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Bulletin:

Arrest Of Zagreb Officials Does Not Immediately Affect Ratings On Croatian City of Zagreb Or On Zagrebacki Holding

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FRANKFURT (Standard & Poor's) Oct. 22, 2014--Standard & Poor's Ratings Services said today that the arrest of the City of Zagreb's mayor, Milan Bandic, along with Zagrebacki Holding's CEO Slobodan Ljubicic and several other individuals, has no immediate effect on its rating on Zagreb (BB/Stable/--) or on Zagrebacki Holding d.o.o. (ZGH; B/Stable/--).

We understand that Zagreb's deputy mayors, responsible for economy and finance, as well as ZGH's deputy CEO will ensure the continuity of both entities' daily operations, including timely debt servicing. As we have stated previously, we recognize that the holding company's weak liquidity position has been improving and that ZGH is increasingly relying on long-term financing (see "Outlook On Croatia-Based Zagrebacki Holding Revised To Stable On Improved Liquidity Position; 'B' Rating Affirmed," published Aug. 19, 2014, on RatingsDirect).

However, we believe risks may heighten if the uncertainty regarding the city's political leadership and ZGH's management persists. ZGH is undergoing complex restructuring, under close supervision and support from Zagreb. This process, which includes asset sales, revenue increases, further cost-cutting, and liquidity improvements, requires close cooperation with the city and ZGH's prime lenders. Material delays in restructuring could increase the pressure on ZGH's finances and liquidity. We will closely monitor developments regarding

the arrests and possible implications for the city and ZGH's operations, liquidity, and restructuring.

RELATED RESEARCH

Outlook On Croatia-Based Zagrebacki Holding Revised To Stable On Improved Liquidity Position; 'B' Rating Affirmed, Aug. 19, 2014

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