, an information system for Fund program financing had been created: the ISPROFOND. This system has been used by the Fund since January 1, 2002. The system provides information both for the needs of SFDI and for the recipients of the financial allocations. The internal software system monitors revenues and expenses classified by several criteria (organization, projects, the actual amount of means transferred, and others). This economic system focusing on the tracing of cash flows may be entered on several grades: from a completely passive one seeking just data, to inter-active forms of work with the system, like input of data, or even effecting some changes. The Fund regularly provides Ministry of Finance of the Czech Republic with reports and statements about its economic activities.

D. FUND'S STRATEGY

The Fund's operation strategy is, in principle, contingent on the priorities set up by the Government of the Czech Republic. It follows from the Fund's position as a legal entity subordinated to the Czech Ministry of Transport. Due to its unique position, the Fund represents a key institution in the development of transportation networks in the territory of the Czech Republic.

The principal document outlining the Fund's target orientation is called "The Time-Table and Financial Support of the Plan for the Development of Transportation Network in the Czech Republic up to the Year 2010" ["Harmonogram a finanční zajištění Návrhu rozvoje dopravních sítí v České republice do roku 2010"]. This document has been amended by topical material in the Government Resolution No. 145/2001 concerning the development of transportation networks in the Czech Republic. The quoted resolution has also set a list of priorities. The draft conceptual document approved by the Government defines the long term objectives in the individual transportation segments: road

transport, railway infrastructure, river transport infrastructure, public transportation systems, combined transport, air transport, cycling and pedestrians.

It is the strategic priorities that determine the main range of the investment financing that is to be effected by the Fund. The key construction projects important for the development of the transport infrastructure and for connecting the Czech Republic to the European Transport system are, first of all, as follows:

- D1 Highway (Vyškov – Lipník), this part of the construction is expected to be complete in 2006;
- D3 Highway (Prague – České Budějovice – border with Austria);
- D5 Highway (Prague – Plzeň – Rozvadov State Boundary), utilized in large measure with only Plzeň By-pass to be completed;
- D8 Highway (Prague – Ústí nad Labem – State Boundary), also utilized in large measure and the construction is expected to continue according to the time table set for its full operation by the international agreements;
- D11 Highway (Prague – Hradec Králové). The progress in the construction of this highway is of key importance also for the connecting of the industrial zone Kolín;
- R1 Speedway (Prague Ring), funded by a credit from EIB, the south-west part of the Ring is expected to be complete in 2007.
- R6 Speedway (Prague – Karlovy Vary – Sokolov – Kamenný Dvůr). Some sections have been already in operation now, with two lanes in every direction, there are strong pressures to accelerate the construction, originating in the Northwestern and Central Bohemian regions;
- R7 Speedway (Praha – Slaný – Chomutov), the construction being gradually realized and expected to be complete in 2008;
- R35 Speedway (Hrádek n.N. – Liberec – Hradec Králové – Olomouc – Valašské Meziříčí – State Boundary), one of the most important backbone communications of the Czech Republic;
- R48 Speedway (Běloutín – Příbor – Frýdek Místek – Český Těšín)

- modernization of all the four transit railway corridors;
- railway junction Bohumín;
- railway junction Brno, an operation of high priority both for the City of Brno and Jihomoravský kraj (South Moravian Region);

Among the other priorities, especially in the field of rail transportation, there are electrification of the railroad section connecting Kadan with Karlovy Vary, modernization of the railroad station Prague-main station and/or solving the long overdue problems related to the connection between the City of Decin and the railroad, including links to other land communications.

As for the infrastructure of river transport, the set objective calls for the improvement of navigation conditions on the Labe (Elbe) river between the city of Ústí nad Labem and the border with Germany. The navigation channel there should reach parameters similar or equal to those prevailing in the German section of the Labe. A construction of high priority is Level Přelouč II being crucial for the waterways development and expected to extend the Labe's navigability to Pardubice. Predominantly motivated by international agreements, reconstructions of lock chambers are expected to project into SFDI Budget in 2004 as well.

E. MANAGEMENT CHARACTERISTICS AND PERSONNEL POLICY

Personnel Policy

In order to work properly, the Fund must have stable, quality staff. The Fund was established in the summer of 2000 and by the end of 2001 there were 14 full time employees. The number of employees grew to 32 by the end of 2002. On the basis of an approved systematization with effect from October 1, 2000, the maximum number of employees was increased up to 49 due to strengthening of controlling function of the administrative apparatus. However, this number has never been met and therefore SFDI employed total of 36 employees, both as per December 21, 2003 and recently as per May 31, 2004. The staff of the Fund is

primarily composed of academically qualified people (70 per cent), which fully correspond with the expert nature of activities performed by the Fund. The salaries and other remuneration of the staff are governed by Law No. 143/1992Sb. as amended by later laws and ordinances, depending on the assigned salary class category (salary grade).

Management of the Fund

The top management of the Fund is composed of the Director and his/her two Deputies. The Director of the Fund is the statutory authority of the Fund, in the letter and spirit of the Czech Law. He/She executes decisions related to disengaging of Fund's means, as well as other measures debated or/and approved in the SFDI Committee. At the same time, he/she supervises activities of the staff as a whole. The Deputy for Financial Sources Management directs the Department of Financial Sources Administration [Odbor spravy financnich zdroju – OSFZ] and the Department of Strategic Concepts and Methodology [Odbor koncepcie a metodiky - OKM]. Within the limits of their authority, the Deputy Director executes the administration of tax revenues of the Fund, ensures transfers of allocations to the Fund as well as other operations related to the financing of programs and operations from the budget of the Fund. He/She is also in charge of the operations connected with the allocation of contributions and allocations from the European Commission provided by the respective European funds. He/she is responsible for drafting of the budget and manages the cash flow of the institution. He/she also bears responsibility for the conduct of accounting operations, financial book keeping, and for the administration of salaries and related matters. The scope of competence of the Deputy for Realization includes the preparing of a list of projects eligible for the financing from the Fund, the administering and correct processing of the distribution of allocated means, such as signing the appropriate agreements and contracts, establishment and maintenance of proper organizational relationships with the investor during the construction etc. He/she also devotes his/her attention to the coordination activities expressed in professional cooperation with regional institutions and in the preparatory work and implementing of other government sector programs related to the transport infrastructure.

F. ANALYSIS OF FINANCIAL MANAGEMENT OF THE FUND

The Budget of the Fund for every year so far has been prepared as balanced so that the budget revenues equals to the expenditure. Rules for the use of financial means allocated from the Fund include the principles of target orientation, obligatory nature of the budget, allocation of means exclusively on the basis of an agreement or contract, overall effectiveness and economy, strict accounting and inspection. The objectives for which the means may be used are exactly specified in § 2 of Law No. 104/2000Sb. In compliance with the purpose of the Fund, payments from the Fund's budget may be effected to cover the investment costs related to the financing of investment needs, especially those linked to concrete projects (approved items of the budget), and also for reimbursing the costs of certain non-investment needs. To quote a few examples that may be representative of the list, there are included, for instance, financing of the maintenance and repair work on national and regional railroads, on highways and expressways but also contributions to research and design projects on the above transport sectors and on some important inland waterways. Thus it follows that dominant among the targets of financing are the fields listed further:

- a) construction, modernizing, repairs and maintenance of highways and expressways;
- b) construction, modernizing and maintenance of national and regional railroad lines;
- c) construction and modernization of those inland waterways which are of importance for the national transportation system.

In order to be eligible for the financing by the Fund, a specific project must fulfil the conditions of compatibility with the Fund's purpose and must be included in the budget for the current year. The final release of means is subject to approval by the Committee (SFDI Committee) and takes place only after an agreement on the purpose and conditions of payments has been signed between the Fund and the recipient. **To be**

effected, an allocation of the Fund's money must be discussed and approved by the Committee deciding on the merits of the application submitted, and respecting the amounts of financial means earmarked for the purpose in the SFDI budget. No legal claim may be enforced by any entity to receive allocations. The actual allocation of funds from SFDI sources is regulated by an agreement, or contract signed between the Fund and the recipient. The agreement follows the stipulations of the Commercial Code (Obchodni zakonik). The recipient must keep analytical accounting records on the use of the allocated means and has to submit to the Fund a survey evaluating the success of the project. Recipients have an option to ask for transfer of idle funds earmarked in the SFDI budget for the given budgetary year and granted to them on the basis of a concluded contract to the following budgetary year provided that the need to fund the explicit operation endures.

The major recipients of SFDI allocations are: Czech railroads [Ceske drahy] with 36.2 per cent share in the expenditure of the Fund as on December 31, 2003, followed by the Directorate of Highways and Expressways [Reditelstvi silnic a dalnic] sharing 34.8 per cent in the expenditure and the Administration and Maintenance of Roads [Sprava a udrzba silnic] sharing 19.6 per cent in the the Fund's financing. With a considerable distance it is followed by Czech Railways [Ceske drahy] with 2.7 per cent being the fourth and last entity to receive an amount from SFDI exceeding CZK 1 billion. The remaining 6.7 per cent were spent, in 2003, on individual projects financed within the framework of the conditions stipulated by the Law. These projects originated in the communal sphere (cities and communities), in organizations subsidized from public budgets (Technical Administration of Communications, Prague – *Technicka sprava komunikaci Praha* – an organization managing the entire communications property of the city of Prague); some company projects were covered as well.

Structure of Revenues and Expenditures

To fulfil its purpose, the Fund is entitled to utilize its revenues in compliance with § 4 of Law No. 104/2000Sb. The revenues are as follows:

- a. transfers of means from the Fund of National Property [Fond narodniho majetku];
- b. transfers of road tax proceeds;
- c. transfers of the share in the earnings from the consumers' tax on the hydrocarbon fuels and lubricants (the size of the share is being defined by a special legal ruling, it is 20per cent of the total national gross earnings for this particular tax at the moment);
- d. transfers of earnings from fees for the use of selected highways and speedways (fee depending on the weight category of vehicles);
- e. earnings on securities and/or public subscription campaigns organized by the Fund;
- f. credits, interest earnings, penalty payments received, insurance compensations and other payments by both physical and corporate persons;
- g. European Commission allocations and grants provided by the respective European Funds;
- h. gifts and inheritance bequests;
- i. allocations from the State budget.

Transfers of means from the Fund of National Property of the Czech Republic [Fond narodniho majetku CR – "FNM"] represent the major item in the revenues of SFDI Fund. The actual share of these revenues in the income of SFDI reached 66per cent in 2000. That year, however, is not quite typical of the situation, and cannot be compared with the other years since the Fund (SFDI Fund) started its operations late in the year, practically in the fourth quarter. In 2001, the FNM transfers shared 46 per cent in the approved budget of SFDI, with an unrealized transfer of CZK 700 million recorded in the accounts of 2001 as a "receivable" due on December 31, 2002. The latter receivable was, indeed, paid in 2002. Following a Government decision, the National Property Fund

transferred to the SFDI Budget an additional sum of CZK 500 million earmarked to cover damages caused by the August 2002 flooding. As a result, the share of the FNM contribution to the budget of SFDI reached 57 per cent. Also in 2003, the major part of revenues within the SFDI budget consisted of FNM allocations in an amount of CZK 27.2 billion that was further increased by CZK 600 mil earmarked to fund D47 Highway construction. The total of FNM allocations then amounted to CZK 27.8 billion, which represented 60.0 per cent of the budgetary revenues of SFDI. The Chamber of Deputies of the Parliament of the Czech Republic considered the high share of FNM allocations in the SFDI revenues as undesirable and as early as in the Fund's budget approved for 2004 the FNM allocations decreased to CZK 20 billion, i.e. 45.5 per cent of the Fund's revenues. The slump in revenues of the Fund from FNM was partially compensated in the approved budget by state budget allocations in an amount of CZK 2.8 billion. However, interannually the total revenues in the Budget approved for 2004 decreased to CZK 44 billion.

As stipulated in § 2 of Law No. 104/2000Sb., the Fund uses its revenues for the purpose of developing, constructing, maintaining and modernizing of highways and expressways, rail transportation lines, and inland waterways. These targets are specified in more details below:

- a. financing of construction, modernization, repairs and maintenance of highways and expressways;
- b. contributing to the construction and modernization of by-passing and transit sections of highways and expressways;
- c. financing of construction, modernization, repairs and maintenance of national and regional railroad lines;
- d. financing of construction and modernization of major inland water transportation routes;
- e. repayment of credit instalments, loan interests and other expenditure linked to the debt servicing;
- f. contributing to research and project design work, to studies and expert analyses focusing on the construction, modernization, maintenance and repairs of highways and expressways, of key waterways, as well as on national and regional rail road projects;

- g. financial assistance for programs aimed at improving the safety of transport and at making it available to persons handicapped by limited mobility, or difficult orientation capabilities;
- h. providing contributions to the construction and maintenance of cycle tracks;
- i. covering the costs of the Fund's operations.

Revenues of SFDI

The Fund's revenues may basically be divided into tax, non-tax, and allocations-type revenues. The tax revenues include transfers of the highway tax earnings, transfers of a specified share in the earnings from the tax on hydrocarbon fuels and oils, and transfers of the earnings from fees for the use of selected highways and expressways. The sum of tax income predicted for 2001 was CZK 18.1 billion; the actual revenues reached 96 per cent of that sum. From among the tax financial sources quoted above, it is the consumers' tax on fuels and oils that shares most in filling this particular section of the Fund's budget (60 per cent). The highway tax contributes a sum amounting to roughly one half (30 per cent) of that while the share in the total tax revenues of fees for the use of selected highways and speedways constitutes some 10 per cent. As for the non-tax revenues of SFDI, they have been so far represented only by transfers of unused, or returned financial means from past years, or by interest payments on the SFDI accounts. Tax related revenues predicted for the year 2002 were CZK 18.7 billion, the actual sum reached was 97.8 per cent of the forecast. In 2002 again, it was, from among the tax financial sources quoted above, the consumers' tax on fuels and oils that shared most in contributing to this particular section of the Fund's budget (58 per cent). The highway tax contribution amounted to roughly one half of that while the share in the total tax revenues of fees for the use of selected highways and speedways reached some 10 per cent. Non-tax revenues amounting to CZK 1.545 billion consisted of the transfers of unused financial means allocated in 2001 that were returned into the accounts of SFDI, and also of interest receivables as on December 31, 2002. At the same time in 2002, the Fund could dispose of the CZK 4.251 billion representing a credit balance in the SFDI

account by December 31, 2001. The latter, however, cannot be considered as real revenues for 2002.

Tax related revenues predicted for the year 2003 were CZK 18.2 billion, the actual sum reached was 105.5 per cent of the forecast. From among the tax financial sources quoted above, it was the consumers' tax on fuels and oils that shared most in contributing to this particular section of the Fund's budget (59 per cent). The highway tax contribution amounted to roughly one half of that while the share in the total tax revenues of fees for the use of selected highways and speedways has reached some 10 per cent in the total revenues. Non-tax revenues amounting to CZK 1.560 billion consisted of the transfers of unused or returned financial means allocated in 2002 that were returned into the accounts of SFDI, and also of interest receivables as on December 31, 2003. At the same time in 2003, the Fund disposed of CZK 7.700 billion representing a credit balance in the SFDI account as per December 31, 2002.

According to CRA, among the fundamental objective reasons, ungovernable by recipient, not to draw any financial means from SFDI for the explicit operations it may primarily be included:

- problems related to environmental impact assessment of constructions (environmental organizations);
- problems related to property rights including changes of prices emerging from a decree of Ministry of Finance of the Czech Republic;
- changes in constructions and the related time schedules of realization;
- confirmation terms of selective procedure results at operations co-funded by EU.

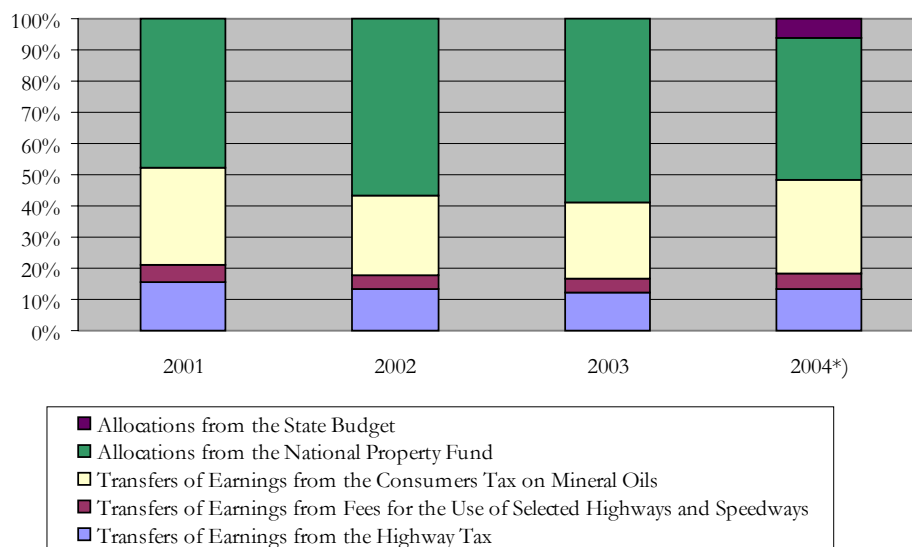
According to CRA, the discrepancy between SFDI budget and the actual drawing in the given year is not technically governable by the Fund. The purpose of non-spent financial means carried forward to the next year is maintained. Owing to these accumulated non-spent financial means of past years that are put down to SFDI's account, the Fund may, according to CRA, face non-linear supply of allocations from FNM and State Budget in the course of the year while being in a good liquid position even without using bank overdrafts.

In the current year of 2004, the revenues in the approved budget are anticipated to reach CZK 44.0 billion. Tax revenues are expected to compose 48.2 per cent in the Fund's budget with transfers of earnings from the consumers' tax again representing the biggest amount (CZK 13.1 billion) of the financial means collected from the taxes. The FNM [National Property Fund] allocation dropped to 20.0 billion CZK. On the other hand, allocation from the State Budget became new revenue to the Fund amounting to CZK 2.8 billion.

The allocations to SFDI have been effected through the Fund of National Property of the Czech Republic (FNM). They have been, so far, playing the major role in the short history of SFDI. They shared 66 per cent in the actual revenues of the Fund in 2000, yet we must note that the Fund did, in fact, operate in the last quarter of that year only. Its tax revenues were limited then to the transfers of earnings from the highway tax amounting to some CZK 2,770 million and to transfers of the earnings from fees (toll) for the use of selected highways and expressways in the sum of CZK 370 million. The share of FNM allocations in the budget revenues of SFDI was 47 per cent in 2001, and 55 per cent in 2002. The high degree of dependence of SFDI revenues on the allocations provided through the National Property Fund was causing some problems in the past, due to the uneven supply of financial resources. Thus in 2001, 81 per cent of a total transfer in the amount of 16 billion CZK was credited to the SFDI accounts during a time period starting on October 22, 2001 and ending on December 31, 2001. In order to soften the impact of discrepancies between the times of revenue deposits and the schedule of payments, the Fund opened a special current account at the Ceskomoravska zarucni a rozvojova banka, a.s. [Czech-Moravian Trust and Development Bank, joint stock company] allowing for a debit balance of CZK 1 billion. In 2002, the Chamber of Deputies of the Czech Parliament approved to open a current account providing for a debit balance of up to CZK 4 billion at Ceska sporitelna [Czech Savings Bank]. Owing to the measures adopted by the Fund and its partners, namely keeping to the set schedule of payments of the financial means to the Fund, quality management of cash-flows, and

adjustments and fine tuning of contracts with the major recipients of Fund's allocations (Czech railways, Directorate of Highways and Expressways) the Fund did not have to resort to the use of the debit current accounts. In the first half of 2004, however, SFDI received only CZK 5 billion, which represent 25 per cent of the full-year allocations, with a promise of two more tranches in the total of CZK 4 billion, gradually as per July 30 and September 30, 2004. By the end of this year, the Fund is thus expected to receive CZK 9 billion from FNM. The remaining CZK 11 billion, i.e. 55 per cent of the total budgetary frame from FNM, fall on the last Quarter of 2004. The uneven supply of financial sources into the Fund involves the State Budget allocations as well since not a part of financial means from the budgetary frame has been transferred onto the SFDI account. To a certain extent, the Fund may compensate the non-linear supply of financial means from FNM and the State Budget in 2004 for the financial balances of the account consisting mainly of non-spent financial means of the past years. In the last resort, however, the Fund may draw the arranged current accounts up to the amount of CZK 5 billion, which is considered by CRA as recently sufficient securing of the Fund's liquidity.

At the same time, CRA calls attention to the fact that the SFDI budget provides payments including VAT to organizations not paying VAT that is, in any case, State budget revenue. The change in VAT rate for construction works and services from 5 per cent to 22 per cent as per the beginning of 2004, or from May 1, 2004 up to the final 19 per cent as the case may be, will result in a considerable increase of requirements to SFDI budget, according to CRA. Payments of these financial means are not covered in the 2004 SFDI budget and the impact may be even higher in case of new credit programs. Assuming that the impact of VAT rate increase is not balanced in the SFDI budget towards the State Budget (if it is not possible to eliminate this impact with State Budget allocation), a solution is expected within decrease of financial volumes of individual operations, i.e. to soften the impact in the SFDI budget.



*) Budget

SFDI Expenditure

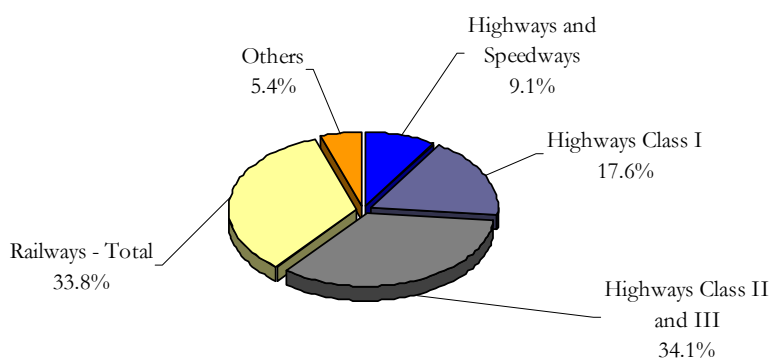
The expense chapter of the SFDI budget is divided into the current and capital sections. The current section of expenses represented 39 per cent of all expenses in 2003. The main stream of cash – the total of 66 per cent - has been flowing into the field of surface communications by means of financing the Sprava a udrzba silnic (SUS) [Management and Maintenance of Highways] and Reditelstvi silnic a dalnic (RSD) [Directorate of Highways and Expressways]. The remainder has been shared by national and regional railroad lines (35 per cent). Expenditure related to the costs of SFDI staff operations represented less than 0.2 per cent in 2003.

Remittances on current expenses of the entitled entities (RSD [Directorate of Highways and Expressways], SUS [Management and Maintenance of Highways], and SZDC [Railway Infrastructure Administration]) are made in regular monthly instalments according to the schedules, within the limits set by the appropriate contracts/agreements. Capital expenditure provides financial disbursement for the construction and modernization. Expenses on surface communications have always prevailed in this section of the budget, too, (59 per cent of all capital payments as on December 31,

2003). Approximately one third less (40 per cent) was spent on the national and regional rail lines.

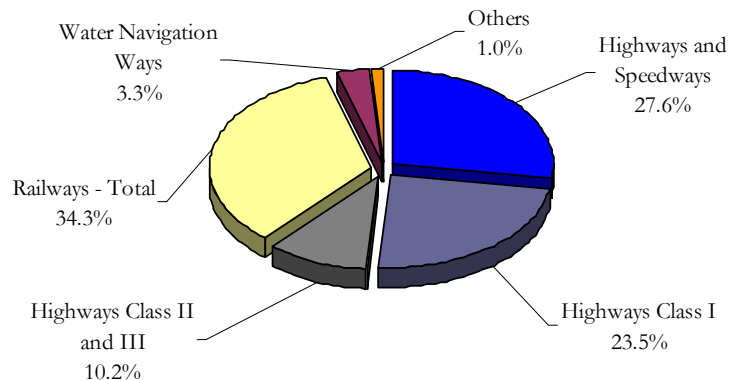
The budget approved for 2004 includes anticipated expenses in an amount of CZK 44 billion to be divided in proportion 36.8 per cent for current expenses and 63.2 per cent for capital expenses. A significant change took place in the structure of the budget in the interannual comparison. Following the transformation of České dráhy, s.o. [Czech Railways, state organization], two succession companies were established as per January 1, 2003 - České dráhy, a.s. [Czech Railways, stock company] and a state organization Správa železniční dopravní cesty (SŽDC) [Railway Infrastructure Administration] managing the state property mostly consisted of railway infrastructure. The item in the SFDI budget was thus transferred from the expired Českých drah, s.o. to the succession SŽDC, s.o. The division rate for individual programs remains practically the same, apart from the above mentioned change at current expenses.

Individual Programs Shares in Current Expenses of the 2004 Budget



The interannual decrease in the Fund's budget had an impact especially in the capital expenses where an amount of allocation provided for the item of Railways – Total decreased by almost CZK 1.3 billion down to CZK 9.5 billion as against the preceding year.

Individual Programs Sharing in Capital Spending of the 2004 Budget



CRA believes that some elements of the Fund's tax earnings should be strengthened in the future to cover, besides the routine expenses, at least 75 per cent of the Fund's capital expenses.

Operational Management

The budgeted expenses on the operations of the Fund's staff are recorded in a separate section of accounts. The initial low expenses of 2000 were affected by gradual launching of individual operations of the Fund. The Fund was lodged in temporary quarters and, therefore, no investments were needed for the office furniture and technology. The unused means (CZK 24.139 million) were transferred to the budget for 2001. The staff operational budget for 2001 was further strengthened by CZK 20 million to be spent on the maintenance of the debit current account. Along with CZK 30 million budgeted for the annual operation of the organization, it amounted to the total of CZK 74 million. The actual spending of financial means amounted to only CZK 28 mil. The running expenses in an amount of CZK 23 million were earmarked especially for rent payments, purchases of material and office software (CZK 8 mil). The capital expenses subsequently flowed into tangible and intangible assets, computer and reprographic technology and transport technology. The lower drawing in 2001 was caused by lower expenses, both capital and current, which related to gradual construction of the

organization. In 2002, the total of CZK 28 million was drawn consisting of current expenses (91 per cent) and capital expenses (9 per cent). Apart from these expenses, the budgeted expenses of the SFDI set-up included also expenses related to operation of the current account in an amount of CZK 200 million. Since no financial means were drawn in the course of 2002, the saved means in an amount of CZK 160 million were transferred into the budget for recipients of Fund's allocations and used to cover expenses related to August floods. The unused remainder of means was transferred into the 2003 budget to be used for the same purpose. Apart from the operational expenses in an amount of CZK 56 million, the budgeted expenses of SFDI set-up in 2003 included also expenses earmarked to cover expenses related to operation of the current account in an amount of CZK 275 million not having been drawn in 2003, i.e. similarly to the preceding year. As per December 31, 2003, the total of CZK 33 million was drawn consisting of current expenses (94 per cent) and capital expenses (6 per cent). The total balance of the financial means on the account at ČNB [Czech National Bank] as per December 31, 2003, used to cover operational expenses of the SFDI, amounted to CZK 430 mil. CZK 327 mil of this volume is earmarked to cover expenses related to operation of the current account. In the beginning of 2004, these financial means were transferred to the allocation budget, i.e. to the 1st company code, and then provided to ŘSD by means of budgetary measure on the basis of the SFDI committee decision. The amount of CZK 103 mil corresponded to unused financial means for operations of SFDI set-up. Afterward in 2004, the means were used to cover purchase of premises in Sokolovská Street being now headquarters of SFDI.

In CRA opinion, no dramatic increase of the operational costs is expected in the years to follow. On the contrary, if jurisdiction for the Class II and Class III highways is delegated to the regional administrations we may expect further reduction of those costs. Providing the present structure of expenses is preserved, a moderate growth of expenses may be expected being related to the increased agenda in case of increase of the Fund's sources.

Economic Outlook for the Future

According to CRA, the future economic performance of the Fund will develop under the critical impact of any measures that may be changing the income pattern of the Fund and, on the other hand, on the size and requested saturation levels of demands emerging from the maintenance and development of the transportation network. The income level of SFDI is expected to depend on further development of the Fund's authority. A proposal to amend Law No. 243/2000 Coll. of budgetary determination of taxes, within the meaning of later regulations, is heading towards certain changes in the income side of the Fund. It proposes to decrease the existing SFDI's share in tax revenues from mineral oils accompanied by simultaneous transfer of SFDI competence to Regions within the field of II and III Class Highways funding. The regulation has not been passed yet and neither has the amendment of budgetary determination of taxes.

The anticipated projection of SFDI revenues for 2005 and 2006 does not include the State Budget allocation. In these years, CRA expects privatization revenues of National Property Fund to cover supplementary financing of SFDI sources. The draft budget for 2005 takes the total revenues of CZK 44 billion into account, i.e. the same as in 2004, which represents a slump in total revenues as against 2003 when the revenues in the approved budget oscillated at the level of CZK 45.4 billion. According to CRA's information, the Ministry of Finance is likely to cooperate with EIB to cover supplementary financing of SFDI sources. In connection with gradual attempts to strangle the supply of funds provided to the Fund from FNM, CRA believes that SFDI must either increase the tax revenues or decrease the expenses. In connection with solving the strengthening of revenues sources, SFDI has actively participated in upcoming actions related to introduction of output charges of road and highway tax collected in the Czech Republic (electronic toll) that is expected to become another source of revenues earmarked to fund the infrastructure.

CRA Rating Agency, a.s. keeps positively assessing the stability of realized tax revenues, transferred to the Fund's budget without being dependent on the central State Budget of the Czech Republic, a well elaborated system of rules and legal agreements regulating the allocations of financial means to other bodies, the cash-flow management and control avoiding the use of available current account credit lines, recently strengthened supervision over the use of the allocated resources and its efficiency at allocating its financial means as measured by ratio of its operating activity costs and its total budget. Considering its supra-regional nature, CRA views the Fund as an institution realizing considerable savings and returns to scale in light of assured operations volume while enabling variable distribution of sources in case of need. On the other hand, CRA negatively views possible legal changes that might result in tax revenues reduction. CRA Rating Agency, a. s., believes that such potential reduction of budget means must inevitably be accompanied by narrowing the scope of duties exercised by the Fund. CRA also warns that this circumstance could also limit the Fund's chances to acquire additional means of outside financing. As uncleared CRA also views conditions arising from the reduction and subsequent losses of budget funds from State Property Fund of the Czech Republic in 2005 and 2006, or after 2006 as the case may be.

We have assessed the current economic development of the State Fund of Transport Infrastructure [Statni fond dopravní infrastruktury] and its short-term prospective development. In the opinion of CRA Rating Agency, a.s., the State Fund of Transport Infrastructure is well able to honor all its financial obligations and commitments, in due time and amount. Therefore, CRA Rating Agency, a. s., has decided to award the State Fund of Transport Infrastructure a short-term CRA Rating at the level of czP-1.

Having evaluated all available information, including that on the possible effects on the Fund of the expected course of development of the transport infrastructure, having taken into

account the future Fund revenues that have been guaranteed by the Law, and with respect also to the expected development of those tax- and non-tax revenues as well as to the fact that the expenses are claimless, CRA Rating Agency, a. s., finds the State Fund of Transport Infrastructure to be able to adequately meet its financial commitments and obligations in the future. Therefore, CRA Rating Agency, a. s., sets the long-term rating for the State Fund of Transport Infrastructure at the level of A+ / czAaa.

G. APPENDIX I – SFDI EXPENDITURE BY YEARS

SFDI results in individual years of existence EXPENSES in CZK Million					
Organization	2002 ^[1]	2003 ^[2]	2003 ^[1]	2004 ^[2]	Index 2004/2003
CURRENT EXPENSES – Total	17,015	16,462	17,779	16,174	98.25
Including:					
Surface Communications – Total	10,637	10,661	11,517	10,383	97.39
Surface Communications, Other Expenses	22	125	241	273	218.40
Highways and Speedways	1,217	1,470	1,142	1,472	100.14
Class I Highways	3,368	3,149	4,027	2,847	90.41
Class II and Class III Highways	5,881	5,647	6,107	5,521	97.77
Class I, Class II and Class III Highways (Technická sprava komunikaci)	150	150	0	150	100.00
SFDI Staff and Office	71	46	98	51	110.87
Interest Paid	52	275	327	275	100.00
Railroad Transport – Total	5,794	5,480	5,619	5,465	99.73
Railroads – Other Expenses	5	0	0	0	
Ceske drahy, s.o. [Czech Railways, a State Organization]	5,694	5,400			0.00
Ceske drahy, a.s. [Czech Railways, a Stock Company]			1,092		
SZDC, s.o.			9,469	5,400	
Regional Rail Lines	95	80	78	65	81.25
Unspecified Reserve	424	0	217	0	
Reserve for Flooding Damages	38	0	0	0	
CAPITAL EXPENSE – Total	30,361	28,938	30,361	27,826	96.16
Including:					
Surface Communications – Total	18,014	17,304	18,014	17,348	100.25
Surface Communications, Other Expenses	50	206	289	188	91.26
Cycle Tracks	39	60	69	60	100.00
Surface Communications	17,925	17,038	22,004	17,077	100.23
Waterways – Total	937	804	444	924	114.93
Waterways – Other Expenses	n/a	15	n/a	70	466.67
Waterways	n/a	789	n/a	854	108.24
SFDI Staff and Office	15	10	23	10	100.00
Railroads – Total	11,270	10,820	10,753	9,543	88.20
Railroads – Other Expenses	132	190	190	250	131.58
Ceske drahy [Czech Railways]	11,138	10,630	10,563		0.00
SZDC, s.o.				9,278	
Regional Rail Lines				15	
Debt Service	0	0	0	0	
Unspecified Expenses	124	0	3,621	0	
EXPENSES - TOTAL	47,376	45,400	54,981	44,000	96.92

[1] Adjusted Budget

[2] Approved Budget

Index 2004/2003 compares approved budget expenses in the years of 2004 and 2003

H. APPENDIX II – SFDI REVENUES BY YEARS

SFDI in Individual Years of Existence				
REVENUES				
CZK Million				
Organization	2002 ^[1]	2003 ^[1]	2004 ^[2]	Index 2004/2003
Transfers of Highway Tax Proceeds	5,700	5,800	5,900	101.72
Transfers of Earnings from Fees for the Use of Selected Types of Highways and Speedways	1,700	1,700	2,200	129.41
Transfers of Proceeds from the Consumers' Tax on Mineral Oils	10,600	10,700	13,100	122.43
Tax Revenues Total	18,000	18,200	21,200	116.48
Allocations from the National Property Fund	23,800	27,800	20,000	71.94
Allocations from the State Budget			2,800	x
Interest Payables Received	0	0		x
Financial Means Returned under Financial Account Settlement	1,325	1,281	50	x
Total Revenues	43,125	47,281	44,050	93.17

[1] Adjusted budget

[2] Budget adjusted by May 31, 2004

Index 2004/2003 used to compare budget revenues for 2004 and 2003

I. APPENDIX III – CRA RATING SCALE

Short-term CRA Rating

czP-1: Entity is very good in meeting of its financial obligations at the moment of their maturity.

czP-2: Entity disposes of a relatively strong ability to meet its matured short-term obligations duly and in time.

czP-3: Entity disposes of generally acceptable ability to pay its matured short-term obligations.

czP-4: Entity disposes of a limited ability to pay its short-term matured obligations in their full amount and in time.

czP-5: Entity does not dispose of sufficient ability to pay its short-term obligations.

Long-term CRA Rating

Long-term International CRA Rating		Long-term Local CRA Rating	
Aaa	First class entities with a low rate of risk	czAaa	First class entities with a low rate of risk and maximum ability to pay their financial obligations
Aa +	High-quality entities with a moderate rate of risk in a longer-term perspective	czAa +	High-quality entities with a high-rate of ability to pay all of their financial obligations, with a moderate risk in a longer-term perspective
Aa		czAa	
Aa -		czAa -	
A +	Entities above-average with facts that might endanger their low rate of risk in future	czA +	Quality entities with ability to pay all of their financial obligations at a level above average and with a recommendation to monitor their future risk in a medium and long-term perspective
A		czA	
A -		czA -	
Baa +	Credible entities with a stable present but possible problems in future	czBaa +	Credible entities with a relatively fair ability to pay their financial obligations with factors that may change their future rate of risk
Baa		czBaa	
Baa-		czBaa -	
Ba +	Entities able to meet their due financial obligations with uncertain future rate of risk	czBa +	Entities with ability to pay their current financial obligations, however their future ability to pay is not definite
Ba		czBa	
Ba -		czBa -	
B +	Less appropriate from the investment points of view with a problematic risk level	czB +	Entities able to meet their financial obligations by a supreme effort and with a risk future
B		czB	
B -		czB -	
Caa +	Below average with problems in meeting of their financial obligations	czCaa +	Entities below average with unclear ability to meet their financial obligations and with a problematic future
Caa		czCaa	
Caa -		czCaa -	
Ca +	With a high rate of risk and a high rate of failure to meet their financial obligations	czCa +	Speculative entities with a low ability to meet their financial obligations and with a highly risk future
Ca		czCa	
Ca -		czCa -	
C +	Highly speculative without investment recommendations	czC +	Highly risk and unstable entities unable to pay their financial obligations
C		czC	

* With regard to evaluation of the Czech Republic at the international level of A+ higher marks may not be appropriated to the Czech entities

Positive Outlook – anticipated improvements in the particular entity's ability to pay its obligations

Negative Outlook – potential deterioration in the particular entity's ability to pay its obligations

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