City of Gdansk

Full Rating Report

Ratings

Foreign Currency

Long-Term Rating	BBB+

Local Currency

Long-Term Rating	BBB+

National

Long-Term Rating	AA– (pol)

Outlooks

Long-Term Foreign-Currency Rating	Stable
Long-Term Local-Currency Rating	Stable
Long-Term National Rating	Stable

Financial Data

City of Gdansk

	31 Dec 10	31 Dec 09
Operating revenue (PLNm)	1,766.50	1,591.00
Debt (PLNm)	853.60	712.60
Operating balance/ operating revenue (%)	10.90	5.64
Debt service/current revenue (%)	14.03	2.97
Debt/current balance (yrs)	5.13	10.28
Operating balance/ interest paid (x)	6.25	3.89
Capital expenditure/ total expenditure (%)	23.5	22.66
Surplus (deficit) before debt variation/total rev. (exc. new debt) (%)	-6.73	-15.61
Current balance/ capital expenditure (%)	29.71	15.28

Related Research

Institutional Framework for Polish Subnationals (October 2010)

Interpreting the Financial Ratios in International Public Finance Reports (July 2010)

Zaklad Komunikacji Miejskiej w Gdansku Sp. z o.o. (July 2011)

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Key Rating Drivers

Ratings Affirmation: The ratings of the City of Gdansk reflect its sound and improving operating performance, solid strategic and financial management and healthy debt ratios. The ratings also reflect the wealthy and diversified local economy, strong tax base and the upgraded local infrastructure, which supports the development of the local economy. The ratings take account of the expected growth in the city's direct and indirect debt.

Stable Outlook: The Stable Outlook reflects Fitch Ratings' expectations that Gdansk will continue with its solid financial management and will strengthen its operating performance in 2011-2014. An operating margin averaging 12% in the medium term would support the city's debt service with ease.

Improved Operating Performance: Gdansk's operating margin in 2010 rebounded to 10.9% from 5.6% in 2009. Fitch expects Gdansk to maintain a solid operating performance in 2011-2014, despite the continued pressure on opex from rigid items such as personnel costs. Additional pressure on opex may come from the maintenance costs of newly-completed investments (eg. roads, cultural institutions).

Good Financial Management: The city's authorities follow a cautious budgetary policy. Fitch views this positively. Prudent financial management guarantees solid operating performance despite the high pressure on operating expenditure, which stems from central government decisions relating to rises in teachers' salaries and other regulatory changes.

Wealthy Economy: Gdansk's diversified and wealthy economy with a strong tax base produces high tax revenue. Fitch expects tax revenue to grow in 2011-2012, supported by 3.4% annual GDP growth, broadening of the tax base and the city's policy of keeping local tax rates at the maximum.

Growing Debt: Fitch expects Gdansk's debt to grow in the medium term to PLN1,400m, following the city's investment plans. However, Fitch believes that it should not exceed 70% of current revenue (48.2% in 2010) and eight years of debt payback (5.1 years in 2010). The city's debt-servicing obligations, excluding debt refinancing, should not exceed 60% of the projected operating balance in the medium term.

Increasing Contingent Exposure: The debt of the municipal companies will grow in the medium term as they invest an estimated PLN1bn-1.5bn by 2014. The finance comes partly from the EU with the remainder coming from companies' own sources, debt incurred by companies and capital injections from the city. Indirect risk for the city is held in check as the companies will finance more than 60% of investments from tariffs paid by end-users.

What Could Trigger a Rating Action

Operating Margin Above 13%: The rating could be upgraded if the city maintains a satisfactory and stable operating performance in the medium term with the margin not falling lower than 13%, and healthy debt coverage ratios despite the projected increase of debt.

Debt Ratios Deterioration: A downgrade could result from sustained deterioration of operating margin far below Fitch's expectations, leading to weak debt coverage.

Rating History

Date	Long-term foreign currency	Long-term local currency
21 Nov 2007	BBB+	BBB+
20 Dec 2004	BBB	BBB
	Long-Term National Rating	
26 Oct 2011	New rating	AA– (pol)

Principal Rating Factors

Political Context and Administration

The city's president, Pawel Adamowicz, was re-elected for a fourth term in November 2010. He is a member of the Civic Platform (Platforma Obywatelska, PO) and the deputy party chairman in the Pomorskie Region (Pomorskie voivodship). In the 34-member city council, the president's party has comfortable majority of 26 seats. The opposition parties are the Law and Justice (Prawo i Sprawiedliwosc, PiS) with seven seats, and the Democratic Left Alliance (Sojusz Lewicy Demokratycznej, SLD) with one seat.

Strategy and Political Priorities

- Continuation of development strategy and political priorities.

The re-election of the city's president leads Fitch to expect continuity in Gdansk's policies and priorities set out in a document called "City of Gdansk Development Strategy until 2015", which was approved in 2004. The city's authorities aim to increase the attractiveness of the city to its inhabitants, tourists and investors through infrastructure investments in public transport and roads, education, culture and sport. Additionally the city's authorities are dedicated to developing the city's metropolitan functions. Gdansk's initiatives have already brought positive results as the city has gained an image as a good place for conducting business.

Gdansk is one of the four Polish cities that will host the UEFA European Football Championships in 2012. The city has therefore invested heavily in sport facilities, public transport (tram line construction and renewal of the bus and tram fleet), roads and Gdansk international airport.

The city implements some investments via its companies (PSE). Fitch expects further growth of PSE debt in the medium term. The indirect risk for the city should remain moderate, as part of these investments will be developed by self-funding entities, and partially financed from EU funds and in some cases by revenue bonds. Gdansk's authorities are seeking alternative financing for their investments, such as public-private partnerships.

Based on the city's president's and the treasurer's track record of prudent policy management, Fitch expects that good operating and budgetary performance will be preserved. This will be essential for Gdansk to maintain high self-financing capacity to achieve its strategic goals.

Socio-Economic Profile

- Very well diversified and dynamically expanding local economy.

Gdansk, the capital city of the Pomorskie Region in the north of Poland, is the sixth biggest Polish city by population (with about 457,000 inhabitants). Together with neighbouring Gdynia and Sopot it forms a large conurbation (the Trojmiejski sub-region) accounting for more than 742,000 inhabitants and over 109,000 registered companies. In 2008 the sub-region contributed 2.6% to national GDP. Its GDP per capita was 35% higher than the national average, placing it eighth among Poland's 66 sub-regions.

Figure 1
Population

	2009	2010
Total population	456,591	456,967
Natural increase (per 000)	1.2	1.1
Net migration (per 000)	-0.2	-0.2
At retirement age (%)	18.8	19.4
At working age (%)	67.8	67.1
Below 15 yrs (%)	13.4	13.5
Total (%)	**100.0**	**100.0**

Source: Central statistical office, Poland

The city's economy benefits from its location on the Baltic Sea, direct access to main rail and road corridors, and from its-well educated and highly qualified labour force. These make the city attractive to investors both domestic and international. The number of companies registered in Gdansk has grown constantly since 2004, reaching 65,951 at end-2010 (58,222 at end-2004), about 25% of the total in the region. The city's economy is well developed and diversified. The number of companies per 1,000 inhabitants in Gdansk (143) is much higher than in other cities and above the national average (102). About 99% of companies are SMEs, employing fewer than 50 people.

The services sector contributes almost 75% of gross value added (GVA) and employs over 73% of the local workforce. Both figures are above their respective national averages (see Figure 2). The economic slowdown increased the unemployment rate to 5.4% at end-2010, up from 2.6% at end-2008, but it remained much lower than in other Polish cities, and below the national average (12.3%).

Related Criteria

Tax-Supported Rating Criteria (August 2011)

International Local and Regional Governments Rating Criteria — Outside the United States (April 2011)

Figure 2

Gross Value Added (GVA) and Employment (%)

	Gdansk	Trojmiejski sub-region		Poland	
	Employment 2009	GVA 2008	Employment 2009	GVA 2008	Employment 2009
Agriculture, forestry and hunting	0.7	0.1	0.8	3.7	20.0
Industry & construction	25.8	25.4	25.1	31.0	28.6
Services	73.5	74.5	74.1	65.3	51.4
Trade and repair	28.1	30.0	30.4	26.9	18.8
Financial services	5.9	25.6	7.0	19.6	3.9
Other services	39.5	19.0	36.7	18.8	28.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Statistical Office, Poland

The city has become an important IT, logistics and Business Process Outsourcing (BPO) centre. Intel Technologies, General Electric financial services, IBM and Acxiom are among the foreign companies that operate in Gdansk.

The manufacturing sector is also significant, as it is a large employer with almost 39,000 people working in it in 2009. The biggest representatives in this sector are: Lotos (Poland's second largest oil-refinery with PLN18bn annual output in 2010) and Energa (electric power production and distribution, annual output PLN9bn in 2010).

- Growing tax base.
- Well educated labour force.

The city's educational and scientific base, with 14 higher education institutions, 14 research/scientific units, more than 5,000 teachers or academics and over 80,000 students, ensures high-skilled employees for local companies. It also makes Gdansk one of Poland's major educational, scientific and research centres.

Gdansk is a popular tourist destination, due to proximity of the sea coast, as well as the presence of many historic and architectural monuments.

Prospects

The future development of Gdansk's economy should be supported by the growth of national economy. Fitch expects Poland's GDP to grow on average by 3.5% in the medium term. Additional growth in the local economy to build the city's tax revenues should stem from new private investments in Gdansk and its surrounding area, the city's well-educated labour force, improving infrastructure (roads, international airport and public transport) and the 2012 UEFA European Football Championships.

Budgetary Performance and Prospects

Operating Revenue

In 2010 the city's operating revenue, including the one-off VAT payment of PLN48.3m returned from the city's PSE, (see below) rose by 11% and totalled PLN1,767m. Excluding the one-off settlement, operating revenue growth was still high at 8.3%, which was higher than many Polish cities rated by Fitch. This was supported mainly by growing local taxes and to some extent by growing current transfers.

Figure 3

Operating Revenue Structure

(PLNm)	2009	2010	2011e
PIT	484.8	487.8	517.3
CIT	47.0	43.6	56.1
Property tax	237.1	273.5	288.7
Other local taxes	62.3	72.5	79.6
Current transfers	492.9	512.8	544.9
Other	266.9	376.3	322.3
Total	**1,591.0**	**1,766.5**	**1,808.9**

e – Expected by Fitch following information from the city
Source: Fitch own calculations based on city's budgets

The share of income taxes (PIT, CIT) in Gdansk's total operating revenue is high at 30%, which exposes the city's budget to economic cycles. Despite the negative effect of the economic slowdown and the state's decision to cut PIT rates in 2009, in 2010 Gdansk's income tax revenue from PIT and CIT totalled PLN531m. The result was similar to 2009. This puts Gdansk in a better situation than many other Polish sub-nationals, as their revenue from income taxes continued to decline in 2010. For 2011, Fitch expects that revenue from income taxes will outperform estimates in Gdansk's budget by PLN25m and should amount to PLN573m. This view could be justified by the actual results after Q311, when income taxes received by the city were much higher than a year earlier.

Revenue from property tax in 2010 rose by 15% to PLN274m or 15.5% of total operating revenue. Fitch expects that in 2011 this revenue should perform ahead of budget and grow by 6% yoy to PLN289m. This is mainly due to a broadening tax base following private sector investment and the city's decision to keep property tax rates at their maximum. The annual increase is determined by the inflation rate.

In 2010 current transfers received by Gdansk rose by 4% and totalled PLN513m or 25% of total operating revenue. For 2011 the city budgeted a 6% growth in current transfers, but as these usually increase during the year, the result at end-2011 should be higher. Growth of these transfers does not provide the city with additional flexibility, as they include subsidies and targeted grants from the state and the EU budgets. The current transfers are dominated by the educational subsidy, as it represents about 69% of the total.

Other Operating Revenue Items

In 2010, as well as in 2009, Gdansk's operating revenue was inflated by VAT repaid by the city's PSEs. Gdansk had provided its PSEs with contributions in kind in 2008-2010 (real estate). It received one-off compensations of PLN6.3m in 2009 and PLN48.3m in 2010 due to reclamation of VAT by the PSEs. The city recorded these compensations in other operating revenue. In 2011 the city expects compensation of about PLN40m.

Prospects

In 2012-2014 Fitch expects operating revenue to grow by at least 2.5%-3% a year. This will come from the growing economy producing higher levels of income taxes, the developing tax base, improvements in property tax collection, and the city's policy of raising local tax rates and fees to the maximum on an annual basis.

Figure 4

Operating Expenditure by Sector in 2010

	(PLNm)	Structure (%)
Education	612.2	38.9
Transport and roads	278.4	17.7
Social care	199.8	12.7
Administration	119.6	7.6
Housing economy	84.8	5.4
Environment protection	67.8	4.3
Culture	56.9	3.6
Other	154.5	9.8
Total	**1,574.0**	**100.0**

Source: Fitch's own calculation based on Gdansk's budget

Operating Expenditure

In 2010 Gdansk kept the growth of operating expenditure below operating revenue growth. In 2010 Gdansk's opex rose only by 4.9% compared with 10.7% in 2009. The city's authorities in 2010 slightly reduced spending on wages, and kept the growth of spending on goods and services below the inflation rate.

The largest expenditure item in Gdansk is the education sector, as it represents 39% of total opex (see Figure 4). The total opex directed to this sector in 2010 was PLN612m. This was dominated by salaries, as they represent 69% of the total spending on education. The teachers' salaries are based on the Teachers Charter and are negotiated between the unions and the central government and are increased every year. They rose by 7% in September 2010 and another 7% in September 2011. The Teachers Charter obliges local governments to keep teachers' salaries level at or above the level set by the central government. This creates pressure on the city's budget as the educational subsidy does not grow in line with operating spending in the sector or increasing staff costs.

The city's share in financing the educational sector beyond the received subsidy is higher than in many other cities rated by Fitch, but it remained stable in 2008-2011 at about 42% of total sector opex.

Public transport and roads maintenance is another large and costly responsibility for Gdansk. In 2010 opex in this sector grew almost by 10% and reached PLN278m. Gdansk spent about PLN210m of this on public transport services, of which 51% was financed from ticket sales. To limit the city's contribution from its own resources, the local authorities intend to increase public transport ticket prices every time Gdansk's participation exceeds 50% of total public transport operating costs.

Social care in Gdansk accounted for 13% of total opex in 2010. It is another rigid expenditure item in the city's budget. In 2008-2010 the city's opex on social care rose by about 4.6% annually. However, regulatory changes imposed by the central government (eg. increasing standards of social care services or the new requirement to hire family assistants whose responsibility will be to take care of socially dysfunctional families) will challenge Gdansk's finances in the medium term, as opex in this sector is only partly financed from state or the EU budgets' current grants.

To limit the use of the city's own resources in financing the most rigid sectors (ie. education, social care and administration), the local authorities have introduced cost-savings, focusing on employment, centralisation of administration and modernisation of buildings to bring down maintenance costs. Fitch views these actions as positive but does not expect to see the full benefit until 2012 or 2013.

In 2010 Gdansk was obliged to pay PLN40m of VAT calculated on contributions in kind that it made to its company Gdanska Agencja Rozwoju Gospodarczego. This amount will be refunded by the PSE in 2011 and will increase other operating revenue.

- High pressure on operating expenditure persists.
- Improved operating expenditure control.

Prospects

Fitch expects the high pressure on operating spending to continue in the medium term. The agency forecasts extra maintenance spending on the newly constructed infrastructure, including new roads and tram routes, cultural institutions and sports facilities. More pressure on opex might come from new under-funded responsibilities transferred to local governments by the state. The city will bear additional costs relating to the European Football Championships, although this event should be beneficial for the city's long-term development.

Savings in sensitive social areas may be difficult to implement as most of the expenditure pressure comes from regulatory changes made by the central government. However, Gdansk's authorities are able to limit the use of the city's own resources in some sectors (eg. by increasing public transport ticket prices in May 2011 and increasing rents in August 2011). Fitch expects Gdansk to restructure, especially in the most rigid sectors.

Capital Revenue and Expenditure

The city's capex in 2010 rose to PLN560m or 26% of total expenditure up from an average of about PLN390m annually in 2006-2009. About 46% of it was financed from capital revenue (PLN257m) and 30% from the current balance (PLN193m). The remaining PLN110m was financed by debt. Gdansk's capex was spent mainly on roads, sport and cultural facilities.

One of the city's major investments is the construction of more than 10 km of new roads, which will run until 2014. The total estimated cost exceeds PLN1,460m, of which 56% will be co-financed by EU funds. Another key project is connected with the modernisation of municipal communication network. The project began in 2008 and will continue until 2013. The estimated cost is PLN270m, with the EU co-financing at about 37%.

Figure 5
Capital Revenue

(PLNm)	2009	2010	2011e
Sale of assets	50.2	68.3	56.3
Capital grants	64.2	182.8	546.0
Financial invest.	2.9	5.9	9.4
Total	**117.3**	**257.0**	**611.7**

e: Expected by Fitch following information from the city
Source: Fitch's own calculation based on Gdansk's budgets

Fitch expects that pressure on Gdansk's capex will be high in the short term, as most of investment is connected with the UEFA EURO 2012 event. Many of the investment projects have to be finished before end-H112 and for this reason Gdansk budgeted over PLN1.1bn of capex for 2011.

Fitch expects Gdansk's capital expenditure in 2012-2014 to be still high, averaging PLN730m annually because of infrastructure investment. Thanks to EU financing on some of the projects and asset sales, the city's capital revenue should be high, averaging about PLN450m annually.

- Asset sales will be continued in the medium term.

The city's priority is to invest with EU financing and in projects necessary for hosting the 2012 European Football Championships. The city authorities have some flexibility to smooth the annual capex profile, as the financial settlement of an investment usually lags its completion. If Gdansk encounters financial stress, some less important projects could be postponed, giving additional flexibility of about PLN25m a year.

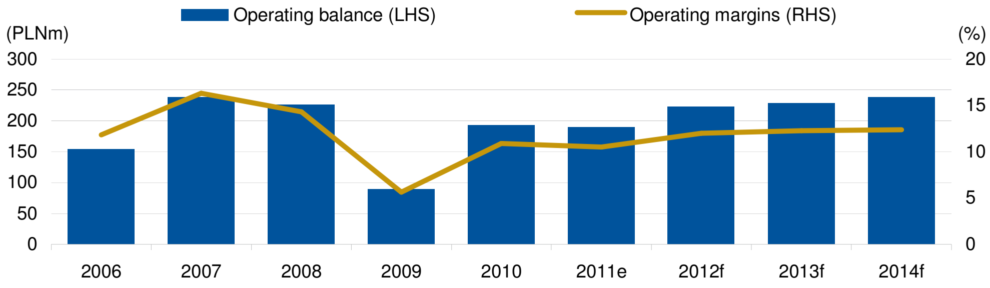
- Operating performance improved in 2010, following a sharp decline in 2009.
- Operating margin is likely to be 10-12% 2011-2012.

Budgetary Performance

In 2010 the city aimed at better cost control and increased its revenue. This helped Gdansk to reverse the negative trend in its operating performance in 2008-2009. Its operating balance rose to PLN192.5m (10.9% of operating revenue) from PLN89.8m (5.6%) in 2009. This result was higher than most of Gdansk's peers.

Figure 6

Budgetary Performance



Source: City's budgets and Fitch expectations and projections

The city's authorities are committed to achieving an outturn that is not lower than budget in 2011 ie. an operating balance of PLN125.5m accounting for about 7.1% of operating revenue. In Fitch's opinion, the actual 2011 results could be closer to 10%, despite the high pressure on operating expenditure. Gdansk is committed to controlling its operating expenditure. Fitch believes that the same financial policy will be maintained by the city in the medium term.

A good operating performance compared with the budget, should be supported by city authorities' cautious policy of underestimating revenue and overestimating expenditure, and the fact that some expenditure items are unlikely to materialize (eg. PLN20m of expenditure to secure short-term guarantees that expire in November 2011, granted by Gdansk to one of its PSEs).

Fitch considers that maintaining good operating performance with an operating balance sufficient for debt service, which is projected at about PLN130m annually in 2012-2014, is important for the city to maintain its current rating.

Debt, Liquidity and Contingent Liabilities

Direct Debt

Gdansk's debt rose in 2010 by 20% and totalled PLN853.6m. Fitch expects that in 2011 the city's debt may increase by 32% to PLN1.150m. Almost all of Gdansk's debt carries floating rates and is denominated in Polish zloty. At end-2010 bonds represented only 18% of debt (PLN151m). The majority of the debt has an amortising structure. Bullet repayment is on one bond maturing in 2012 (see Figure 6).

Debt servicing to current revenue in 2010 was 14%, and total debt to current revenue was 48.2%. Due to the recovery in the operating results, the debt to current balance was only 5.6 years at end-2010, which was below the average debt maturity of about eight years.

In 2010 Gdansk refinanced some high-interest bearing loans drawn in 2009. It has repaid early loans with a total value outstanding of PLN161,6m, and refinanced them partly with new issued bonds (PLN100m). A similar operation was conducted in 2011, where Gdansk refinanced about PLN150m of costly debt. These operations should allow Gdansk to reduce interest payments in 2011 and in the following years, as the bonds carry lower interest rate margins. However, these extraordinary early repayments weakened the city's debt service ratios. Excluding these operations, the debt servicing to operating balance ratio for 2010 would be only 45% instead of 129%.

Figure 7

Direct Debt Structure in 2010

	(PLNm)	Structure (%)
Loans, of which	702.1	82.3
from International Financial Institutions (EBRD, EIB, CEB)	460.7	54.0
Preferential	14.5	1.7
Bonds, w which	151.5	17.7
with bullet repayment	21.5	2.5
Total	**853.6**	**100.0**

Source: Fitch's own calculation based on Gdansk's budget

- Debt will grow.
- Debt servicing ratios in 2010 and 2011 distorted by refinancing operations.

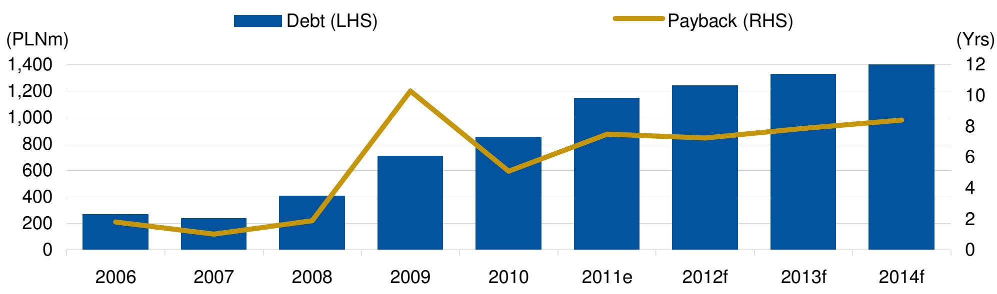
Prospects

Fitch expects in the medium term that Gdansk's debt will grow to PLN1,400m. Due to Gdansk's good self-financing capacity and the usual delay in financial settlements of completed investments, debt should grow at a lower pace than the city estimates in its multi-year financial projection (WPF). Thanks to long-term financing from international financial institutions such as the European Investment Bank, European Bank for Reconstruction and Development or the Council of Europe Development Bank, in 2012-2014 the average maturity of Gdansk's debt outstanding will exceed 10 years.

In the medium term Fitch believes that Gdansk's debt will remain below 70% of current revenue, with a debt to current balance ratio below eight years on average and debt servicing below the projected operating balance (on average below 60%).

Figure 8

Debt and Payback



Source: City's budgets and Fitch estimates and projections

Liquidity

At end-2010 the city's liquid cash was PLN107m. Historically Gdansk has had a sound liquidity position. On average in 2010 and H111 the main account balance was above PLN100m. The city has a stand-by credit line of PLN50m, which was used in Q310.

- There is high pressure on the investments due to EURO2012.
- Indirect risk is growing due to debt-financed investments by municipal companies.

Contingent Liabilities and Guarantees

Several investments undertaken by municipal companies doubled their debt in 2010 (see Figure 9). Fitch expects that the indirect risk pressure on Gdansk's budget will continue, as the city plans capital injections to strengthen its companies' financial positions.

Until 2024 the city's average expenditure on capital injections should not exceed PLN60m annually. They will mostly relate to the companies: Biuro Inwestycji Euro Gdansk 2012 Sp. z o.o. (BIEG2012 – the company that built and owns the city's football stadium), Port Lotniczy Gdansk (airport) and the Wielofunkcyjna Hala Sportowo-Widowiskowa Gdansk-Sopot (sport and event hall).

BIEG2012 has finished the construction of the football stadium. The cost of this project was PLN867m. The stadium was opened in July 2011. Due to an advantageous tenancy agreement (five-year term) the stadium is self-supporting and its maintenance costs will not affect the city's budget.

Gdanska Infrastruktura Wodnociągowo-Kanalizacyjna (GIWK) in 2012 will finalize phase one of the PLN850m water and wastewater network project. The city has made a contribution in kind to the water and sewerage network of PLN675m. About 42% of the project is being financed from the EU's Cohesion Fund. The rest is financed from the company's own sources (including a PLN450m preferential investment loan from the national environmental fund - NFOSiGW). Indirect risk arising from this company should be mitigated, as its activity is financed from tariffs, which reflect all costs of services provided, including the cost of debt service. In Fitch's view this debt should not put pressure on the city's budget.

A project to purchase new trams and buses is being carried out by the municipal company ZKM Gdansk. This will be co-financed from EU sources. ZKM Gdansk's expenditure on the project may total PLN410m (see Full Rating Report on ZKM under *Related Research*).

A PLN670m solid waste management project will be carried out by municipal company Zaklad Utylizacyjny. This will be financed via the EU (85% of qualified cost), loans from NFOSiGW and the company's own sources.

The city is considering implementing some investment projects through alternative financing methods, such as public-private partnerships (PPP). Although no final decision has been made, two parking lot projects totalling about PLN180m are under consideration. Gdansk wishes to limit its participation in the PPP to providing plots of property, but the extent of indirect risk for the city's budget will be known once the private partner(s) will be chosen and the PPP agreements are concluded.

Figure 9

Major Municipal Shareholdings' Key Financial Data (PLNm)

	2010			Net profit/loss	Long-term debt	
Company	City's stake (%)	Equity	Total assets	2010	2009	2010
Gdanska Infrastruktura Wodociagowo-Kanalizacyjna (water and sewerage utility)	100.0	701.5	1.4	7.3	120.2	281.4
Zaklad Komunikacji Miejskiej w Gdansku (public transport)	100.0	69.2	319.8	3.0	0.2	143.1[a]
Gdanskie Towarzystwo Budownictwa Spolecznego (Gdansk Housing Association)	100.0	120.5	240.5	0.5	80.8	87.2
Towarzystwo Budownictwa Spolecznego – Motlawa (Motlawa Housing Association)	100.0	78.7	151.0	0.6	27.7	45.8
Zaklad Utylizacyjny (solid waste treatment)	100.0	10.4	313.7	13.1	8.6	23.7
Gdanska Infrastruktura Spoleczna (municipal housing)	100.0	54.8	110.8	0.1	55.6	55.6
Biuro Inwestycji Euro Gdansk 2012 (implementing investment projects for EURO2012)	100.0	203.0	304.9	3.1	0.0	0.0
Gdanskie Inwestycje Komunalne (municipal investments)	100.0	3.5	4.9	0.2	0.0	0.0
Gdanska Agencja Rozwoju Gospodarczego (agency for economic development)	100.0	216.5	305.6	1.8	0.0	0.0
Gdanskie Melioracje (drainage)	60.0	0.2	6.9	0.1	0.0	0.0
Wielofunkcyjna Hala Sportowo-Widowiskowa Gdansk-Sopot (sport and event Hall)	50.0	14.7	17.8	-0.2	0.0	0.0
Saur Neptun Gdansk SA (water and sewerage utility)	49.0	7.8	83.3	9.5	0.0	0.0
BioBaltica (Biotechnology R&D)	42.9	0.5	0.2	-0.1	0.0	0.0
Port Lotniczy Gdansk (airport)	32.4	100.0	226.2	13.8	0.0	6.4
Miedzynarodowe Targi Gdanskie (international fair)	25.5	2.4	38.0	0.9	3.8	3.2
Total					**296.9**	**646.4**

[a] Includes revenue bonds
Source: City of Gdansk

Appendix A

Figure 10

City of Gdansk

(PLNm)	2006	2007	2008	2009	2010
Taxes	691.4	818.0	895.9	829.4	875.6
Transfers received	376.0	396.7	438.2	492.9	512.8
Fees, fines and other operating revenue	241.2	246.9	248.6	268.7	378.1
Operating revenue	**1,308.6**	**1,461.6**	**1,582.7**	**1,591.0**	**1,766.5**
Operating expenditure	-1,154.2	-1,223.5	-1,356.5	-1,501.2	-1,574.0
Operating balance	**154.4**	**238.1**	**226.2**	**89.8**	**192.5**
Financial revenue	7.3	6.1	6.4	2.6	4.6
Interest paid	-13.0	-11.9	-13.9	-23.1	-30.8
Current balance	**148.7**	**232.3**	**218.7**	**69.3**	**166.3**
Capital revenue	133.3	185.7	107.1	117.3	257.0
Capital expenditure	-251.8	-406.6	-434.4	-453.6	-559.8
Capital balance	**-118.5**	**-220.9**	**-327.3**	**-336.3**	**-302.8**
Surplus (deficit) before debt variation	**30.2**	**11.4**	**-108.6**	**-267.0**	**-136.5**
New borrowing	1.6	51.0	223.9	330.1	360.0
Debt repayment	-76.4	-77.7	-59.3	-24.3	-217.6
Net debt movement	**-74.8**	**-26.7**	**164.6**	**305.8**	**142.4**
Overall results	**-44.6**	**-15.3**	**56.0**	**38.8**	**5.9**
Debt					
Short-term	0.0	0.0	0.0	0.0	0.0
Long-term	271.8	239.6	409.9	712.6	853.6
Direct debt	**271.8**	**239.6**	**409.9**	**712.6**	**853.6**
+ Other Fitch classified debt - pre-financing	25.3	33.2	12.2	0.0	0.0
Direct risk	**297.1**	**272.8**	**422.1**	**712.6**	**853.6**
- Cash, liquid deposits, sinking fund	72.1	64.2	64.2	91.7	107.4
Net direct risk	**225.0**	**208.6**	**357.9**	**620.9**	**746.2**
Guarantees and other contingent liabilities	3.0	2.6	2.1	7.7	1.2
Net indirect debt (public sector entities exc. gteed amount)	101.6	117.9	180.6	296.6	492.6
Net overall risk	**329.6**	**329.1**	**540.6**	**925.2**	**1,240.0**
Memo for direct debt (%)					
Foreign currency	33.3	21.8	9.7	4.6	3.0
Issued debt	0.0	0.0	0.0	0.0	14.2
Fixed interest rate debt	5.6	6.2	3.5	2.0	1.7

Source: Issuer and Fitch calculations

Appendix B

Figure 11

City of Gdansk

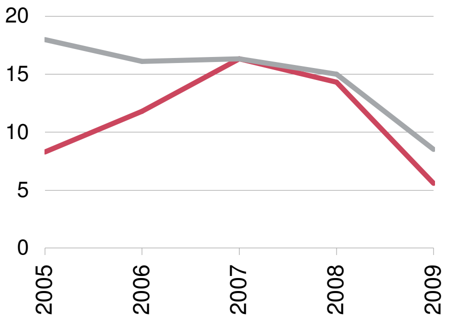
	2006	2007	2008	2009	2010
Fiscal performance ratios (%)					
Operating balance/operating revenue	11.8	16.29	14.29	5.64	10.9
Current balance/current revenue[a]	11.3	15.83	13.76	4.35	9.39
Surplus (deficit) before debt variation/total revenue[b]	2.08	0.69	-6.4	-15.61	-6.73
Overall results/total revenue	-3.08	-0.93	3.3	2.27	0.29
Operating revenue growth (annual change)	n.a.	11.69	8.29	0.52	11.03
Operating expenditure growth (annual change)	n.a.	6	10.87	10.67	4.85
Current balance growth (annual change)	n.a.	56.22	-5.85	-68.31	139.97
Debt ratios					
Direct debt growth (annual % change)	n.a.	-11.85	71.08	73.85	19.79
Interest paid/operating revenue (%)	0.99	0.81	0.88	1.45	1.74
Operating balance/interest paid (x)	11.88	20.01	16.27	3.89	6.25
Direct debt servicing/current revenue (%)	6.79	6.1	4.61	2.97	14.03
Direct debt servicing/operating balance (%)	57.9	37.63	32.36	52.78	129.04
Direct debt/current revenue (%)	20.66	16.32	25.79	44.72	48.2
Direct risk/current revenue (%)	22.58	18.59	26.56	44.72	48.2
Direct debt/current balance (yrs)	1.83	1.03	1.87	10.28	5.13
Net overall risk/current revenue (%)	25.05	22.42	34.02	58.06	70.01
Direct risk/current balance (yrs)	2	1.17	1.93	10.28	5.13
Direct debt/GDP (%)	1.46	1.19	1.99	-	-
Direct debt per capita (local currency)	592	525	899	1,563	1,868
Revenue Ratios					
Operating revenue/budget operating revenue (%)	113.13	108.18	109.46	97.07	108.5
Tax revenue/operating revenue (%)	52.84	55.97	56.61	52.13	49.57
Modifiable tax revenue/total tax revenue (%)	30.66	27.07	27.48	30.4	32.8
Current transfers received/operating revenue (%)	28.73	27.14	27.69	30.98	29.03
Operating revenue/total revenue[b] (%)	90.3	88.4	93.31	92.99	87.1
Total revenue[b] per capita (local currency)	3,157	3,626	3,720	3,752	4,438
Expenditure ratios					
Operating expenditure/budget operating expenditure (%)	101.61	97.37	100.97	100.49	104.53
Staff expenditure/operating expenditure (%)	42.6	42.41	40.91	42.01	40.06
Current transfer made/operating expenditure (%)	7.66	8.63	10.14	11.77	11.66
Capital expenditure/budget capital expenditure (%)	87.28	107.88	100.79	73.91	204.53
Capital expenditure/total expenditure (%)	16.84	23.64	23.3	22.66	23.5
Capital expenditure/local GDP (%)	1.35	2.02	2.11	-	-
Total expenditure per capita (local currency)	3,258	3,771	4,088	4,391	5,213
Capital expenditure financing (%)					
Current balance/capital expenditure	59.05	57.13	50.35	15.28	29.71
Capital revenue/capital expenditure	52.94	45.67	24.65	25.86	45.91
Net debt movement/capital expenditure	-29.71	-6.57	37.89	67.42	25.44

n.a.: not available
[a] Includes financial revenue
[b] Excluding new borrowing
Source: Issuer and Fitch calculations

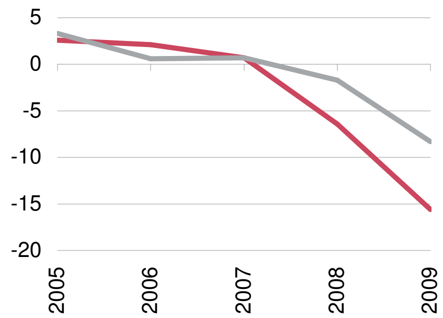
Appendix C – City of Gdansk

Peer Comparison

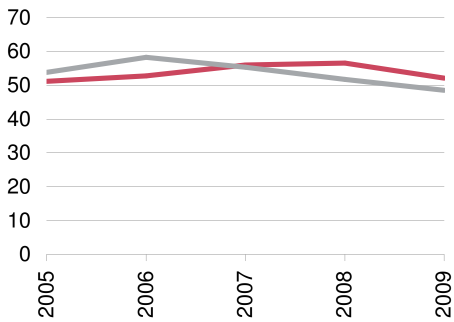
Operating Balance
% Operating Revenue



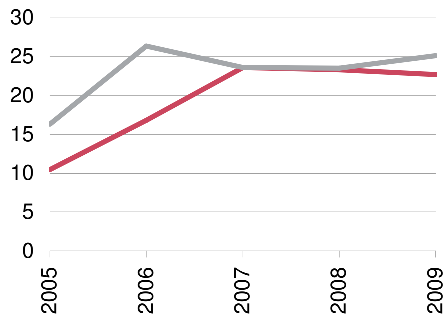
Surplus (Deficit)
% Total Revenue



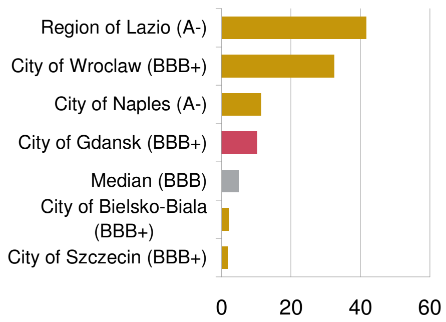
Taxes
% Operating Revenue



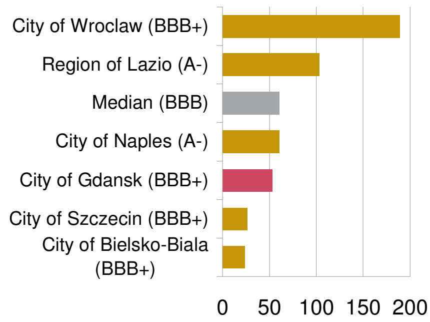
Capital Expenditure
% Total Expenditure



Debt
To Current balance (Years) 2009



Debt Servicing
To Operating Balance (%) 2009



City of Gdansk — BBB+ Peer Group Median

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.