

### **Fitch Affirms Region of Mazowieckie at 'BBB'; Outlook Negative**

Fitch Ratings- Warsaw/London – 23 May 2014: Fitch Ratings has affirmed the Region of Mazowieckie's (Mazowieckie) Long-term foreign currency IDR at 'BBB', Long-term local currency IDR at 'BBB+' and the Long-term National Rating at 'A+(pol)'. The Outlooks are Negative. Fitch has also affirmed Mazowieckie's EUR50m and EUR32m bonds' Long-term foreign currency rating at 'BBB'.

#### **KEY RATING DRIVERS**

The affirmation reflects Fitch's opinion that the region's capacity for the repayment of its financial obligations is adequate. Although tax revenue per capita exceeds the national average, its budget faces increasing demands with limited short-term flexibility and liquidity is tight, which may affect the debt servicing ability.

The Negative Outlook reflects Fitch's view that the region has limited immediate flexibility to improve operating performance and debt coverage ratios. A reduction in outgoings and an improvement in liquidity will depend on legal changes to the equalisation mechanism for regions in Poland, which are in progress. The implementation of a precautionary programme in 2014-2019, designed to strengthen the region's finances, is a precondition to receipt of loans from the state to help the region to balance its budget.

The uncertainty about the timing and scope of changes to the equalisation mechanism and about the effects of the precautionary programme means that legal risks remain high.

In 2014, the region's PLN103m debt service requirements (principal and interest) could exceed the operating balance, putting pressure on Mazowieckie's ratings. Fitch expects that there will be a moderate recovery in corporate income tax (CIT) receipts driven by the projected 3% GDP growth in 2014. However, the region still has to pay in full to the equalisation mechanism despite the favourable ruling of the Constitutional Tribunal from March 2014 and the raise in CIT revenue may be insufficient to balance Mazowieckie's budget.

Mazowieckie owes about PLN180m for 2013-2104 from unpaid equalisation obligations, which puts pressure on the region's liquidity. To meet these outstanding liabilities, Fitch expects that the region will increase its debt, but not by more than the PLN400m state budget loans the region has requested. At end-2014, direct debt may thus amount to PLN1.8bn but account for a still moderate 85% of current revenue.

Fitch expects that the region will continue to support the financing needs of independent public healthcare entities (sp zoz), whose financial situation is weak. At end-2013, their aggregated debt and overdue liabilities were PLN272m on a preliminary basis. In addition, the region's 11 hospitals and health care centres (operated as limited liability companies) plan to incur up to PLN170m in debt in 2015 (2013: PLN27m) to restructure liabilities and finance investments, which could put further pressure on the region's budget.

The total debt incurred by the region's companies could rise to PLN895m in 2015 (2013: PLN633m), with most of the increase stemming from financing of rolling stock by the railway companies. This extra debt will place additional demands on the region's budget.

#### RATING SENSITIVITIES

Mazowieckie's ratings could be downgraded if the region fails to post an operating balance which fully covers debt service obligations (principal and interest) for 2014. A downgrade could also be triggered if despite full implementation of the precautionary programme, the region's debt increases by more than the planned PLN400m state budget loans.

The Outlook could be revised to Stable if the region demonstrates its ability to cover its annual debt service fully with its operating balance on a sustainable basis.

#### KEY ASSUMPTIONS

State budget loans up to PLN400m will be granted until end-2014.

The region's precautionary programme 2014-2019 will be put in place.

Legal changes to the equalisation mechanism significantly unburden the region from 2015.

#### Contact:

Primary Analyst  
Dorota Dziedzic  
Director  
+48 22 338 62 96  
Fitch Polska S.A.  
16 Krolewska Street  
Warsaw 00-103

Secondary Analyst  
Magdalena Mikolajczak  
Analyst  
+48 22 338 62 85

Vladimir Redkin  
Senior Director  
+7 495 956 9901

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com).

Applicable criteria, 'Tax-Supported Rating Criteria', dated 14 August 2012, and 'International Local and Regional Governments Rating Criteria outside United States', dated 23 April 2014, are available on [www.fitchratings.com](http://www.fitchratings.com).

#### Applicable Criteria and Related Research:

Tax-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=686015](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)

International Local and Regional Governments Rating Criteria - Outside the United States

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