

Fitch Rates Poland's Region of Mazowieckie 'BBB+', Outlook Positive

Fitch Ratings-London/Warsaw-05 December 2006: Fitch Ratings has today assigned the Polish Region of Mazowieckie a Long-term foreign currency rating of 'BBB+' with a Positive Outlook and a Long-term local currency rating of 'A'(A flat) with a Stable Outlook.

The ratings reflect robust budgetary performance of the region, its high liquidity, virtually no debt and a strong and further improving economic profile that results in growing income tax revenue. They take also into account growing expenditure on railway transport and risks stemming from the highly indebted healthcare sector.

The Positive Outlook on the foreign currency rating is capped by Poland's foreign currency Issuer Default rating with Positive Outlook. The Stable Outlook on the local currency rating reflects Fitch's expectations that the region's operating performance will remain strong in the medium term.

Since 2004 the region's revenue significantly increased due to the above noted higher receipts in income taxes. As a result its operating performance has strengthened, as shown by high operating balances at 40.7% of operating revenue in 2004 and 29.8% in 2005. The 2006 final results should be in line with those of 2005. Liquidity has also improved, with average cash in the bank account of about PLN530m in 2005-Q306.

The region has been nearly debt free during the past five years, having only PLN22 million of debt from pre-financing loans (to be repaid from the EU grants) at end 2005; it has also used pre-financing loans in 2006. Mazowieckie has not incurred the PLN240m of debt that was budgeted for this year. Due to the region's investment programme and the requirement to co-finance EU funded projects, its debt will be growing in the medium term.

Fitch notes that the region's healthcare sector is generally in a poor financial condition: its aggregated loss in 2005 was PLN47m and total financial debt amounted to PLN83m. Restructuring programmes were implemented in the sector in 2005, which required Mazowieckie to repay PLN65m of the sector's liabilities and provide it with guarantees of PLN143m, under which the region may face payments in the next several years.

Mazowieckie, located in the centre of Poland, is the country's largest region by area and number of inhabitants (5.2 million, 13.5% of the national population). Its economic and human potential is concentrated in Warsaw and its economy is dominated by the services sector, accounting for 74% of GVA and 58% of employment. GRP per capita was about 150% of the national average, placing it first among all 16 regions. Mazowieckie has also enjoyed the lowest unemployment rates among the regions in the past five years.

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