

Q4 2016 Earnings Call

Company Participants

- Francesco Caio, Chief Executive Officer, Director & General Manager
- Luca Torchia, Head-Investor Relations
- Luigi Ferraris, Chief Financial Officer

Other Participants

- Ashik Musaddi, Analyst
- Gianluca Ferrari, Analyst
- Giovanni Razzoli, Analyst
- Matija Gergolet, Analyst
- Michael Werner, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, and welcome to the Poste Italiane Full Year 2016 Results Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mr. Francesco Caio, CEO. Please go ahead, sir.

Francesco Caio {BIO 1516226 <GO>}

Good afternoon, everybody. Thank you for joining this call. We have prepared here the usual set of numbers that we share with the market to tell you where we are in the realization and maturation of our plan.

We're very happy to report a set of numbers that indicate robust growth on all of our key variables. Revenues for the year were up 8% to more than €33 billion. EBIT has grown 18% to €1.41 billion and net profit has grown 30% to €622 million. This is obviously translating into an equivalent growth of earning per share moving from €0.42 to €0.48. And as we have stated before, the board has submitted to the AGM the proposal of the dividend that is equivalent to 80% of net for a €0.39 dividend per share growing 15%.

As we had mentioned in the past, these numbers include some one-off. The positive one-off is €121 million coming from the disposal of our share of VISA Europe. And there are two negative one-off totaling about €104 million, one is related to a write-down of Banca del Mezzogiorno equity value and the other one was a provision on IRS for the real estate fund that was distributed more than 15 years ago by Poste Italiane, on which, as you have seen from our previous communication, we decided to reimburse some of the losses.

As usual, the fourth quarter of 2016 includes the accruals for our transformation plan, primarily the voluntary redundancy plan that we have now initiated some time ago and Luigi will provide you with further details later in the presentation. I think, as I said at the beginning and we will have an opportunity to go back to these numbers, the growth we've seen is consistent with a strategy we've initiated and we are confident that this trend is now rooted in the robust execution of our plan that we had the opportunity to share with you in the past.

With that, as a sort of overall framework, I would ask Luigi now to comment the specific numbers of the various businesses and I'll wrap it up before some Q&A at the end.

Luigi Ferraris {BIO 7424315 <GO>}

So, thank you, Francesco and good evening, ladies and gentlemen. On slide number three, you have an overview of our key numbers. Consolidated revenues and profits, for the half respectively, by about 8% and 18% over the period. This is mainly due to the following. Financial services, operating profit decreased by about 10% from €907 million to €813 million, mainly as a consequence of the already mentioned two negative non-recurring items for a total amount of €93 million, i.e., a write-down of Banca del Mezzogiorno and the higher provision on IRS, the real estate fund distributed by our network.

Net of these effects, operating profit will be inline versus last year at €906 million. And this is mainly attributable to higher capital gain realized from active management of BancoPosta asset portfolio of about €41 million. The disposal to these Visa Incorporated of our stake in Visa Europe for €120 million, fully corresponding to the already indicated capital gain booked in the first half of 2016. Approximately, 80% of this amount has been reflected in the higher distribution costs recognized to the postal and commercial services network.

Lower of cost of goods sold by about 5% as well as lower provision for around €20 million. All of this has been partially compensated by higher net recharges for the - from the mail and parcels business unit of about €208 million as a direct consequence or revenues growth, which I would comment later.

Insurance and asset management, revenues increased by 11% from €21.5 billion to €23.8 billion and operating profit maintained a robust 25% growth year-on-year. This is mainly due to the ongoing positive performance of life gross written premium, asset management products, as well as a growing contribution of non-life products.

Mail and parcels revenues were equaled to €3.8 billion, down 1.5% from 2015. More specifically, revenues reduction is mainly due to lower traditional postal revenues, partially offset by an higher contribution from parcels.

Please bear in mind that revenues for the full year benefited from a positive one-off of €91 million related to Universal Service reimbursement. EBIT has been positively impacted by both higher recharges to the financial division and in particular operating cost efficiency

with a remarkable impact in the second half of this year, which I will further detail in the following charts.

Before moving into each specific business units, let's have a look at our clients' asset breakdown on slide number 4. Volumes increased by almost 4% bringing total assets to €493 billion versus €476 billion in 2015. The mix continues to remain well balanced with a clear resilience of postal savings collection, a continuing and material increase for about €4.4 billion in our current account deposits.

Let's now move into each specific business unit results, in the slide number 5. Well, let's start with our Financial Services. Revenues have grown from €5.1 billion to €5.3 billion. Excluding the Visa Europe effect the increase is mainly a consequence of the realized capital gains on the active portfolio management, as well as the remarkable increase in financing products distribution. This has been partially offset by lower postal savings collection registered in first half and payment cards distribution fees.

In more detail, slide number 6 provides you with a breakdown of the Financial Services business unit revenues. The major key points here are the following. First, returns on current account deposits, higher revenues are mainly due to an improvement in active management of BancoPosta asset portfolio. Second, fees from postal savings collection, the reduction is attributable to lower fees as a consequence of lower recognized communication marketing costs recorded in the first half of 2016 and a slight reduction in postal bonds volumes.

Third, fees from transaction banking, the 1% decrease is attributable to lower delegated services, state (8:24) pension payments and labor vouchers, partially offset by higher revenues from payment slips and tax return forms.

Fourth, distribution fees, we continue to register a very strong growth in personal loans and other personal financing products. Let me underline that this represents an area of strategic growth, which is mainly based on the recently renewed offerings (8:50) supported by an important and effective communication campaign.

Fifth, payment card fees, in full year 2016, revenues are substantially in line with last year, with a continued increase in Postepay Evolution cards, compensated by lower subscription fees, applied to debit and prepaid cards, due to a cut in the interchange fees decided by the European Union as already communicated in the previous quarters.

Let's now move to slide number 7. Regarding our active portfolio management, let me point out the following major items. Average deposits of BancoPosta accounts grew to €50 billion from €45 billion in 2015, 10% up. Our realized gains - capital gains amounted to €2.9 billion vis-à-vis €5.4 billion in the previous year, as a consequence of higher interest rates and (9:50) spreads as well as the physiological reduction related to the capital gains realized during the period.

Let's now move to BancoPosta's regulatory framework and the capital position on slide number 8. Inasmuch as BancoPosta capital adequacy is concerned, let me stress four

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major key points. First, BancoPosta regulatory framework continues to be fully aligned to European standards. Second, full year 2016 Tier 1 ratio closed to 16%, substantially doubling the minimum regulatory requirements. Third, full year 2016 revenues – leverage ratio 3% due to higher total assets. As a consequence of that, we have decided to recapitalize BancoPosta. However, this has a zero impact on the group's dividend policy. Fourth, full year 2016 profitability recorded a remarkable 29% return on equity substantially reluctant.

Let's now move to insurance and asset management on slide number 9. Gross written premium increased by 9%, driven primarily by the continued increase of our life business, as well as the successful launch in April of our unit-linked product, which recorded inflows of about €233 million in the period. Moreover, we have also benefited from double-digit growth, even if in a small base in our non-life premiums, whose results will become more and more material going forward.

Inasmuch as asset management operations are concerned, let me underline that assets under management increased by close to 27%, reaching €7.3 billion. Confirming this area is one of (11:44) our key strategic growth pillars. This also highlights the successful cooperation with (11:50), which delivers relevant material results in terms of assets under management collection.

With regards to our investment portfolio breakdown, the increase of investment in multi-asset funds, which moved from 11% in 2015 to 14% in 2016, confirm our diversification strategy towards a more adequate risk to return profile. This continues to be fully aligned with our capital requirements.

Let's now move to slide number 10. Please, bear in mind that our Solvency II model is based on the standard formula, and covers 100% of the Poste Vita business. Furthermore, the model is still to be certified by external auditors. Our Solvency II ratio at the end of 2016 is 295% versus 405% at the end of last year.

The most significant factors related to this variation are first, higher interest rates and spreads. Second, increasing gross written premium, which moved from €18.1 billion in full year 2015 to €19.8 billion in 2016. Third, diversify portfolio mix where Govies rates decreased from 73% to 67% this year.

Fourth, higher dividend paid to the foreign company (13:19) and reimbursement of an intercompany loan of about €200 million. Finally in this chart, you can see represented some relevant estimated sensitivities of our coverage ratio.

Let's now move to slide number 11, on the mail and parcel business units of volumes, let me highlight here, on the one hand traditional mail volumes fell 11% year-on-year, while revenues decreased about 2%, as a consequence of the ongoing positive pricing effect as a result of the new regulatory framework in place since October 1, 2015.

Please bear also in mind that revenues for the full-year benefited from a positive one-off item of €91 million related to Poste Universal Services remodel (14:13). From the beginning

of 2016, Poste has decided to drop the service for unaddressed mail, which is characterized by high volumes, but very low tariff.

As a result of this, in order to correctly represent the structural decline in traditional mail volumes unaddressed mail has to be neutralized. Net of these effects 2016 volumes showed an approximately 7.6% decline vis-à-vis last year. In the meantime, if we go back to the revenues, net of the unaddressed figure, the decline would be in the region of 4% or 5% on a regular basis, this continue to be the founder trend that we see.

On the other hand, parcel volumes increased by 13% year-on-year, confirming the positive momentum mainly driven by the growing e-commerce penetration in Italy. Revenues increased about 7% mainly thanks to the improvements of our offering range, which partially counterbalance the ongoing pricing pressure within the industry.

Moving to slide number 12, focusing on our cost structure at consolidating level, overall group operating costs reduced by 0.3% over the period, as a consequence of the already indicated efficiency actions, whose results became material starting from Q3. More specifically, let me underline that cost of goods sold decreased by 4.4% over the period, mainly as a consequence of cost reduction in real estate, IT and utilities.

Moving to slide number 13, labor costs, net of early retirement incentive accrual show a decline of 0.4%. As you're fully aware of, we've launched a voluntary pre-retirement plan, according to which about 5,700 people have already signed to leave the group, vis-à-vis the original target of 5,000. As a consequence of this early retirement incentives accrual, we have reached a total accrual for a consideration of €500 million versus €394 million of last year.

Let's now run through our profit and loss evolution, below the EBIT line on slide number 14. Net income for the period equaled €622 million, reporting an increase of about 13% from €552 million recorded last year. On top of the already-commented positive EBIT evolution, this performance is also related to net financial income of €15 million and taxes for a total consideration of €434 million corresponding to a tax rate of about 41%, stable versus 2015.

Let's move on to slide number 15, commenting on CapEx, where, the majority of investments are, as usual, mainly related to information technology and digital platform, and the balance is related to a (17:35) selected upgrade of facilities, construction of data center buildings and postal logistic operations.

Looking at net financial position on slide number 16, first of all, the positive contribution of our funds from operation as the a result of capital gain dynamics and the commented performance of the mail and parcel business units. On the other hand, the improvement in our working capital is mainly due to the cash-in of some regulatory items, as we have anticipated at the end of the nine-month result (18:11).

On the dividend and the equity movement front, the €548 million inflow is the result of about €1 million coming from our BancoPosta ring-fenced capital and (18:26) partially

compensated by the payment of dividend to our shareholders for a total consideration of about €444 million.

Thank you for your attention. And let me hand it over to, Francesco Caio for some closing remarks.

Francesco Caio {BIO 1516226 <GO>}

Thank you very much, Luigi. Just three points that we've captured in the last three slides to conclude these remarks on results. The first one, we have put on the slide, three years of performance, the journey thus far. We start in 2014, as you remember that 2015 was the year where we had our listing our IPO. We have delivered growth, we've delivered consistently moving from a revenue of €28.5 billion in 2014 to €33.1 billion in 2016, the EBIT from about €700 million to more than a €1 billion, and the client asset base from €462 billion to almost €0.5 trillion.

And obviously it has benefited the dividend per share that has moved from about €0.20 to €0.40 this year. And I think, it's important to have this as a - if you wish 25,000 miles check on how we go and how we're travelling along the journey and the answer is, we're doing well on the past in growing revenues, earnings and dividend.

The second point on page 18 - on slide 18, is that as we have delivered against the growth objectives, at the same time we have been reshaping the portfolio of businesses of Poste Italiane and we have streamline the structure of our subsidiaries, with rationalization of our 10 legal entities (20:21). We focused on our acquisitions on the strategic priorities. 15% of SIA in Financial Services, because we see that as a platform for digital payments and digital transaction, which is something that we believe is going to be driving growth in that sector.

And we bought the 10% of Anima, and as you're aware, we have agreed, (20:46) moved up to about 25% to strengthen our position in asset management that we continue to see as a growth opportunity for the company.

Together with Poste Welfare Services, which is the new name for SDS (20:58) a small, very viable company that we have in the sector of delivering health assurance - health insurance and health-related services for non-life portfolio of business.

We have strengthened our joint ventures agreement in Financial Services, MasterCard. We picked one, obviously, because of the relevance in mail and parcel with Amazon. Now, we have a well-established structure to deliver the B2C side of the Amazon, not - we're not the only ones, but obviously, we have the benefit of using our mail distribution last-mile logistics. And some of you might have read it in the Christmas season, we're able to deliver about 4 million parcels in four weeks.

And last, but not least, as some of you may remember, we highlighted in the prospectus for the IPO that we had deemed the Banca del Mezzogiorno as a non-strategic asset in our portfolio. This - Poste Italiane is a company that is in transaction banking, not in

lending. And therefore, we have had the opportunity of kind of planning with Invitalia, the transaction to settle Banca del Mezzogiorno. And therefore, we now have not only delivered growth, but also created, if you wish, a structure that whereby focusing acquisition and streamline the portfolio, we're ready for the next phase.

And finally on page 19, I think it's useful to give you sense of how we think about the journey ahead. And I went back, and with Luigi, we picked the - some of the terms and some of the elements of the investment case we put forward at the IPO, that you can see written at the bottom of the slide. We continue to believe that this is a cash-generative service infrastructure, with the benefit of a large and loyal customer base, and we continue to see significant learning growth potential.

Now, the benefit of telling you this at the end of 2016 is that, whilst this was a promise when we went to the market, we have track record now to tell you that we are returning to continue to deliver against the priorities set for each of the business is worth highlighting. The superior return on equity for Financial Services, cross-selling and innovation and digital payments; growth in non-life and asset management and the transformation of mail and parcels through re-shaping of the traditional mail business, while we continue to grow in parcels.

And I think, we are confident about this platform. We have clear strategic priorities. We have had discipline in execution and consistency of delivering. I think that gave us the platform to look ahead in 2017 and onwards to continue the journey for the execution of the business plan to deliver value to shareholders.

With that, I think, I'd give it to, Luca to see how can we handle your questions.

Q&A

A - Luca Torchia {BIO 19160880 <GO>}

Yeah. Thank you. Thank you very much. We're now ready to start the Q&A session. And I understand that the first question is coming from Mike Werner, UBS. So, hi Mike, you can go ahead.

Q - Michael Werner {BIO 4790902 <GO>}

Thank you. Mike Werner, UBS here. Thanks for the opportunity to ask questions, I've got two. The first one is related to asset management. After your unsuccessful bid for Pioneer back in December, what is your strategy going forward with this, I guess, segment of operations, and particularly with regards to your partnership or your increasing partnership with Anima.

And also, can you give an update on the transfer of BancoPosta Fondi to Anima, and when you expect it to be completed, and then secondly, given the fact that you didn't win Pioneer in December, are there other areas that you're looking at from an M&A perspective going forward? Thank you.

A - Francesco Caio {BIO 1516226 <GO>}

Thank you very much. Perhaps it's helpful to remember that our growth strategy in asset management had been defined and communicated to the market well before the Pioneer opportunity came about, and we thought that, because we are keen to grow in that area, it was our duty, vis-à-vis shareholders to have a look, have a very close look to Pioneer and we were happy to have the opportunity.

But I've said it already, and I think it's appropriate to repeat it, because we are very disciplined guys. We thought that the level at which the transaction seem to be going and then went was not consistent with the return that we were seeing from our perspective. It might have been an acceleration, but the combination of value, the mix between Italian and non-Italian asset base led us to the conclusion that we will be and our shareholders would have been better off by pursuing the Anima deal, which we in fact accelerated through the communication decision to transfer the - to join forces around the BancoPosta Fondi.

And that's what we're doing, we come back to you with some more specific details in terms of time table. I understand that, Anima has already provided some indication, which is kind of second half of this year, I would prefer to keep my powder dry, it might be a bit quick quicker, but I don't want to commit at this stage, I can tell you that it is clearly, we're in execution mode.

And actually, a further element in your question, which I think was broader than just asset management, but just if you stick asset management, our strategy in asset management is to be hopefully the consolidator of the industry in Italy. We start from a very large base of asset under administration and management about €0.5 billion, and we see the opportunity to have further acquisition opportunity together with our partners in Anima, in ways and shapes that will become clearer as time goes on. But in the context of a banking industry, that as you know is keen to beef up the capital structure, and therefore interest in disposing some of the assets they have, including asset management companies.

More in general, on the M&A side, I think there is clearly a lot of work to be done around SIA. We said that we see SIA - the state in SIA, the initial journey, together with our partners at Cassa Depositi e Prestiti, that are the largest owners, and we see that as an opportunity. And we continue to be keen in ways in which we could strengthen the position in parcels, through a combination of M&A or strategic joint ventures. I mean, we're keen (28:17) that the B2C side of the parcel business is growing very nicely, and we feel we are ideally positioned through the last-mile logistic chain, but obviously, opportunities to strengthen our position would be welcome

A - Luca Torchia {BIO 19160880 <GO>}

Okay. Next question comes from Gianluca Ferrari, Mediobanca. Please go ahead with your question (28:30).

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Yeah. Hi, good evening, everybody. I have a couple of questions. On the €2 billion guidance as a return on current account deposits, many things happened such as the 10% increase in deposit, in deposits disruption (28:57), you put in place and also a movement in interest rates. I was wondering if this \$2 billion is still a valid guidance or if we have to estimate something less in the next two, three years?

The second question is a guidance for dividends. Can we keep the 80% payout and change for the next couple of years? And my third and final question is related to the previous one, on SIA. Is there any willingness to take the majority or to increase the queue, just both? Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

So (29:31) maybe the first question, and I'll leave it to Francesco. When it comes to 2017, I would say, I think we can say that we have already secured or locked in two-thirds of our planned capital gain in 2017.

Therefore, I think that we are in a position today to confirm the €2 billion guidance also for 2017. For the following years, I think, we have to wait a little bit for the next, guidance when we are going to submit a plan.

A - Francesco Caio {BIO 1516226 <GO>}

On the dividend policy, let me start from what we have just decided. We confirm for the 2016, the payments of the 80% of net. When it comes from 2017 onward, it would be a function of how the business plan shapes up, and this is something that we intend to share with the market in the second half of this year.

At the moment, we do not have a specific guidance on that. And finally, on SIA, I had just mentioned that, before we're very pleased to have started from 15%. We now would like to get more comfortable with the specific strategic thrust we're going to be building with our partners, and depending on how the strategic review will complete, we will decide how best to value our initial investments going forward.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Thank you.

A - Luca Torchia {BIO 19160880 <GO>}

Okay. The next question comes from Giovanni Razzoli, Equita.

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Good afternoon to everybody, and thank you for taking my questions. The first question is on the hidden gains on the BancoPosta (31:25) portfolio. Can you provide us with an update of the hidden gains as of today, given the volatility we've seen in the sovereign spread, and it could be very helpful to have also a sensitivity - a bigger sensitivity of the

hidden gains to 100 basis points or 50 basis points, or 10 basis point increase in sovereign spreads?

And the second question, again on the - related to the volatility of the sovereign spread. We've seen that the insurance services contribution was very, very strong in 2016, but at the same time, the outlook for the interest rate has been extremely volatile in this year, in 2017. Can you provide us with a guidance of the EBIT contribution of the insurance business in 2017? Do you believe that the 2016 performance is a base, where it will grow also for 2017? Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

Well, let me start with the first question, when it comes to the BancoPosta revenues, the €2 billion you commented before, and the unrealized gain. At the end of 2016, we had a position of about €2.8 billion, €2.9 billion of unrealized gain.

You have to consider that in the first two months of this year, we have already realized starting in the region of €0.5 billion, I mean, and again we have done that, because we've taken advantage of our active portfolio management of some specific windows.

So I would say that, today we can assume that these €2.8 billion can be read without considering the impact of what has been already swapped, because I think it could be misleading, because this is very much volatile in the region of €1.5 billion, after the monetization of this €500 million.

I now count in (33:42) the swap, in this moment, which has been applied to the valuation of the interest rate, which in these days is negative, but of course this swap has to be looked on a long-term basis, because the effectiveness of this swap will start not now, but starting from the future years.

So if we want to just refer to what we have still in our hands, in terms of potential gain, I mean, as of today. I think (34:15) since we have already realized (34:19) we are in the region of €1.5 billion.

When it comes to Poste Vita Solvency II ratio, well, I think, I mean we are providing you with some sensitivities. We have two elements here, which are impacting the level of the Solvency II ratio. One is related to the spread evolution, we have been commenting many times, these elements and it is not a mystery that 67% of Poste Vita assets are invested in Govies today, therefore evaluation in the spread is influencing the level of the Solvency II, and I think the chart on number 10, should answer your question, where you have the impact of 100 basis points in terms of spreads.

I mean - should we see evaluation of 100 basis point versus 2016, our Solvency II would go to 180%. This is not going to drop our (35:26) or compromise our dividend policy, neither the results of Poste Vita for the current year.

A - Luca Torchia {BIO 19160880 <GO>}

Thank you. The next question is coming from the Ashik Musaddi, JPMorgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hey, thank you for taking my question. I have a couple of questions. First of all, can you give us some color about the – sorry to come back again on this €2 billion current account number? I mean, it looks like you currently have after realizing whatever you've done in the first two months, you have like €2 billion of unrealized gains left, which will kind of get exhausted in next two years, two-and-a-half-years.

After that basically, you will have like a shortage of around €1 billion in terms of revenue. I mean, how do you plan to offset it? The reason I'm asking this is, if I look at your group cost base on, I think slide number 13. I mean, a large part of your view was that, you will be cutting cost big time. But if I look at your labor cost reduction, it's just like 0.5% in this year, that's like €20 million. So how do you think about like two years, two-and-a-half-years down the line, when you will have €1 billion loss in revenue from this BTPs, and the cost is not going down that fast, so that's number?

Secondly, on your dividend, can you just give a bit more color about how are you thinking about dividend at the moment. I'd appreciate that you mentioned that you'll give more color in the second half. But because you don't have any formal guidance now like 80%. I mean how should we think about dividend? Is it tied to your earnings, is it tied to your – do you have a policy of maintaining the flat dividend going forward or something like that? Any color on how do you think about dividend is, would be really helpful? Thank you.

A - Francesco Caio {BIO 1516226 <GO>}

Let me start from dividend, and then I'll ask, Luigi to elaborate again on the €2 billion. Yeah, we fully appreciate the question, we don't have the answers yet, because obviously, we position this as a stock with a dividend correlation, but we will be in a position to move from one year to the other indication to a policy where we finalized the new business plan that as I mentioned before, we shared with the market in the second half. Luigi?

A - Luigi Ferraris {BIO 7424315 <GO>}

Well, when it comes to the €2 billion, if we look at the history, we have to see that in the past, our colleagues, both myself and Francesco were not here, but they have been able to maintain this €2 billion level of revenues, which means that there is as we say, we keep on saying many times an active portfolio management. We provide you that with some sensitivity. So of course to enable you to calculate what could be the impact, assuming that this – we are going to have all of a sudden 100 basis point increase or decrease of our spend.

So when it comes to 2017, I think, we are in a good shape, we are well in fact to deliver this €2 billion. I we look forward, we need to look the evolution of this revenue together with the evolution of our business line. And I think, should we have a reduction in these respective revenues, which could take place in the long run, I mean, we cannot rule out of

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course, if we are going to remain the position we are today, it would take a while before you can replace the capital gain with something else, but of course we have to also to complement this result with some managerial action that would be reported and presented to you during the presentation (39:09).

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. Can I just ask one more question, sorry, going into your insurance business, I mean, your earnings went up around 25%, but your revenues, which is the premiums went up around 11%. So why is that dislocation? Is it because of higher revenue margin growth, or is it because of operational leverage due to better cost management?

A - Luigi Ferraris {BIO 7424315 <GO>}

Well, the way we report, we represent the premiums on one hand and the accrual to technical reserves. As you know, when you make the calculation of the profit, you go through, of course, the dynamics of the volumes, but also to some statistic evaluation and actual evaluation, which is sort of mark-to-market, which can vary from period-to-period.

Specifically, there's been an higher accrual in terms of percentage versus the volumes to our technical reserve. But there is nothing specific. I would say, we have always substantially seen a difference in between the percentage of evaluation revenues versus revenues of the previous years, and related costs in terms of accrual to technical reserves depending also on the type of assets, depending also on the type of asset allocation, which has been done by the company.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. Thanks a lot.

A - Luigi Ferraris {BIO 7424315 <GO>}

But anyway, you have on page 32, I think a more detailed explanation for your questions. It's in the annexes.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thanks.

A - Luca Torchia {BIO 19160880 <GO>}

Thank you. We now have Matija Gergolet, Goldman Sachs. Hi, Matija.

Q - Matija Gergolet {BIO 3561672 <GO>}

Yes. Hi, good evening. My first question was still about wages, just as a follow-up to also the previous question. Could you give us, one, an update also about how are the wage negotiations going? When should we have some news. And secondly, just wanted to make sure, so you mentioned 5,700 people basically leaving next year. So, before wages, we can think about €200 million plus savings into next year.

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The second question was just a clarification on this €91 million of you call it exceptional USO revenue. I mean, my understanding is that there are – there can be every now and then some additional say, USO backup payments. So is it fair to assume that no, this type of payments, maybe a few €10 million could actually happen every now and then and also in the future years or is it truly just a one-off?

And then lastly, I think you changed a little bit the tone about the decline in mail, now you're talking about 4% to 5% decline in mail. Perhaps, could you also say, I think there have been some regulatory changes. Can you give us some color also about what are you expecting to see revenues from mail for this year or maybe also going forward? Thank you.

A - Francesco Caio {BIO 1516226 <GO>}

Yes, (42:15) on wage negotiation, we are negotiating at the moment, this [Technical Difficulty] (42:21) unions. There is an expectation that this could come to an end sometime around mid to second half of this year. And we will revert to you with more specific information, but we see time to time, reading from your report and other colleagues report that there are estimates that [ph] the ballpark figure (42:43) estimates is kind of where you are at the moment. And for the other questions...

A - Luigi Ferraris {BIO 7424315 <GO>}

Yes, one, when it tends to the 5,700 people who have voluntary signed the exit, well a portion of these person will leave the company – has already left the company and 2,700 will leave the company next year. Now, I think in terms of costing, but you can assume that these 2,700 will be impacting fully next year in terms of cost reduction. So you can assume €110 million and €120 million reduction.

And then the remaining portion, which is about 3,000 people has to be a little bit offset by the increase in the temporary work and in some hiring that we are going to have with – or we're going to do. Bottom line, I mean, I think that we can assume that the net impact for the coming years will be 3,000 people. So, thanks to 40k (43:50), we're talking about €120 million in terms of savings.

When it comes to the universal service one-off, it is definitely one-off. Let me remind you that we have now a regulation in place, which allows us to receive €260 million per annum for the service vendor. Here we are talking about a portion of past due receivable, related to the universal services and a portion related to some other regulatory elements [Technical Difficulty] (44:20) and reported in our books this year.

The decline in mail revenues was the company that we have seen between the volumes and the revenues variation is definitely due to the change in the regulation, therefore, to the tariff scheme. So we can assume that this 4% will continue this year as well. I think that's what we see now. We are not yet at zero. So it is reasonable to assume that.

The volumes have still showed a double-digit decline. But, of course, again it is too early to say, we need to wait to close the books at the end of the first quarter. So I think in May

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(45:05), we will be probably more precise on that.

But on the other end, again you see a dramatic increase in the postal revenues and volumes, which we'll continue to offset. So it is reasonable to imagine that in a couple of years or to assume that two or three years, the negative variation will be (45:27) the mail will be fully offset by the parcel variation.

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Q - Matija Gergolet {BIO 3561672 <GO>}

Okay. Maybe just relate to the 4% or 5% decline, you referred to volumes or to revenues for mail?

A - Francesco Caio {BIO 1516226 <GO>}

Revenues. Revenue.

A - Luigi Ferraris {BIO 7424315 <GO>}

Revenues.

Q - Matija Gergolet {BIO 3561672 <GO>}

Okay. Okay. Thank you.

A - Francesco Caio {BIO 1516226 <GO>}

Welcome.

A - Luca Torchia {BIO 19160880 <GO>}

Thank you. We now have (45:45)

Q - Operator

Yes. Good afternoon. I have three questions. First of all, can you give us the contribution of BancoPosta funded to the EBIT of the insurance services? Then the second one is, well, on the breakdown of your premiums, would you expect, in terms of life, a higher contribution from the unit-linked going forward, also considering this strengthening of the partnership with Anima? And then finally, I was asking if you can give us the combined ratio and the non-life premiums? Thank you.

A - Francesco Caio {BIO 1516226 <GO>}

First of all, let me tell you (46:57) the contribution of BancoPosta from the - at the end of 2016, it was in the region of €31 million, just to be very specific. When it comes to the evolution of the unit-linked, in terms of premium with regards to the total, well I think we are not yet there to say that the unit-linked will be higher than the traditionally by far away. So we have definitely double-digit increase but to size it it's still minimum. Then the other question was...

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A - Luca Torchia {BIO 19160880 <GO>}

The combined ratio and non-life premium.

A - Luigi Ferraris {BIO 7424315 <GO>}

We measured at 76%.

A - Francesco Caio {BIO 1516226 <GO>}

76%.

A - Luca Torchia {BIO 19160880 <GO>}

Okay.

Q - Operator

Okay. And the non-life premiums for 2016?

A - Luigi Ferraris {BIO 7424315 <GO>}

€120 million.

Q - Operator

Okay. Thank you.

A - Luca Torchia {BIO 19160880 <GO>}

Okay, okay. Okay, Michael are you there?

Q - Michael Werner {BIO 4790902 <GO>}

Yeah. Hi, guys. Thanks. A couple of things. First of all, on the capital gains for Financial Services, can you quantify what the realized gains were in 2016? And during the presentation, you mentioned a capital injection into BancoPosta. Can you quantify the amount of the - for the capital injection we should expect?

And then following up on two elements. First of all, on your mail outlook for 2017 and onwards, you seem to make good progress particularly in the internal revenues being better, I think, than expected. The external probably is largely in line to slightly better. Where are you now in terms of what are your key next steps for the restructuring of the mail and parcel business and what is the outlook of when to reach breakeven for that business?

And then finally - sorry, on the insurance, following up from an earlier question as well, I think your revenue margin on the life insurance business has been considerably better than what we would originally have expected given the structure of your products. Can you clarify that there are no particular one-offs going through the numbers in the life

insurance business at the moment? And can you give any kind of guidance in terms of how margins versus your technical provision should develop going forward? Thank you.

A - Francesco Caio {BIO 1516226 <GO>}

On the mail and parcels side, just as an opportunity to give you a sort of snapshot, we - as you know, we don't provide specific guidance for this year or next year. But what I can tell you is that we're progressing effectively through the reshaping of the business along two fundamental lines.

We are executing the new delivery system, the new delivery processes about 50% of our growth there and the next - this year we're going to be completing the adoption of the new delivery systems in low density areas of (50:35) delivery by the end of this year. And this is obviously, perhaps a bit more than just organization growth entity. So, reshaping of the allocation of our resources following volumes and service level agreements. So, you have some areas we saw alternative delivery and some metropolitan areas with two rounds type of mail delivery. That is yielding some efficiency and Luigi has already mentioned that to you and we're getting to good quality level in - across the country. We, therefore, will continue in 2017 the job we started in 2016 in the context of the reform that was agreed with the government in 2015.

When it comes to parcels, we are seeing encouraging growth of the B2C that we believe will become the dominant element, volume wise, of our operation and we believe we are very strongly positioned in the market there because of our mail distribution whereby we've agreed with some of the large e-commerce players and new packaging that will allow for small objects, small items to be sold and to be proved (51:53) through the logistics chain of the correspondence of mail.

You may remember that we have now a new fleet of vehicles that was somehow reflecting this different mix between letters and parcels. So we're executing the plan. You might remember that when we started the journey, we always said that the notion of - that operating breakeven was something that we would see in 2020, 2021.

Obviously, if I move to the parcel side of the business, we're seeing that breakeven nearer to that, but obviously you need to take care of - to take into account also the losses of the correspondence to come to global view. Again that's something that we will have further information and color when we get back to you with the updated business plan. But in a nutshell, we're encouraged by what we're seeing and we have no reasons to move away from the restructuring and reshaping plan we started.

A - Luigi Ferraris {BIO 7424315 <GO>}

So, when it comes to the capital gain reported at the end of 2016, we are talking about €467 million, €40 million plus versus last year. When we talk about the BancoPosta capitalization, we are talking about the capitalization to increase the leverage ratio higher than 3%. So we are talking about €110 million. And the last question is, do we have any one-off elements in the insurance margin, the answer is no, it is substantially incorrect.

Q - Michael Werner {BIO 4790902 <GO>}

Thank you. Would that mean that for the insurance profitability, you think that 2016 reported number is a good base to assume growth from largely in line with your technical provision growth or is that not the way to think about it?

A - Francesco Caio {BIO 1516226 <GO>}

I suggest to go on to chart number 32, which is in the annexure, I think, you would find out the answer. Thank you.

A - Luca Torchia {BIO 19160880 <GO>}

Thank you. The next question is coming from the line of (54:05) of Intermonte.

Q - Operator

Yes. Good evening everybody. So a few questions from my side. The first one is on the insurance segment. It would be glad to have some details on the current investment yield compared with the average guaranteed rate on traditional policies. And then if you could provide us with, I don't know, a target or a guidance on the net inflows you expect in the mutual funds for 2017?

And then if you could provide us with a bit more color on CapEx expected for 2017? I mean, how shall we model this number for next year - for this year. And then finally, on the labor cost, could you give us a bit of color on - I mean, your expectations on 2017 regarding the expected provision for the early retirement plan and the number of people that will be involved? Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

Well, when it comes to the first question, we - as Francesco said that we don't provide guidance with regards to 2017. When it comes to the outcome, the results of 2016, we are talking about gross (55:36) 3%. The minimum guaranteed is...

A - Francesco Caio {BIO 1516226 <GO>}

Average 1%.

A - Luigi Ferraris {BIO 7424315 <GO>}

... average 1%.

A - Francesco Caio {BIO 1516226 <GO>}

But as of July last year the minimum guaranteed is zero.

A - Luigi Ferraris {BIO 7424315 <GO>}

CapEx expect, well I think, I mean you've seen we are in the range of €450 million, €470 million, so that's the range where we should refer to. Provision for early retirement, again,

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I will draw back to what we said before, we don't give you guidance. There will be for sure provisions but the (56:04) is too early to say.

Q - Operator

Okay. Thank you.

A - Luca Torchia {BIO 19160880 <GO>}

Okay. Thank you. I understand that there are no more question in the line. So, we thank you very much for conveying. And of course, IR department will remain available for any further questions. Thank you and good night. Thank you.

A - Francesco Caio {BIO 1516226 <GO>}

Good night.

A - Luigi Ferraris {BIO 7424315 <GO>}

Bye.

Operator

Thank you. Again, ladies and gentlemen that will now conclude today's conference call. Thank you very much for your participation today. You may now disconnect.

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