

State of Berlin

Full Rating Report

Ratings

Foreign Currency

Long-Term Rating	AAA
Short-Term Rating	F1+

Local Currency

Long-Term Rating	AAA
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Outlooks

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

Financial Data

State of Berlin

	31 Dec 11	31 Dec 10
Operating revenue (EURbn)	19,750.3	19,192.3
Debt (EURbn)	62,914.4	61,910.9
Operating balance/operating revenue (%)	8.3	8.1
Debt service/current revenue (%)	52.0	54.6
Debt/current balance (yrs)	-114.3	-99.1
Operating balance/interest paid (x)	0.7	0.7
Capital expenditure/total expenditure (%)	5.1	5.9
Surplus (deficit) before debt variation/total revenues (excluding new debt) (%)	-5.2	-6.8
Current balance/capital expenditure (%)	-35.9	-35.2

Key Rating Drivers

Stability of Solidarity System: The ratings on the State of Berlin (Berlin) reflect the stability and sustainability of the “solidarity system” for German Laender. Under the German constitution, member states are jointly responsible for supporting a Land in financial distress. The Laender share equal responsibilities and must be able financially to fulfil their constitutional duties while exercising their right of autonomy. The federal government (the Bund) and all other federal members have to support a Land if it experiences “extreme budgetary hardship”.

Liquidity, Good Cash Management: Liquidity risk is mitigated through bilateral and mutual agreements linking all the federated states and the Bund, ensuring their ability to assist one another. Cash would only not be forthcoming for a Land if there was a complete federation-wide breakdown, in which neither the other Laender nor the Bund itself could provide cash. Active liquidity management and proper treasury facilities prevent any temporary delays in the provision of support.

Extensive Financial Equalisation System: Extensive equalisation systems and an ambitious solidarity pact compensate for financial disparities. This framework requires financially stronger Laender to transfer part of their above-average tax proceeds to the financially weaker ones and to reduce the gap in the financial strength among the Laender to a minimum. Berlin is a net receiver within the financial equalisation system with transfers received totalling EUR5.1bn in 2011 (26% of operating revenue).

Debt Constraints From 2020: From 2020, Laender will have to run their budgets without taking on new debt. To comply with the new legislation, Berlin will have to follow a strict consolidation path during a transition period (until 2019). According to this, the deficit should narrow thanks to revenue growth exceeding expenditure growth. Berlin has committed itself to limit the annual operating expenditure growth to 0.3%.

Cost-Cutting Measures Established: The Stability Board, a common body of the Bund and the Laender to prevent budgetary hardship, recognised during the last review that Berlin does not comply with three of the four ratios established to assess the progress of consolidation towards a balanced budget. Together with the Stability Board and the Evaluation Committee, Berlin agreed on a cost-cutting plan and has to report on the current status of the consolidation plan to the Stability Board on a semi-annual basis.

Budgetary Performance Improved: After Berlin’s budget slightly rose in 2011, a significant improvement of (tax) revenues is expected in 2012. Although the positive trend is likely to lessen in 2012-2016, Berlin aims to reduce net new debt requirements to zero in 2015, taking into account the cap on spending growth of 0.3% annually.

Direct Risk, Contingent Liabilities: Berlin has the second highest debt per capita among the German states and sizeable contingent liabilities but its debt and debt service requirements are managed well in Fitch’s view. Risks associated to guarantees and its shareholdings are limited, as they are supervised and most of the shareholdings make profits.

What Could Trigger a Rating Action

Downgrade of Germany: A negative rating action would be triggered by a change in the ratings of Germany (‘AAA’/‘F1+’). Any change in the support scheme would require a review of the ratings.

Related Research

[Institutional Framework for German Subnationals \(April 2008\)](#)

[Germany \(September 2012\)](#)

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Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
16 Jan 2004		AAA
25 Mar 2005	AAA	

- Solidarity among the states enshrined in the constitution
- Extensive financial equalisation scheme
- Safe liquidity-management
- Debt break supports budgetary discipline

Rating Considerations

Solidarity Is Enshrined in the Constitution

According to the German Constitution (Article 20), the 16 Laender are equal partners with the federal government and have the same rights and duties, even though in practice they are subordinate in some areas. The distribution of responsibilities between the Bund and the Laender guarantees their integration into federal decision-making processes. On average, between one-half and two-thirds of federal laws require the Laender’s approval through the Bundesrat, one of the two legislative bodies in Germany and the one in which the Laender are represented.

The constitution recognises the need to iron out disparities in standards of living throughout the country and gives the Laender the opportunity to exercise financial independence. German financial federalism implies the need to balance resources between the constituent parts of the federation (the 16 Laender and the Bund). Hence the tax-sharing system and the double income-equalisation system (for further information, please see *Institutional Framework for German Sub-nationals*).

Mandatory Support for Laender Facing Financial Difficulties

In 1992 a ruling of the German Federal Constitutional Court highlighted the “Bundestreuekonzept” as a “solidarity principle”, according to which all members of the federal republic are jointly responsible for supporting a Land in financial distress. If a Land experiences “extreme budgetary hardship”, it is entitled to financial assistance from all other federal members, as in the cases of Saarland and Bremen after 1994. It is unlikely that support would not be forthcoming for any member of the federation that experienced financial distress.

Fitch considers that the decision made by the German Federal Constitutional Court on 19 October 2006 on Berlin’s appeal for extraordinary financial support reaffirmed the validity of the Bundestreuekonzept. This was despite the Federal Constitutional Court’s rejection of Berlin’s appeal for extraordinary support because the capital city had not reached a situation of extreme budgetary hardship. At the same time, the Constitutional Court reaffirmed the obligation for the federal government and the other Laender to provide financial support as a last resort (“ultima ratio”), should a Land become unable to fulfil its constitutional duties. In Fitch’s view, this confirms the strong support of German financial federalism, which has been one of the key rating factors (alongside the equalisation system and the Laender’s cash management) underpinning the ‘AAA’ rating assigned to the German Laender by Fitch since 1999.

Extensive Equalisation Scheme Compensates for Financial Disparity

This constitutional support system works together with the far-reaching tax-sharing and equalisation system to establish a preventative framework designed to help the Laender avoid financial difficulties. The main taxes, which are personal income, corporate and VAT, are shared between the Bund, the Laender and the local authorities. Tax rates are set by federal law, minimising competition between Laender, but giving them almost no tax discretion.

The three-stage equalisation process (“Laenderfinanzausgleich”) significantly reduces financial disparities between the Laender. The first two steps consist of sharing of VAT and other tax proceeds among the Laender themselves, while the third element takes the form of additional federal transfers to the weakest Laender. Differences in financial strength are almost entirely evened out. The 2001 reform of the equalisation system implemented in 2005 contained no fundamental changes to the previous system and confirmed the capacity of German federalism to guarantee financial solidarity among its constituent parts. A new solidarity pact (“Solidarity Pact II”) was also signed in favour of the five eastern Laender (Brandenburg, Mecklenburg-Western Pomerania, Saxony, Saxony-Anhalt and Thuringia) and Berlin, which will receive a total of EUR156bn during 2005-2020 to support their economic development.

Related Criteria

- [Tax-Supported Rating Criteria \(August 2012\)](#)
- [International Local and Regional Governments Rating Criteria \(August 2012\)](#)

Safe Liquidity Management Prevents Delay in Support

With respect to timeliness, Fitch believes that German Laender, run safe and predictable liquidity management procedures. Laender cash management covers one year so that a liquidity crisis could not arise unexpectedly. The Laender are tax collectors and their expenditure tends not to be volatile; they have substantial, predictable cash flows.

Their liquidity benefits from two kinds of short-term arrangement: daily cash transfers between the Laender as an alternative to the capital markets; and credit and back-up lines individually negotiated by each Land with banks, which are available at short notice. German Laender are on an equal footing with banks in the interbank market and therefore have good access to liquidity through a wide range of public and private banks.

Federalism Reform II

A commission made up of the federal council (Bundesrat) and the federal parliament (Bundestag) was established in December 2006 to prepare Federalism Reform II (Föderalismusreform II) — a fundamental reform of the constitutional rules for borrowing. The commission approved the reforms on 12 June 2009. A core item is the implementation of a debt limit for the Bund and the Laender. As a result, both will be required to balance their budgets without taking on new debt. Only the Bund will be allowed to increase net debt, up to 0.35% of GDP (structural debt).

Exemptions will be allowed during economic downturns to stimulate the economy and in extraordinary circumstances such as natural disasters when rapid support is required. Should the Bund or a Land make use of those exemptions, it will have to set up measures to reduce this debt within a specific period.

The rules apply from 2011 but following the financial crisis both the Bund and Laender will be permitted a transition period for the introduction of the new rules until 2015 (for the Bund) and 2019 (for the Laender). They have to prepare their financial plans so that the new rules will be met after the transition period.

The states of Berlin, Bremen, Saarland, Saxony-Anhalt and Schleswig-Holstein will receive extraordinary support totalling EUR800m annually from the Bund and the Laender during 2011-2019 to enable them to balance their budgets and comply with the new rules after the transition period. During this period, these states must take steps to consolidate the budget. Should they fail to do so, this support will be capped. During this transition period, Berlin will receive EUR720m of extraordinary support in annual instalments of EUR80m.

Compliance with these rules will be supervised by the Stabilitätsrat (a board comprising the federal minister of finance, the ministers of finance of the 16 Laender and the German Minister of Economy and Technology), as determined by the constitution. This should ensure early warning of budgetary hardship in any state and enable the timely introduction of counter-measures. Fitch views the reforms positively; they should promote greater budgetary discipline and establish serious cost-cutting measures, reduce structural deficits, and bring debt down to more manageable levels in the long term.

Political Context and Administration

Since November 2001 Berlin has been governed by a coalition of senators from the Social Democratic Party and the Left Party. Klaus Wowereit won a third five-year term as mayor in 2011 but formed a coalition with the Christ democrats (CDU). The next elections will take place autumn 2016.

Figure 1
Map of Berlin



Figure 2
GDP^a Per Capita of the Laender, 2011

Land	(EUR)
Hamburg	52,731
Bremen	42,505
Hessen	37,616
Bavaria	35,545
Baden-Wuerttemberg	34,943
North Rhine-Westphalia	31,893
Saarland	30,059
Berlin	29,153
Lower Saxony	28,306
Rhineland-Palatinate	28,311
Schleswig-Holstein	25,967
Saxony	22,970
Brandenburg	22,051
Thuringia	21,608
Saxony-Anhalt	22,336
Mecklenburg-Western Pomerania	21,363
Germany	31,440

^a At current prices
Source: VGR der Laender

Socio-Economic Profile

Demography, GDP and the Employment Market

Germany's capital is by far the largest city in the country. The population of Berlin stood at about 3.5m at end-2011 and increased by 1.2% from end-2010. Berlin reports – though small – a positive birth rate since 2007 but the growth was driven by a positive net migration balance of about 39,400 inhabitants in 2011. This is the largest growth since 1991, due to the capital's attractiveness for residents with affordable rents and its growing economy and its favourable position as Germany's social, educational and cultural centre.

Berlin's nominal GDP of EUR101.4bn grew by 2.3% yoy in real terms in 2011, below that of Germany, which grew by 3.0% at the same time. Driven by a broad service sector among others concentrated in public services (see Figure 3), the city's economy is less volatile compared with other German states. Nevertheless, Berlin's real GDP growth of 4.5% in 2008-2011 exceeded Germany's rate of 1.3% in the same period by more than three times.

Unemployment in Berlin was 11.8% in September 2012. The Land reported a significant fall in the unemployment rate of about 7% compared with September 2011, greater than the average fall in Germany. However, it remains the highest rate among the Laender, significantly above that of Germany (6.5%) and that of eastern Germany (9.9%). This is because Berlin compares well with other capitals or regional centres, often facing a higher demand of people searching for work, but lacking an adequate number of jobs. Given Berlin's more dynamic employment market, the unemployed usually stay in the city contributing to the high unemployment rate and to above-average social costs for the city.

Attractive Tourism Destination

Accounting for about 87% of employment, the service sector is the main contributor to Berlin's economy. Apart from public services, Berlin accounts for numerous companies offering services for enterprises, consulting and financial services. Another important pillar is tourism. Berlin is the most attractive destination in Germany and about 5.1m visitors came to Berlin in H112, 10.8% more compared with H111. The production sector and the pharmaceutical industry as well as branches like electronic equipment and machine building in particular still performed well during H112. However, manufacturing industry as a whole was not able to achieve the same turnover as in H111 and 2012 and 2013 will be challenging years.

Figure 3
Economic Structure of Berlin, 2011

Sector (as % of employment)	Berlin	Germany
Agriculture and forestry	<0.1 ^a	1.6
Production	12.5	24.7
Services	87.4	73.7
thereof Public Sector	8.5	6.4
Inhabitants per square kilometre	3,927	229

^a 0.04%

Source: State of Berlin, Arbeitskreis "Erwerbstaetigenrechnung des Bundes und der Laender", Statistical Office Berlin-Brandenburg

Budgetary Performance and Prospects

Due to its special status with extraordinary costs for political administration and its below-average financial strength, Berlin is a net receiver in the financial equalisation system and receives additional support measures. This totalled EUR2,616m from the horizontal and EUR937m from the vertical financial equalisation (including EUR43m for the extraordinary costs of political administration) and EUR1,527m payments from the Solidarity Pact II. Together this reached EUR5,080m in 2011 (26% of operating revenue). On top of this, Berlin receives an additional EUR80m to meet the requirement of a balanced budget in connection with the debt break starting 2020. Should Berlin fail to meet the consolidation path, the extraordinary

payments of EUR80m could be suspended. Consolidation pressure is also required to compensate for the declining payments from the Solidarity Pact II, which will end in 2019 when they amount to EUR398.7m for Berlin.

Stability Board and Berlin Agreed on a Five Year Consolidation Plan

Berlin is under special supervision in connection with the debt break¹. Since the Evaluation Committee recognised in May 2011 that Berlin exceeded the authorised limits for three of the four indicators² suggesting there is the risk of an imminent budgetary hardship in two or more years, it had to present a proposed five-year consolidation plan including measures to reduce borrowing requirements.

Berlin has presented a cost-consolidation programme for the years 2012-2016 to the stabilisation board which has been reviewed by the Evaluation Committee. The parties agreed on this programme in December 2011 containing some serious cost-cutting measures to reduce the net new funding requirements. Berlin's plan is to limit the annual expenditure increase to an average of 0.3%, what then should be sufficient to achieve a balanced budget at least by 2020. However, this is subject to the current environment and revenue expectations which may differ following a change of macroeconomic conditions. The plan contains an increase of revenues of 9% in the current year, 2.5% (2013), 1.6% (2014), 1.5% (2015) and 1.0% in 2016. Fitch views the expectations for 2012 as realistic (please see *Budgetary Performance* below).

Operating Revenue

Operating revenues again performed well in 2011. They totalled about EUR19.8bn and increased by 2.9% compared with 2010, but remained slightly below the record level of EUR20.1bn achieved in 2008. About 55% of the operating revenues consist of taxes and they increased by 3.4%. The increase in taxes was driven by income and corporate taxes (+6.9%) while municipal taxes grew lower by 3.4%. State taxes grew most (13.8%) but they were less significant, contributing only about 7% to the entire tax revenues. Transfers, the city's second important revenue source, remained at least unchanged. Charges and fees increased most by about 40%, but their overall contribution to the operating revenues was just 3.4%.

Figure 4
Tax Revenue^a

(EURm)	2007	2008	2009	2010	2011
Income and corporate tax	2,810	3,189	2,642	3,132	3,349
VAT	3,210	3,605	3,697	3,681	3,626
State taxes	1,155	917	647	645	734
Municipal taxes	2,852	2,974	2,712	3,022	3,125
Total	10,027	10,685	9,698	10,480	10,833

^a Does not contain all taxes which are included in "Taxes" in Appendix A
Source: State of Berlin

¹ An Evaluation Committee ("Evaluationsausschuß") meets twice a year, usually in May and October to review the current financial situation of the Laender. This assessment takes into account four different ratios: the structural funding balance per inhabitant, the borrowing ratio, (the share of net new borrowing on total expenditure), the debt per capita and the interest to tax ratio. The individual values of the Laender are compared with the Laender's average values. Laender breaking one or more of these ratios will come under supervision and have to report the current status of the approved consolidation plan to the Stability Board on a semi-annual basis. This contains an overview about the captured and the planned measures. Once a year before the meeting in May, they have also to report whether the decline in net new debt planned in the previous year has been achieved. Further measures may get proofed in accordance with the respective Laender, should the Stability Board recognise discrepancies from the consolidation path. Should these measures be insufficient, the Stability Board will decide on the demand for tighter measures. If budgetary hardship persists despite successful realisation of the consolidation programme, an updated consolidation programme will be adopted.

² For Berlin, the debt per capita ratio, the borrowing ratio and the interest to tax ratio were above the average value of the Laender

Capital Revenue

Capital revenues were about 5% of Berlin's total revenues (excluding new borrowing) in 2011. They remained stable and amounted to about EUR1bn. 61% have been transfers to investments from the federal government, 17% has been asset sales and sale of shareholdings and 22% were revenues from financial investments. For 2012-2016, the annual revenues are estimated at the level of the 2011 budget around EUR700m and higher capital revenues will be subject to the development of specific transfers granted.

Operating Expenditure Expected to Decrease

Operating expenditure amounted to EUR18.1bn in 2011 and increased by 2.7%, slightly below the operating revenue growth. Most important spending items were personnel costs and current transfers together accounting for about 64% of operating expenditure. Goods and services, the third largest spending item (25.3%) increased by 4.3% driven by refunds provided by Berlin. The remainder were interest costs, which increased by 0.8%. Despite a permanent debt increase, Berlin managed to limit the interest cost growth and benefits from the relatively low interest rate environment and its good capital market access. Berlin is exposed to an increase of interest rates, which will put pressure on operating expenditure following increasing funding costs of maturing debt.

To comply with the requirements of the Stability Board, Berlin established cost cutting measures, containing a commitment to limit the increase of total expenditure to 0.3% on an annual basis in 2012-2016. This includes a reduction of employees to 100,000 in 2015 from 105,800 at end-2011. However, following the current tariff agreement, personnel costs are budgeted to increase by 1.5% in 2013 and 2014. The remaining operating spending items are set to remain stable and lower capital expenditure should help to limit the total expenditure growth to 0.3% for the biannual budget 2013/14. For 2014-2016, Berlin still needs to find cost savings but limiting personnel costs could be key to limit spending growth. Fitch views Berlin's plan as realistic although additional spending items may occur, depending on the economic conditions during the planning period.

Capital Expenditure

Capital expenditure amounted to EUR1.5bn in 2011, not including the maturing items of the economic stimulus package ("Konjunkturpaket II"). Following Berlin's cost cutting plan, new investments have been postponed in general. Prioritisation is made for real estate maintenance and energetic measures. Investments will decrease by EUR24m in 2012 and the total savings until 2016 are estimated to amount to EUR524m.

Budgetary Performance Should Follow a Positive Trend

Berlin's budgetary performance slightly improved in 2011. The operating margin was 8.3% (2010: 8.1%) and some key ratios improved as well (see Appendix B of this report). Although 2011 was not an outstanding year, it showed a modest improvement. Together with cost-cutting measures and increasing tax revenues, Berlin could achieve a balanced budget even before the debt break starts in 2020. Following the most recent tax estimate as of May 2012 and current progress, tax revenues will significantly increase in 2012-2016. Compared with end-August 2011, they were already 10% higher yoy in August 2012. Berlin reported a deficit (before debt variation) of EUR1.5bn in August 2011, but this was a small surplus of EUR17.5m in August 2012, also driven by a slight decrease in total expenditure and interest and rebates in capital expenditure.

This means that the state's estimate of increasing total revenues by 9% in 2012 is currently achievable. Although GDP growth expectations for Germany's economy for 2013 have been halved to 1%, Fitch views Berlin's forecasts for 2013 and 2014 as still realistic: the 2.5% growth of total revenues could be achieved in 2013, since tax revenues usually react somewhat later producing a reduction in revenue growth to 1.6% in 2014.

Figure 5

Budget Forecast

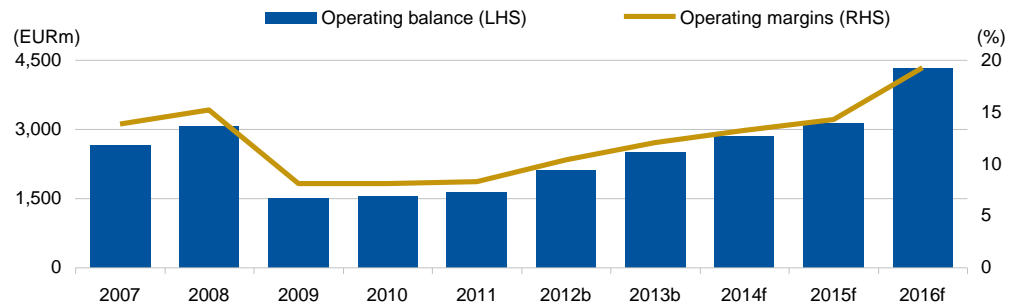
(EURbn)	2012	2013	2014
Revenue	21.7	21.9	22.4
Expenditure	22.6	22.5	22.7
Surplus (deficit)	-0.9	-0.6	-0.3

Source: State of Berlin

Limiting expenditure growth to 0.3% over the entire forecast period until 2016 will depend on economic progress and its impact on Berlin. Fitch expects no changes in the staff costs estimate, given no change in the current tariff system and reducing total staff as indicated. Uncertainties relate to the transfers and cost for goods and services. An economic decline corresponds with an increase in costs for social welfare putting pressure on this expenditure item, which is estimated to remain stable, backed by the Bund, which stepwise takes over the base assurance for social aid. Further risk is associated with the uncertainties around the airport Berlin-Brandenburg and its additional costs for Berlin (see *Contingent Liabilities* below).

Figure 6

Budgetary Performance



b - budget; f - forecast
Source: Berlin accounts, Fitch

Figure 7
Debt^a Per Capita of the Laender, End-2011

Land	(EUR)
Bremen	27,653
Berlin	17,695
Hamburg	11,862
Saarland	11,368
Schleswig-Holstein	9,401
Saxony-Anhalt	8,896
Thuringia	7,314
Rhineland-Palatinate	7,274
Brandenburg	7,173
North Rhine-Westphalia	7,053
Lower Saxony	7,072
Hessen	6,413
Mecklenburg-Western Pomerania	5,902
Baden-Wuerttemberg	3,918
Bavaria	2,315
Saxony	1,405
Laender average	6,491
Bund	13,101

^a Capital Market Debt
Source: Federal Ministry of Finance

Debt, Liquidity and Contingent Liabilities

Direct Risk and Structure of Debt

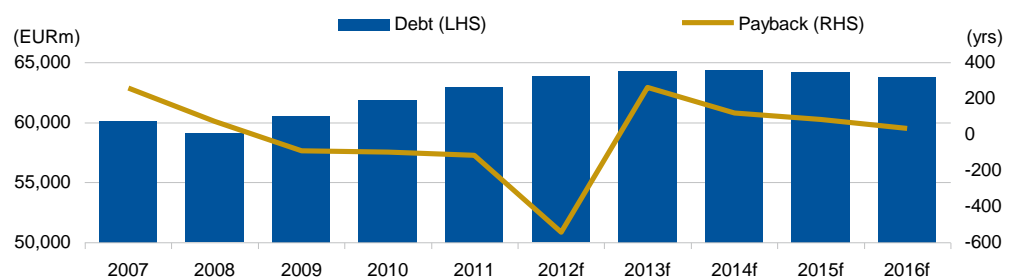
At end-2011, Berlin's total direct risk was high, amounting to EUR62.9bn (318% of current revenue). Berlin slightly slowed the debt increase to 1.6% (2010: 2.3%) and aims to cut it further over the entire planning period until 2016. According to the medium-term financial plan 2012-2016, Berlin aims to reduce debt for the first time since 2008 in 2015 by 0.2%.

In 2011, Berlin more than halved its net new funding requirements to EUR1.2bn (2010: EUR2.4bn) and funded a total amount of EUR9.2bn (2010: EUR10.7bn), 15% of existing debt. Most of the new debt consisted of bonds and the share of loans in total capital market debt further fell to 38% of total debt in 2011 (2010: 40%). At end-2011, the average lifetime of capital market debt was 6.8 years and the average annual interest rate was 3.33% (2010: 3.37%).

Following the current interest rate environment, Berlin has brought forward its maturity profile and large part (50.5%) of its debt outstanding will mature in the next four years. From the remaining debt, about 25.7% will mature between four and 10 years and 23.8% in more than 10 years. Berlin has some foreign-currency debt, but this only accounts for about 1.2% of the total debt.

Figure 8

Debt and Payback



f - forecast
Source: Berlin accounts, Fitch

Cash Management Is Secure

Good liquidity management and predictable cash flow planning is an essential part of the Laender's 'AAA' Long-Term ratings. Berlin, like all Laender, has excellent access to short-term liquidity from commercial banks, and the Bund and the Laender.

Contingent Liabilities

Berlin's outstanding guarantees totalled EUR26.3bn at end-2011 (43% of total direct debt). Most of the issued guarantees related to the Bankgesellschaft Berlin (BGB, EUR21.6bn) real estate transaction. Following the reorganisation of the Berliner Immobilien Holding GmbH (BIH-Group), operating under the name Berlinovo Immobiliengesellschaft mbH (berlinovo) since 16 July 2012, the former guarantee frame for BGB will be abolished and replaced by a guarantee according to § 39 Abs.1 of the state budget code for the remaining risks of BGB and the compensation for the insolvency risks of BIH then amounting to EUR3.8bn.

The new law was adopted on 25 October 2012 and will be effective after publication in Berlin's law and ordinance book (Gesetz- und Verordnungsblatt). Other guarantees of about EUR4bn relate to the debt of social housing associations, whose debt servicing is fully self-supported through flat rents and sales. This mitigates the risk for Berlin's budget.

Shareholdings

Berlin's 54 shareholdings (31 fully owned) are not consolidated in its accounts and supportive payments (2011: EUR652m on a preliminary basis) to the companies are included in the city's annual budget.

The companies' total debt was about EUR31.8bn at end-2011, 50.5% of Berlin's total direct debt. Most of the debt arising from Berlin's shareholdings related to Investitionsbank Berlin (development bank; EUR19.4bn), the main housing companies (EUR6.97bn), BVG (public transport; EUR801m) and Berliner Stadtreinigungsbetriebe (the local waste company; EUR317m). Risk related to debt of the state-owned development bank is partly mitigated by the bank's assets and the fact that a default by a development bank is unlikely due to its comparatively low business risk profile compared with that of most trading and investment banks.

Berlin also has a 37% share in the new airport Berlin-Brandenburg, together with the state of Brandenburg (37%) and the Bund (26%). The airport faces problems because of the two-year postponement of the beginning of construction date and uncertainties on its completion, now estimated as 27 October 2013. The shareholders need to provide additional funds for noise abatement and additional construction works following the postponement. Berlin has to cover solely EUR444m and set up an additional biannual budget 2012/13. It aims to fund this amount without taking on additional debt. The actual amount could further increase, should the estimated start of the new airport be delayed again.

High Pension Liabilities

Berlin is liable for pension payments to its civil servants. According to the city, the net present value of all outstanding pension liabilities was about EUR36bn at end-2011. Berlin only provides mandatory payments to the pension contribution plan (Sondervermögen "Versorgungsrücklage des Landes Berlin"). These totalled EUR452m at end-2011; most of the pension obligations are not covered. Berlin paid about EUR1.27bn pension payments to its civil servants and granted another EUR193m aid for aged beneficiaries, together accounting for about 8% of operating expenditures in 2011. EUR1.5bn is estimated annually for 2012-2014.

Neither the pension liabilities, which would normally be considered as other Fitch-classified debt, nor the contingent liabilities stemming from Berlin's development bank, are reflected in the guarantees and other contingent liabilities listed in Appendix A.

Appendix A

Figure 9
State of Berlin

(EURm)	2007	2008	2009	2010	2011
Taxes	10,084.8	10,685.3	9,726.0	10,501.7	10,859.4
Transfers received	7,574.8	8,012.0	7,604.7	7,350.0	7,366.9
Fees, fines and other operating revenue	1,527.2	1,411.2	1,406.9	1,340.6	1,524.0
Operating revenue	19,186.8	20,108.5	18,737.6	19,192.3	19,750.3
Operating expenditure	-16,539.4	-17,045.1	-17,221.8	-17,643.3	-18,110.0
Operating balance	2,647.4	3,063.4	1,515.8	1,549.0	1,640.3
Financial revenue	51.5	41.7	45.3	34.1	34.8
Interest paid	-2,465.8	-2,303.0	-2,233.3	-2,207.7	-2,225.5
Current balance	233.1	802.1	-672.2	-624.6	-550.4
Capital revenue	1,563.9	1,690.6	818.7	1,028.1	1,008.6
Capital expenditure	-1,657.9	-1,446.5	-1,543.4	-1,772.4	-1,534.2
Capital balance	-94.0	244.1	-724.7	-744.3	-525.6
Surplus (deficit) before debt variation	139.1	1,046.2	-1,396.9	-1,368.9	-1,076.0
New borrowing	4,698.9	6,969.8	11,118.2	10,700.5	9,294.2
Debt repayment	-7,318.3	-7,804.0	-8,385.8	-8,290.1	-8,065.0
Net debt movement	-2,619.4	-834.2	2,732.4	2,410.4	1,229.2
Overall results	-2,480.3	212.0	1,335.5	1,041.5	153.2
Debt					
Short-term	0.0	0.0	0.0	0.0	0.0
Long-term	60,123.0	59,074.5	60,540.9	61,910.9	62,914.4
Direct debt	60,123.0	59,074.5	60,540.9	61,910.9	62,914.4
+ Other fitch classified debt - pre-financing	0.0	0.0	0.0	0.0	0.0
Direct risk	60,123.0	59,074.5	60,540.9	61,910.9	62,914.4
- Cash, liquid deposits, sinking fund	1,493.0	97.2	148.0	191.0	31.8
Net direct risk	58,630.0	58,977.3	60,392.9	61,719.9	62,882.6
Guarantees and other contingent liabilities	27,803.5	27,098.0	26,988.3	26,606.9	26,276.2
Net indirect debt (public sector entities exc. gteed amount)	10,945.2	10,736.6	10,448.7	11,309.0	12,356.0
Net overall risk	97,378.7	96,811.9	97,829.9	99,635.8	101,514.8
Memo for direct debt (%)					
Foreign currency	0.4	0.9	0.9	1.2	1.2
Issued debt	100.0	100.0	100.0	100.0	100.0
Fixed interest rate debt	82.9	81.8	82.7	78.5	78.5

Source: Issuer and Fitch calculations

Appendix B

Figure 10
State of Berlin

	2007	2008	2009	2010	2011
Fiscal performance ratios (%)					
Operating balance/operating revenue	13.8	15.2	8.1	8.1	8.3
Current balance/current revenue ^a	1.2	4.0	-3.6	-3.3	-2.8
Surplus (deficit) before debt variation/total revenue ^b	0.7	4.8	-7.1	-6.8	-5.2
Overall results/total revenue	-11.9	1.0	6.8	5.1	0.7
Operating revenue growth (annual change)	8.5	4.8	-6.8	2.4	2.9
Operating expenditure growth (annual change)	1.4	3.1	1.0	2.5	2.7
Current balance growth (annual change)	123.3	244.1	-183.8	-7.1	-11.9
Debt ratios					
Direct debt growth (annual % change)	0.0	-1.7	2.5	2.3	1.6
Interest paid/operating revenue (%)	12.9	11.5	11.9	11.5	11.3
Operating balance/interest paid (x)	1.1	1.3	0.7	0.7	0.7
Direct debt servicing/current revenue (%)	50.9	50.2	56.5	54.6	52.0
Direct debt servicing/operating balance (%)	369.6	329.9	700.6	677.7	627.4
Direct debt/current revenue (%)	312.5	293.2	322.3	322.0	318.0
Direct risk/current revenue (%)	312.5	293.2	322.3	322.0	318.0
Direct debt/current balance (yrs)	257.9	73.6	-90.1	-99.1	-114.3
Net overall risk/current revenue (%)	506.2	480.5	520.9	518.2	513.1
Direct risk/current balance (yrs)	257.9	73.6	-90.1	-99.1	-114.3
Direct debt/GDP (%)	69.8	66.7	67.2	65.4	62.1
Direct debt per capita (EUR)	17,683	17,375	17,579	17,976	17,965
Revenue ratios					
Operating revenue/budget operating revenue (%)	101.0	103.0	100.3	106.1	106.9
Tax revenue/operating revenue (%)	52.6	53.1	51.9	54.7	55.0
Modifiable tax revenue/total tax revenue (%)	-	-	-	-	-
Current transfers received/operating revenue (%)	39.5	39.8	40.6	38.3	37.3
Operating revenue/total revenue ^b (%)	92.2	92.1	95.6	94.8	95.0
Total revenue ^b per capita (EUR)	6,118	6,424	5,692	5,881	5,938
Expenditure ratios					
Operating expenditure/budget operating expenditure (%)	100.6	101.4	102.3	100.6	101.5
Staff expenditure/operating expenditure (%)	37.7	36.9	36.5	36.6	36.5
Current transfer made/operating expenditure (%)	36.6	35.8	35.6	35.5	35.1
Capital expenditure/budget capital expenditure (%)	100.6	100.24	81.8	94.5	98.7
Capital expenditure/total expenditure (%)	5.9	5.1	5.3	5.9	5.1
Capital expenditure/local GDP (%)	1.9	1.6	1.7	1.9	1.5
Total expenditure per capita (EUR)	8,230	8,411	8,532	8,686	8,548
Capital expenditure financing (%)					
Current balance/capital expenditure	14.1	55.5	-43.6	-35.2	-35.9
Capital revenue/capital expenditure	94.3	116.9	53.1	58.0	65.7
Net debt movement/capital expenditure	-158.0	-57.7	177.0	136.0	80.1

n.a.: Not available

^a Includes financial revenue

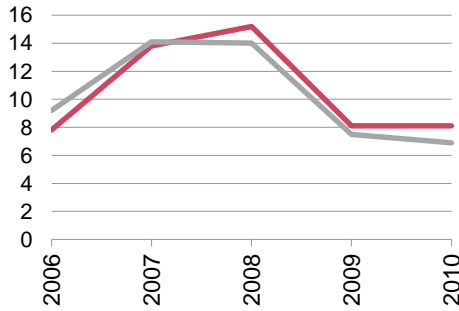
^b Excluding new borrowing

Source: Issuer and Fitch calculations

Appendix C
State of Berlin

Peer Comparison

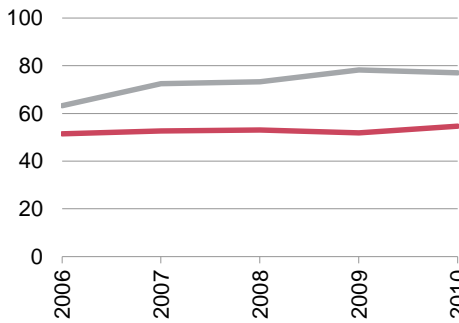
Operating Balance
% Operating Revenue



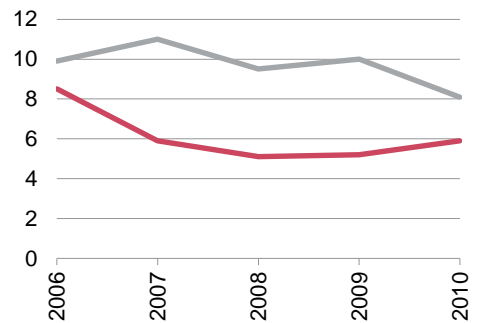
Surplus (Deficit)
% Total Revenue



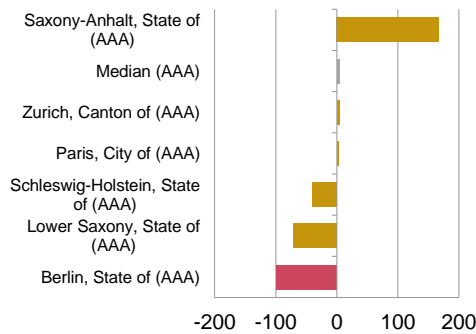
Taxes
% Operating Revenue



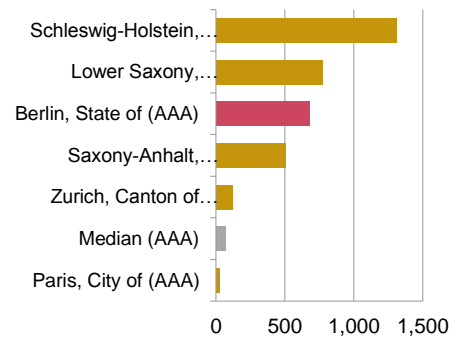
Capital Expenditure
% Total Expenditure



Debt
To Current balance (Years) 2010



Debt Servicing
To Operating Balance (%) 2010



— State of Berlin

— AAA Peer Group Median

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