City of Milan Rating Report

Sovereign and Public Sector

BBB+

Credit strengths

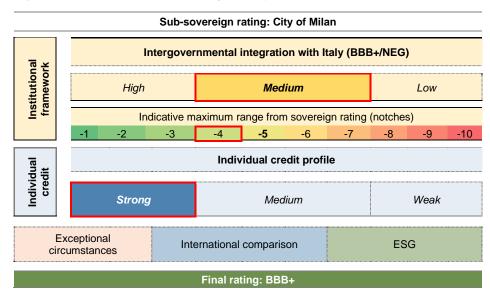
- Ample liquidity
- Sound budgetary and financial management
- Wealthy socio-economic profile
- Effective governance
- Supportive framework

Credit weaknesses

- Large debt stock
- Limited revenue flexibility
- Sizeable, though low-risk, contingent liabilities

Rating rationale and Outlook: The BBB+ rating reflects the City of Milan's sound budgetary and financial management, ample liquidity, wealthy socio-economic profile underpinning its ability to generate own revenues for the long term, and effective governance. In addition, the rating is supported by an integrated institutional framework, which ensures fiscal discipline and a track record in funding support. Credit challenges relate to Milan's high but declining debt stock, limited revenue flexibility, as well as sizeable, yet manageable, contingent liabilities. The Negative Outlook reflects the weakening of Italy's credit profile, as captured by the Negative Outlook assigned to its BBB+ sovereign rating on 15 May 2020. Under the current institutional framework, we cap the rating on Milan at the level of the rating on Italy, as the city lacks sufficient financial autonomy and budgetary flexibility to withstand a deterioration in the sovereign's credit profile.

Figure 1: Scope's approach to rating the City of Milan



Positive rating-change drivers

- Upgrade of Italy's sovereign rating
- Changes in framework resulting in higher revenue flexibility

Negative rating-change drivers

- Downgrade of Italy's sovereign rating
- Changes in framework, weakening Milan's individual credit profile
- Deterioration in operating
 performance leading to sizeable
 increase in debt stock

Ratings & Outlook

Foreign currency

Long-term issuer rating Senior unsecured debt Short-term issuer rating BBB+/Neg BBB+/Neg S-2/Sta

Local currency Long-term issuer rating Senior unsecured debt Short-term issuer rating

BBB+/Neg BBB+/Neg S-2/Sta

Lead analyst

Jakob Suwalski +49 69 6677389 45 j.suwalski@scoperatings.com

Giulia Branz +49 69 6677389 43 g.branz@scoperatings.com

Team leader

Dr Giacomo Barisone +49 69 6677389 22 g.barisone@scoperatings.com

Scope Ratings GmbH

Neue Mainzer Straße 66-68 D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Headquarters

Lennéstraße 5 10785 Berlin

Phone +49 30 27891 0 Fax +49 30 27891 100

info@scoperatings.com www.scoperatings.com

In Somberg: RESP SCOP



Track record of system-wide support and prudent restriction of market exposure

Frequent reforms of municipal taxes and need to contribute to national fiscal consolidation

Institutional framework

The City of Milan benefits from the mature legal and fiscal framework that underpins the intergovernmental integration between Italy's central government and its municipalities. The fiscal policy defined at the central level has helped maintain fairly low deficit and debt levels in the municipal sector in an international context, with prudent restrictions on debt and liquidity management limiting cities' exposure to market risk. The framework benefits from preventive checks and conditional financial assistance in the 'dissesto' procedure, an extraordinary support mechanism aiming to avoid defaults. Sovereign on-lending plays a dominant role, with state-owned promotional bank Cassa Depositi e Prestiti (CDP, BBB+/Negative) as the main creditor of Italian sub-sovereigns.

Following the financial and sovereign debt crises, municipal finances have been subject to frequent reforms affecting their tax bases and cuts to the equalisation system, thereby contributing to the national fiscal consolidation process. The main revenue sources include a high share of own taxes – on property, general services and supplements to personal income tax. Cities have limited room to manoeuvre in adjusting tax rates.

In response to the Covid-19 pandemic, additional system-wide support measures have been made available to municipalities. The central government has earmarked funds to restore revenue losses and support investments, while CDP has allocated liquidity advances (EUR 12bn to cities, regions and healthcare authorities) to speed up the repayment of commercial debt and delayed cities' loan repayment schedules.

Our assessment of the intergovernmental integration between Italian cities and the central government results in an indicative downward rating distance of a maximum of four notches¹ between the Italian sovereign (BBB+/Negative) and an Italian municipality (**Figure 2**), depending on its individual credit profile strength.

		Inst	titutional f	ramework a	issessmer	it: Italian ci	ties		
Category		Weight	Sub-				Assess		Weighted
g ,			weight				Integration	Score	score
Institutionalis	ha		25%	Transfer & b	pailout regime	•	High	100	25.0
	cu	50%	15%	Borrow ing li	mits		High	100	15.0
support			10%	Funding sup	port		Medium 50		5.0
Fig. a. a. Linet a alived		050/	20%	Tax authorit		Medium	50	10.0	
Fiscal interlin	kage	35%	15%	Fiscal equal	sation		Medium 50		7.5
Delitient entre		450/	10%	Distribution of powers			Medium	50	5.0
Political cohe	rence	15%	5%	Common pol	icymaking		Medium	50	2.5
		Integration with the sovereign Σ						Σ	70
gration score	0-10	10-20	20-30	30-40	40-50	50-60	60-70	70-80	80-90
ative notch range	0-10	0-9	0-8	0-7	0-6	0-5	0-4	0-3	0-2

Figure 2: Framework assessment

Source: Scope Ratings GmbH

'High' institutionalised support: discretionary and rule-based support, credible borrowing limits

'Medium' fiscal interlinkage: government dominance of the tax system

'Medium' political coherence: some coordination across government layers

- Central government's track record of providing discretionary and rule-based support to municipalities, including via the 'dissesto' procedure;
- Credible fiscal rules, which are among the strictest in the EU (fiscal rule index), including quantitatively specified and legally binding borrowing limits;
- Restricted capital market access with less preferential regulatory treatment of municipal debt versus sovereign debt (different risk weights under Basel), however, regular funding support via the sovereign and CDP;
- Central government control over major tax rates and redistribution across municipalities covering mandatory spending; and
- Lack of legislative autonomy, although there is some political coordination across government layers.

¹ With intergovernmental integration at 70% (threshold value), we opted conservatively for the indicative four-notch range.

lr Ir



Individual credit profile

We assess the City of Milan's individual credit profile as strong vis-à-vis national peers' in view of: i) its high cash reserves, good access to external liquidity, and robust debt profile as a result of conservative debt management and a continuous reduction in the debt stock; ii) a strong commitment to fiscal consolidation and above-average expenditure flexibility; iii) the dynamic local economy as the country's leading commercial, industrial and financial hub, strengthening the city's ability to generate own revenues for the long term; and iv) its high-quality governance, with a track record of meeting policy objectives.

Our quantitative assessments are informed by our Core Variable Scorecard (CVS). Milan has one of the strongest individual credit profiles among national peers, reflected by good budgetary results, a wealthy socio-economic profile and favourable governance indicators, together with an affordable interest-payment burden. Our qualitative and quantitative assessments are summarised in **Figures 3** and **4**.

Figure 3: Qualitative Scorecard (QS) result

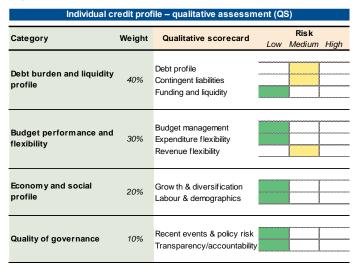
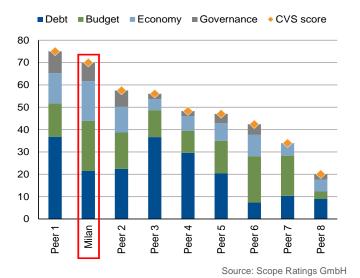


Figure 4: Core Variable Scorecard (CVS) result



Source: Scope Ratings GmbH

Strong liquidity profile, with substantial cash at hand and good access to external sources

Debt burden and liquidity profile

Milan benefits from high cash holdings vis-à-vis national peers', stemming from sound budgetary and financial management, with its cash positions increased to EUR 1.9bn at the beginning of 2020 from EUR 1bn in 2016 (**Figure 5**). Cash positions now cover annual debt service by more than six times, thus constituting a significant backstop against budgetary emergencies. Prudent liquidity assumptions have strengthened Milan's ability to generate cash flow, with realistic estimations of cash collection underpinned by the low cyclicality of its tax base. Milan's cash planning accuracy and collection capacity is better than peers', with cash collection at around 75% of current revenue of the same fiscal year in 2017-19 (**Figure 6**). In addition, the city has been able to collect more than EUR 100m per year in the past three years from the fight against tax evasion. We expect Milan's cash position to remain broadly stable this year, with cash holdings at EUR 1.7bn by end-September and cumulative cash movements in line with last year.

The city has access to more than EUR 800m in advances from its treasurer. However, in view of ample liquidity, it has not resorted to this external cash source in the past. Milan also has a credit line with the European Investment Bank (EIB, AAA/Stable) to finance the metropolitan train line M4. In the wake of Covid-19, moreover, CDP liquidity advances for the payment of commercial debt have been made available to the regions, cities and healthcare entities for an overall amount of EUR 12bn.



Figure 5: Cash position, EUR bn

Inflows: blue, outflows: orange, deposits: grey 6 37 5 4 EUR bn 3 19 2 1.5 -38 1.2 11 1.0 -3.8 1 3.8 0 2016 2017 2018 2019 2020

Figure 6: Cash collection and payment rates, % 2017-2019

		Milan	Peer 1	Peer 2	Peer 3	Peer 4
	Current r	evenue -	cash coll	ection		
Budgeting accuracy	Accrual	98	101	88	98	94
(final % of budgeted)	Cash	81	61	72	76	69
Cash collected, % of revenue		74	64	63	72	62
Current expenditure - cash payment						
Budgeting accuracy	Accrual	84	83	73	84	73
(final % of budgeted)	Cash	72	65	66	79	73
Cash paid, % of expenditure		80	76	54	70	77

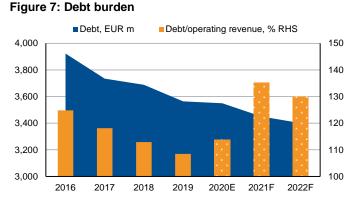
Source: BDAP, Scope Ratings GmbH

Source: Comune di Milano, Scope Ratings GmbH

High but declining debt burden and favourable debt profile

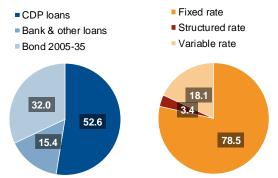
Milan's debt stock is high, at EUR 3.6bn by end-2019, or 108% of operating revenue, but on a downward trend with over EUR 500m in debt reduction since 2015. We expect the nominal debt stock to continue decreasing gradually, to about EUR 3.4bn by 2022. This is thanks to limited financing needs that can largely be covered by flexible loans and accumulated budget surpluses, lowering recourse to new debt. Milan's debt burden will nevertheless peak in relative terms at around 135% of operating revenue by 2021, reflecting lower revenue due to the Covid-19 economic shock, but also the structural reduction in the city's budget in view of the re-allocation of transportation services to the provincial level (Figure 7). Debt solely comprises euro-denominated borrowings for longterm capital expenditure programmes and is naturally or synthetically amortising, substantially reducing refinancing risks, together with a very long average debt maturity of 19 years. The city pays around EUR 50m annually into a sinking fund for the repayment of a bullet bond maturing in 2035. The bond constitutes around a third of Milan's debt, while around 70% of outstanding debt is in the form of loans. The main creditor is CDP, with more than 50% of Milan's total debt, which strengthens the long-term nature of the city's creditor base (Figure 8).

Stable and affordable interestpayment burden The high share of debt with fixed interest rates (78.5% of total) has led to a broadly stable interest-payment burden, at 3.7% of operating revenue in 2017-19, slightly above national peers' average but well within borrowing limits for municipalities (10% of current revenue). Milan's average cost of debt has remained stable at 2.9% between 2015 and 2019. The city has renegotiated several CDP loans in recent years in order to take advantage of the low interest rate environment. In particular, the recent renegotiation of around EUR 1.4bn of loans will allow Milan to save EUR 186m in instalments in 2020-22.



Source: Comune di Milano, Scope Ratings GmbH

Figure 8: Debt profile, by creditor and interest structure, %



Source: Comune di Milano, Scope Ratings GmbH



Materialisation of contingent liabilities unlikely

Financial debt related to the main companies owned by Milan, totaling around EUR 4.8bn in 2019, or 149% of the city's operating revenue, is sizeable in an international context. We view the risk that it will materialise in the city's budget as low, as the most indebted entities are self-supporting and have reported positive financial results in the past three years. In particular, 77% of Milan's shareholdings' debt relates to A2A Spa, the largest Italian multi-utility. The City of Milan owns 25% of A2A Spa, 25% is controlled by the City of Brescia, and the remaining 50% of shares are in free float. The company reported net income of EUR 450m in 2019, up from EUR 270m in 2017. This year the company is expected to pay the City of Milan around EUR 60m in dividends and budgetary reserves (compared to EUR 45m in 2018). Companies in the transport sector (Sea Spa, Atm Spa), as well as the city's project finances for two metropolitan lines (M5 and M4), are likely to be the most adversely exposed to Covid-19-related shocks. Atm Spa is less affected by immediate risks, as it benefits from regular grants from the city for its services. Sea Spa will retain most part of the dividends and budgetary reserves it usually pays to the city, as a precautionary buffer. Outstanding contractual guarantees issued by Milan declined to around EUR 250m in 2019, from EUR 340m in 2015, and primarily relate to Atm Spa, in the context of metropolitan equipment renovation co-financed by the EIB.

Budgetary performance and flexibility

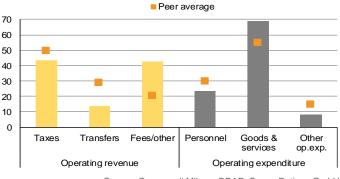
Milan's budgetary performance has been strong, with high operating surpluses averaging 18.9% of operating revenue in 2016-19 (**Figure 9**), and on an improving trend, from 15.5% in 2016 to 20.9% in 2019, underpinned by conservative budgetary management, continuous cost controls, and moderate tax revenue growth, which has outperformed national GDP growth rates in recent years. These factors have also helped Milan to build up cash reserves, self-finance investment and reduce debt.

The Covid-19 shock will negatively affect Milan's budget. The surrounding region has been one of the most severely hit areas in Italy in both waves of the pandemic, and consequently subject to a strict regime of containment measures. The city is set to record a revenue loss of around EUR 740m (equivalent to 23% of 2019 operating revenue), mostly related to fees (transport tickets, cars and parking fines), and own taxes (especially those related to tourism). This will be partially mitigated by compensation of about EUR 450m (or 14% of 2019 operating revenue) from the central government.

Figure 9: Budgetary performance



Figure 10: Operating budget composition, %, 2017-19



Source: Comune di Milano, Scope Ratings GmbH

Source: Comune di Milano, BDAP, Scope Ratings GmbH

In addition, we expect Milan to maintain a tight grip on expenditure. In a prudent response to the emergency situation, the city decided in March to implement a 78% limit on initially budgeted expenditure for all departments, which have then been gradually relaxed over the year. The city will also make use of accumulated budget surpluses to cover part of current expenditure. Overall, we expect the city to achieve an operating surplus averaging 15% of operating revenue in 2020-21. This would be in line with its framework requirements to cover debt service with current revenue, but with a lower margin than in

Track record of stable operating performance underpinned by sound budgetary planning...

...with significant buffers to withstand the Covid-19 budgetary shock



High revenue autonomy, but limited tax rate manoeuvrability

High expenditure flexibility in national context

Economic and financial hub in national and international context

previous years. For 2021, we expect a gradual economic recovery and less severe containment measures to support a recovery in revenue, assuming the pandemic situation allows for it. However, we also expect less direct support from the central government. While the extraordinary direct support from the central government is likely to be scaled back in 2021, Milan's local finances should benefit from the transfer of extraordinary recourses from the EU recovery fund, which would allow for higher public investment without placing an additional burden on the city. As of 2021, there will be a reduction in the city's budget, with current revenue and expenditure set to decrease by EUR 720m, in view of the re-allocation of local transport services to the provincial level.

Milan's operating revenue is dominated by local taxes (44% of operating revenue) and proceeds from services and other activities (43%). This strengthens the link between its revenues and economic performance (**Figure 10**). Moreover, the high share of property taxes and service charges (65% of operating revenue), in combination with a wealthy socio-economic profile and a growing population, reduces the cyclicality of the local tax base, supporting the city's stable operating performance. Milan's revenue flexibility is limited despite a growing local tax base because the city has already reached the maximum rates set by the central government. The central government blocked tax rate increases in 2016-18 for all Italian cities. The remaining fiscal leeway is mainly in the area of tax exemptions, but the impact of their removal would be tenuous. In addition, Milan is a major net contributor to the equalisation fund, with its contribution largely offsetting revenues that flow back to the city. In 2021, the re-allocation of the transport function to the provincial level will result in transfer revenue decreasing by around 270m and fees by 450m. The composition of operating revenue will thus shift towards a larger share of own taxes than in previous years, while the transfer share will be halved.

Milan benefits from relatively high expenditure flexibility vis-à-vis peers in view of: i) its administration's high planning accuracy, with budgetary buffers that minimise actual deviations from estimates of expenditure or revenue growth; ii) a relatively low share of rigid expenditure items, against an increasing share of investment expenditure; and iii) a track record of cost containments in current expenditure, keeping average current expenditure growth below that of revenue, despite frequent reforms affecting municipal taxes and expenditure pressures from a growing population. Operating expenditure relates mainly to the acquisition of goods and services (70%), followed by personnel costs (23%). Over the past three years, operating expenditure has decreased on average by 1% year-over-year, supported by a flat headcount. At the same time, revenue growth has been 1.5% on average, driving the improving operating performance. Investment expenditure has significantly increased, from 9.2% of total expenditure in 2016, to 15.4% by end-2019. The city was able to finance investment of EUR 800m per year in 2018-19 (EUR 500m in 2017), including shares due in following years. It did so with limited and decreasing recourse to debt financing (15% of the total in 2019), mostly relying on investment grants, asset disposals and own budgetary resources. Considering the Italian Treasury's index on cities' budget structural rigidity, based on personnel costs, deficit rebalancing and debt service relative to current revenue, Milan (29%) compares favourably with the peer average of 34% (38% in larger cities).

Economy and social profile

Milan benefits from a favourable socio-economic profile underpinned by a wealthy, welldiversified and highly competitive economy, resulting in a strong ability to generate own revenues for the long term. Milan is the economic and financial hub of the wealthy region of Lombardy, Italy's core manufacturing and export region, which accounts for one-fifth of Italian GDP. The City of Milan alone accounts for about 9% of Italian GDP and benefits from a wealthy socio-economic profile (**Figure 11**), with a GDP per capita equivalent to around 190% of the national average (180% of the EU average).



Historic hit from Covid-19. but solid macro fundamentals underpin recovery prospects

The economy is diversified, with a business-friendly environment attracting international investments and a skilled labour force, underpinning its high growth potential. The city's appeal to foreign investors is reflected by the fact that 4,700 foreign multinational companies are located in Milan, or around one-third of those active in Italy. The city's multi-sectoral economy ranges from technology-intensive manufacturing and biological sciences to financial services, culture and design. It also benefits from 13 prestigious universities, which support the specialisation in higher-value-added industries. Milan is in the area worst hit by both the first and second wave of the Covid-19 pandemic. In line with Assolombarda, we expect the Region of Lombardy to suffer a worse GDP contraction than Italy (10%-12% of GDP). At the same time, we expect Milan to recover faster than the national average, given its strategic role at the national and international level, as well as its economic diversification and specialisation in high-value added sectors, underpinning its competitiveness.

Figure 11: GDP per capita, % of national average, 2017

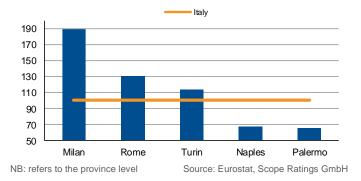
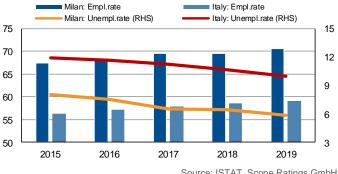


Figure 12: Employment and unemployment rates, %, 2019



Source: ISTAT, Scope Ratings GmbH

Positive socio-demographics, driven by attractive labour market

Good quality of services, transparent processes and stable political environment

Milan is committed to environmental and social development

Milan enjoys favourable labour market characteristics and positive demographics, supporting its long-term tax revenue potential. In 2019, Milan province's employment rate was over 70%, well above the national level of 59%, while the unemployment rate was below 6% compared to Italy's 10% (Figure 12). Milan's population is expected to increase in the medium term (by around 3% by 2025) in view of urbanisation trends, with net migration offsetting the natural decline driven by ageing dynamics.

Quality of governance

Milan benefits from high quality governance, underpinned by Lombardy's top scores among Italian regions in the European Quality of Government Index, which captures citizens' perceptions of corruption and the quality and impartiality of public services. The administration's effective governance is also reflected in its ability to regularly fulfil policy objectives and present its accounts in compliance with fiscal rules. Milan's ability to regularly attract international events - including Expo 2015 and the 2026 Winter Olympics - demonstrates the city's perceived credibility in an international context. Milan benefits from a stable political environment, with the centre-left having led municipal governments since 2006. The 2016 municipal elections resulted in the victory of centre-left candidate Giuseppe Sala. The next elections are scheduled for 2021.

The city has ambitious environmental targets, including carbon-neutrality by 2050, and 70% waste recycling by 2030. In line with those priorities, the city has fostered investment in public transport, by expanding metropolitan lines, supporting bike- and car-sharing, and committing to reconvert all transport operated by Azienda Trasporti Milanesi to electric by 2030. Milan is one of the first European cities with more than 1m inhabitants to break the 50% threshold in terms of differentiated waste. The city has also implemented tax incentives for private investment in energy-efficiency enhancement. On the social side, Milan aims to increase the supply of social housing by redeveloping existing public property not in use, identifying new areas in which to realise housing facilities, and offering accessible rents via incentives to private providers.

Annex: Mapping and final rating Ι.

Category Weight weight weight Support weight Support 175% 175% Support 175% 175% Support 175% 175% Support 175% 175% Support 175% 175% Support 175% 175% Support 175% 175% Support 175% 175% Notability 175% 175% Notability 175% 175% Notability 175% 175% Notability 175% 175% Notability 175% Notabili				Step I	- Instituti	ional fran	nework a	ssessme	nt: Italian C	ities				
Category Weight weight weight Integration Score			Sub-						Weighted		Integ	ration	Indicativ	/e range
Institutionalised support 25% 50% 50% 10% 25% borrowing borring 50% 25% 50% 10% 25% borrowing 50% 10% 50% 10% 10% 50% 50% 10% 50% 10% 50	Category	Weight				In	ntearation	Score	-					
Minimulanisation 50% Forwing limits High 100 15.0 30-30 0-8 Support Find and support Medium 50 5.0 30-40 0-7 Fiscal 30% 10% Distribution of powers Medium 50 100 100 100 100 100 100 100 0-8 30-40 0-7 Pointical 10% Distribution of powers Medium 50 50 100	la attration allocal			Transfer	& bailout					•	10	-20	0-	9
Fiscal interintage coherence 35% 35% 35% 35% 75% 35% 35% 35% Medium 50 50% 5% 50 75 000 50% 35% 000 35% 35% 000 35%		50%				0	-	100	15.0		20	-30	0-	8
interfinisage 30% Fiscal equalisation Medium 50 7.5 60-70 e4 Coherence 15% 10% Distribution opticymaking Medium 50 7.5 60-70 e4 Coherence 5% Common policymaking Needium 50 2.5 90-100 e4 Coherence 5% Common policymaking Needium 50 2.70 90-100 e4 Coherence 70 64 90-100 e4 CVS Score CVS Debt profile Medium 50 Debt, % op.rev 64 25% 60 Debt profile Medium 50 Debt CVS score Σ 57 40% 25% 60 Budget management Low 100 Do Sto operating balance, % op.rev 57 40% 25% 75 40% 25% 60 15% 79 15% 79 15% 79 15% 79	support		10%		-		Medium	50	5.0		30	-40	0-	7
Internation Total	Fiscal	35%	20%	Tax auth	ority		Medium	50	10.0				0-	6
coherence 75% 5% Common policymaking Medium 50 2.5 Integration with the sovereign Σ 70 90 9.2 Step II - Individual Credit profile City of Milan 70 90 9.2 Category Weight QS Core Core Weight Total (QS-CVS avg) Debt profile Medium 50 Interest, % op rev. 48 50% 56 25% 56 60 Debt profile Medium 50 Debt % op rev. 48 50% 56 25% 56 60 Budget Debt QS score Σ 67 Debt QS score Σ 67 26% 57 40% 50 7 57 40% 50 7 57 57 57 57 57 57 57 57 57 57 57 55% 56 <t< td=""><td></td><td>0070</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></t<>		0070												
Coherence 6% Common policymaking Medium 50 2.5 70-90 92-90 92-90 90-100 9-1 Integration with the sovereign Σ 70 90-100 0-1 90-100 0-1 Step II - Individual credit profile: City of Milan Colspan="4">CVS Score Weight QS Total Operating balance, % op.rev. 48 50% For total QS-CVS avg) 60 </td <td></td> <td>15%</td> <td></td> <td></td> <td>•</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>-</td> <td></td>		15%			•								-	
Integration with the sovereign ∑ 70 90-100 0-1 Step II - Individual credit profile: City of Milan Category Weight QS Core Weight CVS Score Weight Cores Cores Weight Cores Cores Weight QS Cores Weight QS Cores Weight QS Total Debt burden and liquidity profile 40% Debt profile Medium 50 Debt, % op.rev. 64 25% 60 Budget management Low 100 Deparating balance, % op.rev. 57 40% 79 Funding and liquidity mgm.t Low 100 Doperating balance, % op.rev. 57 40% 79 Budget management Low 100 Doperating balance, % op.rev. 100 15% 79 Budget CQS score Z 83 Budget CVS score Z 75 Budget CQS score Z 83 Budget CVS score Z 89 79 Conth &	coherence		5%	Commor	n policyma	aking	Medium	50	2.5					-
Step II - Individual credit profile: City of Milan Category Weight (03-CVS arg) CVS Risk Score Vergin Vergin (03-CVS arg) Total (03-CVS arg) Debt burden and liquidity profile 0 Debt profile Medium 50 50 Interest, % op.rev. 56 25% 60 Debt burden and liquidity profile 0 Debt 2S score 2 67 Debt CVS score 2 54 Budget management flexibility 0.00 Formation filesibility Low 100 SD operating balance. 57 40% Budget management flexibility 0.00 Formation filesibility Neeture 50 Capex, % tot exp. 57 15% 79 Budget Score Z 83 Budget CVS score Z 75 75 Budget OS score Z 83 Budget CVS score Z 75 95 Budget OS score Z 83 Budget CVS score Z 76 Coromy AS score Z 100 Ober score Z 89 95				Integ	gration w	vith the se	overeign	Σ	70					
Category weight Risk Score Score Score Weight (QS-CVS avg) Debt purchen and liquidity profile 40% Debt profile Medium 50 Interest, % op.rev 64 25% 60 Debt QS score Σ 67 Debt (VS score Σ 54 56 25% 60 Budget management Low 100 Balance before debt, % op.rev 57 40% 56 54 56 55 54 56 5				\$	Step II - II	ndividual	credit p	rofile: Cit	ty of Milan	• •				
$\begin{array}{c c c c c c c c c c c c c c c c c c c $	O al a marrie	Mainte (QS					CVS			Тс	otal
Debt burden and liquidity profile 40% Contingent liabilities Funding and liquidity mgmmt Medium Low 50 100 Debt, % op.rev Balance before debt, % op.rev 56 64 25% 25% 64 25% 25% Budget performance and flexibility Budget management Expenditure flexibility Low 100 SD operating balance, % op.exv. 57 40% 79 Budget management flexibility Low 100 SD operating balance, % op.exv. 57 40% 79 Budget management flexibility Low 100 SD operating balance, % op.exv. 57 15% 79 Budget CVS score E 75 75 75 75 75 Budget CVS score E 60 25% 95 95 95 Economy and social profile 20% Growth & diversification Low Low 100 Quality 100 33% 100 50% 95 Quality of governance 10% Governance QS score E 100 Governance CVS score E 89 100 100 100 100	Category	weight				Risk	Score				Score	Weight	(QS-C	/S avg)
Debt of the name inquicity profile 40% Funding and liquidity mgmnt Low 100 Balance before debt, % op.rev. 64 25% 60 Budget performance and flexibility Debt QS score E 67 Debt CVS score E 54 Budget performance and flexibility 30% Budget management Expenditure flexibility Low 100 SD operating balance, % op.rev. 57 40% 79 Budget flexibility Medium 50 Capex, % tot exp. 57 15% 79 Budget S score E 83 Budget CVS score E 75 15% 79 Budget S score E 83 Budget CVS score E 75 15% 79 Budget profile 20% Growth & diversification Labour market & demographi Low 100 Unemployment rate 90 25% Quality of governance 20% Score E 100 Quality 73 33% 91 Governance QS score E 100 Governance CVS score E			Debt profi	le		Medium	50	Interest,	% op.rev.		48	50%		
liquidity profile 40% Funding and liquidity mgmnt Low 100 Balance before debt, % op.rev. 64 25% 60 Budget performance and fiexibility Debt QS score E 67 Debt CVS score E 54 Budget performance and social profile 30% Budget management Expenditure flexibility Low 100 SD operating balance SO Capex, % tot exp. 57 40% Budget QS score E 83 Budget CVS score E 75 Budget QS score E 83 Budget CVS score E 75 Budget QS score E 83 Budget CVS score E 75 Budget Profile 20% Growth & diversification Labour market & demographi Labour market & demographi Profile 100 Quality of Quality of Quality of Quality of Quality of Quality of Quality of Quality of	Debt burden and		-			Medium	50	Debt, %	op.rev		56			
Budget performance and flexibility 0 1 0 5 7 0 7 40% bigget performance 7 40% bigget performance 7 40% bigget performance 7 40% bigget performance 7 <td></td> <td>40%</td> <td colspan="3">Funding and liquidity mgmnt</td> <td>Low</td> <td>100</td> <td colspan="2">Balance before debt, % op.rev</td> <td>64</td> <td>25%</td> <td colspan="2" rowspan="2"></td>		40%	Funding and liquidity mgmnt			Low	100	Balance before debt, % op.rev		64	25%			
Budget performance and flexibility Budget management Expenditure flexibility Low 100 Coperating balance 57 40% Budget performance and flexibility 30% Revenue flexibility Medium 50 Capex, % tot exp. 57 15% 79 Budget QS score Σ 83 Budget CVS score Σ 75 75 Budget Portionation Low 100 Undersployment rate 90 25% 95 Budget portile 20% Growth & diversification Low 100 Coldage dependency ratio 66 25% 95 Economy and social profile 20% Recent events & policy risk Low 100 Quality 100 33% 91 Quality of governance 10% Recent events & policy risk Low 100 Quality 100 33% 91 Individual credit profile 10% Governance QS score Σ 100 Governance CVS score Σ 83 Indicative rating: notch adjustment - downwards - from sovereign rating: Nedium Wea			Dabt OS coore			~	67	67 Dobt CVS score			7			54
Budget performance and flexibility Budget management Expenditure flexibility Low Low 100 Low SD operating balance 89 Personnel exp, % op.exp. 100 10% Personnel exp, % Personnel exp, % op.exp. 100 10% 7% F 7% F <			Debl Q3	30016		2	07			6 on rev		-		
Budget performance and flexibility Expenditure flexibility Low 100 Personnel exp., % op.exp. 100 15% 7 15% 7 Budget QS score Σ 3 Budget QS score Σ 70			Budget m	anagemer	nt	Low	100		•					
performance and flexibility 30% medium Revenue flexibility Medium 50 Capex, % tot exp. Transfers, % op.rev. 57 15% model 79 Budget QS score E 83 Budget CVS score E 75 15% model 79 Economy and social profile 20% Growth & diversification Low 100 Unemployment rate 90 25% 95 Quality of governance 20% Economy QS score E 100 Economy CVS score E 89 Courtination Low 100 Quality 100 33% 91 Governance QS score E 100 Governance CVS score E 83 Corruption 74 33% 91 76 Step III - Indicative rating: notch adjustment - downwards - from sovereign rating: City of Milan Country 100 0 0 1 1 1 2 2 3 4 5 6 76 Individual credit profile: 75 2 2 <t< td=""><td>Budget</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></t<>	Budget													
$ \begin{array}{c c c c c c c c c c c c c c c c c c c $	performance and	30%				Medium	50			•	57	15%	7	9
$ \begin{array}{c c c c c c c c c c c c c c c c c c c $	flexibility							Transfer	s, % op.rev.		100	15%		
$ \begin{array}{c c c c c c c c c c c c c c c c c c c $														
Economy and social profile 20% Growth & diversification Labour market & demographi Low 100 Unemployment rate 90 25% <td></td> <td></td> <td>Budget G</td> <td>S score</td> <td></td> <td>Σ</td> <td>83</td> <td>-</td> <td></td> <td></td> <td></td> <td>-</td> <td></td> <td></td>			Budget G	S score		Σ	83	-				-		
Economy and social profile 20% Labour market & demographi Low 100 Old-age dependency ratio 66 25% 95 Guality of governance 20% Recent events & policy risk Transparency & accountabilit Low 100 Quality 100 33% 33% 91 Guality of governance 10% Recent events & policy risk Transparency & accountabilit Low 100 Impariality Corruption 73 33% 91 Governance QS score Σ 100 Governance CVS score Σ 83 76 Individual credit profile 76 83 76 Step III - Indicative rating: notch adjustment - downwards - from sovereign rating: Indicative sub-sovereign rating: Susure Susure Susure Individual credit profile 76 Step III - Indicative maximum motch adjustment from sovereign rating: Neal 2 2 2 2 3 4 4 5 6 6 70 Reditional considerations Indicative rating adjustment 0 4 1 1 2 2			Crowth 8	divoraifiaa	tion	Low	100		•					
Social profile Earlow matrice consistent a local standard consistence and local standard consistence a local standard consistence consistence a local standard consistence a local standard consistence consistence a local standard consistence consistence a local standard consistence		20%										95		
Quality of governance 10% Recent events & policy risk Transparency & accountabilit Low 100 Quality Impartiality Corruption 100 33% 73 33% 73 33% 73 33% 73 33% 73 33% 73 33% 73 33% 73 33% 73 33% 74 76 83 Indicative sub-sovereign rating indicative sub-sovereign rating indicative maximum notch adjustment from sovereign rating: indicative maximum notch adjustment from sovereign rating: indicative maximum notch adjustment from sovereign rating: 0 - 3 - 1 Indicative maximum notch adjustment from sovereign rating: indicative rating adjustment BBB+ Indicative rating adjustment 100 0 - 1 -1 -1 -1 -2 -2 -3 -4 -5 -6 - 100 0 - 5 -1 -2 -2 -3 -3 -4 -5 - - - - -	social profile	2070					100			00	2070		-	
Quality of governance 10% Transparency & accountabilit Low 100 Impartiality Corruption 73 33% 74 33% 33% 91 Image: Governance QS score E 100 Governance CVS score E 83 76 Image: Governance QS score E 100 Governance CVS score E 83 76 Image: Governance QS score E 100 Image: Governance CVS score E 83 76 Indicative rating: notch adjustment - downwards - from sovereign rating: To			Economy	/ QS scor	е	Σ	100	Econom	ny CVS scol	re	Σ	89		
duality of governance 10% Corruption 74 33% 91 Governance QS score Σ 100 Governance CVS score Σ 83 Individual credit profile Σ 100 Governance CVS score Σ 83 Individual credit profile T T Step III - Indicative rating: notch adjustment - downwards - from sovereign rating: T T Indicative sub-sovereign rating Strong Medium Weak Country Issuer Indicative maximum notch adjustment from sovereign rating: Indicative maximum notch adjustment from sovereign rating: Issuer Country Indicative naximum notch adjustment from sovereign rating: Indicative rating adjustment Govereign rating BBB+ Indicative naximum notch adjustment from sovereign rating: Indicative rating adjustment O <td></td> <td></td> <td>Recent ev</td> <td>ents & po</td> <td>licy risk</td> <td>Low</td> <td>100</td> <td>Quality</td> <td></td> <td></td> <td>100</td> <td>33%</td> <td></td> <td></td>			Recent ev	ents & po	licy risk	Low	100	Quality			100	33%		
governance 10% Corruption 74 33% 91 Governance QS score Σ 100 Governance CVS score Σ 83 Individual credit profile Σ 100 Governance CVS score Σ 83 Individual credit profile Σ 100 Governance CVS score Σ 83 Individual credit profile Σ 76 Step III - Indicative rating: notch adjustment - downwards - from sovereign rating: Σ 76 Indicative sub-sovereign Strong Medium Weak Country Issuer Country Indicative maximum notch adjustment from sovereign rating: Italy Sovereign rating BBB+ Indicative rating adjustment O 0 0 1 1 1 2 2 3 3 4 5 66 3 3 4 3 4 3 4 3 4 3 4 3 4 3 4 3 4 3 4 3 4 3 4 4<	Quality of		Transpare	ency & acc	countabili	t Low	100	Impartial	ity		73	33%		
Governance QS score Σ 100 Governance CVS score Σ 83 Individual credit profile Σ 76 Step III - Indicative rating: notch adjustment - downwards - from sovereign rating 76 Ssuer City of Milan Indicative sub-sovereign rating Strong Medium Weak 2 2 30 Country Italy	-	10%						Corruptio	Corruption		74	33%	91	1
Individual credit profile ∑ 76 Step III - Indicative rating: notch adjustment - downwards - from sovereign rating 76 Issuer City of Mian Indicative sub-sovereign rating Strong Medium Weak 2.25 < 2.55 ≥ 4.5 ≥ 3.5 ≥ 2.5 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55 < 2.55	J		Governa	nce QS so	ore	Σ	100	Govern	ance CVS s	core	Σ	83		
$ \begin{array}{c c c c c c c c c c c c c c c c c c c $			Coverna	100 40 50			100	Covern					Σ	76
Indicative sub-sovereign rating Strong Medium Veak Indicative sub-sovereign rating Strong Nedium Veak Nedium Veak 2 75 2 65 2 45 2 35 2 25 < 25			Step III - I	ndicative	rating: n	otch adiu	ustment -	downwa	ards - from	sovereia	n rating			
Ndecium Weak Strong Medium Weak City of Milan ≥ 75 ≥ 65 ≥ 55 ≥ 45 ≥ 35 ≥ 25 < 25 Noticative maximum notch adjustment from sovereign rating: Indicative maximum notch adjustment from sovereign rating: Italy Sovereign rating Noticative maximum notch adjustment from sovereign rating: 0 0 0 1 1 1 1 Sovereign rating BBB+ 0 0 0 1													Issuer	
Indicative sub-sovereign rating ≥ 75 ≥ 65 ≥ 55 ≥ 45 ≥ 35 ≥ 25 < 25 < 25 Indicative maximum noth adjustment from sovereign rating: Indicative maximum noth adjustment from sovereign rating: Italy 70 0 0 0 -1 -1 -1 -1 -1 Sovereign rating: 70 0 0 0 0 -1 -2 -2 -2 -2 -3 -3 -4 -5 -6 -1 -1 -1 -1 -1 -1 -2 -2 -2 -2 -3 -3 -4 -5 -5 -6 -7 -3 -3 -4 -5 -5 -7 -7 -2 -2 -3 -4 -5 -6 -7 -7 -7 -7		<u>.</u>		Stre					Wea			C		In
70 0 0 0 -1 -1 -1 -1 Sovereign rating Weign of the second sec	Indicative sub-	sovereigi	n rating			≥ 55		≥ 35						
70 0 0 0 -1 -1 -1 -1 Sovereign rating Weign of the second sec		_			ative max	imum note				ating:	•		Italy	
Non-3 -1 -1 -1 -2 -2 -2 -3 Medium 0 - 3 -1 -1 -1 -2 -2 -3 -3 -4 -0 Additional considerations 0 - 4 -1 -1 -2 -2 -3 -3 -4 -5 0 Additional considerations			0 - 1	0	0	0				-1		Sov		ting
Network 0 - 3 -1 -1 -2 -2 -2 -3 Medium 0 - 4 -1 -1 -2 -2 -3 -4 0 Additional considerations 0 - 6 -2 -2 -3 -4 -5 -6 - - Additional considerations -	ž	Full	·····											
Medium 0 - 4 -1 -2 -2 -3 -3 -4 0 - 5 -1 -2 -2 -3 -3 -4 -5 0 - 6 -2 -2 -3 -3 -4 -5 0 - 6 -2 -2 -3 -3 -4 -5 0 - 7 -2 -2 -3 -3 -4 -5 -6 0 - 7 -2 -2 -3 -4 -5 -6 -7 0 - 8 -2 -3 -4 -5 -6 -8 -7 0 - 9 -2 -3 -4 -5 -6 -7 -9 0 - 10 -3 -4 -5 -6 -7 -9	th											Indicative		ljustment
Medium 0 -5 -1 -2 -2 -3 -3 -4 -5 Additional considerations 0 -6 -2 -2 -3 -3 -4 -5 -6 - 0 -7 -2 -2 -3 -4 -5 -6 - - Final rating 0 -8 -2 -3 -4 -5 -6 -8 - - Final rating 0 -9 -2 -3 -4 -5 -6 -7 -9 - BBB+	jn vi											A -1 199	•	
Image: Normal basis 0 - b -2 -2 -3 -3 -4 -5 -5 -7 0 - 7 -2 -2 -3 -4 -5 -5 -7 Final rating 0 - 8 -2 -3 -4 -5 -6 -8 -9 0 - 9 -2 -3 -4 -5 -6 -7 -9 0 - 10 -3 -4 -5 -6 -7 -9 BBB+	l fra ion reiç	Medium										Addition	al consid	erations
vitig 0 - 8 -2 -3 -4 -4 -5 -6 -8 -9 BBB+ Low 0 - 9 -2 -3 -4 -5 -6 -7 -9 BBB+	bnal jrat ovel												- Final ratio	a
Low 0 -9 -2 -3 -4 -5 -6 -7 -9 BBB+	utio iteg sc												nanaun	9
Ĕ 0 - 10 -3 -4 -5 -6 -7 -8 -10	stitu In	Low											BE	B+
	<u><u> </u></u>													

Source: Comune di Milano, BDAP, Eurostat, Istat, Scope Ratings GmbH

Annex II: Budget overview and financial indicators

EUR m	2016	2017	2018	2019
Operating revenue	3,143	3,161	3,266	3,285
Tax revenue	1,354	1,397	1,411	1,423
Transfers (incl. equalisation)	420	439	470	440
Fees and own proceeds	1,369	1,325	1,385	1,421
Current revenue	3,159	3,178	3,281	3,301
Interest revenue	16	17	15	16
Capital revenue	211	287	493	591
Financial revenue	115	184	200	109
Total revenue	3,484	3,649	3,974	4,000
Operating expenditure	2,656	2,559	2,612	2,598
Personnel	619	590	609	596
Goods and services	1,790	1,758	1,797	1,805
Other current expenditure	247	211	206	197
Current expenditure	2,777	2,679	2,734	2,720
Interest payments	121	120	122	122
Capital expenditure	295	371	385	513
Financial expenditure	115	188	230	91
Total expenditure	3,187	3,238	3,349	3,324
Operating balance	487	602	654	687
Current balance	382	499	546	581
Balance before debt movement	297	411	624	677
Gross borrowing (incl. flexible loans already in the debt stock)	105	111	127	117
Redemption	172	184	193	198
Application of previous surpluses	104	201	236	289
Earmarked funds for investment (revenue)	800	756	812	1,066
Earmarked funds for investment (expenditure)	756	812	1,066	1,273
Budget result	380	483	541	677
Operating balance/operating revenue, %	15.5	19.0	20.0	20.9
Balance before debt movement/total revenue, %	8.5	11.3	15.7	16.9
Interest payments/operating revenue, %	3.8	3.8	3.8	3.7
Transfers/operating revenue, %	13.4	13.9	14.4	13.4
Personnel expenditure/operating expenditure, %	23.3	23.0	23.3	22.9
Capex/total expenditure, %	9.2	11.5	11.5	15.4
Debt	3,923	3,734	3,688	3,564
Debt/operating revenue, %	124.8	118.1	112.9	108.5
Debt service/operating revenue, %	9.3	9.6	9.7	9.7
GDP per capita (% of national average, provincial level)	190.0	189.2	-	-
Unemployment rate (provincial level), %	7.5	6.5	6.4	5.9
			Eurostat, ISTAT, Sco	



Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5 D-10785 Berlin

Phone +49 30 27891 0

London

111 Buckingham Palace Road UK-London SW1W 0SR

Frankfurt am Main

Neue Mainzer Straße 66-68 D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Madrid

Paseo de la Castellana 95 Edificio Torre Europa E-28046 Madrid

Phone +34 914 186 973

Paris

23 Boulevard des Capucines F-75002 Paris

Phone +33 1 8288 5557

Milan

Regus Porta Venezia Via Nino Bixia, 31 IT-20129 Milano

Phone +39 02 30315 814

Oslo

Karenslyst allé 53 N-0279 Oslo

Phone +47 21 62 31 42

info@scoperatings.com www.scoperatings.com

Disclaimer

© 2020 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Analysis GmbH, Scope Investor Services GmbH and Scope Risk Solutions GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5 D-10785 Berlin.

Scope Ratings GmbH, Lennéstraße 5, 10785 Berlin, District Court for Berlin (Charlottenburg) HRB 192993 B, Managing Director: Guillaume Jolivet.