

## Poste Italiane - Deliver 2022

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Poste Italiane launches five-year strategic plan – Deliver 2022 – to unlock the value of Italy's leading distribution network. Mail & Parcel turnaround coupled with expanded Financial & Insurance offering and accelerated convergence of Payments, Mobile & Digital underpins sustainable dividend growth.

### STRATEGIC HIGHLIGHTS

- Vision built on strong business fundamentals and evolving customer needs and behaviours
- Achievable financial targets and KPIs thanks to revenue growth and renewed focus on operational performance
- Improved operational excellence supported by significant investments in core activities
- Sustainable dividend growth based on solid cash generation

### FINANCIAL HIGHLIGHTS

- Group Revenue up by 1% CAGR to €11.2bn by 2022 with improved quality mix
- Operating Profit up by 10% CAGR to €1.8bn in 2022, driven by operational efficiency
- Net Profit up by 13% CAGR to €1.2bn in 2022, delivering a solid 13% ROE (+3.4p.p.)
- Customers' Total Financial Assets growing by 3% CAGR to €581bn in

2022 (2017: €506bn), in line with market

- Capital expenditure: €2.8bn between 2018 and 2022 supporting digitalization, automation and the reshape of the service model
- Net financial position increase from 0.8bn in 2017 to 1.7bn in 2022
- Dividend policy baseline of €0.42 DPS for 2017, increasing by 5% per annum up to 2020, and a minimum payout of 60% from 2021 onward

Milan 27th February 2018: The Board of Directors of Poste Italiane S.p.A (or "the Group") on 26th February 2018, late evening, approved Deliver 2022, a five-year strategic plan designed to unlock the value of Poste Italiane's unique distribution network, already recognised as Italy's most effective and trusted.

The plan will be presented to the financial community at Poste Italiane's first Capital Markets Day, held today at Borsa Italiana in Milan.

Poste Italiane's unrivalled Mail & Parcel distribution network covers 100 per cent of the Italian territory, with over 2,000 distribution centres, over three billion of pieces of mail and more than 100 million parcels delivered last year. With more than 34 million customers, the Group's 12,800 post offices are core to the successful distribution of Poste Italiane's market leading financial and insurance products.

Poste Italiane is also Italy's number one payment and digital operator serving the evolving needs of the customer base thanks to its integrated physical and digital approach, processing over €100 billion in card payment transactions in 2017. Poste Italiane has issued 25 million payment cards and its apps having been downloaded over 15 million times.

Deliver 2022 is built on strong business fundamentals and a deep understanding of the evolving needs of Italian consumers in Poste Italiane's four core areas of activity:

- Mail, Parcel and Distribution
- Payments, Mobile & Digital
- Financial Services
- Insurance Services

The plan includes a group-wide transformation program focused on Poste Italiane's employees and key technology systems. It has pragmatic and achievable financial targets and clearly defined KPIs, including mid-plan 2020 objectives.

Operating profitability will improve significantly from €1.1 billion to €1.8 billion by the end of the plan, supported by revenue growth and cost efficiencies in all business segments. Targets are built on granular and diverse initiatives, with a low execution risk.

As outlined in the 2017 Preliminary Results announcement, Poste has also carried out a full review of its segmental organization to enhance the visibility and transparency of key value drivers for each business segment.

Commenting on the new plan, Matteo Del Fante, Chief Executive Officer of Poste Italiane said: "This plan is based on conservative assumptions with a very low execution risk. Revenue will grow steadily throughout the plan, but the real impact will be seen at EBIT and Net Profit levels with an

increase of 10 per cent and 13 per cent CAGR respectively with EBIT growth of €0.7 billion. This is thanks to both revenue and operational improvements and most importantly includes contributions from all of our business segments. The dividend will grow over the plan period in line with the improvement of the profitability of the Group. Each of our segments will take many small steps forward which together will make a giant leap for Poste Italiane.

"Deliver 2022 will allow us to fully unlock the value of our unique network and confirm our position as Italy's most trusted and effective distribution business. We are transforming to seamlessly meet the evolving needs and behaviours of our more than 34 million customers. Mail & Parcel is at the heart of our business and we are already seeing positive results from the actions we have taken, in particular the introduction of our new innovative Joint Delivery Model recently agreed with our unions. We also benefit from owning Italy's leading financial and insurance digital platforms, creating additional opportunities of cross-selling and enhanced revenues. In addition, we will leverage our 12,800 Post Offices to help bridge the digital divide by selling more online products in-branch thanks to assisted-digital customer journeys. Our people are core to our success and we are proud to be the largest employer in Italy. Over the Deliver 2022 plan period, we will hire around 10,000 skilled professionals, as well as train current staff to provide them with the skills, tools and incentives to help deliver our transformation."

## 2022 Group Financial Targets

- Group Revenue: €11.2bn (2017: €10.6bn) organic growth with improved quality mix
- Operating Profit : €1.8bn (2017: €1.1bn) improved contributions from all

segments

- Net Profit: €1.2bn (2017: €0.7bn) group-wide cost efficiencies and revenue growth
- Net Financial Position: going from 0.8bn in 2017 to 1.7bn in 2022
- Dividend Policy: baseline of €0.42 DPS, increasing by 5 per cent per annum up to 2020, and a minimum payout of 60 per cent in 2021 and 2022

## Mail, Parcel & Distribution

### 2022 Financial Targets

- Segment Revenue: €3.5bn (2017: €3.6bn) with increased parcel revenues offsetting mail decline
- Parcel Revenue: €1.2bn (2017: €0.7bn) with growth sustained by expanding B2C market
- Revenue/Employee: to increase from around €60,000 in 2017 to about €68,000 in 2022

### 2022 Operational objectives

- Implementation of Mail & Parcel new Joint-Delivery Model
- Parcels delivered by mailmen: over 100m (2017: 35m)
- B2C Market share: 40 per cent (2017: 30 per cent)

In Mail, Parcel & Distribution, Poste Italiane is launching an innovative joint mail and parcel delivery model with a new approach based on population and volume density which includes afternoon and weekend deliveries. This follows the signing of two major Union agreements which will allow the Group to implement new ways of working and capitalises on the fast-growing e-commerce related B2C parcel market where it already has a 30 per cent market share.

Poste Italiane will also invest in new sorting and automation technology, redefine delivery areas to increase productivity and optimise delivery flows using cloud based technology to create a fully integrated mail and parcel network.

## Payments, Mobile & Digital

### 2022 Financial Targets

- Segment Revenue: €0.8bn (2017: €0.6bn) embedding the transition from traditional to digital payments
- Card Payments Revenue: €0.4bn (2017: €0.2bn) with growth sustained by an expanding digital payments market
- EBITDA: €0.2bn (2017: €0.2bn) up by 1 per cent CAGR

### 2022 Operational Objectives

- Total PostePay cards portfolio to reach 18.3m
- Total cards payments transactions to grow 12 per cent CAGR to 1.6bn
- Digital e-wallets stock 1 6.5m (2017: 1.7m)

Poste Italiane's recently launched Payments, Mobile & Digital segment to capitalise on opportunities arising from the convergence in the sector while also supporting a group-wide digital vision. Poste Italiane will consolidate and broaden its leadership in payment systems, including expanding our acquiring business, and in mobile thanks to innovative new offers. Whilst cash is still king in Italy this division will be at the forefront managing the transformation from traditional methods such as the bollettino to modern digital payment options.

The Group will also continue developing

digital public services which will be sold thanks to the support of the 12,800 Post Offices throughout Italy.

## Financial Services

### 2022 Financial Targets

- Segment Revenue: €4.9bn (2017: €5.0bn) maintaining stable revenue whilst reducing reliance on capital gains (reducing from over €0.5bn in 2017 to zero in 2022)
- EBIT: €0.7bn (2017: €0.6bn) driven by operational efficiency

### 2022 Operational objectives

- Total Financial Assets: €581bn (2017: €506bn), in line with market growth, with an increased penetration of life insurance and mutual funds
- Annual product sales: more than 12m products (2017: 8m)
- Clients covered by a relationship manager: 45-55 per cent (2017: 7 per cent)

The Group will capitalise on the continued recovery of the Italian economy, growing Italian household wealth, while seizing additional opportunities thanks its market leading physical and digital distribution networks to drive growth and serve customers in the best possible way.

In Financial Services, Poste Italiane will deliver sustainable capital light growth bolstered by a comprehensive and broadened product range, including third party loan distribution, whilst gradually reducing the reliance on non-recurring revenues over the plan period, also thanks to increasing margins on postal savings coming from the new agreement with CDP.

Poste Italiane will also expand its wealth management offer and upgrade over 1,500 post offices to integrate a full digital product suite, strengthen its client coverage model to maximise cross-selling opportunities and invest 0.5bn in IT and data analytics to better support its commercial frontline staff and allow for a more targeted sales approach.

## Insurance Services

### 2022 Financial Targets

- Segment Revenue: €1.9bn (2017: €1.5bn) with steady growth in life products; robust growth in P&C and Private Pension Plans, with a 2017-22 segment CAGR of 6 per cent
- EBIT: €0.9bn (2017: €0.8bn)
- Net Profit: 4 per cent CAGR 2017-22

### 2022 Operational objectives

- Gross Written Premiums: €20.7bn (2017: €20.3bn) with a consolidation in life products and a growth in P&C and Private Pension Plans
- P&C insurance distribution: More than 2m new annual contracts (2017: 0.4m) thanks to a smart distribution model contributing to complete the insurance product offer

In life insurance, Poste Italiane will retain its leadership position by providing its clients with the best products in the prevailing macro scenario, rebalancing clients' portfolios from traditional life to unit linked products.

Non-life is a key growth area of Deliver 2022, thanks to macro trends and low current penetration across the Italian population. Poste Italiane will strengthen its welfare and employee benefits offer, widen its P&C product range to complete its insurance

product suite.

The Group will also introduce insurance products targeted specifically at SMEs, and in line with the progressive ageing of the Italian population and the increasing pension gap, will continue to develop private pension plans, a product where the Group is already the number one player.

## People

### 2022 Financial Targets

- Ordinary HR costs / Revenue: 49 percent (2017: 53 percent) thanks to group wide efficiency initiatives
- Early retirement incentives: €0.1bn (2017: €0.5bn)

### 2022 Operational objectives

- Headcount: 123,000 (2017: 138,000) with an average 2018-22 headcount reduction of 3,000 per year (2015-2017: 2,800 per year)
- Redeployment and Training: 4,500 current employees redeployed to commercial frontline; 20 million training hours 2018-22
- New Hires: about 10,000 new skilled hires, including 5,000 financial and insurance specialists (2018-22)

As the largest employer in Italy, Poste Italiane has a favourable age pyramid. With an average employee age of 50, and an average retirement age of about 60, over half of Poste Italiane's current workforce will retire over the next ten years, allowing for the recruitment of new skilled professionals and young talents.

Through a combination of new hires and redeployed existing staff members, Poste Italiane will reinforce its competitiveness,

supported by tailored initiatives to upgrade technical and management skills across the organisation.

Poste Italiane will also invest in existing up-and-coming talent with a wide range of development programmes, roll-out smart working and introduce comprehensive and structured incentives programs.

## Capital Investment Program

### 2022 Financial Targets

- Total Capex: €2.8bn (2015-2017: €1.4bn)
- Capex on sales: 5% (2015-2017: 4.4%)
- Total capex split: 61 per cent IT, 23 per cent Real Estate and 16 per cent Automation and other

Deliver 2022 will be supported by an effective capital investment program, with a central focus on digital development to prepare Poste Italiane for the future. Key investment initiatives will include group wide IT infrastructure, modern sorting technology and digitally integrated post offices.

IT will remain the largest component of group capex to drive and underpin the digital transformation of the Group. An increase of automation related capex for Mail & Parcel operations will be key to boost efficiency and enable the mail and parcel joint delivery model.

## Remuneration Strategy

Deliver 2022 is supported by a new and effective remuneration strategy with the following key strategic pillars:

- Total alignment between shareholder and management interests

- Full management commitment to the strategic priorities of Deliver 2022
- Economic and socially inclusive value creation, rewarding achievement
- Engagement with the people delivering the transformation process.

The new long-term incentive plan covers more than 200 strategic employees considered critical to achieving Deliver 2022 targets. The performance period is aligned to the strategic plan, five years for the top 60 managers and three years for the remainder.

## Solid and efficient balance sheet

Poste Italiane will maintain a strong balance sheet and an efficient capital structure throughout Deliver 2022.

## Solid Cash Generation to Support Dividends

The cashflow produced by operations and by dividends from operating companies will more than compensate capex investments and increased dividend policy for shareholders. As a result, net financial position will increase by about €1.7bn over the plan.

BancoPosta's has one of the strongest capital positions in Italy, with CET 1 ratio at 17% in 2017 and no expected need of further resources after the capital increase to be completed in 2018. Thanks to its capital light business model centred on distribution of third party products, loans and mortgages, Poste Italiane's balance sheet does not embed credit risk.

The insurance business will continue to enjoy a solid capital position, with a Solvency II ratio, well in excess of regulatory requirements envisaged at 203 per cent in 2022. Sound earnings generation will continue, increasing own funds and supporting dividend flows.

Source: Poste Italiane