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 12	31 Dec 11
Operating revenue (PLNm)	1,927.8	1,846.5
Debt (PLNm)	1,227.4	1,127.2
Operating balance/ operating revenue (%)	10.81	13.33
Debt service/current revenue (%)	6.48	15.91
Debt/current balance (yrs)	8.6	5.3
Operating balance/ interest paid (x)	2.90	5.80
Capital expenditure/ total expenditure (%)	39.01	32.21
Surplus (deficit) before debt variation/total rev. (exc. new debt) (%)	-1.25	-22.20
Current balance/capital expenditure (%)	12.1	23.4

Related Research

Institutional Framework for Polish Subnationals (October 2010)

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

Polish Subnationals' Debt Regulations (July 2013)

Zaklad Komunikacji Miejskiej w Gdansku Sp. z o.o. (July 2013)

Analysts

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

Dorota Dziedzic
+48 22 338 62 96
dorota.dziedzic@fitchratings.com

Key Rating Drivers

Sound Performance Maintained: Fitch Ratings affirmed the City of Gdansk's ratings in October 2013. This reflects city's strong operating performance, its prudent financial management and effective monitoring of its budget, which results in a high self-funding capacity and healthy debt ratios. The ratings factor in strong liquidity and stable debt expected over 2013-2015. The ratings also take into account projected high, but declining capex, persistent pressure on opex and growing maintenance costs from completed investments.

Solid Financial Management: Prudent financial management is demonstrated by the city's sound budgetary performance, its good liquidity and effective monitoring and rationalisation of its costs. These allow Gdansk to alleviate the pressure for increases especially in the most rigid items like education and public transport. Fitch expects the city to continue the efficient opex growth control and to manage the budget prudently in the medium term.

Healthy Debt Matrix: Fitch expects the city to maintain an operating balance at about 10%-11% of operating revenue in 2013-2015, which will allow Gdansk to cover its annual debt-service obligations of PLN145m by about 1.2x-2x on average. We do not expect the debt coverage (debt to current balance) to exceed 10 years, which will be well below the city's estimated long-term debt maturity of 14-15 years and positive for the ratings.

Declining, Albeit High Capex: Fitch expects Gdansk's capital expenditure to start declining in 2013, as large infrastructure investments approach completion. These large investments should remain high at PLN900m in 2013 (32% of total expenditure) but are down from PLN1.1bn in 2012 (39% of total expenditure), and should fall below PLN500m by 2015.

As capital revenue and the current balance will finance the majority of capital expenditure, debt financing needs should remain limited. However, completed investments may put pressure on the budget in the medium term, due to growing maintenance costs.

Stable Debt, Favourable Structure: Fitch forecasts that investments may increase Gdansk's direct debt to PLN1.4bn by 2015, but the latter should stabilise at 65%-70% of current revenue (PLN1.2bn or 64% in 2012). This is because Fitch expects revenue to rise based on growth of income and property taxes, supported by the expansion of the city's tax base. The majority of Gdansk's debt was drawn from international financial institutions and therefore the city has low funding costs, long debt maturity and a smooth debt repayment profile.

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

Rating Sensitivities

Debt Ratio Deterioration: A downgrade could result from a sustained deterioration in operating performance far below Fitch's expectations 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 a 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)

Related Criteria

Tax-Supported Rating Criteria (August 2012)

International Local and Regional Governments Rating Criteria — Outside the United States (April 2013)

Rating Factors

	Institutional framework	Debt & liquidity	Fiscal performance	Management & admin.	Economy
Status	Neutral	Neutral	Neutral	Strength	Neutral
Trend	Stable	Stable	Stable	Stable	Stable

Note: Relative to the rating level
Source: Fitch

Overall Strengths

- Good operating results, due to prudent financial and strategic management;
- High liquidity and long and smooth maturity debt profile;
- Successful in acquiring external grants for investments (EU and state budget).

Overall Weaknesses

- Debt level, however moderate, represents 64% of current revenue;
- Pressure in operating spending due to increasing infrastructure.

Institutional Framework

There is a stable regulatory regime for Polish local and regional governments (LRGs), which include regions, counties and municipalities (cities combine functions of a county and a municipality). Their activities and financial statements are closely monitored and reviewed by the central administration. There is good disclosure in the LRGs' accounts. LRGs are obliged to publish their budgets and annual and interim execution reports on their websites, as well as long-term financial projections. LRGs' budgets and budget execution reports are based on cash accounting.

All revenue sources for all tiers of LRGs and the formulae for their distribution are defined in law, limiting the national government's scope for discretionary decisions. There are also revenue equalisation schemes in place. Gradual decentralisation of responsibilities affects the LRGs' budgets, as financial resources assigned to new responsibilities have often been insufficient. This has increased the size of the LRGs' budgets but is gradually shrinking their financial flexibility. LRGs are not allowed to vote a budget with an operating deficit but there are no restrictions on running capital deficits.

LRGs may place outstanding cash on deposits with banks established on Polish territory and invest it in treasury bonds or bonds issued by other LRGs. LRGs can incur short-term debt to cover their liquidity shortages during a year, but it has to be repaid by the year-end.

From 2014, each LRG will have to comply with an individual debt limit calculated specifically for it. The debt service to total revenue planned in an LRG's budget must not exceed the last three years' average current balance plus revenue from asset sales to total revenue. This should encourage LRGs to improve their operating results, which will support their creditworthiness.

LRGs cannot go bankrupt. In case of financial distress, an LRG can be granted loans from the state budget when launching a reparatory procedure. However, it cannot be ruled out that a LRG may default on its financial obligations.

Debt, Liquidity and Contingent Liabilities

Moderate but Stable Debt

Fitch forecasts that because of investment Gdansk's direct debt may reach PLN1.4bn by 2015 but it should not exceed 65%-70% of current revenue, which is moderate by international standards. The city's debt service and debt coverage ratios should remain satisfactory in 2013-2015, supported by the city's projected good operating performance and conservative debt policy. In the same period the city's operating balance should cover the annual debt service of PLN145m by 1.2x-2x. The debt coverage ratio (debt to current balance) should not exceed ten years, which will remain well below the city's long-term debt maturity estimated at 14-15 years, which supports the city's current rating.

Figure 1

Direct Debt Structure

	(PLNm)	(%)
End- 2012		
International financial inst. (EIB, EBRD, CEB)	896.2	73.0
Bonds	273.7	22.3
Bank loans	54.7	4.5
Preferential loans	2.9	0.2
Total	**1,227.5**	**100.0**
End-1H13		
International financial inst. (EIB, EBRD, CEB)	890.1	76.4
Bonds	233.7	20.1
Bank loans	38.5	3.3
Preferential loans	2.9	0.2
Total	**1,165.2**	**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

Gdansk's direct debt has grown since 2007, as the city implemented large infrastructure investments co-financed from EU funds. In 2012 the city's direct debt increased by 9% and totalled PLN1.2bn at year-end, accounting for a still moderate 63.5% of current revenue. The direct debt to current balance was at about 8.6 years, which was still below the average maturity of Gdansk's debt of 15 years. The operating balance was 1.7x debt servicing.

Debt Policy and Debt Structure

Gdansk's debt structure does not create high pressure on the city's budget, as 76% of it was drawn from the international financial institutions, has low interest rates and long maturities (15-25 years). This benefits the budget as it limits the city's annual debt-service burden.

At end-2012 most of the city's direct debt (74%) had floating rates, which exposes it to some 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 PLN177m of bridging finance loans and bonds at end-2012, which are classified as "Other Fitch classified debt" in Appendix A. These liabilities are to be repaid directly from EU grants received by the city, within the next two years.

Liquidity

Historically Gdansk has had good liquidity. At end-2012 cash in the city's accounts totalled PLN172m. The main account balance at month-end averaged well above PLN120m in 2012 and 1H13. The city has a stand-by credit line of PLN50m, which it has not used since 1H12. Fitch expects the city to partly absorb its ample liquidity for financing investments in 2013-2014, but it should still remain good.

Contingent Liabilities

The city's company sector is broad compared with other Polish cities rated by Fitch. Gdansk is a shareholder in 26 companies, but it holds majority stakes only in 12. Fitch expects the companies' debt to grow modestly until 2014 to about PLN625m due to EU co-financed investments implemented by some of them. By end-2015 their debt is likely to decline to below PLN550m , as the city's PSEs, after finalising their investments, will focus on debt repayment. The risk for the city's budget is alleviated because 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).

Figure 2

Selected Municipal Shareholdings' Key Financial Data

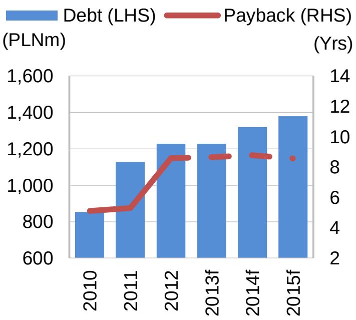
(PLNm)	2012			Net profit/loss	Long-term debt	
Company	City's stake (%)	Equity	Total assets	2012	2011	2012
Gdanska Infrastruktura Wodociagowo-Kanalizacyjna sp. z o.o. (water and sewerage utility)	100.0	745.7	1,533.2	14.7	276.4	248.2
Zaklad Komunikacji Miejskiej w Gdansku sp. z o.o. (public transport)	100.0	90.0	560.7	7.4	0.1[a]	0.0[a]
Gdanskie Towarzystwo Budownictwa Spolecznego sp. z o.o. (Gdansk Housing Association)	100.0	140.9	260.9	1.2	92.4	91.9
Towarzystwo Budownictwa Spolecznego – Motlawa sp. z o.o. (Motlawa Housing Association)	100.0	94.6	175.5	1.7	44.3	49.1
Zaklad Utylizacyjny sp. z o.o. (solid waste treatment)	100.0	91.1	381.3	2.3	90.4	82.7
Gdanska Infrastruktura Spoleczna sp. z o.o. (municipal housing)	100.0	58.7	111.2	0.2	52.4	50.6
Biuro Inwestycji Euro Gdansk 2012 sp. z o.o. (implementing investment projects for EURO2012)	100.0	206.9	567.9	-33.1	0.0	0.0
Gdanskie Inwestycje Komunalne sp. z o.o. (municipal investments)	100.0	3.5	5.4	0.0	0.0	0.0
Gdanska Agencja Rozwoju Gospodarczego sp. z o.o. (agency for economic development)	100.0	350.0	352.0	1.4	0.0	0.0
Gdanskie Melioracje sp. z o.o. (drainage)	100.0	7.0	10.0	0.5	0.0	0.0
Miedzynarodowe Targi Gdanskie SA (international fair)	86.5	96.6	225.5	1.2	2.7	26.4
Hala Gdansk-Sopot sp. z o.o. (sport and event hall)	50.0	10.7	11.8	-1.9	0.0	0.0
Total					**558.7**	**548.9**

[a] Revenue bonds excluded
Source: City of Gdansk

Gdansk plans capital injections to strengthen some of its companies' financial positions. According to the city's multi-year financial plan until 2015, its average expenditure on capital injections should not exceed PLN55m annually (about 8% of annual capex), which should not pose much risk for the city's budget. 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), and the Hala Gdansk-Sopot sp. z o.o. (a joint city sport and event hall).

Figure 3

Debt and Payback



f: Fitch projections
Source: Fitch calculations based on City's budgets

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, multilevel parking lots, including underground ones and development of specific urban areas have been proposed. Gdansk wishes to limit its participation in the PPP to providing plots of property. However, 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.

Fiscal Performance

Fitch expects the city to maintain its good operating results in the medium term, with the operating balance accounting for 10%-11% of operating revenue. This should result from Gdansk's good financial management and monitoring of operating spending. Good operating performance is significant for the city in light of its extensive investment programme, which, although largely financed from EU grants, required debt financing.

In 2013 the city may post an operating result slightly below the 2012 results, with an operating balance of about 10% of operating revenue but still in line with the current rating. This is mainly because PIT and CIT revenue collection is expected to be weaker as a result of the slowdown in the national economy and the continuous pressure on opex growth in the most rigid sectors like education and social care. In 2012 the city's operating balance was PLN208m and accounted for 10.8% of operating revenue and covered debt service by 1.7x. Despite significant capex, due to its high self-financing capacity, the city posted a budgetary deficit of PLN37m in 2012, only 1% of total revenue (2011: 22%).

Operating Revenue

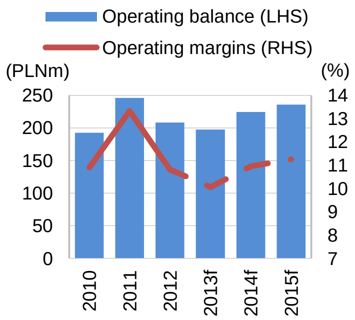
Fitch expects Gdansk's operating revenue to grow by 3% a year on average in 2013-2015. This will come from the growing economy albeit at a slower pace, the developing tax base, the city's policy of increasing local tax rates, and the collection of the solid waste fee from 2H13. In 2012, Gdansk's operating revenue rose by 4% and totalled PLN1.9bn. This was mainly driven by the growth in current transfers and local taxes collected by the city.

Current Transfers Growth Driven by Educational Subsidy

Current transfers will remain the city's largest source of operating revenue (31% of total operating revenue or PLN591m in 2012). Fitch expects transfers from the central government to increase, mainly through the educational subsidy, which is the largest element (PLN402m in 2012). Current transfers, although increasing annually, do not provide the city with much flexibility. Besides the educational subsidy (68% of current transfers in 2012), about 24% is targeted grants to finance state-delegated responsibilities such as family allowances and social assistance benefits, or to co-finance some of the city's own responsibilities, mainly in social care.

Figure 4

Budgetary Performance



f: Fitch projections
Source: Fitch calculations based on City's budgets

Income Taxes Reduce Growth Dynamics

In light of the national economy's slowdown this year, Fitch projects that Gdansk's revenue from personal and corporate income taxes (PIT and CIT) will grow about 2%-3% per year in 2013-2015, which will be less than in 2011-2012 (about 3.7% a year). Income taxes will remain the second-largest source of operating revenue, accounting for 30% of total operating revenue (a higher share than in most of Gdansk's peers).

Figure 5

Operating Revenue

(PLNm)	2011	2012	2013b
CIT and PIT	579.2	570.7	611.5
Property tax	303.5	343.8	320.2
Property transfer tax	32.5	28.9	30.9
Other local taxes and fees	29.7	30.2	75.2
Current transfers	545.0	591.1	574.9
Other operating revenue	356.6	363.1	387.4
Total	**1,846.5**	**1,927.8**	**2,000.1**

b – Budget at 29 of Aug 13
Source: Fitch own calculations based on city's budgets

Property Tax Will Remain Stable Source of Revenue

Fitch expects revenue from property tax to rise steadily in 2013-2015 by 3% a year, following the expansion of the tax base and from property tax rates that are increased annually. Despite the city's policy of exploiting the right to raise property tax rates to the maximum limit, Gdansk offers some tax relief on local levies to investors that create new jobs — especially new investors in the special economic zone. For 2013 Fitch estimates this at PLN6m (2% of revenue from property tax collected), which is low relative to the city's budget.

Operating Expenditure

Pressure on Opex Growth Will Remain

Gdansk, like many other Polish subnationals, faces strong pressure on operating spending. Fitch projects the city's operating expenditure will grow by 3% in 2013-2015. This means that the growth of opex should be in line with that of operating revenue. From 2H13 additional spending relates to the solid waste management system. The local authorities estimate spending on this responsibility at about PLN80m for the full year. However, according to the law, this opex should be financed from solid waste fees paid by inhabitants and collected by the city's budget. Additional growth pressure is likely to stem from maintenance costs from completed investments.

Spending Rationalisation Continues

Fitch assumes the city's policy of opex control will be maintained and result in a continuing satisfactory operating performance. To limit spending growth in the most rigid sectors, the local authorities are implementing cost-saving measures, with a focus on employment, optimising the school network and modernisation of public buildings. The efficiency measures undertaken by the city are likely to produce positive results in the medium term. Additionally, in the event of financial stress, Gdansk can curtail some discretionary expenditure, such as one-off operating spending on the promotion of the city or limiting the scope of repairs.

Education - Most Costly Responsibility

Education, as in other Polish cities, will remain Gdansk's largest expenditure item in the medium term, consuming 38%-40%% of total opex (less than the average of 43% in other big Polish cities). The educational subsidy and other operating revenue generated in this sector do not cover all its operating costs, which puts pressure on the city's budget as the rest (2012: about 37% of opex) has to be financed from its own sources.

The pressure mainly comes from the upward equalisation of teachers wages (enforced by law), as well as from growing demand for kindergarten care, where core five-hour day care is free of charge for parents and is not financed through government transfers. Additional pressure on the city's budget may come from the recent legal change, where parents' participation in financing day care beyond the core period is limited to PLN1 per hour. The state budget will provide special transfers as compensation, but this may not be sufficient to cover the city's loss, as until now parents were obliged to pay PLN3.22 per additional hour.

Figure 6

Operating Expenditure

(PLNm)	2011	2012	2013b
Education	620.8	658.5	672.2
Public transport and roads	306.4	344.8	352.8
Social care	217.2	227.1	217.1
Public admin.	120.4	125.4	129.1
Housing economy	70.5	74.8	112.7
Other	265.0	288.8	319.8
Total	**1,600.4**	**1,719.5**	**1,803.7**

b – Budget at 29 of Aug 13
Source: Fitch own calculations based on city's budgets

Second Most Significant Opex Item

Public transport and roads maintenance are 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; BBB-/ Stable) under a long-term contract (see ZKM Gdansk sp. z o.o. under *Related Research*). Fitch expects opex in this sector 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 2012, spending on public transport and road maintenance grew by almost 13% and reached PLN345m. Gdansk spent about PLN276m of this on public transport services, of which 44% was financed from ticket sales.

Capital Revenue and Expenditure

Fitch expects Gdansk's capital expenditure to decline in 2013, but it will still be high at PLN900m (32% of total expenditure), and then fall below PLN500m in 2015. This drop in capex will result from finalising large infrastructure investments under the EU budget programming period of 2007-2013. 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 PLN500m annually in 2013-2015.

According to Fitch's projections, in 2013-2015 most financing will be from capital revenue and the current balance (above 90%). This high self-financing capacity allows the city to limit its appetite for debt financing, what Fitch views as rating positive. 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.

The city's main investment areas include local road and public transport infrastructure (estimated spending in 2013-2015 of PLN1.3bn, with 68% funding from the EU budget, to be accomplished by 2015), and the European Solidarity Centre (PLN136m, 48% funding from the EU budget, to be accomplished in 2014).

Management and Administration

The city's president, Paweł Adamowicz, is serving his fourth term. He is a member of Platforma Obywatelska (Civic Platform – the ruling party at the national level). In the 34-member city council his party has 27 seats, giving the president a comfortable majority.

Political Priorities

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, public transport, 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, maritime services, business process outsourcing and shared services centre in Poland.

The administration plans to implement in full the investment plan established at the start of the current EU programme, exploiting the available EU grants. The local authorities are also determined to limit any non-obligatory operating spending in 2013 -2014 to maximise the city's operating balance. This should support the process of gathering own sources to be used for co-financing investments during the 2014-2020 EU budget programming period. Fitch views Gdansk's overall strategic and financial management as positive for the rating.

Economy

Fitch projects that Poland's real GDP will grow by 1.8% in 2013-2014. This is a slower pace than 3.5% seen in 2010-2012. However, national economic growth, although slower, should support the development of Gdansk's economy. The city's well developed local economy will benefit from the improving local infrastructure, which stimulates business within the city and may provide it with higher tax revenue.

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 PLN56,800 in 2011 (seventh highest among 66 sub-regions), and exceeded the national average by 43%.

Gdansk is the largest and wealthiest city in the region and is 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 2012. 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 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 (Bayer AG, Metsa Group or Bank BPH). 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 67,600 at end-2012 from about 58,222 at end-2004, about 26% of all companies registered in the Pomorskie region. The growth in the number of companies was supported by the city's well-educated workforce and its favourable location. About 88 registered companies had more than 250 employees each and almost 1,600 had foreign capital participation. About 96% of the total were individuals involved in business.

Gdansk's services sector is well developed. In 2010 it produced about 69% of the city's gross value added (GVA), exceeding the national average of 63%. It employed 77% of the local workforce (Poland average: 55%). However, Gdansk's industry remains an important contributor to GVA, as more than 31% of it is generated by industry and construction, which employ 23% of the local workforce. The city's main industrial sectors are petrochemicals, energy production and maritime business[1].

The current economic slowdown has weakened the financial performance of companies in Gdansk and increased unemployment in the city. However, unemployment (6.8% at end-September 2013) is still one of the lowest among large Polish cities and far below the national average (13.0%).

[1] Largest representatives: Grupa Lotos S.A. (Poland's second largest oil-refinery with PLN31bn annual output in 2012 and over 5,000 employed), Energa S.A. (electric power production and distribution, annual output PLN11bn in 2012 and over 11,000 employed), and Gdansk Repair Shipyard S.A. (annual output PLN1.8bn in 2011 and over 3,600 employed).

Appendix A

Figure 7

City of Gdansk

(PLNm)	2008	2009	2010	2011	2012
Taxes	895.9	829.4	875.6	943.1	971.7
Transfers received	438.2	492.9	512.8	545.0	591.1
Fees, fines and other operating revenue	248.6	268.7	378.1	358.4	365.0
Operating revenue	**1,582.7**	**1,591.0**	**1,766.5**	**1,846.5**	**1,927.8**
Operating expenditure	-1,356.5	-1,501.2	-1,574.0	-1,600.4	-1,719.4
Operating balance	**226.2**	**89.8**	**192.5**	**246.1**	**208.4**
Financial revenue	6.4	2.6	4.6	6.9	5.6
Interest paid	-13.9	-23.1	-30.8	-42.2	-71.2
Current balance	**218.7**	**69.3**	**166.3**	**210.8**	**142.8**
Capital revenue	107.1	117.3	257.0	227.9	1,000.5
Capital expenditure	-434.4	-453.6	-559.8	-900.7	-1,180.1
Capital balance	**-327.3**	**-336.3**	**-302.8**	**-672.8**	**-179.6**
Surplus (deficit) before debt variation	**-108.6**	**-267.0**	**-136.5**	**-462.0**	**-36.8**
New borrowing	223.9	330.1	360.0	526.3	155.8
Debt repayment	-59.3	-24.3	-217.6	-252.7	-54.1
Net debt movement	**164.6**	**305.8**	**142.4**	**273.6**	**101.7**
Overall results	**56.0**	**38.8**	**5.9**	**-188.4**	**64.9**
Debt					
Short-term	0.0	0.0	0.0	0.0	0.0
Long-term	409.9	712.6	853.6	1,127.2	1,227.4
Direct debt	**409.9**	**712.6**	**853.6**	**1,127.2**	**1,227.4**
+ Other Fitch classified debt - pre-financing	12.2	0.0	0.0	210.0	177.0
Direct risk	**422.1**	**712.6**	**853.6**	**1,337.2**	**1,404.4**
- Cash, liquid deposits, sinking fund	64.2	91.7	107.4	142.1	172.2
Net direct risk	**357.9**	**620.9**	**746.2**	**1,195.1**	**1,232.2**
Guarantees and other contingent liabilities	2.1	7.7	1.2	1.2	20.8
Net indirect debt (public sector entities exc. gteed amount)	180.6	296.6	502.2	557.5	528.1
Net overall risk	**540.6**	**925.2**	**1,249.6**	**1,753.8**	**1,781.1**
Memo for direct debt (%)					
In foreign currency	9.7	4.6	3.0	1.9	1.3
Issued debt	0.0	0.0	14.2	26.2	22.3
Fixed interest rate debt	3.5	2.0	1.7	9.8	25.8

Source: Issuer and Fitch calculations

Appendix B

Figure 8

City of Gdansk

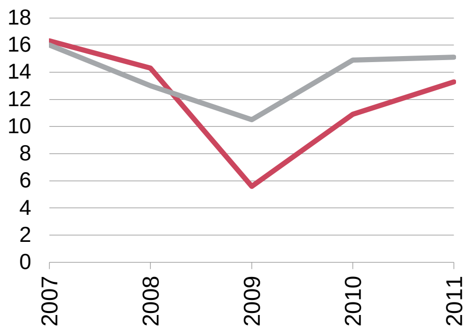
	2008	2009	2010	2011	2012
Fiscal performance ratios (%)					
Operating balance/operating revenue	14.29	5.64	10.90	13.33	10.81
Current balance/current revenue[a]	13.76	4.35	9.39	11.37	7.39
Surplus (deficit) before debt variation/total revenue[b]	-6.40	-15.61	-6.73	-22.20	-1.25
Overall results/total revenue	3.30	2.27	0.29	-9.05	2.21
Operating revenue growth (annual change)	n.a.	0.52	11.03	4.53	4.40
Operating expenditure growth (annual change)	n.a.	10.67	4.85	1.68	7.44
Current balance growth (annual change)	n.a.	-68.31	139.97	26.76	-32.26
Debt ratios					
Direct debt growth (annual % change)	n.a.	73.85	19.79	32.05	8.89
Interest paid/operating revenue (%)	0.88	1.45	1.74	2.29	3.69
Operating balance/interest paid (x)	16.3	3.9	6.3	5.8	2.9
Direct debt servicing/current revenue (%)	4.61	2.97	14.03	15.91	6.48
Direct debt servicing/operating balance (%)	32.36	52.78	129.04	119.83	60.12
Direct debt/current revenue (%)	25.79	44.72	48.20	60.82	63.48
Direct risk/current revenue (%)	26.56	44.72	48.20	72.15	72.64
Direct debt/current balance (yrs)	1.9	10.3	5.1	5.3	8.6
Net overall risk/current revenue (%)	34.02	58.06	70.56	94.63	92.12
Direct risk/current balance (yrs)	1.9	10.3	5.1	6.3	9.8
Direct debt/GDP (%)	1.98	3.11	3.58	-	-
Direct debt per capita (PLN)	899	1,559	1,852	2,445	2,668
Revenue ratios					
Operating revenue/budget operating revenue (%)	109.46	97.07	108.50	106.33	103.70
Tax revenue/operating revenue (%)	56.61	52.13	49.57	51.08	50.40
Modifiable tax revenue/total tax revenue (%)	27.48	30.40	32.80	33.62	36.94
Current transfers received/operating revenue (%)	27.69	30.98	29.03	29.52	30.66
Operating revenue/total revenue[b] (%)	93.31	92.99	87.10	88.72	65.71
Total revenue[b] per capita (PLN)	3,720	3,744	4,399	4,515	6,378
Expenditure ratios					
Operating expenditure/budget operating expenditure (%)	100.97	100.49	104.53	100.04	102.54
Staff expenditure/operating expenditure (%)	40.91	42.01	40.06	41.88	40.56
Current transfer made/operating expenditure (%)	10.14	11.77	11.66	12.40	12.12
Capital expenditure/budget capital expenditure (%)	100.79	73.91	204.53	247.11	115.38
Capital expenditure/total expenditure (%)	23.30	22.66	23.50	32.21	39.01
Capital expenditure/local GDP (%)	2.10	1.98	2.35	-	-
Total expenditure per capita (PLN)	4,088	4,381	5,168	6,065	6,576
Capital expenditure financing (%)					
Current balance/capital expenditure	50.35	15.28	29.71	23.40	12.10
Capital revenue/capital expenditure	24.65	25.86	45.91	25.30	84.78
Net debt movement/capital expenditure	37.89	67.42	25.44	30.38	8.62

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

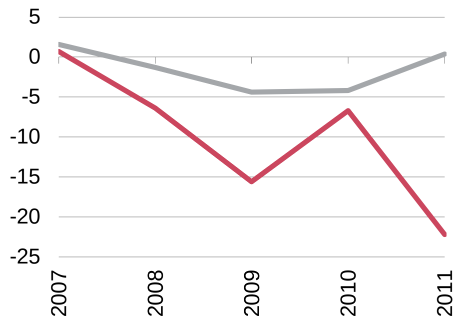
Appendix C
City of Gdansk

Peer Comparison

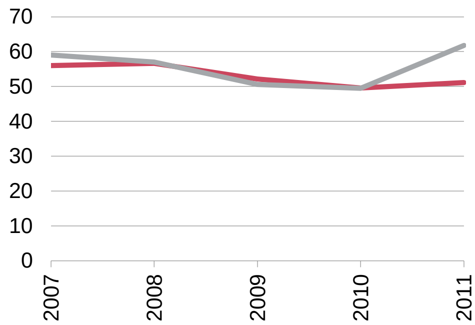
Operating Balance
% Operating Revenue



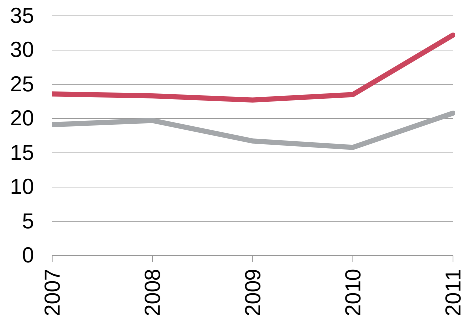
Surplus (Deficit)
% Total Revenue



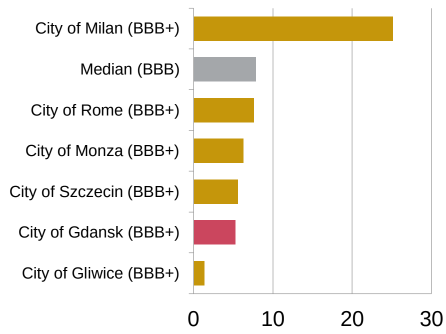
Taxes
% Operating Revenue



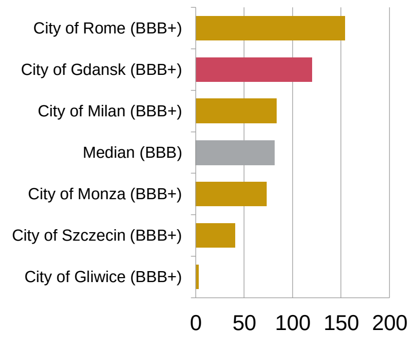
Capital Expenditure
% Total Expenditure



Debt
To Current balance (Years) 2011



Debt Servicing
To Operating Balance (%) 2011



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.