

CHAPTER 13

THE FEASIBILITY PLAN (BUSINESS PLAN) INCLUDING BUDGETS, MEANS OF FINANCING AND ANTICIPATED FINANCIAL RESULTS

**ABSTRACT CHAPTER 13****DESCRIPTION OF THE OVERALL BUDGET FOR THE EVENT****THE BUDGET FOR THE INVESTMENT**

- For Expo Milano 2015, € 3,228 million will be invested in capital accounts to prepare the site and construct the necessary facilities (€ 1,253 million), to connect the site to the surrounding area (€ 1,780 million), to improve the accommodation capacity and to carry out other technological work (€ 60 million).
- The private sector (companies, financial institutions...) has shown great interest in the infrastructural works. It is estimated that business will invest roughly € 900 million.
- Moreover, prescheduled investments in transport system infrastructures arise to € 10,179 million.

THE OPERATIONS BUDGET

It is estimated at € 900 million will be needed for the operational side of Expo 2015. More specifically:

- ticket sales (59%) and sponsorship (25%) will provide the majority of income;
- the major costs will be operational technologies (12%), staff (12%), cultural events (11%), and promotion and communication (10%).

CASH FLOW

The majority of cash flow will take place in the three years before the event (where the impact of income and expenditure will be stronger due to infrastructure development), and the year of the event (due to organisational expenditure). More specifically:

- cash expenditure due to infrastructural work will be financed by the public administration (government and local bodies): in this way, every year, it will be possible to strike a balance between income and expenditure, thus ensuring overall financial sustainability for the required work;
- as regards the financial balance of the organisation/management of the event, it is important to stress that it is normal to have an imbalanced cash flow in the years preceding the event, given the fact that the majority of the operational costs will be incurred before the event, while the majority of the revenues will be collected during the event year.

13.1 Budget and Financial Guarantees

Based on the information available at the close of this Candidature Dossier, the total budget of Expo Milano 2015¹ consists of two macro-areas: **investments in the infrastructure** necessary for the event, whose value totals **€ 3,228 million**, and the operating revenues-costs necessary to organise the event, whose value is around **€ 892 million**.

While the operating costs associated with organising the event are completely covered by the operating revenues from private sources, the sustainability plan of the infrastructure investments is based on some assumptions that have been formally and substantively confirmed in recent months. In particular:

- the Italian Government has undertaken to sustain the bid of Expo Milano 2015 with a funding contribution of **€ 1,486 million** (equal to 46% of the total infrastructure investment). These funds will be earmarked primarily for the design, construction, restructuring, and completion of infrastructure related to the preparation and realization of the site, connection of the site with the territorial system, and increased accommodation capacity in the area;
- the local authorities (Region of Lombardy, Province of Milan, City of Milan) will contribute with **€ 851 million** (equal to 26% of the total infrastructure investment), for the design, construction, restructuring, and completion of infrastructure;
- the private sector (companies, financial institutes, etc.) has expressed great interest in specific forms of financing (e.g.: project financing, concession and operation, mixed capital companies, etc.) for **€ 891 million** (equal to 28% of the total infrastructure investment).

The aforesaid public-private model of financing the infrastructure for Expo Milano 2015 has been examined by a series of leading national and international financial institutions and judged valid based on the benchmarks from similar initiatives in Italy and Europe (in this regard, see the guarantee notes of Cassa Depositi e Prestiti and the European Investment Bank in Appendix).

¹ As indicated in Chapter 6, that budget will be managed by the Organising Committee, capable of overseeing the two typical areas necessary for preparing and organising Expo 2015



13.1.1 Financial guarantees

The Italian Government has formally undertaken to sustain the organization of Expo Milano through the budgeting of a financial contribution of **€ 1,486 million** necessary for the infrastructure and services related to Expo Milano 2015.

The Government has declared (see the attached letter) its committing guarantee, on behalf of the whole country, for the realisation of the World Exposition Milano 2015 and the arising financial needs.

13.1.2 Price controls

In Italy, the prices of consumer goods and services are not normally subject to government control. Nevertheless, a significant part of the services to be used during the period of the Expo (e.g.: railroads, motorways, public transport, telecommunications, security services, the mails, utilities, etc.) will be provided by predominantly state-owned companies. Consistent with the Maastricht Treaty and the Stability Pact, these companies are required to keep the prices of their services in line with the target inflation rate set each year by the Italian Government.

13.2 Capital expenditures in infrastructure for Expo Milano 2015

Expo Milano 2015 will make capital expenditures of **€ 3,228 million** referring to the preparation and construction of the site (**€ 1,253 million**), connection of the site to the surrounding territorial system (**€ 1,780 million**), increased accommodations in the area (**€ 135 million**), and additional technological works (**€ 60 million**).

A. INFRASTRUCTURAL WORKS FOR SITE PREPARATION AND CONSTRUCTION

With reference to the projects described in the preceding chapters, the costs for preparing and constructing the site would equal **€ 1,253 million**, including technical charges (15%) and value added tax (VAT).

B. INFRASTRUCTURAL WORKS FOR CONNECTION OF SITE TO THE TERRITORY

With reference to chapter 8, connecting the Expo Milano 2015 site to the surrounding territorial system will require capital expenditures totalling **€ 1,780 million**, including technical charges (15%) and value-added tax (VAT).

C. INFRASTRUCTURAL WORKS FOR ACCOMMODATIONS

With reference to chapter 12 capital expenditures for accommodations are projected to total **€ 135 million**, including technical charges (15%) and value-added tax (VAT).

D. TECHNOLOGICAL INFRASTRUCTURE

Capital expenditures projected for technological works would total **€ 60 million** including technical charges (15%) and value-added tax (VAT).

As the attached table shows, private sector will finance for 28% (€ 891 million) and the public sector (Government and local Authorities) for the remaining 72% (€ 2,337 million) of the total capital investments (€ 891 million).

13.2.1 Participation in infrastructure works by private interests

As mentioned earlier, the private sector has expressed great interest in financing infrastructure works for an estimated value of **€ 891 million**.

The contribution of these private interests would consist of² :

- 100% financing for parking (inside and outside the site), equal to € 72 million;
- 100% financing for technological works, equal to € 60 million;
- 90% financing for the Expo Village, € 80 million;
- 50% financing for the exposition and service areas, equal to circa € 115 million;
- 100% financing for the Tower of Energy and the Commercial Theme Bridge, equal to € 284 million;
- 35% financing for the Metro underground network, equal to € 270 million;
- other marginal portions of specific investments on the road network, equal to €10 million.

² The estimate was examined by a series of leading national and international financial institutions that judged it valid based on the benchmarks of similar initiatives in Italy and Europe (in this regard see the notes of guaranty of Cassa Depositi e Prestiti and the European Development Bank in appendix to this dossier)



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13.3 Operating costs and revenues from the event

The principal budgeted costs and revenues for organising and managing Expo 2015 are described as follows:

INCOME	€ millions	EXPENDITURE	€ millions
1.1 Pavilion rentals	30	1.1 Staff Personnel	110
2.1 Ticket sales	522	1.2 Volunteers	20
3.1 Restaurant concessions	4	2.1 Promotion and Communication	93
4.1 Transport/parking for visitors	46	2.2 Ticket sale management	37
4.2 National Lottery	25	2.3 Exposition setup and decoration	20
4.3 Licensing and merchandising	20	2.4 Royalties to BIE	11
4.4 Sponsorships	219	3.1 Sponsors	4
4.5 Rent of accommodations to participants	15	3.2 Cultural events	99
5.1 Resale of assets post-Expo	11	3.3 Front-end technological projects	30
		4.1 Insurance	15
		4.2 Financial expense	8
		5.1 Facility Management	10
		5.2 Utilities	28
		5.3 Environmental Services	18
		5.4 Sustainability programmes	52
		6.1 General services	35
		6.2 Administration and offices	9
		6.3 Rents, transport and equipment	54
		6.4 Preparation of participants' accommodation	4
		6.5 Protocol and ceremonies	10
		6.6 Press services	6
		6.7 Security	20
		6.8 Operational technologies	107
		6.9 Studies and consultancy	30
		6.10 Best practice projects	20
		7.1 Contingency	42
TOTAL	892	TOTAL	892

13.3.1 Operating costs

The principal budgeted costs for organising and managing Expo 2015 can be classified as follows.

1.1 Staff Personnel

The Organising Committee is expected to utilise a total of 1,100 employees in 2015, at full scale, to carry out its company mission (650 full-time and 450 temporary during the six months of the event).

Assuming that:

- the entry curve of full-time personnel is in line with those recorded in previous World Expositions (specifically, the structure is projected to require 25 persons in 2009, 60 in 2010, 110 in 2011, 340 in 2013, and 520 in 2014);
- the distribution of the job levels calls for 3% management, 15% supervisors and 82% staff;
- temporary personnel would only be used in the final six months of event preparation at a total cost of **€ 110 million³** (equal to 12% of the budgeted operating costs).

1.2. Volunteers

A total of 36,051 volunteers would be utilised during the period of Expo 2015⁴, and their selection, training, team building, retention, communication and management (e.g.: clothing and meals) would result in a unit cost of € 550 per volunteer, so the total budgeted cost is **€ 20 million** (equal to 2.2% of the budgeted operating costs).

2.1. Promotion and Communication

The costs of Promotion and Communication for the event (further broken down into costs for advertising, promotional materials, and events, including the opening ceremony) may amount to **€ 93 million** (10% of the budgeted operating costs).

³ The cost includes payroll contribution, severance entitlements, fringe benefits and, where applicable, performance bonuses

⁴ This number derives from an average daily ratio of 1 volunteer for each 105 projected visitors, in line with the most recent expositions; see the related chapter for additional details



2.2. Ticket sale management

The projected cost of € 1,75 per ticket for the 21 million tickets printed⁵ results in a total cost of **€ 37 million** (equal to 4% of the budgeted operating costs).

2.3 Exposition set up and decoration

Considering that there will be 53,600 sqm to set up (theme pavilions) and that the cost of setup equals € 175/sqm, this means a total cost, including general costs and signage, of **€ 20 million** (equal to 2% of the budgeted operating costs).

2.4 Royalties to BIE

The BIE regulations for Expo 2015 call for a registration fee of € 0,5 million and a royalty of 2% on ticket sales. Assuming these revenues to be € 522 million⁶, the royalties due to BIE in ticket sales would be €10,4 million. Overall, therefore, we would have to pay **€ 11 million** in royalties to BIE (equal to 1% of budgeted operating costs).

3.1 Sponsors

A cost of **€ 4 million** has been estimated, equal to 0.5% of budgeted operating costs.

3.2 Cultural events

Assuming 40 events for each day of Expo duration at an average cost of € 8,000 per cultural event, we find a total cost of € 58,6 million. Adding a fixed cost of € 40 million for the organisation of major events, we have a total cost of **€ 99 million** (equal to 11 % of the budgeted operating costs).

⁵ This number, less than the 29 million visitors expected, reflects the inclusion of multi-day and seasonal tickets

⁶ This estimate was determined by multiplying the expected number of visitors, 29 million, by an average ticket price of € 18

3.3 Front-end technological projects

These projects could make a day visiting the Expo 2015 an unforgettable experience. In particular, they include:

- virtual pavilions;
- cross-media video portal;
- MPA (Mobile Personal Assistant);
- I-Com (RFID pass);
- Milan InTouch;
- PLC parking;
- ABC Pass (pass to Biometric Access);
- StradAmica;
- Expo Urban TV

at a total cost of **€ 30 million** (equal to 3% of the budgeted operating costs, see chapter 20).

4.1 Insurance

Stipulating insurance coverage of personnel, the Expo site, and the risk of cancellation of the event would result in a total cost of **€ 15 million** (equal to 2% of the budgeted operating costs).

4.2 Financial expense

Assuming borrowing at an annual rate of 4.5% (current 12-month EURIBOR) to cover the annual difference between positive cash flows (generated by revenues projected for the year) and negative cash flows (generated by the costs budgeted for the year), this would result in interest charges of **€ 8 million** (equal to 1% of the budgeted operating costs).

5.1 Facility management

The projected cost of facility management is **€ 10 million** (equal to 1% of the budgeted operating costs).



5.2 Utilities

€12 million is budgeted for electric power⁷ and € 2 million for water costs. The budget also contains €14 million for temporary power generation facilities.

In conclusion, utilities and temporary facilities will have a total cost of **€ 28 million** (equal to 3% of the budgeted operating costs).

5.3 Environmental services

The total cost for environmental services consists of waste management and site cleaning activities.

Regarding waste management, considering average production of 1 kg of waste per visitor and an average cost of waste management services of 460 €/ton, we obtained a total cost of € 13,4 million.

Regarding cleaning costs, considering that the average area to clean is 1,2 million m² at a cost of 0,021 €/sqm/day, the resulting total cost would be € 4,6 million for the entire six months of the exposition.

In conclusion, the costs associated with environmental services would be **€ 18 million** (equal to 2% of the budgeted operating costs).

5.4 Sustainability programmes

The environmental sustainability programmes, consisting of programming, arranging, offsetting and realising four projects to reduce greenhouse gases in the areas of interest, amount to a total of € 41 million, plus the cost of additional environmental assessments of € 11 million, for a total of **€ 52 million** (equal to 6% of the budgeted operating costs).

6.1 General services

We have budgeted **€ 35 million** for general services (equal to 4% of operating costs).

6.2 Administration and offices

Considering that the Organising Committee will employ a total of 1,100 persons, and assuming that:

- each employ will require an average space of 9 sqm;
- the average cost to rent office space is 445/sqm;
- the cost of furnishing is 370 €/employee;
- the average cost for utilities (power, gas, and water) is 81€/sqm/ year;
- the cost of utilities is estimated consistent with the entry curve of employees for the years 2009-2015

we estimated a total cost of **€ 9 million** (equal to 1% of the budgeted operating costs).

6.3 Rents, transport and equipment

Considering the cost of renting pavilions at the site provided by Fiera di Milano equal to € 25 million, the cost of the technical equipment € 20 million, and transport costs of € 9 million (€ 4 million for sightseeing services and € 5 million for the park-and-ride shuttle service), the total is **€ 54 million** (equal to 6% of the budgeted operating costs).

6.4 Preparation of participants' accommodation

Based on a 2,500-bed capacity (2,000 in the village described in point 3.C.1 and 500 in the Tower of Energy described in point 3.A.3), and considering a cost per bed of € 1,500 for setting up a single room plus € 250/bed for renovation costs associated with possible post-Expo conversion, the total cost of preparing the dedicated structure to lodge the staff of the participating countries was estimated at **€ 4 million** (equal to 0.5% of the budgeted operating costs).

6.5 Protocol and ceremonies

The total cost of managing protocol activities and ceremonies (almost all budgeted for 2015) amount to **€ 10 million** (equal to 1% of the budgeted operating costs).



6.6 Press services

The costs of renting and operating the Main Press Centre were estimated at **€ 6 million** (equal to 1% of the budgeted operating costs).

6.7 Security

This cost is divided into the cost of purchasing the materials/equipment necessary to ensure the security of the Expo site and the surveillance costs.

The costs of purchasing the materials/equipment was estimated at € 4,7 million and surveillance costs at € 15 million, making a total cost of **€ 20 million** (equal to 2% of the budgeted operating costs).

6.8 Operational technologies

The estimated costs necessary for the functioning of the technological operating system was estimated based on the projected requirements of the Organising Committee during the development of the Expo 2015 project. In particular we considered:

- costs of software design and development and relative technical consultancy: **€ 47 million**;
- costs of purchasing hardware for information processing (servers, computers, printers, PDAs, etc.): **€ 13,2 million**;
- costs of developing and maintaining the websites (five sites): **€ 13 million**;
- costs of telecommunications (connections, rental of screens and electronic equipment, telephone traffic, radios): **€ 28,5 million**;
- costs of designing packages and applications to manage business information (Business System, Office System and Customer Applications): **€ 5 million**.

Based on this list, the total cost for operating technologies would be **€ 107 million**, (equal to 12% of the budgeted operating costs).

6.9 Studies and consultancy

This cost item was estimated based on the benchmarks of comparable events, for a value of **€ 30 million** (equal to 3% of the budgeted operating costs).

6.10 Best Practice Projects

If Milan's bid for Expo 2015 is successful, the city intends to contribute to projects approved by the BIE to be carried out in developing countries. To achieve this, the city would appropriate the total proceeds from the sale of merchandising, i.e. **€ 20 million**, to this initiative (equal to 2% of the budgeted operating costs).

7.1 Contingency

Considering the amount of costs, it is reasonable to provide for a contingency fund equal to 5% of the entire operating cost budget, equal to **€ 42 million**.

13.3.2 Operating Revenues

This section describes the principal sources of revenue related to the organisation and management of Expo 2015 that fall within the operating perimeter of the Organising Committee.

1.1 Pavilion rental

Assuming that the rent on space leased to the participating countries is equal to € 455/sqm for the entire duration of the event, that the minimum standard leasing module is 400 sqm, and that a total number of 40 countries lease the pavilions for a total of 73,600 sqm, composed of small and midsize pavilions, the total rental income would be **€ 30 million** (equal to 4% of the budgeted operating revenues). This figure includes a discount of 15% applied to BIE member countries.



2.1 Ticket sales

Assuming that the number of visitors during the six months of Expo 2015 reaches 29 million, and considering an average price per admission ticket⁸ of € 18, we find total proceeds of **€ 522 million** (equal to 59% of the budgeted operating revenues).

This average price represents a mix of differentiated pricing: the standard ticket (day ticket adult), for example, will have a price of € 28 (at current 2007 prices, corresponding to a presumed face value of € 35 in 2015), the evening ticket € 14 (at 2007 prices, corresponding to a face value of € 17,5 at 2015 prices); student tickets (primary and secondary school) will cost € 7 (at 2007 prices, corresponding to a face value of € 8,7 in 2015).

3.1 Restaurant concessions

Assuming that the total number of visitors in the six months of Expo 2015 reaches 29 million, that 20% of them consume a meal with an average value of € 10, and that 30% consume a snack/beverage with a value of € 3, and budgeting 5% royalties on sales, we estimated the total income to be **€ 4 million** (equal to 0.5% of the budgeted operating revenues).

4.1 Transport and Parking for visitors

Assuming that the average ticket price for transport within the site (sightseeing) is € 3, and that 25% of the projected visitors (7,25 million) utilise that transport, this would generate income of € 22 million.

Assuming that the average price for parking is € 12 a day, and that 18% of the total 29 million visitors would reach the Expo by car, with an average of 2,5 persons per car, we estimated the average number of cars at 2,09 million, generating parking revenues of € 24 million. This total item would therefore generate **€ 46 million** in income (equal to 5% of the budgeted operating revenues).

4.2 National Lottery

This source is expected to produce **€ 25 million** in expected income (equal to 3% of the budgeted operating revenues). These revenues represent the amount collected by the Ministry of the Economy, which is 30% of the total proceeds from national lottery initiatives (Gratta e Vinci).

4.3 Licensing & Merchandising

These revenues were estimated based on the following assumptions:

- sales within the Expo site of € 6,2 million (4.5% of the 29 million visitors spending an average of € 20 and royalties at 24%);
- sales in the city centre equal to € 2,4 million (average scenario of purchasers for a retail period of three months);
- off-site sales of € 4 million (10 million inhabitants with an external airport pool of 25 million persons with a conservative royalty rate of 8%);
- revenues from royalties on commemorative coins, guides, etc. equal to € 7,5 million.

In this case, we find total revenues of **€ 20 million** (equal to 2% of the budgeted operating revenues).

4.4 Sponsorships

The assumption is that 30 companies will sponsor Expo 2015 as follows:

- 4 top-level sponsors (€ 35 million each): € 140 million;
- 10 second-level sponsors (€ 6,3 million each): € 63 million;
- 16 third-level sponsors (€ 1 million each): € 16 million.

This gives total income of **€ 219 million** (equal to 25% of the budgeted operating revenues).

4.5 Rent of accommodations to participants

Assuming that 50 countries participate in Expo 2015 and are asked to pay € 40/day for lodging their staff, and assuming an average staff of 20 persons per country and 365 days of lodging, we find a total of **€ 15 million** in rental income (equal to 1.5% of the budgeted operating revenues).

5.1 Resale of assets post Expo

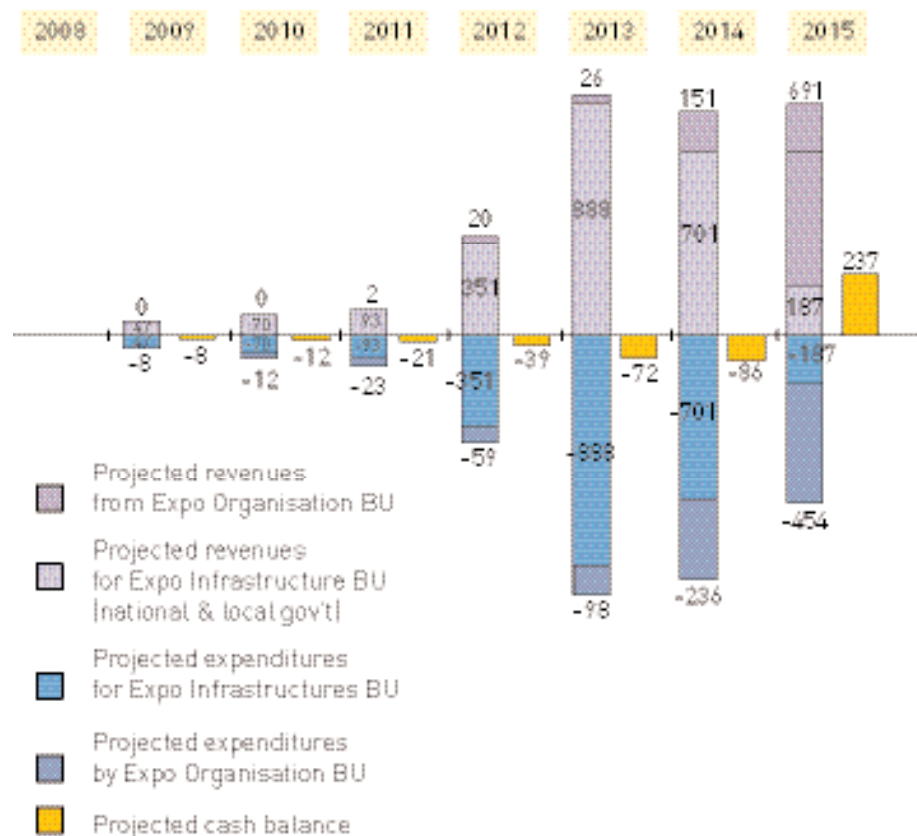
Based on a benchmark with recent mega-events in Italy, we estimated total proceeds of **€ 11 million** (equal to 1% of the budgeted operating revenues).



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13.4 Cash flow projections and hedging of financial risk

The Organising Committee will sustain all the public portion of the infrastructure costs (equal to **€ 2,337 million⁹**) and all the operating costs related to the organisation and management of the event (**€ 892 million**) and will work in conjunction with the private sector to complete that portion of the infrastructure (equal to **€ 891 million**).



The chart above shows how the expenditures and revenues managed by the Organising Committee will be distributed over time, with regard to the infrastructure and organisation. As the chart shows, the flows are concentrated primarily in the three years preceding the event (when the impact of infrastructure projects on cash inflows and outflows is greatest) and in the year of the event (when most of the expenditures relate to the organizational machinery).

The cash outflows for capital expenditures (infrastructure projects) will be funded by inflows provided by the public administration (national and local government): in this way, there will be a general balance each year between expenditures and revenues, i.e. general financial sustainability of the various projects.

Regarding the financial balance of the budget for organizing/operating the event, we should point out that there will be physiological imbalance in the years prior to the event, since a significant part of the income is deferred to the year of the event (e.g. revenues from ticket sales and the sale of services to visitors).

In any case, the negative cash flow associated with the organisation of the event will be covered through bank financing: the financial expense this will generate has been estimated and included as a specific operating cost.

13.5 Budget for Expo Milano 2015

The budget for Expo Milano 2015, shows a break-even of **€ 4,120 million** (€ 3,228 million for infrastructure and € 892 million organisation of the event)¹⁰.

This budget and the projected cash flows were developed based on the economic conditions in effect at the time of preparation; the projections do not take into consideration possible effects of inflation or fluctuations in the exchange rates between the euro and the other currencies associated with costs and revenues.

The Organising Committee will be assisted by leading banks for a series of financial risk hedging transactions (e.g.: currency exchange risk, risk of macroeconomic changes, etc.) that might alter the projected results.

The budget of Expo Milano 2015 can be summarised in the following table.

¹⁰ Please note that, as indicated in greater detail in Chapter 6, the Organising Committee, responsible for building the infrastructure and organizing the event, will manage the total budget through two business units: Infrastructure and Organisation



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