

## FITCH MONITORING REGION OF MAZOWIECKIE'S FINANCIAL SITUATION

Fitch Ratings-London/Warsaw-13 September 2013: Fitch Ratings says it is monitoring the Region of Mazowieckie's financial situation. The region has recurring liquidity strains and the debt limit increases the rigidity on the region's borrowing capacity. For this reason, the region has submitted a request to the Ministry of Finance (MoF) asking for a suspension of its obligatory payments to the equalisation mechanism (the janosikowe) falling due in September-December 2013. Irrespective of the MoF's decision, Fitch assumes that the region will timely service its debt.

Mazowieckie's tight liquidity results from significantly lower than originally budgeted corporate income tax revenue (CIT). According to Mazowieckie's estimates, CIT may underperform by PLN200m at end-2013 compared with the original budget for 2013 (9% of operating revenue less). CIT is the main current revenue item for the region and accounted for about 63% of operating revenue on average in 2010-2012.

Fitch considers that Mazowieckie's flexibility to cut costs is limited. The region's management aims to cut costs of about PLN70m-PLN100m until year-end. Much higher savings would be viable by implementing structural changes, but these are difficult to achieve in the short term.

The region's financial situation is affected by payments to the equalisation mechanism. With a share of 35%, these payments are Mazowieckie's largest operating expenditure item. Of the PLN661.3m due for 2013 as a whole, the January-August instalments were serviced on time, using the short-term credit line, among other things. PLN220.4m falls due in September-December, the first of which (PLN55m) is due on 16 September.

All liabilities due until end-August 2013 have been serviced timely, including debt interest (about PLN32m). This was due to the constant utilisation of the region's short-term credit line. Mazowieckie's management have assured that the payment of all liabilities that will become due in September-December 2013 as wages (about PLN112m), interest (about PLN53m) and principal payments (PLN17m) due in December 2013, is not endangered.

Approximately 70% of a short-term PLN300m loan has been utilised and has to be repaid at year-end. Mazowieckie's flexibility to incur medium- and long-term debt is constrained because of the existing borrowing limit. The region's debt to total revenue ratio was 53% at end-June 2013. Fitch considers that this may increase to about 70% at year-end because of the lower actual than planned revenue and may consequently exceed the legal borrowing limit of 60%. As the limit ceases to be valid from January 2014 and as long the debt is serviced this would not affect the ratings.

The Region of Mazowieckie's ratings are as follows:

- Long-term foreign currency rating 'BBB+', Outlook Negative
- Long-term local currency rating 'A-', Outlook Negative
- Long-term National rating 'AA(pol)', Outlook Negative
- Mazowieckie's EUR50m and EUR32m bonds' Long-term foreign currency rating 'BBB+'.

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