

Valle d'Aosta, Autonomous Region of (/gws/en/esp/issr/88380856)**Fitch Affirms Italian Region of Valle d'Aosta at 'A-'; Outlook Stable**

Fitch Ratings-Milan/London-17 November 2017: Fitch Ratings has affirmed the Region of Valle d'Aosta's (VdA) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'A-' with Stable Outlook and Short-Term Foreign-Currency IDR at 'F1'. The long-term ratings on the region's senior unsecured bonds have also been affirmed at 'A-'.

KEY RATING DRIVERS

The affirmation reflects VdA's high financial autonomy, which is due to its constitutionally granted special status, underpinning the region's sound budgetary performance, including a balanced healthcare sector, despite transitory pressures from revised revenue attribution as defined by the national government. The affirmation also reflects VdA's robust debt ratios, solid liquidity, prudent management and wealthy albeit small economy. The Stable Outlook factors in our expectation that VdA will maintain its special status of autonomy and solid budgetary performance over the medium term.

[Autonomy Underpins Ratings: VdA is eligible to be rated above the sovereign (BBB/Stable) by virtue of its institutional strength and high financial autonomy, which entitles the region to receive 100% of major national taxes (PIT, CIT and VAT).

The special status underpins the region's tax revenue resilience and limits dependence on state transfers, allowing the region to maintain a solid budgetary performance while coping with the pressures stemming from Italy's public finances consolidation. The latter includes changed tax attributions, leading to a nearly EUR140 million annual reduction in 2015-2017 compared with 2014 and about EUR250 million contributions to national budget consolidation (EUR260 million in 2017). The latter will be reduced by nearly 60% in 2018, more than offsetting declining revenue, while a new agreement with the national government is expected to set contributions from 2019 onwards, in line with 2018 level.

Fitch believes that the two-notch buffer above the 'BBB' sovereign rating (three notches are the maximum allowed by Fitch criteria) captures potential intervention by the state and the subsequent risk of weakening predictability of inter-governmental relations.

Robust Operating Performance: Due to the higher contribution to national budget consolidation, revised attribution of excise duties on beer and energy and import duties, as well as decreasing transfers that are only partially compensated by a tight grip on operating costs, the regional operating margin was 14% at end-2016, lower than the 18% average in 2013-2014. Fitch expects the operating margin will remain stable in 2017, while in 2018 it will return to 2014 levels due to lower contributions to the national government. The region preserves healthy financial flexibility via expenditure control and resilient revenue, benefiting from an additional 5% fiscal leeway, while margin will provide resources to self-fund part of VdA's capex.

Thanks to increasing regional transfers and ongoing structure rationalisation, Fitch expects the healthcare sector will remain balanced over the medium term absorbing less than 25% of operating revenue.

Sustainable Risk: VdA's debt was EUR584.2 million at end-2016 (down from EUR670 million in 2011) when including the sinking fund for bullet bonds (accounting for EUR443 million) and EUR3.8 million debt serviced by the state. Fitch forecasts VdA's direct debt to decline to EUR530 million by 2020, or a moderate 40% of the budget, with a direct debt-to-current balance around 2.5 years (3.4 years in 2016).

Fitch expects VdA's overall risk to remain sustainable at below 50% of operating revenue, including Finaosta's full financial debt of EUR370 million (EUR175 million drawn at end-2016 and expected EUR280 million as a maximum drawdown amount by 2019). Its robust cash-generating capacity, supported by excellent tax collection should allow liquidity to remain sound in 2017-2020. This is in line with the region's average cash balance of EUR200 million in 3Q17, covering debt servicing by more than 3x.

Prudent Management: Fitch expects VdA will maintain a stable and prudent budgetary policy aimed at reducing financial debt and maintaining a tight grip on costs. In Fitch's central scenario, VdA will increase capital spending to around EUR500 million in 2017-2020 from about EUR300 million in 2014-2016 after the region's decision to self-fund its investment plan through current surpluses, reserves and only partially through its development company, Finaosta. Investment will focus on transportation, schools, buildings, agriculture, and tourism activities.

Fitch expects VdA to reverse the EUR200 million fund balance deficit posted at end-2016 after an extraordinary revision and reallocation of payables and receivables, well ahead of the 30-year deadline allowed by the national government, due to its solid budgetary performance.

Wealthy but Small Economy: VdA's remains one of the wealthiest region in Italy and Europe with a GDP per capita, at around

25% above the EU average, although it is the smallest Italian region, with 127,000 inhabitants and a GDP of EUR4 billion. The regional economy is driven by tourism and industry, supporting an almost stable employment around 66% which is above the national average (57%). The regional quite resilient economy underpins its tax base, maintaining GDP growth in line with national one, or around 1% in 2017.

RATING SENSITIVITIES

As VdA's rating is constrained by the sovereign ratings, any rating actions on Italy will be mirrored in VdA's ratings.

A downgrade could be triggered by unfavourable changes in the region's statute of autonomy. A prolonged economic downturn leading to a sharp deterioration of the operating margin on a sustained basis could also result in a downgrade of VdA's ratings.

Contact:

Primary Analyst

Federica Bardelli

Associate Director

+39 02 879087 261

Fitch Italia Spa

Via Morigi 6 - Ingresso Via Privata Maria Teresa, 8

20123 Milan

Secondary Analyst

Gian Luca Poggi

Director

+39 02 87 90 87 293

Committee Chairperson

Vladimir Redkin

Senior Director

+7 495 956 2405

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016)

(<https://www.fitchratings.com/site/re/878660>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (<https://www.fitchratings.com/site/dodd-frank-disclosure/1032534>)

Solicitation Status (<https://www.fitchratings.com/site/pr/1032534#solicitation>)

Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings)

(<https://www.fitchratings.com/understandingcreditratings>). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE

OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM

(<https://www.fitchratings.com>). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS

SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE

FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE

CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE

AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory) (<https://www.fitchratings.com/site/regulatory>).

FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD

PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-

REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone:

1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except

by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast

information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes

to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its

ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such

sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of

the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and

practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligatory being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

Unsolicited Issuers:

| Entity/Security | ISIN/CUSIP/COUPON RATE | Rating Type | Solicitation Status |
|---|------------------------|--|---------------------|
| Valle d'Aosta, Autonomous Region of | - | Long Term Issuer Default Rating | Unsolicited |
| Valle d'Aosta, Autonomous Region of | - | Short Term Issuer Default Rating | Unsolicited |
| Valle d'Aosta, Autonomous Region of | - | Local Currency Long Term Issuer Default Rating | Unsolicited |
| Valle d'Aosta, Autonomous Region of EUR 543 mln Floating Rate Notes 28 May 2021 | XS0129991864 | Long Term Rating | Unsolicited |
| Valle d'Aosta, Autonomous Region of EUR 74 mln 4.197% Notes 31 Dec 2026 | IE00B1LD3052 | Long Term Rating | Unsolicited |

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The