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

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

Financial Data

City of Gdansk

	31 Dec 11	31 Dec 10
Operating revenue (PLNm)	1,846.5	1,766.5
Debt (PLNm)	1,127.2	853.6
Operating balance/ operating revenue (%)	13.33	10.90
Debt service/current revenue (%)	15.91	14.03
Debt/current balance (yrs)	5.35	5.13
Operating balance/ interest paid (x)	5.83	6.25
Capital expenditure/total expenditure (%)	32.21	23.50
Surplus (deficit) before debt variation/total revenue (excluding new debt; %)	-22.20	-6.73
Current balance/capital expenditure (%)	23.40	29.71

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 2012)

Analysts

Maurycy Michalski
+48 22 330 67 01
maurycy.michalski@fitchratings.com

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

Key Rating Drivers

Sound Performance, Strong Economy: The ratings of the City of Gdansk reflect its satisfactory operating performance, healthy debt coverage, long maturity of debt and wealthy local economy with a strong and expanding tax base. The ratings also factor in competent financial management and high EU grants to finance investments. The ratings also take account of the expected modest direct debt growth and persisting pressure on opex stemming from the challenging legal framework.

The Stable Outlook reflects Fitch Ratings' expectations that the solid operating performance and healthy debt-service ratios will be maintained despite growth in debt and the weakening economic environment.

Satisfactory Operating Margin: Fitch expects Gdansk to post an operating balance of about 10% of operating revenue in 2012-2014. This will come from increasing revenue from income and property taxes supported by the growth, albeit at a slower pace, of the national economy and the expansion of city's tax base. It will also derive from the city authorities' cautious financial policy, coupled with ongoing cost control.

High Operating Balance: Gdansk's operating balance in 2011 accounted for 13.3% of operating revenue (PLN246m) and 2x exceeded debt service (excluding early debt repayments). This result was inflated by a one-off revenue item connected with a capex-related VAT refund of PLN44m. However, after excluding this item, the operating margin was still high at 11.2%, which was in line with Fitch's expectations.

Moderate Debt Growth: Fitch forecasts that Gdansk's debt will continue to grow, but more slowly (by 10% in 2012 and about 3% a year in 2013-2014), as most capex will be financed from EU grants. By end-2014 the agency expects the city's direct debt (excluding bridge financing loans to be repaid from EU grants) to reach about PLN1,300m, accounting for 65%-70% of current revenue (end-2011: PLN1.127m).

Healthy Debt Ratios: Fitch expects the city's debt-service and debt-coverage ratios to remain healthy in 2012-2014, with debt servicing on average around 70% of the forecast operating balance and the debt to current balance ratio about 10 years (below the debt maturity of 15 years estimated by Fitch). The high 67% proportion of low cost and long-term financing from international financial institutions allows Gdansk to limit its annual debt service burden.

Challenging Institutional Framework: Like other Polish subnationals, Gdansk's opex has historically faced growth pressure. This is driven mainly by underfunded responsibilities transferred to local governments by the state, the structural inflexibility of opex dominated by education and social care, and growing maintenance costs due to completed investments.

What Could Trigger a Rating Action

Debt Ratio Deterioration: A downgrade could result from a sustained deterioration in operating performance far below Fitch's expectations and/or a significant rise in debt resulting in weak debt coverage exceeding 15 years.

Sound Performance, Stable Debt: The ratings could be upgraded if the city maintains sound operating performance for three consecutive years, with the margin well above Fitch's expectations, accompanied by direct risk stabilisation below 60% of current revenue.

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
21 Nov 07	BBB+	BBB+
20 Dec 04	BBB	BBB
	Long-Term National Rating	
26 Oct 11	New rating	AA– (pol)

Political Context and Administration

The city's president, Paweł Adamowicz, was elected for a fourth term in November 2010. He is a member of Platforma Obywatelska (PO; Civic Platform – the ruling party at the national level). In the 34-member city council PO has 27 seats, giving the president a comfortable majority.

The main priority for Gdansk's authorities is to strengthen the city's metropolitan functions: improving the local infrastructure through modernisation and construction of city roads, wastewater and solid waste management; creating a favourable environment for new business development and innovation focusing on R&D and IT. Due to this policy the city has become an important IT, logistics, business process outsourcing and shared services centre in Poland.

In 2011-2012 Gdansk's authorities used their fiscal leeway. The current local tax rates are set at the maximum level allowed by law for 2012. The city's authorities have also increased rents for municipal real estate. The authorities raise public transport ticket prices each time the city's contribution to this service exceeds 50% of total operating costs. There were increases in 2011 and 2012.

From H213 Gdansk, like other subnationals in Poland, will have to consolidate financing of the solid waste management system within its budget. It will receive fees for solid waste collection and disposal from its inhabitants. This change should therefore be neutral to the budget in the long term. The calculation formula for this fee is still under discussion.

Regular monitoring of finances and cost control by the local authorities has resulted in improving operating performance in 2011. Fitch expects this approach to continue.

Socio-Economic Profile

Local economy well diversified and attractive to investors

Gdansk is the capital of Pomorskie Region, located in northern Poland. With Gdynia and Sopot the city forms a conurbation with more than 743,000 inhabitants (source: Central Statistical Office in Poland). This conurbation's gross regional product per capita was above PLN49,700 in 2009 (eighth highest among 66 sub-regions), and exceeded the national average by 41%.

Gdansk is the largest and wealthiest city in the region and an economic, scientific and cultural centre. The city is home to over 14 higher education institutes and universities, with more than 80,000 students in total in 2011. The local economy is attractive to investors, especially from the services sector. This is thanks to the city's geographical location, well-educated workforce and well-developed transport infrastructure, including the future A1 motorway, the largest marine port in Poland and an international airport.

A number of companies are either moving their offices to Gdansk or establishing new ones (eg, Bayer AG and Metsa Group). Several new private investments in the real-estate market, including office and residential buildings, and shopping centres, will be completed in 2013-2015.

The city's local economy is well diversified. The number of companies operating in the city increased to more than 65,300 at end-2011 from about 58,222 at end-2004, about 25% of all companies registered in Pomorskie Region. The growth in the number of companies was supported by the city's well-educated workforce in the city and its favourable location. About 158 registered companies had more than 250 employees each and over 1,500 had foreign capital participation. About 67% of the total were individuals involved in business.

Gdansk's services sector is well developed. In 2009 it produced about 74% of the city's gross value added (GVA), exceeding the national average of 64%. It employed 71% of the local workforce (Poland average: 51%). However, Gdansk's industry remains an important contributor to GVA, as more than 29% of it is generated by industry and construction, which

Related Criteria

Tax-Supported Rating Criteria (August 2012)

International Local and Regional Governments Rating Criteria — Outside the United States (August 2012) employ 25% of the local workforce. The city's main industrial sectors are petrochemicals, energy production and shipbuilding[1].

The economic slowdown has weakened the financial performance of companies in Gdansk and increased unemployment in the city. However, unemployment (5.8% at end-July 2012) is still one of the lowest among large Polish cities and far below the national average (12.3%).

Gdansk's population has been modestly increasing since 2009 following the national trend, mainly driven by the positive natural balance, which surpassed negative net migration. Fitch expects this positive trend to continue in the medium term. People of working age account for about 64% of the population, and those of retirement age 19%. The national averages are 64% and 17%, respectively.

Prospects

Fitch projects Poland's real GDP to grow by 2.2% in 2012, by 1.8% in 2013 and by 2.8% in 2014. This is a slower pace than in 2010 (3.9%) and 2011 (4.3%). However, growth of the national economy, although slower, should continue to support the development of Gdansk's economy. In addition, the city's local economy will benefit from the improving local infrastructure, which stimulates business activity within the city.

Budgetary Performance and Prospects

Operating Revenue

Tax revenue to continue growing, supported by the strong local economy

Fitch expects Gdansk's operating revenue to grow by 3% in 2012, and by 6% in 2013-2014. This will come from the growing economy, the developing tax base and the city's policy of increasing local tax rates, from growing transfers from the central government, and the collection of the solid waste fee from H213.

In 2011 Gdansk's operating revenue rose by 4.5% and totalled PLN1,846.5m. It was mainly driven by income and property tax revenue. This result was supported by a one-off capex-related VAT refund totalling PLN44m, which the city reported in "Other operating revenue". Such VAT reclamations may recur, as Gdansk is making large infrastructure investments.

Income Taxes

In light of the economy's growth slowdown Fitch projects Gdansk's income tax revenue from personal and corporate income taxes (PIT and CIT) to grow about 4% in 2012 and by about 6% a year in 2013-2014, which is lower than reported in 2011 (9%). Income taxes will remain the largest source of operating revenue, accounting for 33%. This exposes Gdansk's budget to economic cycles, as in 2009 and 2010.

Current Transfers

Current transfers will remain the city's second-largest source of operating revenue (30%, PLN545m in 2011). The largest of these is the educational subsidy from the central government (67%, PLN368m in 2011). Fitch expects transfers from the central government to increase, mainly through growth of the educational subsidy.

Current transfers, although increasing annually, do not provide the city with much flexibility. About 27% of them are targeted grants to finance state-delegated responsibilities such as family allowances and social assistance benefits, or co-finance some of the city's own responsibilities, mainly in social care.

Figure 1

Operating Revenue Structure

(PLNm)	2010	2011	2012[a]
PIT	487.8	517.8	563.3
CIT	43.6	61.4	69.0
Property tax	273.5	303.5	307.8
Other local taxes and fees	72.6	62.2	83.3
Current transfers	512.8	545.0	562.1
Other revenue	376.2	356.6	325.8
Total	**1,766.5**	**1,846.5**	**1,911.3**

[a] Budget as amended in August 2012
Source: Fitch own calculations based on City of Gdansk budgets

[1] Largest representatives: Grupa Lotos S.A. (Poland's second largest oil-refinery with PLN29bn annual output in 2011 and over 5,000 employed), Energa S.A. (electric power production and distribution, annual output PLN10bn in 2011 and over 11,000 employed), and Gdansk Repair Shipyard S.A. (annual output PLN1.5bn in 2011 and over 3,600 employed).

Property Tax

Fitch expects revenue from property tax to rise steadily in 2012-2014 by 3%-4% a year, following the expansion of the tax base and from increased annually property tax rates. Despite the city's policy of exploiting the right to raise property tax rates to the maximum limits, Gdansk offers some tax relief on local levies to investors that create new jobs — especially new investors in the special economic zone. For 2012 Fitch estimates this at PLN6m (2% of revenue from property tax collected).

Potential continued pressure on opex growth continue

Spending rationalisation to be continued

Operating Expenditure

Gdansk, like many other Polish subnationals, faces strong pressure on operating spending. Fitch expects the city's operating expenditure to grow by 6% in 2012, reaching PLN1,699m (2011: PLN1,600m). This means that the growth of opex may be faster than that of operating revenue. However, opex growth in 2012 was partly driven by the city's role in hosting UEFA Football Championship games in June. In 2013 and 2014 additional spending will relate to the solid waste management system. The local authorities estimate spending on this responsibility at PLN120m a year. However, in Fitch's opinion this opex should be financed from solid waste fees paid by inhabitants and collected by the city's budget.

Figure 2

Operating Expenditure by Sector in 2011

	(PLNm)	Structure (%)
Education	620.8	38.8
Transport	306.4	19.1
Social care	217.2	13.6
Public administration	120.4	7.5
Environment protection	70.5	4.4
Culture	64.1	4.0
Public safety	38.0	2.4
Other	162.9	10.2
Total	**1,600.4**	**100.0**

Source: Fitch own calculations based on City of Gdansk budget

Fitch believes the city's policy of opex control should result in satisfactory operating performance. To limit spending growth in the most rigid sectors, the local authorities have been implementing cost-saving measures, with a focus on employment, optimising the school network, wholesale public procurement of utilities and modernisation of public buildings. In addition, Gdansk also has room to curtail some discretionary expenditure, such as one-off operating spending on promotion of the city's image or limiting the scope of repairs.

Education, as in other Polish cities, will remain Gdansk's largest expenditure item in the medium term, with a share in total opex of 40%-42%. The educational subsidy and other operating revenue generated in this sector do not cover all the sector's operating costs, which puts pressure on the city's budget as the rest has to be financed from its own sources.

Pressure on the city's budget mainly comes from the annual above-inflation increases of teachers' salaries, which are negotiated between the unions and the state government (7% from September 2011, and 3.8% from September 2012). However, due to employment and school network rationalisation, the city was able to offset this growth pressure on spending as opex in this sector in 2011 increased to PLN621m from PLN612.2m in 2010.

Public transport and roads maintenance will continue to be the city's second-largest responsibility, accounting for about 20% of total opex. Most of it (80%) will be devoted to financing public transport services contracted with ZKM Gdansk sp. z o.o. (ZKM) under a long-term contract (see Fitch's Full Rating Report on ZKM Gdansk sp. z o.o. under *Related Research*). Fitch expects opex in this sector to continue to grow, as the compensation fees paid to ZKM will rise as the city contracts more services, the company makes large investments, and ZKM's revenue bond programmes continue to have high financing costs. In 2011 opex in this sector grew by almost 10% and reached PLN306m. Gdansk spent about PLN252m of this on public transport services, of which 49% was financed from ticket sales.

Key investments in implementation stage

Capital Revenue and Expenditure

Fitch expects Gdansk's capital expenditure to peak in 2012 at PLN1,100m (ie, 38% of total expenditure), and fall to PLN650m in 2014. This drop in capex will result from near-completion of large infrastructure investments.

Thanks to EU financing on some of the projects and projected revenue from asset sales, the city's capital revenue should also be high, averaging about PLN650m annually in 2012-2014.

The city's main investment areas include local road infrastructure (estimated spending in 2012-2014 of PLN1,580m, with 68% funding from the EU budget, to be accomplished by 2014), and the European Solidarity Centre (PLN157m, 53%, in 2014).

According to Fitch's projections, in 2012-2014 most financing will be from capital revenue and current balance (above 90%) and new debt (7%-10%), causing debt growth pressure to be moderate. In addition, if Gdansk encounters financial stress it has some flexibility to postpone some smaller investments projects, especially those for which it does not receive EU grants.

Budgetary Performance

Good operating performance, despite pressure on opex

Fitch expects the city to post an operating margin of about 10% of operating revenue in 2012-2014 (about PLN200m of projected operating balance on average), securing healthy debt coverage despite the projected growth in debt. This will come from increasing revenue from income and property taxes, supported by national economic growth, the expansion of city's tax base, the city authorities' cautious financial policy, and cost control.

In 2011 Gdansk's operating balance accounted for 13.3% of operating revenue (about PLN246m in nominal terms). This was 2x debt service. Excluding one-off revenue connected with a paid VAT refund, the operating margin was still high at 11.2%, which was in line with Fitch's expectations.

Figure 4

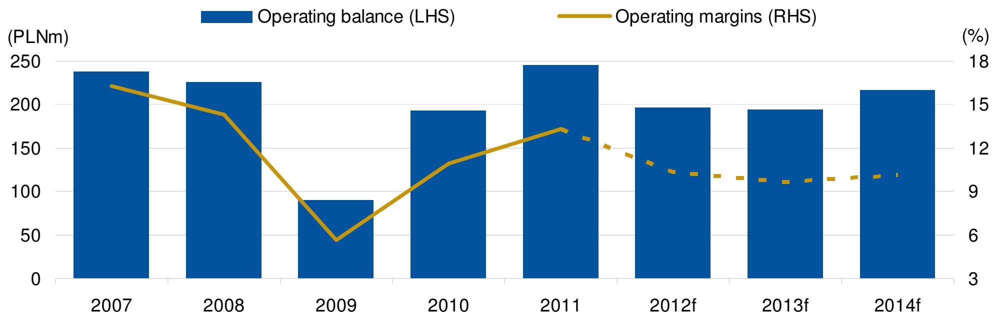
Direct Debt Structure

	(PLNm)	(%)
End- 2011		
International financial inst. (EIB, EBRD, CEB)	758.6	67.3
Bonds	295.2	26.2
Bank loans	73.4	6.5
Total	**1,127.2**	**100.0**
End-H112		
International financial inst. (EIB, EBRD, CEB)	840.8	70.2
Bonds	295.2	24.7
Bank loans	61.1	5.1
Total	**1,197.1**	**100.0**

EIB – European Investment Bank; EBRD – European Bank for Reconstruction and Development; CEB – Council of Europe Development Bank
Source: Fitch own calculations based on Gdansk's budget

Figure 3

Budgetary Performance



Source: City's budgets and Fitch forecasts (f)

Debt, Liquidity and Contingent Liabilities

Debt

Fitch forecasts that Gdansk's debt will continue to grow, but more slowly (by 10% in 2012 and about 3% a year in 2013-2014). By end-2014 the agency expects debt to reach about PLN1,300m, 65%-70% of current revenue. Fitch expects the debt-service and debt-coverage ratios to remain healthy in 2012-2014, with debt servicing on average around 70% of the forecast operating balance and the debt to current balance ratio about 10 years (below average debt maturity, estimated by Fitch at 15 years).

City's debt likely to stabilise at 70% of current revenue

Positive effect on debt structure from long-term international financial institution financing

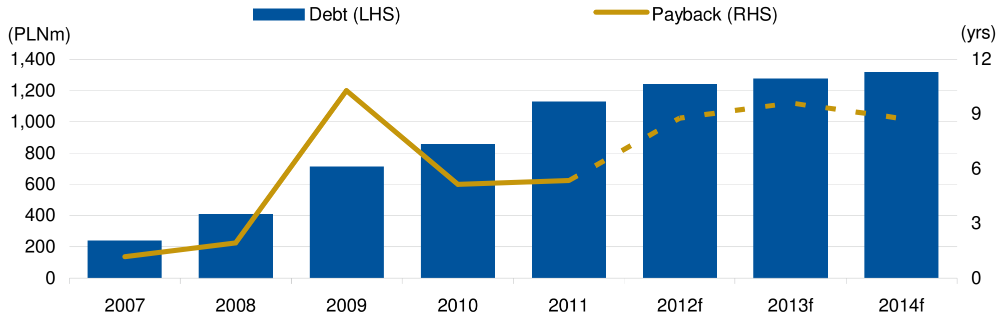
Gdansk's direct debt has been growing since 2007, as the city has been implementing large infrastructure investments co-financed from EU funds. In 2011 the city's debt increased by 32% and totalled PLN1,127m at year-end, accounting for a moderate 61% of current revenue. Direct debt to current balance was at about 5.3 years, well below the average maturity of Gdansk's debt of 15 years. The operating balance was 2x debt servicing (excluding early repayments).

Gdansk's debt structure does not create high pressure on the city's budget, as 67% of it was drawn from the international financial institutions, has low interest rates and very long maturities (15-25 years). This is very positive for the budget as it limits the city's annual debt-service burden.

At end-2011 most of the city's direct debt (90%) had floating rates, which exposes it to interest rate risk. However, this is mitigated by Gdansk's prudent budgetary approach, under which the city usually budgets higher amounts for interest payments on debt than the actual amounts paid. The city also had PLN210m of bridge financing loans at end-2011, which are classified as "Other Fitch classified debt" in Appendix A. These loans are to be repaid from EU grants received by the city.

Figure 5

Debt and Payback



Source: City's budgets and Fitch forecasts (f)

Early Refinancing of Costly Debt

In 2010 and 2011 Gdansk refinanced some high-interest-bearing loans drawn in previous years. It repaid loans of PLN161m and PLN150.2 before maturity. Fitch views this as a positive rating factor, as these operations allowed the city to reduce the cost of debt, and to extend the debt maturity profile, reducing loan repayment pressure. However, these early repayments negatively affected the city's debt-service ratios. Excluding these operations, the debt servicing to operating balance ratio for 2010 and 2011 would be only 45.4% and 58.8%, respectively, instead of 130% and 120%.

Good liquidity

Liquidity

Historically Gdansk has had good liquidity. At end-2011 cash in the city's accounts totalled PLN142m. The main account balance at month-end averaged well above PLN80m in 2011 and H112. The city has a stand-by credit line of PLN50m, which it used occasionally in H112.

Increasing indirect risk, but still under control

Contingent Liabilities and Guarantees

Municipal Companies

The city's company sector is quite broad compared with those of other Polish cities rated by Fitch. Gdansk is a shareholder in 26 companies, but it holds majority stakes only in 12. Due to EU- and debt-financed investments implemented by some of these, in 2011 the companies' debt rose to PLN661m from about PLN504m in 2010. Most of this was incurred by self-supporting companies that repay their debt from tariffs collected from end-users (for example, water and sewerage and solid waste treatment utilities) or from rents paid by tenants (housing companies). Fitch expects the companies' debt to grow modestly until 2014, to about PLN800m.

Gdansk plans capital injections to strengthen some of its companies' financial positions, which may put some pressure on its budget. According to the city's multi-year financial plan until 2014 its average expenditure on capital injections should not exceed PLN60m annually (about 7% of annual capex). These capital injections will mostly relate to: Biuro Inwestycji Euro Gdansk 2012 sp. z o.o. (which built and owns the city's football stadium), Port Lotniczy Gdansk sp. z o.o. (airport) and the Hala Gdansk-Sopot sp. z o.o. (sport and event hall).

The city is also considering implementing some investment projects through alternative financing methods, such as public-private partnerships (PPP). Although no final decision has been made, three underground parking lots and eight cemetery columbaries have been proposed. 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 not be known until the private partner(s) are chosen and the PPP agreements concluded.

Figure 6

Selected Municipal Shareholdings' Key Financial Data

(PLNm)	2011			Net profit/loss	Long-term debt	
Company	**City's stake (%)**	**Equity**	**Total assets**	**2011**	**2010**	**2011**
Gdanska Infrastruktura Wodociagowo-Kanalizacyjna sp. z o.o. (water and sewerage utility)	100.0	701.5	1,418.1	13.3	281.4	276.4
Zaklad Komunikacji Miejskiej w Gdansku sp. z o.o. (public transport)	100.0	69.2	497.9	3.4	0.1[a]	0.1[a]
Gdanskie Towarzystwo Budownictwa Spolecznego sp. z o.o. (Gdansk Housing Association)	100.0	120.5	256.1	0.7	87.2	92.4
Towarzystwo Budownictwa Spolecznego – Motlawa sp. z o.o. (Motlawa Housing Association)	100.0	81.2	157.9	0.9	45.8	44.3
Zaklad Utylizacyjny sp. z o.o. (solid waste treatment)	100.0	10.8	362.5	9.8	23.7	90.4
Gdanska Infrastruktura Spoleczna sp. z o.o. (municipal housing)	100.0	56.8	111.9	0.0	55.6	52.4
Biuro Inwestycji Euro Gdansk 2012 sp. z o.o. (implementing investment projects for EURO2012)	100.0	206.5	584.7	-3.9	0.0	0.0
Gdanskie Inwestycje Komunalne sp. z o.o. (municipal investments)	100.0	3.5	5.3	0.0	0.0	0.0
Gdanska Agencja Rozwoju Gospodarczego sp. z o.o. (agency for economic development)	100.0	232.8	245.5	6.3	0.0	0.0
Gdanskie Melioracje sp. z o.o. (drainage)	100.0	0.2	6.2	0.5	0.0	0.0
Miedzynarodowe Targi Gdanskie SA (international fair)	86.5	13.5	51.9	1.2	3.2	2.7
Hala Gdansk-Sopot sp. z o.o. (sport and event hall)	50.0	14.7	13.6	-1.8	0.0	0.0
Saur Neptun Gdansk SA (water and sewerage utility)	49.0	7.8	90.9	10.8	0.0	0.0
BioBaltica sp. z o.o. (biotechnology R&D)	42.9	0.5	0.4	0.1	0.0	0.0
Port Lotniczy Gdansk sp. z o.o. (airport)	32.4	100.0	483.7	18.5	6.4	102.4
Total					**503.4**	**661.1**

[a] Revenue bonds excluded
Source: City of Gdansk

Appendix A

Figure 7

City of Gdansk

(PLNm)	2007	2008	2009	2010	2011
Taxes	818.0	895.9	829.4	875.6	943.1
Transfers received	396.7	438.2	492.9	512.8	545.0
Fees, fines and other operating revenue	246.9	248.6	268.7	378.1	358.4
Operating revenue	**1,461.6**	**1,582.7**	**1,591.0**	**1,766.5**	**1,846.5**
Operating expenditure	-1,223.5	-1,356.5	-1,501.2	-1,574.0	-1,600.4
Operating balance	**238.1**	**226.2**	**89.8**	**192.5**	**246.1**
Financial revenue	6.1	6.4	2.6	4.6	6.9
Interest paid	-11.9	-13.9	-23.1	-30.8	-42.2
Current balance	**232.3**	**218.7**	**69.3**	**166.3**	**210.8**
Capital revenue	185.7	107.1	117.3	257.0	227.9
Capital expenditure	-406.6	-434.4	-453.6	-559.8	-900.7
Capital balance	-220.9	-327.3	-336.3	-302.8	-672.8
Surplus (deficit) before debt variation	**11.4**	**-108.6**	**-267.0**	**-136.5**	**-462.0**
New borrowing	51.0	223.9	330.1	360.0	526.3
Debt repayment	-77.7	-59.3	-24.3	-217.6	-252.7
Net debt movement	**-26.7**	**164.6**	**305.8**	**142.4**	**276.6**
Overall results	**-15.3**	**56.0**	**38.8**	**5.9**	**-188.4**
Debt					
Short-term	0.0	0.0	0.0	0.0	0.0
Long-term	239.6	409.9	712.6	853.6	1,127.2
Direct debt	**239.6**	**409.9**	**712.6**	**853.6**	**1,127.2**
+ Other fitch classified debt - pre-financing	33.2	12.2	0.0	0.0	210.0
Direct risk	**272.8**	**422.1**	**712.6**	**853.6**	**1,337.2**
- Cash, liquid deposits, sinking fund	64.2	64.2	91.7	107.4	142.1
Net direct risk	**208.6**	**357.9**	**620.9**	**746.2**	**1,195.1**
Guarantees and other contingent liabilities	2.6	2.1	7.7	1.2	1.2
Net indirect debt (public sector entities exc. gteed amount)	117.9	180.6	296.6	502.2	659.9
Net overall risk	**329.1**	**540.6**	**925.2**	**1,249.6**	**1,856.2**
Memo for direct debt					
In foreign currency	21.8	9.7	4.6	3.0	1.9
issued debt	0.0	0.0	0.0	14.2	26.2
fixed interest rate debt	6.2	3.5	2.0	1.7	9.8

Source: Issuer and Fitch calculations

Appendix B

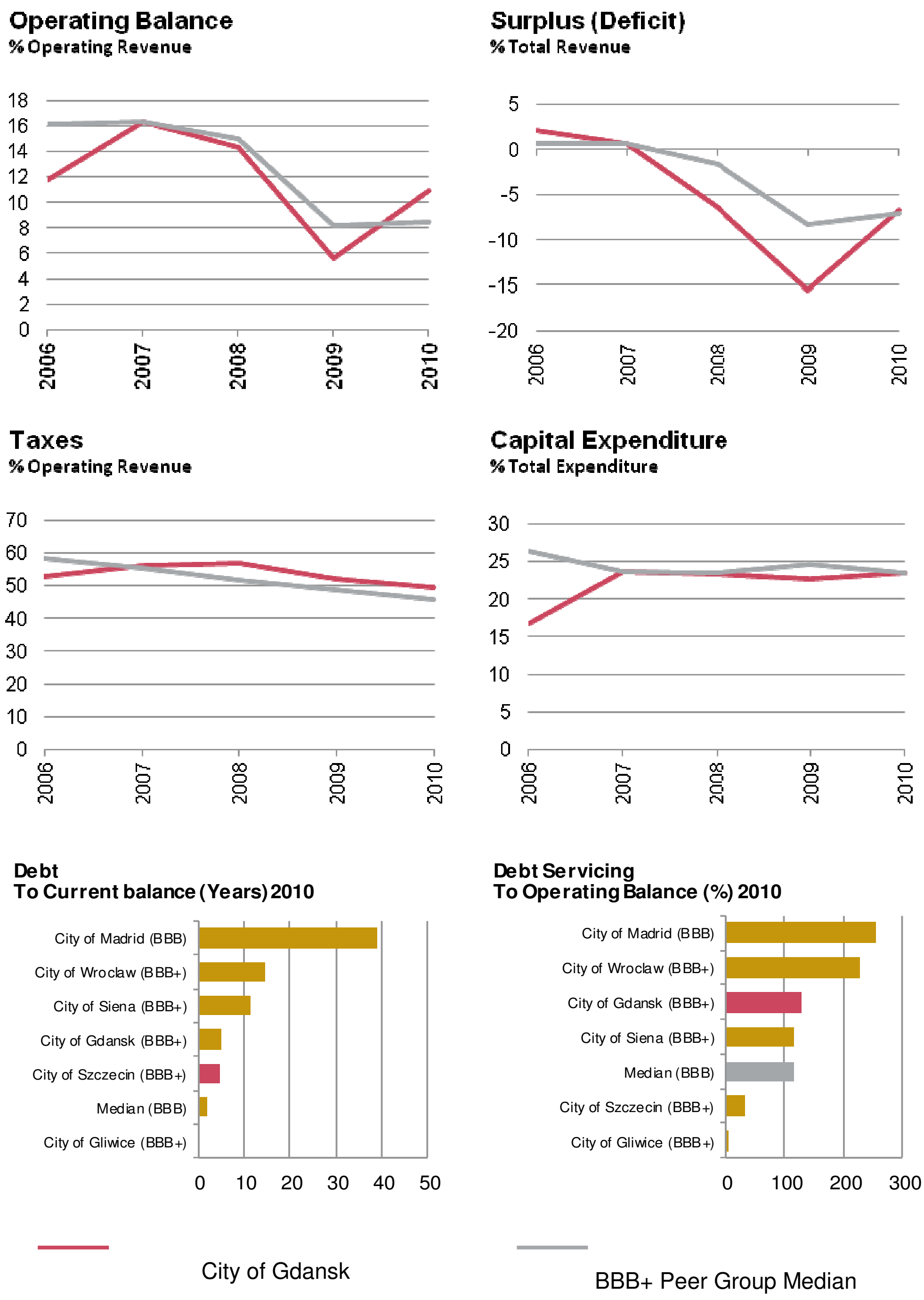
Figure 8
City of Gdansk

	2007	2008	2009	2010	2011
Fiscal performance ratios (%)					
Operating balance/operating revenue	16.29	14.29	5.64	10.90	13.33
Current balance/current revenue[a]	15.83	13.76	4.35	9.39	11.37
Surplus (deficit) before debt variation/total revenue[b]	0.69	-6.40	-15.61	-6.73	-22.20
Overall results/total revenue	-0.93	3.30	2.27	0.29	-9.10
Operating revenue growth (annual change)	n.a.	8.29	0.52	11.03	4.53
Operating expenditure growth (annual change)	n.a.	10.87	10.67	4.85	1.68
Current balance growth (annual change)	n.a.	-5.85	-68.31	139.97	26.76
Debt ratios					
Direct debt growth (annual % change)	n.a.	71.08	73.85	19.79	32.05
Interest paid/operating revenue (%)	0.81	0.88	1.45	1.74	2.29
Operating balance/interest paid (x)	20.01	16.27	3.89	6.25	5.83
Direct debt servicing/current revenue (%)	6.10	4.61	2.97	14.03	15.91
Direct debt servicing/operating balance (%)	37.63	32.36	52.78	129.04	119.83
Direct debt/current revenue (%)	16.32	25.79	44.72	48.20	60.82
Direct risk/current revenue (%)	18.59	26.56	44.72	48.20	72.15
Direct debt/current balance (yrs)	1.03	1.87	10.28	5.13	5.35
Net overall risk/current revenue (%)	22.42	34.02	58.06	70.01	100.20
Direct risk/current balance (yrs)	1.17	1.93	10.28	5.13	6.34
Direct debt/GDP (%)	1.19	1.98	3.44	-	-
Direct debt per capita (local currency)	525	899	1,563	1,868	2,461
Revenue ratios					
Operating revenue/budget operating revenue (%)	108.18	109.46	97.07	108.50	106.33
Tax revenue/operating revenue (%)	55.97	56.61	52.13	49.57	51.08
Modifiable tax revenue/total tax revenue (%)	27.07	27.48	30.40	32.80	33.62
Current transfers received/operating revenue (%)	27.14	27.69	30.98	29.03	29.52
Operating revenue/total revenue[b] (%)	88.40	93.31	92.99	87.10	88.72
Total revenue[b] per capita (local currency)	3,626	3,720	3,752	4,438	4,544
Expenditure ratios					
Operating expenditure/budget operating expenditure (%)	97.37	100.97	100.49	104.53	100.04
Staff expenditure/operating expenditure (%)	42.41	40.91	42.01	40.06	41.88
Current transfer made/operating expenditure (%)	8.63	10.14	11.77	11.66	12.40
Capital expenditure/budget capital expenditure (%)	107.88	100.79	73.91	204.53	247.11
Capital expenditure/total expenditure (%)	23.64	23.30	22.66	23.50	32.21
Capital expenditure/local GDP (%)	2.01	2.10	2.19	-	-
Total expenditure per capita (local currency)	3,771	4,088	4,391	5,213	6,105
Capital expenditure financing (%)					
Current balance/capital expenditure	57.13	50.35	15.28	29.71	23.40
Capital revenue/capital expenditure	45.67	24.65	25.86	45.91	25.30
Net debt movement/capital expenditure	-6.57	37.89	67.42	25.44	30.40

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

Appendix C
City of Gdansk

Peer Comparison



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