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“PRIVATIZATION OF STATE OWNED COMPANIES: POSTE
ITALIANE’S CASE”

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Ai miei genitori,

*“Ogni settore ha le sue regole del gioco e non esistono schemi di
privatizzazione validi per tutti”*

Cit. Corrado Passera

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INTRODUCTION

The listing of Poste Italiane on the Milan Stock Exchange on 27/10/2015 was one of the most significant European listings in 2015. The operation gained even more importance as it was the first major privatization project after years of little or nothing being done in this area by the Italian government.

This dissertation is divided in 5 chapters; the first is purely theoretic and analyses the concept of privatization, defining its three different implementation methods; the chapter also describes carefully the goals a country might want to reach through this specific process, and it also shows how it is difficult to improve the State coffers and increase market efficiency through privatization if the process is not backed up by policies aimed to stimulating economic growth and market liberalization. The chapter ends with an excursus through the privatization process of 3 of the main European countries: the UK, France and Germany.

The second part, i.e. chapters 2-3-4, was drafted from an accurate analysis of official documents obtained both from Poste Italiane and various State authorities, including the Court of Auditors and ISTAT. Chapter four was developed at the same time as the events in question occurred, and therefore the work mainly involved researching and analysing various sources, such as articles from specialised press and websites. The wealth of news that was given every day made the research rather long-winded, as the reliability and truth of the news had to be verified.

A purpose of the dissertation is to accurately analyse the motives that led to this privatization, and to understand if the State decided to proceed in order to reduce its effect on the economy, or whether it was purely for financial needs. The work also gives a precise description of the various phases prior to the IPO, starting with the conversion of Poste Italiane into a joint-stock company in 1998, retracing the most significant events that took place throughout the different administrations, from Passera's era until now. Special focus is paid to the operations to turn-around the company which, at the end of the 90s, was in extremely serious economic-financial difficulties, highlighting the four-year plan 1998-2002 that enabled the company to reach break-even and begin to generate a profit.

For the period under the guidance of the CEO Sarmi, who did much to strengthen and increase profits for almost a decade, this dissertation provides an analytical study of one of his last operations: the entrance of Poste Italiane in Alitalia, whose effects are also analysed in detail. The project was dictated by politics and strongly criticized right from the start, especially by Alitalia's competitors; in the end, the intervention of the European Commission had to be called upon.

This paper gives a detailed description of the type of business carried out by Poste Italiane, in order to try and understand if it can still be considered a postal company or whether it should be partly considered as a financial operator. The business models of the postal companies in other main European countries (Germany, UK and France) are also compared.

What can be called the second part of the work gives an accurate description of the nature of this major IPO, analysing what was offered to both major investors and small savers, distinguishing among the latter employees of Poste Italiane who received special terms. In the months leading up to its listing on the Stock Exchange, there was a great deal of talk about the appeal of Poste Italiane shares for major investors and potential pension funds that were prepared to invest in the company's capital; in light of the above, the final part of the work portrays the investors who decided to purchase the shares.

CHAPTER 1

Privatization

1.1 The different forms of Privatization

Unlike the events of the 60s and 70s when massive State intervention aimed at aiding economic expansion, since the 80s there has been increasing talk in Europe about privatization, i.e. the process whereby the State transfers its control of an enterprise or production sector to private investors (individual investors or financial markets). The main reasons why politicians in the major European States reconsidered their decisions regarding State intervention in the economy were due to the need to reduce the public debt, to provide better public services and the growing internationalization of real and financial markets. Juridically speaking at least 3 different types of privatization can be identified:

- **Formal privatization**, which entails passage from a State owned company to a private owned company. This passage does not just have significant effects from a legal point of view, it is an essential assumption in order to conclude the privatization process. In fact, further to formal privatization companies have to adapt to the rules of commercial companies, which require greater focus on economic parameters and, above all, greater transparency in all external relations. Consequently once privatization, even just formal, is completed companies are forced to adapt to the dynamic economic system around them and are forced to introduce a clear set of goals, governance procedures and parameters they have to pursue in order to handle the market. The main formal privatization operations in Italy since 1992 have been ENEL, INA and Ferrovie dello Stato.
- **Asset-sale privatization**, which entails the total or partial transfer of a State-owned company capital and the effective disposal of the public investment, by transferring (all or part) of the ownership of a public enterprise to a private party, and therefore changing the economic base. Generally asset-sale privatization is

applied for the larger enterprises, such as the case of Poste Italiane, by means of an IPO on the stock exchange.

- **Functional privatization**, which involves a State-owned enterprise outsourcing the right to private companies to provide services that were previously provided by the State enterprise. The aim of this type of privatization is to give private parties the right to provide the aforesaid services through a concession agreement for technical, economic and social reasons. The State reserves the right to oblige the private party to respect a series of obligations and conditions, which mainly refer to the type and quality of the service, price controls, agreement duration in order to protect the users of the public utility service. With this legislative instrument, the State has the advantage of maintaining control over the offer and at the same time guaranteeing company management based on principles of governance, thus replacing any operating losses with income derived from the concession agreement.

However, since 1994 when Law 474 regulated privatization methods, the State has continued to hold certain rights over privatised companies thanks to the golden share which, further to European directives, became golden power. In fact the underlying philosophy of golden share was authoritative and definitely too discretionary and was in clear contrast with EU jurisprudence, which led to the implementation of violation procedures, not only against Italy but also other countries like France and Germany. In 2012 the Monti government introduced the concept of golden power to replace the previous golden share. Thanks to golden power the approach is much more innovative, the power the State maintains is just oppositional and prescriptive and only becomes injunctive in the last instance, but above all it has an objective form of application. In fact it is applied to all companies, and not only those owned by the State or other public enterprises that operate in strategic sectors of national defence and security and to those that own strategically important assets in the energy, transport and communications sectors. Therefore golden power is softer than golden share but has a potentially wider sphere of application.

1.2 Aims of Privatization

There are several reasons why various States have initiated privatization processes over the years. They range from ideological-social motives, aimed at restyling the State-citizen relationship, to promote ideals of free markets and reduce State interference in the economy management, through to more tangible economic motives due to the need to reduce the State structure and, consequently, public expenditure, and to slow down excessive politicization and eliminate inefficiency in State run enterprises.

The main aim of privatization is without doubt to stimulate competition in order to improve business efficiency and the entire economic system.

To sum up, the main goals a State should aim to achieve by activating privatization policies are:

- Reduce public expenditure
- Reduce public debt through external injections
- Reduce political involvement in strategic business decisions
- Increase market efficiency
- Return the production/offer of certain products and services to the free market
- Spread stock ownership through savers, in order to develop the capital market.

The goals a State sets are not always easy to achieve; this is the reason why privatization generally meets with strong opposition. It often happens, especially in Italy¹, that these policies are initiated during a period of serious financial difficulty and addressed to turning round the public balance sheet. Therefore in most cases the State has to sell its best companies, which generate higher revenue than the average cost of borrowing, but at a price that does not reflect the real value of the company in question. This provides immediate cash but reduces future cash flows from the public company; in countries with heavy borrowing, like Italy, it has a very low impact on the debt in relative terms. Therefore it is difficult to strike the right balance if on one hand the aims that drive privatization policies are broadly agreed with, but on the other hand attention has to be paid to avoid the error of privatizing just to make cash.

¹ See the paragraph below “The new privatization plan”, Chap. 2 page 15

1.3 Privatization and the impact on public debt

The aim pursued above all others through privatization plans is definitely to adjust the State accounts, using income from the disposals to turn round the public balance sheet. With this in mind, the dual effect on the public debt that is generated by using funds obtained through privatization processes has to be underlined. In fact, first of all the overall debt stock is reduced, which in turn generates a second beneficial effect on the public accounts, reducing the interest costs the State has to face. Take Italy for example: by implementing the privatization plans the country saved more than 60 billion euros in interest on its sovereign debt between 1992 and 2008². However, the results that were achieved in reducing the deficit/GDP ratio were poor, especially if the long-term view is considered. Further to privatization processes in Italy, the deficit/GDP ratio in the second half of the 90s to 2008 fell from 120% in 1993 to approx. 105% in 2008, to then rise again considerably in the following years, also due to the recession. This is because to reduce the deficit/GDP ratio not only does the level of borrowing have to be lowered but, above all, there has to be an adequate increase in the GDP. For example, let us suppose there is a debt of 100 on which the State pays real interest of 3%, i.e. net of inflation, and a GDP of 100. In this case the deficit/GDP ratio would be 100% if the primary annual deficit, i.e. the difference between public income and expenditure excluding payable interest, were zero; the following year the numerator would rise to 103 just due to the effect of the interest. If the denominator growth were zero, or even worse negative, as has happened in recent years in Italy and the majority of western countries, the deficit/GDP ratio would worsen to 103%.

At this point, let us consider a conspicuous privatization plan to immediately and drastically reduce the deficit/GDP ratio. Then imagine that the numerator unexpectedly falls to 90, on the accumulated sums the same interest would still be paid as at the beginning of the transaction, in our case 3%. Initially the impact of the privatization plan would definitely be positive and the deficit/GDP ratio would fall considerably, to 92.7% at one year from the sale. What would happen in the long-term however? If measures are not implemented in order to give drive to the growth process of the real economy, which in our case is represented by the ratio denominator, it is easy to understand that, after the immediate effect generated by the injection from privatization, the deficit/GDP ratio would start to increase again and in the space of a few years would be back where it

² Roberto Fazioli, "L'economia delle public utilities", 2013

started from. Therefore to ensure that a privatization plan has a positive and long-lasting effect on the deficit/GDP ratio, after selling off State assets the economy has to have a growth rate that is at least equal to the rate the State pays in interest on the public debt, in our case 3%. This is the only way to maintain the deficit/GDP ratio unchanged³ after privatization. Furthermore, consideration must be given to the fact that, contrary to this example, such a drastic reduction in the debt stock due to implementing a Privatization plan is, in the majority of countries, including Italy, not feasible. Imagine for example that Italy wants to reduce its debt by 10% through privatization: it would have to sell its assets for around 200 billion euros⁴. Therefore, selling a single business, like Poste Italiane as the subject of this dissertation, has a very limited impact on reducing the deficit/GDP ratio. In the case in question, as 40% of Poste Italiane brought the State coffers around 3.7 billion euros, we can forecast a sale impact on the deficit/GDP ratio lower than 0.2% despite the fact the company is one of the outstanding companies owned by the State.

1.4 The influence of Privatization on market efficiency

A very important goal that governments should pursue through privatization policies is to increase both micro and macro-economic efficiency. In fact it is widely believed that private enterprise is more efficient than public and extensive researches have been carried out over the years to demonstrate which of the two is effectively more efficient. Theoretically speaking, the balance swings towards private enterprise being the more efficient. Over the years in fact, public companies have suffered the negative influence of politicians, managers and trade unions who tended to consider the companies more a tank to hold their votes, power and jobs rather than effective companies. Therefore public enterprises have often grown out of proportion and increasingly distanced themselves from the logics of production efficiency. Furthermore, the financial market has never had any control over them, first and foremost the banks who have always lent them money without any analytical controls into the effective equity capacity and credit worthiness of the single public company involved, as they believed that loans to public enterprises were guaranteed by the State. At the same time there was no market control: since public companies are not listed on the stock exchange nobody is particularly interested in their

³ Or reduce, if the growth rate were higher than that of the interest on the debt

⁴ Assuming the Italian public debt at 2,000 billion euros.

value, which is an aspect that managers in the private sphere always try to maximize to its utmost. In addition, with public companies the stock owners, i.e. the People, have much greater difficulty in influencing the decisions made by top management with respect to the shareholders in private companies. However the empiric evidence that has emerged over the years shows there is not a systemic difference in efficiency between public and private governance. In 2002 Willner and Parker conducted a very interesting study into the problem of private sector efficiency against public sector efficiency, both in industrialised and developing countries, and they discovered that an unequivocal conclusion could not be reached. Their research indicated that in certain countries public companies are more efficient, in others private companies and in other countries again there was no substantial difference between them. In balance therefore it should be highlighted that in terms of efficiency and performance it is not the type of ownership (public or private) that makes the difference, rather the market structure, meaning the context where a company operates makes the difference: the number of competitors who force a public or private operator to act more efficiently, otherwise they would be forced out of the market. Maybe there were illusions in the past that privatising public companies and placing them in the hands of private investors was enough to improve their efficiency. That is not the case however; in fact, in order to reach a long-term impact on the State coffers the privatization plans must be accompanied by expansionist economic policies. In order to have a positive impact in improving efficiency such privatization policies must be accompanied by deregulation and liberalization policies, which are able to increase the level of market competition eliminating national monopolies as far as possible. For example, if a public service has a monopoly management and does not intervene in its market, its privatization simply converts public income to private. For a real improvement in social wellbeing, privatizing public companies must go hand in hand with a clear market liberalization strategy. Progressively all the barriers limiting access of other companies to the market have to be removed. It is a fact that competition guarantees the lowest prices and greater choice for the consumers who, if they are dissatisfied, can change their supplier or provider, which is something they are unable to do when they are obliged to buy an article or use a service supplied by a company working within a monopoly, whether public or private. Consequently once the State has returned the companies to the market it should change its role from company manager to regulator, taking decisive actions on the competitive structure in order to allow the market to find its right balance.

1.5 Privatization in Europe

Italy has been one of the most active European countries in terms of privatization, but other member States have also implemented some very important projects. The UK is definitely the country where privatization has had most impact, accounting for more than 20% of the total operations and 23% of revenue for the whole of Europe⁵. The **UK** was also the first European country to begin its privatization process back in 1977. In fact, with the aim of increasing companies effectiveness, reducing State monopolies and developing an efficient financial market, the UK undertook the privatization path. The majority of British privatizations were substantial, and most of the privatized companies were transferred by the State 100% to private investors. The former State-owned companies were converted into public companies, with a broad shareholder base and with no stable reference shareholders. The UK government promoted a regulatory framework that enabled creating and then maintaining market competitiveness for the public services (energy, water, gas, telecommunications and railway). Numerous other countries then followed the UK privatization model. In the almost 20 years since the process started until 1995, the year of the last major British privatizations, virtually all the State-owned companies were privatized.

France for example, was one of the countries that was more involved in this type of operation, both numerically (with more than 10% of total European sales) and in volume (more than 11% of the total). France began its State company disposals in 1986 accompanied by the normal concerns regarding protecting strategic and nationally important sectors. To handle these problems France introduced a law allowing the French government to prevent a capital concentration of more than 5% by any individual or juridical entity. A 20% limit was also set for foreign investors in the capital of privatized companies. The French government tried to form a shareholder structure that was as stable as possible, to this end, it conceived the *noyaux durs*, or hard core, solution that allowed the government to carefully choose a number of industrial and financial investors, assigning the major ones a higher number of shares. This way the company was assured a stable control group during the first phase as a private company. The hard core solution was very well conceived and the investors involved were tied to each other by reciprocal

⁵ Source: privatizationbarometer.it

shareholdings, undertaking to pursue a well-defined upstream path for the years ahead. However, with time this privatization method started being questioned due to the State's excessive interference in the market. In fact, the government had chosen twelve large industrial groups and twelve large banks, insurance companies that should have participated in the process – everything outside the negotiation market. Between 1986 and 1987 France disposed of a large number of State enterprises, including TFI – the main French TV network - and Société Générale, a large bank that had been nationalised in 1945. This first wave of privatization in France met with great success, even though the State was accused of selling its best companies far too cheaply. After a short pause France resumed its privatization plan between 1993 and 1995, when some major financial enterprises were privatized, including BNP, Credit Lyonnais and almost all the leading insurance companies - UAP, AGF and GAN. This time however entry was allowed to both French and foreign institutional investors and the 20% limit on foreign capital was removed. Effectively speaking, the entire privatization model that was pursued during this phase was much more liberal than before, and the government tried to take its inspiration from an Anglo-Saxon type model. The last major privatization in France was in 2004 and was completed the year after. In this phase France completed 4 major operations: the IPO for SNECMA⁶ and subsequent merger with Sagem; the second share sale for France Telecom; a further share sale for APRR, the French motorway controller; the disposal of the last SANEF shares, again operative in the motorway control sector. These operations brought France around 9 billion euros. Overall until 2006, when the last important privatization plan was completed, France had transferred shares in more than 500 companies and collected around 60 billion Euros.

In **Germany** the first major privatization plan dates back to 1983 when the government decided to privatise the giant car manufacturer Volkswagen, the chemical company Verba and the airline Deutsche Lufthansa, which were all completed by 1986. The public company sale took place by divestment of minority and majority shareholdings. The former divestment led to the privatization of companies that depended on regional or local administrations, with private investors replacing the State by setting up private companies where the public authority is still the majority shareholder; enterprises like hospitals, school canteens, theatres and roads were privatized this way.

⁶ The acronym SNECMA stood for *Société Nationale d'Étude et de Construction de Moteurs d'Aviation* until 2005, when after privatization and merger with Sagem (Société d'Applications Générales de l'Electricité et de la Mécanique) SAFRAN was formed.

However companies that reported directly to central government were subject to more substantial privatizations.

The Postal Service was privatized in Germany in 1989 when postal services and telecommunications were liberalised and reorganised in three distinct joint-stock companies: Deutsche Post, Postbank and Deutsche Telekom. In 1990 after the reunification of East and West Germany, a second privatization process began to reestablish the State balance sheet, burdened with the problems caused by East Germany: all the public companies of the former Democratic German Republic were privatized to make them more efficient and competitive. This project was entrusted to Treuhandanstalt (THA), a public owned trust company agency which, on 1st July 1990, took upon itself the ownership of 8,500 companies, 20,000 commercial businesses and 25 billion square meters (land, forests, real estate). The agency concluded its work in 1994 but the results were terrible, since a great deal was liquidated right away, very little was improved and the greater part of the assets were sold at rock bottom prices through private negotiations with West German buyers. Overall, 5% of the company shares put on the market became the property of people from East Germany, just fewer than 10% were bought by foreign investors, while 85% was transferred to West German owners. The final balance sheet of the transactions managed by Treuhandanstalt showed a loss of around 130 billion Euros⁷: with approx. 35 billion Euros revenue (only 19 billion effectively collected) there were restructuring costs (77 billion), environmental reclamation (22 billion), previous debts (50 billion) and other costs⁸. The operation also entailed high social costs: in fact, of the over 4 million workers who, according to estimates by the Kohl government, were employed at the end of 1989 in companies that were later managed by Treuhandanstalt, only 1 ½ million – according to the buyers' estimates – maintained their jobs after the restructuring.⁹

⁷ Exchange rate 1 € = 1.95583 Marchi

⁸Vladimiro Giacchè, "Anschluss - L'annessione. L'unificazione della Germania e il futuro dell'Europa", Imprimatur editore

⁹Vladimiro Giacchè, "Anschluss - L'annessione. L'unificazione della Germania e il futuro dell'Europa", Imprimatur editore

CHAPTER 2

An overview of the Italian macroeconomic scenario and the new Privatization plan

2.1 The Italian crisis 2011-2015

Together with other European countries and the USA, Italy has experienced and is still undergoing one of the toughest and longest periods of economic crisis in its history. Further to the bubble created in the American sub-prime mortgage market in 2008, Europe was overwhelmed by dramatic economic consequences. Countries with a high public debt were hit worse and Italy, always afflicted by this sort of problem, was one of the worst hit together with Spain, Ireland and Portugal (Greece should be considered separately). The worst time for Italian economy was definitely November 2011, which culminated with the resignation of the Berlusconi Government¹⁰ and the establishment of a Technical Government appointed by the then President of the Republic, Giorgio Napolitano; the new government was led by Mario Monti who was sworn into Palazzo Chigi on 16th November 2011. Financially speaking those were the hardest days in the history of our country, the rates on government bonds reached unsustainable levels for a country that at that time had a public debt of more than 1,900 million Euros with a deficit/GDP ratio of 120.7%. The ten-year BTP bonds reached a record rate of 7.56%, while the three year bonds leaped to 7.89%¹¹; consequently there was an inversion in the interest rate curve with the shorter term bonds, which had a higher interest than the long-term ones. This inversion is generally expressed in the bonds that the market perceived close to a default. The financial crisis rapidly became an economic one, with dramatic repercussions on the real economy of our country. Unemployment in Italy, that before the American crisis exploded in 2007 stood around 6%, rapidly grew to its peak in 2014 with more than 13% unemployed overall¹² and with the dramatic situation of young

¹⁰ On 11th November 2011

¹¹ The interest rates given refer to the placing of Italian government bonds on 30/11/2011

¹² Reaching a historic record of 13,4% in November 2014, ISTAT

unemployed at more than 40%¹³. In these difficult years when 3 different governments have been in power: Monti, Letta and Renzi, our country has undergone a serious recession, and since 2008 has lost almost 10% on its GDP, with the deficit/GDP ratio rising from 106.9% in 2008 to 136.4% in 2014¹⁴. These years were also marked by a very low inflation level that caused a slowdown in investments and aided the worsening of the finances in a country like Italy with its very high debts. Only in the early part of 2015 did the ECB, thanks to its Chairman Mario Draghi, begin a quantitative easing plan aimed at raising the inflation level that was getting dangerously close to negative percentages with the risk of becoming deflation. Draghi strongly believed in this operation despite opposition from countries like Germany, and it was perhaps the first expansionist policy initiated by the European Union during the crisis years that politicians in the Eurozone, often under pressure from the German Chancellor Angela Merkel, had handled with a logic of austerity. In 2015, for the first time since the start of the crisis— also thanks to certain reforms but above all to certain external factors like low oil prices, EXPO MILAN 2015 and the quantitative easing impact on the Euro/Dollar exchange rate with strong appreciation of the latter, certain macroeconomic factors like the GDP and unemployment with inverted trends, there were certain minor improvements¹⁵, but still sufficient to revive trust¹⁶ in enterprise and consumers, the latter known to be the engine of economy. It is important to emphasise that our Country has been facing a very difficult situation, which has forced tax pressure over these years to 43.6% of the GDP in 2014, a level that the Court of Auditors defined as “intolerable”; however, in spite of this situation, unlike other European countries hit badly by the crisis, Italy never called for economic aid from the European Union.

2.2 THE MAIN REASONS FOR PRIVATIZATION IN ITALY

State intervention in the Italian economy is a long-standing tradition. At the end of the 80s State-owned companies were operative in virtually all economic sectors, from banks to insurance, from manufacturing to steel. In 1991, 12 of the 20 largest Italian companies

¹³ Reaching a historic record of 44,2% in July 2015, ISTAT

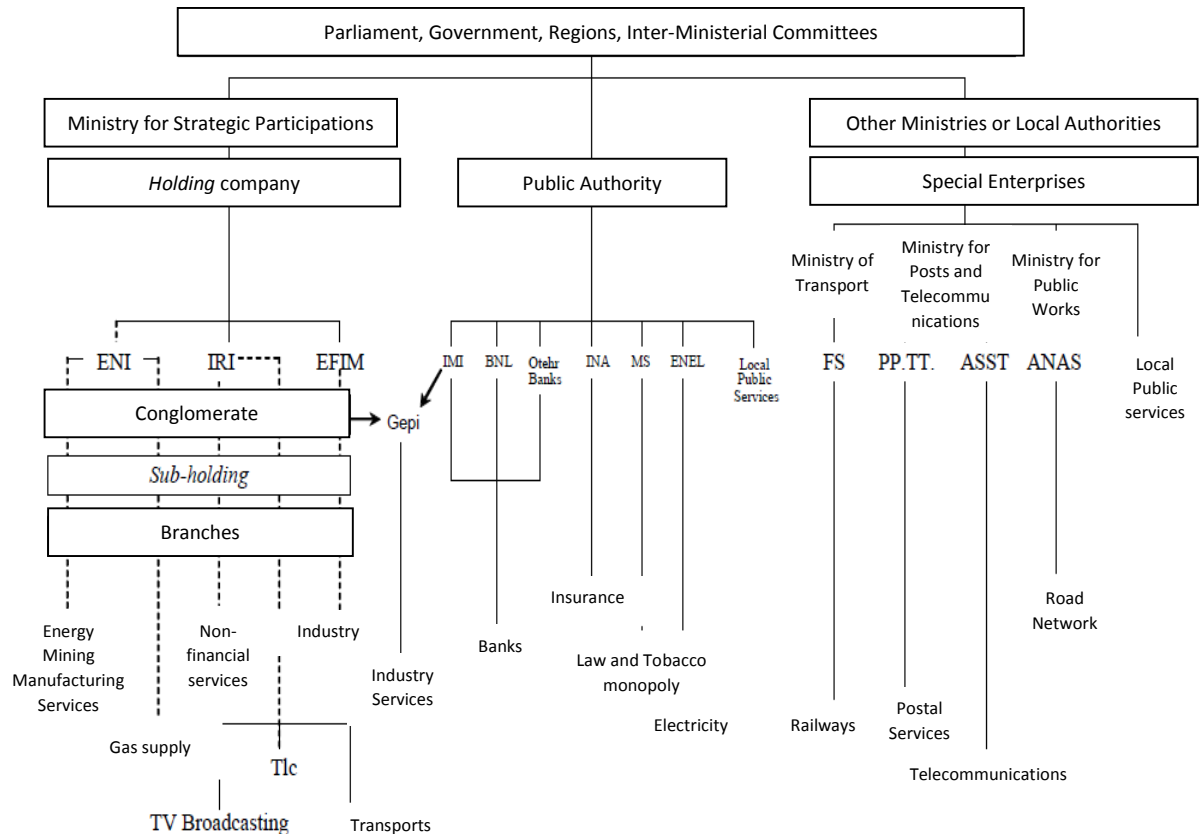
¹⁴ Data AMECO Database – European Commission

¹⁵ The government’s estimated GDP growth for 2015 is 0.9%, in line with the results achieved in the last 3 quarters of the year.

¹⁶ According to ISTAT data for November 2015, consumer trust levels have reached 118.4 points, a level never reached before since the survey started (January 1995) and enterprise trust reached 107.1, the highest level since 2007.

were State-owned. In terms of GDP Italy was the leader in Europe for investment in public companies and employment level in State owned companies¹⁷.

Figure 1: Structure of Italian public companies in 1992



Source: Goldstein (1996)

The majority of public companies were influenced by political power and company management did not have total freedom to manage the business, due to interference from politicians, trade unions and, above all, government ministers. The managers of public companies were often appointed by politicians pursuing the cronyism logic¹⁸. However, this is not surprising because at that time State-invested companies were considered a simple tool for social politics rather than as companies that had to be profitable on par with all others. This is why the privatization process began in Italy much later than in other countries and unlike them, the main reason to begin privatization seems to have been the severe financial crisis and a likewise serious institutional and political crisis,

¹⁷ Court of Auditors "Obiettivi e risultati delle operazioni di privatizzazione di partecipazioni pubbliche", Roma 2010

¹⁸ Court of Auditors "Obiettivi e risultati delle operazioni di privatizzazione di partecipazioni pubbliche", Rome 2010

rather than a deep reconsideration of the role that the State should perform in a market economy. In Italy in particular, the start of the privatization process coincided with the realization of the public debt financial crisis and the explosion of the crisis in the large State owned holdings in 1992. In that year the public debt reached its record level of 1,331,485.42 billion Liras, with a deficit/GDP ratio of 105.49%¹⁹. It seems clear therefore that Italian privatization did not come about from a political plan in favour of private investment, rather the need to face the State's crisis in both in terms of taxes and political representation²⁰. However, the main aims indicated by the Government when it began the privatization process were:

- Boost competitiveness in the production system
- Promote financial market development
- Motivate company internationalisation and increase European integration

Despite the delay in starting the process, today Italy holds second place globally for the number of privatizations beaten only by Japan. In fact since 1992, there have been almost 100 sales of public companies that have brought the State coffers more than 120 billion Euros²¹.

2.3 THE NEW PRIVATIZATION PLAN

There seem to be several analogies between the macroeconomic scenario of recent years and what our country had to face in the early 90s. Now as then, after a period with no major privatizations in Italy, to face the financial problems and reduce the very high public debt the government has decided to complete a very ambitious privatization plan, also due to European pressure that demands that our country respects a number of restrictive parameters regarding the deficit/GDP ratio and balance sheet figures. The plan was initiated by Letta and continued with Renzi, and seems to confirm the impressions on the first major Italian privatization plan: privatization is undertaken in Italy to face an emergency, to inject fresh money into the State coffers, and not to create higher trust by the State in market efficiency. To this end, Letta drawn up a first privatization plan to obtain around 10-12 billion Euros, half of which was meant to be used to reduce the public debt, while the other half to recapitalise the Deposit and Loans Fund. Among others, the

¹⁹ Database AMECO, European Commission

²⁰ Emilio Barucci and Federico Pierobon, "Stato e mercato nella Seconda Repubblica", Bologna, Il Mulino, 2010.

²¹ Data source Treasury Department

plan envisaged privatising Fincantieri, Enav and Grandi Stazioni as well as transferring 3% of Eni, as the Prime Minister Letta announced, and only later would Poste Italiane and Ferrovie dello Stato be privatized. However due to his resignation on 14th February 2014 Letta was unable to pursue his privatization intentions, but the new Prime Minister Matteo Renzi took them up and completed the privatization of Fincantieri in June 2014. This operation was a total flop though, as there was virtually no demand from institutional investors and the government obtained little more than half of the 600 million Euros it had hoped for. In fact the shares were placed at the bottom end of the price range of 0,78 € 1€ that had been proposed to valorise the company shares. However despite this failure, driven by Europe Italy continued with its privatization plan and privatised Poste Italiane in October 2015²²; it also planned an IPO for ENAV, the national air control company, to sell 49% of the company for an estimated price of around 1.8 billion Euros and also intends listing Ferrovie dello Stato on the stock exchange for about 40% of the company.

²²The entire revenue was used to reduce the public debt

CHAPTER 3

Poste Italiane business

3.1 Poste Italiane business model

Poste Italiane was founded in May 1862 to run the postal service for the State. In reality however, Poste Italiane has been a great manager of Italian savings since 1875, when the Postal Savings Funds were established, and even though the first savings book was dated 1876, over the last twenty years Poste Italiane has undergone strong financial drive. Today it is a large group with a business model based on 3 fundamental pillars: diversification, integration and innovation. Poste Italiane business is highly diversified, ranging from communications to financial, insurance, telephone and payment services. Through its branches it manages the communications services, with the mail delivery service, express couriers, logistics, parcels and stamps. However in recent years Poste Italiane has moved away slightly from what was its core business for more than 100 years and today the greater part of group revenue comes from financial and insurance services. Poste Italiane offers a wide range of financial services with the current account Bancoposta and with 2 subsidiaries: Banca del Mezzogiorno²³ and BancoPostaFondi SGR²⁴. Through Bancoposta, Poste Italiane offers its clients current account and payment services; Banca del Mezzogiorno is highly specialised in supporting MSE development projects in southern Italy and providing medium – long-term credit. Finally with BancoPostaFondi SGR Poste Italiane offers an expert company in the management of investment funds to those clients who are seeking more complex investments; as of right now, the company manages a portfolio of more than 62 billion Euros²⁵. PostaVita is the group's insurance company and is the most profitable of Poste Italiane with revenue of

²³Banca del Mezzogiorno is the former Banca Unicredit MedioCredito Centrale 100% taken over by Poste Italiane for €136 million on 1st August 2011 and called Banca del Mezzogiorno since 1st September 2011

²⁴ BancopostaFondi SGR is the fund management company entirely owned by Poste Italiane and operative since 25th May 2000

²⁵Data source: BancoPostaFondi SGR

more than 15.4 billion Euros out of a total 24.6 billion for the group²⁶. In the telephone sector the group operates through its subsidiary Postemobile. Figure 2 summarises the wide range of services offered by Poste Italiane and shows the level of diversification the Group has achieved.

Figure 2: The mains services offered by Poste Italiane Group



Fonte: Poste Italiane Group "Investor Presentation" June 2013

3.2 Post or financial broker?

In the light of the analysis into the Poste Italiane business, we should perhaps ask ourselves whether the Poste Italiane Group can still be considered a postal business or whether it should be compared to a financial brokerage company. Without doubt the postal market has undergone sudden downturn at global level over recent years, mainly

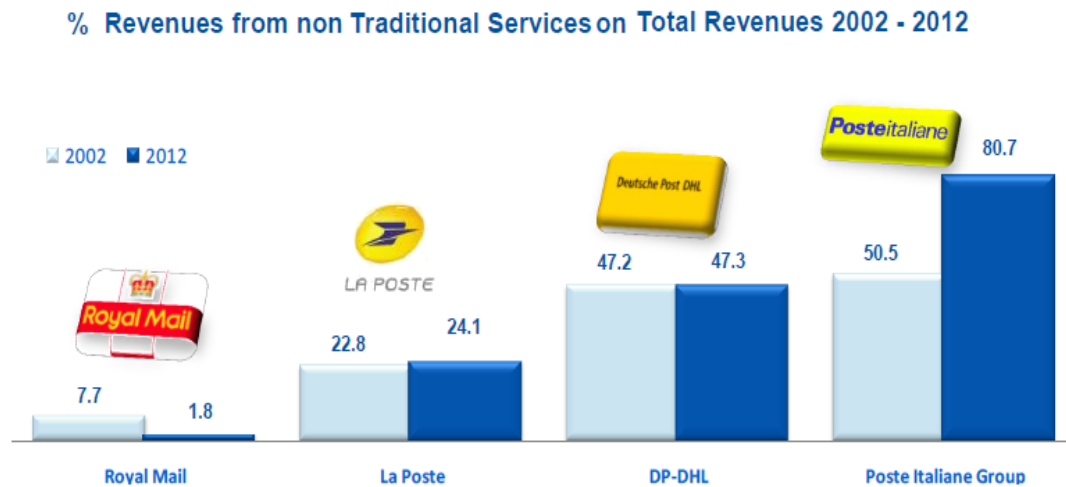
²⁶ The data refer to the year closed on 31/12/2014

due to digitalized communications and secondly, to a lesser extent, to the economic crisis that hit Europe and the USA. Bound by its obligations to provide a global service²⁷ with a minimum service level at a reasonable price to all users on Italian soil, Poste Italiane has continued to invest resources to try and limit the fall in volume in the postal service market. This has led to noteworthy improvement in the postal service quality and enabled Poste Italiane to achieve results that are even better than its targets. For example, back in 2012 92.7% of the priority mail was delivered within the day after, while the target was to deliver 89% within that time. Despite this however, income from the postal service has decreased year after year to reach 3.1 billion Euros in 2014, 16% less than in 2012. In this situation, Poste Italiane has decided to strongly focus on financial services. Now the group has 6 exclusively financial companies entirely owned by them²⁸: Poste Vita S.p.A., Poste Assicura S.p.A., BancoPostaFondi S.p.A. SGR and Banca del Mezzogiorno Mediocredito Centrale S.p.A. The flagship company is without doubt Posta Vita, founded in 1999 by the then CEO of Poste Italiane, Corrado Passera. In the last financial year more than 80% of the Group revenue was produced by PosteVita. The financial revenue trend has been rising strongly for almost 20 years and it is very interesting to see how this figure goes against the trend of the other major European players. If we consider the postal services in Italy, France, the UK and Germany we see how only in Italy the majority of revenue is not from the postal service. Furthermore, considering the 2002-2012 decade we can see that only in Italy is the postal service called on to provide a global service and has moved to the financial sector. In fact in 2002 revenue from the non-postal division of Poste Italiane was just over 50%, while in 2012 it was more than 80% and today is around 83%. We can affirm that the contribution of non-postal revenue in Italy in the period in question has risen by more than 60%. On the contrary in the other countries considered, the share of non-postal revenue was lower than 50% in 2002 and remained at the same level in 2012. The most emblematic case is the British Royal Mail, which had non-postal revenue of 7.7% in 2002 which had been virtually wiped out in 2012 and had fallen to 1.8%. Initially Germany was similar to Italy, but the non-postal revenue level has remained stable over the years, starting at 47.2% in 2002 to reach 47.3% in 2012. Figure 2 summarises the development of non-postal services in the 4 countries in question in the decade 2002-2012.

²⁷The universal service agreement between the Italian State and Poste Italiane was renewed for 15 years in April 2011.

²⁸ Europa Gestioni Immobiliari S.p.A. has 45% of its capital held by Poste Vita S.p.A., which in turn is entirely owned by Poste Italiane, while Posta Assicura S.p.A. is 100% owned by Posta Vita S.p.A., owned by Poste Italiane S.p.A.

Figure 3: incidence of non-postal revenue on the total



Fonte: Poste Italiane "Investor Presentation" June 2013

Now it could be interesting to compare the revenues of the European postal companies. Taking 2012 as reference year, we can see how their revenue is very different, and there seems to be a positive correlation with the level of incidence of non-postal revenue on the total. In fact the EBIT/revenues indicator was 4.0% for the Royal Mail, 3.8% for La Poste, 6.7% for Deutsche Post DHL and 9.8% for Poste Italiane. From this analysis we can see how Poste Italiane has by now completely moved away from its traditional service to make a definitive move towards totally different services from postal ones. The great level of diversification that Poste Italiane has achieved has enabled them to become a business that is unique in the world, much more similar to financial brokers than a post office. This new business complex is definitely more profitable than the traditional postal services, and probably has higher business risks that are typical of operators in financial sectors. Therefore it is difficult to precisely define the business of Poste Italiane, but we believe it should be considered a mainly financial business, as many analysts would say. Among them, Andrea Carzana of the Threadneedle fund preferred not to invest in Poste Italiane since for the same price level required by the company, it is possible to buy securities belonging to an insurance company offering the same coupon rate but having a better defined business and therefore being less risky than Poste Italiane.

3.3 The Poste Italiane insurance sector

As stated previously, the insurance sector holds a primary role in the Poste Italiane group and is managed by the 2 subsidiaries Poste Vita S.p.A and Poste Assicura S.p.A. The first company offers placement of life insurance policies for the ministry branches I, III and V²⁹. The second is entirely owned by Poste Vita S.p.A. and as the Poste Italiane group wanted to extend its range of products offered to its clients this company is a multiform agent that through the almost 12,000 authorised post office counters³⁰ also offers other company damage insurance products. The main commercial products that Poste Vita offers its clients are:

Branch I:

- Single premium policies with guarantee, to protect capital from inflation and guarantee a minimum income, specific for short-medium term investments for Poste Italiane clients.
- Recurring Single Premium Policies with the possibility to build up savings over a medium-long term investment period, above all in social insurance sectors.

For Branch III the company mainly offers index-linked products i.e. that enable the underwriter to enjoy certain benefits typical of life insurance policies and, at the same time, make an investment linked to the stock market index trend without the risk that the invested capital suffers upon expiry. These types of products have met with great success in recent years; among them, the last one launched by Poste Vita is the “*Programma garantito Primula*” (“*Primula Guaranteed Plan*”).

Finally, for Branch V, i.e. capitalisation transactions, Poste Italiane offers its clients investment choices that are mainly formed of debenture bonds (generally State bonds or bonds issued by companies with a high credit standing) covering more than 95% of the total portfolio, with just a small residual amount invested in shares. Poste Vita results have increased year after year, with total managed funds so far above 77.7 billion euros, with more than 3 million clients who have underwritten almost 6 million placed insurance policies³¹. The most satisfying results in 2014 were achieved in supplementary pension

²⁹I. Life insurance; III. Insurance, as in branches I and II (marriage and birth insurance), whose main performances are directly linked to the value of the share of collective saving investment organisms or internal funds, or other reference values; V. capitalization transactions.

³⁰ Data source: Poste Italiane

³¹The data from Poste Italiane are updated to 31/12/2014

funds, with more than 711,000 subscribers that meant that Poste Vita S.p.A. could affirm its position as leading Italian insurance company in this sector.

3.4 The role of Bancoposta in the Italian financial system

In the financial service sector the entrance of Poste Italiane and development of the Bancoposta current account gave a great boost to competitiveness with respect to other banking institutions. This increased competition has brought a number of benefits for consumers both in terms of price and offer. When it was launched (and still today) Bancoposta was the cheapest and most convenient solution on the market to obtain a current account, which is a necessity nowadays to handle even the simplest of payment transactions. The competitive drive from Poste Italiane as this product was strengthened, led the other operators to review their price management of their instruments and to offer similar solutions to compete with the Poste Italiane innovative product. Therefore the direct consequences of Poste Italiane current accounts were positive for the entire system. Benefits for consumers were not just economic however, the widespread post office network gave access to financial services to a large slice of the population that previously had been excluded from the banking system. Unlike banks, which normally just have branches in the densely populated and high-income areas, post offices are widespread throughout the country in every single town. It is also important to note that the growth strategy of Poste Italiane in the financial service sector aimed at expansion into all those areas that could be occupied in the financial sector without formally becoming a bank. Consequently this enabled Bancoposta, also known as the “*phantom bank*”³² - as a matter of fact, it cannot appear in the classifications with other banks, but it does appear in the real system category and performs more or less the same activities as other banks - to grow considerably over the last 10 years. According to presumably reliable calculations³³ in 2011 at the height of the Italian financial crisis, through its subsidiary Bancoposta Poste Italiane was the largest banking company after Intesa Sanpaolo, Unicredit and Mps. Moreover, unlike the other Italian banks, Bancoposta was able to grow even during the difficult years after the 2008 financial shock and was able to attract clients who were abandoning the banks at that time for fear of their default. Bancoposta has achieved sensational results: in 2011 the number of account holders was really high, at 32.7 million

³² “La Repubblica” 25/07/2011

³³ “La Repubblica” 25/07/2011

units between current accounts and savings books, the latter having been totally abandoned by banks. ABI, the national banking association, stated that the same year the number of current accounts obtained by the entire Italian financial system was 37.5 million. Again in 2011, Bancoposta was able to collect, from direct and indirect sources, funds for 398 billion Euros, against 4,103 billion by the entire Italian system, i.e. around 10% of the total. In the banking sector, as in insurance, the Poste Italiane group targeted the “simpler” clients, i.e. the young with little economic possibility, and the elderly. To attract such a large number of clients Bancoposta used a very simple strategy: it offered account holders a low yield on their current accounts, but it was still higher than the other banks which had been applying 0% interest on their current accounts for years. Notwithstanding the veto against making loans that Bancoposta submitted to, which is analysed in more detail in the next paragraph, the Poste Italiane Group was able to grant both small loans and mortgages, obviously not directly but through distributing products belonging to Deutsche Bank and Compass. The gains from this brokerage were not very high, as the two issuing banks for the loans only granted Bancoposta commission, but this business enabled Poste Italiane to offer products with their own brand in a field where they could not have operated otherwise.

3.4 Regulating the financial services of Poste Italiane

As a financial broker, Poste Italiane is subject to the supervision of the Bank of Italy. However, making Bancoposta products equivalent to those of the banks is quite recent and dates back to the period between 1999 and 2001. The first legislator intervention was Decree by the President of the Republic (D.P.R.) no. 144 dated 14th March 2001 which, in article 2, paragraphs 3 to 5, states that in the performance of its Bancoposta functions Poste Italiane is subject to the dispositions of the Consolidated Banking Text and Consolidated Finance Text governing the same activities performed by banks, SIM and other supervised brokers. Therefore this D.P.R. removed Bancoposta business from the special regulation dictated by the Postal Code³⁴ that had previously governed postal activities in financial sectors. The 2001 legislation was addressed to resolving an unfair treatment between the Poste Italiane Group and the other financial brokers that had caused arguments on more than one occasion and even required intervention from the European

³⁴Consolidated Text of Dispositions Governing Postal Services, Bancoposta and Telecommunications - DPR 29 March 1973, n. 156 and subsequent amendments.

Commission. This D.P.R. places Poste Italiane on the same standing as banks in terms of controls, applying the actuation dispositions of the Consolidated Banking Text and Consolidated Financial Test. In fact, Bancoposta activities include a series of varied operations, some being typical of banks and other brokers (collecting savings from the public, payment services, issuing e-money, investment services), and others they performed exclusively (e.g. distributing postal collection products issued by the Deposit and Loan Fund). Also the D.P.R. expressly refers to the veto for Poste Italiane to grant loans to the public, the sums of money collected from the private clients must be re-invested in Government bonds of countries in the Eurozone, and for no more than 5% of the collection of other Italian government guaranteed bonds. Obviously this type of legislative organization imposes a risk profile for Bancoposta that is very different from that of the other banks. In actuating the mandate given in art. 40 of Law no. 448 of 23.12.1998³⁵, D.P.R. no. 144/2001 governs the banking and financial type services and accessory activities that Poste Italiane S.p.A. may perform as part of its Bancoposta business. In particular, these activities include:

- Collecting savings from the public in any form³⁶;
- Providing payment services;
- Issuing e-money³⁷ and other payment methods³⁸;
- Exchange rate brokerage;
- Promoting and placing loans granted by banks and other authorized financial brokers;
- Providing certain investment³⁹ and accessory⁴⁰ services.

In agreement with Decree-Law no. 225 of 29 December 2010, converted into Law no. 19 of 26 February 2011, to run the Bancoposta business Poste Italiane S.p.a. has to implement an equity, organisational and accounting division. The dispositions given in the law were then implemented in the subsequent Assembly deliberation of Poste Italiane on 14th April 2011, which established the creation of a special reserve called the “Bancoposta Equity Reserve” for one billion Euros. The Bancoposta equity is separate

³⁵ This law orders the Government to issue measures to govern banking and financial services that Poste Italiane S.p.a. may provide.

³⁶ As defined in art. 11(1) CBT.

³⁷ Governed by art. 1(2)(h-ter) CBT.

³⁸ Governed by art. 1(2)(f)(4-5) CBT.

³⁹ Governed by art. 1(5)(b, c-bis), e) and f).

⁴⁰ Governed by art. 1(6)(a), b), d), e), f) and g).

from that of Poste Italiane and forms a series of assets on which the special creditors of Bancoposta have exclusive right to compensation.

Furthermore, this equity expresses the reference parameter for applying prudential supervision, especially in terms of equity requirements and prudential limits for certain types of risk. In compliance with current legislation, Poste Italiane has had to implement the accounts separation as well, and therefore runs a separate accounting system where the operations posted to general accounts are divided among those derived from Bancoposta equity operations and those from other group activities. It should be pointed out that this legislation regarding prudential supervision is not obligatory for Poste Italiane S.p.A. but it is imperative for its subsidiaries - Poste Vita spa and Bancoposta Fondi spa SGR, since the dispositions in the CBT are addressed to regulating products that are issued and placed by banking institutions. In the case in question however, the parent company, albeit placing certain postal savings products with the public, like savings books and interest bearing postal bonds, acts exclusively as placer with the issuer Deposit and Loans Fund.

CHAPTER 4

4.1 The Privatization of Poste Italiane

For over 150 years, Poste Italiane was owned by the State with the Ministry of the Treasury as its sole shareholder. On the approval of the IPO, the company's capital was divided between the Ministry of Economy and Cassa Depositi e Prestiti (Deposit and Loans Fund) (which itself was owned by the Ministry), with a share of 70% and 30% respectively. The decision to privatise Poste Italiane was officially made on 16 May 2014⁴¹ by a decree of the President of the Council of Ministers, which provided for the sale of a portion of the investment not exceeding 40%, to be developed in different stages. The official listing of Poste Italiane in the Milan Stock Exchange took place instead with the authorization by the CONSOB Control Commission (10.9.2015). The idea to privatise Poste Italiane, however, is not so recent, but it is rather a plan that the various governments that have been in power had been making for nearly 20 years since 1998, when the then National Board of Poste Italiane was transformed into a SpA – joint-stock company. However, direct privatization was not possible due to the difficult situation of the company at the time; therefore, a long journey was undertaken in order to allow Poste Italiane to heal both from the economic-financial point of view and the image point of view. The 1998-2002 business plan was thus started; the plan is known to history as the “Passera Plan”, named after the CEO who developed and implemented it. Among its primary goals, the company was set to become public. The results achieved by Passera were later strengthened by his successor, Sarmi (2002), who was re-elected for another 3 terms (2005, 2008, 2011) and was able to close the financial year with a profit for 10 consecutive years. Then, under the guidance of the CEO Caio, Poste Italiane was finally ready to land on the Stock Exchange.

41 Decree by the President of the Council of Ministers of 16 May 2014

4.2 Passera's Plan

4.2.1 The original situation

At the time of the transformation of Poste Italiane into a limited company, which took place on 28th February 1998 following the decision of the Interministerial Committee on Economic Planning (CIPE) number 244 of 18/12/1997⁴², the crisis besetting the company seemed irreversible, as can also be seen from Table 1: operating losses 1993-1998.

Table 1: Operating Losses 1993-1998

OPERATING LOSSES - 1993/98						
(negative values are shown within brackets)				(In billions of liras)		
	1993	1994	1995	1996	1997	1998
Value of production	9.839	12.091	12.001	12.218	11.777	11.643
Cost of production	(11.194)	(12.629)	(12.593)	(12.963)	(13.208)	(13.180)
Difference	(1.355)	(538)	(592)	(745)	(1.431)	(1.537)
Financial income and charges	(238)	(240)	(283)	(286)	(262)	(239)
Extraordinary income and charges	12,5	93	57	138	899	(497)
Contributions borne by the State		(968)	(167)	(141)		
Taxes						(377)
Losses in the financial year	(1.581)	(1.653)	(985)	(1.034)	(793)	(2.649)

Source: Court of Auditors, "relazione sul risultato del controllo eseguito sulla gestione finanziaria di poste italiane s.p.a. per l'esercizio 1998"

The economic and financial situation of Poste Italiane at the end of the 90s was so serious that the transformation into a corporation even seemed to disagree with the provisions of our Civil Code (Article 2447 Civil Code). In fact, the transformation from institution to SpA was of "virtual"⁴³ nature, since the losses that amounted to 2,649 billion liras (1.4

⁴²Salvatore Cardinale (Minister for Communication), "REPORT ON THE TREND OF THE TRANSFORMATION PROCESS OF POSTE ITALIANE (YEARS 1997-1998", 1999)

⁴³Court of Auditors, "REPORT OF THE AUDIT CARRIED OUT ON THE FINANCIAL MANAGEMENT OF POSTE ITALIANE S.P.A. FOR 1998"

billion euros)⁴⁴ at the end of 1998 could have led to the application of Article 2447 of the Civil Code, even during the year. In fact, the assets of the newly formed SpA, upon request from the Treasury Secretary (G. Amato)⁴⁵, excluding the operating results of 1998, were estimated at 7,154 trillion liras, of which 2,561 accounting for the share capital and 4,593 as shareholders' equity⁴⁶. Moreover, in its annual report the Court of Auditors pointed out how the legal changes did not give new solutions to the new CEO, and that such advanced and widespread deterioration of the company was not attributable to the previous legal form of Poste Italiane but rather *"to a work model aspiring to a bureaucratic vision in order to satisfy "special" needs, incompatible with healthy business principles"*, which until then had been carried forward by the previous CEOs, urged by politicians who considered Poste Italiane more as a reservoir of jobs (thus as a social policy tool) than as a company. This negative situation was due to the high cost of labour (10,737 trillion liras, 190,116 employees), which in 1997 had exceeded 91% of revenues and accounted for 81%⁴⁷ of operating costs, due to a low level of service quality and poor efficiency compared to other postal services in Europe; just think that the average time of delivery of letters in Italy in the late '80s was about nine days, while in Germany, in the same period, 80% of mail was delivered within the next day. All the activity was centred on the respect of rules and procedures; in 1998 there were more than 180 forms that users had to fill in for the simplest counter transactions, there was no company policy, business goals were not set, there was no structure for marketing nor one for control of distribution⁴⁸. By his own admission, the company was in a state of technological backwardness, inadequacy of production processes and had an inadequate "product portfolio" that could not keep up with the changing demand⁴⁹. These were the main factors that had contributed to the decline in volume (and thus in sales), and worsening of the income statement and balance sheet ratios. It is in this situation that, in 1998, Corrado Passera was appointed CEO of the new company Poste Italiane by the Prodi government.

⁴⁴ Exchange rate at 1€=1936.27 LIRA

⁴⁵ Decree by the Ministry for Treasury 11/06/1999

⁴⁶ Salvatore Cardinale (Minister for Communication), "Report on the trend of the transformation process of Poste Italiane (years 1997-1998-1999)

⁴⁷ From the reclassified profit and loss statement of 1997 of Poste Italiane

⁴⁸ Domenico Farinella, "Privatization and Changes in Public Services. How responsibilities and subjectivity change in a postal organisation", Franco Angeli 2005

⁴⁹ Analysis carried out by Poste Italiane on the original situation of the 1998-2002 Industrial Plan

4.2.2 The objectives of the Plan

The new CEO proposed an ambitious industrial plan for 1998-2002 with three main objectives:

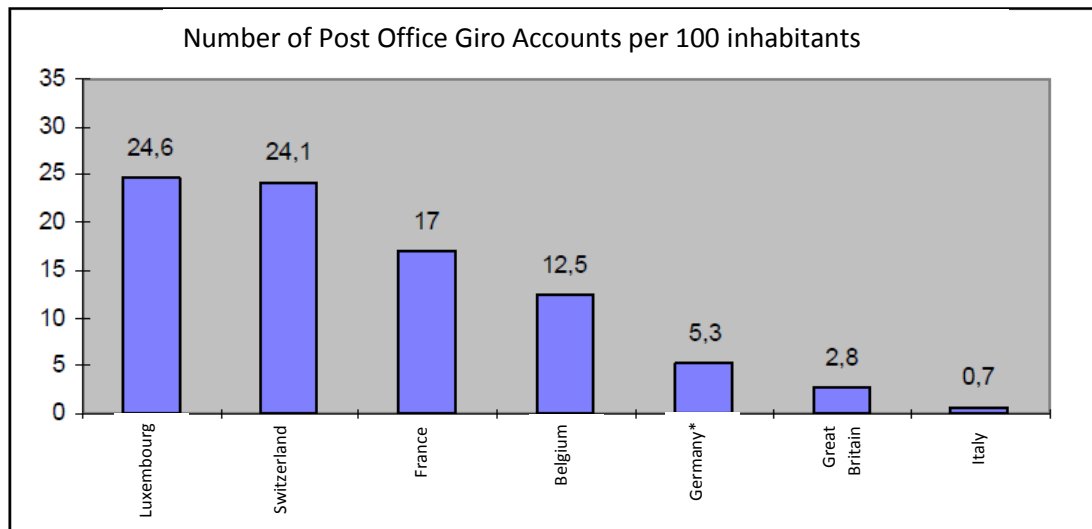
1. Consolidate the accounts of the Company
2. Achieve quality levels equal to European levels in all postal services
3. Make the Company public

The plan involved the implementation of more than 100 points, the most relevant of which seem to be:

- The alignment to European standards of service quality;
- The strengthening of the express delivery service;
- The motorisation of the mail delivery service;
- The remuneration of certain social services provided by Poste Italiane on behalf of the State;
- The increase in revenues generated from financial services;
- The reduction of labour costs.

Two of these points from the list were undoubtedly instrumental for the success of the plan. The first was the need to increase revenues from financial services: in fact, in Italy only 0.7% of citizens had opened a current account with Poste Italiane, while in other European countries, led by Luxembourg, Switzerland and France, the percentages were much higher as you can see from the chart.

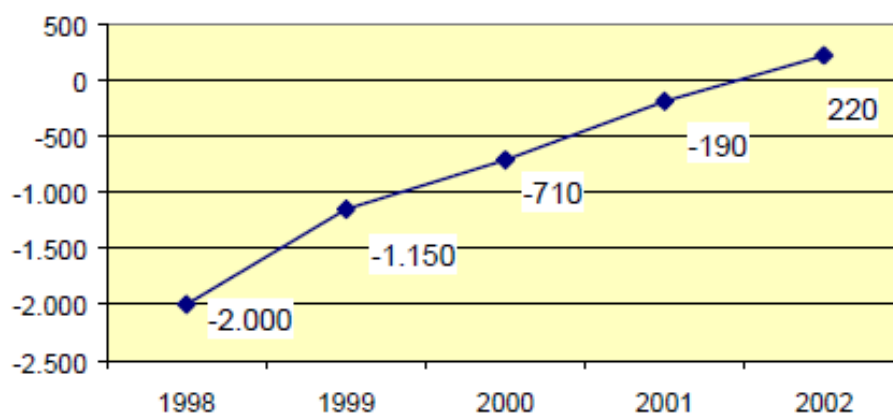
Figure 4: number of Poste Office Giro accounts per 100 inhabitants



Source: UPU (Unione postale universale - Universal Postal Union)

The other key point was the reduction of labour costs, which had to be brought to the level of that of other major European operators. To achieve this, Passera introduced an incentive-based system for redundant staff and a bonus system based on results achieved. As a whole, the business plan approved by Poste Italiane in the last months of 1998 up to 2002 had more than 100 (151) points deemed necessary to achieve the objectives of quality improvement and economic/financial recovery. The plan had to be able to absorb, over the period considered, the losses generated by the company and to bring the same profit as you can see in Fig. 4

Figure 5: Operating loss or profit: Plan forecasts



Source: Poste italiane, "1998-2002 Business plan", in billions of Liras

Perhaps for the first time in its history, Poste Italiane set the goal of being "enterprise" and therefore of being able to stay on the market and being competitive, relying on its own strength and not on the "unlimited" strength from the State while continuing to offer those services linked to the delivery of universal service obligations.

4.2.3 The results of the 1998-2002 Business Plan

At the end of the first year of the plan (1998), the results were worse than expected, and the company closed its financial year with a loss of 2,649 billion liras, against an expected loss of 2,000 billion liras. Nevertheless, the Court of Auditors positively evaluated the work of CEO Passera, who since the early months of his administration undertook several initiatives to achieve the objectives of the plan. The streamlining of the organizational model, the dismissal of the General Manager, the total acquisition of SDA, a courier that had a 9% share of the Italian market (for a figure around 200 billion liras) and the signing of some agreements with the Swiss Mail Service⁵⁰ are only some of the main initiatives worth remembering. These two initiatives were aimed at giving birth to synergies that would improve the quality of the Courier Express service and express mail. In this period, Passera also led the company towards the adoption of systems able to improve financial services. As expected, in the first year there was little impact on labour costs: such costs were difficult to modify in the short term and thus remained around 90% of revenues, still representing 78% of operating costs even at the end of 1998, despite a staff reduction of nearly 3,000 units⁵¹. In this first year of management, the results of financial operations were also disappointing despite the fact that, in accordance with the business plan, numerous interventions were made to revive the sector. Among these, the service to credit pensions into current accounts or post office savings books and the implementation of the "unified order". Moreover, procedures were changed to make them compatible with the introduction of the new single European currency. These interventions did not revive the financial sector of Poste Italiane. In fact, in 1998 the number of account holders significantly decreased (-19.6%) compared to 1997 and again in 1998 turned out to be even less than those of 1994⁵². On this drastic decline, the introduction of stamp duty on

⁵⁰Court of Auditors, "RELAZIONE SUL RISULTATO DEL CONTROLLO ESEGUITO SULLA GESTIONE FINANZIARIA DI POSTE ITALIANE S.P.A. PER L'ESERCIZIO 1998"

⁵¹Salvatore Cardinale (Minister for Communication), "RELAZIONE SULL'ANDAMENTO DEL PROCESSO DI TRASFORMAZIONE DELL'ENTE POSTE ITALIANE (ANNI 1997-1998)", 1999

⁵²Source: Poste Italiane

1 January 1997⁵³ should nevertheless be pointed out. Unfortunately, the number of account holders is only an indicative example of the bad results of the company's financial sector; the overall figures can be seen in table 2.

Table 2: Revenues from financial services⁵⁴

Source: Court of Auditors, "report of the audit carried out on the financial management of Poste italiane s.p.a. for the 1998 financial year"

DESCRIPTION	1994	1995	1996	1997	1998	Diff. % 98/97
paid by 'Cassa Depositi e Prestiti' for current accounts	1.796.565	1.912.141	2.043.472	1.404.905	1.234.336	-12,14
Remuneration paid by 'Cassa D e P' for savings accounts	1.764.198	1.836.574	1.651.589	1.450.212	1.091.633	-24,73
Remuneration for acceptance and payment	622.379	703.032	767.477	883.724	888.716	0,56
Revenues from other current accounts services				46.921	40.667	-13,33
Remuneration for delegated services	428.751	375.679	435.495	401.840	396.668	-1,29
Remuneration for funds movement			0	320.000	320.000	0,00
Other Bancoposta services	146.021	170.764	282.439	282.751	359.489	27,14
Total revenues	4.757.914	4.998.190	5.180.472	4.790.353	4.331.509	-9,58

At the end of 1998 Poste Italiane recorded a 9.8% decrease in revenues from financial services over the previous year, and as much as 16.3% compared to 1996. Also in 1999 losses were higher than those contained in the plan: 1,284 billion liras against just over the forecast 1,000. However in that year the trend was clearly reversing since the plan losses were reduced by over 50%, and revenues grew by 6.9% driven by a growth in financial revenues, an increase from the banking-post service equal to 8.9% over the previous year, and furthermore labour costs had fallen by nearly 3%. Significantly to this effect the EBITDA level rose from -982 to -88 billion in just one year⁵⁵. However the year when the actual data returned in line with those included in the plan was 2000⁵⁶: losses went down by a further 20% over the previous year amounting to 70% less than the beginning of the plan. For the first time, the EBITDA returned positive (+590 billion) and the EBIT was substantially stable (-88 billion).

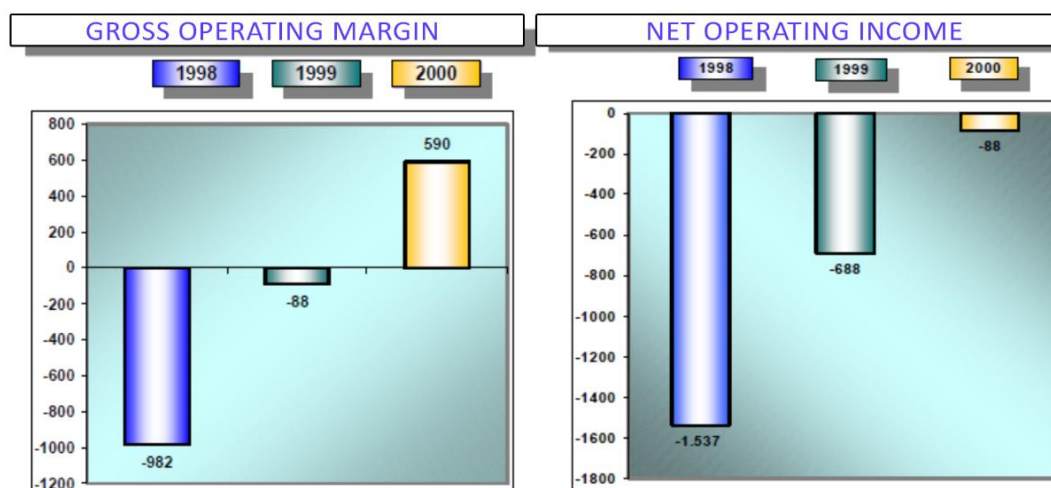
⁵³ Decree-Law 31/12/1996 nr. 699

⁵⁴ Values in billions of Liras

⁵⁵ Reclassified profit and loss statement of Poste Italiane S.p.a. as of 31/12/1999

⁵⁶ However, it should be stated that the result of reducing losses to 759 billion was achieved by certain extraordinary and management interventions: capital increase of 1000 billion; postponing until 2002 the lump-sum payment to personnel on the failed renewal of their contract for 142 billion; the sale of real estate for 130 billion.

Figure 6: Ebitda and Ebit of Poste Italiane 1998-2002



Source: Court of Auditors, "Report of the audit carried out on the financial management of Poste italiane s.p.a. for the 2000 financial year"

Revenues continued to rise, both in terms of postal (+ 5.6%) and financial services (10.7%)⁵⁷. The increase in revenues was generated by the introduction of some innovative services over the same year, such as Priority Mail, by the promotion of the Hybrid Mail service and by the increased compensations requested by the State for the provision of the universal service. On the financial side, however, revenues were pushed up by the higher interest rate granted by Deposit and Loans Fund for the sums held by Poste Italiane, by higher revenues from the placement of securities by other financial institutions and from brokerage services for the sale of life insurance policies on behalf of the subsidiary Poste Vita S.p.A.⁵⁸. Despite this growth, the company continued to have some internal issues that held back the final revival. First the labour costs, albeit on the wane (-12,096 units compared to 1998) in the last two years, were still a long way from reaching the target of the average European level of the other operators and the number of employees continued to be excessive when compared to the desired standard of efficiency and productivity. The course of the reorganization plan was also hampered by a number of external factors, often bureaucratic, which greatly slowed the implementation process. Despite the reported problems, the service quality level at the end of 2000 had come striding up to European standards, and in this area the aims of the 1998-2002 industrial plan had been fully achieved: 84% of mail arrived at destination within 3 days from dispatch, compared with almost nine days at the beginning of the plan,

⁵⁷ Reclassified profit and loss statement of Poste Italiane S.p.a. as of 31/12/2000

⁵⁸ Court of Auditors, "Decision N. 36/2001"

and furthermore, 82% of letters sent by priority mail service were delivered within the next day.

Figure 7: Objectives and results on the quality of mail delivery

Quality of Postal Services - Year 2000						
	Delivery within/by	Results 1999	Target 2000	Results of first half of 2000	Results of second half of 2000	Results of 2000
Priority mail *	1 day	81%	75%	83%	82%	82%
International mail *	3 days	85%	85%	92%	88%	91%
	3 days	74%	85%	88%	87%	88%
Ordinary mail *	3 days	78%	85%	83%	85%	84%
Registered mail **	3 days	85%	85%	87%	87%	87%

Processed from certified data from International Post Corporation - Unipost Price Waterhouse and Research International

Many investments were needed to achieve these levels of efficiency. In particular, as envisaged in the business plan, the management invested extensive resources into computerising the services. For the first time over 13,300 offices and 40,000 work stations were connected through a single computer network, the www.poste.it website was launched, a real on-line post office. Moreover, the motorization for mail delivery with the "Full Rent" project was also introduced, with the hiring of over 40,000 motorized units. In 2000, the company also speeded up the restyling of the old offices along with the program to open new offices in order to have a strong impact on their image⁵⁹ and reposition the brand in consumer perception. Moreover, to achieve this, during the year the company invested heavily in advertising, spending over 100 billion liras against just over 10 billion in 1998. The parcel delivery service still remained a sore point, as for years it had seen a continuous drop in volumes and revenues and generated losses for the company. A major restructuring of the service was then embarked upon, the range of services was expanded and the "money back" plan was launched, which provided for the reimbursement for parcels that reached their destination later than the promised Poste Italiane schedule. There was a turning point in terms of financial services that year, the company focused greatly on their strong recovery in order to improve and increase the level of overall profitability of the company, and in May it introduced the new BancoPosta

⁵⁹ Court of Auditors, "Decision N. 36/2001"

service: in just over a year the number of private payable accounts went from 215,000 to 1,200,000: in essence, in the space of 12 months, 1 million new BancoPosta accounts were opened. The opening of new current accounts gave new impetus to the financial sector, which in early 2000 represented approximately 40% of company revenues. Thanks to BancoPosta, a very high number (780,000) of "Maestro Postamat" debit cards were distributed and new rechargeable cards were launched (35mila)⁶⁰. The explosion in the number of current accounts, which also made leverage on the widespread distribution of its offices (in over 30% of Italian municipalities the post office was the only site that could offer financial services) allowed Poste Italiane to also achieve another success. In fact, in 2000, after a first experiment in 1999, it offered its depositors the placement of three structured bonds, which represented the most significant placement ever made until then in Italy for such tools, and yielded Poste Italiane 116 billion liras in revenues⁶¹. In the financial field, the great achievements of the company insurance business should also be underlined. Thanks to "Poste Vita", which was launched in December 1999, in 5 months the company picked up almost 4 billion liras in premiums. In terms of costs, which in the year remained virtually unchanged over the previous year (+ 0.5%), there was a reduction in labour costs (-2.2%), despite wage increases due to contract renewal and the 75 billion for refresher and training courses at the end of 2000. At the same time, labour costs went down to 76% of revenues, compared to 90% in 1998, and approached the 70% target to be reached by the end of the plan, in line with major European players. The results at the end of 2001 were fully in line with those included in the plan. In fact, there was a return to profit (+107.5) million Euros, of which, however, it seems appropriate to point out an important intra-group transaction, which generated a capital gain of 222.2 billion. This year was decisive for the alignment of labour costs to set standards and there was, in fact, a substantial reduction in the workforce (-8,427 units) that allowed a drop below the 70% threshold in terms of labour cost/income ratio (66.5%). In 2001 there was a slowdown in the growth of financial services, due to a number of external factors, such as the slowing US economy and the high economic uncertainty that reigned in the markets after the attacks of September 11. Fortunately, on the other hand, as postal services, there was a strong increase in revenues, driven by higher volumes made possible by the improvement of quality standards and the structural upgrading of the logistics network. With these extremely encouraging results, Poste Italiane entered the

⁶⁰ The data related to "BancoPosta" Current Accounts and debit cards are provided by "poste Italiane S.p.A"

⁶¹ Court of Auditors, "Decision N. 36/2001"

last year of the business plan proposed by the CEO Passera. As expected, in 2002 the company returned to an effective profit, registering a €45 million gain which, net of losses of certain investee companies, reached €21 million⁶². The "miracle" was successful, the company that started in 1998 with a series of negative aspects such as⁶³:

- The huge deficit (- 1.3681 billion euro in 1998)
- One of the worst postal services in Europe from a quality point of view
- The low profitability and productivity of its staff
- Excess of and poorly distributed human resources
- The lack of computerized offices
- The substantial rigidity of revenues
- The low level of staff training
- The staff culture based on job descriptions and procedures rather than on service and results
- The widespread customer dissatisfaction

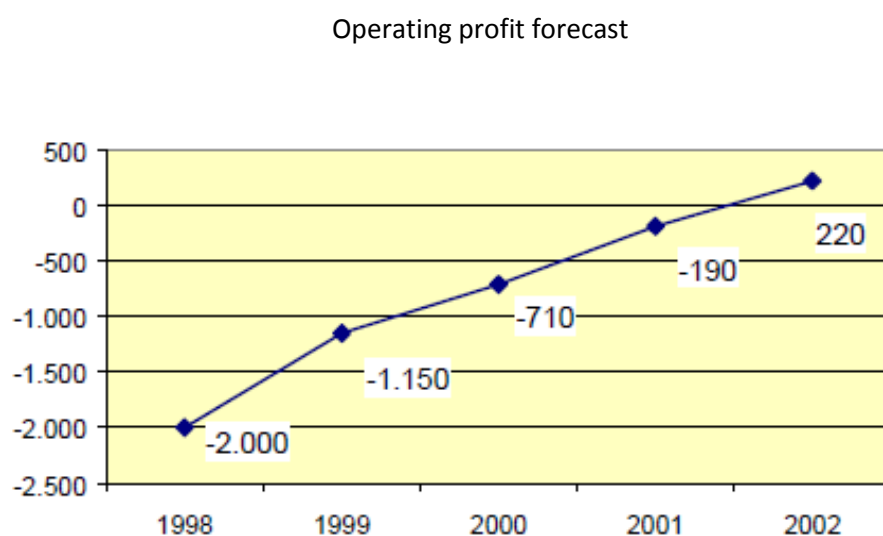
was able to heal. Overall operating costs remained more or less stable (+ 5% in 5 years), drastically reducing labour costs (63% of revenues), with a decrease of more than 20,000 units. The company had thus reduced redundancies and increased staff productivity, thanks to the significant investments in training. Moreover, the company had increased revenues by almost 30%⁶⁴ in the period 1998-2002, providing a range of much wider services and improving the level of those already offered, both in the field of correspondence, where it had managed to reach the parameters required by European directives on the delivery schedule, and financial ones, by improving the BancoPosta account, which had managed to generate a number of important financial services. Even the company's image had been reclassified, especially in the eyes of young people, who had been the target of many advertising campaigns. Now the company gave a positive and dynamic image of itself and of what had been made possible, also as a result of a substantial improvement in customer satisfaction. In essence, the main negative aspects had been resolved, and set objectives achieved. To confirm this, it is interesting to compare the forecasts with the actual performance of revenues:

⁶²Court of Auditors, "Decision n. 83/03"

⁶³ Court of Auditors, "Decision n. 83/03"

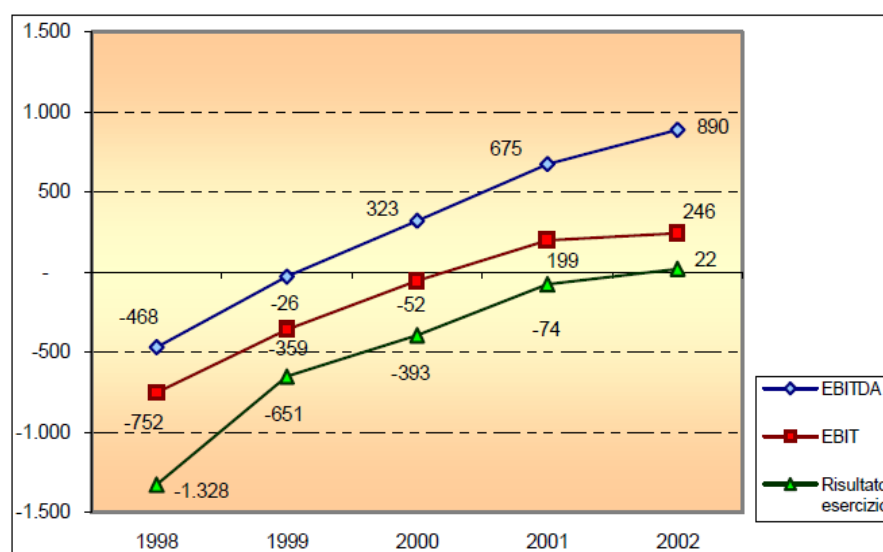
⁶⁴ Poste Italiane, 2002 Reclassified Profit and loss statement compared to 1998

Figure 8: Operating profit forecast and actual results



EVOLUTION OF EBITDA, EBIT AND NET INCOME

(in mln/euros)



Source: Court of Auditors, "Audit results on the financial management of Poste Italiane s.p.a. for 2002"

4.3 THE SARMI ERA

Massimo Sarmi was appointed successor to Corrado Passera on 7 May 2002, and remained in office for 12 years, ending his experience as CEO on 7 May 2014. Under his tenure the results achieved by the company continued to improve. In his first year of operation, profit grew by 23% over the previous year, going from 45 to 55 million

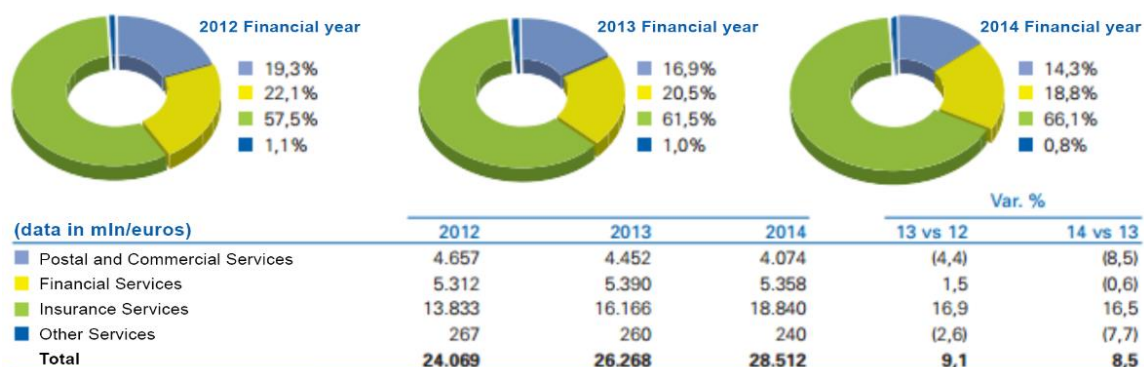
Euros⁶⁵, but it was in 2004 that Poste Italiane made an impressive leap in generating profits, rising to 215.4 million(+288.1%)⁶⁶. This great result was achieved thanks to a significant increase in revenues, which rose by almost 1 billion to € 8.5 billion in share (+ 10.5%). In terms of operating costs however, growth was once again minimal (+ 2.6%) as evidenced by the sharp increase in EBITDA (+ 57.8%). Sarimi's management was characterized by a strong growth in financial revenues. If, in fact, in the Passera period such revenues accounted for about 40% of total revenues generated by Poste Italiane, in the second year of Sarimi's management they had already reached 45%⁶⁷ and went up to 61.7%⁶⁸ in 2014 during his last year of management⁶⁹.

Regarding the group as a whole, the results of financial operations had an even greater impact: in fact, thanks to more than 15 billion that Poste Vita obtained from insurance premiums, the weight of financial transactions, again in 2014, reached almost 85%. Alone the Poste Vita branch, with more than 15 billion in sales, accounted for 66% of the group revenues. The insurance business, set up in 1999 by Passera, has grown tremendously over the years, going from just over € 2 billion of its first year of operation to 15 today, with major acceleration in the last three years (2012-2014 +46.7%).

Figure 9: Source of revenues of the Poste Italiane Group

POSTE ITALIANE GROUP

Total revenues



Source: Poste Italiane, "Balance Sheet for 31/12/2014"

⁶⁵ Poste Italiane, Profit and Loss Statement 2003

⁶⁶ Poste Italiane, Profit and Loss Statement 2004

⁶⁷ Court of Auditors, "Relazione sul risultato del controllo della gestione finanziaria delle Poste Italiane S.p.A per l'esercizio finanziario 2004", 2005

⁶⁸ Poste Italiane, "Balance Sheet for 31/12/2014"

⁶⁹ Sarimi management is given until 07/05/14, the day his successor, Francesco Caio, was appointed

However, the strengthening of Posta Vita is not the only operation carried forward by Sarmi during his mandate, which focused on creating a modern company with substantial investment in technology and improved logistics. In addition, during its activities, Poste Italiane has significantly expanded its range of services, becoming in 2007 the first postal operator to enter the mobile phone market with its own brand “Poste Mobile”, which has over 3.2 million active SIMs, thus making Poste Italiane the market leader among the virtual mobile operators in Italy with a market share of 49.2%⁷⁰. The range of financial services has also been expanded, thanks to the introduction of new, more advanced current accounts compared to the classic BancoPosta, such as the "BancoPosta Click", launched in April 2008, which can be considered the first *online* current account accessible both from the web and mobile telephones in Italy⁷¹ and the most advanced "BancoPosta più". Thanks to the rapid development of these accounts, over the years Poste Italiane has been able to increase its financial revenues from banking services, offering a broad range of instruments, from mortgages to mutual funds. Also there have been major innovations in the field of payment cards, with the launch of Postepay in 2003, a prepaid VISA circuit card that has been extremely successful, especially among young people and that over the years has been developed in 6 different products, able to meet the particular needs of consumers. Therefore in 2002 Sarmi inherited a reorganized company from Passera. However, the company could not be privatised and listed for different reasons. During his long period as chief of Poste Italiane, he was able to follow the path marked out by his predecessor, improving the services previously offered and adding new ones capable to increase the company's profitability. He continued that process of transformation made necessary in the late '90s by making Poste Italiane more a financial-type of company than a post one. Moreover, this change was also dictated by technological progress: in fact, without any technological upgrade, it would have been impossible for Poste Italiane to get on with the universal delivery service of letters only, since now it has been supplanted by e-mails almost entirely. Therefore, the following managements focused on what was a fundamental business for the company, namely financial services, which Poste Italiane has always offered. Let us just think back to 1875 when the Casse di Risparmio Postale was established, namely the forerunner of the modern current accounts offered by the Poste Italiane Group. Therefore, at the end of his last term in May 2014, Sarmi left a solid company to his successor Francesco Caio, with accounts in good standing and that could finally be considered attractive for the market

⁷⁰ The number of SIM cards and market share refer to AGCOM data for December 2014

⁷¹ Poste Italiane

despite the fall in profits over the last year⁷². This fall is due to the weight of the devaluation of the shareholding in Alitalia and to a sharp increase in taxation. The investment transaction in Alitalia was frowned upon from the start, when the operation seemed to be dictated more by politics rather than the correct choice for the development of the company. In fact, politicians, especially the then Minister for Infrastructure and Transport, Maurizio Lupi, were the ones to argue that with the entry of Poste Italiane in Alitalia, synergies between the two companies could be created, thus leading to benefits for them both. In particular, according to those who supported Poste Italiane entrance in Alitalia, the airline would have been able to integrate the fleet at its disposal, through its subsidiary Mistral Air, which Poste Italiane had been holding since 2002⁷³. This airline has 5 Boeing 737 and 5 ATR 72, and one of them provides cargo services. The airline offers both cargo flights for mail delivery on behalf of Poste Italiane and charter flights for passenger transport. An attempt to integrate the activities of the two companies actually took place; in fact, since June 2014⁷⁴ Mistral has operated flights to over 7 Italian cities on behalf of Alitalia on a daily basis. The results were however modest and do not justify the heavy investment made. In fact, through this acquisition Poste Italiane invested approximately €75 million to secure a share of about 19.5% of the airline. For this operation the green light of the European Union was necessary, given that other airlines brought up allegations of a "masked" state aid aimed at saving the Italian flag carrier which was in poor financial conditions. The reality has also shown that for Poste Italiane this was a bloody operation that affected its financial statements closed on 31/12/2014 with a capital loss of €75 million⁷⁵, which together with the decline of the mail industry and some extraordinary charges in view of the transformation of the group ahead of the IPO, had absorbed a large share of the profits generated by the other group businesses. In spite of their mainly extraordinary nature, the costs that had undermined the previous year's results should have no impact on the 2015 budget, which reports in fact mid-year gains for €435 million⁷⁶.

⁷² The collapse in profits in 2014 (-79%) is due to the weight of the devaluation of the shareholding in Alitalia, and to a sharp increase in taxation. In fact revenue increased from 26 to 29 billion Euros during the year. However there was a marked drop in correspondence.

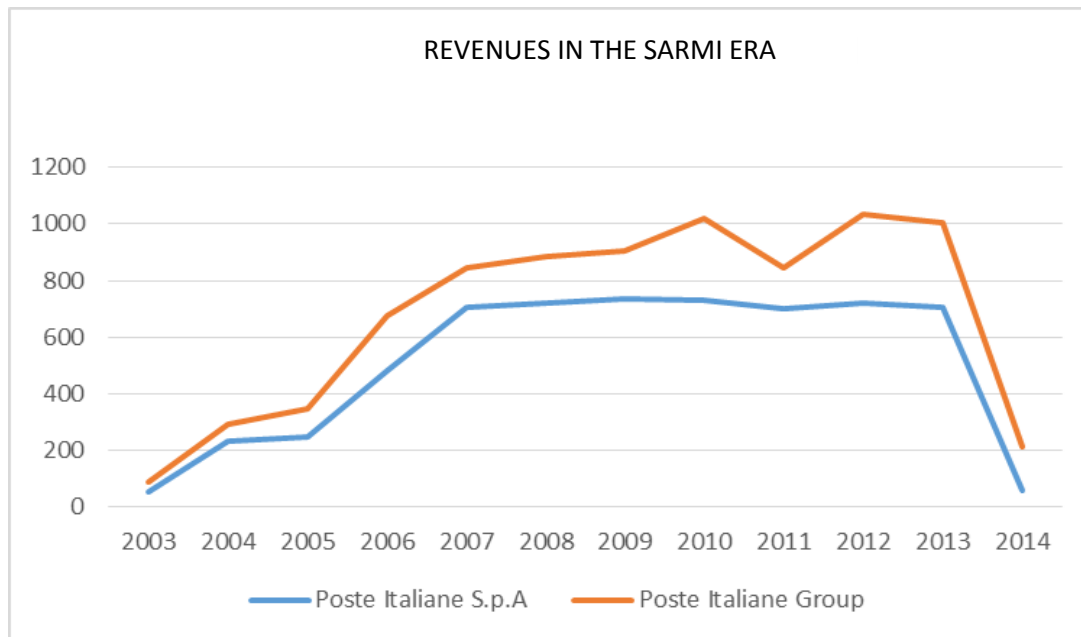
⁷³ Acquired by taking over 75% of TNT; since 2005 Poste Italiane is the sole shareholder in the company

⁷⁴Source: Mistral website

⁷⁵ Poste Italiane, Balance Sheet 2014: "impairment loss recognition in the investment in Alitalia-CAI SpA (€75 million)"

⁷⁶ Poste Italiane, "Half-year results 2015"

Figure 10: profits during the Sarimi era



Source: Poste Italiane Balance sheet from 2003 to 2014

4.4 FROM CAIO'S APPOINTMENT TO THE STOCK EXCHANGE

Francesco Caio is the man who will be remembered for being the CEO of the privatization of Poste Italiane S.p.A. A few days after his appointment on 07.05.2014, Prime Minister Renzi, in agreement with the Minister of Economy and Finance Padoan, officially announced the launch of the final process of privatising the company. The decree of 16 May 2014, which provides for the sale of a stake not exceeding 40% of Poste Italiane, is part of a wider draft privatization initiated by our government, in agreement with Europe, for public debt relief. Thus, following the shareholders' meeting on 31 July 2015, Poste Italiane submitted its prospectus to Consob, which gave its green light on 10/09/2015. Poste Italiane submitted its public offering on 12/10/15 holding it open until 22/10/15, by offering the market 453 million⁷⁷ shares equal to 34.7% of the share capital, which may be increased up to 38.2% if the greenshoe⁷⁸ option is exercised. The greenshoe option actually allows the underwriter to increase its offer in order to better meet the demand for shares by investors from the moment its shares are placed on the Stock Exchange, with the ultimate aim of being listed. Poste Italiane is therefore willing to increase the number of shares offered for sale, thus reducing its stake should it become necessary. The exercise of the greenshoe option is not decided by the issuing company

⁷⁷Information Schedule for the IPO and admission to negotiation on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. for the ordinary shares in Poste Italiane S.p.A.

⁷⁸ Ministry for Economy and Finance

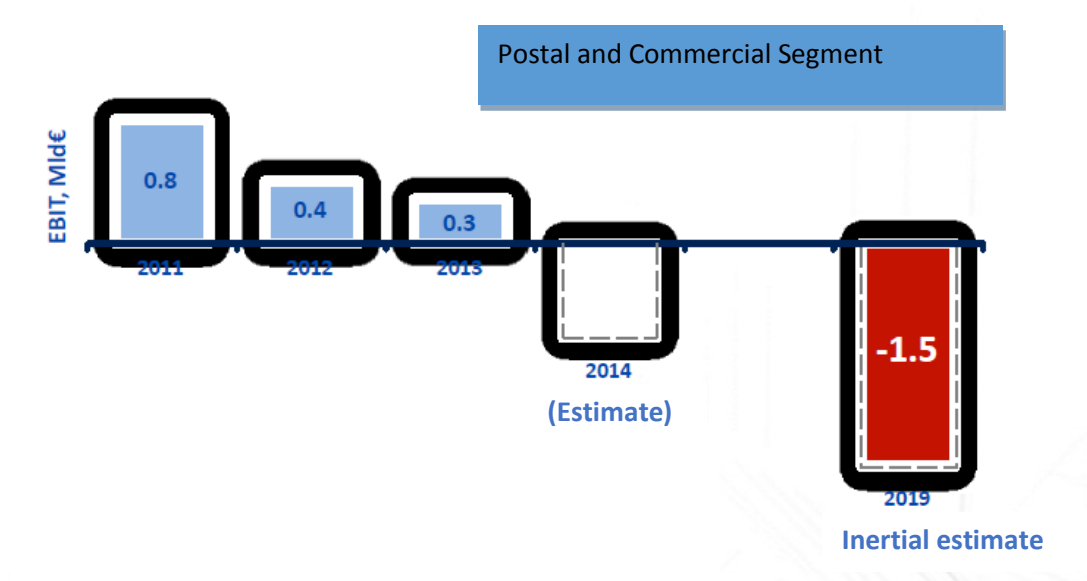
but by the managers of the underwriting syndicate. The option is exercised when demand for bonds on the market in the supply period, exceeds the shares proposed by the underwriting company and the stock price tends to rise above the underwriting price. So if the IPO is successful and the securities are valued by investors, members of the underwriting syndicate will ask to exercise the option and the company will place a greater number of shares thus increasing the number of titles on the market. If the bond price is reduced compared to its placement price, the titles of the greenshoe option will be purchased by the members of the underwriting consortium on the market. The greenshoe mechanism has thus the aim to stabilise the share prices in the first days of listing. Poste Italiane shares were allocated by 70% to institutional investors and the remaining 30% to retail investors, with special benefits for the employees of the group. Poste Italiane presented itself on the market with a five-year business plan, approved on 15.05.2015 which will cover the years from 2015 to 2019, called Poste 2020. The plan highlights, showing the initial situation, how revenues have grown in the 4 previous years (+ 20% over the 2010-2013 period), but at the same time earnings were reduced, with an EBIT down by 25%. This is largely due to the evolution of the postal sector which over the years has seen a decline in demand due to the growing use of forms of electronic communication (so-called e-substitution), strongly characterized by fixed⁷⁹ costs that corrode the company's profits. Moreover, the “competition legislation”, which has opened the market of delivery of fines and judicial acts to other competitors⁸⁰, will have a negative impact on company profitability as competitors will be free from any kind of constraint imposed by the universal service. According to the estimates by Poste Italiane, following this trend, the EBIT of the postal business would end in 2019 to make the overall EBIT of the company⁸¹ negative (please note that at the end of 2013 the value reached €1.4 billion).

⁷⁹Information Schedule for the IPO and admission to negotiation on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. for the ordinary shares in Poste Italiane S.p.A.

⁸⁰ Beginning in 2017

⁸¹ Poste Italiane, Industrial Plan 2015-2019; “Poste 2020”

Figure 11: Evolution of the postal business EBIT



Source: Hearing of the CEO of Poste Italiane S.p.A. at the Senate of the Republic, 8th Public Works Commission, Communications "The prospects of reorganizing the network of Post Offices".

For this reason, the group led by Caio needs to implement a series of measures which will enable the company to reverse course and to continue to generate profits to be distributed to new shareholders. The new plan, which has the mission to "*accompany citizens, businesses and public administrations to the new digital economy*", is based on three main pillars:

1. Logistics and postal services
2. Payments and transactions
3. Savings and insurance

Poste Italiane wants to offer a new universal quality service, which is sustainable and aligned to the new needs of the citizens. To achieve it, it decided to make postal deliveries in low population density areas only every other day and increase postal products available to the customer, diversifying prices and delivery dates. In addition, to improve the delivery system of parcels and packages, and to meet the needs of customers who are increasingly away from home for work during delivery times, Poste Italiane offers the possibility to choose the place of delivery, including an address chosen by the client or the closest post office, offering to become the "*Concierge of the Italians*." The company wants to play a leading role in the digital payment systems, a sector that sees Italy far behind, where only 3% (compared with 14% in the UK)⁸² of consumer purchases via e-commerce, offering a secure and tracked service thanks to the new Postepay evolution,

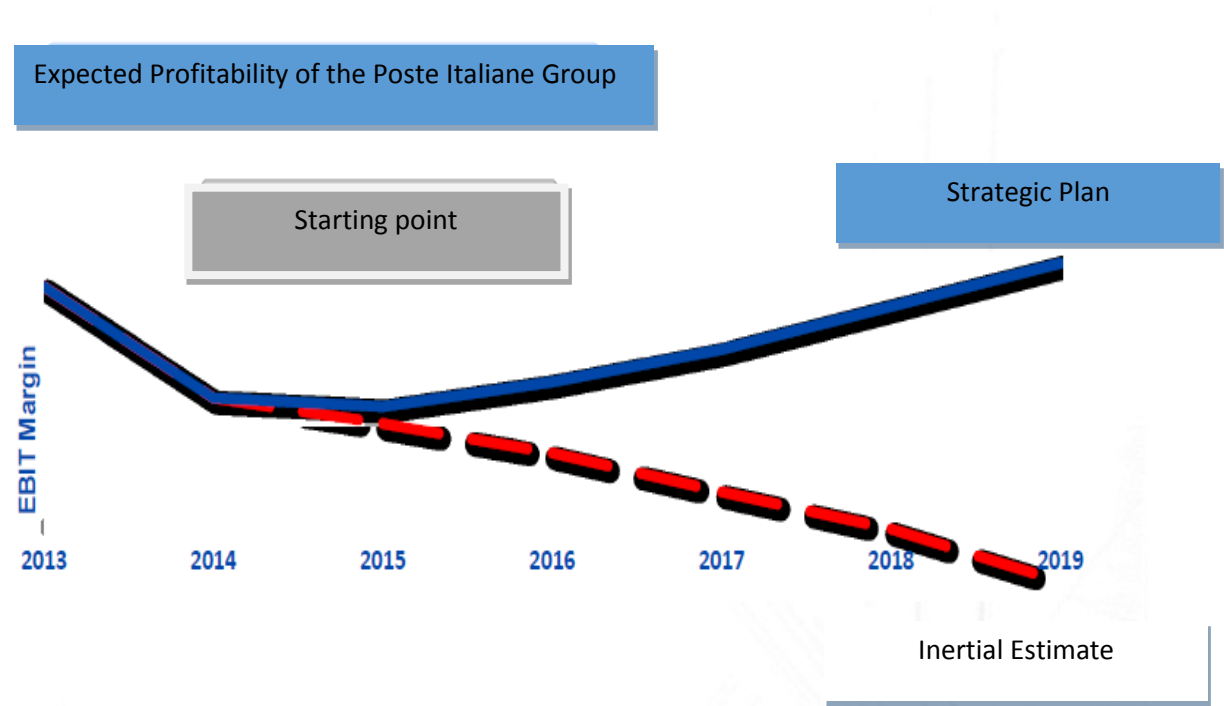
⁸² Netcom 2013 data

which will be equipped with IBAN code and that will allow, among others, the collection of salary, payment of credit transfers and utility payments, but also the most modern NFC⁸³ payment service. Finally, Poste Italiane wants to become a landmark in the insurance market and the household savings management. Focusing on these three factors, Caio believes he can raise the level of revenues to reach 30 billion by making the company overall profitability rise again. The plan also estimates a strong growth of the payments platform, with a shift from 20 to 30 million payment cards issued by Poste in Italia, and the investment portfolio managed by Poste is expected to increase during the plan development period by 430 billion to 500 billion thanks to a more comprehensive welfare and protection offer which will include the welfare, health and home business. Major investments, primarily in technology and in the field of human resources will be needed. In fact, more than 3 billion will be allocated to technological modernization and about 8,000 people will be hired, half of them to carry out new jobs, not currently present within the group. During the period there is also a gradual modernisation and improvement of the offices, which will accompany families and especially the part of the population who is farthest from technology through the transition to the digital era. Thanks to this plan, Caio estimates to make the EBIT grow again in order to exceed the levels of 2013. With these promises Poste Italiane SpA entered the Milan stock exchange on 27.10.2015 with a price per share of €6.75 and an overall evaluation of €8.8 billion, yielding to the State 3.3 billion. The process of privatising Poste Italiane is now

⁸³ "Near field communication" is the system enabling Contactless payments

concluded, which began in 1993 with the Law by Decree no. 44⁸⁴ providing the transformation of a company into a limited company, which took place only in 1998.

Figure 12: The expected profitability of the Poste Italiane Group



Source: Hearing of the CEO of Poste Italiane S.p.A. at the Senate of the Republic, 8th Public Works Commission, Communications “The prospects of reorganizing the network of Post Offices”

⁸⁴ Law Decree n. 390 1993, transformed into Law n. 71 1994

CHAPTER 5

THE IPO OF POSTE ITALIANE

5.1 The characteristics of the IPO of Poste Italiane

The IPO of Poste Italiane was undoubtedly one of the biggest operations of stock market listing in Europe in 2015. Indeed, in the first 8 months of the year⁸⁵, it was second only to that of Aena, a Spanish company, which was listed in Madrid, picking up €3.8 billion excluding the greenshoe option. The sale procedure has seen the participation of Mediobanca, which acted as sponsor, as well as Rothschild and Lazard which were the advisors of both issuer and the selling shareholder, respectively (Poste Italiane) (Ministry of Economy and Finance). Selling its 453 million shares, at a price of €6.75 the Italian government drew €3.042 billion from the privatization of Poste Italiane net of €15 million recognized in the consortium of banks placement. The figure is thus less than expected, which was around 4 billion; in fact, even if the greenshoe option is exercised, the revenue for the Ministry of Finance could reach €3.346 billion. At the time of its entry on the stock exchange on 27.10.2015, the overall evaluation of the company remained under 9 billion euros, to then settle around 8.7 billion. The global offer of ordinary shares of Poste Italiane was carried out as follows⁸⁶:

1. A public offer, for a minimum of 135,900,000 shares (30% of total) intended for the general public in Italy and to the employees who were allocated a maximum 14,860,700 shares at favourable terms.
2. A private placement, for a minimum of 317,100,000 shares (70% of the total) reserved for institutional investors in Italy and abroad.

⁸⁵ PwC, "IPO Watch Europe Q2 2015"

⁸⁶ Poste Italiane, "Information Schedule for the IPO and admission to negotiation on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. for the ordinary shares in Poste Italiane S.p.A."

In order to award the shares put on the market by Poste Italiane retail investors had to fill out the application to join the public offer at investment institutions respecting the minimum lots foreseen:

- 500 shares for the "minimum lot"
- 2000 shares for the "minimum lot of intermediate adhesion"
- 5000 shares for the "minimum membership lot plus"

The minimum investment required for small Italian investors to enter the capital of Poste Italiane, considering the minimum lot size of 500 shares was €3,375. Investors who had already been awarded the title during the IPO and who were willing to keep it in the portfolio for at least 12 months without interruption from the date of payment, will be recognized a bonus share for every 20 shares held. Better conditions were offered to employees, for whom the minimum lot amounted to only 50 shares: the bonus shares are given every 10 shares⁸⁷. In addition employees are allowed to request an advance on their severance pay to buy a maximum of 100 shares. As for institutional investors, a share ownership limit was placed at 5% of the share capital, which at the value of the shares on the day of the IPO corresponds to an investment in the company of nearly €430 million. Exceeding the established percentage of ownership implies that the right to vote and other rights, other than ownership, related to shares held in excess of said maximum limit may not be exercised. This managerial limit may decrease the interest of some major investors, such as investment funds, which are generally interested in company management. In fact, they aim both to obtain financial revenues from their speculative transactions and manage and influence the management of the company in which they invest.

5.2 IPO investors' profile

The interest around Poste Italiane shares in the first days on the stock market was very high. There were two main factors to arouse curiosity in the eyes of investors: the first was undoubtedly the price, which never before had been so difficult to determine. In fact, Poste Italiane business is perhaps globally unique and this makes it difficult to offer comparisons with other companies, and makes valuation methods using market multiples completely ineffective. The second aspect that intrigued investors was the reaction of the market upon the entry of Poste Italiane in the Stock Exchange, since this was the first

⁸⁷The relation of one bonus share for every 10 held in portfolio for a year will only be valid for the first 2 minimum lots, therefore to a maximum of 10 bonus shares. For shares that exceed this level, employees will be recognized a bonus share for every 20 shares held.

major privatization, after over 15 years⁸⁸, made by the Ministry of Economy and Finance. During the underwriting period the requests more than tripled the offer of the issuing company, showing good interest among both institutional investors and small investors. According to data notified by Poste Italiane, 60.8% of placed shares were purchased by 168 foreign institutional investors, 27.2% by Italian institutional investors and the remaining 12% by small investors and employees. The IPO had great success with hedge funds; the one that most believed in the success of the listing of Poste Italiane is the Segantii Capital Fund in Hong Kong. The nature of the title, poorly speculative and with a dividend of 80% of profits promised by Poste Italiane for the next two fiscal years also attracted equity funds. Here are a few examples of investors in Poste Italiane:

- Blackrock, a US fund which is also one of the biggest in the world managing over 4500 billion \$⁸⁹and, as reported by CONSOB, holding shares, also of significant amounts, in other several Italian securities held by the FTSIMIB⁹⁰;
- Fidelity, a US fund that can be defined as the second largest mutual fund in the world managing over 5,000 billion \$⁹¹;
- Two Italian funds, Pioneer and Kairos, much smaller than the previous ones but which still jointly manage funds for almost 180 billion €⁹².

Sovereign fund participation in the IPO was rather disappointing, since only Kuwait funds have definitely acquired shares (Kuwait Investment Office which is based in London), for a share of around 2%, and Norway (Norges Bank). Contrary to what has been said in the past however, the Chinese sovereign wealth fund should be left out. The good results achieved among institutional investors have been facilitated by the particular macroeconomic situation we are going through. With the slowdown in China, and more generally in all emerging countries, many capitals have leaked from those markets to get back into the European markets, in particular those of Southern Europe that are drawing particular benefit from quantitative easing implemented by the ECB. Italy has aroused particular interest among investors and was able to attract foreign capital for €20 billion in 2015 against €15 billion in 2014⁹³. Alongside the demand from institutional funds, the demand from small investors was also strong. These investors saw Poste Italiane as a reliable title to be held in their portfolio for a long time in order to try and secure a good

⁸⁸The last case of privatization that can be compared in size to Poste Italiane was Enel in 1999.

⁸⁹ Data from Blackrock in their website

⁹⁰Consob data updated to June 2014

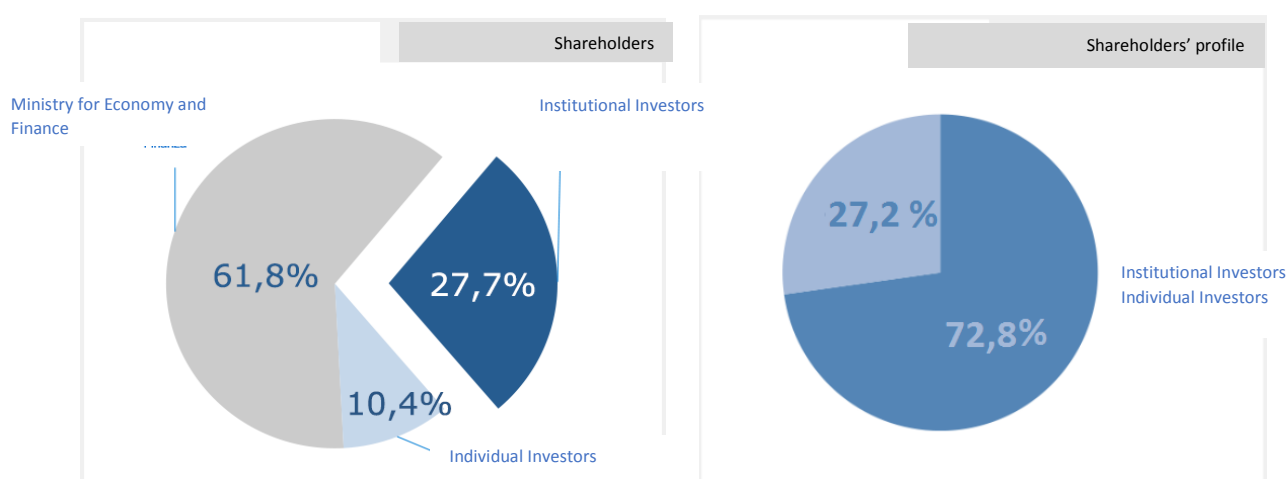
⁹¹Data from Fidelity in their website

⁹²Of which 169 billion managed by Pioneer and 8 billion managed by Kairos

⁹³ Data Credit Suisse reported in Sole 24 Ore

return in a historical period when government bonds, which have always been a safe haven for small Italian savers, give very low yields of around 1.5% over ten years and even, for the first time in Italian history, negative or near zero yields on securities up to 2 years⁹⁴. Comparing the performance of a government bond with that of a stock is technically incorrect, bearing in mind the diversity of the two financial instruments with completely different risk profiles. The feeling, however, is that some small investors, very loyal to other financial products issued by Poste Italiane, such as postal bonds, similar in structure and risk profile to government bonds, have not fully understood the difference between the latter and the title placed on the stock market.

Figure 13: Poste Italiane shareholder structure and shareholders' profile after the IPO



Fonte: Poste Italiane

5.3 The results of the IPO

Poste Italiane, as reported by the company itself, has received requests for 1.52 billion shares with a bid coverage ratio, also including the greenshoe shares, equal to 3.1. The share price was set at €6.75, namely at the proposed mid-range between 6 and 7.50. This price has enabled the company to place itself in fourteenth position in terms of level of capitalization in the Milan Stock Exchange, as well as earn the opportunity to enter the FTSE MIB, the main index of the Italian Stock Exchange, which groups the 40 largest Italian companies by capitalization and ordered level of liquidity. Poste Italiane entry in

⁹⁴The interest rate considered is on 27/10/2015, day of the bid for the 2-year CTZ, with a yield rate of – 0.023%; on the same day, the 10-year bonds had a yield of 1.44%

the index was not immediate since, as per the Regulations, the company must meet size criteria and also have at least 20 trading days behind. In all likelihood, therefore, Poste Italiane entry in the index will take place in December and this will entail certain advantages for the title. In fact, there are many funds that reconstruct the basket of index securities in their portfolio. Purchases of the shares by these large funds could push up the demand thus increasing their price. The first days of share trading were not particularly exciting, since after a very first hike recording a price increase up to €6.95⁹⁵, a series of falls followed thus reducing the stock below the input price, stabilizing it between the €6.45 – 6.55⁹⁶ range. However, this drop to €6.50 has a specific reason: many analysts and some institutional⁹⁷ investors were not satisfied with the price set by the Treasury, which was above their predictions; therefore, they either did not enter or came out quickly closing their position in Poste Italiane in the early stages of negotiation. In their view the fair value of the shares was €6.50⁹⁸. The drop in price, however, should not worry retail investors who have invested in them. In fact investment in Poste Italiane should have been a long-term investment, one to keep in the drawer, in order to receive the dividend at the end of the year which, according to what is proposed by the company, should be satisfactory for the next two years. In fact the company has guaranteed that it would distribute at least 80% of profits to shareholders in the first two years after listing. According to this information, the dividend should reach 30-35 cents per share, so as to guarantee the shareholders a return between 4 and 5%⁹⁹. Nor should we forget the bonus shares, which will be assigned to underwriters who keep the shares continuously for 12 months from the date of issue and which will give them an extra gain of 5%¹⁰⁰. Ultimately it can be said that the market has priced the title at a lower level than the one set in the IPO. The Ministry of Economy and Finance has therefore preferred to collect more liquidity at the expense of the initial performance of the title.

⁹⁵ Maximum share value recorded on 27/10/2015

⁹⁶ Value range the shares price fluctuated in between 27/10/2015 and 5/11/2015

⁹⁸ Opinion of Andrea Carzana of the Threadneedle investment fund, reported in the online edition of "Il Sole 24 ore" 27/10/2015

⁹⁹ Considering a share price equal to that of issue on the date the dividends are paid.

¹⁰⁰ There will only be a 5% gain if on 27/10/2016 the price is equal to the issue price, i.e. €6.75; the gain will be lower if the price is lower and higher if the price is higher.

6 CONCLUSIONS

In the final phase of this work, it seems appropriate to answer the questions we set ourselves at the beginning and define the goals that have stimulated this entire research. It seems clear that the economic and financial crisis that has been hitting Europe for some years now, has been instrumental in giving the final impetus to this process of privatization. In fact, the Italian State has repeatedly initiated privatization processes during particularly difficult financial moments. So it was in the early 90s when, for the first time, Italy put State-owned companies on the market and so it seems now, with the privatization of Poste Italiane, the already announced and scheduled privatization of ENAV and the likely sale of Ferrovie dello Stato. This work has brought to light the length of the privatization process of Poste Italiane, which began in 1998 and was completed only at the end of 2015. This was due both to the complexity of the process and the serious economic and financial situation of the company in the late '90s. Therefore, a long path of consolidation was needed in order to make the company attractive to investors and thus ready to be listed. Moreover, the role played by Passer should be also emphasised: thanks to several measures, described in detail in Chapter 3, he has allowed one of the public companies experiencing major difficulties to start a reverse path. Great credit goes to Massimo Sarmi, who over the years has managed to grow the company in a healthy way despite some political pressures, such as the Alitalia operation. The analysis has also allowed us to determine how the business model of Poste Italiane represents a unique example in Europe and probably the world. In no other European country, in fact, does the financial sector have such an important role compared to the Italian one. This makes Poste Italiane much more like a real financial broker, rather than a post-type company; therefore, the Italian post office is more profitable than its competitors, but at the same time also riskier. Given the great importance that the financial sector plays for Poste Italiane, it seemed only right to wisely describe the role the group plays in the Italian banking system, as well as the main laws that regulate it as a financial broker. Moreover, the fact has emerged of how the company, thanks to the marketing of products offered by other banks, has been able to bypass one of the most stringent bans that the legislator placed: the disbursement of loans. Given that the majority of revenues come from the Poste Italiane Group insurance business, we draw our attention on the subsidiary, Poste Vita, describing the main tools offered on the market. Once the overall picture of the company was given, the work has entered into the

details of the IPO. By analysing the main listing on the stock exchange operations of 2015¹⁰¹, that of Poste Italiane was found to be the second in size in Europe, only behind the Spanish Aena. The over 450 million shares were issued on the market as free float at a price of €6.75, between the minimum price and the maximum price proposed as valuation range, bringing little more than €3 billion to the State, thus disappointing some expectations, given that the government was expected to earn at least 4 billion from the sale of one of its best companies, to be allocated to public debt relief. Despite a loss in revenues of almost €1 billion, Poste Italiane privatization cannot be judged negatively, especially when compared with the most recent privatizations carried forward in Italy, that of Fincantieri. In fact, it was able to attract large amounts of capital especially from abroad. The main funds that have decided to enter the capital of Poste Italiane come from all over the world, the presence of some of the most important hedge funds and American equity funds, like Blackrock and Fidelity, is strong, but also the Arab funds such as Kuwait's. The demand from small investors was also strong; however, as explained in the text, they seemed to be poorly informed and not fully aware of the risk they took.

¹⁰¹2015 is considered until October

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