

Fitch Affirms Region of Mazowieckie at 'A-'; Outlook Stable

Fitch Ratings-London/Warsaw-15 December 2009: Fitch Ratings has today affirmed the Polish Region of Mazowieckie's Long-term foreign currency rating at 'A-' and affirmed the region's Long-term local currency rating at 'A'. Both ratings have Stable Outlooks.

The ratings reflect the region's moderate debt level, healthy debt coverage ratio, good liquidity and the wealthy regional economy, although the economy has been impacted by the current economic slowdown. However, the ratings also take into account that the region's expected operating performance in 2009-2010 will be weaker than in the previous five years, an expected growth in debt, and the high indirect risk stemming from the region's healthcare sector.

The high share of income taxes in the region's operating revenue, over 80% in 2004-2008, makes the region sensitive to the economic cycle. After growing at a compounded annual growth rate (CAGR) of 15.5% in 2004-2007, income taxes declined in 2008-2009 due to the economic slowdown and legal changes being implemented during this period. As the declining tax revenue was not accompanied by adequate cuts in current expenditure, the region's operating margin is expected to fall to about 8.4% in 2009 from over 20% in 2004-2008. However, Fitch expects the operating margin to improve to about 10%-13% in 2010-2011 due to better control on current expenditure.

The region has limited its investment plan and consequently its demand on debt financing due to the economic slowdown. According to the region's projections, its debt may reach PLN1.65bn in 2010-2011, accounting for about 70% of current revenue. The region takes advantage of long-term loans and bonds with maturity from 10 to 25 years, which will enable Mazowieckie to maintain debt service at a moderate level of about PLN200m annually in 2010-2016.

The high indirect risk stems from the region's healthcare sector, which is in a weak financial situation due to high net losses posted annually (PLN83m at end-2008) and debt (PLN260m in 2008). The sector may require financial assistance from the region in the form of guarantees and loans. Moreover, if Mazowieckie decides to transform 6 out of 31 healthcare entities into companies, it may have to repay about PLN300m of the sector's liabilities from its own-resources.

Mazowieckie is the largest Polish region by area (11% of the national territory) and the most populous (5.18 million). It is also the wealthiest Polish region: in 2007 its gross regional product (GRP) per capita was 160% of the national average.

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Additional information is available at www.fitchratings.com.

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