Italy
Credit Analysis

Autonomous Province of Trento

Ratings

	Current Rating
Foreign Currency	
Long-Term	AAA
Short-Term	F1+
Local Currency	
Long-Term	AAA

Outlook

Long-Term Foreign Currency	Stable
Long-Term Local Currency	Stable

Financial Data

Autonomous Province of Trento

	31 Dec 07	31 Dec 06
Operating revenue (EURm)	3,796.1	3,675.7
Debt (EURm)	0.0	0.0
Operating balance/	34.1	33.9
Debt service/current revenue (%)	0.0	0.0
Debt/current balance (yrs)	0.0	0.0
Operating balance/	0.0	0.0
Capital expenditure/	36.7	37.6
Surplus (deficit) before debt variation/	0.3	0.1
Current balance/	89.2	85.3

Basis of accounting: modified accruals

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Related Research

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- Credit Analysis on Cassa del Trentino SpA
- Credit Analysis on Patrimonio del Trentino S.p.A.
- Credit Analysis on Trentino Trasporti
- Credit Analysis on University of Trento

Rating Rationale

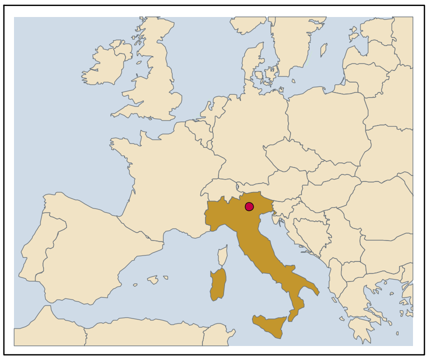
- The Autonomous Province of Trento's 'AAA' rating reflects its long track record of solid financial performance and flexibility, efficient management, special prerogatives of autonomy, and wealthy and dynamic economy. The province's high degree of legislative, administrative and financial autonomy, which gives it powers and functions similar to those of a special statute region, is protected not only by the Italian constitution, but also by an international agreement that shields the province against unilateral changes by the state. In addition, the eventual reform of the funding system for Italian ordinary-status regions is not expected to significantly affect the province's autonomy.
- Trento has an excellent and resilient financial situation, which is expected to continue in the medium term, with ample current balances at 34% of current revenue, completely self-financed investments, and a fully tax-financed, high-quality healthcare system.
- The province has significant budgetary flexibility resulting from its high level of annual investments at 40% of total spending, particularly as it is already well equipped with infrastructure, and its valuable real estate and financial assets.
- It has no directly issued/contracted financial debt, but growing financial commitments related to the fully serviced and/or directly paid debt of provincial entities. Fitch Ratings does not expect these liabilities to be more than EUR1.5bn by 2010, accounting for about 50% of current revenue and 1.5 years of current balance, which compares well with 'AAA'-rated peers. In addition, the province's fiscal return from these liabilities, totalling EUR150m, partly offsets the financial exposure.
- The wealthy and dynamic local economy directly underpins the province's finances, as its revenue is mainly made up of taxes generated and collected in the territory, unlike in ordinary-status regions.
- The province has efficient management, including daily monitoring of its financial and cash position, and a prudent but proactive budgetary approach, which contributes to operational accuracy, mitigating mismatches between revenue and expenditure.
- The province has some exposure to state tax decisions relating to base and rates that could reduce Trento's revenue. However, Fitch considers the risk low and believes the province's finances to be resilient enough to offset the potential negative effects of the central government's financial decisions.

Key Rating Drivers

- A negative rating action could be prompted by an unexpected acceleration of financial - direct and indirect - debt, alongside a substantial reduction in operating performance. In addition, given that the province's 'AAA' rating is three notches above Italy's rating ('AA-'/Stable) - the maximum level allowed under Fitch criteria - any negative rating action on Italy would automatically also affect the province's rating.

Profile

Trento, in the wealthy north-east of Italy, is a small province with a population of about 513,000, a GDP per capita 23% above the EU-27 average and unemployment at a low 2.9% in 2007.



Socio-Economic Profile

Demographics

The Autonomous Province of Trento has about 513,000 inhabitants. Its population has been growing by an annual average of 1.2% since the beginning of the 2000s, thanks mainly to positive migration inflows from non-EU countries, but also to slightly positive natural balances. Foreign residents account for a significant 7% of the province's population. This sustains the local labour market and allows the province to keep the employment rate high (65.5%) and unemployment frictional at 2.9% in 2007. The higher concentration of foreign residents in the working-age brackets is helping to slow the ageing profile of the provincial population: the proportion of people above 65, at 19%, remains 1% below the national average and should not put unexpected pressure on the province's healthcare spending, which provides services well in excess of the compulsory minimum standard set by law.

Economic Structure and Performance

The administration is well aware of the strategic importance of the local economy, given its close correlation with the provincial budget. It has supported the economy through investment over the years, mainly focusing on infrastructure, services and research and development. A comparison of per capita capital expenditure in Trento and Italy provides evidence of this: in the past five years, the province has spent 3x more than the Italian average.

The provincial economy is service oriented, with this segment accounting for 71% of local GDP and 67% of the workforce. Tourism is an important component of local development and has been very dynamic in recent years, with tourist activities expanding. Traditional ski-related tourism has been joined by wine-gastronomic, cultural and economic tourism (eg the Festival dell'Economia), which has allowed the province to achieve a more seasonally balanced distribution of tourist stays (30 million days of presence in 2007).

GDP Breakdown

(%)	Trento	Region TAA[a]	Italy
Agriculture	2.9	3.4	2.0
Manufacturing	20.5	16.6	20.5
Construction	5.4	7.5	6.1
Services	71.2	72.4	71.3
Total	**100.0**	**100.0**	**100.0**

[a] Trentino Alto Adige
Source: Istituto Tagliacarne

The province has a fast-growing university and a notable network of 19 research centres (eg COSPI, established by Microsoft jointly with the university and dealing with life sciences and IT, and Fondazione Kessler, working on IT, innovative materials and microsystems). These play a crucial role in fostering know-how and technological transfer to local companies, and positively contribute to the province's skilled workforce and the creation of new valued-added companies.

The province has a mature, diversified industrial sector with many small and medium-sized companies, which account for 26% of GDP (of which construction 5.4%) and 28% of the workforce. Its main activities include traditional silk manufacturing, wood processing, chemicals and paper. Traditional industries, which employ about 9,000 people, are well supported by an extensive network of co-operative banks, research centres and vocational training.

Economic Summary 2007

Household debt/GDP[b] (%)	25.7
GDP 2008 growth[b] (forecasts %)	1.2
GDP per capita[a] (EU-27=100%)	122.7
Unemployment rate[a] (%)	2.9
Employment rate[a] (%)	65.4
Export/GDP[a] (%)	23

[a] Provincial level
[b] Regional level
Source: Banca d'Italia, Unioncamere and Fitch

Agriculture accounts for 3% of GDP and 5% of the workforce, with main products in grain, tobacco, fruit and wine. Quality produce, such as apples (Melinda) and wines (Teroldego, Marzemino, and sparkling wine by Ferrari S.p.A.) are largely exported. Exports' importance to local GDP has risen to 23% in 2007 from 17% in 2000, with the main markets being Germany and France.

Growth Prospects

Trento's GDP real growth largely outpaced the national one in 2007 (2.5% compared with 1.5%). This was the combined effect of factors including: the diversity of the local economy and the still moderate, although growing, export orientation, which have shielded the province from sectoral crises and made it less dependent on external demand; buoyant internal consumptions (Trento is in second place for per capita consumption in the national context), fuelled by a more structural contribution from tourism; and the maintenance of constant and high levels of public investment. Trento's future real growth is therefore expected to be less affected by adverse international cycles than Italy as a whole. Growth could be more than double the national rate in 2008 (1.2% compared with 0.5% for Italy), preserving the good labour market position.

The province's long-term economic growth potential should also be underpinned by the upgrading of the transport system along with the EU's Corridor no. 1 (Palermo-Berlin) and the Brennero Eurotunnel (estimated overall cost of EUR6bn to be mainly financed by the central government of Italy and Austria), and by the public funding available for R&D projects by the university, research centres and businesses.

Administration and Political Context

Considerable Autonomy Compared with Other Italian Regions

Trento has extensive legislative and financial powers guaranteed by the Italian constitution, based on an international agreement with Austria recognising the province's distinct cultural, historical and linguistic heritage. The province has functions and powers similar to those of an Italian special statute region. Central government retains exclusive powers over policing, justice, defence, foreign policy and pensions. Shared areas of responsibility – where Trento has a large say in the management and funding – include healthcare, education, roads and transport. All other governmental functions are the exclusive responsibility of the province.

The province's wide-ranging financial autonomy includes the power to levy its own taxes, the right to retain a share (about 90%) of direct and indirect central government taxes generated in the province, and the right to receive 90% of any new tax introduced by central government collected in its area. Trento is to some extent exposed to central government tax decisions as the latter may change tax rates and the bases of devolved taxes, which make up most of Trento's revenue. However, Fitch believes this risk to be sufficiently low. In addition, a possible tax cut implemented by the central government would not necessarily affect provincial revenue, as it could boost the local economy, and, accordingly, Trento's finances.

The province's autonomy is given effect by special laws ("norme di attuazione") that cannot be unilaterally modified by ordinary national legislation. Central government cannot introduce legislation affecting the autonomy of the province without prior negotiation and approval through a special commission ("Commissione Paritetica") composed of members nominated by central government and by the two autonomous provinces.

Administration's Priorities and Management

The province has always been governed by centre or centre-left autonomist parties, with the current Provincial President, Mr Lorenzo Dellai, in office since 1998. Over the years, this has guaranteed the unity and stability of the provincial board, while simultaneously protecting and preserving common interests, such as the province's autonomy. Mr Dellai is likely to run again in the forthcoming provincial election in October 2008. The Provincial President, together with the President of the Autonomous Province of Bolzano ('AAA'/Stable), holds the presidency of the Region of Trentino-Alto Adige. This enables smoother and more co-ordinated administrative and financial relations between the province and the region.

The administration has been focusing on three main areas:

- It is carrying out a broad institutional reform of the provincial system. The Province retains legislative, programming and control powers, while local governments are being gradually delegated most responsibility for administrative and service functions. A special council will serve as a conduit for the opinions of local governments in the province's programming/planning activities for public finance and socio-economic issues. New financial resources will be allocated to the local governments, with a neutral impact on provincial

Investment Plan 2008-2010 Forecast (EURm)

General administration	100
Education and culture	700
Social sector and housing	700
Local authorities	800
Territory, economic development, environment	2,000
Others	500
Total investments	**4,800**
Current balance	4,400
Capital transfers/asset sales	400
Total resources	**4,800**

Source: Autonomous Province of Trento and Fitch

accounts: more transfers will go to the municipalities, but the province will have fewer direct responsibilities and therefore less expenditure. A new intermediary tier of local government (the inter-municipal community: "comunità di valle") will be created to manage associated functions of local governments. This will involve the implementation of a common IT system and accounting systems across the different tiers. The reform is expected to create an integrated and coordinated public finance structure, leading to the rationalisation of expenditure. It should also prevent overlaps and duplications of work, and increase the monitoring of the provincial system's finances.

- It is setting up an integrated public finance system, consisting of the following elements: Patrimonio del Trentino ('AA+'/Stable), an asset management company; Cassa del Trentino, a sort of local Cassa Depositi e Prestiti (CdT; 'AAA'/Stable/'F1+'), providing financing to local provincial entities and coordinating access to capital markets; Trentino Riscossioni, which will manage the collection of own revenue for all provincial entities and likely in the future the taxes shared with central government as well; and a central purchasing centre through the shareholding in Informatica Trentina. These entities should allow the province to better pursue its strategy of an integrated provincial system while making the best use of, and gaining most value from, public resources.
- The province is pursuing an environmentally friendly energy policy based on its direct involvement in energy production through participation (via its subsidiary Tecnofin Trentina) in two new companies formed by Dolomiti Energia (28% owned by Tecnofin), and Enel ('A-'/Negative) and Edison ('BBB+'/Positive). The latter two companies will contribute 32 hydroelectric power plants located in the provincial area in exchange for a lengthening of their concession agreements by 10 years. The transaction is EUR260m debt financed, and EUR190m equity financed. The province estimates that the annual financial return on its budget should be about EUR90m, mainly composed of fiscal proceeds on the activity of the two new companies and the increase in concession fees.

The province's financial policy aims at keeping the current balance above EUR1bn through strict cost control and rationalisation (via centralisation of purchases, turnover freezes and strict rules for the internal stability pact with local governments), and good expected revenue growth underpinned by the dynamic and wealthy economy and supported by new additional revenue such as that deriving from the energy operations. This allows the province to support companies' competitiveness through specific tax relief measures (such as the reduction of the business activity tax decided in 2008), keeping tax rates low compared with national peers, and self-financing the significant EUR1.5bn (or 40% of budget) annual investments focused on strategic areas such as research, innovation and communications infrastructure (roads and railways). Directly contracted/issued borrowing is not envisaged for the medium term.

Management

The province's budgetary approach is prudent. An efficient internal control system and daily monitoring of cash inflows and outflows ensure a balance between revenue and expenditure, while at the same time allowing the province to minimise discrepancies between cash and accruals. In addition, integrated cash management with the treasurer bank guarantees timely cash advances during payment peaks. The province maintains an unreserved fund balance equivalent to about 10% of its operating revenue, cushioning it against unforeseen events. Reliable cash flow projections, unique in the Italian context, provide long-term visibility on Trento's accounts. The proactive and competent management team is constantly seeking new sources of income, be it from its own, devolved or asset-related revenue, and maintains tight control over expenditure. Investment programmes are tracked through a timetable of public works, which enables local officials to prioritise projects and schedule the work in progress. A coordinated provincial public finance system and the careful monitoring of wider public sector entities (companies, healthcare units and functional agencies, for example) and municipal governments ensure the efficient, effective and economic management of public resources.

Provincial Companies

Trento has controlling stakes into 15 companies in various sectors – a reflection of the depth of its involvement in the provincial economy. These include: transport services (Trentino Trasporti, Interbrennero); airports (Aeroporto Caproni at Trento); information and communications technology (Informatica Trentina); financial services (Cassa del Trentino via Tecnofin Trentina, Trentino Sviluppo and Trentino Riscossioni); the promotion and marketing of tourism, trade-fair and economic activities (Garda Trentino Fiere, Valsugana Fiere, Trento Fiere and Trentino Spa); education (Trentino School of Management), social housing (Itea), and asset management (Patrimonio del Trentino). See also "Debt and Liquidity" below.

Finances and Performance

Revenue

Provincial revenue has been driven by the high proportion of own and devolved taxes, which accounted for about 93% of 2007 current revenue, and allow the province to take advantage of its wealthy, diversified and dynamic economy and its tax base. Current revenue has been buoyant in recent years, growing by a compound annual growth rate (CAGR) of 3.2% during 2003-2007, which is expected to be maintained in the medium term.

With the aim of easing the tax burden and promoting the location of new companies in the provincial area, in 2008 the administration decided to grant tax rate reductions on the business activity tax (Irap) for a value of EUR60m. Despite this tax relief measure and others following central government tax decisions affecting about EUR50m of income ("cuneo fiscale"), in the first four months of 2008 provincial taxes grew by 18% yoy, mainly benefiting from the dynamic economy and fight against tax evasion executed by the central government.

Although the province has residual leeway of about EUR200m on own taxes, this was temporarily frozen for 2009 by the state (for all Italian local governments). However, the province did not in any case intend to tap into its fiscal leeway. Some additional flexibility also stems from the availability of about EUR750m disposable assets (real estate assets and shareholdings), which provide a substantial financial cushion in case of need, or the possibility of introducing co-payments in healthcare. The province also has more than EUR1bn of revenue, mainly related to recent years' taxes, yet to be recognised. It is involved in negotiations with the central government regarding this. Should this amount of revenue (not yet recorded in the provincial financial statements) be recognised by the central government (Fitch understands that this is highly likely but will be gradual), Trento will benefit in the coming years from significant additional revenue.

Current Revenue

(EURm)	2008f	2009f	2010f
Own tax	480.9	492.7	505.4
Devolved taxes	**3,354.6**	**3,447.3**	**3,556.5**
Transfers	95.8	91.5	86.7
Others	73.3	74.8	76.3
Total	**4,004.6**	**4,106.2**	**4,224.9**

f: forecast
Source: Autonomous Province of Trento and Fitch

Expenditure

Trento's operating expenditure, which is primarily made up of spending on healthcare and social services, education and culture, and transfers to municipalities, grew by a CAGR of 2.7% during 2003-2007, in line with inflation, indicating strict cost control by the province. There is no real concentration of expenditure nor significant pressure from any spending items. This should keep spending growth at about 3% over the medium term. Healthcare transfers accounted for less than 37% of current expenditure in 2007, while staff costs (26% of current expenditure in 2007) have been fairly stable over the years.

Current Expenditure

(EURm)	2008f	2009f	2010f
Personnel	660.6	678.9	683.9
Goods/services	124.0	123.6	123.7
Transfers	1,747.5	1,779.6	1,817.7
Interest	0.0	0.0	0.0
Other	68.3	65.8	75.1
Total	**2,600.4**	**2,647.9**	**2,700.4**

f: forecast
Source: Autonomous Province of Trento and Fitch

Transfers to Municipalities

To comply with its sole responsibility for the financing of municipalities, every year the province grants to them funds for operations, capital investments and debt service repayment, which accounted for about 50% of total city revenue in 2007. Thanks to provincial financial support and good management practices, municipalities' budgets have low debt, sound budgetary flexibility and solid financial performance. At end-2007 no municipality in the provincial area had fallen into financial distress ("dissesto"). To ensure continuing fiscal soundness and the stability of municipalities the province has also signed an internal stability pact with the municipalities to monitor and control their budgetary performances.

The Cities' Consolidated Finances

(EURm)	2004	2005	2006
Current revenue	662.8	711.8	720.8
Operating expenditure	565.8	579.1	593.2
Operating balance	**97.0**	**132.7**	**127.6**
Interest	18.2	18.0	18.3
Current balance	**78.8**	**114.8**	**109.4**
Capital balance	-84.6	-104.5	-82.3
Surplus/deficit before debt variation	**-5.7**	**10.3**	**27.1**
Debt repayments	66.8	61.7	63.8
New borrowings	79.3	78.3	58.9
Overall results	**6.8**	**26.9**	**22.2**
Total debt	**474.4**	**520.6**	**537.8**
Total cash	**226.8**	**252.5**	**269.4**
Current balance/current revenue (%)	11.9	16.1	15.2
Deficit before debt/total revenue (%)	-0.5	0.9	2.6
Debt/current balance (yrs)	6.0	4.5	4.9
Operating balance/debt service (x)	1.1	1.7	1.6

Source: Autonomous Province of Trento and Fitch

Transfers to Healthcare

Trento's healthcare sector is independent and has been self-financing since 1995. The province is responsible for this sector's wage bargaining, replacing the national system, and for the costs of people on welfare (ie the elderly and the infirm). The provincial healthcare sector has no financial debt and deficits outstanding, and has a well-thought-out strategy to monitor and rationalise the healthcare system's costs. Invoices are paid within the contractual 90 days (the national average is more than 300 days), indicating the efficient financial management of the healthcare system and its low pressure on the province's liquidity.

Investments 2003-2007

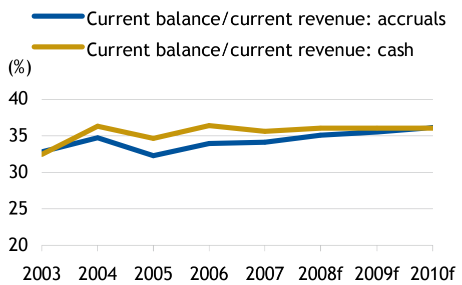
(EURm)	
General administration	254.8
Education and culture	986.0
Social sector and housing	952.3
Local authorities	1,055.4
Territory, economic development and environment	3,016.1
Others	1,163.8
Total capital expenditure	**7,428.4**

Source: Autonomous Province of Trento and Fitch

Capital Revenue and Expenditure

Capital revenue, which accounted for only 4% of current revenue in 2007, is mainly made up of central government and EU transfers for implementing special social and economic programmes. Capital expenditure always makes up about 40% of total provincial expenditure and its level is largely driven by current balances. Fitch understands that capital spending is highly discretionary, allowing the province to have adequate flexibility in the event of a budgetary shortfall. Despite Trento's special status, the central government provides financial support for important infrastructure projects such as the "Asse del Brennero" project, part of a Trans-European Network connecting Europe from north to south, which is expected to be fully funded by the Italian and Austrian governments.

Operating Performance



f: forecast
Source: Autonomous Province of Trento and Fitch

Budgetary Performance

Trento's financial performance has been outstanding in recent years, comparing favourably with its Italian peers and also with the bestperforming international peers. Operating margins have remained ample at more than 30% over the past 20 years in terms of accrual and cash accounting. The substantial operating balance has allowed the province to entirely self-finance its investments. Over the medium term, Fitch expects Trento's operating performance to be in line with previous years.

Debt and Liquidity

Direct Debt and Other Fitch Classified Debt

The province did not directly issue or contract financial debt as of 2007, although it has a EUR500m EMTN programme outstanding, and Fitch does not expect the province to directly borrow in the medium term.

However, the province has financial commitments directly and/or indirectly linked to it. CdT, the province's financial arm, has about EUR235m of debt outstanding at year-end 2007. CdT's ratings mirror and are linked to the credit strength of the Province. At end-June 2008 CdT's financial debt is estimated at about EUR320m (including refinancing of EUR72m notes of Trentino Sviluppo occurred in March 2008). CdT's financial debt totals 6% of current revenue and 0.2 years of current balance. The fiscal return for the province on CdT's debt is about EUR10m.

The province directly services some bonds issued by various provincial entities that Fitch has rated 'AA+', one notch lower than the current senior unsecured rating of the province, as these obligations do not have the same legal protection as direct debt, and are junior obligations. At end-2007 they totalled about EUR140m, with a fiscal return for the province of about EUR20m. This debt accounts for 4% of the province's current revenue.

CdT's debt and the other bonds directly serviced by the province are recorded in "Other Fitch-classified debt" in the appendices.

Financial Liabilities Reported in Appendix A (End-2007)

Appendix A	Amount (EURm)	Entities
Other Fitch classified debt	235.2	Cassa del Trentino (A)
	138.0[a]	Garda Trentino Fiere, Trentino Trasporti, Le Ghiaie, Trento University, Itea (B)
	494.9	Free Fund Balance (C)
	-121.7	A+B-C
Guarantees	326.8	Trentino Sviluppo, SET, Dolomiti Energia, Mediocredito Trentino, Fonti Energetiche
Net indirect debt (public sector entities excluding guaranteed amount)	608.4	Tecnofin Trentina, Trentino Trasporti, Garda Trentino Fiere, Trentino Sviluppo, Patrimonio del Trentino, Cities[b].

[a] Bonds issued by the entities but directly serviced by the province through delegation of payment. In appendix A, the free fund balance (EUR495m at end 2007) is recorded among "Other Fitch classified debt", reducing the amount of debt herein included
[b] Consolidated debt of the cities belonging to the Autonomous Province of Trento (estimate)
Source: Autonomous Province of Trento and Fitch

The province has planned to grant annuities to provincial companies (mainly Trentino Trasporti, Cassa del Trentino, Patrimonio del Trentino, and Itea), for an estimated net present value of EUR1.5bn, which will be disbursed over 10-30 years. However, Fitch understands and believes that the potential debt issued by the companies against the annuities will not amount to the full net present value, but will be partly released to the companies via capital transfers. The estimated fiscal returns for the province could total about EUR100m.

Given all current direct and other Fitch-classified debt, and the whole net present value of annuities (EUR1.5bn), gross total liabilities will be 50% of provincial current revenue and 1.5 years of current balance, a level that still compares well with 'AAA'-rated entities.

Other Contingent Liabilities: Guarantees and Public Sector Entities Debt

Trento's controlled companies are financially balanced and do not require recapitalisation after losses. The system is well integrated with, and controlled by, the province. In addition, the companies' consolidated debt, besides being almost fully subsidised/paid/guaranteed by the province (see "Direct Debt" and "Other Fitch Classified Debt" in the appendices), is modest compared with the consolidated companies' equity, at about 30%. The equity also represents a good proxy for potential additional financial cushion should the province decide to sell part of its shares. The debt of controlled companies not guaranteed or directly at charge of the province totalled about EUR95m at end-2007. This is included in "Net indirect debt" in Appendix A, along with the consolidated debt of the municipalities of about EUR520m. The province does not guarantee the debt of municipalities.

Provincial Companies 2007

(EURm)	Stake (%)	Assets	Cash	Debt[a]	Equity	Turnover	Profit
Cassa del Trentino	100.0[b]	0.1	0.0	235.2	2.6	4.6	0.3
Itea	100.0	992.4	0.1	41.2	922.2	42.2	-4.1
Patrimonio del Trentino	100.0	147.2	23.4	17.4	196.4	15.1	1.0
Trentino Riscossioni	100.0	0.0	0.0	0.0	1.0	0.4	0.0
Tecnofin Trentina	91.2	94.9	37.9	51.0	81.0	1.5	0.4
Garda Trentino Fiere	74.1	21.1	1.0	16.9	19.8	1.4	0.1
Trentino Trasporti	73.8	57.3	7.8	38.0	58.5	85.8	0.3
Informatica Trentina	51.4	7.6	1.7	0.0	16.0	48.1	2.6
Other controlled companies	-	135.8	18.2	80.0	50.4	50.4	1.1
Total	**-**	**1,456.4**	**90.1**	**479.7**	**1,264.3**	**248.0**	**1.8**

[a] Gross financial debt
[b] Owned 100% by *Tecnofin Trentina*
Source: Autonomous Province of Trento and Fitch

Guaranteed debt totalled EUR327m at end-2007 (of which EUR72m of Trentino Sviluppo's debt was refinanced in March 2008 by 'AAA'-rated notes issued by CdT), and mainly relates to two guarantees granted to electrical distribution company SET (EUR115m) and Dolomiti Energia (EUR101m). The guarantees do not represent a significant risk in Fitch's view given their strong financial position, and rather reflect the strategy and involvement of the province in the energy sector (see "Administration Priorities and Management" above). In addition, the guarantees produce financial returns (mainly commissions and fiscal proceeds) for the province of about EUR36m. The province does not report any off-balance-sheet liabilities.

Liquidity

The province's cash flows indicate that it has successfully balanced inflows and outflows over the past few years through the effective management of its liquidity position. Its high cash-generating capacity is supported by high rates of own revenue collection, the daily monitoring of Trento's cash position and its reliable multi-year cash projections. The province can obtain a cash advance from its treasury bank Unicredit ('A+'/Positive), for up to about EUR1bn, but uses only a small portion of this facility in periods of concentrated payment. Trento benefits from an outstanding treasury position, paying a lower interest rate on cash advances than it receives on cash accounts. Receivables totalled about EUR3.8bn at end-2007 and were mainly composed of devolved taxes, while payables totalled EUR3.3bn and mainly related to capital investments. Although the first is a consequence of the credit mechanism of shared taxes (normally the province receives in cash the equivalent of the previous year's accrued taxes), the second confirms the good tracking of investments, which are on average executed in two to three years.

Appendix A

Autonomous Province of Trento

(EURm)	31 Dec 2003	31 Dec 2004	31 Dec 2005	31 Dec 2006	31 Dec 2007
	Actual				
Taxes	3,116.6	3,240.5	3,230.2	3,407.5	3,511.4
Transfers received	143.9	190.5	205.0	179.1	195.7
Fees, fines and other operating revenue	83.7	117.2	90.8	89.1	89.0
Operating revenue	**3,344.2**	**3,548.2**	**3,526.0**	**3,675.7**	**3,796.1**
Operating expenditure	-2,246.1	-2,315.4	-2,387.5	-2,429.4	-2,500.6
Operating balance	**1,098.1**	**1,232.8**	**1,138.5**	**1,246.3**	**1,295.5**
Financial revenue	0.0	0.0	0.0	0.0	0.0
Interest paid	0.0	0.0	0.0	0.0	0.0
Current balance	**1,098.1**	**1,232.8**	**1,138.5**	**1,246.3**	**1,295.5**
Capital revenue	226.5	185.3	201.9	220.1	168.8
Capital expenditure	-1,589.7	-1,529.2	-1,394.9	-1,461.9	-1,452.8
Capital balance	**-1,363.2**	**-1,343.9**	**-1,193.0**	**-1,241.8**	**-1,284.0**
Surplus (deficit) before debt variation	**-265.1**	**-111.1**	**-54.5**	**4.5**	**11.5**
Debt repayment	0.0	0.0	0.0	0.0	0.0
New borrowing	0.0	0.0	0.0	0.0	0.0
Net debt movement	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall results	**-265.1**	**-111.1**	**-54.5**	**4.5**	**11.5**
Debt					
Short-term	0.0	0.0	0.0	0.0	0.0
Long-term	0.0	0.0	0.0	0.0	0.0
Direct debt	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
+ Other Fitch classified debt - pre-financing	-332.4	-202.1	-199.6	-188.4	-121.7
Direct risk	**-332.4**	**-202.1**	**-199.6**	**-188.4**	**-121.7**
- Cash, liquid deposits, sinking fund	300.0	187.3	225.1	206.5	184.0
Net direct risk	**-632.4**	**-389.4**	**-424.7**	**-394.9**	**-305.7**
Guarantees and other contingent liabilities	18.1	18.1	264.4	254.9	326.8
Net indirect debt (public sector entities exc. gteed amount)	432.5	494.3	542.8	618.2	608.4[a]
Net overall risk	**-181.8**	**123.0**	**382.5**	**478.2**	**629.5**

[a] Estimate
Source: Autonomous Province of Trento and Fitch

Appendix B

Autonomous Province of Trento

	Actual				
	31 Dec 2003	31 Dec 2004	31 Dec 2005	31 Dec 2006	31 Dec 2007
Fiscal performance ratios (%)					
Operating balance/operating revenue	32.8	34.7	32.3	33.9	34.1
Current balance/current revenue[a]	32.8	34.7	32.3	33.9	34.1
Surplus (deficit) before debt variation/total revenue[b]	-7.4	-3.0	-1.5	0.1	0.3
Overall results/total revenue	-7.4	-3.0	-1.5	0.1	0.3
Operating revenue growth (annual change)	n.a.	6.1	-0.6	4.3	3.3
Operating expenditure growth (annual change)	n.a.	3.1	3.1	1.8	2.9
Current balance growth (annual change)	n.a.	12.3	-7.7	9.5	4.0
Debt ratios					
Direct debt growth (annual % change)	0.0	0.0	0.0	0.0	0.0
Interest paid/operating revenue (%)	0.0	0.0	0.0	0.0	0.0
Operating balance/interest paid (x)	0.0	0.0	0.0	0.0	0.0
Direct debt servicing/current revenue (%)	0.0	0.0	0.0	0.0	0.0
Direct debt servicing/operating balance (%)	0.0	0.0	0.0	0.0	0.0
Direct debt/current revenue (%)	0.0	0.0	0.0	0.0	0.0
Direct risk/current revenue (%)	9.9	5.7	5.7	5.1	3.2
Net overall risk/current revenue (%)	5.4	3.5	10.8	13.0	16.6
Direct debt/current balance (yrs)	0.0	0.0	0.0	0.0	0.0
Direct risk/current balance (yrs)	-0.3	-0.2	-0.2	-0.2	-0.1
Direct debt/GDP (%)	0.0	0.0	0.0	0.0	0.0
Direct debt per capita (local currency)	0.0	0.0	0.0	0.0	0.0
Revenue ratios					
Operating revenue/budget operating revenue (%)	n.a.	n.a.	n.a.	104.7	107.5
Tax revenue/operating revenue (%)	93.2	91.3	91.6	92.7	92.5
Current transfers received/operating revenue (%)	4.3	5.4	5.8	4.9	5.2
Operating revenue/total revenue[a] (%)	93.7	95.0	94.6	94.4	95.7
Total revenue[a] per capita (local currency)	7,272	7,497	7,426	7,684	7,729
Expenditure ratios					
Operating expenditure/budget operating expenditure (%)	n.a.	n.a.	n.a.	99.5	100.7
Staff expenditure/operating expenditure (%)	25.4	25.8	25.9	25.9	25.8
Current transfer made/operating expenditure (%)	68.6	67.9	67.4	68.2	67.8
Capital expenditure/budget capital expenditure (%)	n.a.	n.a.	n.a.	100.7	98.0
Capital expenditure/total expenditure (%)	41.4	39.8	36.9	37.6	36.7
Capital expenditure/local GDP (%)	11.7	10.9	9.7	9.8	9.4
Total expenditure per capita (local currency)	7,812	7,720	7,535	7,675	7,706
Capital expenditure financing (%)					
Current balance/capital expenditure	69.1	80.6	81.6	85.3	89.2
Capital revenue/capital expenditure	14.2	12.1	14.5	15.1	11.6
Net debt movement/capital expenditure	0.0	0.0	0.0	0.0	0.0

[a] Includes financial revenue
[b] Excluding new borrowing
n.a.: not available
Source: Autonomous Province of Trento and Fitch