# S1 2020 Earnings Call

## Company Participants

- Guido Maria Nola, Chief Financial Officer
- Massimiliano R. Riggi, Head of Investor Relations
- Matteo Del Fante, Chief Executive Officer

## Other Participants

- Alberto Cordara, Analyst
- Ashik Musaddi, Analyst
- Federico Braga, Analyst
- Gian Luca Ferrari, Analyst
- Giovanni Razzoli, Analyst
- Manuela Meroni, Analyst

## Presentation

### Operator

Good afternoon. Welcome and thank you for joining Poste Italiane's Second Quarter and First Half 2020 Financial Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions.

(Operator Instructions) At this time, I would like to turn the conference over to Mr. Massimiliano Riggi, Poste Italiane, Head of Investor Relations. Please go ahead, sir.

### Massimiliano R. Riggi {BIO 20490987 <GO>}

Good afternoon, ladies and gentlemen, welcome to Poste Italiane second quarter 2020 results presented by our CEO, Matteo Del Fante; and our Group CFO Guido Nola. 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. I will take you through the highlights of the quarter before handing over to our CFO, Guido Nola, for a more detailed business review. I also had the pleasure to introduce you today, the newly appointed deputy CFO (inaudible). Happy to have you on Board (inaudible). I will then provide some closing remarks before we open the call for questions.

Let's start with a quick overview on slide three, please. Lockdown has materially impacted the first-half results. However, we can now proudly say that we successfully manage the emergency impacted the resilience of our business, reconfirming our reputation and role as a systemic player of the country.

Lockdown accelerated the trends already embedded in our long-term strategy across all segments and thanks to our ongoing transformation plan, we're now able to fully exploit market opportunities. In summary, the trend accelerated by the emergency where e-commerce and digital usage on the positive side and may have decline on the negative. In-line we deliver 2022 in the last few years, we invested significantly in logistics sorting [ph]] capabilities, we fully implemented our Joint Delivery Model and strengthen our client digital penetration to counterbalance mail decline.

Our strategy was appropriate then and still stand going forward. Mail revenues were significantly impacted by a mix of temporary and permanent effects. On one end, the acceleration of e-substitution persist, on the other hand that the sharp decline of some higher margin products, strictly related to lock-down, these expected to slowly reversed in the next six to 12 months has registered mail, backlogs reduces.

Parcel revenues grew, as e-commerce push B2C volumes further. After having reached historical peaks, B2C flows are old enough, well above the pre-Covid levels and expected to take these new base for additional growth going forward. As Italy remains well below European average in terms of number of parcel per year -- per head.

However, the diverging trends in mail and parcel are at present negatively impacting our P&L as parcel revenues are growing from a lower base and with lower margins compared to mail. Financial and insurance services, as well as payments and mobile, has gained momentum since June. More specifically in financial and insurance services, product sales are steadily recovering, supported by renewed commercial focus. The gradual upturn in a digital and positively contributed to an encouraging second half of the year.

In payment and mobile, we are experiencing increasing traffic in volume, both Telco and Digital channels. Finally, we are proactively, addressing lower revenues, the structural cost reduction already visible in the quarter. Moving to Group financial results on slide four. The financial performance was impacted by the emergency both in the quarter and in the first half across all segments. Group revenues amounted to 2.3 billion in the quarter, down 13% year-on-year and EUR5.1 billion in the first half, down 8% year-on-year.

Total costs came down in Q2 by almost 10%, as you will see later, over 40% of the cost base reduction, achieved in Q2 is recurring. EBIT for the quarter is equal to EUR325 million, down 30% and EUR706 million in the first half, down 29% year-on-year. Thanks to significant cost efficiencies achieved we have been able to absorb approximately 60% of lower revenues impacted on EBIT.

Net profit trends up to EUR239 million in the second quarter, down 26% and EUR546 million in the first half, down 28%, considering three months of full lock down in the first half of the year, these results clearly demonstrate our resilience. Moving to Slide five. We want to remind how we weathered the crisis leading up to our role of social and economic weaken of the country.

We faced the crisis with a strong balance sheet, a profitable and diversified business model and steady operations. Our performance heavily suffered from lock-down but thanks to the reach of our unique client base, we consolidated our role as a distribution platform of choice. During the emergency, uninterrupted services were guaranteed across the country, while ensuring the safety of our employees and customers. We supported local and financial institution in implementation of social and economic initiatives, a clear example, is how we partner with Italian institution managing the logistic of the COVID related PPE materials in 90,000 square meters, warehouses, distributed in 12 locations across the country.

We are home delivery 3 million premium mask to Italian households and cash pension to elderly client in partnership with Alessandro Del Gobbo. Thanks to our uninterrupted services, and clients focused our brand and client trust further improve. In this context, as we anticipated in our Analyst call in May, the emergency is being the opportunity for a comprehensive strategic review of our market opportunities, commercial approach, cost base and processes. We will continue to leverage on our multi-channel network to deliver a wide-range of products, developing synergies between physical, digital and third-party networks.

Complementing in-person interaction with the remote advisory model, we intend to maximize our commercial network productivity offering both financial and non-financial products, engage efficiencies at the same time. On non-HR expenses, we have put in place tactical short-term initiative, as well as long-term actions, such as the strategic review of our real asset portfolio.

We have completely restructured our commercial organization in July, with the aim of targeting SMEs with our wide product offering and introduce a stronger industry specific focus to better on the trend and better serve our clients. In summary, we're pushing our our B2B and our B2B B2C agendas with strong efforts and commitments. Finally, time was appropriate to reassess the way we run our activities accelerate on smart-working and insourcing.

These are just some of the elements that we contribute to the upcoming strategic plan. In the next two slides, you will see certain business trend we have experience before, during and post lock-down across all segments. As you can see on slide six, in June commercial activities revamp, with a steady increase in digital and third-party network transaction, partially compensating a reduction in operation, across our physical network.

As we mentioned, Mail and Parcel, show diverging trends with mail declining persisting and B2C parcel volume steady [ph] increase in since lock-down and year-on-year. Moving to slide seven, you can see the financial and insurance services, as well as payment and mobile are now back to business, with commercial activities picking up year-on-year. Daily gross inflows in June, recorded a higher paced compared to both beginning of the year and 2019. This is partially related to a backlog effect since lock-down was lifted, a positive trend is also confirm in July, in terms of distributional postal savings, multi-class and modular P&C products. Looking at payments Poste, e-commerce on traction grew steadily with customers, widening the scope of their spending. Telco continues to progress in a competitive environment and the relevant market share increased by 1 percentage point in March. Thanks to a very loyal client base.

Let me now hand over to Guido, who will take you to a more detail business review, I will then provide some final comments, before we answer your questions. Over to you, Guido.

## Guido Maria Nola {BIO 20719012 <GO>}

Thank you Matteo. Good afternoon, everyone. We are glad to talk to you today in a much better environment than last time. Let's start with a quick overview of segment revenues on slide nine.

In line with last quarter, we present April and May on one side, as they are the most impacted by lock-down and June on the other side, which shows initial signs of recovery, across most segments. At group level, we reached EUR2.3 billion in revenues, mail, parcel and distribution, was [ph] been most impacted by lockdown. e-substitution and product mix, continue to visibly impact mail revenues with only marginal recovery in June.

On the other hand, B2C volume growth confirms the validity of our strategy, supporting a strong increase in Parcel revenues, as shown in a couple of slides. Since June, the other segments have showed significant signs of recovery of the underlying operating trends. Financial services is back on track, mainly thanks to the strong momentum of Postal Savings Bonds distribution. In insurance, while the top-line in June is (inaudible) by a positive valuation effect related to 2019. The commercial activity has registered higher gross inflows in June year-on-year.

Thanks to multi-class products and P&C modular offer. Payment and mobile revenues in June were impacted by a mix effect of lower margin transactions and the suspension of tax payments. However, we continue to see progression in digital platforms usage, with over 40% increase year-on-year of daily online users. The Telco business continues to perform well and gain further market share, leveraging on a loyal customer base.

Let me now take you through each segment, starting Mail, Parcel & Distribution on slide 10. Overall segment revenues were down 20% in the quarter due to a general slowdown of the relevant activities. There are several reasons for this slowdown. All of them, driven by external factors; such as E-substitution for unrecorded mail and a stop of commercial activities for direct marketing mails. In addition to these items, the suspension of recorded mail delivery due to the closure of Courts of Justice, during lockdown and very few road traffic fine certification accounted for over 50% of the overall decline. On the parcel side, revenues increased by 33%, thanks to higher volumes across all product lines and boosted by B2C.

Distribution revenues increased by 11% impacted by lower fees paid to the network. On Slide 11, if you look at the core volume and pricing trends for mail. Overall mail volumes fell 24% in the second quarter. Higher margin recorded mail experienced a shortfall of 48% in Q2, with certain volumes and revenues expected to recover in the second half of the year.

The strength is in-line with all our European peers which in certain cases are showing, uneven steeper decline. In June, the negative trends slow-down to 14% year-on-year, compared to a minus 28% in April and May. Mail average price was down 11% in the quarter, due to a product mix effect.

On slide 12, we are providing you with monthly data on volumes, including July. To give you further granularity on trends. Mail volumes starting to recovered from April, mainly due to lower margin products, such as direct marketing and our recorded mail. Monthly volume decreased on average by 20% year-to-date, a trend redeem to be reasonable, also for the rest of the year.

Looking forward to the plan, we're already working on a proactive efficiency measures to address the acceleration of e-substitution. On slide 13, we show parcel volumes in the quarter, with a strong increase of 54% year-on-year. B2C volumes surged 80%, also leveraging on the ongoing diversification of the customer base. B2B volumes also increased, with corporates diversifying their shipments also to retail customers. The successful industrial transformation fueled by ongoing investments, strengthen our logistic value chain. Our automated sorting center in Bologna managed for a long peak period and our Joint Delivery Model gave us more flexibility as our Postini started to deliver more Parcels, counterbalancing lower mail volume.

The partnerships with (inaudible) continue to improve our long-haul transportation and last mile delivery options, months-after-month. The average price index for parcel was down 21% in year, reflecting a change in volume mix. B2C prices were stable on average with higher tariffs from key customers. Slide 14, shows the monthly evolution of parcel volumes until July. As we have already seen, volumes significantly increase from April, repeatedly reaching record high daily peaks, comparable to those normally registered during Black Friday or Christmas.

In the second quarter, inbound parcel volumes and revenues from China was six times higher than last year. To give you an idea for several days during the quarter. China as a whole, represented the first client of Poste. We intend to strengthen even further, the cooperation with our Chinese partners to boost volumes, offering additional services, such as end-to-end trucking and faster delivery.

Moving to payment and mobile on slide 15. Revenues continue to increase up 3.5% despite the current challenging environment. Our integrated strategy for Telco and Payments, continues to pay-off, the Telco revenues up by a strong 24%, thanks to an increasing customer base, outpacing competitors.

Traffic volumes both on mobile and fixed-lines increased in-line with the trend witnessed during March and April, both for voice and data. This has limited effect on revenues, as most client pay, flat payers, while on our side, certain cost increased the traffic. Our stock remain broadly stable. Let me underline that we are already running ahead of the original target set for 2022. Our payment revenues were resilient also during lock-down. The gradual shift towards higher recurring margin evolution cards, continues offsetting lower international transactions and ATM withdrawals also affected by the absence of two reasons [ph].

After operational trends, we continue to gain momentum. Thanks to the strength of our multi-channel platform that responded well to the partial closure of post offices. Since the beginning of the year, over 2 million existing customers, started to use our digital channels, with a broader activity in e-commerce transactions, especially in the Food, Pharma, Electronics and Clothing sectors.

An important widening stroke, especially if we think, just a few months ago, clients online purchases were directed mainly towards transport and leisure. Other payments were impacted by the deferral of tax payments introduced by law. But are expected to resume in the second half. Inter-company revenues mostly coming from financial services were down, due to the decrease in bill payments in post offices, partially compensated by increased transaction through our digital channels and third-party networks.

Moving to financial services, on slide 16. Segment revenues were down 10% in the quarter to EUR1.2 billion. The suspension of commercial activities during lock-down of both financial and insurance products marked [ph] the performance of the quarter. However already in June we saw tangible signs of restart, which we expect to consolidate during the second part of the year.

Going line by line. Interest income was resilient, down 3% year-on-year thanks to the active management of our BTP portfolio and higher retail inflows on accounts in the first half. Mitigating the impact of the yield compression. Postal saving distribution fees were up 5% to EUR451 million, in line with our original full-year projection, thanks to the new campaign products, successfully distributed by a physical and digital channels in June.

Asset management fees were resilient year-on-year, thanks to recurring commissions. Loan and mortgage distribution upfront fees amounted to 13 million in the quarter, strongly affected by lock-down until May.

As you can see in the appendix, on page 41 in June, we saw volumes up 22% year-on-year, with positive progression in July. This performance consolidated our position, thus reaching a 20% market share on new personal loans in June compared to about 9% pre-lock down. The positive commercial dynamics is not yet reflected in revenues, since in June we conservatively booked a negative EUR18 million one-off charge to face potential future early repayments, driven by a low interest rate environment.

Transaction banking fees were down 21%, mainly due to strong reduction in payment slips, as commented already in payment and mobile. These item is broadly -- on EBIT, as these revenues are paid back to payment and mobile for service and to Mail, Parcel & Distribution for network remuneration.

No capital gains were booked this quarter, around EUR100 million net capital gains remain for 2020, are already secured with strong contracts with forward contracts to be accounted for in the second half. Given current market conditions, we are also starting to secure, capital gains plan for 2021. Inter-segment distribution revenues were down 20%, mainly related to fewer insurance products distributed year-on-year.

Moving to slide 17. TFA's are up by a significant EUR12.2 billion, reaching EUR548 billion with EUR9 billion positive net inflows across all asset classes and EUR3.3 billion positive market effect. Customers confirm their trust in our brand and continue to rely on our wide range of products. Postal savings registered new flows for EUR1.5 billion, thanks to a successful campaign products that well responded to client demand for liquid and fully capital guaranteed products. Deposits increased by EUR5.7 billion, confirming a clear preference of customers for liquidity, which will support commercial initiatives planned for the second half of the year.

Net technical provisions are up EUR1.6 billion, thanks to commercial focus on insurance product in particular multi-class. As we have seen since June, commercial activities, we started leveraging on large liquidity on current accounts and postal saving books, also coming from the expiry of a very large stock of existing products. The redemption of our dialog with customers on saving products, after lock-down has been flawless. As their portfolio had very limited impact, if any, from the market downturn.

Insurance volumes are growing year-on-year, thanks to products with gradual increase of risk exposure that well protected our clients. After two years since the launch of multi-class products back in July, 2018, we have totaled over 10 billion gross written premiums, becoming number one in the Italian market.

Moving to slide 18. On insurance services, topline revenues were impacted by reduced customer activity. Life revenues were down by 17%, year-on-year due to EUR1 billion lower gross written premiums and to a lesser extent to promotional fees on new products sold from May.

Revenues declined less than gross inflows as we increasingly rely on recurring management fees. The reliability of our business and brand is also confirmed by the reduction of the lapse rate in such as challenging quarter. Lapse rate, which continues to remain low to-date. Year-on-year, June was impacted by lower releases on technical reserves related to expenses for EUR24 million. This effect is expected to reverse in the second half of the year. As mentioned, commercial activity is recovering steadily in June, with gross written premiums higher year-on-year.

We continue to focus on our multi-class product with gradually increasing exposure for to -- risk for clients. It was launched back in January and further developed in June to allow for better potential returns in sharp market movements. Non-life revenues were impacted by lock-down, particularly in April and May. While our modular offer contributed to reverse this trend since June, with strong daily average sales.

Let's move to Slide 19, PosteVita Solvency II ratio stood at 216% above our managerial ambition of 200% through the cycle and in a volatile market. Since March, the negative impact of lower risk free rates more than offset BTP Bund spread tightening. On the other hand, corporate spreads positive trend resulted in a lower currency volatility adjustment of 27 basis points with a negative net impact on the ratio. Including transitional measures, solvency II ratio is up 250%, as they provide a benefit of 34 percentage points and represent an additional buffer to address market volatility.

Let's move to slide 20, where we present sensitivity on the Solvency II ratio. Without taking into account transitional measures Solvency II ratio is above our risk tolerance threshold in all assumed scenarios. A sudden decrease in interest rates by 25 basis points, would reduce the ratio to 177%, implying a 10 year swap at minus 42 basis points, 10 basis points lower than historical minimum ever reach. The sudden increase in the Italian government spread by 100 basis points would result in a ratio of 164%, as country volatility adjustment would be triggered.

We also run the same simulation presented in Q1. Combining a shock on interest rates down 25 basis points, equities down 30% and corporate and government bond spreads up a 100 basis points. In this shocked scenario, the outcome will still be above our risk tolerance of 130% and 165% considering transitional measures. Finally let me reiterate that PosteVita is developing an internal model, which we expect to further reduce the volatility of Solvency II ratio in the future.

On slide 21, we go back to group level with Poste's continue workforce evolution. Our average head count decreased from 129,000 in December '19 to 125,000 FTEs at the end of June, nearing our target of 123,000 FTEs in 2022. On the other hand, we manage the exit of almost 7,000 FTEs and the termination of almost 2000 fixed term contracts. On the other hand, we hired 4,600 FTEs, indeed we continue to believe that people are a key enabler of our successful transformation and we remain committed to continuously, re-assessing and rejuvenate our workforce. Taking into account organizational sites and skills required in specific business areas.

Our ability to actively manage our workforce in a flexible way is confirmed to adapt to the evolution of business needs and to create sustainable efficiencies. Moving to group cost on slide 22. In order to mitigate lower revenues, we took managerial actions to cut the cost lines as already visible in the quarter. Ordinary HR costs are down 12% year-on-year. The reduction of FTEs needs to a recurring saving of around EUR50 million on a quarterly basis.

Performance related savings of EUR65 million referred to the first half of the year with additional EUR30 million expected in the second half. Non-HR costs overall are down, despite the EUR29 million one-off cost incurred to face the emergency in the quarter on top of the EUR23 million booked in Q1.

Other costs for goods and services were flat in the quarter, even including almost 15 [ph] million higher volume driven expenses related to growing business in payment and mobile, and in parcels. D&A decreased by EUR60 million, due to the reassessment of the residual useful life and value of certain Group real assets in accordance with IFRS. Going forward, the Group will benefit quarterly from 30 million lower G&A, on a recurring basis.

Besides we are undertaking a strategic review of our real estate assets, starting from the instrumental ones and aiming to expand it to non-instrument assets later in the year.

Turning on slide 23, you can see an update on the cost reduction initiatives in Q2. Please bear in mind, once again that our objective here is not nearly to cut costs in 2020. But you take the opportunity to extract long-term efficiencies enact on our cost base in a structural way to preserve sustainability. Let's start from HR costs. As seen on the previous slide, 2020 performance related incentives have been reduced with 65 million savings in the first half and EUR30 million expected in H2, leading to an overall cost reduction of almost a EUR100 million in 2020.

This is a one-off, as we expect activity to be entirely back in 2021. Moving to head count, also leveraging on the Joint Delivery Model in mail and parcel, we have already saved EUR100 million in the first half. And we're planned to achieve recurring EUR200 million savings, already starting from 2020. On the other hand, we confirm our early retirement plan to achieve a leaner organization. Other cost savings, within HR had been achieved during lock-down thanks to follow payments with saving of some EUR75 million envisage for 2020 already booked in Q2.

Of course this item is not expected beyond 2020. Non-HR costs were down some EUR15 million in the quarter for items, such as energy, employee benefits and travel expenses. We expect some EUR45 million savings in 2020 and approximately EUR60 million on a yearly basis going forward. In the meantime, we continue to review discretionary expenses to address new priorities.

From a strategic point of view, in light of the new plan, we are reviewing process to maximize efficiencies while sustaining our services in the long run. Of course, this needs more time to bear fruit. That will allow us to do business in a more efficient and productive way, starting from 2021. Now let's move to slide 24. Summarizing the effect of revenues and costs at operating level, segment by segment. As anticipated Mail, Parcel & Distribution suffered the most.

Quarterly operating profitability was down 30% year-on-year with all segment impacted by Lock-down partially mitigated by the recovery in June and my [ph] actions on cost. In particular, revenues were severely affected by a two-months lock-down in the quarter, and we effectively managed to absorb over 60% of the invest, with strong reduction of costs. As a result. EBIT for the quarter is equal to EUR325 million, down EUR139 million year-on-year against a revenue decrease of EUR352 million. On a segment basis, the underlying operating trends confirms our recovering of the activity since June. With the exception of mail, where the recovery is nearly related to cost cutting.

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

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

Thank you, Guido. Before taking your questions, let me close with some key messages on slide 25. The environment remain challenging for most of the quarter, but we continue to show strong resilience. The diversification of Poste business model and the exceptional client needs, we serve ensure profitability throughout the cycle.

To face the challenges posed by the emergency were implementing, targeted cost discipline initiative absorbing area and part of the impact of lower revenues and creating structural efficiency to preserve the long-term sustainability of our business. Looking at the rest of 2020, we're working under the assumption of reduce uncertainty, supported by constructive commercial trends and effective efficiency measures. Under these assumptions, we confirm our dividend strategy ahead of the update of our Deliver 2022 Strategic Plan later in Q4.

Before moving to Q&A session, let me thank you again for joining us today. As you can imagine, we're not traveling after these results. However, we will organize virtual roadshows and we hope to see you then. Over to you Mr. Massimiliano.

# Questions And Answers

## Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions) The first question is from Giovanni Razzoli, Equita. Your line is open.

## Q - Giovanni Razzoli {BIO 7269718 <GO>}

Good afternoon to everybody and thank you for the presentations. Three very quick questions, the first one relates to the comment that Mr. Matteo [ph] made -- just made about the dividend strategy. So that is unchanged ahead of the plan in Q4. So shall we assume that you are targeting to confirm the interim dividend payment in the Q3. This is my first question.

The second question, you have made a clear commitment to start -- reduce the cost base. Can you remind us what -- where the extraordinary costs booked in the Q4, 2019 for the staff reduction and whether, shall we assume more or less the same level also for 2020. And the third question related to the trend in the Mail and Parcel division, especially as far as the Mail volumes are concerned, which are the -- in my view the only weak spot of this set of numbers specifically relating to the recorded mails.

You've clarified that part of these is due to stop the delivery of some mails and close of the quarter, it was wondering whether in the second half of the year when there will be back to normal activity also the public administration, shall we assume that the part of the volume lost in the first half will be recovered in the second half, so there will be an abnormal amount of volumes in the second half, as the situation normalizes. Thank you.

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

Yeah, thank you Giovanni, yes, we confirm the full dividend policy. The third question on volumes of registered mail, as I say in my speech, we expect the backlog to reduce of registered mail, over the next six to 12 months. It depends very much on the specific item. Let me be more granular. When it comes to traffic fines, yes, it will resume because people have gone back to using cars and they will get fine and we will do the delivery of the ticket.

When it comes to in-line [ph] revenue, so (inaudible) delay in traffic in Italy, it's still under discussion, but is likely that no request official with the registered message will be pushed forward for an addition of few months.

So I don't know, whether this will restart in 2020, we would need to wait a bit more. When it comes to legal proceedings, courts were closed, and they will something between the two, so it will come back slowly.

So as Guido say more than 50% of the negative reduction in mail comes from this item. And you know we -- we're working very hard to get it back over the next, six to 12 months. Please Guido, on the second question on the cost base.

## A - Guido Maria Nola {BIO 20719012 <GO>}

Sure. Giovanni, on your question I think two points. So in terms of what would be the number, if I understand correctly of reserves will take this year for early retirements. We have indicated at the beginning of the year, when we gave you the guidance that we then stop using. But when, at that point, we said, EUR0.2 billion, so around EUR200 million is a number expected for this year.

So for the moment, we still working on that assumption, obviously, as you know, we are working on a new plan and that form part of the plan -- the assumptions that we have seen also in this presentation is on page 23 for example, we are referring exactly to that number.

Then if I can give you a little bit more color. Last year, you said correctly, we had over EUR400 million in this reserves, which we're using this year on the early retirements that we're doing. The good news there is that the retirements are coming as a price, so as a cost that is lower than what we expected. So that reserves a bit of flexibility in terms of numbers that we can do, and the usage of that measure.

## Q - Giovanni Razzoli {BIO 7269718 <GO>}

Thank you very much, very clear. Thank you.

## Operator

Okay. The next question is from Alberto Cordara, Bank of America Merrill Lynch. please Alberto.

## Q - Alberto Cordara {BIO 7441341 <GO>}

Hi, good afternoon. My first question is related to the performance of financial services and how they articulated in different points. The first one is yeah -- again, see any capital gain in the quarter. So if you can clarify as well -- what would be the level expected for the year. The second one related to third-party products. So that was a quite severe drop in revenue in this area. But I would assume this is just a temporary effect related to the lock-down.

So can you us a bit of an idea when do you expect arriving is from third-parties to go back to the original level. And the other question about financial services regard to the net interest income, which looks incredibly resilient. And I don't know, what to make of it because I need to be honest, I think we -- my understanding from you in the past is that this would have been under pressure. Maybe this year, you will receive 1.5 billion in the share, if I remember correctly. But things do seem to be doing much better than expected. So I don't know, if you can clarify a bit when, finally, we will see this margin pressure. And if we are going to see, because to me -- this actually looks very good news.

Then I just wanted touch basis on the question my colleagues before about the long-term affect of cost reduction initiatives. So we all know the cost is very high potential of revenue optimization across different businesses. But it seems to me, the cost cutting (inaudible) gain increasing (inaudible). So if you can just comment a bit more on this, on this specification of this is before the update that you want to provide in Q3. But any additional color would be -- is really helpful. And then my very last question is. If you can clarify bit more what is your reliance of -- to see revenues from Amazon and how this is evolved over time. Thank you.



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

Okay. I would may be take the high level portion of the five questions and then hand over to Guido, for more detail answers.

Yes, keeping the current gain Guido will give you the details. The loan mortgages and third-party, it's clearly very important source of revenue is free for Poste. And we're very pleased that both the month of June and the month of July, the engine has restarted -- restarting the engine means having our consultants to start reviewing the client base, pushing the calls, making the meeting, and selling the products. With these running some, let's say fine tuning issues in terms of -- you know, third-party providers. So we have started a performance review of our third-party providers which are always judged by us both in terms of time and weakness of reply and obviously spread and pricing.

And I think, that is reviewed and some potential decision, we will take on the back of the review, will give an additional boost to the business. Last question on Amazon. As you know that we don't disclose the official figures of the contract and the revenues. All I can tell you is that probably two things in summary the share of our B2C business, both in terms of volumes and revenues of Amazon. It is never been so low. It is still significant. But it's -- going down on a quarter-by-quarter basis. And the second is that as we do anticipated that we have several clients that are growing in this space of B2C.

Guido mentioned China which is six times last year and in several days, in the last few weeks, there where our top daily delivery client. We have the unique partnership with (inaudible) and client base is growing steadily. And this is also shown not only by the volume of our B2C business. But the staggering growth of our last mail, B2C deliveries by Postini. So the -- what I said in my -- at the beginning of my call, what we planned, we deliver in February '18 to increase our presence in B2C translated into large 700 million CapEx in sorting center. We have one operating, we have two come in over the next six months. One, larger than the one (inaudible). And this is clearly giving us a very strong competitive edge, this is mainly automated and is fast and cheap.

And then the last mail and the last mail delivery by Postini which is clearly unique to Poste. You know, we are seeing an increase and we are forecasting an increase for 2020, which is above 50% increase, over last year in terms of number of parcel delivered by Postini. So this is the high-level and Guido you want to take.

## A - Guido Maria Nola {BIO 20719012 <GO>}

Sure, Alberto. So on the first one is very quick and simple, as I said in my speech, we have basically realized all the capital gains for the year that we had be accounted for it at the end of the year because it close forward contracts and then we will book within -- there will be accounted then into Q4.

For interest income well, first, maybe on loan and mortgage, I can give you a little bit more color. And what we highlighted is that the volumes came down, especially at the beginning of the lock-down, they started recovering well, although, that's we -- may be mentioned when we talk over the last three months. You remember that we specify that we also suffered a bit from volumes restriction from our partners.

All of that is now gone. We finally think that both our commercial activities and our partners are back on track and volumes reflect that. So if I look at the volumes for June and July, in terms of daily sales, those are absolutely in-line -- are actually above last year and in line with the original budget that we have for this period of time, what we have planned.

Then moving on to interest and interest income, we said that we weren't surprised by the resiliency of our NII. We were a bit less surprised, I think, because as we always say, we are quite actively manage our portfolio, we managed by the EUR12 billion that we have to buy, as a combination of new cash in flowing and the expiry of existing bonds and anticipation of close or expiry.

So all of that together implied a 12 billion of purchases, which we did at an average of 1.7% when rates in the same period, were at 1.17% and that I think testifies our ability to take good market opportunities. So much [ph], so that we are already starting securing some of the capital gains for next year, as we believe rates and spreads are extremely low at the moment. And so we can pay [ph] good market opportunities. On costs, going back to page 23 of the presentation upon today.

I think, you have pretty much everything in there. One, so if we look at performance related, as I said some effect -- some good effect in the quarter 65 million. They will amount to about EUR100 million for the rest of the year, but we think none of this will continue into next year. Because we think that commercial activity will go back to normality. And therefore we will pay our sales force for that. For headcount flexibility, that's where you have the bulk of the savings for the long run, as we said EUR100 million applied for the first half of the year, there is another half - for the next half of the year. So now EUR100 million, and this is then something we will stay with us, given that which we have a 5,000 FTEs less to account for.

So going further down, we said that we had about EUR75 million of other measures, and the majority of that, as I said was full [ph] payments and other activities that are not coming back, nor in the second half, nor in the future in 2021. So that's more one-off. And then I think, the other good news is that we indicated EUR15 million of other discretionary costs, we said -- that this number is for the quarter. So you can pretty much multiply for the next two quarters to come and we believe this is a number that will stay with us. So EUR15 million is a good number, EUR15 million in a quarter is a good number for the years to come. I hope this is clear enough.

## Q - Alberto Cordara {BIO 7441341 <GO>}

This is a very clear. Thank you very much to both for the very good answer. Thank you very much.

## Operator

And the next question is from Ashik Musaddi from JPMorgan. Please Ashik.

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

Yeah, thank you Massi. And good afternoon, Guido. Good afternoon, Matteo. I have a few questions. So first of all, if you can help us get some color on what's happening with quality [ph] of Postepay now clearly at the beginning of the year, it was a big focus at your end. But I guess because of COVID, this has been pushed a bit forward. So how should we think about that, what are the timelines, any deadlines you have, any color on that would be very helpful.

The second question I have is -- how should we think about the -- what is the strategic review of real asset portfolio, I mean are we talking about your real estate portfolio or what is the strategic review, that would be very helpful. And thirdly is for next year, I mean, you mentioned that you have already started thinking about securing capital gains for 2021.

I mean if I remember correctly, in your plan, it was about EUR100 million expectation, am I correct or are we talking about like a bit, 200 million -- 300 million of capital gains for next year. Thank you.

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

Yes. We don't have the lot of data point on QR code because it was going to market with door-to-door sale in March. So we've now resuming the marketing efforts and anyway this is -- it's a long-term proposition to win clients on the acquiring side. So for us -- it's a -- an entry tool to penetrate the acquiring client base. On the question of the capital gain, we are not yet -- we're not defined the total figure. But maybe what we can tell you at this point in time is that is going to be less than EUR200 million for next year. But we will see -- you would see in the -- (inaudible) going to present of the year, the plan at the end of the year.

The second question, I would like to Guido.

## A - Guido Maria Nola {BIO 20719012 <GO>}

So on capital -- on real estate, what I can tell you that we started in -- what I said in my speech is that we started a review of the entire real estate portfolio. And in doing that, we also realize that there was a mismatch between the residual life that we had accounted for and the residual life that was actual today.

So we just aligned the residual life of our real estate assets with the one we accounted for -- with the actual one. And this resulted in less D&A, so unless amortization of about EUR120 million yearly. And this will (inaudible) to stay, maybe on the more strategic review I'll ask --.

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

Yeah, I think on the more strategic on the question. Ashik it's -- we did not focus on the topic in the first three years, (inaudible) now would be a bit of housekeeping. And we have started the project to understand which asset, we want to keep for our business, which asset that we don't consider we need for our business. And in that case, how we can extract by the -- over the course of the next two to three years.

And this for something that we will present again in the last quarter with the updated delivery 2020.

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

Okay, that's very clear. Thanks a lot (inaudible). And very clear presentation today. Thank you.

## Operator

The next question is from Gian Luca Ferrari. Mediobanca. Please Gian Luca.

## Q - Gian Luca Ferrari

Yes, hi, good afternoon, Matteo. (inaudible). )The first one is on postal products. I remember Matteo during the last conference call you seeing the bit cautious on the EUR1.6 billion, EUR1.8 billion guidance also because we were at the beginning of the lockdown. But looking at these numbers, in Q2 you even made a positive net inflows in postal service in spite two months out of three of lockdown. EUR1.5 billion in the first half is the best semester ever for these products.

So I was wondering, if you are now turning a bit more constructive, that you could expect something in the mid-to-top part of the range. So, probably something in between the EUR1.7 billion to EUR1.8 billion, if you can give a bit of comment on this? The second one is on pricing pressure, in the B2C parcel business, apparently [ph] the revenue per unit is absolutely stable year-on-year. So I was wondering, if it is a matter of lack of pricing pressure or more a higher average spending from Italiane. So probably, they are buying something more value added, and the cost of shipping is also bit higher. And this is explaining why the cost per unit is basically stable.

The third is probably more of Guido, I was trying to reconcile all the moving parts of solvency of the Poste in the first half and I was wondering if you can give us the capital generation gross of the dividend accrual at Poste EBITDA in the first semester. I was wondering if you do something like 10% or a figure like this? Thank you.

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

Yeah, I think there is in the middle of the lockdown in May on Postal Savings Gian Luca. Yes, we were more cautious on revenues for this year. So we were clearly on the very bottom of the range of the EUR1.6 billion to 1.8 billion. I think we can be more optimistic, but we still have six months to go. So you know, certainly one can consider that -- it can be something probably in the middle of the range. Pricing pressure, I think, it's an interesting question, because 1x to put in the future. The fact that now Poste Italiane is number one for volumes and revenues. B2C, play in Italy. Which clearly was nowhere, the case -- three years ago. And when you're a number one player, maybe you start looking at margins, choosing clients in a better position versus a player has to enter the market.

So we adding to this specific position of Poste, which explains, I think, part of the good news of resilience in pricing, is more temporary, there was a shortage of last mile capability doing the lock-down. And therefore, on the players had the opportunity maybe to have a bit more room for maneuver with clients and this is more clearly related to the specific period. But our roadmap in last-mile and B2C is -- I think very clear and very robust, Guido mentioned the partnership with Milkman, which is now going all across Italy in serving clients also in segments, that we are not covering before.

The footprint of the third-party for parcel delivery and pickup and affecting (inaudible) the recurring product is growing very fast. So Poste today can count on over 20,000 pickup and return-point [ph] in Italy. So if you're a client and wants to do e-commerce, nobody can offer 20,000 points. If you look around Europe in the Parcel space, our competitors they took a 100 of pickup points, we are putting on the table and growing over 20,000 outlets. And therefore, you know, a client advance to enter B2C fines in Poste, quite unique partner. And adding to that we have changed our model of the coverage. As I mentioned, in my presentation, so we now have a team which is specifically dedicated to industry focus clients. So we don't divide any longer our 1,200 sales force by region, which is the physical old-style, that all organized since 1st July by client industry. And this -- I'm sure will bring much more client penetration. On the D-side and then you know, the roadmap on the product is also putting as a client, as the real client the retailer. So we have an additional services, we are giving to the retailer because the better we serve the final client, the healthier would be the platform of the client that give us the opportunity to deliver to that final clients.

So we're focusing a lot and we can see that the real client, the retailer that receives the parcel at home, On the third question, on insurance, yes Guido, please.

## A - Guido Maria Nola {BIO 20719012 <GO>}

Maybe just to give you -- just a couple of numbers on the specific point leverage price index on page 13 Gian Luca to close on B2C.

I think you're referring to the fact that we see a sharp decline in average price index. You need to bear in mind that -- that decline is all due to the mix of products, not to the tariff that we are applying to clients. Actually all the main clients, so all the -- at least the first five better team have actually carried up -- but down. So, the movement, you see there is because we're doing much more volumes in B2C. And because as I said in my speech, some of the volume growth you seem to B2B is because corporate clients are spending over this period, more parcels to clients, to end clients, to take [ph] clients which are normally smaller packets. And therefore we don't (inaudible). But not which is just a different product.

So going to solvency, I think what you're asking me, is the fact that we are not paying dividend from PosteVita to Poste Italiane we having so far, has a positive effect on solvency. Yes, you're right. We are taking into account that you need to remember that we only pay 50%, dividend payout to PosteVita -- to a strong PosteVita to Poste Italiane. So that accounted last year to EUR340 million. So if you look at something similar to that this year that accounts roughly 4% percentage points of solvency, which therefore as of today in the solvency that and so. Obviously and when we pay the dividend that will be taken out.

## Q - Gian Luca Ferrari

So 4% [ph] is the capital generation in the semester with no dividend?

## A - Guido Maria Nola {BIO 20719012 <GO>}

We accounted for rates running so now there are accounted for it running. At the moment -- each month if a little bit and the moment we decided not to -- we take the decision not to pay it. Then we did stock accounting for the dividend basis. And so you have a positive effect on solvency at that point.

## Q - Gian Luca Ferrari

But 4% is for the semester or its annualized?

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

No. 4% is for the entire month.

## Q - Gian Luca Ferrari

For one month?

## A - Guido Maria Nola {BIO 20719012 <GO>}

No for the entire dividend that was not paying.

## Q - Gian Luca Ferrari

Okay. Okay. It's clear. Thank you.

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

I wish it was for a month.

## Q - Gian Luca Ferrari

Yeah.

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

You're happy? Are you okay, Gian Luca, are you okay.

## Q - Gian Luca Ferrari

Yeah, it's pretty clear. Thank you so much.

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

Thank you.

## Operator

The next question is from Anna Maria Benassi. And there has been submitted by - via platform. So I will read it. Consolidation Italian banking sector has started to lower spend in the Italian insurance sector too. Do you see any challenges in the opportunities for Poste Italiane, would this change your partnerships in financial products? Thank you.

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

Never say, never. But I don't anticipate any rule of Poste Italiane in the consolidation of the baking of the insurance sectors. It's not in our roadmap from a strategic standpoint. Our strategy is to -- possible to our clients, it is really the value we had -- (inaudible) for the number of clients to the multi-channel ability that we have to reach them. And I think, this is steel, in-line we're delivered 2020 to the best option for our shareholders.

The increase even outside the financial products of our gross selling capability and the improvement of the user experience of our clients, in our products. Can give much more results that any strategic transaction. In terms of partners, the second part of the question as I said we keep them in under close scrutiny. I'm happy to say, which I forecast, in the previous question that in July, we reach record month ever in salary backed loans.

So we're adding the new product steady to our product range. And we think this is an interesting development because we see a lot of upside in that specific item and more partnership potential yes that -- on with our partners on played like, rolling, supporting us.



## Operator

Thank you. And the last question is from Federico Braga from UBS.

## Q - Federico Braga {BIO 19916816 <GO>}

Yes, hello, good afternoon, everyone. Sorry just two quick follow-ups. The first one is on the interest income, the financial services division on the resiliency of this line. Big driver of this resiliency since we actually that has been the in-related to volumes, so current accounts have being growing quite nicely especially in the second quarter of the year.

So I just wanted to understand how much of this growth was structural or just related to the overall macro environment, and if that conversion of clients should increase in the coming quarters, could we see some volume decline and therefore some pressure to interest income at that point. And the second question is on the -- if you could give some guidance please on the average number of employees in the second half of the year has been 125,000 in the first half, but if you could give us some guidance for the second half of the year as well. Thank you very much.

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

Excuse me, Federico, can you say it again the second one place (inaudible) please.

## Q - Federico Braga {BIO 19916816 <GO>}

Sorry, yes. The second one is just if you could give some guidance on the average number of employees of FTEs in the second half of the year. Thank you.

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

Please Guido.

## A - Guido Maria Nola {BIO 20719012 <GO>}

So on the first part of your question, I will refer to what I said before. As I said, the interest, net interest income held up thanks to two main things and one you refer to again now. So volumes as we say here on when we talk about the TFAs on page 17, we have 5.7 billion of extra deposits on our accounts and that was obviously invested in BCP's at average EUR1.7 billion. I was referring to before. So that helped us so you now asking how much of that is stable, do you expect that some will be withdrawn and therefore your NII will go down if I understand correctly. Is that the question well on one side a bit I wish will be used for investment and some of the commercial activity will be done, exactly in that direction to use some of this liquidity for investors -- investments and therefore looking for high margin products.

What, I can tell you that obviously we invest in maturities that take this into account. So we have now a lot of years, many years of history of the behavior of our clients. So we have an expectation of how much of that may leave Bank account to become an investment and therefore that is invested in shorter term maturities, and shorter return in the bonds, which have obviously a much yield, which is barely positive if that.

So in a nutshell, I wouldn't expect that trend to have a negative impact. If you could add that in to a long economic crisis, then there will be some outflows related to the economic crisis. Also, that is taking into account of the overall maturity of investments also takes into account there's some outflows cannot be directly to investments, but also for consumption.

But that is already part of the way we invest. So in a normal -- so in a crisis that we are ready envisaging for some part. That is already taking into consideration. In terms of expectations on FTEs at year-end. As I said, we had a very good start. Obviously that was driven by the fact that we have to hire less people during the crisis because we did not need as many people especially in delivery.

Our original target is 125,000ish but again, we have to see how the second half develops and how will -- and this is, as you remember, the target we provided you at the beginning of the year, which was higher than that and therefore it takes into account what the work we've done so far in the first half.

Also I would refer back to what I was saying before. We also have the opportunity of having a reserve that we took last year for early retirements, which is working well because as I was saying before the early retirements. We've done so far, are happening at a good pace. Not as much as we have anticipated because the lock-down has slowed us down in that exercise, but the ones that we've done. We're doing it at much better cost. So that means that we have more ability to more flexibility for the second half.

## Q - Federico Braga {BIO 19916816 <GO>}

Thank you very much.

## Operator

We have -- we have absolutely the very last question from Manuela Meroni who connected back. So it has, give her the chance to ask your question. So Please Manuela.

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

Yes, thank you, I have a couple of questions remaining. The first one is on the postal savings the net inflow has in positive for the second-quarter renewal. So I'm wondering what you can -- we can expect for the remaining part of the year and if you had any update on the renewal of the agreement with GDP. And lastly, curiosity, domestic (inaudible) brought it about, the potential investment of Poste Italiane in (inaudible) Italiane. I'm wondering if you could elaborate on the rationale of the potential investments -- and on the size of the investment if I may.

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

Okay. Yes. Total sale inflows were quite impressive, I think that clearly we're happy. But one should not the probably to taken by in excess of enthusiasm in (inaudible) that one, there was clearly a backlog of the months of the lock-down of our consultants that we are not able to direct clients on Postal Savings. And two, we had very good product offering and this is something that we hope it's going to be there in the future.

As far as, as the Poste Italiane [ph] is concerned, I think, what we saw in the press we were surprised, -- it's not part of the growth not of all spend -- conversation. The all new contracts we had in the phase of our manage account in the insurance company. And as you know we diversify our 140 assets that we hold to manage technical reserves of our life contracts and we have the several asset manager, infrastructure plans, we invested into and maybe some of those funds are involved in that transaction. And so in a way -- as the subscriber of those plans in the past one can have to say, (inaudible) to the asset, but that's the only -- link I can see. And now that leading the press (inaudible) final outcome is in company, maybe it doesn't belong in longer-even to be infrastructure funds. (inaudible) look forward private asset.

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

Thank you.

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

Thank you very much everybody and thank you for the time as usually (inaudible) Poste. And we're going to do our online growth show, but as usual myself, the CFO and especially IR Massimiliano Riggi, where all available anytime for any additional questions you might have. Thank you very much.

## Operator

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