

FITCH AFFIRMS ITALY'S REGION OF VALLE D'AOSTA AT 'A'; OUTLOOK NEGATIVE

Fitch Ratings-Milan/London-19 September 2013: Fitch Ratings has affirmed the Region of Valle d'Aosta's (VdA) Long-term foreign and local currency ratings at 'A' and Short-term foreign currency rating at 'F1'. The Outlooks on the Long-term ratings are Negative, mirroring those on Italy's sovereign rating. The agency has simultaneously affirmed the Long-term ratings of the EUR52m and EUR543m (bullet) bonds, maturing in 2026 and 2021, respectively, at 'A'.

KEY RATING DRIVERS

Fitch expects VdA's economy to return to growth in 2014 (+0.5%), driven by tourism inflows and recovery in consumption thanks to modest household debt and unemployment rates of 7%-8%. Tax resiliency supports Fitch's projections of revenue stability in 2013-2015, balancing tax growth with revenue compression stemming from VdA's contribution to Italy's budget consolidation, such as in 2012 and 2013. VdA's small size gives rise to some degree of concentration, mitigated by the good health of large taxpayers (i.e. CVA).

Despite the downturn and shocks to Italy's economy, VdA's operating performance has proved resilient, averaging 25% (EUR300m) in 2009-2012, according to Fitch's adjusted figures. However, under Fitch's base case scenario, the operating margin is expected to decrease to around EUR200m (10%-15%) in the medium term, mainly due to the region's contributions to the efforts to balance the national budget.

As VdA continues to pursue a balanced budget policy, capital expenditure results are tailored to current surpluses in 2013-2015, likely halving to EUR200m. Regional companies, primarily the development agency Finaosta, supplement public spending and sustain local economy. However, despite the good standard of socio-economic infrastructure, including an airport that will soon be operational, Fitch expects VdA to resume borrowing by 2015 (EUR100m) to fund high profile projects, such as hospital renovation, amid reduced spending flexibility.

Direct debt has been declining since 2007 and should fall towards EUR250m by 2015, below 20% of operating revenue net of the sinking fund (EUR296m at 2012) for the bullet bond, while interest rate swaps hedge VdA's debt against interest rate fluctuations. Fitch forecasts satisfactory debt protection ratios in 2013-2015 - with the payback ratio remaining at around two years - even adding all of the committed EUR150m potential debt for Finaosta, which has so far used half of this amount.

The region's asset quality is underpinned by EUR1bn of real estate assets and stakes in local companies - with contingent liabilities considered immaterial by Fitch - a buffer against future unexpected needs. Fitch expects cash reserves to hover around EUR100m in the medium term, or 1.5x the annual debt service, while the fund balance could eventually be exhausted in the medium term as the region keeps postponing borrowing.

VdA's ratings are above Italy's sovereign ratings, which reflects Fitch's view that its budgetary flexibility allows the region to maintain an healthy budget while coping with external pressures, including contributions to national budgetary consolidation. The protection granted by its special autonomous status shields the region from the risk of unilateral interference by the state, including risks of annual budgetary appropriations.

RATING SENSITIVITIES

Although its ratings remain above those of the sovereign, VdA was downgraded in 2012-2013 following Italy's downgrades. Fitch narrowed the notching difference to two from three, to reflect the risk that an intensification of macroeconomic stress weakens the predictability of intergovernmental relations. A downgrade of Italy, a prolonged economic downturn that weakened

tax generation, or a structural decline of the margin below 10% could result in a downgrade of VdA's ratings.

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Applicable criteria 'Tax-Supported Rating Criteria' dated August 2012, 'International Local and Regional Governments Rating Criteria' dated April 2013 and 'Rating Subnationals Above the Sovereign - Outside US' dated May 2012 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

International Local and Regional Governments Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=704438

Rating Subnationals Above the Sovereign – Outside US

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=675029

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