

Poland
Credit Update

Region of Mazowieckie

Ratings

	Current Rating	Previous Rating	Rating Action
Foreign Currency			
Long-Term	A-	BBB+	Jan 2007
Rating Outlook			Stable
Local Currency			
Long-Term	A		Dec 2006
Rating Outlook			Stable

Analysts

Renata Dobrzynska, Warsaw
+48 22 338 62 82
renata.dobrzynska@fitchratings.com

Elzbieta Kaminska, Warsaw
+48 22 338 62 84
elzbieta.kaminska@fitchratings.com

Summary Data

	31 Dec 05	31 Dec 04
Operating Rev. (PLNm)	1,521.4	1,411.2
Debt (PLNm)	0.0	0.0
Operating Bal./	29.8	40.7
Operating Revenue (%)		
Debt Servicing/	0.0	1.8
Current Revenue (%)		
Debt/Cur. Balance (Yrs)	0.0	0.0
Operating Balance/	4,540.0	441.5
Interest Paid (x)		
Capital Expenditure/	37.1	21.7
Total Expenditure (%)		
Surplus (Deficit) Before	-6.6	27.3
Debt Variation/ Total Rev.		
(Exc. New Debt) (%)		
Current Balance/	77.1	245.3
Capital Expenditure (%)		

Profile

The main responsibilities of the Region (voivodship) of Mazowieckie include: regional railway and bus transport; public higher education; healthcare (regional hospitals and specialised healthcare services); social care; constructing, modernising and maintaining regional roads; public order; culture (operas, theatres and museums, and preserving regional culture); environmental protection; establishing regional development programmes; and developing international economic relations on a regional level.

Rating Action and Outlook

The upgrade of the Long-Term Foreign Currency Rating follows a similar rating action on the Republic of Poland's Foreign Currency Issuer Default Rating (IDR), which was upgraded to 'A-' from 'BBB+'. The ratings reflect the region's robust budgetary performance, its high liquidity, its lack of debt, and its strong and further improving economic profile, which has increased income tax revenue. They also take into account growing expenditure on railway transport and risks stemming from the highly indebted healthcare sector.

The Stable Outlook reflects Fitch Ratings' expectations that the region's operating performance will remain strong in the medium term.

Key Rating Factors and Performance

Positive key rating factors include:

- Robust operating performance and high liquidity: Since 2004 the region's revenue flexibility has improved significantly due to higher shares in income taxes. As a result, the region's operating performance 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 2005. Its liquidity has also improved, with average cash of about PLN624m.
- Almost debt free in 2001-2005: At end-2005 the region had only PLN22m of debt from pre-financing loans (to be repaid from the EU grants). It is likely to be also almost debt free at end-2006, because it did not incur the PLN240m budgeted at the start of the year. The region's capacity to increase debt is high due to its very good operating performance and further growth of operating revenue. The region's investment programme and the requirement to co-finance EU-funded projects will increase debt in the medium term.
- Wealthiest and most developed region in Poland: The region's economic and human potential is concentrated in Warsaw, which is Poland's capital city and its main scientific and educational centre. The region's gross regional product per capita is about 150% of the national average. The region's economy is dominated by the services sector and the number of companies registered in the region has been growing for the last ten years. The strong and further improving economic profile results in growing revenue for the region.

Negative key rating factors include:

- Risky healthcare sector: The region is the founding body for 39 healthcare entities, generally in poor financial condition, with aggregated loss of PLN47m and total financial debt of PLN83m in 2005. Restructuring programmes were implemented in the sector in 2005, which required the region to take over PLN65m of its liabilities. The region may face payments under the guarantees provided to the sector, which were PLN143m at end Q306. The whole healthcare system in Poland is ineffective and should be reformed at the national level.
- Growing expenditure on regional railway transport: To control quality and costs of the railway services provided, the region set up the rail operator Koleje Mazowieckie and increased spending on them to PLN100m in 2006 and a budgeted PLN140m for 2007. The region has been investing in new trains (over PLN500m to be spent in 2006-2008), which should yield savings on operating expenditure in the medium term.

19 January 2007

■ Appendix A

Region of Mazowieckie

(PLNm)	Actual					Budget 2006 ^a	Actual H106
	2001	2002	2003	2004	2005		
Taxes	124.5	132.6	134.0	1,298.8	1,311.8	1,293.0	746.6
Transfers Received	314.5	272.5	259.3	96.6	121.9	364.7	126.9
Charges, Fines and Other Operating Revenue	7.9	12.4	17.8	15.8	87.7	46.0	17.8
Operating Revenue	446.9	417.5	411.1	1,411.2	1,521.4	1,703.7	891.3
Operating Expenditure	-403.1	-366.3	-376.7	-837.2	-1,067.4	-1,748.2	-692.6
Operating Balance	43.8	51.2	34.4	574.0	454.0	-44.5	198.7
Financial Revenue	1.1	1.2	1.5	14.6	31.5	28.9	7.5
Interest Paid	-2.8	-1.3	-0.4	-1.3	-0.1	-0.3	-0.1
Current Balance	42.1	51.1	35.5	587.3	485.4	-15.9	206.1
Capital Revenue	134.8	83.6	94.7	56.0	39.1	131.9	64.8
Capital Expenditure	-172.6	-126.6	-140.0	-239.4	-629.8	-733.7	-124.8
Capital Balance	-37.8	-43.0	-45.3	-183.4	-590.7	-601.8	-60.0
Surplus (Deficit) before Debt Variation	4.3	8.1	-9.8	403.9	-105.3	-617.7	146.1
Debt Repayments	-6.0	-6.0	-6.0	-25.0	0.0	0.0	0.0
New Borrowing	0.0	0.0	25.0	0.0	0.0	240.0	0.0
Net Debt Movement	-6.0	-6.0	19.0	-25.0	0.0	240.0	0.0
Overall Results	-1.7	2.1	9.2	378.9	-105.3	-377.7	146.1
Debt Stock							
Short-Term	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-Term	12.0	0.0	25.0	0.0	0.0	240.0	0.0
Total Debt	12.0	0.0	25.0	0.0	0.0	240.0	0.0
<i>Pre-Financing Loans</i>	-	-	-	-	22.2	10.4	43.5
Total Debt with Pre-Financing Loans	0	0	25	0	22.2	250.4	43.5
- Cash and Liquid Deposits	2.7	2.8	9.4	482.5	484.1	-	492.1
Net Commitments*	9.3	-2.8	15.6	-482.5	-484.1	240.0	-492.1
Memo							
% of Debt in Foreign Currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% of Issued Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% of Fixed-Interest-Rate Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Guarantees	0.0	0.4	2.3	57.4	62.9	-	133.7
Guarantees due in Current Year	0.0	0.0	0.1	4.6	3.6	24.9	10.8
Debt of Public-Sector Entities (Excluding Guaranteed Amount)	0.0	1.0	0.9	0.0	21.3	-	n.a.

^a at 1 January

* Not including pre-financing

n.a. not available

Source: Region of Mazowieckie

■ Appendix B

Region of Mazowieckie

(%)	Actual				
	2001	2002	2003	2004	2005
Fiscal Performance Ratios					
Operating Balance/Operating Revenue (%)	9.8	12.3	8.4	40.7	29.8
Current Balance/Current Revenue* (%)	9.4	12.2	8.6	41.2	31.3
Surplus (Deficit) before Debt Variation/ Total Revenue** (%)	0.7	1.6	-1.9	27.3	-6.6
Overall Results/Total Revenue (%)	-0.3	0.4	1.8	25.6	-6.6
Operating Revenue Growth (Annual % Change)		-6.6	-1.5	243.3	7.8
Operating Expenditure Growth (Annual % Change)		-9.1	2.8	122.2	27.5
Current Balance Growth (Annual % Change)		21.4	-30.6	1556.2	-17.4
Debt Ratios					
Debt (Annual % Change)	-	-	-	-	-
Interest Paid/Operating Revenue (%)	0.6	0.3	0.1	0.1	0.0
Operating Balance/Interest Paid (x)	15.6	39.4	78.2	441.5	4,540.0
Debt Servicing/Current Revenue (%)	2.0	1.7	1.6	1.8	0.0
Debt Servicing/Operating Balance (%)	20.1	14.3	18.7	4.6	0.0
Debt/Current Revenue (%)	2.7	0.0	6.1	0.0	0.0
Debt with Pre-Financing/Current Revenue (%)	-	-	-	-	1.4
Debt and Guarantees Issued/Current Revenue (%)	2.7	0.1	6.6	4.0	4.0
Debt with Pre-Financing and Guarantees Issued/Current Revenue (%)	-	-	-	-	5.5
Debt/Current Balance (yrs)	0.3	0.0	0.7	0.0	0.0
Debt with Pre-Financing/Current Balance (yrs)	-	-	-	-	0.0
Debt/GDP (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Liquid assets Brought Forward/Debt Servicing (%)		37.0	43.5	35.7	482,500.0
Debt per Capita (PLN)	2	0	5	0	0
Revenue Ratios					
Operating Revenue/Budget Operating Revenue (%)	-	-	-	-	118.3
Tax Revenue/Operating Revenue (%)	27.9	31.8	32.6	92.0	86.2
Modifiable Tax Revenue/Total Tax Revenue	0.0	0.0	0.0	0.0	0.0
Current Transfers Received/Operating Revenue (%)	70.4	65.3	63.1	6.8	8.0
Operating Revenue/Total Revenue (%)	76.7	83.1	81.0	95.2	95.6
Total Revenue per Capita (PLN)	114	98	99	288	309
Expenditure Ratios					
Operating Expenditure/ Budget Operating Expenditure (%)	-	-	-	-	118.9
Staff Expenditure/Operating Expenditure (%)	24.0	26.8	28.1	14.7	14.5
Current Transfer Made/Operating Expenditure (%)	26.6	45.6	44.3	26.3	16.6
Capital Expenditure/Budget Capital Expenditure (%)	-	-	-	-	25.5
Capital Expenditure/Total Expenditure (%)	29.5	25.3	26.8	21.7	37.1
Total Expenditure per Capita (PLN)	114	98	102	214	329
Capital Expenditure Financing (%)					
Current Balance/Capital Expenditure	24.4	40.4	25.3	245.3	77.1
Capital Revenue/Capital Expenditure	78.1	66.0	67.7	23.4	6.2
Net Debt Movement/Capital Expenditure	-3.5	-4.7	13.6	-10.4	0.0
Change in Reserves/Capital Expenditure	1.0	-1.7	-6.6	-158.3	16.7

* Includes financial revenue

** Excluding new borrowing

Source: Region of Mazowieckie