

FITCH REVISES CITY OF NAPLES' OUTLOOK TO NEGATIVE; AFFIRMS RATINGS

Fitch Ratings-Milan/London-27 March 2007: Fitch Ratings has today revised the City of Naples's Long-term rating Outlook to Negative from Stable. At the same time the agency has affirmed Naples' ratings at Long-term foreign and local currency 'A' and Short-term foreign currency 'F1'. The action affects approximately EUR1.4bn of debt outstanding at end-2006 as well as future annual gross borrowings of about EUR100m over the medium term.

The change in Outlook considers Naples' growing debt against a backdrop of declining State transfers and of low collection rates on taxes/fees, which have led to decreasing operating performance on both accrual and cash basis of accounting in the last three years. Debt service coverage ratio has slipped to 1x on average in 2004-2006 from 1.5x in 2001-2003, resulting in lower operational flexibility.

The Outlook could be revised to Stable if the projected debt stabilization is accompanied by tangible improvements in cash collection. Downward rating potential could stem from further slippage of debt service coverage if cash collections are not improved and tax/fee growth does not offset lower public sector support on operation. The ratings also take into consideration the strong commitment of the administration to instil fiscal discipline and to sustain the local economy, which will be fundamental to widen the city's tax/fee base and ultimately underpin its long-term financial viability.

With around 1 million people, Naples is Italy's third-largest city and has the highest population density among Italy's largest cities. Despite its key role in southern Italy's economy, GDP per capita at the municipal level is estimated to be 30% below the EU27 average, while the unemployment rate is a high 17%.

A credit update on the City of Naples will soon be available on the agency's subscription website, www.fitchresearch.com.

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