

Fitch: Polish Region of Mazowieckie's Liquidity Improving

Fitch Ratings, London/Warsaw, 22 September 2014: Fitch Ratings says that the Polish Region of Mazowieckie's (Mazowieckie; BBB/Negative) liquidity is gradually improving, after having weakened in 2013 and despite its obligatory contribution to the State under the Polish equalisation mechanism. We believe that the region will be able to service its debt for 2014, with direct debt possibly lower than the PLN1.8bn projected by us in May 2014.

We expect the region's operating balance at end-2014 to be at least PLN100m, sufficient to fully cover debt service. Mazowieckie estimates that it faces repayment of PLN52m in principal and interest until year-end. Fitch believes the region's operating balance will be supported by an increase of corporate income tax (CIT) receipts in line with economic growth and by cost-cutting implemented under the Precautionary Programme for 2014-2019. CIT receipts are the largest contributor to Mazowieckie's operating revenue, at more than 60%.

Fitch considers that the region's self-financing capacity as adequate. Mazowieckie contributed in full the August and September 2014 instalments under the equalisation mechanism and fully repaid the outstanding under a PLN300m short-term credit line. The region is obliged to make full contribution to the State under the equalisation mechanism despite a ruling from the Constitutional Tribunal in March 2014 declaring that the mechanism for regions is inconsistent with the Constitution of Poland. Mazowieckie is obliged to pay a sum each year to central government, equalling 35% of its operating expenditure - its largest operating expenditure item.

Nevertheless, Mazowieckie still has overdue contributions (principal and interest) to the equalisation mechanism of PLN285m for 2013-2014, putting pressure on its liquidity. To settle the outstanding amounts, the region intends to draw on the last of two state budget loans. The first loan, amounting to PLN246m, was drawn at the beginning of September 2014 and used to partly repay the due amounts of the equalisation instalments to the state budget. Fitch projects that the second state budget loan may be lower at PLN100m than the PLN150m previously expected. Consequently, direct debt at year-end may amount to PLN1.7bn, accounting for a moderate 82% of current revenue, which is below Fitch's projections made in May 2014. The final decision about this state budget loan and its amount will be announced in October 2014.

The next Fitch rating review is on 21 November.

The Region of Mazowieckie's ratings are as follows:

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

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