# S1 2021 Earnings Call

## Company Participants

- Camillo Greco, Chief Financial Officer
- Massimiliano Riggi, Head of Investor Relations
- Matteo Del Fante, Chief Executive Officer & General Manager



## Other Participants

- Ashik Musaddi, Analyst
- Elena Perini, Analyst
- Gian Luca Ferrari, Analyst
- Gianmarco Bonacinam, Analyst
- Giovanni Razzoli, Analyst
- Manuela Meroni, Analyst

## Presentation

### Operator

Good afternoon, ladies and gentlemen, welcome to Poste Italiane's financial results for the second quarter of 2021 presented by our CEO, Matteo Del Fante and our CFO, Camillo Greco. Following the presentation, we will be glad to answer your questions.

Now, let me pass it over to Matteo.

### Matteo Del Fante {BIO 6237992 <GO>}

Good afternoon and thank you for joining us. We are pleased to present Poste Italiane results for the second quarter and first half of 2021. Let me start with the key highlights. Then I will hand over to our CFO, Camillo Greco, for a more detailed business review. After that, I will present some closing remarks.

Beginning on Slide 3, our diversified business model is continuing to deliver strong financial results. Revenues increased across all divisions, with a different mix adapting to a changing environment and in line with the new plan direction focused on top line growth. Our flexible cost base continues to support business growth, with an increasing share of variable cost linked to revenue growth. Moreover, we continue to demonstrate flexibility to effectively manage our FTE base.

EBIT for the quarter amounted to EUR429 million, reaching over EUR1 billion for the first half. Let me also remind you that we envisage around EUR0.2 billion, early retirement charges to be posted in the last quarter of this year. This level of EBIT is a significant achievement as it brings our business back to 2019, thus fully recovering from the impact of lockdown, despite some restrictions being still in place during 2021. In 24SI sustain and innovate, we define our target as ambitious but achievable, with a focus on revenue growth to create and deliver higher and sustainable value to our stakeholders. Q2 results are indeed showing that our plan execution is progressing in the right direction.

There are three key agreements which give us high visibility, significantly reducing the execution risk attached to the plan. First, in July, we signed a new group labor contract, which will be in place until 2023. Second, early this year, a three-year partnership has been renewed with Amazon, enabling volume and revenue growth, balancing urban, rural area volumes and introducing higher value-added services such as scheduled deliveries. Finally, our Universal Service Obligation contract covers the 2024 plan horizon, embedding the Next Generation EU initiative of Poste Italiane on new digital solutions and cooperation with small municipalities.

And let's move to Group financial results on Slide 4, please. Overall, our business activities are progressing in line with the trends in bad debt in our 24SI plan. Group revenues benefited from the lockdown of 2020 and in the second quarter, increased by EUR434 million, representing 18.7% increase or 14% in the first half. Also on the cost side as Camillo will explain in more detail later, a straight comparison with last year wouldn't be accurate.

As in the last heat of the pandemic, in Q2 of 2020, we implemented contingency measures, resulting in EUR170 million one-off cost savings. So effectively our cost base is well under control and higher costs are only borne to support the growing revenues in line with the plan. As a result, in the second quarter, EBIT grew by 32%, amounting to EUR429 million. In the first half, EBIT exceeded EUR1 billion, up 37% year-on-year. Our focus on business growth and ability to harness industry trend supported the net profit, which increased 36% on an early basis to EUR326 million in the second quarter. Year-to-date, the net profit achieved EUR773 million, a record high level, posting an increase in excess of 40%.

Let's move to Slide 5, where we compare the current financial results to those of 2019 to give you a better understanding of how we steer the business. This slide highlights how our business activities are back to pre-pandemic levels, thanks to our ability to successfully adapt to emerging business trends with a different revenue mix. We were able to offset the secular mail decline with the consolidation of Nexive and with the strong parcel revenue growth. We successfully addressed a low interest rate environment focusing on investment product distribution and we size (inaudible) opportunity from digital payment with an increase in our card business.

Let me also underline the new activities such as tax credit purchases are already up and running and will further contribute to revenue growth at a higher pace starting from the next quarters. On the cost side, the increase is related to a different business mix based on variable cost linked to revenues, costs related to the COVID-19 emergency, and the consolidation of Nexive as we are still in the process of extracting all the acquisition synergies that we have in the plan.

All this considered, our cost base is well under control and our operation are carried out with some 7,000 lower FTEs compared to 2019. As a result, EBIT is back to pre-pandemic level, if we take into consideration the one-off cost savings booked in Q2 2020. Bottom line, we're back to business, growing organically and keeping building our physical and digital distribution platform stronger than ever. We are optimizing our multichannel strategy supporting sales efforts in postal offices with customer calls initiated by digital context with potential clients, a seamless interaction with Poste to optimize user experience.

Moving to Slide 6, 24SI implementation is fully on track with the whole company committed to deliver successful results. On this page, we focus on initiative underway and business trend updates. Let me go segment-by-segment starting with mail, parcel and distribution. The new labor agreement, as I mentioned, signed back in July at Group level is in line with the plan. Thanks to our constructive relationship with the unions, we now have increased visibility on HR cost over the course of the plan.

As a strategic pillar for Italy, we are also proud to contribute to the EU Recovery Plan which covers the implementation of key national projects aimed at supporting local communities and enhancing social cohesion. They are probably divided into two workstream. The first one aims at creating in 7,000 postal offices a smaller municipality, a public administration hub that provides citizen with easy access to government services.

The second line of action in villages, a network of around 250 co-working locations, community and training spaces at affordable rates with a widespread presence from north to south and in the large and small cities. Both project streams will contribute to support the growth and of our group green transition focus with efficiency, solutions, and expanded changing station network and photovoltaic energy production. Besides, in June, we inaugurated Italy largest e-commerce logistic hub with daily capacity of up to 300,000 items. This hub will contribute to reducing parcel cost per unit, optimizing variable costs.

In terms of the business update, we are registering a normalization of parcel volumes which are gradually becoming more comparable to stronger quarters in 2020 in terms of growth and the margin recovery of mail, especially on the register side, which as you know embeds a higher tariff and margin. Both trends are in line with ours expectations.

Moving to financial services, in line with 24SI, we are successfully focusing on wealth management to offset NII decline. In the current interest rate environment, after securing the contribution from active portfolio management for 2021, we have also already locked more than 50% capital gains plan for next year. Our new activity to buy tax credit has been going extremely well with about EUR2.2 billion nominal value acquired to-date end of July.

Furthermore, we are now able to use a portion of our deposit to buy additional tax credit, enhancing the yield of our investment portfolio and providing further flexibility in our active portfolio management. On loan and mortgages, the joint venture with BNP Paribas on salary-backed loans is now fully up and running, adding to our portfolio another key product factory, able to structure a comprehensive product offering.

In insurance services, the multi-class product now represent over 60% of gross written premium, in line with our 2024 target. We have also recently signed an agreement with Intesa Sanpaolo for a joint venture in real-asset investment. This partnership will enhance our expertise in alternative investments, enabling us to further diversify our investment portfolio, in line with 24SI plan. In terms of the business trend, let me highlight that the investment margin for the first half of the year has been strong. Leveraging on market condition, we were able to anticipate part of the full-year target in half one.

Looking at payments and mobile, our payment transaction continue to increase, both on our physical and digital channels. Let me also highlight that this business segment has been able to build and manage a diverse equity portfolio in high growth international company, which is being continually monitored and optimized. For example, our stake in SIA Nexive [ph] is not being considered as a strategic investment, embedding a significant capital gain today. Similarly with Visa acquiring Tink recently, we will realize a capital gain 3.5 times our initial investment at the beginning of last year.

Moving to the energy business, we are progressing with the setup targeting early 2022 to launch our new offer. Finally, in our telco business, the ongoing migration to the Vodafone network is already reducing variable cost from half two.

Moving to Slide 7, when numbers I believe speak for themselves. Revenues are well above the pre-pandemic levels with all business segments back to the growing trajectory set with 24SI. Insurance services, parcel and payments businesses show a very healthy double-digit increase in line with the growth focused strategy envisaged in 24SI. Also financial Services improved with a 2% top line growth compared to Q2 2020. Overall, we have witnessed an underlying change in the revenue mix as the investment portfolio yield declined, it has been more than offset by the revenue increase coming from investment product distribution, in particular from life insurance.

And now, let me hand over to our CFO, who will take you through a more detailed business review. Over to you. Camillo.

## Camillo Greco {BIO 21978163 <GO>}

Thank you, Matteo, and good afternoon, everyone. Let's look in more detail at each segment starting with mail, parcel and distribution on Slide 9. As Matteo previously mentioned, both in the second quarter in the first half of 2021, all business line revenues have been growing, leading to a strong improvement of the underlying EBIT. Following record high Q1 '21, up 19% year-on-year, Q2 posted the best yearly revenue progression, up 30%. This is still true even if we exclude the contribution from Nexive consolidation, thanks to the recovery of volumes, especially in the registered mail items.

Parcel revenues increased 28% in Q2 '21, which compare to a very strong Q2 '20 when many items could only be purchased online due to the national lockdown. Finally, other revenues are also up as here we booked, amongst other items, the expense recoveries related to the rollout of the vaccination plan.

Distribution revenue growth accelerated at 7.5%, consistent with easing lockdown measures and the general recovery of commercial activities. EBIT stood to minus EUR159 million in the second quarter. This is flat year-on-year on a reported basis, but the underlying dynamics point to a rather strong improvement when we can see the one-off pandemic savings EUR170 million that we benefited from in Q2 '20. We will focus on the savings when we look at the cost group cost evolution later on in the presentation. To conclude, in the first half of 2021, we recorded the EBIT loss of EUR102 million, improving by EUR92 million since last year.

On slide 10, we look at mail and parcel volume and pricing trends. Parcel volumes increased by 19% in the second quarter and 41% in the first half with the highest growth still coming from B2C, supported by key customers and China. In Q2, parcel volumes trended towards a new normal in line with expectations. If we compare Q2 '21 to Q2 '20 when online shopping was the only way to do shopping, it's natural to observe that the growth trajectory started to flatten.

Moving to B2B, the comparison is polluted by many corporates who were shipping to retail customers at the peak of the sanitary emergency in 2020. Also for C2X, the comparison in 2020 is partially misleading as during lockdown we were the only postal operator open for business. Hence, we temporarily enjoyed a disproportionate market share. In this product line, we continue to innovate. New omnichannel delivery solutions have been rolled out with C2X online orders now more than doubling versus 2019. In terms of pricing, the average B2C parcel tariff was up 2 percentage points in the quarter, mainly improving, thanks to a favorable mix and higher tariffs from top merchants.

Moving to mail, on the right side of the slide, volumes grew 23% in the second quarter and 14% in the first half. As already mentioned, the growth is supported by both Nexive consolidation and the recovery from lockdown with registered mail items growing 56% in Q2. The average mail tariff also improved with the mix effect, supported by higher margin products and was up 3 percentage points.

Moving to financial services on Slide 11, the financial services segment has witnessed positive revenue growth, driven by wealth management activities. Gross revenues grew by 6% in the quarter and 2% in the first half. Let's review the items one by one. Net interest income was down 8% in the quarter affected by low interest rates, but this was fully offset by a focus on the distribution of investment products. In particular, inter-segment contributions from insurance, which BancoPosta as coordinator of the group wealth management strategy, represented the largest proportion of the revenue increase in Q2.

Postal saving fees were down 5% when compared to a strong Q2 2020 while in H1 we were on track to meet 2021 target. Loan and mortgage distribution fees are recovering, supported by increasing volumes and growing market shares. The salary-backed loans JV with BNP is now fully operational, further contributing to this revenue line going forward.

Transactional banking fees are also recovering from last year's loss, when they were heavily impacted by the lockdown. However, let me remind you that within transaction banking fees, there are traditional payment leaps, which are expected to gradually decline over the plan origin.

In Q2, we did not book any material contribution from active portfolio management, but leveraging on a low interest rate environment, we have already secured our 2021 target, which would be booked in the second half of the year. As Matteo already mentioned, we have also locked in more than 50% of capital gains planned for 2022. Operating profitability was in line with 24SI with EBIT down 11% in the quarter as the year-on-year comparison is affected by EUR15 million reserve release in 2020, mainly related to the conclusion of the procedure to refund customers bearing loss from real estate funds dating back to early 2000s.

Moving to Slide 12, TFAs reached EUR576 billion, up by EUR28 billion year-on-year and up by EUR7 billion when compared to December 2020. This figure is already in line with the full year 2021 target.

Net inflows amounted to EUR5.8 billion, thanks to deposits and multi-class life insurance products. All components of TFA were up over the first half. Postal service increased by EUR300 million with accrued interest more than compensating outflows, which were also mitigated by the investment of expiring bonds. Net technical reserves were up by EUR2.7 billion with multi-class products net inflows more than offsetting the negative market effect. Deposits increased by a strong EUR3.5 billion, supported by continued customer preference for liquidity products.

Moving to Slide 13, insurance services posted a robust performance. Operating profit grew steadily in line with the plan, supported by increasing volumes and by higher margins from our multi-class products. In Q2, life revenues were up 49%, supported by both increasing volumes and higher profitability. Multi-class products now represent 64% of new production out of EUR4.4 billion gross written premiums. The life revenue line also benefited from a higher investment margin, taking advantage of favorable market conditions and contributing in advance to the full-year target.

The non-life business is producing healthy volumes in terms of new production, although revenues were impacted by cost related to COVID-19 employees policies and one-off provisions on expired policies. The non-motor P&C offer rollout is well on track with higher than expected average tickets. Our focus on this area is also contributing to reducing the historical level of under insurance in Italy. The roll lout in motor insurance offer is progressing well and is also -- and it is now available in almost 4,000 post offices. At EBIT level, the product progression continues to be a strong 49% in Q2, notwithstanding increasing inter-segment costs for distribution due to higher inflows.

Let's move to Slide 14. Poste Vita Group Solvency II ratio stood at a robust 288%, above our 200% managerial ambition through the cycle. The Solvency II ratio decreased in the quarter with higher spreads more than offsetting the benefit from higher risk free rates. Additionally, from the end of July, the solvency ratio is 7 percentage points higher, strengthened by EUR300 million intercompany restricted tier 1 which is funded by EUR800 million corporate hybrid bond issued in June by Poste Italiane. As a reminder, some EUR350 million have already been allocated from the parent Poste Italiane to the ring-fenced portfolio of BancoPosta to strengthen the Basel leverage ratio. Transitional measures provide additional 28 percentage points to the Solvency II ratio to address potential market volatility.

Moving to Slide 15, payments and mobile revenues continued to increase, up by a strong 20% in Q2, confirming the steady progression of this business over time. Card payment revenues were up by a material 25% in Q2. Supported by an increasing number of Postepay evolution cards as well as the increase of transactions value year-on-year. Other payments increased 42% in the quarter, mainly supported by the recovery of tax-related payments.

Telco revenues grew 9% in the quarter, benefiting from a lower churn rate on mobile and strong increase in fixed lines. EBIT was up 5% in Q2, impacted by higher telco cost related to increased data usage. As Matteo already said, EBIT will improve as we are already reaping efficiencies from the ongoing migration to Vodafone network to be completed by year-end.

On Slide 16, here you can see how Poste Italiane's workforce evolution is progressing. Over the course of last semester, our average headcount was down 2,400 FTEs from almost 125,000 to around 122,000 FTEs, thanks to continued turnover and subsidized exit more than offsetting new hires. While hirings are expected to accelerate in the second part of the year, we confirm our flexibility in effectively managing our workforce. The cost per FTE is slightly down year-on-year if we exclude one off savings booked in 2020, but more importantly, the value-added per FTE continues to grow year-on-year, now reaching EUR70,000 per FTE.

Moving to Group HR cost on Slide 17, the most significant KPI here is the ordinary HR cost on revenues. For the first time below 50%, now reaching 48%. The HR cost increase was mainly related to the one-off savings booked and disclosed in Q2 2020 related to non -- to contingent management actions to react to revenue headwinds last year. In particular, EUR55 million savings were achieved during the commercial incentives, in relation to subdued business activities while additional EUR75 million were saved as we deployed our own emergency funds to support employees at the peak of the pandemic.

A lower FTE base continues to positively contribute to the decrease of HR cost by EUR34 million year-on-year, while savings on salary and benefits components fully offset the effect of Nexive consolidation for EUR10 million. Overall, the ordinary HR cost base is fully in line with 2021 projections embedded in 24SI.

On Page 18, let's review non-HR costs. The increase of non-HR cost is due to: first, the variable components of COGS to support growth in parcel, payments and telco businesses; second, D&A, which were both -- which were up both due to EUR18 million higher CapEx year-on-year and to a positive one-off booked in Q2 2020. Let me remind you that last year in June, we completed the reassessment of the residual life and value of certain real assets. The effect of this review started in January, but the benefit related to H1 was entirely booked in Q2. Third, the consolidation of Nexive, mostly related to COGS.

As a reminder, Q2 costs include EUR25 million of emergency related one-off costs since we continue to provide all the necessary protective equipment and sanitization to ensure highest health and safety standards for workplaces, employees, and customers. As a tangible sign of efficiency gains, the ratio between variable cost and variable revenues stood at 72% in line with 2021 full-year target while total fixed costs and revenues are down to 59%.

On Slide 19, we can see the detailed EBIT progressions at segment level. As you have seen on the previous slides, the underlying operating profitability was strong across all divisions. In mail, parcel and distribution, we see a significant improvement once the one-off cost savings realized in the second quarter of 2020 are excluded. The segment EBIT for the first half of 2021 is well within our full year target. Financial services profitability has been stable in the quarter, also considering the above mentioned reserve release accounted last year and despite low interest rates. Insurance services show a solid growth, increasing 49% year-on-year, supported by strong business dynamic in line with our plan. Payments and mobile is also improving and we further benefit from lower telco costs.

Let me now hand back to Matteo for some closing remarks. Thank you.

## Matteo Del Fante {BIO 6237992 <GO>}

Thank you, Camillo. Before taking your questions, let me reiterate some key messages on Slide 20. Our focus on generating revenues prove to be the right strategy and in Q2 2021, the revenue exceeded pre-pandemic levels across all business segments. Cost will continue to support revenue growth while we will retain additional flexibility as we have demonstrated effectively managing our FTEs. The key initiatives underline the successful execution of 24SI already in place, which give us higher visibility on our ability to achieve targets, significantly reducing the execution risk attached to our plan. The company as a whole is fully committed to succeed. Stay tuned.

And let's now move to the Q&A session. Over to you, Massi.

# Questions And Answers

## A - Massimiliano Riggi {BIO 20490987 <GO>}

Thank you. We will now begin the Q&A session. (Operator Instructions) The first question is from Gian Luca Ferrari, Mediobanca. (Foreign Language)

## Q - Gian Luca Ferrari

Yes. Hi, good afternoon. (Foreign Language) Three questions, if I may. The first one is related to the increase in the SCR. I was wondering if it is linked to an additional market risk and linked to the fact that you are having much more exposure now -- much more -- bit more exposure to illiquid equities high yield? Is it fair to say that this is the way to read this increase in SCR? And is this going to last in the next quarters, i.e., you will use part of the robust solvency you have to sustain more the financial income of the life insurance segment going forward? Point number two is, if you have any update for us on the agreement with CDP? Third and final question is, if it is fair to assume the revaluation of SIA now could be a bit closer to EUR350 million than the previous comment I think you made of evaluation in the region of EUR300 million? So can we plug in our model something more than EUR300 million. Thank you.

## A - Matteo Del Fante {BIO 6237992 <GO>}

Thank you, Gian Luca. Starting with the agreement with CDP, as is known, there is a new CEO that has taken the full responsibility in May and since then, we have made significant progress. So we are even more comfortable than before to reach an agreement just after the summer break.

In terms of the SIA capital gain, the answer is simple, it's yes.

And in terms of the reason for the SCR increase, I will let Camillo take this specific question.

## A - Camillo Greco {BIO 21978163 <GO>}

Thank you, Matteo. Yes, it's fair that the SCR went up by circa EUR200 million from around 3.9 to 4.2. That is mainly driven by market risk due to higher spreads and underwriting risk also going up.

## Q - Gian Luca Ferrari

Thank you very much.

## Operator

Thank you. And the next question is from Manuela Meroni from Banca IMI.

## Q - Manuela Meroni {BIO 1782610 <GO>}

Yes, good afternoon. Four questions. The first one is on the parcel business. Revenues in parcel business grew by 28% year-on-year in this quarter. Can we take this 28% as new normal for the parcel business going forward? The second question is on cost. In the closing remarks, you mentioned to have some levers available for the cost reduction. You mentioned something in the telco business. Can you please elaborate little bit more on that? The third question is on NII. Can we expect a reduction in the pace of decline in NII considering your activity in -- with the tax credit. So any comment on that would be useful. And last question is on your business plan and the guidance for 2021. We are clearly ahead of plan in parcel business and life business. So I'm wondering if we can expect some upward revision of your guidance for the full year 2021?

## A - Matteo Del Fante {BIO 6237992 <GO>}

Okay, thank you, Manuela. I'll take the last two and leave to Camillo the first two questions. And I would do it in reverse order. Yes, we are ahead of the plan in at least two segments and we will take a few more weeks to monitor the evolvement of our business, but for the quarterly result of November, we will certainly have an answer to your question, a more clear answer, probably in the direction that you're suggesting.

In terms of the third question, the NII decline to be counterbalanced by the tax credit, absolutely, yes. As I mentioned, we have now EUR2.2 billion that we bought at the end of July. These are generating over the course of the plan EUR250 million of NII. And by the way, it goes all the way down to profit. So it's extremely accreting as a business. So certainly, we've seen significant demand for the product and it's good both in terms of obviously economics and I think it's also very important for us in terms of building and reinforcing our franchise, both at the individual and at the business level, because all new -- all clients that want to sell tax credit to Poste had to open an account and today around 80% of the sellers are new client to Poste. So answer, yes. And I think this is probably one of the most positive news that we will discuss over the course of the next few weeks.

In terms of revenue on parcel and cost flexibility, please, Camillo?

## A - Camillo Greco {BIO 21978163 <GO>}

Thank you, Matteo. So starting with parcel evolution, we had in the plan which we shared with you back in March, expected growth in B2C of around 20%. You guys have seen that in the second quarter we reached a growth of 28%. We think that on a normalized basis for 2021 a number closer to 28% is more appropriate.

With respect to our ability to cut down costs or rather manage costs, as I think we said in the presentation, there are three business lines that are running at variable costs, which are namely parcels, payments, and telco. So to the extent that those business don't grow, the cost associated to those business will not materialize in the P&L and in the appendix of the book, you have an example of that as we show that in the first half rather than the second quarter. In that first half we had EUR208 million of additional cost related to businesses that are running at a variable cost.

Let me also remind you that this level of variable cost on variable revenue ratio, which we are in the same page is consistent with the level that we showed in the plan of 72%. Additional, we will conclude with this. You can also see that the overall total fixed cost base is going down as a percentage of revenues and you have also a testament of that in the evolution of HR FTEs that you guys have seen are below what we had in mind few months ago. Thank you.

## A - Massimiliano Riggi {BIO 20490987 <GO>}

We have one question from our webcast from Alberto Cordara. So you mentioned a EUR0.2 billion restructuring charges to be taken in Q4. Can you also let us know how much more capital gains are you expecting for the year after the EUR200 million booked in Q1?

## A - Matteo Del Fante {BIO 6237992 <GO>}

Yes, please, Camillo.

## A - Camillo Greco {BIO 21978163 <GO>}

So we had a target for the year of active portfolio management of around EUR400 million and that's the target we confirm for the year. And I think that there is

A delta missing over on EUR180 million compared to what we booked in Q1 which was EUR220 million.

With respect to the second question, yes, we confirm provisions for every retirements of EUR0.2 billion as per the plan.

## A - Massimiliano Riggi {BIO 20490987 <GO>}

The next question is from Gianmarco Bonacinam Equita. Please, Gianmarco.

## Q - Gianmarco Bonacinam

Yes, good afternoon. A question on the performance of the insurance services division, which was extremely stronger in particular on the progression of the percentage of the multi-class, which is progressing very rapidly. Do you feel now we may see a pause in the percentage of multi-class in the coming quarters or you expect these, let's say, percentage to keep growing at similar pace we saw in the last two quarters? And also if you can remind us what is the profitability you get with the rest of the portfolio and if the increase in margin -- in EBIT we saw in the quarter is mainly due just to the mix effect or also you benefited from other factors? Thank you.



## A - Matteo Del Fante {BIO 6237992 <GO>}

Okay, I'll take the first question and I'll start the second. And then if, Camillo, you want to jump in on the second as well. No, I think the pace of the multi-class is there to stay. I take the opportunity to remind you that we sell a very light non-capital protected multi-class, in the sense that the target asset allocation that you assume for a client could be 35 equity and 65 Class 1 capital protected is achieved over 18 months. So the 35 non-capital protected, which is actually not even equity is balance fund. It is not invested on day one but is invested linearly over 18 months, so it's basically a 2% exposure to the market over one year and a half. So the product is as close as we can be to a Class 1 and that's why our network and our sales team has found it extremely safe and interesting and they sell it extremely well and comfortably.

In terms of the margin, please, Camillo?

## A - Camillo Greco {BIO 21978163 <GO>}

Thank you, Matteo. So, yes, we confirm that the investment margin in the first half benefited from market opportunities related to some of our investment in the portfolio that weighted for around EUR150 million on the margin and that explains part of the increase. In any event, part of this anticipated margin will be recognized to policyholders in H2 2021. And in any event, it was accretive to our target for 2021 for Poste Vita and there might be also some potential upside to that depending on how market moves between now and the end of the year.

## Operator

Thank you. The next question is from Elena Perini, Banca IMI. Please, Elena.

## Q - Elena Perini {BIO 4202240 <GO>}

Yes, good afternoon. I've got some questions on the insurance business too. Well, you were talking about the investment margin. I was wondering if you have an outlook or some expectations on the second half. I know that it is not easy because it is market related. But if you can share with us some thoughts. And then I would like to ask about the non-life business and, in particular, I am referring to the fact that it seems that the new business in non-life is going up, is in Slide 25 in the appendix. So I was wondering if this trend marked in the second quarter is going on. And so if we can expect some recovery in premiums and in business trends for the second half. Then I saw an increase in the combined ratio first half 2021 compared to first half 2020 approximately 11 percentage points. So I was wondering if this is related -- mainly related to COVID-19 protections as you were mentioning in Slide 13 or if there are any other elements and if this increase was mainly concentrated in the second quarter. Thank you.

## A - Matteo Del Fante {BIO 6237992 <GO>}

Okay, I'll take the beginning, the second and the third, then leave the first one as a follow-up to Camillo. Starting with the last one -- Elena, thank you first of all for your questions. The increase is technical. So the 75 that becomes 86 would have been 77, so an increase of 2 only. If one would delete the increase explained by, one, the employees COVID protection that we gave for free to our employees. And two, the rule and the enforcement that the regulator made on dormant -- on sleeping contract and the sum of the two element was in the second quarter EUR13.6 million of provisions that translate into basically 9 points of combined ratio.

Second question, non-life gross written premium, you see it -- the effect on the -- again on Page 13, the effect of the COVID-related and the dormant life contract, you see it also on the left hand side of the chart in the segment revenues. So we are more or less in line with our plan on non-life. We have a production that is growing month by month. I think we can do more, but the machine contrary to what we have seen in the last few quarters is now working and is now basically endorse the product. So now it's just a matter of getting all our salespeople on the case, but we are running at almost 1,500 contracts per day, which is the target we have.

The first question on the investment margin and the second half...

## A - Camillo Greco {BIO 21978163 <GO>}

So we had put out back in March an EBIT for Poste Vita of EUR1.2 billion, rounded up EUR1.2 billion. I think that what we said earlier was that we felt that the evolution of the margin, the investment margin, which, as I said, part of it will be recognized by our policyholders will contribute towards the target. There might be some marginal upside based on market conditions, but it's too early to say. We certainly confirm forcefully at least that target.



## A - Massimiliano Riggi {BIO 20490987 <GO>}

Thank you. Next question is from Ashik Musaddi from JPMorgan.

## Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Thank you, Massi, and good afternoon, Matteo, good afternoon Camillo. I just have a couple of questions, if I may. I mean, first of all, if I think about it, what you are saying today is NII is better because of tax credit compared to your plan. Parcels is doing much better compared to your plan. Mail is doing better than your plan, because you are including Nexive other segment rather than in mail. We have higher gains, camp gains from SIA. Insurance is growing faster than the plan that you have given. So, clearly, I mean, majority of your business lines are doing much better compared to what you have shared as your 2024 plan. And I agree it's very early to think about that plan again, but do you expect to get -- when do we expect to get some color on what your 2021 earnings could actually look like given that majority of the divisions are doing far better compared to what you guided in March? So that's the one -- first question.

Second thing is, congratulations on your Amazon partnership, but would be great to get some color about how this -- what is this -- what is the partnership at this time? What is the update on that? I mean, are you comfortable with your parcels plan or are there any hiccups in terms of pricing, volume? Are they keeping more, are they giving you more? Any thoughts on that would be very helpful. And just last question I would say is, when you get your SIA money basically, I mean, what is your plan for your stake in Nexive once the SIA (inaudible) merger is complete? Are you going to keep it, give it back to investors, any thoughts on that? I agree it may be a bit early, but I will give it a shot. Thank you.



## A - Matteo Del Fante {BIO 6237992 <GO>}

I don't know why that I keep starting from the last question. The plan for the SIA money is a bit early, but I believe that maybe some opportunities we keep looking at the logistic space, we keep looking at potentially new activities that can accelerate our plan as we have done with some marginal investments. So I think part of the money will be reinvested.

In terms of the Amazon contract, we are -- now it's -- the first contract we signed back in '17, '18, so the partnership is up and running. We re-modulated the agreement in order to get more value on the urban areas which is clearly where Amazon tends to do the job their self. And so we have now different agreement for those areas. The profitability of the contract is very solid and it's a fair relationship we have with them. And the good news about this activity I think is in two lines.

The first one is that is an important contract, but every day is less important than the day before, because the volumes in the business from China, from all the other clients and platform we are serving are growing much faster than Amazon. So our original plan actually to use Amazon as a sort of springboard to build the confidence in the space and then slowly do less with them because naturally they are building, as they are doing all over the world, their own network is actually proving the correct strategy.

The second good element which is linked to the first one is the fact that they help us in a way entering the quality of this business, because as everybody knows, Amazon has very high quality standards and as a deliver company of Amazon if you don't give the quality, this week, next week you don't get the parcels. So our people now use to deliver good services, I don't want to say it, but very, very much in line with the best practices now. And that I think it has changed also the culture on our delivery space. And I think this is extremely important.

As far as the first question, I think you're right. And I think it was mentioned before by Manuela, yes, I mean, all elements are pointing into positive direction. We only feel that having announced plan only 12 months ago is probably a bit premature to revisit those assumptions, but all the optimism that the numbers are giving us is well grounded as far as we can see today.

## Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay, that's very clear. Just if I may just one follow-up, I mean, yeah and maybe we will take it later. Thank you.

## A - Massimiliano Riggi {BIO 20490987 <GO>}

Please, Ashik. No, sorry, we lost you, Ashik.

## Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. I know, I mean, it was just related to that. I mean, your guidance for this year EBIT is EUR1.7 billion, you have already hit EUR1,050 million, so that means, you need to do EUR650 million for second half. I mean, yes, you have one negative of early retirement scheme, but then that's offset by capital gains. So I just don't see how do I get to EUR650 million, just looks very low. So but I guess it is to the same point that numbers are pointing in the right direction, it's just that you -- it's a bit early to change the assumptions. Yeah. Probably that is the thing, yeah.

## A - Matteo Del Fante {BIO 6237992 <GO>}

Yeah, I think you're right, there is no much more than I can add.

## Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Okay, thank you.

## Operator

Thank you. And the next question is from Giovanni Razzoli, Deutsche Bank. (Foreign Language)

## Q - Giovanni Razzoli {BIO 22114144 <GO>}

Good afternoon to everybody. One question, because if I look at the trends on the others current accounts in this first half, in the Q1 and in the Q2, this is one you might view one of the most positive element of your trends in the first half 2021. There has been an acceleration, both on the corporate and retail trends since the beginning of the year. I was wondering whether especially on the corporate side, you can give us some more color about these trends. And I guess this also supports your -- is going to support your NII by additional incremental acquisition of or physical credits or BTPs, right? So there is also volume effect behind this. Thank you.

## A - Matteo Del Fante {BIO 6237992 <GO>}

Yeah. I mean, I think we can be more specific in terms of what we have seen in 2021 in terms of new clients. We're above 30,000 on the individual side and we are sort of 10,000 in the corporate side. And the current account, which is open in order to benefit from the tax credit transaction is free. So you don't make extra money on the current account, but clearly it is a client that then can benefit from our, for example, acquiring products if you talk in the corporate side, or if you're talk in the individual, it is much more we can do in terms of insurance or PLC products that we can sell. So I think the cross selling that will come to this client. And then Giovanni, thank you for the question. The positive vibes that new clients bring to the network I think is very important for us because these are clients that are coming to us not by advertisement, not because we make special agreements, but because we have good products, both in terms of process and pricing. And this is really word of mouth that is creating this momentum for us.

## Q - Giovanni Razzoli {BIO 22114144 <GO>}

Thank you.

## A - Massimiliano Riggi {BIO 20490987 <GO>}

And if there are no additional question, I just would like to specify that for the rest of this week, ourselves we are here. IR specifically is available for any additional question. And thank you again for participating in this call and allocating time to Poste Italiane. And good holidays for those of you that have not already gone. Thank you.

## Operator

Ladies and gentlemen, thank you for joining. The conference is now over. You may disconnect your telephone. Thank you.