FITCH REVISES ITALY'S REGION OF VALLE D'AOSTA'S OUTLOOK TO STABLE; AFFIRMS AT 'A'

Link to Fitch Ratings' Report: Autonomous Region of Valle d'Aosta - Rating Action Report
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=774308

Fitch Ratings-Milan/London-12 September 2014: Fitch Ratings has revised the Region of Valle d'Aosta's (VdA) Outlook to Stable from Negative and affirmed its Long-term foreign and local currency Issuer Default Ratings (IDR) at 'A' and Short-term foreign currency IDR at 'F1'.

The agency has also affirmed the Long-term ratings of the region's EUR74m and EUR543m (bullet) bonds, maturing in 2026 and 2021, respectively, at 'A'.

KEY RATING DRIVERS
The rating actions reflect the following rating drivers and their relative weights:

High:
Institutional framework: The revision of the Outlook reflects the corresponding action on the Republic of Italy (see 'Fitch Revises Italy's Outlook to Stable; Affirms at 'BBB+'' dated 25 April 2014 at www.fitchratings.com). VdA is eligible to be rated above the sovereign by virtue of its institutional strength and high degree of financial and fiscal autonomy, which are protected by the Italian Constitution from the risk of unilateral decisions by the state regarding revenue and spending responsibilities. Contributions to national consolidation efforts are subject to bilateral agreements. Fitch does not expect changes in VdA's statute of autonomy.

VdA's IDRs also reflect the following key rating drivers:

Finance: Fitch expects VdA's operating margin to stabilise at the current level of 15% over the medium term (EUR200m), down from 25% in 2012, mainly due to the region's contribution to the national budget consolidation. In Fitch's view, VdA's budgetary flexibility and the mild GDP recovery (0.5%) expected for 2015 will allow the region to maintain a healthy budget while coping with external pressures, including contributions to national budget consolidation, expected to double to almost EUR200m in 2014-2015. Nevertheless, yearly debt service requirements of about EUR70m will continue to be comfortably covered in the medium term.

Debt: As a result of the region's commitment to avoid new borrowing, net direct debt is expected to continue declining towards EUR240m by the end of 2014 (net of EUR323m sinking fund for the bullet bond and of the debt at charge of the state) and, in Fitch's central scenario, hover around EUR230m in the medium term, down from EUR380m in 2010. At the same time, in the effort to match available resources, cumulative direct investment could halve to EUR200m, although regional companies could eventually step in and increase their share in public spending to support the local economy.

Economy: Despite being the smallest of the Italian regions, VdA's socio-economic profile is above the national average in terms of wealth indicators (GDP per capita about 30% above EUR-28 average) and unemployment rate (8% in 2013, compared with 13% nationally). Fitch expects the unemployment rate to remain broadly stable, thanks to the region's appeal as a tourist destination, as about 25% of the local workforce is directly or indirectly involved in hotel and restaurant activities

RATING SENSITIVITIES

An upgrade of Italy would be reflected by VdA's ratings, provided that the region continues to perform in line with Fitch's expectations. Conversely, 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.

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Applicable criteria 'Tax-Supported Rating Criteria' dated 14 August 2012, 'International Local and Regional Governments Rating Criteria' dated 23 April 2014 are available at www.fitchratings.com.

Applicable Criteria and Related Research:
International Local and Regional Governments Rating Criteria - Outside the United States
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=719656
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015