STANDARD & POOR'S

RATINGSDIRECT®

October 2, 2007

Research Update:

Prague 'A-/A-2' Ratings On Watch Pos Re Czech Republic Upgrade & Improved Economy/Financials

Primary Credit Analyst:
Marcin Gdula, Frankfurt (49) 69-33-999-245;marcin_gdula@standardandpoors.com

Secondary Credit Analysts:
Valerie Montmaur, Paris (33) 1-4420-6650;valerie_montmaur@standardandpoors.com
Myriam Fernandez deHeredia, Madrid (34) 91-389-6942;myriam_fernandez@standardandpoors.com

Table Of Contents

Research Update:

Prague 'A-/A-2' Ratings On Watch Pos Re Czech Republic Upgrade & Improved Economy/Financials

Rationale

On Oct. 2, 2007, Standard & Poor's Ratings Services placed its 'A-' long-term and 'A-2' short-term issuer credit ratings on the City of Prague, the Czech capital, on CreditWatch with positive implications.

The CreditWatch placement follows our upgrade of the Czech Republic (foreign currency A/Stable/A-1, local currency A+/Stable/A-1), as well as the ongoing strengthening of Prague's economic and financial profile. The positive CreditWatch implications also reflect our expectation that the country's upcoming fiscal reform is unlikely to negatively affect the capital's financial position. For further information on the sovereign upgrade, see our research update published today "Czech Republic FC Ratings Raised To 'A/A-1' On Progress In Fiscal Consolidation;Outlook Stable."

To resolve the CreditWatch status, we will need to receive confirmation of solid budgetary and economic performance in 2007 and equally robust expectations for the 2008-2009 planning period, as well as further reassurance that the country's fiscal reform will not substantially weigh on the city's budgetary balances. We will meet with the city representatives over the next few weeks to clarify these issues.

The ratings continue to reflect Prague's wealthy and diversified economy, strong liquidity position, and sound financial performance. These factors are partially offset, however, by the city's limited revenue flexibility, uncertainty arising from the implications of the country's 2008 public finance reform, expected debt growth, and moderate contingent liabilities.

Prague is the Czech capital and economic center, accounting for more than 20% of national GDP and for 11.5% of the Czech population. We expect the city to benefit from revenue growth as a result of the improvement in the country's economic and fiscal outlook.

Prague has a track record of sound budgetary performance, with robust operating surpluses and limited financing requirements. Hence, tax-supported debt remains moderate, at 70% of total revenues in 2006. We expect Prague's debt burden to grow in the medium term, but not to exceed 100% of total revenues.

High liquidity further mitigates the city's moderate debt burden, with free cash and reserves representing 44% of operating expenditures or 6x debt service at Dec. 31, 2006. Instead of borrowing, the city may reduce its sinking fund (currently being built up for bullet repayments in 2009-2011) to partially finance infrastructure investments, but liquidity should remain adequate.

Prague has limited revenue flexibility, as taxes are controlled at the central-government level.

The city's municipal companies--the congress center and the transportation company--will continue to put pressure on Prague's budget (both in terms of subsidies and debt), unless satisfactory progress is achieved in terms of efficiency improvements and restructuring or privatization (in the case of the congress center).

Ratings List

	To	From
Issuer credit rating	A-/Watch Pos/A-2	A-/Positive/A-2
Senior unsecured debt	A-/Watch Pos	A-
Short-term debt	A-2/Watch Pos	A-2

Additional Contact:
International Public Finance Ratings Europe;PublicFinanceEurope@standardandpoors.com

Ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. It can also be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office Hotline (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4017. Members of the media may also contact the European Press Office via e-mail on: media_europe@standardandpoors.com.