City of Gdansk

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	A−

Local Currency

Long-Term IDR	A−

National

Long-Term Rating	AAA(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 16	31 Dec 15
Operating revenue (PLNm)	2,537.2	2,264.7
Debt (PLNm)	905.9	994.4
Operating balance/ operating revenue (%)	14.80	16.40
Debt service/current revenue (%)	4.44	6.68
Debt/current balance(yrs)	2.5	2.9
Operating balance/ interest paid (x)	15.4	12.8
Capital expenditure/total expenditure (%)	17.84	23.04
Surplus (deficit) before debt variation/total rev. (exc. new debt) (%)	4.08	6.71
Current balance/capital expenditure (%)	72.30	56.62

Related Research

Institutional Framework for Polish Subnationals (March 2014)

Interpreting the Financial Ratios in Local and Regional Government Rating Reports (October 2015)

Polish LRGs Debt Dashboard September 2017 (September 2017)

Poland - Ratings Navigator (September 2017)

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

Rating Upgrade: Fitch Ratings considers the City of Gdansk's operating performance and debt ratios over the medium term to be in line with 'AAA(pol)' peers, and this has led to an upgrade of Gdansk's National Long-Term Rating. The Stable Outlook reflects our expectations that the city's solid strategic and financial management will continue to support the strong self-financing capacity of investment plans.

Sound Operating Performance: In its rating case scenario, Fitch expects Gdansk to continue to demonstrate solid operating performance in 2017-2020, with an operating balance of around PLN300 million (12%-13% of operating revenue), in line with the 2011-2016 average. This will be underpinned by the city authorities' continued cost-control measures, tax-revenue growth, and will be supported by projected national economic growth.

New Investments Underway: Fitch envisages the city's budget deficit to average 5% of total revenue in the medium term following the roll-out of new investments, which will be covered by accumulated cash and new debt. Fitch forecasts that Gdansk's investments in 2017-2020 will total PLN2.4 billion, or around an average of 20% of annual total spending (below the 2011-2016 average of 28%). We expect that more than 50% of investment financing will come from the city's current balance and about 30% from capital revenue.

Limited Debt-Financing Needs: The city has reduced its debt to PLN877 million at end-1H17 from PLN1,404 million at end-2012, owing to a sound operating performance and high level of acquired non-returnable investment grants. Fitch expects this trend to reverse in 2018 following investments, but direct debt is likely not to exceed 50% of current revenue over the medium term (end-2016: 36%).

Healthy Debt Ratios: Fitch projects the city's debt-service and debt-payback ratios to remain healthy in 2017-2020 despite an expected increase of debt. Debt servicing (excluding early repayments) will be around 30% of the operating balance and debt payback (debt-to-current balance) is likely to hover around three to four years (2016: two-and-a-half years), which will be well below the city's final debt maturity and one of the lowest among Polish peers.

High Liquidity Buffer: Gdansk's liquidity has been healthy historically. During 1H17, cash in the city's accounts exceeded debt servicing more than 3x. The city has a long record of cash balances at year-end exceeding the scheduled annual debt service, which is positive for the ratings. Fitch expects the city's liquidity to be partly absorbed by investments in 2017-2018.

Interest Rate Risk Exposure: At end-1H17, most of the city's direct debt (78%) had floating rates, which exposes Gdansk to interest-rate risk. Polish local and regional governments cannot use any derivatives to hedge their interest rate or FX risk exposure. However, Gdansk's high cash reserves and a prudent budgetary approach, under which the city usually budgets and secures higher amounts for interest payments on debt than the actual amounts paid, currently offset this risk.

Rating Sensitivities

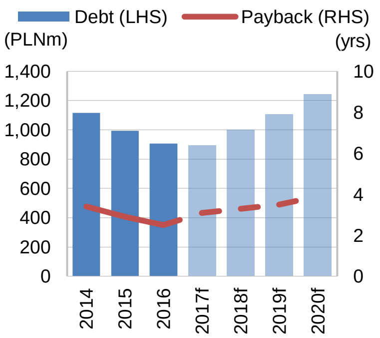
Ratings Constrained by the Sovereign: Gdansk's IDRs are constrained by the sovereign (A-/Stable) and will mirror movement in the sovereign IDRs. However, sustained deterioration in the city's operating performance or a significant rise in Gdansk's direct debt, leading to the city's debt-payback ratio exceeding eight years, could trigger a downgrade.

Rating History

Date	Long-term foreign currency IDR	Local currency IDR
08 Sep 17	A−	A−
10 Mar 17	A−	A−
16 Sep 16	A−	A−
28 Jul 16	-	A−
18 Mar 16	A−	A−
25 Sept 15	A−	A−
27 Mar 15	A−	A−
03 Oct 14	BBB+	BBB+
04 Apr 14	BBB+	BBB+
22 Oct 13	BBB+	BBB+
23 Oct 12	BBB+	BBB+
26 Oct 11	BBB+	BBB+
02 Nov 10	BBB+	BBB+
30 Oct 09	BBB+	BBB+
31 Oct 08	BBB+	BBB+
21 Nov 07	BBB+	BBB+
21 Dec 06	BBB	BBB
20 Dec 05	BBB	BBB
20 Dec 04	BBB	BBB

Date	Long-term national Rating
08 Sep 17	AAA(pol)
10 Mar 17	AA+(pol)
16 Sep 16	AA+(pol)
03 Aug 16	AA+(pol)
18 Mar 16	AA(pol)
25 Sep 15	AA(pol)
27 Mar 15	AA(pol)
03 Oct 14	AA−(pol)
04 Apr 14	AA−(pol)
22 Oct 13	AA−(pol)
23 Oct 12	AA−(pol)
26 Oct 11	AA−(pol)

Debt and Payback



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

Related Criteria

International Local and Regional Governments Rating Criteria – Outside the United States (April 2016)

National Scale Ratings Criteria (March 2017)

Principal Rating Factors

Summary: Strengths and Weaknesses

	Institutional framework	Debt and other liabilities	Economy	Finances	Management and admin.
Status	Neutral	Strength	Neutral	Neutral	Strength
Trend	Stable	Stable	Stable	Stable	Stable

Source: Fitch

Overall Strengths

- Sustained good operating results, due to prudent financial and strategic management
- Track record of strong liquidity and long, smooth debt maturity profile
- Successful in acquiring external grants for investments (EU and state budget)

Overall Weaknesses

- Pressure on opex, mainly from education and social care sectors, but also from increasing newly developed infrastructure

Institutional Framework

A stable regulatory regime exists for the Polish local and regional governments (LRGs) sector, which includes regions, counties and municipalities (cities combine the functions of a county and a municipality). Their activities and financial statements are monitored closely and reviewed by the central government.. There is good disclosure in the accounts of LRGs, which are obliged to publish their budgets and annual and interim execution reports, as well as long-term financial projections, on their websites. LRGs' budgets and budget-execution reports regarding revenue and expenditure 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. Revenue-equalisation schemes are also in place. Gradual decentralisation of responsibilities has affected 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 pass a budget with an operating deficit, but there are no restrictions on running capital deficits.

LRGs are allowed to 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 must be repaid by the year-end.

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

LRGs cannot go bankrupt. In a situation of financial distress, an LRG can be granted loans from the state budget. The possibility of an LRG defaulting on its financial obligations cannot be ruled out, however.

Debt and Other Long-Term Liabilities

Since 2013, because of increasing operating balances and a high level of acquired non-returnable investment grants, the city has reduced its direct risk to PLN906 million at end-2016 from PLN1,404 million. In 1H17, Gdansk did not draw down any new debt, so the city's direct debt has declined further to about PLN877 million Fitch expects this trend to reverse in 2018 following investments, but direct debt is likely not to exceed 50% of current revenue over the

Direct Debt Structure

	(PLNm)	(%)
End-2016		
International financial inst. (EIB, CEB)	817.3	90.2
Bonds	86.9	9.6
Preferential loans	1.8	0.2
Total	**905.9**	**100.0**
End-1H17		
International financial inst. (EIB, CEB)	788.8	89.2
Bonds	86,9	9.9
Preferential loans	1.7	0.2
Total	**877.3**	**100.0**

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

medium term (end-2016: 36%). Fitch projects the city's debt-service and debt-payback ratios will remain healthy in 2017-2020. Debt servicing (excluding premature repayments) will be around 30% of the operating balance and the debt payback (debt-to-current balance) is likely to hover around three to four years (2016: two-and-a-half), which will be well below the city's final debt maturity (up to 20 years), and one of the lowest among Fitch-rated Polish LRGs.

Debt Policy and Debt Structure

Gdansk's debt structure does not create much pressure on the city's budget, as 90% of the debt outstanding at end-1H17 was drawn from international financial institutions, and has low interest rates and long maturities. This benefits the budget as it limits the city's annual debt-service burden. The city has already secured funds to co-finance investments in the current EU programming period signing a framework agreement with the European Investment Bank of up to PLN1.05 billion.

At end-1H17, most of the city's direct debt (78%) was floating rate, which exposes it to interest-rate risk. LRGs in Poland cannot use any derivatives for hedging their interest rate risk exposure. However, Gdansk's high cash reserves and a prudent budgetary approach, under which the city usually budgets and secures higher amounts for interest payments on debt than the actual amounts paid, offset the majority of this risk.

In 2010-2016, Gdansk refinanced or repaid before maturity high-interest-bearing bonds and loans totalling PLN523 million. Fitch views this as a positive rating factor, as these operations allow the city to reduce the cost of debt and to extend the debt-maturity profile, reducing loan-repayment pressure. However, such early repayment distorts the city's debt-service ratios. For example, when excluding these operations, the debt servicing-to-operating balance ratio for 2016 would have been only 22%, instead of 30%.

Good Liquidity

At end-2016, cash in the city's accounts totalled PLN223 million, and exceeded debt servicing (interest and principal) by almost 3x. The main account balance at month-end averaged PLN350 million in 1H17 and exceeded debt servicing scheduled for the whole of 2017 by more than 3x, which is a positive rating factor. The city has a stand-by credit line of PLN50 million, which it has not used since 2012. Fitch expects the city partly to absorb its liquidity for financing investments in 2017-2018, but it should remain sound.

Contingent Liabilities

Gdansk's company sector is broad compared with other Polish cities rated by Fitch. Gdansk is a shareholder in 29 companies, although the city holds majority stakes only in 12. Fitch expects the companies' total debt to decline in the medium term, as the majority of the city's public-sector entities, after completing their investments, will focus mainly on debt repayment. Most of the debt was not considered "Net indirect debt" in Appendix A, as it was incurred by self-supporting companies that repay their debt from tariffs collected from end-users (for example, water and sewage and solid-waste treatment utilities) and from rent paid by tenants (housing companies) or long-term contracts (public transport company), which alleviates the risk for the

Selected Municipal Shareholdings' Key Financial Data[a]

(PLNm)	2016			Net profit/loss	Long-term financial liabilities	
Company	**City's stake (%)**	**Equity**	**Total assets**	**2016**	**2015**	**2016**
Gdanska Infrastruktura Spoleczna sp. z o.o. (municipal housing)	100.0	85.5	**131.6**	0.1	44.8	42.6
Arena Gdansk sp. z o.o. (owner of sport stadium)	100.0	463.6	731.1	-29.8	266.4	235.5
Gdanskie Uslugi Komunalne sp. z o.o. (municipal services)	100.0	3.4	3.5	0.0	0.0	0.0
Miedzynarodowe Targi Gdanskie SA (international fair)	60.0	147.9	193.1	-8.5	45.9	31.8
Hala Gdansk-Sopot sp. z o.o. (sport and event hall)	50.0	19.9	24.1	-0.5	2.9	2.7
Total					**360.0**	**312.6**

[a] Considered by Fitch as contingent risk and included under "Net indirect debt" in *Appendix A*
Source: City of Gdansk

city's budget. We estimate the contingent liabilities for the city to remain low in the medium term, at about PLN200 million-300 million, or 8%-12% of its budget.

Gdansk plans to strengthen some of its companies' financial positions through capital injections. According to the city's multi-year financial plan, average expenditure on capital injections should not exceed PLN60 million annually (about 10% of annual capex), which should not put much pressure on its budget.

Economy

Fitch projects that Poland's real GDP will grow by 3.5% a year in 2017-2019, from 2.6% a year in 2012-2016. This faster pace of growth should support the development of Gdansk's tax base. In addition, the city's well-developed local economy will continue to benefit from the improving local infrastructure, which stimulates business activity within the city and provides it with greater tax revenue.

Gdansk is the capital of the Pomorskie Region, in northern Poland. With cities of Gdynia and Sopot, the city forms a conurbation of more than 747,500 inhabitants (source: Central Statistical Office in Poland). This conurbation's gross regional product per capita was above PLN61,851 in 2014 (the seventh highest among 66 sub-regions), and exceeded the national average by 38.5%.

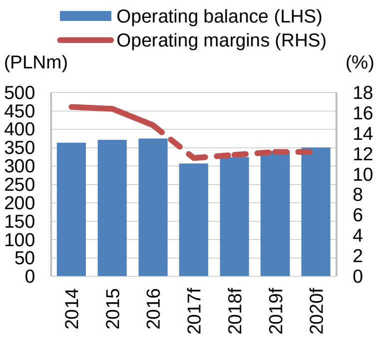
Gdansk is the largest and wealthiest city in the region and is an economic, scientific and cultural centre. The city is home to more than 14 higher education institutes and universities, with more than 80,000 students. The local economy is attractive to investors, especially from the services sector, owing to the city's location, well-educated workforce and well-developed transport infrastructure, including the A1 motorway, the largest marine port in Poland and an international airport. Several new private investments in the real-estate market, including office and residential buildings, shopping and logistics centres, will be completed in the next three years. The city is also popular tourist destination, and the number of visitors is growing. In 2016 there were more than 2 million of visitors, including 1.4 million overnight tourist stays (2015: 1.9 million and 1.1 million respectively).

The unemployment rate in the city was at its historical lowest of 3.6% at end-2016, well below the national average of 7.7%.The city's local economy is well diversified. The number of companies operating in the city increased to more than 75,400 at end-2016 from about 58,200 at end-2004, or 26% of all companies registered in the Pomorskie Region, the majority of which (96%) comprises micro enterprises. The growth in the number of companies was supported by the city's well-educated workforce and its favourable location. More than 90 registered companies had more than 250 employees each and almost 1,900 had attracted foreign capital.

Gdansk's services sector is well developed. In 2014, it produced about 73% of the city's gross value added (GVA), exceeding the national average of 63%. It employed 78% of the local workforce (Poland average: 57%). However, Gdansk's industry remains an important contributor to GVA, as more than 27% of it is generated by industry and construction, sectors that employ 21% of the local workforce (Poland: 34%; 26% respectively). The city's main industrial sectors are petrochemicals, energy generation and maritime business.

Gdansk's population has grown, reaching 463,754 at the end-2016 from 460,427 in 2012. When comparing the city's demographic profile to other large cities rated by Fitch in Poland, Gdansk has a higher share of young people (16.7% of the population in 2016), positive net migration (2.7 inhabitants per 1,000 in 2016 compared with negative net migration in most cities in Poland) and a positive birth rate (1.4 inhabitants per 1,000 in 2016 compared with a negative rate in most Polish cities). All these factors indicate that Gdansk is an attractive city to live in.

Operating Performance



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

Operating Revenue

(PLNm)	2015	2016	2017ab
CIT and PIT	725.8	770.9	825.5
Property tax	373.8	378.9	402.8
Civil law transaction tax	46.7	49.1	44.0
Other local taxes and fees	31.4	26.1	26.3
Current transfers	638.1	819.1	864.8
Other operating revenue	448.9	493.0	473.5
Total	**2,264.7**	**2,537.1**	**2,636.9**

ab – Budget as amended June 2017
Source: Fitch own calculations based on city's budgets

Finances

Strong Operating Performance

In its rating case scenario, Fitch expects Gdansk will continue to demonstrate solid operating performance in 2017-2020, with an operating balance of around PLN300 million that would be in line with the 2011-2016 average. This should come as a result of Gdansk's good financial management and policy to limit opex growth, coupled with increasing revenue from income and property taxes, supported by an expansion of the city's tax base. Fitch envisages the city's budget deficit will average 5% of total revenue in the medium term, following the roll-out of new investments, mainly co-financed from the 2014-2020 EU budget, which will be covered by accumulated cash and new debt.

In 2016, Gdansk posted an operating margin of 14.8% (2015: 16.4%), which was above Fitch's expectations (13%-14%). In addition, for the fourth consecutive year the city posted a budgetary surplus of 4% of total revenue (2015: 6.7%) also on the back of investment grants. However, it is more difficult to compare operating and current margins, as well as the debt/current revenue ratio, with data prior to 2016 because of the implementation at the beginning of April 2016 of the "Family 500+" programme.

The "Family 500+" programme is a central government-delegated task, with transfers from the central budget to the budgets of municipalities. Each LRG in Poland pays out monthly cash benefits of PLN500 for each child to families with more than one child. The central government also covers the administration costs. The flow of funds from the central government inflates both sides of the LRGs' budgets and is therefore neutral to the operating balance. In Gdansk's case, PLN150 million of current transfers passed through the budget in 2016 (nine months), and the city estimates about PLN226 million will pass through in 2017.

Operating Revenue

Fitch projects Gdansk's operating revenue will grow by 3%-4% CAGR (compound annual growth rate) in 2017-2020. This will come from the expanding economy, the developing tax base and the city's local tax policy. Revenue from personal and corporate income taxes (PIT and CIT) will remain the city's largest source of operating revenue (30% of the total in 2016). Fitch projects personal and corporate income tax to grow by about 4% annually in 2017-2020. Gdansk's revenue policy is to maintain local tax rates and fees close to the statutory maximum. Fitch expects the city's property tax revenue will grow by about 3% annually in 2017-2020, mainly due to the broadening tax base. Fitch also expects the city's revenue from current transfers to grow by at least 6% CAGR in 2017-2020.

Operating Expenditure – Growth Pressure to Persist

Fitch expects that in 2017-2020 Gdansk will continue to keep its operating-expenditure growth in line with operating-revenue growth, which will allow the city to comply with the individual debt limit, and finance new investments under the 2014-2020 EU programming period. The city's authorities kept opex growth below operating revenue growth in 2011-2016. This was despite strong pressure on operating spending that all Polish LRGs face (see *Management and Administration* section below).

Operating Expenditure by Sector in 2016

	(PLNm)	Structure (%)
Education	772.7	35.7
Transport	350.6	16.2
Social care	426.8	19.7
Environment protection	170.4	7.9
Public administration	139.8	6.5
Culture	73.0	3.4
Public safety	47.0	2.2
Housing economy	25.3	1.2
Sport	27.0	1.2
Other	129.3	6.0
Total	**2,161.9**	**100.0**

Source: Fitch own calculations based on city's budgets

Education – Largest Expenditure

Education will remain Gdansk's largest expenditure item in the medium term, consuming 35%-40% of total opex (similar to other big Polish cities). The educational subsidy and other operating revenue generated in this sector do not cover all Gdansk's operating costs, which puts pressure on the city's budget, as the rest (2016: about 34% of opex) has to be financed from its own sources.

The pressure comes mainly from the upward equalisation of teachers' wages (enforced by law), as well as from growing demand for kindergarten care, where a core five-hour's day care is free of charge for parents and is not financed through government transfers, as it is one of

LRGs' own responsibilities. Additional pressure on the city's budget may come from a recent change in the law leading to the reversal of the reform implemented in 1999. At the beginning of September 2017, junior high-schools were liquidated, and the number of years of elementary schooling was extended back to eight years from six , while for high schools this was increased to four years from three.. The city estimates the final one-off costs of this change will total PLN37 million in 2017-2018.

Second-Most Significant Opex Item

Public transport and road maintenance will remain the city's second-largest spending item, accounting for about 16%-20% of total opex. Most (85%) will be devoted to financing public-transport services contracted with Gdanskie Autobusy i Tramwaje Sp. z o.o. (GAIT; formerly known as Zaklad Komunikacji Miejskiej w Gdansku sp. z o.o.; BBB/Outlook Stable) under long-term contracts. Fitch expects opex directed to this task to grow well above the rate of inflation, and faster than the growth in revenue from fares. Additional spending will follow the rising scope of transport-services provision, especially as new tram lines come into service, and rising amortisation in connection with the implementation of the company's capex programme (a significant element in the compensation calculation).

In 2016, favourable winter weather conditions and declining fuel and electricity prices were offset by the inauguration of a new tram line, and spending on public transport and road maintenance remained at the 2015 level of PLN350 million. Gdansk spent about PLN299 million of this on public-transport services, 44% of which was financed from ticket sales.

Capital Revenue and Expenditure

New Investments Roll-out

The city is rolling out investments under the 2014-2020 EU budget so that Gdansk's investments in 2017-2020 could total PLN2.4 billion – on average about 20% of annual total expenditure – much lower than in 2011-2016 (average 28% a year). Although the scope of investments during the current EU budget and Gdansk's debt needs for financing them will depend on the amount of EU grants available, Fitch expects the city to finance the majority of its capex from the current balance (50%), cash reserves, and non-returnable investment grants available to Polish LRGs (30%). This will limit Gdansk's recourse to debt.

During the current EU programming period ending effectively in 2023 (final financial settlement of investments), the city will focus capex on areas such as public transport and road infrastructure, housing, education, sport and culture (building new facilities, as well as modernising others). However, the new investment projects will be smaller in scale and more diverse than in the previous EU programming period of 2007-2013.

Management and Administration

Paweł Adamowicz was re-elected as president of the city for a four-year term in November 2014. In the 34-member city council, he is supported by the Civic Platform party that has 22 seats, giving him a comfortable majority.

In 1Q17, the city council adopted its multiyear Investment Priority List that covers the more than PLN6 billion of investments the city intends to focus on and which it aims to implement by 2023. This investment plan is consistent with the city's development strategy (Gdansk 2030 Plus Development Strategy; updated in 2015) and the city's multiyear financial projections. To finance most of the investments, the administration plans to continue exploiting available EU grants. In the previous EU programming period, the city successfully obtained EU and state grants for infrastructure developments; in 2011-2016 the city's capex was about 68% financed by capital revenue; this is also likely during the current EU budget for 2014-2020.

The local authorities also plan to continue limiting any non-obligatory operating spending in 2017-2018 to maximise the city's operating balance. This should support the process of gathering sources to co-finance investments during the 2014-2020 EU budget-programming period. Fitch views Gdansk's overall sustainability of strategic and financial management as positive for the ratings.

Creating Good Conditions for Business Development Is Priority

The main priority for Gdansk's authorities is to strengthen the city's metropolitan functions: improving local infrastructure through the modernisation and construction of roads, public transport, wastewater and solid-waste management; and 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. In order for the city to provide a sufficient workforce, the authorities are also focusing on the creation of good living conditions to attract new inhabitants.

Successful Spending Rationalisation Programme

Gdansk, like many other Polish subnationals, faces strong pressure on operating spending, due to underfunded responsibilities transferred to local governments by the state and the structural inflexibility of opex dominated by education and social care. Additional growth pressure is likely to stem from maintenance costs from completed investments. To counteract this pressure, the city's administration is focused on a rationalisation in spending and cost control, and aims to acquire as many non-returnable grants as possible for co-financing own responsibilities.

Fitch assumes this approach will be maintained and will 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, centralisation of accounting and IT services and modernisation of public buildings. 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.

Appendix A

City of Gdansk

(PLNm)	2012	2013	2014	2015	2016
Taxes	971.7	1,022.4	1,113.2	1,175.3	1,223.5
Transfers received	591.1	600.4	608.6	638.1	819.1
Fees, fines and other operating revenue	365.0	382.1	464.3	451.3	494.6
Operating revenue	**1,927.8**	**2,004.9**	**2,186.1**	**2,264.7**	**2,537.2**
Operating expenditure	-1,719.4	-1,763.0	-1,822.5	-1,893.2	-2,161.8
Operating balance	**208.4**	**241.9**	**363.6**	**371.5**	**375.4**
Financial revenue	5.6	8.5	6.0	4.2	6.0
Interest paid	-71.2	-55.4	-41.5	-29.1	-24.4
Current balance	**142.8**	**195.0**	**328.1**	**346.6**	**357.0**
Capital revenue	1,000.5	747.9	541.1	447.8	250.8
Capital expenditure	-1,180.1	-796.8	-762.8	-612.2	-493.8
Capital balance	-179.6	-48.9	-221.7	-164.4	-243.0
Surplus (deficit) before debt variation	**-36.8**	**146.1**	**106.4**	**182.2**	**114.0**
New borrowing	155.8	60.0	0.0	0.0	0.0
Debt repayment	-54.1	-99.6	-71.5	-122.4	-88.5
Net debt movement	**101.7**	**-39.6**	**-71.5**	**-122.4**	**-88.5**
Overall results	**64.9**	**106.5**	**34.9**	**59.8**	**25.5**
Debt					
Short-term	0.0	0.0	0.0	0.0	0.0
Long-term	1,227.4	1,188.2	1,116.8	994.4	905.9
Direct debt	**1,227.4**	**1,188.2**	**1,116.8**	**994.4**	**905.9**
+ Other Fitch classified debt - pre-financing	177.0	141.5	68.6	25.7	19.5
Direct risk	**1,404.4**	**1,329.7**	**1,185.4**	**1,020.1**	**925.4**
- Cash, liquid deposits, sinking fund	172.2	208.0	208.3	193.3	223.2
Net direct risk	**1,232.2**	**1,121.7**	**977.1**	**826.8**	**702.2**
Guarantees and other contingent liabilities	20.8	20.4	20.4	0.4	0.4
Net indirect debt (public sector entities exc. guaranteed amount)	393.1	451.0	401.0	360.0	312.6
Net overall risk	**1,646.1**	**1,593.1**	**1,398.5**	**1,187.2**	**1,015.2**
Memo for direct debt					
% in foreign currency	1.3	1.0	0.6	0.2	0.0
% issued debt	22.3	18.0	14.8	11.6	9.6
% fixed interest rate debt	25.8	23.9	21.2	20.1	21.5

Source: Issuer and Fitch calculations

Appendix B

City of Gdansk

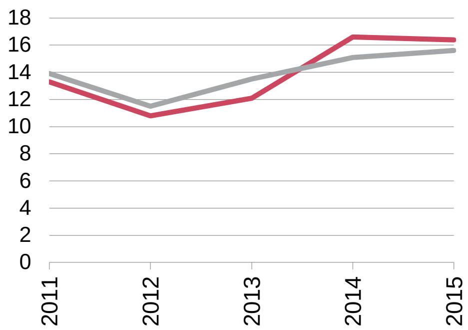
	2012	2013	2014	2015	2016
Fiscal performance ratios					
Operating balance/operating revenue (%)	10.81	12.07	16.63	16.40	14.80
Current balance/current revenue [a] (%)	7.39	9.69	14.97	15.28	14.04
Surplus (deficit) before debt variation [b] /total revenue [c] (%)	-1.25	5.29	3.89	6.71	4.08
Overall results/total revenue (%)	2.21	3.86	1.28	2.20	0.91
Operating revenue growth (annual % change)	4.40	4.00	9.04	3.60	12.03
Operating expenditure growth (annual % change)	7.44	2.54	3.37	3.88	14.19
Current balance growth (annual % change)	-32.26	36.55	68.26	5.64	3.00
Debt ratios					
Direct debt growth (annual % change)	8.89	-3.19	-6.01	-10.96	-8.90
Interest paid/operating revenue (%)	3.69	2.76	1.90	1.28	0.96
Operating balance/interest paid (x)	2.9	4.4	8.8	12.8	15.4
Direct debt servicing [b] /current revenue (%)	6.48	7.70	5.15	6.68	4.44
Direct debt servicing [b] /operating balance (%)	60.12	64.08	31.08	40.78	30.07
Direct debt/current revenue (%)	63.48	59.01	50.95	43.83	35.62
Direct risk/current revenue (%)	72.64	66.04	54.08	44.96	36.39
Direct debt/current balance (yrs)	8.60	6.09	3.4	2.87	2.54
Net overall risk/current revenue (%)	85.14	79.12	63.80	52.32	39.92
Direct risk/current balance (yrs)	9.83	6.82	3.61	2.94	2.59
Direct debt/GDP (%)	4.25	4.16	3.91	-	-
Direct debt per capita (PLN)	2,668	2,572	2,417	2,152	1,952
Revenue ratios					
Operating revenue/budget operating revenue (%)	103.70	102.49	108.84	107.64	116
Tax revenue/operating revenue (%)	50.40	51.00	50.92	51.90	48.22
Modifiable tax revenue/total tax revenue (%)	36.94	34.60	35.56	32.81	31.7
Current transfers received/operating revenue (%)	30.66	29.95	27.84	28.18	32.28
Operating revenue/total revenue [c] (%)	65.71	72.61	79.98	83.36	90.81
Total revenue [c] per capita (PLN)	6,378	5,977	5,916	5,880	6,022
Expenditure ratios					
Operating expenditure/budget operating expenditure (%)	102.54	99.08	100.42	103.60	110.23
Staff expenditure/operating expenditure (%)	40.56	41.20	40.77	40.14	36.68
Current transfer made/operating expenditure (%)	12.12	12.21	12.61	13.55	13.28
Capital expenditure/budget capital expenditure (%)	115.38	94.05	90.40	82.26	108.10
Capital expenditure/total expenditure [d] (%)	39.01	29.35	28.27	23.04	17.84
Capital expenditure/local GDP (%)	4.09	2.79	2.67	-	-
Total expenditure per capita (PLN)	6,576	5,876	5,840	5,751	5,967
Capital expenditure financing					
Current balance/capital expenditure (%)	12.10	24.47	43.01	56.62	72.30
Capital revenue/capital expenditure (%)	84.78	93.86	70.94	73.15	50.79
Net debt movement/capital expenditure (%)	8.62	-4.97	-9.37	-19.99	-17.92

[a] includes financial revenue
[b] debt servicing = interest + principal repayment
[c] excluding new borrowing
[d] including debt repayment Source: Issuer and Fitch calculations

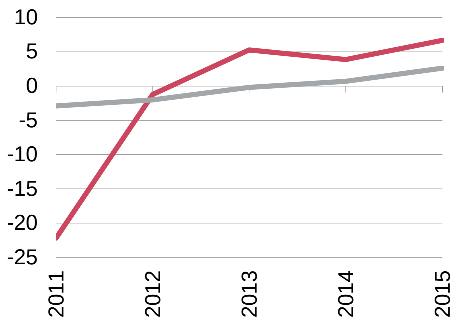
Appendix C
City of Gdansk

Peer Comparison

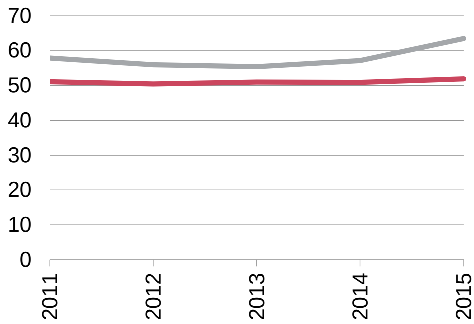
Operating Balance
% operating revenue



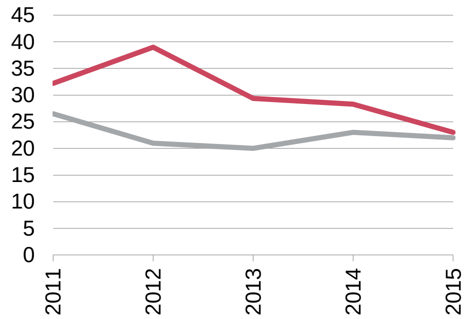
Surplus (Deficit)
% total revenue



Taxes
% operating revenue

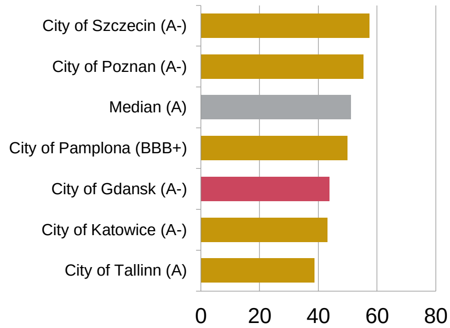


Capital Expenditure
% total expenditure

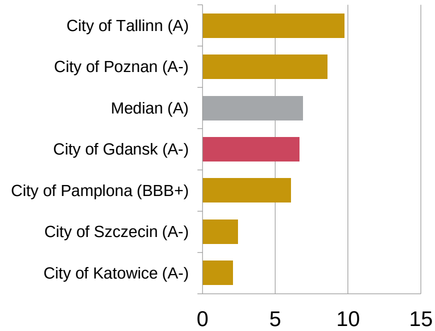


, City of Gdansk   A− Peer Group Median

Debt
To Current Revenue (%) 2015



Debt Servicing
To Current Revenue (%) 2015



The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.