INTERIM REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

Posteitaliane

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GROUP FINANCIAL AND OPERATIONAL HIGHLIGHTS

Results of operations for the nine months ended 30 September (€m)	**2016**	2015
Total revenue	25,729	23,921
of which:		
from Postal and Business Services	2,728	2,829
from Financial Services	4,107	3,949
from Insurance Services and Asset Management	18,725	16,962
from Other Services	169	181
EBITDA	1,635	1,355
Operating profit/(loss)	1,196	930
Profit for the period	807	622
Gross ROE	13.0%	11.1%

Financial position (€m)	**at 30 September 2016**	at 31 December 2015
Non-current assets	2,817	3,010
Working capital	1,476	1,301
Net invested capital	1,373	999
Equity	9,027	9,658
Net funds/(debt)	7,654	8,659
Industrial net funds/(debt) (before adjusting for intersegment transactions)	274	307

Investment for the nine months ended 30 September (€m)	**2016**	2015
Capital expenditure	252	229

Average workforce for the nine months ended 30 September (€m)	**2016**	2015
Total permanent and flexible workforce expressed in full-time equivalent terms	141,647	143,580

Other operational data	**at 30 September 2016**	at 31 December 2015
Outstanding customer current accounts ('000) [1]	6,376	6,362
Client assets (€bn) [2]	493	476
Number of post offices	12,845	13,048

for the nine months ended 30 September (€m)	**2016**	2015
Letters handled by Group (volumes in million)	2,590	2,889
Express Delivery items and Parcels handled by Group (volumes in million)	68	60
Current account deposits (average for the period in €m) [3]	48,840	44,906
Poste Vita group (net premium revenue in €m)	15,388	14,543
Number of PosteMobile SIM cards (average for the period in '000)	3,632	3,432

[1] This figure does not include transaction accounts.

[2] These amounts include postal savings deposits, the mutual investment funds marketed, Poste Vita's technical provisions and average current account deposits (average current account deposits include Long-Term RePos).

[3] These amounts include both private customer deposits (including the investment of liquidity by Group companies and amounts payable to financial institutions under repurchase agreements), and deposits by the Public Administration.

INTERIM REPORT ON OPERATIONS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

1. MANAGEMENT AND SUPERVISORY BODIES

Board of Directors [1]	
Chairwoman	Luisa Todini
Chief Executive Officer and General Manager	Francesco Caio
Directors	Giovanni Azzone
	Elisabetta Fabri
	Mimi Kung
	Umberto Carlo Maria Nicodano
	Chiara Palmieri
	Filippo Passerini
	Roberto Rao

Board of Statutory Auditors [2]	
Chairman	Mauro Lonardo
Auditors	Alessia Bastiani
	Maurizio Bastoni
Alternates	Marina Colletta
	Andrea Bonechi
	Ermanno Sgaravato

Supervisory Board [3]	
Chairwoman	Nadia Fontana
Members	Gennaro Terracciano
	Paolo Casati [4]

Magistrate appointed by the Italian Court of Auditors to audit Poste Italiane	
	Francesco Petronio

Independent Auditors	
	PricewaterhouseCoopersSpA

At its meeting held on 10 September 2015, the Board of Directors established 3 Board committees with responsibility for making recommendations and providing advice to the Board. These are the "Audit and Risk Committee", the "Remuneration Committee" and the "Nominations Committee". Later, on 15 September 2016, the Board established, with effect from 1 October 2016, the "Related and Connected Parties Committee" - whose members are all independent Directors - with the role and responsibilities provided for in the legislation governing transactions with related and connected parties. Until 1 October, this role was assigned to the "Audit and Risk Committee".

As a result, the Board approved the following new composition of the Board committees, which came into effect on 1 October:

Audit and Risk Committee	Remuneration Committee	Nominations Committee	Related and Connected Parties Committee
Umberto Carlo Maria Nicodano (Chairman) Chiara Palmieri Filippo Passerini Roberto Rao	Filippo Passerini (Chairman) Elisabetta Fabri Mimi Kung	Roberto Rao (Chairman) Giovanni Azzone Chiara Palmieri	Giovanni Azzone (Chairman) Mimi Kung Roberto Rao

(1) In order to fulfil the undertakings given by the Company and the Ministry of the Economy and Finance at the time of the Company's privatisation, the Ordinary General Meeting held on 24 May 2016 elected additional members of the Board of Directors, increasing the number of Directors from seven to nine and electing Giovanni Azzone and Mimi Kung as the new members of the Board.
The Board of Directors will remain in office until the General Meeting's approval of the financial statements for the year ended 31 December 2016.

(2) The Board of Statutory Auditors was elected by the Ordinary General Meeing of 24 May 2016 to serve for a period of three years and will remain in office until the General Meeting's approval of the financial statements for the year ended 31 December 2018.

(3) At its meeting of 17 May 2016, the Board of Directors voted to assign supervisory responsibilities to two separate bodies: the Board of Statutory Auditors, which has maintained its existing responsibilities, and the Supervisory Board. As a result, the Board of Directors appointed the new Supervisory Board with effect from 24 May 2016. The Supervisory Board will remain in office for three years.

(4) The only internal member, Head of Poste Italiane SpA's Internal Auditing.

2. MISSION AND KEY ASPECTS OF STRATEGY

Poste Italiane aims to be a driving force for inclusive development in Italy, helping citizens, businesses and the Public Administration through the transition to a digital economy by offering high-quality, simple, transparent and reliable services.

The Group's strategies focus primarily on three key areas:

- to defend our Letter Post revenue and grow the Parcels business;
- to develop our savings offering;
- to consolidate the profitability of financial services.

In the Postal and Business Services segment, we are proceeding with implementation of the new delivery model, requiring changes to processes and the offering, so as to ensure that it is sustainable and in keeping with customer needs. In addition, the positive trend reported by the Parcels segment in the first half of 2016 has continued, in part thanks to efforts designed to renew and simplify the offering.

During the first nine months of 2016, the Insurance Services and Asset Management segment has continued to focus on developing its investment fund offering, benefitting from the alliance with Anima SGR, and on expanding its range of Class III insurance products.

In the Financial Services segment, in September Poste Italiane completed its acquisition of an indirect 14.85% interest in SIA SpA, a leader in the provision of e-money, e-payment and network services. This acquisition will play a key role in driving the Group's growth in the area of digital payments and transactions and, as a result, in e-Commerce, in full accordance with the guidelines set out in the Business Plan.
In terms of the digital transformation programme, work on implementing innovative solutions for online payments and on the dematerialisation of contracts is continuing with the aim of improving the customer experience in post offices.

3. GROUP ORGANISATIONAL STRUCTURE

From 2016, the allocation of certain companies to the related operating segments has altered. Specifically, BancoPosta Fondi SpA SGR, which was previously allocated to the Financial Services segment, now forms part of the Insurance Services and Asset Management segment, whilst Poste Tributi ScpA, which was previously allocated to the Postal and Business Services segment, has been transferred to the Financial Services segment. The relevant comparative amounts for the first nine months of 2015 have been accordingly reclassified in this interim report.

In addition, as part of a wider reorganisation of the Group's structure, the following corporate actions took place during the period under review:

- on 18 April 2016, a general meeting of SDS System Data Software Srl's shareholders approved the merger of SDS Nuova Sanità Srl with and into the company and the renaming of the merged entity, as of the effective date of the merger deed (executed on 25 July), as Poste Welfare Servizi Srl. The merger was effective for accounting and tax purposes from 1 January 2016, and for legal purposes from the date on which the merger deed was filed with the Companies' Register (29 July 2016);
- the deed for the merger of PosteShop SpA with and into Postel SpA was executed on 22 April 2016. The merger was effective for legal, accounting and tax purposes from 1 May 2016;
- the partial demerger of the fixed line telecommunications business of the subsidiary, PosteMobile SpA, to Poste Italiane was executed on 27 April 2016 and the transaction was effective from 1 May 2016;
- on 28 June 2016, the Parent Company's Board of Directors authorised Poste Italiane to participate in the extraordinary general meeting of Poste Tributi ScpA's shareholders to adopt a resolution regarding the winding up and liquidation of the company. At the time of approval of this interim report, the consortium's extraordinary general meeting has yet to adopt a resolution on this matter;
- on 12 September 2016, Poste Italiane, Postecom and Postel approved the demerger and merger plan regarding the restructuring of Postecom, which has been broken down into two phases: (i) the partial demerger of Postecom's interests in PatentiVIaPoste ScpA and Consorzio Poste Motori and the transfer of the interests to Postel; (ii) the merger of Postecom with and into Poste Italiane. The transaction will be effective for legal, accounting and tax purposes from 1 April 2017;

- on 16 September 2016, a preliminary agreement was reached between Poste Italiane and Cassa Depositi e Prestiti (CDP) regarding the transfer by FSI Investimenti SpA (a CDP group company) to Poste Italiane of an indirect shareholding in SIA SpA, a leader in the provision of e-money, e-payment and network services. Under the agreement, in return for a projected total investment of €278 million, Poste Italiane will acquire a 30% stake in FSIA Investimenti Srl (a company with a 49.5% interest in SIA) that is wholly owned by FSI Investimenti SpA, which is in turn controlled by CDP Equity SpA via a 77% interest. On completion of the transaction, Poste Italiane will have an indirect interest of 14.85% in SIA, and will also acquire significant influence. Completion of the transaction is subject to clearance from the relevant antitrust authorities and the Bank of Italy;
- on 7 October 2016, the memorandum of association of Risparmio Holding SpA, which is owned by Poste Italiane (80%) and CDP (20%), was signed. The business purpose of the new company is to arrange for the acquisition of equity investments, loans to companies or entities in which it holds equity, and trading in securities, either directly and/or via its participating interest in a company specifically incorporated for this purpose;
- on 17 October 2016, the memorandum of association of Equam SpA, 80% owned by Risparmio Holding SpA and 20% by Anima Holding SpA, was signed. This company's business purpose is to arrange for the acquisition of equity investments, loans to companies or entities in which it holds equity and trading in securities.

Transactions involving other Group companies are as follows:

- The subsidiary, SDA Express Courier SpA, ended the period under review with a loss of €20.7 million (a loss of €30.6 million for the first nine months of 2015), requiring the company to apply art. 2447 of the Italian Civil Code (capital below the legal minimum). Following the report provided by the board of directors and submitted to the Parent Company, on 6 October 2016, a general meeting of the company's shareholders approved the injection of fresh capital[1] of €38 million into the company.

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On 31 May 2016 the Italian cabinet, on the recommendation of the Minister of the Economy and Finance, approved a draft Cabinet Office Decree setting out the terms of Poste Italiane SpA's privatisation and the method for selling a further tranche of shares in the Company held by the Ministry of the Economy and Finance - MEF (which currently holds a 64.7% interest). The plan is to retain a stake of not less than 35% in the Company (to be held through and managed separately by Cassa Depositi e Prestiti SpA (CDP)), which will continue to be under the control of the MEF. On 24 June 2016, the extraordinary general meeting of Cassa Depositi e Prestiti SpA's shareholders approved the issue of new shares to the MEF amounting to €2.930 billion, inclusive of the share premium. As payment for the new shares, on 20 October 2016, the MEF transferred a 35% interest in Poste Italiane to CDP, consisting of 457,138,500 ordinary shares.
Following this transaction, the MEF holds a stake of approximately 29.7% in Poste Italiane. -

[1] Poste Italiane SpA has committed to providing financial support to SDA Express Courier SpA and Mistral Air Srl, at least until 31 December 2016.

DISTRIBUTION CHANNELS AND MULTI-CHANNEL STRATEGY

During the first nine months of 2016, work continued on initiatives designed to offer a more effective organisational and commercial approach to the retail and SME segments[2].

The principal organisational initiatives regarded**:**

- changes to the sales formats (consulting rooms and corners) present within the Group's 12,845[3] post offices (13,048 offices at 31 December 2015), in order to maximise their effectiveness and coverage in keeping with the growth potential for these target customers. In this regard, the "Insurance Corner" format was completely discontinued, with the related sales activities now carried out by specialist "Insurance Consulting Rooms" (at 30 September 2016, the number of post offices with these consulting rooms numbers 174). In addition, the new "UP Corner" sales format was introduced into 92 post offices with high growth potential, with the aim of promoting the offer of ancillary current account services and providing information on the insurance offering, directing interested customers to the relevant insurance specialists;
- implementation of the "new retail service model" at additional post offices (a total of 2,309 post offices at 30 September 2016 compared with the 900 at the end of 2015). The model provides for a more focused approach to customers with the introduction of consultants specialised in terms of target customers, and a new staff role dedicated to welcoming and guiding customers inside post offices;
- the introduction of a network of 51 Philately experts at Branch Offices, designed to strengthen the marketing of philately products by managing the related commercial initiatives; these staff also provide support for post offices that specialise in the sale of philately products, as well as developing relations within the areas for which they are responsible.

Further changes to the post office network regarded an increase in the number of Consulting Rooms, which total 6,350 at 30 September 2016. This includes 2,300 rooms with staff dedicated to affluent customers (900 at 31 December 2015) and 181 with staff having expertise in loan products (159 at 31 December 2015) and 174 with staff having expertise in insurance products (47 at 31 December 2015). In addition:

- new "Postamat windows" have been created at post offices (2,831 at 30 September 2016, compared with 2,808 at 31 December 2015);
- the "New queue management" system has been extended to further post offices, with 1,550 offices using the system at 30 September 2016 (720 at 31 December 2015);
- the number of Specialist Commercial Financial Promoters has been increased (318 staff at 30 September 2016, compared with 206 at 31 December 2015), and new roles have been introduced with responsibility for their coordination and support including via provision of direct assistance during the sales phase;
- the network of PosteMobile corners has been increased, with 340 in operation at 30 September 2016;
- free Wi-Fi has been made available to customers at further offices (at 30 September 2016 the number of offices equipped with Wi-Fi totals 2,199, compared with 917 offices at 31 December 2015);

[2] Management of the sales and contact channels for retail customers and Small and Medium Enterprises (SMEs) has been assigned to the Private Customer function, which coordinates the network of post offices and contact centre services.
[3] Rationalisation of the post office network, aimed at reducing universal service provision costs, is being carried out in accordance with the criteria laid down by the Ministerial Decree of 7 October 2008 and AGCom Resolution 342/14/CONS.

- with regard to the Business Channel, efforts to improve commercial effectiveness continued by increasing the number of Specialist Business Finance Consultants and expanding the Business Sales Force[4], which at 30 September 2016 totals 489 (464 at 31 December 2015) and focuses on the development of business with SMEs. The network of Specialist Business Consultants has been redistributed across a larger number of post offices in order to guarantee more effective management of areas with a high concentration of businesses. At 30 September 2016, 946 post offices have Specialist Business Consultants (907 at 31 December 2015). Moreover, a service has been made available on an experimental basis to customers at 128 offices without such consultants, enabling them to book an appointment with a specialist at a nearby office.

Following the tragic earthquakes that hit central Italy in August and October, Poste Italiane immediately launched a series of initiatives aimed at assisting residents of the most badly affected areas by opening mobile post offices within hours of the quakes striking, in order to keep all services up and running. Among other things, this enabled pensioners living in the areas affected by the earthquakes to draw their pensions at any post office across Italy. It was also decided to immediately suspend current repayments of mortgages and loans, at the request of those concerned. Finally, via activation of the "Seguimi" service, the delivery of mail to people who had been temporarily transferred was guaranteed, partly in collaboration with the Civil Defence Department and other emergency services.

During the first nine months of 2016, the "Poste Risponde" Contact Centre handled around 14 million contacts, including 92% for the captive market. Alongside the usual customer relationship management and commercial network support services, the centre launched new initiatives designed to support the Group's businesses. Among these, postal and logistics services saw the launch of the New Front-End Assistance (NFEA) application, which enables operators to improve customer management by optimising the time needed to deal with requests.

The number of specialist insurance advisors has been increased, whilst, in the postal segment, the channel provides support for citizens wishing to enable the Public System for Digital Identity Management (SPID). In this regard, Poste Italiane, in the role of Digital Identity Manager accredited by the Agency for Digital Italy, completed the process of launching the SPID, which allows all citizens and companies to access any service provided by the Public Administration or participating businesses using a single PIN and certifying their identity only once.

Poste Italiane's Digital Identity solution is called "PosteID abilitato a SPID" and can be requested, depending on the customer's requirements, either on line or at any post office in Italy.

In terms of customer satisfaction, with the aim of offering increasingly better support services, the Group has begun a structured process designed to analyse the channel's perceived quality, based on surveys conducted with customers who contact the Contact Centre. Customers for all services are automatically asked if they wish to take part in the surveys on a daily and permanent basis.

The web distribution channel, via the website www.poste.it and other dedicated web portals, provides access to online services for 11.9 million retail and business customers[5] (10.7 million at 31 December 2015), operating as a direct end-to-end sales channel and as a support provider for other channels.

[4] The Specialist Business Finance Consultants and the Business Sales Force are dedicated to small and medium enterprises (manufacturing, services, etc.). The Specialist Business Finance Consultants are geared towards customers who traditionally carry out operations at post offices, especially professionals and artisans.

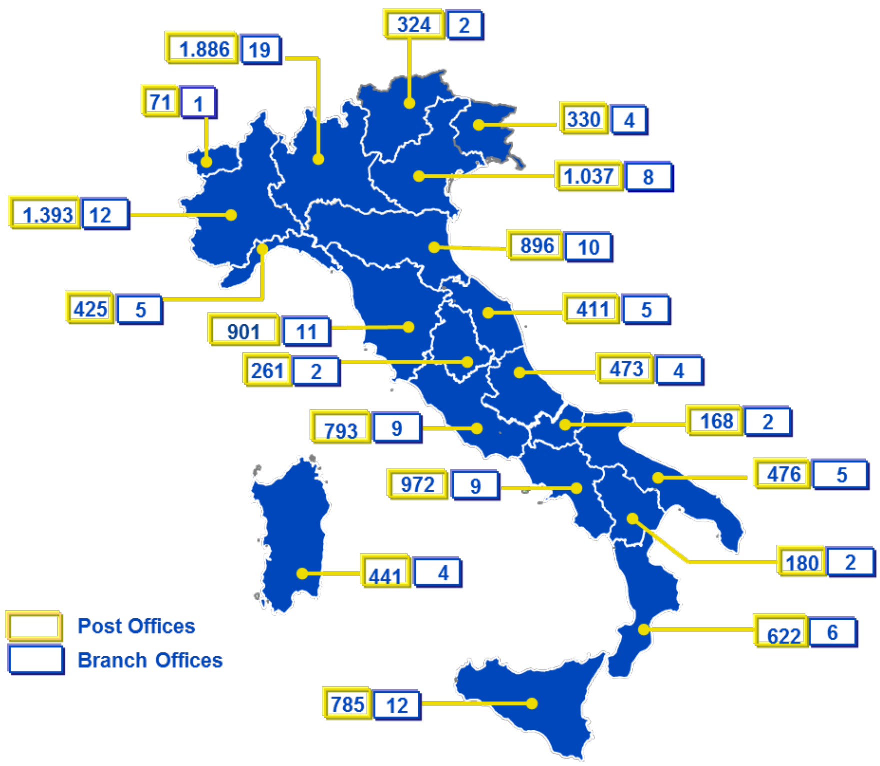
[5] The figure refers to registered and active users.

As well as carrying out evolutionary maintenance work on the portal during the first nine months of 2016, a series of initiatives was carried out, as part of the digital transformation process, with the aim of improving the Group's online offering.

In particular, new functions were added to the www.postepay.it website, including the ability to view historical transactions over the last year, the option of carrying out an international bank transfer from the new PostePay Evolution prepaid card and of activating the Postepay card directly on line. The www.postevita.it website also saw the addition of new functions for customers, including the introduction of new simulation apps linked to the launch of certain products and the possibility of making a claim on the customer's personal insurance policy and following its progress through to the outcome.

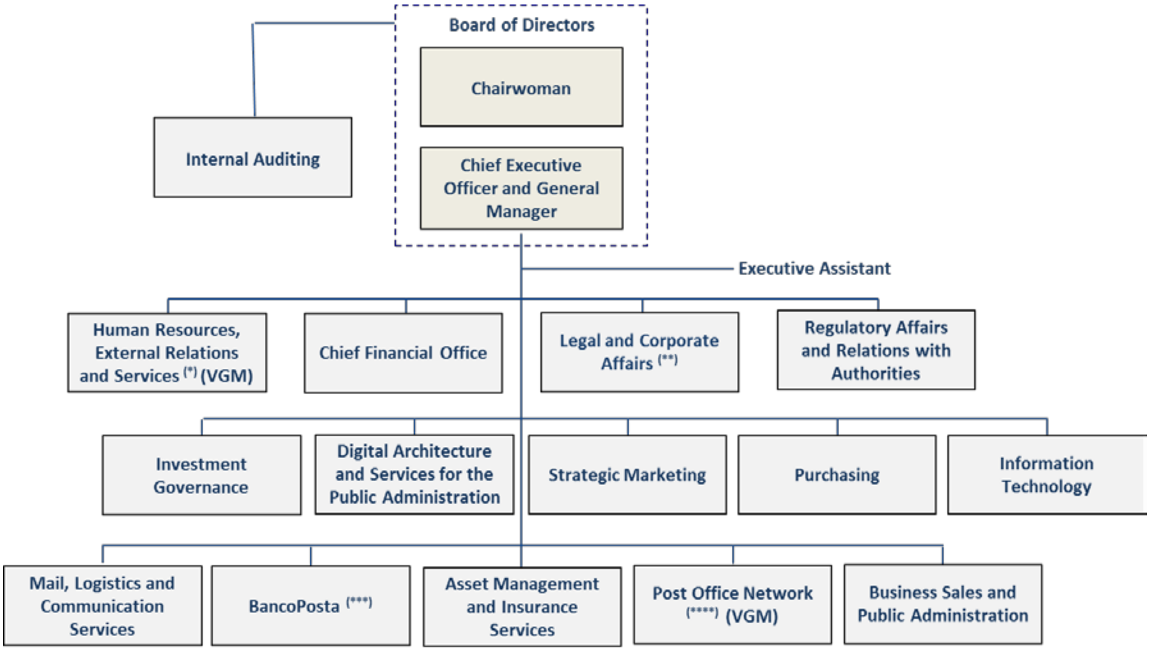
In the Large Account, Business and Central and Local Government[6] segment, implementation of the business and organisational model introduced in 2015 continued during the first nine months of 2016. This is based on approaches that differ in terms of the characteristics of the sectors in which customers operate, and the actual and potential value of the various identified targets. In particular, following the decision to transfer responsibility for Local Government customers to the Business Sales and Public Administration function, a specific commercial network has been put in place. Finally, with regard to the insurance business, the sales force was asked to also focus on welfare services for large companies.

Geographical distribution of post offices and branch offices



[6] The Business Sales and Public Administration function is responsible for managing the sales and contact channels for Large Account, Business and Central and Local Government customers.

ORGANISATIONAL STRUCTURE



(*) Human Resources and Organization, Real Estate, Communications, Institutional Relations and Security and Safety functions are part of the Vice General Manager area of responsibilities

(**) Legal Affairs, Corporate Affairs and Corporate Assurance & General Affairs functions are part of Legal and Corporate Affairs function

(***) BancoPosta's Internal Auditing function reports directly to the Board of Directors and the Board of Auditors

(****) The Vice General Manager leads Customer Operations and Financial Back Office Integration Projects

During the first nine months of 2016, initiatives were aimed at consolidating the Group's organisational and operating model in order to further improve its quality and efficiency. These initiatives regarded:

- the appointment of two Deputy General Managers who have been assigned, in addition to significant organisational responsibilities, the role of implementing a series of initiatives across the Group that will be key to achieving the strategic objectives set out in the Plan. The Human Resources, External Relations and Services function has been created, coordinated by one of the two Deputy General Managers, to which responsibility for Human Resources and Organisation, Property, Security and Safety, Communication and Government Relations has been allocated;
- the centralisation of central and local administrative and accounting functions within the Chief Financial Office as part of the plan to progressively centralise administrative services and the accounting cycle within the Group, and to strengthen Mergers and Acquisitions activities by setting up a specific unit to evaluate and carry out transactions;
- the creation, within the Information Technology function, of a unit specialising in the design, development and operation of the fixed line telecommunications business ("*Rete Fissa TLC*") transferred to the Parent Company following its demerger by Poste Mobile SpA.

The process of rationalising the Mail, Logistics and Communication function, as envisaged in the Business Plan and the union agreements of 25 September 2015 and 24 February 2016, has continued. This has involved the implementation of the new alternate-day delivery model in the selected areas and efficiency improvements to the number of delivery areas.

Finally, the third quarter saw the roll-out of the Customer Operations Project, under the responsibility of the Deputy General Manager and head of the Private Customer function, which is aimed at providing integrated customer care management at Group level.

4. PERFORMANCE INDICATORS

The recognition, measurement and classification criteria used are consistent with those used in the preparation of the Annual Report for 2015 and are those established by the International Financial Reporting Standards (IFRS) adopted by the European Union and contained in the related EU regulations published up to 9 November 2016, the date on which Poste Italiane SpA's Board of Directors approved this interim report for the nine months ended 30 September 2016.

The disclosures in the interim report are designed to provide an update on operations, events and circumstances taking place solely in the first nine months of 2016. Full disclosure is provided in the Annual Report for 2015.

In keeping with the guidelines published by the European Securities and Markets Authority on 5 October 2015 (ESMA/2015/1415), which, as announced by the CONSOB[7], have, from 3 July 2016, replaced the Committee of European Securities Regulators' Recommendation CESR/05-178b, in addition to the financial disclosures required by IFRS, Poste Italiane has included a number of indicators in this report that have been derived from them. These provide management with a further tool for measuring the performances of the Parent Company and its subsidiaries.

In particular, in addition to the operating segment disclosures required by IFRS 8, management has proceeded to reclassify the income statement for the Financial Services and Insurance Services and Asset Management segments solely for the purpose of integrating and enhancing its assessment of the operating performance of the specific segments in which the Group operates.

The following alternative performance indicators are used:

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) – this is an indicator of a company's operating profit before non-operating financial expenses and taxation, and depreciation, amortisation and impairments of non-current assets and investment property.

Gross ROE (Return On Equity) – the ratio of pre-tax profit to the average value of equity at the beginning and end of the reporting period. The performance of this indicator reflects, among other things, the change in the fair value reserves for financial assets classified as available-for-sale. In order to facilitate comparison of the Group's profitability, pre-tax profit has been used in calculating this indicator, rather than net profit for the period, given the different forms of taxation to which the Group's operating segments are subject.

NON-CURRENT ASSETS – this indicator represents the sum of property, plant and equipment, investment property, intangible assets and investments measured using the equity method.

WORKING CAPITAL – the sum of inventories, trade receivables and other receivables and assets, current tax assets, trade payables and other liabilities, and current tax liabilities.

NET INVESTED CAPITAL – the sum of non-current assets and working capital, deferred tax assets, deferred tax liabilities, provisions for risks and charges and provisions for employee termination benefits and pension plans.

[7] Announcement 0092543 of 3 December 2015.

GROUP NET (DEBT)/FUNDS - the sum of financial liabilities, technical provisions for the insurance business, financial assets, technical provisions attributable to reinsurers, cash and deposits attributable to BancoPosta and cash and cash equivalents. This indicator is also shown separately for each operating segment.

INDUSTRIAL NET (DEBT)/FUNDS, IN ACCORDANCE WITH ESMA GUIDELINES, for the Postal and Business Services and Other Services segments - the sum of the following items, shown according to the format recommended by ESMA, the European Securities and Markets Authority (document 319 of 2013): financial liabilities after adjusting for intersegment transactions, current financial assets after adjusting for intersegment transactions and cash and cash equivalents.

INDUSTRIAL NET (DEBT)/FUNDS, before adjusting for intersegment transactions: this is the sum of net debt attributable to the sum of net (debt)/funds for the Postal and Business Services and Other Services segments before adjusting for intersegment transactions.

5. GROUP OPERATING RESULTS

MACROECONOMIC ENVIRONMENT

The first nine months of 2016 saw moderate growth in the global economy and in international trade, below estimates at the beginning of the year. The weakening economic outlook was confirmed by the projections published by a number of bodies in September, including the OECD, the IMF and the World Trade Organization, which have revised down their estimates for 2016.

Declining confidence in the outlook for the international economy has led to an excess supply of oil, with prices remaining volatile as a result. This excess production may be resolved following OPEC's decision to cut production. The details of this agreement, which has yet to be ratified, should be finalised in November 2016.

Among the industrialised economies, the USA continues to grow, even though at a slower rate, driven by exports and consumer spending. In this context, the Federal Reserve's monetary policy, whilst showing signs of a change in approach, continued to put off any rise in interest rates.

In the UK, the result of the EU referendum (Brexit) has so far not had a negative impact on international markets and growth has continued to be positive.

GDP growth in Japan was modest and consumer price inflation remains negative, despite the expansionary policies and reforms adopted by the government.

The situation in emerging countries remains fragile, whilst key economic indicators in China appear to indicate that the rate of economic growth is stabilising, thanks to an expansion of credit and an increase in internal demand, which have offset the reduced contribution from net exports and investment.

In Europe, the latest figures from the European Central Bank (ECB) point to a moderate recovery, slightly below expectations in June. Growth has been held back by weak global demand and inflation has remained below expectations. Implementation of expansionary monetary policies, aimed at ensuring that inflation returns to the target range, has continued.

From the point of view of trade, it should be noted that the free trade agreement between the EU and Canada will only come fully into effect after its ratification by the parliaments of EU member states.

In Italy, after a positive first quarter, economic growth fell away, reflecting weak internal demand. The rate of growth in consumer spending slowed as purchases of all types of goods declined, including durables. The rate of unemployment, which was slightly down in August, has been broadly stable. After the brief economic recovery, the corporate credit market slowed and demand for loans declined further in July. In contrast, consumer spending has continued to pick up, as has demand for credit.

Recent economic indicators point to continuing economic weakness in the coming months, with projections for GDP growth for the year as a whole having been revised downwards by international investors and institutions.

CONSOLIDATED OPERATING RESULTS

Profit for the first nine months of 2016 amounts to €807 million, an improvement of €185 million (29.7%) on the same period of the previous year.

Operating profit is up 28.6% from €930 million for the first nine months of 2015 to €1,196 million for the first nine months of 2016, benefitting from the positive performances of the various sectors in which the Group operates.

The Postal and Business Services segment made a positive contribution of €35 million to operating profit (an operating loss of €137 million in the same period of the previous year), essentially reflecting the positive contribution from the fees paid by BancoPosta RFC in return for use of the Group's distribution network.

The Financial Services segment recorded an operating profit of €704 million (€670 million in the first nine months of 2015), primarily linked to non-recurring income generated by the sale of the Group's investment in Visa Europe Ltd.[8], which took place as part of Visa Inc.'s acquisition of this company, and to returns on BancoPosta RFC's investments, on which distribution revenue depends.

The Insurance Services and Asset Management segment reports operating profit of €436 million (up 18.5%) and an excellent operating performance, with €15.4 billion in premium revenue during the period (€14.5 billion in the first nine months of 2015).

[8] On 21 December 2015, Visa Europe informed its Principal Members, including Poste Italiane which held an ordinary share previously allocated at the time of the company's incorporation, that each of them would be paid a consideration as a result of the acquisition and merger of Visa Europe Ltd with the US-registered company, Visa Incorporated. This transaction was completed on 21 June 2016 and, as a result, Poste Italiane was paid the above consideration, based on a total fair value of the investment of €121 million.

RECLASSIFIED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the nine months ended 30 September (€m)	2016	2015	Increase/(decrease)	
Revenue from sales and services and insurance premium revenue	21,794	21,041	753	3.6%
Postal and Business Services	2,687	2,783	(96)	-3.4%
Financial Services	3,501	3,504	(3)	-0.1%
Insurance Services and Asset Management	15,438	14,575	863	5.9%
Other Services	168	179	(11)	-6.1%
Other income from financial and insurance activities	3,887	2,828	1,059	37.4%
Financial Services	602	441	161	36.5%
Insurance Services and Asset Management	3,285	2,387	898	37.6%
Other operating income	48	52	(4)	-7.7%
Postal and Business Services	41	46	(5)	-10.9%
Financial Services	4	4	-	n/s
Insurance Services and Asset Management	2	-	2	n/s
Other Services	1	2	(1)	-50.0%
Total revenue	**25,729**	**23,921**	**1,808**	**7.6%**
Cost of goods and services	1,809	1,874	(65)	-3.5%
Net change in technical provisions for insurance business and other claims expenses	17,449	15,475	1,974	12.8%
Other expenses from financial and insurance activities	360	674	(314)	-46.6%
Personnel expenses	4,333	4,370	(37)	-0.8%
Capitalised costs and expenses	-15	-21	6	28.6%
Other operating costs	158	194	(36)	-18.6%
Total costs	**24,094**	**22,566**	**1,528**	**6.8%**
EBITDA	1,635	1,355	280	20.7%
Depreciation, amortisation and impairments	439	425	14	3.3%
Operating profit/(loss)	**1,196**	**930**	**266**	**28.6%**
Finance income/(costs)	14	41	(27)	-65.9%
Profit/(loss) on investments accounted for using the equity method	7	-	7	n/s
Profit/(Loss) before tax	**1,217**	**971**	**246**	**25.3%**
Income tax expense	410	349	61	17.5%
Profit for the period	**807**	**622**	**185**	**29.7%**

n/s: not significant

Total revenue by operating segment

for the nine months ended 30 September (€m)	2016	2015	Increase/(decrease)	
Postal and Business Services	2,728	2,829	(101)	-3.6%
Financial Services	4,107	3,949	158	4.0%
Insurance Services and Asset Management	18,725	16,962	1,763	10.4%
Other Services	169	181	(12)	-6.6%
Total revenue	**25,729**	**23,921**	**1,808**	**7.6%**

Total revenue of €25.7 billion is up 7.6% on the same period of 2015. The improvement primarily reflects the positive performance of insurance services and asset management, where total revenue amounts to €18.7 billion (up 10.4% on the first nine months of 2015).

Postal and Business Services contributed total revenue €2,728 million, registering a reduction of 3.6% due to the expected decline in traditional letter post. It should be noted that there has been an ongoing slowdown in the pace of decline in this segment's total revenue over a number of quarters. Despite this, the decline in revenue from traditional letter post is only partially being replaced by revenue from the parcels business.

Total revenue from Financial Services amounts to €4,107 million, marking an increase of 4.0 due to a rise in "Other income from financial activities", which is up from €441 million in the first nine months of 2015 to €602 million in the same period of 2016. This income includes €121 million in non-recurring income generated by the sale of the Group's investment in Visa Europe Ltd.

The Insurance Services and Asset Management segment which, from 1 January 2016, also includes the activities of BancoPosta Fondi Sgr, delivered excellent results during the period (€18.7 billion in total revenue), with Poste Vita and its subsidiary, Poste Assicura, recording premium revenue of €15.4 billion (premium revenue of €14.5 billion in the same period of 2015). This primarily reflects the performances of traditional Class I investment and savings products, where the Group has built up a strong presence.

Total revenue from Other Services amounts to €169 million (€181 million in the same period of 2015) and is generated by Poste Mobile.

Cost of goods and services

for the nine months ended 30 September (€m)	2016	2015	Increase/(decrease)	
Services	1,419	1,427	(8)	-0.6%
Lease expense	256	272	(16)	-5.9%
Raw, ancillary and consumable materials and goods for resale	108	130	(22)	-16.9%
Interest expense	26	45	(19)	-42.2%
Total	**1,809**	**1,874**	**(65)**	**-3.5%**

The cost of goods and services is down 3.5% from €1,874 million in the first nine months of 2015 to €1,809 million in the first nine months of 2016, primarily reflecting lower costs for both goods (down €22 million) and a reduction in the interest paid to customers by BancoPosta RFC (down €19 million on the same period of the previous year).

The net change in technical provisions for the insurance business and other claims expenses, which is closely linked to the above growth in premium revenue recorded by Poste Vita, amounts to €17.4 billion (€15.5 billion in the first nine months of the previous year).

Other expenses from financial and insurance activities are up from €674 million in the first nine months of 2015 to €360 million in the same period of 2016, reflecting the impact of movements in the fair value of financial instruments held by the subsidiary, PosteVita and by BancoPosta RFC.

Personnel expenses

for the nine months ended 30 September (€m)	2016	2015	Increase/(decrease)	
Salaries, social security contributions and sundry expenses (*)	4,315	4,348	(33)	-0.8%
Redundancy payments	14	21	(7)	-33.3%
Net provisions (uses) for disputes	4	1	3	n/s
Total personnel expenses	**4,333**	**4,370**	**(37)**	**-0.8%**

n/s: not significant

(*) This includes the following items described in note C8 to the condensed interim financial statements at 30 september 2016: salaries and wages; social security contributions; employee termination benefits; temporary work; Directors' fees and expenses; other costs (cost recoveries).

Personnel expenses are down €37 million from €4,370 million in the first nine months of 2015 to €4,333 million in 2016, essentially due to a reduction in ordinary expenses, linked to salaries, contributions and sundry expenses.

The cost of early retirement incentives during the period amounts to €14 million (€21 million in the same period of the previous year) and regards management personnel. The cost of early retirement incentives for non-management staff was covered by a portion of the provisions for restructuring charges, made at the end of the previous year to cover the estimated costs to be incurred by Poste Italiane for early retirement incentives for employees leaving the Company by 31 December 2017.

OPERATING RESULTS BY OPERATING SEGMENT

for the nine months ended 30 September 2016 (€m)	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Adjustments and eliminations	Total
External revenue	2,728	4,107	18,725	169	-	25,729
Intersegment revenue	3,529	413	-	38	(3,980)	-
Total revenue	**6,257**	**4,520**	**18,725**	**207**	**(3,980)**	**25,729**
Costs	6,154	313	17,894	172	-	24,533
Intersegment costs	68	3,503	395	14	(3,980)	-
Total costs	**6,222**	**3,816**	**18,289**	**186**	**(3,980)**	**24,533**
Operating profit/(loss)	**35**	**704**	**436**	**21**	**-**	**1,196**

for the nine months ended 30 September 2015 (€m)	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Adjustments and eliminations	Total
External revenue	2,829	3,949	16,962	181	-	23,921
Intersegment revenue	3,364	388	-	69	(3,821)	-
Total revenue	**6,193**	**4,337**	**16,962**	**250**	**(3,821)**	**23,921**
Costs	6,232	327	16,225	207	-	22,991
Intersegment costs	98	3,340	369	14	(3,821)	-
Total costs	**6,330**	**3,667**	**16,594**	**221**	**(3,821)**	**22,991**
Operating profit/(loss)	**(137)**	**670**	**368**	**29**	**-**	**930**

POSTAL AND BUSINESS SERVICES

POSTAL SERVICES MARKET

In the first nine months of 2016, the postal services market registered what is by now a long-standing decline in traditional letter post volumes and revenue, accompanied by progressive volume and revenue growth in the parcel services market, primarily driven by the expansion of e-commerce.

The pace and extent of the decline in letter volumes continues to vary from one European operator to another, depending on a range of factors, such as the level of internet penetration, the degree to which public and private organisations have shifted to electronic invoicing and billing (e-substitution), the level of market competition and deregulation, the degree of demand elasticity to price changes and other macroeconomic factors.

In Italy, the approach adopted by the regulator (the *Autorità per le Garanzie nelle Comunicazioni* or AGCom) to provision of the Universal Service has allowed Poste Italiane to proceed with its planned transformation of the postal service, necessary in order to continue to effectively meet the changing needs of citizens in the digital age.

Postal and Business Services segment profit or loss

for the nine months ended 30 September (€m)	2016	2015	Increase/(decrease)	
Revenue from sales and services	2,687	2,783	(96)	-3.4%
Other operating income	41	46	(5)	-10.9%
Total external revenue	**2,728**	**2,829**	**(101)**	**-3.6%**
Intersegment revenue	3,529	3,364	165	4.9%
Total revenue	**6,257**	**6,193**	**64**	**1.0%**
Cost of goods and services	1,488	1,530	(42)	-2.7%
Personnel expenses	4,200	4,239	(39)	-0.9%
Depreciation, amortisation and impairments	404	389	15	3.9%
Capitalised costs and expenses	(15)	(21)	6	28.6%
Other operating costs	77	95	(18)	-18.9%
Intersegment costs	68	98	(30)	-30.6%
Total costs	**6,222**	**6,330**	**(108)**	**-1.7%**
Operating profit/(loss) (EBIT)	**35**	**(137)**	**172**	**n/s**

n/s: not significant

The Postal and Business Services segment reports operating profit of €35 million (an operating loss of €137 million for the same period of 2015).

This reflects an increase in intersegment revenue (up €165 million or 4.9% compared with the same period of 2015), which is regulated by specific internal operating guidelines governing the fees payable for services provided to the Financial Service segment. This made up for the reduction in volumes and revenue generated by the external market (down €101 million or 3.6% compared with the same period of the previous year), primarily attributable to the decline in traditional letter post.

The increase in intersegment revenue from distribution services also reflects the results generated by active management of BancoPosta's investment portfolio and the above gain on the sale of the investment in Visa Europe.

The segment's positive performance during the period also reflects both a lower cost of goods and services (down €42 million on the same period of 2015) and a reduction in personnel expenses (down €39 million on the same period of 2015), both linked to numerous efficiency improvements achieved during the period.

Operating results

Group Letter Post

for the nine months ended 30 September (€m)	Volumes (in millions)				Revenue (€m)			
	2016	2015	Increase/(decrease)		2016	2015	Increase/(decrease)	
Unrecorded Mail and Philately	1,128	1,160	(32)	-2.8%	708	750	(42)	-5.6%
Recorded Mail	146	150	(4)	-2.7%	701	704	(3)	-0.4%
Direct Marketing and Unaddressed Mail	563	691	(128)	-18.5%	124	139	(15)	-10.8%
Integrated Services	26	31	(5)	-16.1%	145	159	(14)	-8.8%
Other (*)	727	857	(130)	-15.2%	186	207	(21)	-10.1%
Universal Service Obligation (USO) compensation (**)					197	197	-	n/s
Total Group Letter Post	**2,590**	**2,889**	**(299)**	**-10.3%**	**2,061**	**2,156**	**(95)**	**-4.4%**

n/s: not significant
(*) Includes services for publishers, multi-cnannel services, printing, document management, other basic services.
(**) Universal Service compensation also includes compensation relating to the ordinary parcels service.

Group Express Delivery, Logistics and Parcels

for the nine months ended 30 September (€m)	Volumes (in millions)				Revenue (€m)			
	2016	2015	Increase/(decrease)		2016	2015	Increase/(decrease)	
Express delivery	**66.8**	**58.3**	**8.5**	**14.6%**	**394.1**	**349.5**	**44.6**	**12.8%**
Domestic Express delivery	53.0	46.0	7.0	15.2%	310.8	274.0	36.8	13.4%
International Express delivery	13.8	12.3	1.5	12.2%	83.3	75.5	7.8	10.3%
Parcels	**1.4**	**1.4**	**-**	**n/s**	**25.5**	**27.7**	**(2.2)**	**-7.9%**
Domestic Parcels	1.0	0.9	0.1	11.1%	10.0	9.2	0.8	8.7%
International Parcels	0.4	0.5	(0.1)	-20.0%	15.5	18.5	(3.0)	-16.2%
Other (*)					**41.3**	**54.0**	**(12.7)**	**-23.5%**
Total Group Express delivery, Logistics and Parcels	**68.2**	**59.7**	**8.5**	**14.2%**	**460.9**	**431.2**	**29.7**	**6.9%**

n/s: not significant
(*) The item, "Other", includes Dedicated Services, Logistics, other SDA Express Courier SpA services and other revenue attributable to Consorzio Logistica Pacchi ScpA.

The performance of the Group's Letter Post services reflects a reduction in volumes and revenue, with declines of 10.3% (299 million fewer items) and 4.4% (€95 million), respectively, compared with the same period of 2015. This essentially due to the structural decline in traditional postal services, in part reflecting the progressive shift away from paper-based communication towards digital forms (letter post replaced by e-mail, electronic billing, etc.).

The decline in Unrecorded Mail (32 million fewer items, down 2.8% on the same period of 2015) generated a matching reduction in revenue of €42 million (down 5.6%), reflecting, as previously mentioned, the general decline in market volumes as a result of e-substitution.

Despite a 2.7% reduction in volumes (4 million fewer items than in the same period of the previous year), revenue from Recorded Mail remained broadly stable, decreasing from €704 million in the first nine months of

2015 to €701 million in 2016. This reflects price increases for Registered Mail introduced from 1 December 2015.

Direct Marketing and Unaddressed Mail volumes and revenue are down 18.5% and 10.8%, respectively, due reflecting the Group's decision to exit the unaddressed mail market and customers rationalising their mail spend.

After adjusting for the above decision, the fall in traditional letter post volumes is 5%.

Other revenue includes, among other things, services for publishers, which fell as a result of the continuing decline in the number of subscribers for printed publications and the increase in digital subscriptions.

The compensation partially covering the cost of the Universal Service for 2016 was set at €197 million, awarded within the limits of the amount earmarked in the government's budget by the 2015 Stability Law and as set out in the current *Contratto di Programma* (Service Contract).

The Express Delivery, Logistics and Parcels segment saw growth in the volume of items transported and in revenue, registering increases of 14.2% (8.5 million more items handled) and 6.9% (up €29.7 million), respectively, compared with the first nine months of 2015. This good performance is essentially due to growth in the National Express Delivery segment, which registered a rise of 7 million in the number of items handled and a €36.8 million increase in revenue (volumes up 15.2% and revenue up 13.4%, compared with the same period of 2015), due to the good performance posted by e-commerce in the B2C segment.

The International Express Delivery segment also performed well (volumes up 12.2%, and revenue up 10.3%) thanks to a similar increase in international shipments linked to e-commerce.

POSTAL SECTOR REGULATION

In accordance with art. 23, paragraph 2 of Legislative Decree 261/1999, as amended, every five years – from the entry into effect of Legislative Decree 58/2011, which provided that Poste Italiane SpA should be the Universal Service provider for a period of fifteen years – the Ministry for Economic Development assesses, on the basis of a survey conducted by the regulator (the *Autorità per le Garanzie nelle Comunicazioni* or AGCom), whether or not provision of the service meets the criteria set out in the decree (continuity of service provision, profitability, efficiency improvements, etc.) and if there have been improvements to the efficiency of provision.

Following this five-yearly assessment, the results of which were communicated by AGCom in Resolution 379/16/CONS (annex A) dated 28 July 2016, the Ministry for Economic Development issued a Decree on 25 August 2016, confirming that Poste Italiane's provision of the universal service in the period from 30 April 2011 to 30 April 2016 had fulfilled the related requirements.

On 26 January 2015, the Ministry for Economic Development issued a Decree regarding "Calculation and procedures for the payment of contributions by postal operators to AGCom for the years 2012, 2013 and 2014", regarding the contribution that all postal service operators are obliged to pay to AGCom to fund the regulator's activities, in accordance with the provisions of Legislative Decree 261/99. Poste Italiane paid the contributions for 2012 and 2013 to the regulator on 30 March 2015. The contribution for 2014 was paid on 11 December 2015, subject to the right to request a recalculation depending on the outcome of the appeal lodged by the Italian Association of International Air Couriers (AICAI) and other postal operators, requesting cancellation of the relevant Decree. On 10 February 2016, with sentence no. 1930 in first instance, the First Section of the Lazio Regional Administrative Court ruled that the retroactive nature of the contribution for the years 2012-2014 was unlawful. The final outcome of the dispute is awaited, given that an appeal is due to be heard by the Council of State.

On 10 March 2016, the Ministry for Economic Development issued an Interministerial Decree regulating payment of the contribution payable, by postal operators, to AGCom for 2016, whilst awaiting the Ministry's issue of the decree determining the contribution for 2015 and 2016, in accordance with the provisions of Legislative Decree 261/99. In May 2016, Poste Italiane paid the amount due in accordance with the indications provided by AGCom in Resolution 145/16/CONS of 19 April 2016.

A further Interministerial Decree of 10 March 2016 redefined the contributions due to the Ministry for Economic Development, for 2016 and 2017, for the procedure involved in the issue of the various authorisations (the individual licence and general authorisation) and the controls and checks made to ensure that the related requirements continue to be met. In May 2016, Poste Italiane paid the amount due for 2016 and the payment on account for 2017.

On 29 July 2016, AGCom published Resolution 166/16/CONS, launching a public consultation on the draft ruling concerning assessment of the net cost of the universal postal service in 2013 and 2014. On 27 September 2016, Poste Italiane submitted its contribution to the consultation to the regulator.

Other regulatory measures regarding the sector include the draft of Law 3012 "Annual market and competition law", approved by the lower house of Parliament on 7 October 2016, which in art. 25 provides for the repeal, from 10 June 2017, of art. 4 of Legislative Decree 261/99, giving Poste Italiane SpA exclusive rights (as the Universal Service provider) to offer services relating to legal process and the notification of violations of the Highway Code. To date, the parliamentary procedure has yet to be completed, so the rights are still attributed to Poste Italiane.

OPERATING REVIEW

The Group has proceeded with its restructuring of its postal and logistics operations. As previously mentioned in the section, "Organisational structure", the aim is to develop a new, quality Universal Service that is sustainable and in keeping with the changing needs of citizens.

In this regard, as part of the optimisation, digital transformation and automation process, the following have been completed:

- the "Digital signature for postmen and women" project, which enables the addressee's signature to be obtained directly on the handheld device as proof of delivery of the letter or package, alongside the GPS coordinates of the place of delivery;
- implementation, at Delivery Centres, of an ICT solution for managing, accounting for and reporting payment-on-delivery transactions carried out by postmen and women (e.g., cash or POS payments for the door-to-door sale of services, such as registered mail, Postepay topups, etc.);
- the activation of Driven Parcel Sorting machines for automating and tracking parcels at the Bologna, Florence, Milan Peschiera Borromeo, Turin, Padua and Rome Fiumicino sorting centres.

Renewal of the fleet of vehicles, which will, by 2017, result in the replacement of approximately 17 thousand vehicles located at Network Centres and used for the transport and delivery of postal products.

In terms of initiatives designed to improve the quality performance, the monitoring of the most important service provision processes continued via the introduction, at local level, of the quality dashboard[9]. Each dashboard indicator enables assessment of the performances of both the organisation as a whole and each organisational unit (Distribution Centre/Primary/Secondary/Decentralised Distribution Centres) against their assigned targets.

A call for tenders was launched in 2015 to select a Customer Service provider for the Group. On completion of the tender process, the companies to which SDA Express Courier had outsourced the services until the end of 2015 – Uptime SpA, a jointly controlled entity, and Gepin Contact SpA (the other shareholder in Uptime SpA) – were not awarded the contract and, on 30 December 2015, SDA terminated its relationships with these companies, as provided for in the relevant contracts with effect from 1 July 2016.

With the regard to the transaction's impact on jobs, on 16 March 2016, an Ordinary General Meeting of Uptime SpA's shareholders determined, with the vote of the majority shareholder (Gepin) alone, to terminate operations and wind-up the company. The shareholder, SDA, abstained. Following the start of the process that will make all 93 employees redundant, on 31 May 2016, Poste Italiane and labour unions representing most of the workers involved reached agreement on the redeployment of the workers involved. This envisages, among other things, that Poste Italiane will hire all former Uptime employees who have failed to find alternative employment by 31 December 2016 on permanent part-time contracts. As regards Gepin, negotiations involving the companies awarded the new contract, Poste Italiane and the labour unions, with a view to resolving employment issues, are still in progress.

Strictly in terms of employment law, in recent months, a number of former employees of Uptime/Gepin have filed a claim for wrongful dismissal, despite the agreements reached and the negotiations in progress.

From a civil law standpoint, Gepin, also acting on behalf of the subsidiary, Uptime SpA, has filed a number of claims for damages amounting to a total of around €60 million, for the most part linked to the allegedly unjustified nature of termination of the above contracts. All the claims have been opposed in court. Based on the advice of its legal counsel, SDA believes that the claims have no legal basis.

Moreover, during 2016, Gepin served notice of three claims, one relating to uncontracted services that were in any event not provided, totalling approximately €3.7 million and immediately challenged in court, and a further two, amounting to €0.6 million and €1.2 million, which were paid by SDA as the related services had been duly invoiced.

Without prejudice to the agreement regarding Uptime's employees, the financial statements for the year ended 31 December 2015 have been approved and, following the decision to place the company in liquidation, the liquidator's issue of the liquidation balance sheet is awaited. The document will enable the Group to assess the economic impact of potential liabilities connected, for the most part, to the costs incurred or to be incurred as a result of the above redundancies.

[9] The dashboard is a system for summarising and aggregating data regarding a company, in order to present the information in a chart or in number form, thereby providing an immediate and readibly understandable visual format.

Postal service quality targets

With regard to the audit of quality targets for 2014, published by the regulator on 22 December 2015, AGCom has identified a slight shortfall (0.1%) with respect to the national regulatory target for extra-regional Priority Mail and 1.1% shortfall with respect to the target for the Abruzzo region. The latter shortfall resulted in the regulator's application of a penalty of €50,000, as per Resolution 572/15/CONS of 16 October 2015. On 7 December 2015, the Company submitted a defence brief, contesting this resolution. With Resolution 5/16/CONS of 14 January 2016, AGCom confirmed application of the €50,000 penalty, which Poste Italiane paid on 7 March 2016.

In a memorandum dated 27 November 2015, AGCom asked IZI SpA to transfer its sample quality checks on Priority Mail to the Ordinary Mail service from December 2015. Furthermore, with Resolution 699/15/CONS issued on 15 January 2016, regarding the contract with IZI SpA, the regulator extended the contract to include additional services relating to the survey of Ordinary Mail delivery times in municipalities where alternate day delivery is in operation (the first stage of the rollout of such a service) for the period 1 February – 30 June 2016.

On 31 March 2016, the results for registered, bulk and priority mail (for the period October-December 2015) and ordinary parcel post in the second half of 2015 were submitted to AGCom. All the results are in line with the relevant regulatory targets.

On 30 June 2016, in compliance with art. 9, paragraph 1, letters b) and c) of annex A to AGCom Resolution 413/14/ CONS, the Group submitted the report, containing the results for the quality of deregulated delivery services provided in 2015, to the regulator. The report was also published on Poste Italiane's website.

On 26 September 2016, the results for registered, bulk and priority mail and ordinary parcel post in the first half of 2016 were submitted to AGCom.

In addition, statistics relating to the quality of the service covering the notification of legal process have also been submitted. The performance of this service, which is not covered by regulatory targets set by the regulator in accordance with art. 12 of Legislative Decree 261/99, has been assessed on the basis of Law 190/2014 (the 2015 Stability Law) and using, merely for reference purposes, the indicators for registered mail. All the statistics are in line with regulatory targets.

On 21 July 2016, AGCom published Determination 132/16/SAG, launching an open EU tender procedure for the selection of a specialist, independent body to monitor the quality of universal postal service provision in the three-year period from 1 December 2016 to 30 November 2019. The tender is in progress.

On 29 May 2015, in response to certain press reports, Italy's Data Protection Authority asked Poste Italiane to provide information regarding alleged processing of the personal data of persons operating at companies (in particular IZI SpA) appointed to monitor postal service quality standards. According to the Authority, the data was processed without providing the parties concerned with the relevant privacy notices and without obtaining their consent to use of the data. Poste Italiane has met all of the Authority's requests, providing a full and documented response and setting out details of the resulting internal audit carried out, the disciplinary proceedings regarding the staff involved and the organisational and procedural steps taken or in the process of being implemented. In the light of this, on 23 March 2016, the Authority, in view of the provisions of Authority regulation 1/2007 (art. 11, paragraph 1, letter d), announced that, at that time, there were no grounds for applying restrictions or prohibitions. From the findings of the internal audit, it appears, however, that certain members of staff interfered with quality control systems in violation of the Company's policy. It is currently impossible to ascertain whether this behaviour may have influenced determination of the service quality indicators recorded, and the possibility that the impact of such events may give rise to legal proceedings and fines cannot be ruled out. In response to the above findings, 246 reprimands have been notified and, at 31 March 2016, there have been 15 dismissals and 156 disciplinary measures without dismissal relating to managerial and non-managerial staff.

A technical committee was set up to manage these proceedings in order to verify the findings regarding the contested audits, taking into account the defence arguments put forward by the parties concerned and any other evidence that may emerge. All these measures also refer to the Company's right to take action to protect its rights and interests with respect to findings that may yet emerge and damages the Company may suffer for any reason or cause whatsoever.

For the sake of completeness – and again with regard to the disciplinary measures taken -, following completion of the audit carried out in the meantime, a further in-depth investigation was conducted. This identified specific evidence of wrongdoing by the personnel involved.

As a result, disciplinary action was taken against a further 988 people from early May 2016 onwards. On completion of the related procedures, which were carried out with the aid of the above technical committee, there were a total of 976 disciplinary measures without dismissal relating to managerial and non-managerial staff. This marks the end of any possible disciplinary action, given that there are no further irregularities to be penalised.

In 2015, a long-term transformation programme was launched aimed at increasing the level of automation of mail and parcel logistics procedures, in all processing phases, from collection to delivery, partly through the development of ICT support systems and platforms. This programme will enable a substantial strengthening of performance monitoring.

In this context, the Company has submitted a statement to the judiciary, appearing as the injured party and submitting a report prepared by Internal Auditing, in which the measures taken by the Company, including action against the personnel involved, are described. The report has also been filed with the other independent authorities.

FINANCIAL SERVICES

FINANCIAL MARKET TRENDS

The continuing presence of deflationary pressures in the Eurozone and market instability led the European Central Bank ("ECB") to introduce, in June 2016, four new Targeted Longer-Term Refinancing Operations (TLTRO2) with four-year terms and incentives designed to encourage banks to lend to the private sector. This expansionary monetary policy helped to contain the widening of sovereign spreads during the period of financial turbulence witnessed between the start of the year and the end of June. The spread between 10-year Treasury Notes (BTPs) and 10-year German Bunds, in the days immediately following the Brexit referendum, exceeded 160 basis points, whilst it stood at around 131 basis points on 30 September.

Against this backdrop, the international equity markets were subject to a high degree of volatility and a significant increase in risk aversion among investors in the first nine months of 2016. Overall, the US markets outperformed their European counterparts: at the end of September, the S&P 500 is up 11.1% from the beginning of the year, whilst European stock exchanges (the Dow Jones Eurostoxx index) have lost 3.4% over the same period. The Italian market was the worst performer, falling 23% since the beginning of the year. In addition to macroeconomic factors, the above falls were driven by banking stocks, reflecting the high amount of doubtful loans as a proportion of total lending (Italian banking stocks lost approximately 50% of their value in the first nine months of 2016).

In the exchange markets, the process of aligning the monetary policies of the two principal central banks (the ECB and the Federal Reserve*)* has resulted in a gradual depreciation of the US dollar over the first nine months of 2016 (the average euro/USD exchange rate in September 2016 was 1.12, against the 1.09 of December 2015). Following the UK referendum, the value of sterling also fell against all other major currencies, including the euro (the average GBP/euro exchange rate in the third quarter of 2016 was 0.85, compared with a rate of around 0.78 in the first half of the year).

BANKING SYSTEM

Bank deposits by resident Italian savers fell 1.3% in the first nine months of 2016, with aggregate deposits totalling approximately €1,657 billion in September 2016.

This negative performance is due to falling investment in bonds (down €65 billion year-on-year in September 2016), only partially offset by growth in deposits by resident customers (up €43 billion year-on-year). Funding costs (deposits, bonds and repurchase agreements) were also down in the first nine months of 2016: the average cost of customer deposits in September 2016 is 1.02%, compared with the 1.19% of December 2015 and 1.25% of September 2015.

Bank lending was stable in the first nine months of 2016; in September 2016, total lending to Italian residents - excluding interbank loans – amounted to approximately €1,808 billion, marking a year-on-year decrease of 0.4%. The mortgage market is showing signs of picking up (in August 2016, total mortgage lending to households was up 1.9%)

Doubtful loans within the banking system, after impairments, amounted to approximately €85 billion in August 2016, down by around €1.3 billion compared with the figure for August of the previous year. In percentage terms, doubtful loans amounted to 4.76% of total loans in August 2016 (4.79% in August 2015).

The average interest rate applied to consumer and corporate loans has fallen, with the rate at 2.97% in September 2016, compared with 3.25% in December 2015 and 3.34% in September 2015.

REGULATORY ENVIRONMENT

With regard to the steps taken to ensure compliance with the Supervisory Standards issued by the Bank of Italy (Circular 285 of 17 December 2013, 16th update of 17 May 2016), which fully apply the "Final guidance on the security of online payments", work on strengthening the measures designed to prevent, monitor and combat fraud has been carried out. This has involved a rationalisation of the organisational structure, improvements to the systems used in monitoring transactions, changes to procedures and the provision of better information to customers. In this regard, a specific questionnaire, in compliance with the above guidance, has been prepared and will be submitted to the authority following approval by the Board of Directors.

Changes to procedures and IT systems also continued with a view to strengthening business continuity and information systems, as part of a two-year review plan.

In addition, following the entry into effect of Legislative Decree 72 of 21 April 2016, which aims to provide appropriate protection for consumers who take out residential mortgages, Poste Italiane has, in agreement with its partner, Deutsche Bank, begun the process of implementing the new legislation.

With regard to insurance broking, steps have been taken, together with Poste Vita and Poste Assicura, to make the organisational changes required by IVASS Regulation 46 of 3 May 2016, which has extended the application of ISVAP Regulation 24 of 2008, regarding the handling of complaints, to include insurance brokers. In line with the entry into effect of the IVASS Regulation, introduction of the changes is expected to be completed in November 2016.

Following the entry into effect of the MEF Decree of 29 February 2016, providing for the introduction, from 15 November 2016, of dematerialised Savings Books, the process of deciding on the necessary changes to contracts, procedures and IT systems got underway. The change aims to make it easier to access savings by offering an instrument represented solely by accounting entries, in addition to books in paper form.

With regard to the provision of investment services, CONSOB Resolution 19602 of 4 May 2016 has established the Financial Services Ombudsman (*Arbitro per le Controversie Finanziarie* or *ACF*), with responsibility for resolving disputes with investors in connection with the provision of investment and collective asset management services. The Resolution also sets out the related Terms of Reference. As with the Bank of Italy's Banking Ombudsman (*Arbitro Bancario Finanziario* or *ABF*), intermediaries' participation in the CONSOB's new system for the out-of-court settlement of disputes is mandatory and this applies to Poste Italiane – BancoPosta RFC, which has begun the process of ensuring correct application of the system. The new system will be operational following the issue of further organisational and functional guidelines by the CONSOB.

Financial Services segment profit or loss

for the nine months ended 30 September (€m)	2016	2015	Increase/(decrease)	
Net interest income	1,142	1,154	(12)	-1.0%
Interest and similar income	1,194	1,200	(6)	-0.5%
Interest and similar expense	(52)	(46)	(6)	13.0%
Net fee and commission income	2,685	2,644	41	1.6%
Fee and commission income	2,730	2,685	45	1.7%
Fee and commission expense	(45)	(41)	(4)	9.8%
Profits/(Losses) on trading, on disposals or repurchases and fair value adjustments in hedge accounting	581	433	148	34.2%
Net interest and other banking income	4,408	4,231	177	4.2%
Net losses /recoveries on impairment of loans and advances	(5)	(7)	2	28.6%
Net income from banking activities	4,403	4,224	179	4.2%
Administrative expenses:	(3,645)	(3,486)	(159)	4.6%
personnel expenses	(92)	(92)	-	n/s
other administrative expenses	(3,553)	(3,394)	(159)	4.7%
Net provisions for risks and charges	(37)	(46)	9	19.6%
Other operating income/(expenses)	(17)	(22)	5	22.7%
Operating expenses	(3,699)	(3,554)	(145)	4.1%
Operating profit/(loss) (EBIT)	**704**	**670**	**34**	**5.1%**

n/s: not significant

Operating profit generated by the Financial Services segment in the first nine months of 2016 amounts to €704 million, up 5.1% on the same period of the previous year (€670 million for the first nine months of 2015). This was essentially generated by BancoPosta RFC, whose performance benefitted from the sale of financial assets and from fees generated by the distribution of loan products and insurance broking.

Net interest income of €1,142 million marks a slight reduction of 1% (€1,154 million in the first nine months of 2015), essentially reflecting a reduction in the return earned by BancoPosta RFC on deposits with the Ministry of the Economy and Finance, in line with market trends.

Net fee and commission income is up from €2,644 million in the first nine months of 2015 to €2,685 million in the same period of 2016. This income primarily consists of commissions earned on the distribution of postal savings products, totalling €1,174 million, and €1,520 million from the processing of bills paid by payment slip, insurance broking, the distribution of loan products and other collection and payment services.

Net interest and other banking income is up from €4,231 million in the first nine months of 2015 to €4,408 million (up 4.2%), primarily due to gains on the sale of available-for-sale financial assets held by BancoPosta RFC, totalling €594 million (€426 million in the same period of the previous year). This figure includes the income from the above sale of the investment in Visa Europe Ltd. to Visa Incorporated on 21 June 2016, which resulted in non-recurring income of €121 million, in recognition of Poste Italiane's contribution over the years as a provider of electronic money services.

Net interest and other banking income also reflects €11 million in impairment losses on non-performing loans recognised by Banca del Mezzogiorno-MCC, partly on the basis of discussions with the Bank of Italy during an inspection completed in April 2016.

Net income from banking activities is up €179 million from the €4,224 million of the first nine months of 2015 to €4,403 million in the same period of 2016, after impairment losses on loans of €5 million. This regards the impairment of overdrawn current accounts held by BancoPosta's customers.

Operating expenses are up 4.1% on the same period of the previous year, due primarily to an increase in intersegment costs paid for the services provided by the distribution network to the Financial Services segment.

Operating results

for the nine months ended 30 September (€m)	2016	2015	Increase/(decrease)	
Revenue from:				
management of deposits taken and related investments (1)	1,610	1,588	22	1.4%
postal savings	1,174	1,214	(40)	-3.3%
fees for collection and payment services (2)	786	773	13	1.7%
the placement and distribution of financial products (3)	245	200	45	22.5%
electronic money services (4)	292	174	118	67.8%
Total	**4,107**	**3,949**	**158**	**4.0%**

n/s: not significant

(1) Includes returns and capital gains from sales.

(2) Includes fees for the acceptance of payment slips, delegated services, fund transfers and other revenue from bank accounts.

(3) Includes revenue related to loans, credit cards, other investment products and Banca del Mezzogiorno.

(4) Includes fees on prepaid cards, debit cards and acquiring services.

Revenue generated by the Financial Services segment is up from €3,949 million in the first nine months of 2015 to €4,107 million in the first nine months of 2016. In detail, revenue from the investment of liquidity is up 1.4% from €1,588 million in the first nine months of 2015 to €1,610 million in the same period of 2016, reflecting returns on the investment of customer deposits which, despite not particularly favourable market conditions, resulted in gains of €473 million on the sale of securities held by the Group (€426 million in the same period of 2015). This result more than offset the reduction in interest income on investments, which is down from €1,158 million in the first nine months of 2015 to €1,137 million in the same period half of 2016. Despite a rise in the amount invested due to an increase in deposits[10], this figure reflects a reduction in average returns on investments (both portfolio securities and deposits with the Ministry of the Economy and Finance).

Sales of postal savings products, where revenue is linked to a mechanism agreed with Cassa Depositi e Prestiti SpA (tied to the achievement of targets in terms of net savings inflows and average deposits), contributed €1,174 million to revenue (€1,214 million in the first nine months of 2015). At 30 September 2016, Savings Book deposits amount to €119 billion (€116 billion at 30 September 2015), whilst savings in the form of Interest-bearing Postal Certificates amount to €205 billion (€208 billion at 30 September 2015).

Revenue from collection and payment services is up 1.7% (€786 million in the first nine months of 2016, compared with €773 million in the same period of the previous year). This primarily reflects an increase in non-recurring income from the processing of tax payments using form F24, resulting from the agreement with the tax authorities relating to the recovery of fees attributable to previous years (€15 million collected in

[10] Average deposits are up from €44.9 billion in the first nine months of 2015 to €48.8 billion in the same period of 2016 (including Group companies' investments and amounts payable to financial institutions under repurchase agreements).

September 2016). The increased revenue from the processing of F24s was partially offset by a reduction in revenue from delegated services, due to a decline in the payment of vouchers for occasional services and a decrease in the fee charged on payments into current accounts, following a review of the agreement with INPS in June 2015.

Revenue from the placement and distribution of third-party financial products is up 22.5%, benefitting from increased revenue from the sale of loan products (€145 million in the first nine months of 2016, compared with €94 million in the first nine months of 2015).

Revenue from the provision of electronic money services is up from €174 million in the first nine months of 2015 to €292 million in the first nine months of 2016, primarily due to Visa Inc.'s acquisition of Visa Europe, which resulted in the former's payment to Poste Italiane of a gain of €121 million in return for the sale of the share held in Visa Europe. The Postepay product also performed well, generating revenue of €108 million (€95 million in the first nine months of 2015) and benefitting from an increase in income linked to the issue and use of Postepay Evolution cards.

OPERATING REVIEW

In the Financial Services segment, efforts aimed at developing the commercial offering and foster the cross-selling of products continued in the first nine months of 2016, taking advantage of a business model centred around the construction of long-term relationships with customers and building customer loyalty.

In this context, the main initiatives aimed at developing the offering of Postal Savings products. This entailed a review of the product range, relaunching the offer of retail loans and increasing the range of transaction banking services on offer, including electronic money, collection and payment services. With regard to collection and payment services, the process of updating and refreshing the traditional payment of bills using payment slips, so as to enable payments to be made via multiple digital channels, continued. The new Payments section, accessible from the "www.poste.it" site, was launched, providing a single digital channel for the payment of payments slips, utility bills, amounts due to businesses and the Public Administration and, from July, taxes using form F24.

As regards international money transfers, an advertising campaign was run to promote the MoneyGram product, with the aim of extending the services offered in order to build awareness of the BancoPosta brand.

In the electronic money sector, the number of Postamat cards in circulation is stable at 7 million, whilst the number of Postepay cards stands at almost 16 million, including around 3 million of the new Postepay Evolution cards. Moreover, the release of a new version of the app in June means that, in addition to new graphics and greater ease of use, the app now offers the new real-time money transfer service, whilst, in September, the Postepay app was expanded with the "Pay by Postepay" button, a new form of payment that allows the customer to make purchases using a digital wallet and an ID code.

With regard to third-party loan products, new solutions have been introduced, including an expanded range of salary loans for retail customers and the offer of new types of business loan (Postal Savings Books holders and professionals) for people looking, for example, to purchase operating assets or renovate a property for commercial use. A new tool has been introduced to help advisors identify the most suitable product for each customer, whilst the offer of salary loans for the employees of Poste Italiane and the principal Group companies has been extended through the partnership with Banca del Mezzogiorno.

INSURANCE SERVICES AND ASSET MANAGEMENT

INSURANCE MARKET

According to the available data from ANIA (the trade body representing Italian insurance companies) at the date of this Report, new business for life policies sold in Italy during the first eight months of 2016 (therefore, up to the months of August) amounts to €70 billion, down 11.4% on the same period of the previous year. This primarily reflects a significant reduction in sales of Class III and V policies, whilst sales of traditional Class I policies were substantially in line with 2015 (up 2.3%).

The non-life insurance market registered a 1.5% decline in premium revenue in the first six months of 2016, compared with the same period of 2015, with a total portfolio of €18.1 billion. The reduction reflects a fall in vehicle insurance premiums (down 4.3%), partly offset by growth in other non-life classes (up 1.3%). Classes registering growth in line with or higher than the average were: Other Damage to Property (€1,503 million; up 2.2%), Medical (€1,195 million; up 8.5%); Legal expenses (€196 million; up 4.9%); Bond (€261 million; up 5.6%); Maritime Vehicles (€157 million; up 6.8%), Assistance (€355 million; up 7.1 %).

Finally, the "mutual fund and asset management" market performed well, with net inflows, during the first nine months of the year, amounting to €43.6 billion, including €19 billion invested in separately managed accounts and €24 billion in collective products. Between January and September 2016, over €10 billion was invested in bonds funds and €12.8 billion in flexible funds. At the end of September, the sector reported assets under management of more than €1,913 billion, up approximately €4 billion on the figure for the previous month.

Insurance Services and Asset Management segment profit or loss

for the nine months ended 30 September (€m)	2016	2015	Increase/(decrease)	
Net insurance premium revenue	15,388	14,543	845	5.8%
gross premium revenue	15,421	14,573	848	5.8%
outward reinsurance premiums	(33)	(30)	(3)	10.0%
Fee and commission income	43	32	11	34.4%
Net financial income from assets related to traditional products	3,040	1,643	1,397	85.0%
Net financial income from assets related to index- and unit-linked products	(70)	95	(165)	n/s
Net change in technical provisions for insurance business and other claims expenses	(17,449)	(15,475)	(1,974)	12.8%
Claims paid	(5,750)	(5,399)	(351)	6.5%
Net change in technical provisions for insurance business	(11,714)	(10,094)	(1,620)	16.0%
Change in technical provisions where investment risk is transferred to policyholders	15	18	(3)	-16.7%
Investment management expenses	(14)	(11)	(3)	27.3%
Acquisition and administration costs	(481)	(433)	(48)	11.1%
Net commissions and other acquisition costs	(370)	(348)	(22)	6.3%
Operating costs	(111)	(85)	(26)	30.6%
Other revenues/(costs), net	(21)	(26)	5	19.2%
Operating profit/(loss) (EBIT)	**436**	**368**	**68**	**18.5%**

n/s: not significant

Operating profit generated by the Insurance Services and Asset Management segment amounts to €436 million, marking an increase of 18.5% on the same period of the previous year. This primarily reflects the positive performance of the Poste Vita Group, whose operations resulted in total premium revenue of €15.4 billion, after the portion ceded to reinsurers (€14.5 billion in premium revenue in the first nine months of 2015). This was generated primarily by the sale of life products.

With regard to assets under management, the period saw an increase in inflows into mutual investment funds, generating commission income of €43.2 million (€32.4 million in the same period of the previous year).

Despite a market scenario marked by falling yields on government securities, net finance income from securities related to traditional products amounts to €3,040 million, up on the €1,643 million of 2015. This reflects both an increase in ordinary income, thanks to growth in assets under management, and financial market trends, which resulted in the recognition of net unrealised gains of €972 million, compared with losses of €456 million in 2015. However, given that these investments are included in the separately managed accounts covering the matching insurance liabilities, this amount has been attributed in full to policyholders under the shadow accounting method.

Heightened financial market volatility, together with the reduction in volumes due to a number of Class III products reaching maturity, are also reflected in investments linked to index- and unit-linked products, which generated total losses of €70 million (gains of €95 million in the same period of 2015). This amount is almost entirely matched by a corresponding change in technical provisions.

As a result of the above operating performance and the corresponding revaluation of insurance liabilities due to the positive financial performance, the matching change in technical provisions, after the portion ceded to reinsurers, amounts to €17.4 billion, compared with €15.5 billion in the same period of the previous year. Of the above change, claims paid to customers, inclusive of policy expirations of approximately €3.0 billion (€2.8 billion in the first nine months of 2015), amount to approximately €5.8 billion (€5.4 billion in the same period of 2015). Total surrenders accounted for 3.0% of initial provisions (2.9% in the first nine months of 2015), a figure that continues to be far lower than the industry average.

As a result of the above, net premium revenue at the end of the period amounts to approximately €9.6 billion (€9.1 billion in the first nine months of 2015).

Investment management expenses, amounting to €13.6 million (€11.1 million in 2015), primarily regard portfolio management fees and fees for the custody of securities. The increase is due to growth in the portfolio.

Given the positive operating performance, infra-group commissions for distribution and collection amount to €370 million (€348 million in the first nine months of 2015). The increase has benefitted the Group’s Financial Services segment, which is responsible for marketing the products, and the Postal and Business Services segment in return for the distribution services provided.

Operating expenses of €111.5 million are up 30.6% compared with the €85.1 million of the first nine months of 2015. This reflects increases in the quality and size of the Group’s workforce, needed in order to respond to the continuous growth in size and business volumes, and its investment in ongoing functional/infrastructural improvements to key business support systems.

OPERATING REVIEW

In keeping with the strategic objectives pursued in previous years, in the first nine months of 2016 the Poste Vita insurance group primarily focused its efforts on:

- strengthening its leadership in the life insurance market and consolidating its competitive position;
- boosting its position in the welfare segment, investing in health insurance products, thanks in part to the acquisition of SDS Srl at the end of 2015.

In a market environment marked by low interest rates and high volatility, and in accordance with the strategic guidelines set out in the business plan, the group aims to progressively rebalance its offering towards products without guarantees ("multi-line" and "unit-linked" products), but providing a moderate risk-return profile, in line with the type of customer served by the group, whilst potentially providing more attractive returns on investment. At the same time, the group is committed to developing new instruments and training network staff in the provision of advice, sales and long-term customer relationship management.

As previously noted, total premium revenue amounts to €15.4 billion (€14.5 billion in the same period of 2015), including approximately €14.9 billion from sales of Class I and V investment and savings products (traditional separately managed accounts), compared with €14.4 billion in the same period of 2015. Premium revenue from multi-line products and the unit-linked product launched in April amounts to €615 million, compared with €244 million in the same period of the previous year.

Sales of regular premium products also performed well (*Multiutile Ricorrente*, *Long Term Care*, *Posta Futuro Da Grande*), with over 95 thousand policies sold during the period, as did sales of the *PostaPrevidenzaValore* product which, with over 62 thousand policies sold and a total number of members amounting to 841 thousand, has enabled Poste Vita to consolidate its role in the pensions market.

Sales of pure risk policies (term life insurance) also performed well. These are sold in stand-alone versions (not bundled together with products of a financial nature), with over 19 thousand new policies sold during the first nine months of 2016, whilst almost 68 thousand were new policies, again of a pure risk nature, sold bundled together with financial obligations deriving from mortgages and loans sold through Poste Italiane's network.

Management of the non-life business was also along the lines set out in the business plan, seeking to meet the new needs of customers in the areas of welfare and health insurance, expanding the offering and fine-tuning the model for network support. The company has identified specific marketing and commercial initiatives aimed at a product offering increasingly based on the offer of modular health and protection products (e.g., *PosteProtezione Innova Salute* and *PosteProtezione Innova Infortuni*), capable of meeting the different needs of a very large customer base. While the contribution to the Group's results is still limited, the segment recorded a positive performance, with total premium revenue for the period of €87 million[11], up on the figure for the same period of 2015 (€71 million), accompanied by a positive technical performance as a result of a reduced volume of claims with respect to the growth in sales and broadly in line with the trends recorded in the same period of the previous year.

In terms of investments during the period, against a backdrop of falling interest rates and declining yields on government securities, whilst maintaining a moderate risk appetite, the company continued with the gradual process of diversifying investments by increasing its exposure to equities (up from 10.6% to 12.7%), above all multi-asset, harmonised open-end funds of the UCITS (Undertakings for Collective Investment in Transferable Securities) type.

[11] Gross premium revenue for the first nine months of 2016 amounts to €79 million (€70 million in the same period of 2015).

In line with its strategic asset allocation policy, moreover, the company continued to invest in real estate funds (targeting retail and office properties) in Europe.
Again with a view to diversifying its investments, and in the light of the current financial environment, Poste Vita decided to invest approximately €260 million in a closed-end alternative investment fund called “Atlante”, managed by Quaestio Capital Management, with subscriptions restricted to professional investors. The fund invests primarily in issuers with a lower capital ratio than their minimum capital requirement (and which are, therefore, required by the supervisory authority to strengthen their balance sheets by raising fresh capital) and non-performing loans held by various Italian banks. At the date of this report, the fund has called up €155.0 million, including €137.1 million allocated to the separately managed account, *PostaValorePiù*, and €17.9 million allocated to the company’s free capital. A further €200 million (again allocated to the separately managed account, *PostaValorePiù*) was also invested in the closed-end alternative investment fund named “Atlante 2”, again managed by Quaestio Capital Management.
Despite this, the investment policy continues to be marked by prudence, with the portfolio primarily invested in Italian government securities and highly-rated corporate bonds, with an overall exposure that represents over 87% of the entire portfolio.

As a result of the above operating and financial performance, technical provisions for the direct Italian portfolio amount to €100.9 billion (€90.5 billion at the end of 2015), including €92.5 billion for Class I and V products (€81.7 billion at the end of 2015). Provisions for products where the investment risk is borne by policyholders amount to €7.1 billion (€7.2 billion at 31 December 2015). Deferred Policyholder Liability (DPL) provisions, linked to the change in the fair value of the financial instruments covering the provisions, are up from €9.7 billion at the end of 2015 to €12.8 million, reflecting an increase in fair values as a result of the more positive performance of financial markets compared with the end of the previous year.
Technical provisions for the non-life business, before the portion ceded to reinsurers, amount to €135 million at the end of the period, compared with €112 million at the end of 2015.

With regard to organisational aspects, during the first nine months of 2016, work continued on initiatives designed to drive the growth of the business, as did investment in ongoing functional/infrastructural improvements to key business support systems and in strengthening the group’s organisational structure. As a result, operating expenses of approximately €111.5 million are up on the figure for the first nine months of 2015, when they amounted to €85.4 million. However, operating expenses continue to be far lower than the industry average at 0.5% of premium revenue and 0.1% of provisions.

Finally, with regard to the mutual investment funds business, gross inflows during the period amount to €1.8 billion, up 25% on the same period of the previous year, whilst the significant reduction in redemptions was reflected in an increase in net inflows, which are up from €358 million in the first nine months of 2015 to €1.2 billion. As a result, the assets of retail customers managed by Banco Posta Fondi Sgr are up from €5.7 billion at the end of December 2015 to €7.0 billion at 30 September 2016. Taking into account the portion of the Poste Vita group’s technical provisions under management, total assets under management at 30 September 2016 have risen to €81.4 billion, representing growth of 16% compared with the €70.1 billion of the end of 2015.

OTHER SERVICES

THE MOBILE TELECOMMUNICATIONS MARKET

In the first nine months of 2016, the mobile telecommunications market continued where it left off towards the end of 2015: further rationalisation of price offerings, with bundles that include even more traffic (primarily mobile data). Basing their strategies around triple and quad play bundles[12], operators are expanding their offerings with the introduction of on-demand TV/video and streaming packages, with a view to capturing a large portion of consumers' communication and entertainment spend. The trend towards convergent landline and mobile services has continued, as has the development of partnerships between the suppliers of digital content and the operators of telecommunications networks.

A number of retail market trends have continued, with the use of social media due for further expansion in all key markets, both for recreational purposes and for online searches, above all in connection with m-commerce. In the business market, operators aim to play a leading role in the digital transformation of Italian companies across all sectors, including the Public Administration.

Other Services segment profit or loss

for the nine months ended 30 September (€m)	2016	2015	Increase/(decrease)	
Revenue from sales and services	168	179	(11)	-6.1%
Other operating income	1	2	(1)	-50.0%
Total external revenue	**169**	**181**	**(12)**	**-6.6%**
Intersegment revenue	38	69	(31)	-44.9%
Total revenue	**207**	**250**	**(43)**	**-17.2%**
Cost of goods and services	133	158	(25)	-15.8%
Personnel expenses	13	16	(3)	-18.8%
Depreciation, amortisation and impairments	24	28	(4)	-14.3%
Other operating costs	2	5	(3)	-60.0%
Intersegment costs	14	14	-	n/s
Total costs	**186**	**221**	**(35)**	**-15.8%**
Operating profit/(loss) (EBIT)	**21**	**29**	**(8)**	**-27.6%**

n/s: not significant

The Other Services segment, which includes the company, **PosteMobile**, reports operating profit of €21 million for the first nine months of 2016, down €8 million on the same period of the previous year (€29 million in 2015). The reduction reflects the performance of revenue, which is down 17.2% to €207 million as a result of both reduced revenue from non-recurring items in the first nine months of 2016 (€2.8 million, compared with €8 million in the first nine months of 2015), and the extraordinary transaction consisting of the demerger of the fixed line telecommunications business and its transfer to Poste Italiane SpA, reducing intersegment revenue by €31 million.

[12] Operators that use telecommunications networks can exploit the convergence between telecommunications and TV to offer triple play bundles (fixed line, broadband and pay-TV) and quad play bundles (fixed line, mobile, broadband and pay-TV).

The cost of goods and services is down 15.8% compared with the same period of the previous year to €133 million, having benefitted from the extraordinary transaction referred to above and the cost efficiencies resulting from the contract with the new operator that has enabled PosteMobile to operate as a Full MVNO.
Personnel expenses are also down, declining from the €16 million of the first nine months of 2015 to €13 million in 2016 (a fall of 18.8%), reflecting the transfer of a part of the workforce to the Parent Company (an average of 260 FTEs – on permanent and flexible contracts - employed in the first nine months of 2016, compared with 310 in the same period of 2015).

At the end of September 2016, PosteMobile's customer base totals 3.7 million lines (approximately 3.6 million at 31 December 2015). Good performances were registered both by voice services, with over 4 billion minutes used during the period (up 2.8% on the same period of 2015), and above all by data services, with a substantial increase to 4.8 thousand terabytes (up almost 80% on the same period of 2015).
Over the first nine months of 2016, "*Semplifica*" services continued to perform well, partly thanks to growing use of the PosteMobile APP, which is available to both PosteMobile customers and those of other mobile operators. The value of transactions in the period to September 2016 has risen to €724 million, double the figure for 2015. Thanks to ongoing updates of the functions and user experiences offered, the PosteMobile APP continues to be one of the most popular and widely used apps in the segment. With almost 1.8 million downloads and an average customer rating in stores of 4.2 (on a scale of 1-5), it is one of the leading mobile wallet services in the Italian mobile market. The value of transactions has exceeded €380 million (the Postemobile APP and the SIM Tool Kit), marking a further 14% improvement on the performance registered in the previous year.
The BancoPosta APP, made available to all Poste Italiane customers from July 2015, regardless of their mobile operator, also consolidated its position, with almost 500 thousand customers enabled to use its payment services. The specific channel handled transactions worth over €344 million during the period.

6. GROUP FINANCIAL POSITION AND CASH FLOW

GROUP FINANCIAL POSITION AND CASH FLOW

Net invested capital and related funding

(€m)		at 30 September 2016	at 31 December 2015	Increase/(decrease)	
Non-current assets:					
Property, plant and equipment		2,062	2,190	(128)	-5.8%
Investment property		57	61	(4)	-6.6%
Intangible assets		483	545	(62)	-11.4%
Investments accounted for using the equity method		215	214	1	0.5%
Total non-current assets	**(a)**	**2,817**	**3,010**	**(193)**	**-6.4%**
Working capital:					
Inventories		137	134	3	2.2%
Trade receivables and other receivables and assets		5,915	5,546	369	6.7%
Trade payables and other liabilities		(4,402)	(4,398)	(4)	0.1%
Current tax assets and liabilities		(174)	19	(193)	n/s
Total working capital:	**(b)**	**1,476**	**1,301**	**175**	**13.5%**
Gross invested capital	**(a+b)**	**4,293**	**4,311**	**(18)**	**-0.4%**
Provisions for risks and charges		(1,165)	(1,397)	232	16.6%
Provisions for employee termination benefits and pension plans		(1,478)	(1,361)	(117)	8.6%
Deferred tax assets/(liabilities)		(277)	(554)	277	50.0%
Net invested capital		**1,373**	**999**	**374**	**37.4%**
Equity		**9,027**	**9,658**	**(631)**	**-6.5%**
Net funds		**7,654**	**8,659**	**(1,005)**	**-11.6%**

n/s: not significant

The Poste Italiane Group's net invested capital at 30 September 2016 amounts to €1,373 million, amply financed by equity. A comparison with the end of the previous year, when the figure was €999 million, shows an increase of €374 million.

Non-current assets of €2,817 million are down €193 million compared with the end of 2015. In addition to depreciation, amortisation and impairments (after reversals of impairments) during the period, amounting to €439 million, the movement in this indicator reflects capital expenditure of €252 million, including €208 million invested by Poste Italiane and primarily relating to IT assets, such as: expansion of the new Server Farm, continued work on consolidating the Group's Data Centre infrastructure and alignment of the Group's systems with its business requirements and the related centralised infrastructure. The Group also has a major commitment to digital transformation. There was further investment in the modernisation and renovation of buildings, in keeping with Poste Italiane's property development strategy, with the main focus on property used in operations. In particular, work continued on planned renovation and non-routine maintenance work, with the aim of upgrading and improving property used in operations in order to meet workplace needs and those related to the services provided, as well as initiatives designed to improve staff health and safety. Furthermore, around 1,440 non-routine maintenance works (heating and air-conditioning units, electrical and fire prevention equipment, etc.) were carried out during the first nine months of 2016, as well as work on restoring normal service at post offices where criminal acts had taken place.

Working capital amounts to €1,476 million at 30 September 2016, an increase of €175 million compared with the end of 2015. This essentially reflects the movement in receivables in the form of payments of tax on account and tax withholdings on capital gains on life policies. The balance also takes into account regulatory items relating to Universal Service compensation that the Group, however, believes will be collected by the end of the year.
The reduction in net deferred tax liabilities, after offsetting against deferred tax assets, amounts to €277 million. This is largely due to the net positive effect on taxation (an increase in deferred tax assets and/or a reduction in deferred tax liabilities) of increased fair value losses on investments in available-for-sale financial assets.

Equity amounts to €9 billion at 30 September 2016, a reduction of €631 million compared with 31 December 2015. This primarily reflects movements in the fair value reserves (€887 million, after tax), reflecting positive and negative movements in the fair value of investments in available-for-sale financial assets held by the Financial Services segment. The reduction in equity also reflects the payment of dividends totalling €444 million, as approved by the Annual General Meeting of 24 May 2016 (€0.34 per share, paid to shareholders on 22 June 2016).
The above reductions were partially offset by profit for the period of €807 million.

ANALYSIS OF NET (DEBT)/FUNDS

Group net (debt)/funds by operating segment

at 30 September 2016 (€m)	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Eliminations	Consolidated amount
Financial liabilities	(2,288)	(61,978)	(1,163)	(2)	2,034	(63,397)
Technical provisions for insurance business	-	-	(113,878)	-	-	(113,878)
Financial assets	1,447	63,307	116,499	47	(1,728)	179,572
Technical provisions for claims attributable to reinsurers	-	-	66	-	-	66
Net financial assets/(liabilities)	(841)	1,329	1,524	45	306	2,363
Cash and deposits attributable to BancoPosta	-	2,918	-	-	-	2,918
Cash and cash equivalents	1,061	422	1,187	9	(306)	2,373
Net funds/(debt)	**220**	**4,669**	**2,711**	**54**	**-**	**7,654**

at 31 December 2015 (€m)	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Eliminations	Consolidated amount
Financial liabilities	(2,442)	(55,418)	(1,218)	(4)	1,604	(57,478)
Technical provisions for insurance business	-	-	(100,314)	-	-	(100,314)
Financial assets	1,396	57,574	102,409	26	(1,315)	160,090
Technical provisions for claims attributable to reinsurers	-	-	58	-	-	58
Net financial assets/(liabilities)	(1,046)	2,156	935	22	289	2,356
Cash and deposits attributable to BancoPosta	-	3,161	-	-	-	3,161
Cash and cash equivalents	1,315	485	1,615	16	(289)	3,142
Net funds/(debt)	**269**	**5,802**	**2,550**	**38**	**-**	**8,659**

Total net funds at 30 September 2016 amount to €7,654 million, down from the €8,659 million of 31 December 2015. This primarily reflects the component linked to fair value measurement of investments in securities, totalling approximately €2,580 million (€3,775 million at 31 December 2015), primarily attributable to BancoPosta RFC, and, to a lesser extent, to the subsidiary, Poste Vita.

LIQUIDITY

for the nine months ended 30 September (€m)	2016	2015
Cash and cash equivalents at beginning of period	**3,142**	**1,704**
Cash flow from/(for) operating activities	442	793
Net cash flow generated by/(used in) non-financial operating activities	858	1,259
Cash generated by/(used for) assets and liabilities attributable to financial activities	71	(295)
Cash generated by/(used for) assets and liabilities attributable to insurance activities	(487)	(171)
Cash flow from/(for) investing activities	(252)	(432)
Cash flow from/(for) financing activities and shareholder transactions	(959)	(209)
Movement in cash	(769)	152
Cash and cash equivalents at end of period	**2,373**	**1,856**
of which:		
Cash subject to investment restrictions	-	*(315)*
Cash attributable to technical provisions for insurance business	*(669)*	*(939)*
Other cash subject to restrictions	*(28)*	*(25)*

Industrial net (debt)/funds, in accordance with ESMA guidelines

An analysis of the industrial net funds/(debt) of the Postal and Business Services and Other Services segments at 30 September 2016, in accordance with ESMA guidelines, computed on the basis of paragraph 127 of the recommendations contained in ESMA document 319 of 2013, is provided below:

(€m)	at 30 September 2016	at 31 December 2015
A. Cash	2	2
B. Other cash equivalents	1,068	1,329
C. Securities held for trading	-	-
D. Liquidity (A+B+C)	**1,070**	**1,331**
E. Current loans and receivables	**65**	**169**
F. Current bank borrowings	-	(515)
G. Current portion of non-current debt	(8)	(16)
H. Other current financial liabilities	(23)	(20)
I. Current financial debt (F+G+H)	**(31)**	**(551)**
J. Current net funds/(debt) (I+E+D)	**1,104**	**949**
K. Non-current bank borrowings	(400)	(400)
L. Bond issues	(798)	(797)
M. Other non-current liabilities	(56)	(57)
N. Non-current financial debt (K+L+M)	**(1,254)**	**(1,254)**
O. Industrial net funds/(debt) (ESMA guidelines) (J+N)	**(150)**	**(305)**
Non-current financial assets	658	553
Industrial net funds/(debt)	**508**	**248**
Intersegment loans and receivables	724	674
Intersegment financial liabilities	(958)	(615)
Industrial net funds/(debt) including intersegment transactions	**274**	**307**
of which:		
- Postal and Business Services	*220*	*269*
- Other	*54*	*38*

7. HUMAN RESOURCES

HEADCOUNT

The workforce employed by the Group breaks down as follows:

	Average number of employees (*)	
Permanent workforce	**For the nine months ended 30 September 2016**	**For the nine months ended 30 September 2015**
Executives	776	783
Middle managers	16,081	16,015
Operational staff	119,039	121,584
Back-office staff	1,102	1,486
Total workforce on permanent contracts	**136,998**	**139,868**
Apprenticeships	34	44
Total	**137,032**	**139,912**
Flexible workforce		
Temporary contracts	13	121
Fixed-term contracts	4,602	3,547
Total	**4,615**	**3,668**
Total permanent and flexible workforce	**141,647**	**143,580**

(*) Expressed in full-time equivalent terms.

External recruitment and selection of business and finance graduates, to work as commercial specialists and financial promoters, continued during the first nine months of 2016, with a view to strengthening frontline commercial activities.

Staff numbers were also boosted at multi-ethnic post offices.

At the Corporate level, the Strategic Marketing, Information Technology and BancoPosta functions were strengthened with the specific addition of personnel with digital expertise.

External recruitment also responded to the specific business requirements of Group companies, especially Poste Vita.

Various development initiatives carried out during the period were aimed at the entire workforce. Young recruits with high potential but limited seniority continued to take part in the Professional Guidance Programme. This assessment and professional guidance process focused on career pathing towards middle management roles, involved 272 participants.

For middle managers, the “MLab” (Managerial Lab) process, aimed at identifying managers with development potential and putting them on the path towards more demanding positions, saw the participation of 195 staff.

The performance appraisal process for 2015, which was completed with the feedback phase in June, was extended to include postmen and women (approximately 34,000 staff) for the first time. Over 123,000 appraisals were carried out (30,000 more than in 2015), while the number of appraisers (approximately 8,200) was in line with previous years.

Regarding incentive policies, the new "Poste Italiane Group Commercial and Operating Incentive Scheme Guidelines" were issued, which describe the contributions made by the various corporate functions involved in

the process, in line with the relevant regulatory requirements.
In connection with the MBO management incentive scheme, evaluation of objectives relating to 2015 was completed and the 2016 objectives were finalised, in line with the principles set out in the "Remuneration Report 2016", approved by the Annual General Meeting of 24 May 2016. The same Meeting also approved the information circular for the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan", prepared in accordance with art 84-bis of the Regulations for Issuers. For additional information, reference should be made to the condensed consolidated interim financial statements at and for the nine months ended 30 September 2016 (note 3.7 Other information).

Various management training initiatives were also launched, including the Customer Academy, meetings dubbed "Fireside Chats", Business Scenarios and Effective Communication. Training and development courses for younger staff members saw relaunch of the "Open Mind in the Workplace" and "The Future is Now" initiatives, aimed at helping participants (approximately 200 staff) to interpret the new scenarios.
Training relating to social issues saw continuation of the "employment for the disabled" programme, with an initiative for staff who are heard of hearing (approximately 72 people), aimed at promoting their integration in the workplace and raising levels of performance and social and professional inclusion.
Technical and specialist training included courses on regulatory compliance matters, SPID, business support for commercial departments, and support for logistics activities, aimed at developing specialist skills for non-managerial staff and taking advantage of internal know-how.
A total of more than 1.9 million training hours were provided during the first nine months of 2016.

INDUSTRIAL RELATIONS

Industrial relations at Poste Italiane during the first nine months of 2016 primarily entailed negotiations with labour unions on the following matters.

Mail, Logistics and Communication

With regard to the requirements identified in relation to delivery activities, on 27 January 2016, a statement of agreement was signed. This provides for the conversion of up to 125 fixed-term contracts, entered into as a result of statements of agreement reached with the labour unions in 2013 and 2014, to permanent part-time contracts. The conversion to permanent deals, which took place in March 2016, applies to staff in service at the date of signature of the agreement to carry out delivery activities, at the offices to which they have been assigned; these staff have been employed on part-time contracts.
On 24 February 2016, a statement of agreement was signed with the labour unions, with the exception of UILposte, following completion of a joint assessment of reorganisation initiatives in 2016, drawn up in accordance with the guidelines agreed on 25 September 2015. The agreement envisages, from 2016, the implementation of new delivery models for provincial capitals and unregulated rural areas and for regulated rural areas, as previously identified in the agreement of 2015. This approach offers the best way of managing the resulting impact on jobs. The agreement has identified 4 thousand staff surplus to requirements.
Whilst retaining the current approach to operational flexibility, the parties have agreed to raise the monthly and annual limits applicable to operational flexibility for delivery staff on a five-day working week.
Finally, the agreement of 24 February 2016 also committed the Company to offering to convert at least 150 part-time positions within the Mail, Logistics and Communication function, wherever located, to full-time posts for delivery personnel in the provinces of Milan and Monza Brianza. In this respect, an additional agreement

was signed on 14 April 2016, which defined the timing and criteria for staff wishing to take advantage of this conversion proposal.

Private Customer

On 8 March 2016, the minutes of a meeting with the labour unions were signed which, as well as changes to sales formats present within post offices (consulting rooms and corners), also define various organisational solutions for the management of middle managers not performing appropriate roles or who are to be retrained. The agreement has identified three specific projects (Strengthening the Presence in Local Philately Markets, Strengthening the Oversight of Operating Processes and Branch Professionals).

Nationwide voluntary mobility

On 12 April 2016, an agreement was signed that regulates the management of voluntary transfers for staff wishing to work in regions other than those to which they have been assigned. The agreement, which is valid for a two-year period (2016 and 2017), confirms the framework of the previous agreement, and boosts social protection for the relevant staff. Indeed, as already provided for members of staff suffering from "serious illnesses", as expressly set out in art. 41 of the National Collective Labour Contract, or who have cohabiting children or a spouse/cohabiting partner affected by the same disease, it has also been made easier for employees undergoing lifesaving treatments, or who have children with conditions classified as "chronic and incapacitating" by the Ministry of Health, to obtain a transfer.

Uptime SpA in liquidation

Following the launch of a collective redundancy scheme for all the staff of Uptime SpA, which is partly owned by SDA Express Courier SpA, as previously mentioned, on 31 May 2016 Poste Italiane signed an agreement with the labour unions aimed at safeguarding jobs. Specifically, following redundancy, the agreement provides for the payment of income support, whilst at the same time using an outplacement firm, selected by Poste Italiane, to seek alternative employment on full-time permanent contracts, in line with the expertise of the relevant staff. Employees who are unable to find alternative employment over a six-month period will be offered part-time, fixed-term contracts within the municipality of Rome by Poste Italiane.

National Collective Labour Contract for non-managerial Poste Italiane staff

Negotiations with the labour unions began in May 2016 regarding renewal of the National Collective Labour Contract and the performance-related bonus for Poste Italiane’s non-managerial staff, which included presentation of a proposal by the Company to the labour unions regarding establishment of a Health Fund to provide supplementary insurance cover.

Performance-related bonus

On 26 July 2016, an agreement was reached on performance-related bonuses for: Poste Italiane SpA, Poste Vita SpA, Poste Assicura SpA, Postetutela SpA, Poste Tributi ScpA, EGI SpA and BancoPosta Fondi SpA SGR. The agreement is valid for one year and enables the assessment of staff contributions to the achievement of corporate objectives for 2016. The structure of the bonus for the following three-year period will be defined in the first quarter of 2017.

New vehicle fleet equipped with a "black box" system

Regarding delivery of the new company fleet equipped with a "black box[13]" system, the Company entered into negotiations with the labour unions, which ended on 20 July 2016 with the signing of a statement of non-agreement.

In line with the relevant legislation (art. 4 Workers' Statute – "Audio-visual equipment"), on 25 July 2016, Poste Italiane filed an application with the Ministry of Employment in order to obtain authorisation to use the above system and the related data.

Bilateral Agencies

The activities of the *Ente Bilaterale per la Formazione e Riqualificazione del Personale* (the Bilateral Agency for Staff Training and Retraining) continued with the signing of agreements to enable access to the funding provided by Fondimpresa and the Solidarity Fund for income support. During the period under consideration, 180 training plans with a value of approximately €6.6 million were accounted for with Fondimpresa, and applications amounting to approximately €7.2 million, which are currently being approved, were submitted to the Solidarity Fund.

With regard to Corporate Social Responsibility, during the first nine months of 2016, the company welfare system was aimed at improving the quality of inclusive services provided to socially vulnerable groups, and initiatives geared towards the needs of employees and their families.

Following the earthquake that struck central Italy on 24 August 2016, the Company (also representing Group companies that apply the National Collective Labour Contract for Poste Italiane's non-managerial staff) signed a statement of agreement with the labour unions relating to initiatives designed to help affected staff and the local population. The agreement enables advances on termination payments to be requested to meet any financial obligations arising from the earthquake, while also confirming the commitment to take periods during which post offices were forced to close into account when assessing the achievement of performance targets. The restructuring of delivery operations was temporarily put on hold in the municipalities affected by the quake, and the issue of individual transfers and temporary transfers to other locations was also carefully examined.

Finally, the agreement establishes the Group's participation in the initiative launched by Confindustria and CGIL-CISL-UIL regarding activation of the Solidarity Fund for the Populations of Central Italy. In particular, with the establishment of the "Ethical Hour", staff may help by contributing the equivalent of one hour's pay or, in the case of managerial staff, one day's pay that the Company will match by donating an equal amount.

Compared with the first nine months of the previous year, the number of labour disputes at Poste Italiane SpA is down by around 22%; the number of actions brought amounted to 798, compared with 1,029 in 2015.

With regard to disputes over flexible employment:

[13] The black box is a satellite device mounted on a vehicle, which monitors and registers all data regarding the vehicle. Based on an amendment to the Competition Bill under review by the Senate, from 2017 the government should adopt measures and legislation introducing the obligation "*to gradually extend the use of electronic devices, with priority given to vehicles that provide a public service or benefit from public incentives and, subsequently, to private vehicles used to transport persons or goods, at no additional expense to the public*".

- in relation to fixed-term contracts, 36 new claims were filed, compared with 81 in the same period of the previous year. The number of cases lost – calculated on the basis of outcomes notified regardless of the year in which the claims were filed – was approximately 10% (around 17.3% in 2015);

- in relation to temporary and agency work, 14 new claims were filed, compared with 11 in the first nine months of 2015, with cases lost amounting to around 49% (45% in the same period of 2015).

The number of new disputes arising from other contractual terms and conditions amounts to 615 for the first nine months of 2016, down on the 750 registered in the same period of 2015. This area also includes dismissals on disciplinary grounds. New challenges amounted to 133 in the first nine months of 2016, compared with 187 in the same period of 2015, with the number of cases lost rising to 28% in the first nine months of 2016 from around 27% in the same period of 2015.

A total of 3,633 disciplinary procedures were launched during the first nine months of 2016. Compared with the same period of 2015, decreases were registered in the number of staff receiving a penalty without dismissal (87 fewer) and in dismissals (70 fewer).

8. RISK MANAGEMENT

Poste Italiane is progressively consolidating a Group Risk Management model ("GRM") to form part of its Internal Control and Risk Management System (also "SCIGR"), in line with the requirements of the Corporate Governance Code for listed companies and the relevant best practices. The GRM model aims to provide an organic, overall view of the Group's principal risk exposures, greater consistency across the methods and tools used to support risk management and reinforced awareness, at all levels, of the fact that the adequate assessment and management of risks can play a part in achieving strategic objectives.

The GRM model involves an integrated risk management process, implemented according to a continuous and dynamic approach. It exploits the existing risk management systems applicable to each segment (financial, insurance, postal and logistics) and business process, bringing them into line with the specific methods and tools envisaged by the model, so as to help in developing risk management behaviours and expertise throughout the Group's operations.

Risk monitoring took place during the first nine months of 2016, with particular emphasis placed on the major risks identified during previous assessments cycles. A further assessment cycle, taking into account developments in the internal and external environments and the Group's strategy, was also initiated and is currently in progress.

The GRM model has adopted a Risk Model to support the process of identifying and describing risks. The Model allows the identified risks to be classified in uniform categories applied throughout the Group, in line with the relevant best practices and, where applicable, specific regulatory requirements. The Risk Model provides a continuous point of reference for the management, control and integrated reporting of risks. As a result, it is periodically revised to reflect the Group's operations and in response to the results of assessment activities. The Risk Model has established five categories of risk: strategic, regulatory and compliance, insurance, operational and financial, as described below.

STRATEGIC RISK

The risk of a deterioration in profit or capital resulting from changes in the operating environment, poor business decisions, the substandard execution of decisions or the failure to adequately respond to changes in the competitive environment.

REGULATORY AND COMPLIANCE RISK

The current or future risk linked to the failure to comply with statutory or regulatory requirements imposed by legislation, industry regulations or internal rules.

INSURANCE RISK

This category of risk regards technical risks resulting from insurance operations (non-life technical, health technical and life technical) and is dealt with in Poste Italiane's condensed consolidated interim financial statements for the nine months ended 30 September 2016 (4. Risk management) which, together with the Report on Operations, form a further section of the interim report for the nine months ended 30 September 2016.

OPERATIONAL RISK

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. This category of risk includes the risk of workplace accidents or injuries to employees, the risk of criminal acts or attacks resulting in damage to operating assets or activities, fraud, including online fraud (e.g., phishing), and unauthorised transactions, including errors resulting from the failure of IT or telecommunications systems.

Certain types of operational risk are described below.

Risk of attacks/external event risk

One of Poste Italiane's areas of focus is post office security, in order to protect its staff and the Company's assets, and deal with the risks deriving from fraud or external criminal attacks. The need to transport cash exposes Poste Italiane to the risk of criminal acts (theft and/or robbery) which, if they were to occur, could have a negative impact on the Company's image, its operations and the Group's future prospects, operating results and financial position.

Work on boosting active security measures in post offices continued in the first nine months of 2016, including the implementation, integration and replacement of alarm and video surveillance systems, using technologically advanced equipment. Passive security was also strengthened via the installation of anti-theft devices.

Great attention is also paid to combating the risks deriving from potential fraud inside and outside the Company, including online identity theft, phishing, malware, IP addresses identified as malicious and other data.

Risks connected to health and safety regulations

Having revised its model for managing workplace health and safety in 2015, Poste Italiane identified 5 new operating units: 4 that coincide with the business functions (Mail, Logistics and Communication, BancoPosta, Private Customer and Business Sales and Public Administration) and 1 that includes the remaining staff functions. All the units are now dealt with as a uniform whole by the Security and Safety function.

Work continued during the period on a specific project for sorting centres, with the aim of identifying corrective measures designed to reduce the need for the manual handling of loads during specific working procedures.

Finally, further mandatory training in occupational safety was provided, in continuation of the training courses run in previous years. Training courses for staff tasked with handling fire emergencies and providing first aid were also updated.

Information technology risk

Within the context of the risks associated with tangible events (e.g., fires, earthquakes, water damage, equipment breakdowns) and/or intangible events (breaches of trust, unexpected network outages, cyber crime), data breaches have assumed growing importance. The direct consequences are the loss, destruction or unauthorised disclosure of sensitive and confidential information. Poste Italiane is thus conducting an assessment with the aim of deciding whether or not to obtain more appropriate insurance cover to protect the Company, in view of the considerable growth in the quantity of digital information held, which has increased the risks to data confidentiality, integrity and access.

Information security

In recent years, Poste Italiane has designed an integrated Information Security Governance model for the Group. The model sets out the related roles, responsibilities and activities in order to provide strategic guidance for the monitoring of the Group's data security infrastructure. Security has, in fact, been given

significant attention in 2016, through the conduct of specific Information Security risk analysis and assessments, resulting in the definition of the security requirements needed to ensure an adequate degree of protection for the data handled by the Group's information systems. These activities regarded the development of solutions to protect technology infrastructure, an increase in the operational efficiency and level of security of the processes and systems used to control users' access to the information system, the implementation of solutions designed to protect the Group's data network, the implementation of security measures designed to protect applications, and appropriate measures and controls relating to cyber security, with particular attention to the services provided to customers using digital channels.
In this latter regard, is the first Italian organisation to have a fully operational and internationally accredited CERT (Computer Emergency Response Team), bringing together and coordinating the Group's prevention and emergency response activities. Furthermore, as regards Group companies, an assessment of the levels of security of the IT systems used by Postel, Postecom, SDA, PosteVita, PosteMobile (in respect of both fixed and mobile telecommunications) has been completed.

FINANCIAL RISK

These types of risk are dealt with in the condensed consolidated interim financial statements for the nine months ended 30 September 2016 (4. Risk management).

9. EVENTS AFTER 30 SEPTEMBER 2016

Events after the end of the reporting period are described in other sections of the interim report for the first nine months of 2016, and there are no other significant events occurring after 30 September 2016.

10. OUTLOOK

In terms of traditional mail products, during the last quarter of 2016, the Group will continue with the restructuring process embarked on, taking advantage, on the one hand, of the new regulatory framework and, on the other, the efficiency improvements achieved thanks to implementation of the new delivery model, in agreement with the unions.

The Group will also proceed with its commitment to optimise and simplify the various offerings for both retail and business customers, proceeding to improve the quality of service offered, with particular regard to the express delivery and parcels market, where we intend to continue to focus on the B2C segment, where growth is being driven by e-commerce.

BancoPosta RFC will also continue to act on its strategic objectives, paying particular attention to:

- fully exploiting its existing customer base, involving targeted offerings of products and services designed to meet customer needs in order to consolidate relationships and boost deposits of liquid funds;
- strengthening its leadership in the electronic money segment and in collection and payment services, helping to drive the digital transformation of the Public Administration;
- development of its presence in the consumer credit market and the repositioning of BancoPosta as a provider of digital services as part of Poste Italiane's wider multi-channel strategy.

In addition, the strategy of actively managing the securities portfolio, with the aim of stabilising the overall return, in terms of interest income and capital gains, will continue, alongside joint efforts with Cassa Depositi e Prestiti, designed to ensure that postal savings products maintain their attractiveness. In addition, in application of the Board of Directors' decision, work has begun with the management of SIA, and in agreement with the shareholder, CdP Equity, on exploring all the potential synergies between the two companies with regard to the development and creation of collection and payment systems and solutions.

In terms of Savings products, the Group will continue to consolidate its Class I life business, with the aim of exploiting PosteVita's leadership and strengthening its asset management business by extending the range of products on offer.

Penetration of the market for investment funds and Class III policies is continuing, in line with the strategies set out in the Business Plan and in compliance with existing regulations, ensuring transparency and the best possible match with customer needs against a backdrop of zero interest rates.

In line with its strategic priorities, the Insurance Services segment will focus on updating its existing products and developing solutions designed to respond to the growing demand for personal and asset protection policies and supplementary pensions, making the offering simpler and more accessible and improving its position in the welfare market (Pensions, Health and Care).

To support this process, particular attention will be paid to strengthening and upgrading IT systems by developing digital solutions capable of making the offering even more accessible.

PosteMobile will proceed with its strategy designed to consolidate its core business, with its distinctive market positioning and an offering that is more in synergy and integrated with the Group.

11. PROCEEDINGS PENDING AND RELATIONS WITH THE AUTHORITIES

The information contained in this section aims to provide an update on activities and events occurring between the end of the previous year and the date of approval of this interim report. For more detailed information, reference should be made to the Annual Report for 2015.

Principal relations with the *Autorità per le Garanzie nelle Comunicazioni* (AGCom - the Italian Communications Authority)

In accordance with Law 190/2014 (the 2015 Stability Law), AGCom has authorised a series of initiatives aimed at redefining the universal postal service in order to guarantee its financial sustainability, and in line with the changing requirements of users. In particular:

- with Resolution 395/15/CONS, AGCom authorised an alternate day delivery model for mail within the scope of the universal service;
- with Resolution 396/15/CONS, AGCom introduced new statistical quality targets and new tariffs for universal service mail.

Specifically, Resolution 395/15/CONS provides for implementation of alternate day delivery, which once fully implemented will affect around 23.2% of the Italian population, in three phases. The phase launched in October 2015 covered 256 municipalities in the Lombardy, Piedmont, Friuli Venezia Giulia and Veneto regions. The second, launched in April 2016, will be gradually rolled out in 2,400 municipalities in 14 Italian regions. Finally, pursuant to art. 3, paragraph 1 of the Resolution, the third phase of the new delivery model will not be implemented before February 2017.

In addition, in accordance with the above Resolution, Poste Italiane has agreed a new formula for the distribution of printed publications with the regulator. This will cover delivery of approximately 68.6% of publications to subscribers in the areas in which the alternate day delivery model is being implemented.

Legal challenges to Resolution 395/15/CONS have been lodged with the Lazio Regional Administrative Court by the Italian Federation of Newspaper Publishers (FIEG), Avvenire, the consumers association, Codacons, and finally the Piedmont branch of the National Confederation of Local Authorities (ANCI), together with 41 Piedmont municipalities. The latter challenge is the only one to have come to court, with the proceedings, however, being suspended on 29 April 2016. The grounds submitted by the plaintiffs were declared by the court to be without basis, thereby upholding the legality, as things stand, of the aforementioned resolution. At the same time, the court referred the challenge to the European Court of Justice for a preliminary ruling on the compatibility of Italian legislation with the European postal directive. On 30 June 2016, the Court notified Poste Italiane of the request for a preliminary ruling. Poste Italiane submitted its observations on 16 September 2016.

The Regional Administrative Court's decision on the challenges lodged by FIEG, Avvenire and Codacons has been postponed to a date yet to be fixed.

The Italian Association of International Air Couriers (AICAI) challenged Resolution 396/15/CONS and the related acts before the Lazio Regional Administrative Court, in relation to the part that provides for the tracking of Priority Mail, which would enable replacement of this universal service by couriers and might therefore entail an obligation for the latter to contribute to the universal service compensation fund.

Regarding the same matter, on 6 November 2015, the Antitrust Authority sent AGCom a report, requesting the regulator to review the decision to include Priority Mail in the universal service, which according to the Antitrust Authority, especially in the format offered to business customers, was likely to distort competition in the parcels/courier market. On 9 December 2015, AGcom confirmed its decision to include the service in question in the universal service (with Resolution 662/15/CONS).

AICAI and Confetra (the General Italian Confederation of Transport and Logistics Companies) have challenged AGCom Resolution 129/15/Cons ("Regulations regarding the requirements to be met in order to offer postal services to the public") and the related acts before the Regional Administrative Court, claiming that application of the obligations provided for in these regulations to their members is unlawful. In the challenge, AICAI argues, among other things, in favour of the exclusion of express couriers from any obligation to contribute to the universal service compensation fund.

In two separate rulings dated 27 January 2016, Lazio Regional Administrative Court referred the matter to the European Court of Justice, requesting a ruling on the compatibility of Italian legislation with the European postal directive, including express couriers' contribution to the universal service compensation fund. On 27 September, Poste Italiane, as a party to the Italian proceedings initiated by AICAI, filed a brief with the European Court defending the legality of application of the obligations provided for in the relevant legislation to express couriers and haulage companies to the extent that these companies provide postal services.

Regarding the right to direct access to the universal postal network, Poste Italiane's appeal against Resolution 728/13/CONS, which established an obligation for the Company to provide access to postal services, at the request of third parties, under fair and reasonable conditions to be freely negotiated with the parties, is still pending. Pending the appeal, Poste Italiane received two requests for access to the universal postal network, in February and October 2014. Neither of the two negotiations has reached a conclusion. Regarding the first request, in October 2014 the operator seeking access involved the regulator, which asked the parties to go ahead with negotiations. In January 2015, the operator informally notified Poste Italiane that it had reiterated the request for intervention to the regulator, owing to the persistent stalemate in the negotiations, following which the regulator has so far taken no action regarding the request for intervention.

Furthermore, on 1 July 2016, AGCom published a press release on its website, announcing the start of a procedure entailing a review of the network access obligations set out in art. 6 of Resolution 728/13/CONS. The start of this procedure had been provided for in Resolution 396/15/CONS, approving the new tariffs and quality targets for the universal service, in response to changed conditions in the postal market. The procedure is due to be completed within 150 days of the date of publication of the release, subject to a reasoned request for an extension.

In September 2016, Poste Italiane submitted a document in which it explains its views on the issue and requests removal of the above obligation, which it deems to be unjustified. Subsequently, the Company also sent the regulator the results of a study conducted by Copenhagen Economics ("Benefits and risks of access regulation: the case of the Italian postal market"), accompanied by certain additional information relevant to the procedure.

Following a dispute brought by the operator GPS (Globe Postal Services) and a prior public consultation, AGCom adopted Resolution 621/15/CONS regarding regulations governing the return of items of mail entrusted to other postal operators that finish up in Poste Italiane's network. Under this ruling, Poste Italiane is obliged to revise the "*Contract terms and conditions regarding the return of items of mail entrusted by*

senders to other postal operators that finish up in Poste Italiane's network", including three distinct return procedures[14] and, on this basis, a reformulation of the rates charged, taking into account, among other things, the principle of cost orientation (avoidable cost) and applying discounts for certain volumes.
Poste Italiane had amended its Contract Terms and Conditions and informed all contracted operators, as well as GPS, about the new Contract Terms and Conditions.
Given the financial impact this ruling may have on Poste Italiane – especially the possibility of only being able to recover additional costs with the new rates –, the Company appealed against the ruling before the Lazio Regional Administrative Court. The hearing on the merits was held on 8 June 2016 and, on 22 September, the Regional Administrative Court published its judgment, partially upholding the arguments supporting Poste Italiane's appeal. In particular, the Regional Administrative Court has upheld the appeal insofar as it relates to the principle under which the additional costs alone may be recovered, establishing Poste Italiane's right to recover the full cost of the service through the prices charged.
GPS has challenged certain communications sent to it by AGCom before the Lazio Regional Administrative Court. The communications were aimed at obliging the operator to agree to Poste Italiane's new Contract Terms and Conditions (deemed by AGCom to be in line with the resolution). GPS has also contested AGCom's prohibition against use of the term "stamp" to indicate the "stickers" used by GPS. Poste Italiane has entered an appearance before the court, which adjourned the hearing on the merits until a date yet to be fixed.
On this latter matter, in Resolution 412/16/CONS of 16 September 2016, the regulator served formal notice on GPS to cease, within 15 days of notification of the resolution, use of the terms "stamp" and "franked", and the corresponding English terms, including the word "stamp", on any products offered to the public and in any information documents distributed to customers in whatever form.

On 14 April 2015, AGCom issued formal notification of penalty 02/15/DSP, launching a procedure against Poste Italiane for alleged violation of certain legal obligations relating to provision of the Universal Postal Service, with regard to the exceptional closure of 21 post offices in the city and Province of Messina on certain days in July and August 2014. Following the Company's submission of a defence brief, with Resolution 517/15/CONS of 25 September 2015, notified to the Company on 26 October 2015, the regulator halted the penalty procedure regarding 29 of the 42 violations initially claimed. Regarding the other violations, having rejected Poste Italiane's defence, with Resolution 631/15/CONS of 21 December 2015, AGCom ordered the Company to pay a fine of €296,000. Poste Italiane lodged an appeal with the Lazio Regional Administrative Court, before which judgment is still pending.

On 10 July 2015, AGCom issued formal notification of penalty 04/15/DISP, launching a procedure against Poste Italiane for the alleged violation of its legal obligations relating to certain post offices and local area offices, following monitoring carried out by IZI SpA in 2014 in connection with changes to post office opening hours during the summer period. On 7 August 2015, Poste Italiane sent the regulator a defence brief, rejecting the alleged violations. On 18 March 2016, AGCom summoned Poste Italiane to a hearing to look into the matter. In response, on 4 April 2016, the Company sent the regulator its closing arguments. Subsequently, with Resolution 143/16/CONS of 19 April 2016, AGCom halted the entire proceedings.

[14] 1) Pick up at sorting centres to which items are returned and/or referred;
2) pick up at one or more collection centres;
3) delivery by Poste Italiane to an address specified by other operators.

With regard to the delivery of legal process, following a number of investigations of alleged violations of the Company's obligations relating to the notification of legal process, as provided for in Law 890 of 29 November 1982, AGCom:

- issued Resolution 161/16/CONS on 5 May 2016, ordering the Company to pay a fine of €50,000;
- issued resolutions 188/16/CONS and 251/16/CONS, notifying the Company, in June, of two fines amounting to €180,000;
- issued resolutions 338/16/CONS and 339/16/CONS on 2 August 2016, notifying the Company of fines amounting to €342,500;
- notified the Company, with regard to proceeding 9/16/DSP, of Resolution 413/16/CONS dated 3 October 2016, imposing a fine of €57,500.

The Company has challenged all the above rulings before Lazio Regional Administrative Court, or intends to do so within the deadline established by law.

In Resolution 366/16/CONS, dated 2 August 2016, AGCom gave Poste Italiane a formal warning in relation to compliance with the provisions of Law 890/1982, ordering the Company to submit a plan showing the organisational measures it intends to adopt in order to ensure the proper provision of the service. On 5 August 2016, the Company sent the regulator the document containing "*Proposed changes to the handling and delivery of legal process*", which had already been sent on 10 December 2015. The document sets out a series of proposals aimed at modifying the existing regulatory framework and improving the operational processes involved in the handling of legal process. At the same time, the Company reported to the regulator on the initiatives and corrective measures already implemented in order to improve operational processes. The Company has challenged Resolution 366/16/CONS before Lazio Regional Administrative Court.

Regarding obligations relating to the management of post offices, on the other hand, the regulator notified its decision to halt four proceedings (184/16/CONS, 187/16/CONS, 414/16/CONS and 434/16/CONS) and to order payment of a €50,000 fine in relation to another (186/16/CONS), which the Company challenged before Lazio Regional Administrative Court on 5 September 2016. A date for the hearing is awaited.
Two other proceedings are still pending (10/16/DSP and 14/16/DSP). With regard to proceeding 10/16/DSP, relating to the same issue resolved by Resolution 143/16/CONS, on 24 October 2016, AGCom extended the deadline for completion of the proceeding to 24 December 2016, in order to conduct further legal analysis. The Company submitted its defence brief in response to proceeding 14/16/DSP on 21 October 2016.

AGCM (the Antitrust Authority)

With regard to investigation PS/10009, launched by the AGCM in 2015, into alleged violation of articles 20, 21 and 22 of the Consumer Code, regarding the "Libretto Smart" product, on 21 December 2015, the Authority imposed a fine of €540,000, limited to a tenth of the maximum applicable amount taking into account the mitigating circumstance that Poste Italiane had adopted initiatives aimed at allowing customers to benefit from the bonus rate.
Poste Italiane lodged an appeal against this ruling before the Lazio Regional Administrative Court (RG 2288/16) on 24 February 2016. At the hearing held on 23 March 2016, the court adjourned the case until a hearing on the merits.
In addition, on 7 March 2016, the AGCM, as part of a compliance audit, sent a request for information on the nature of the Libretto Smart product from 1 July 2015 and on the related "Supersmart" offering. Poste Italiane

replied to the Authority on 22 March 2016, and on 24 June 2016 AGCM informed Poste Italiane that insufficient evidence is currently available to conduct an investigation.

On 4 June 2015, the AGCM launched an investigation (SP/157) pursuant to art.8, paragraph 2 *quater* of Law 287/90, aimed at ascertaining whether actions taken by Poste Italiane were designed to prevent H3G SpA from accessing the post office network. Requests to participate in the investigation from Fastweb SpA and Vodafone Omnitel BV, as well as PosteMobile, were accepted. With the ruling adopted at a meeting held on 16 December 2015, the Authority deemed that Poste Italiane – at variance with the provisions of art. 8, paragraph 2 *quater* of Law 287/90 – failed, when requested, to offer a competitor of its subsidiary, PosteMobile, equal access to goods and services that are exclusively available from Poste Italiane, as they form part of the activities carried out within the scope of the Universal Postal Service. The Authority issued a warning to Poste Italiane that it should desist from such conduct in the future, but did not impose any fine.
Following the above ruling from the AGCM, on 23 December 2015, H3G also submitted a writ of summons to the Court of Rome, citing Poste Italiane and PosteMobile and requesting that the latter be ordered to pay compensation for damages incurred, arising from the violations referred to in the above ruling, amounting to approximately €338 million, as well as court fees. At the preliminary hearing, held on 7 April 2016, before the Civil Court of Rome, the court, upholding the procedural objection raised by Poste Italiane, adjourned the hearing until 22 June 2016. At this hearing, after full discussion, the investigating judge said he would decide on the procedural objection raised by Poste Italiane, regarding the lack of authority of H3G's legal representative to institute legal proceedings, and adjourned the case to a hearing on 1 December 2016, setting a deadline for the submission of depositions, pursuant to art. 183 of the Code of Civil Procedure.
Poste Italiane lodged an appeal against this ruling before Lazio Regional Administrative Court on 25 February 2016. PosteMobile also lodged an appeal against the final ruling before Lazio Regional Administrative Court on 19 February 2016.
On 28 September 2016, Lazio Regional Administrative Court published its ruling, rejecting the appeals lodged by Poste and Poste Mobile, confirming the key principle, supported by Poste Italiane and expressly approved by the AGCM, under which the obligation established by art. 8, paragraph 2-*quater* of Law 287/90 regards equality of treatment. As a result, H3G's request was unlawful, as it aimed to limit access to certain areas of Poste Italiane's network and was not interested in obtaining treatment equal to that applied by Poste Italiane to its subsidiary, Poste Mobile. In its ruling of 14 September 2016, the AGCM clarified that, at that time, there were no grounds to justify action pursuant to Law 287/90. Indeed, as highlighted by the AGCM, art. 8, paragraph 2-*quater* of Law 287/90 does not establish a generic obligation to grant access to the network on ad hoc terms, but an obligation to grant access on equivalent terms to those applied to subsidiaries. In this latter regard, Poste Italiane has expressed a willingness to grant H3G access on terms equivalent to those applied to Poste Mobile.
Partly taking into account the percentage of uncertainty attaching to any judgment and impeding any quantification, it is now possible to state that the risk of an adverse outcome for Poste Italiane in the above dispute has been significantly reduced.

On 8 June 2016, the AGCM notified Poste Italiane of the launch of investigation A493 pursuant to art. 14 of Law 287/90, aimed at determining whether behaviour towards Nexive SpA, in multi-item ordinary mail delivery markets, constitutes an abuse of its dominant market position as per art. 102 of the TFEU.

In particular, the AGCM intends to ascertain whether Poste Italiane refuses to offer Nexive, in geographical areas where the company does not have a presence with its own distribution networks, the Posta Time service, namely the service that Poste Italiane offers to end customers in those areas, only making available Bulk Mail, which has higher rates than Posta Time. Moreover, according to the Antitrust Authority, Poste Italiane operates a policy of applying loyalty-building discounts on its Posta Time product for the benefit of end customers. The proceedings will conclude on 31 October 2017.
On 9 September 2016, Poste Italiane submitted a series of commitments designed to respond to the Authority's concerns. Given the Authority's rejection of these commitments on 4 October 2016, Poste Italiane is currently preparing a new set of commitments to propose.

With regard to postal services available for purchase on line, on 22 April 2016, the AGCM sent Poste Italiane a request to remedy certain shortcomings that could possibly be considered examples of unfair commercial practices (PS/10408), in accordance with art. 4, paragraph 5 of the "*Regulations on investigations of misleading and comparative advertising, unfair commercial practices, the violation of consumer rights in contracts, the violation of prohibitions on discriminatory conduct and vexatious clauses*".
The AGCM's request regarded: *i)* the inclusion of Poste Italiane's email address on the website, on the homepage or in an indicated section of the website, *ii)* a clearer indication, before confirmation of purchase, of the prices of postal services available for purchase on line, above all with regard to any additional costs, such as stamp duty.
On 13 May 2016, Poste Italiane responded to the Authority, sending it certain relevant documentation. After this, on 9 August 2016, the AGCM requested further information on Poste Italiane's telephone number and email address, to be used by consumers to contact the Company. On 6 September 2016, Poste Italiane provided an appropriate response.

The AGCM has lodged a challenge with the Lazio Regional Administrative Court against INPS and Poste Italiane, seeking cancellation of the tender process awarding the contract for non-automated mail delivery services for INPS's head office and regional offices. In a ruling in May 2016, the Regional Administrative Court rejected the challenge, thus confirming the legitimacy of the INPS tender. The period during which the AGCM may appeal before the Council of State has not yet expired.

Italian National Anti-Corruption Authority (ANAC)

On 28 September 2015, the Italian National Anti-Corruption Authority (ANAC) notified Poste Italiane that it was launching an investigation to verify the administrative procedures carried out regarding upgrade and restyling work at the Sesto Fiorentino sorting centre (FI). The Authority asked Poste Italiane to submit an explanatory report on the contract, together with the related documentation. On 17 November 2015, the person responsible for the procedure sent the documented report to ANAC and asked to testify before the Authority. The hearing was held on 27 January 2016, when the Company provided clarification and details regarding the contract in question. The Authority's conclusions are awaited.

Bank of Italy

In December 2015, the Bank of Italy's Financial Intelligence Unit (UIF) launched an investigation of Poste Vita SpA relating to money laundering prevention as per art. 47 and art. 53, paragraph 4, of Legislative Decree 231 of 2007.

The above investigation came to an end on 8 April 2016, with receipt of the final document from the company, containing the clarifications and information requested by the UIF.

On 8 July 2016, the UIF sent Poste Vita a notice of assessment and violation, alleging the company's failure to promptly report suspect transactions (regarding transactions relating to a single policy) pursuant to art. 41 of Legislative Decree 231/2007. The violation in question, punishable with a fine amounting to between 1% and 40% of the value of the transactions, can, in such cases, result in a fine of up to €406,000. Poste Vita has sent the Ministry of the Economy and Finance a defence memorandum and has requested a hearing.
Following the investigations, on 27 July 2016, the Bank of Italy requested the company to take corrective action to resolve a number of issues emerging during the checks carried out, and asking the company to report back. The company informed the Bank that it was taking the necessary steps, after which it would report on the initiatives and corrective action undertaken.

On 18 July 2016, following a recent inspection at Banca del Mezzoggiorno – MedioCredito Centrale, completed on 20 April 2016, the Bank of Italy notified the findings of the audit, which identified certain aspects of the Bank's organisation and activities that require corrective action, expressing a partly unfavourable opinion. The inspection did not give rise to any imposition of fines on the bank or its representatives.
In line with the relevant regulations, on 5 August 2016, the bank submitted its comments on the findings and its observations to the Bank of Italy, as well the overall plan for compliance initiatives, which have already been partially implemented.

CONSOB

Drawing up of preparatory measures continued ahead of the introduction of the new "guided consultancy" service provided for in the Plan submitted to CONSOB following the inspection completed in 2014. In particular, in a memorandum sent on 1 June 2016, information on the overall state of progress of the Plan and the scheduled launch of the rollout of the new platform in October 2016 was provided, as requested by the Authority. The aim of this platform is to adopt the standardised process that supports identification of the best investment solutions for customers, enabling a systematic record of the manager-customer relationship. Testing of the new application was completed in September and the new service is set to be launched in the last quarter of 2016, before being gradually rolled out across the "MiFID" post office network by the end of the first half of 2017.

IVASS - *Istituto per la Vigilanza sulle Assicurazioni* (the insurance regulator)

Following the inspection that took place between 1 April and 14 July 2014, for the purposes of assessing the governance, management and control of investments and financial risk, and compliance with anti-money laundering regulations, on 17 September 2014, IVASS notified Poste Vita SpA of its recommendations and the start of an administrative procedure regarding the alleged violation of four provisions concerning anti-money laundering regulations. On 12 May 2016, the Authority notified the company of the ruling in which two of the four violations challenged were upheld. Poste Vita paid the fine and, based on the findings of an analysis and assessment carried out, the company's Board of Directors decided not to challenge the ruling.

Between September 2015 and September 2016, IVASS notified Poste Vita of seven alleged violations of art. 183, paragraph 1.a) of the *Codice delle Assicurazioni Private* (Private Insurance Code or CAP), as a result of delays in the payment of claims.

Having ascertained that three of the above violations had been committed, in August 2016, IVASS notified Poste Vita that it was imposing the relevant fines (one of €11,000 and another two of €2,000 each).

No fine is to be imposed for one of the remaining violations, whilst the other 3 proceedings are still pending.

Data Protection Authority

From 29 September to 1 October 2015, the *Nucleo Polizia Tributaria Roma* (Tax Police), in implementation of Data Protection Authority order 21876/97157, as per the Data Protection Code, inspected PosteMobile's premises.

After the inspection, on 3 November 2015, the Tax Police notified PosteMobile of one alleged violation relating to the retention of data for the purposes of identifying and combatting crimes (documentation of traffic data, namely internet access) beyond the maximum periods laid down in art. 132 of the Data Protection Code, with the imposition of a fine (ranging from a minimum of €10,000 to a maximum of €50,000).

Deeming the allegation to be groundless, on 2 December 2015, pursuant to art. 18 of Law 689 of 24 November 1981, PosteMobile submitted its defensive brief to the Authority asserting that data retention for the purposes of identifying and combatting crimes was extended beyond the maximum periods provided for by the Data Protection Code in good faith and in line with the interpretative and applicatory practices of the Anti-terrorism Decree 43 of 17 April 2015, which all telecommunications operators comply with. On 2 February 2016, the company confirmed to the Authority that it had completed cancellation of the traffic data relating to communications prior to 21 April 2015, being up to the entry into effect of the legislation converting the Anti-terrorism Decree into law. Poste Mobile has requested a halt to the procedure, taking into account the unique and isolated nature of the violation within a general context of full compliance with existing data protection legislation, as confirmed by the findings of the investigation.

European Commission

The Court of the European Union’s sentence of 13 September 2013 upheld Poste Italiane SpA's appeal against the European Commission's decision of 16 July 2008 regarding state aid (Decision C42/2006), ordering the latter to pay the related costs. In compliance with the Decision, and as requested by the Ministry of the Economy and Finance, in November 2008 the Company returned the related amounts (€443 million, plus interest of €41 million). Under the 2015 Stability Law, in order to implement the Court of the European Union's sentence of 13 September 2013, €535 million has been set aside for payment to Poste Italiane for 2014. These amounts were collected from the Central Treasury on 13 May 2015.

The European Commission subsequently reopened the enquiry, appointing an external expert to check that the levels of interest paid to the Company from 1 January 2005 to 31 December 2007 on deposits held at the Ministry of the Economy and Finance (as per art. 1, paragraph 31, of Law 266 of 23 December 2005 “2006 Budget Law”) were in line with the market. To date, the expert has submitted to the Commission a preliminary revised version of the assessment originally carried out by the Commission. Poste Italiane intends to actively collaborate with the national authorities to demonstrate the fairness of the returns it received during the relevant period.

On 5 February 2016, Hutchison and VimpelCom notified the European Commission, in accordance with the EC Merger Regulation (no. 139/2004), of a plan to create a joint venture to operate in the Italian mobile market by merging their respective subsidiaries, Hutchison 3G Italy and WIND. The combination would reduce the number of mobile operators with their own networks from four to three. The Commission has thus initiated an investigation of the merger, in which PosteMobile also took part as an interested third party (PosteMobile is a mobile virtual network operator in that it does not have its own network).

On 30 March 2016, the Commission decided to begin the second stage of the procedure, announcing to the parties that the notified merger raised doubts over its compatibility with the single market. The transaction may, in fact, lead to higher prices, less choice for consumers and reduced innovation in the Italian mobile market. In addition, mobile virtual network operators could have less choice and reduced bargaining power when negotiating access to the networks of operators with their own infrastructure (the wholesale access market).

In accordance with the EU procedure, on 6 June 2016, the notifying parties submitted commitments designed to eliminate any anti-competitive impact of the merger.

In the light of the commitments submitted by the notifying parties, on 1 September 2016, the Commission approved the merger, subject to specific conditions ("remedies"), with the aim of enabling a fourth operator to enter the Italian mobile market. This operator had already been selected by the notifying parties via an agreement with the French operator, Iliad.

The conditions imposed by the Commission are primarily the following:

- the sale, by Wind/H3G, of radio spectrum to Iliad;
- the co-location and provision to Iliad of a number of mobile base station sites;
- a transitional agreement with Iliad granting access to Wind/H3G's new technologies, enabling Iliad to progressively equip itself with its own network infrastructure.

Information of litigation and tax and social security disputes is provided in the Poste Italiane Group's condensed consolidated interim financial statements for the nine months ended 30 September 2016 (note 5 - Proceedings pending).

12. OTHER INFORMATION

THE ENVIRONMENT

The Poste Italiane Group is committed to environmental protection which, within the scope of its green strategy, it considers to be a vital element in its path to growth. For this reason, all the business activities carried out entail implementation of environmental sustainability actions and policies inspired by principles of saving, recovery and recycling, innovation and security.

Over two-thirds of Poste Italiane's polluting emissions are attributable to the energy used to supply its properties. For this reason, the plan to optimise energy use, by encouraging staff to adopt a virtuous approach to energy, continued during the first nine months of 2016. This included information campaigns focusing on the need to save energy (for example, on the careful use of “heat pumps”), and the introduction of technical initiatives designed to reduce waste, including the installation and activation of energy management devices for monitoring energy consumption, enabling, for example, the analysis of consumption on Saturdays and Sundays, measurement at the sites where energy consumption is highest and the correct setting of temperatures and time-settings for cooling and heating systems. In addition, over 20,000 human presence sensors have been installed.

In this connection, the Group continued to participate in international programmes aimed at reducing greenhouse gas emissions, such as the Environmental Measurement and Monitoring System (EMMS) run by the IPC, the Greenhouse Gas Reduction Programme set up by Posteurop, and the new OSCAR (Online Solution for Carbon Analysis and Reporting) programme, launched in July by the UPU (Universal Postal Union) with the aim of reporting and monitoring the CO_2 emissions of postal operators. Thanks to the Group’s growing commitment to such issues, the Poste Italiane Group has this year been included in the so-called “silver class” under the EMMS programme. This is reward for postal operators who have succeeded in achieving significant qualitative results (e.g., energy efficient operating systems, policies and procedures) accompanied by concomitant cuts in CO_2 emissions. On a scale of 0 to 100, the Group scored over 80.

As part of the Mobility Management project, which aims to support the adoption of sustainable mobility solutions in urban areas, special agreements enabling the Group’s employees to purchase annual season tickets for local public transport in certain Italian cities, at reduced rates and in instalments, continued, as did initiatives designed to convey the importance of new, equitable and sustainable lifestyles to employees who use private vehicles to commute to work on a daily basis, with the main aim of making a significant contribution to reducing CO_2 emissions into the air.

RELATED PARTY TRANSACTIONS

With the aim of ensuring the transparency and substantial and procedural correctness of transactions with related parties and connected persons, Poste Italiane has adopted "Guidelines for the management of transactions with Related and Connected Parties", approved by Poste Italiane SpA’s Board of Directors in July 2015. The Guidelines have been drawn up in compliance with the principles established by the CONSOB in the Regulation adopted with Resolution 17221 of 12 March 2010 and Announcement DEM/10078683 of 24 September 2010.

The Guidelines apply the regulations contained in Bank of Italy Circular 263/2006, "New prudential supervisory standards for banks", Title V, Chapter 5, "Risk assets and conflicts of interest with Connected Parties" and Bank of Italy Circular 285/2013 ("Supervisory Standards"), applicable to Poste Italiane with reference to transactions entered into by BancoPosta with persons connected with Poste Italiane.

The scope of application of the Guidelines differs depending on the applicable regulations. This means that the CONSOB's requirements apply to Poste Italiane (in carrying out both its postal activities and those of BancoPosta and in the conduct of transactions with Poste Italiane's Related Parties through subsidiaries), whilst the standards issued by the Bank of Italy apply solely to BancoPosta's transactions with Poste Italiane's Connected Parties. The updated version of the Guidelines is published on Poste Italiane's website at: http://www.posteitaliane.it/en/governance/company-documents/related-parties-connected-persons.shtml. The document is also available in the section dedicated to BancoPosta at http://www.posteitaliane.it/it/governance/documenti_bancoposta/operativita_parti_correlate_sogg_collegati.shtml.

Details of related party transactions are provided in the Poste Italiane Group's condensed consolidated interim financial statements for the nine months ended 30 September 2016 (3.5 – Related party transactions).

STATEMENT OF RECONCILIATION OF PROFIT AND EQUITY

The statement of reconciliation of the Parent Company's profit/(loss) for the period and equity with the consolidated amounts at 30 September 2016, compared with the statement at 31 December 2015, is included in the condensed consolidated interim financial statements for the nine months ended 30 September 2016 (3.3 - Notes to the financial statements).

APPENDIX - KEY PERFORMANCE INDICATORS FOR PRINCIPAL POSTE ITALIANE GROUP COMPANIES

POSTE ITALIANE SPA

for the nine months ended 30 September (€m)	2016	2015	Increase/(decrease)	
Revenue from sales and services	6,689	6,650	39	0.6%
Operating profit/(loss)	740	582	158	27.1%
Profit/(loss) for the period	522	404	118	29.2%
Investment (*)	208	434	(226)	-52.1%
Equity (**)	6,703	7,646	(943)	-12.3%
Permanent workforce - average	132,876	135,719	(2,843)	-2.1%
Flexible workforce - average	4,430	3,354	1,076	32.1%

(*) The figure for the nine months of 2015 includes financial investments of €252 million.

(**) The amount show n in the column for the nine months ended 30 September 2015 refers to 31 December 2015.

The figures shown in the tables below reflect the financial and operational indicators (as deduced from the related reporting packages) of the principal Group companies, prepared in accordance with International Financial Reporting Standards (IFRS) and approved by the boards of directors of the respective companies.

POSTEL SPA (*)

for the nine months ended 30 September (€000)	2016	2015	Increase/(decrease)	
Revenue from sales and services	157,597	161,973	(4,376)	-2.7%
Operating profit/(loss)	(5,477)	(4,460)	(1,017)	22.8%
Profit/(loss) for the period	(6,421)	(4,780)	(1,641)	34.3%
Investment	6,271	6,124	147	2.4%
Equity (**)	96,298	103,265	(6,967)	-6.7%
Permanent workforce - average	1,184	1,201	(17)	-1.4%
Flexible workforce - average	32	34	(2)	-5.9%

(*) In the first half of 2016, PosteShop SpA w as merged w ith and into Postel SpA, effective for accounting and tax purposes from 1 May 2016.

(**) The amount show n in the column for the nine months ended 30 September 2015 refers to 31 December 2015.

SDA EXPRESS COURIER SPA

for the nine months ended 30 September (€000)	2016	2015	Increase/(decrease)	
Revenue from sales and services	410,364	378,969	31,395	8.3%
Operating profit/(loss)	(26,498)	(39,291)	12,793	32.6%
Profit/(loss) for the period	(20,735)	(30,583)	9,848	32.2%
Investment	2,329	4,477	(2,148)	-48.0%
Equity (*)	(21,316)	498	(21,814)	n/s
Permanent workforce - average	1,400	1,425	(25)	-1.8%
Flexible workforce - average	65	144	(79)	-54.9%

(*) The amount show n in the column for the nine months ended 30 September 2015 refers to 31 December 2015.
n/s: not significant

POSTE TUTELA SPA

for the nine months ended 30 September (€000)	2016	2015	Increase/(decrease)	
Revenue from sales and services	66,105	63,024	3,081	4.9%
Operating profit/(loss)	586	378	208	55.0%
Profit/(loss) for the period	436	226	210	92.9%
Investment	9	55	(46)	-83.6%
Equity (*)	13,056	12,662	394	3.1%
Permanent workforce - average	16	15	1	6.7%

(*) The amount show n in the column for the nine months ended 30 September 2015 refers to 31 December 2015.

POSTECOM SPA

for the nine months ended 30 September (€000)	2016	2015	Increase/(decrease)	
Revenue from sales and services	53,889	56,973	(3,084)	-5.4%
Operating profit/(loss)	2,145	1,008	1,137	n/s
Profit/(loss) for the period	1,103	212	891	n/s
Investment	5,182	6,229	(1,047)	-16.8%
Equity (*)	21,908	21,003	905	4.3%
Permanent workforce - average	286	296	(10)	-3.4%
Flexible workforce - average	3	6	(3)	-50.0%

(*) The amount shown in the column for the nine months ended 30 September 2015 refers to 31 December 2015.

n/s: not significant

EUROPA GESTIONI IMMOBILIARI SPA (*)

for the nine months ended 30 September (€000)	2016	2015	Increase/(decrease)	
Revenue from sales and services	71,330	11,449	59,881	n/s
Operating profit/(loss)	3,414	1,449	1,965	n/s
Profit/(loss) for the period	1,020	1,814	(794)	-43.8%
Investment	333	808	(475)	-58.8%
Equity (**)	234,833	233,833	1,000	0.4%
Permanent workforce - average	30	16	14	87.5%

(*) In 2015, Poste Energia SpA was merged with and into Europa Gestioni Immobiliari SpA, effective for tax and accounting purposes from 31 December 2015.

(**) The amount shown in the column for the nine months ended 30 September 2015 refers to 31 December 2015.

n/s: not significant

MISTRAL AIR SRL

for the nine months ended 30 September (€000)	2016	2015	Increase/(decrease)	
Revenue from sales and services	69,330	98,628	(29,298)	-29.7%
Operating profit/(loss)	(2,953)	3,012	(5,965)	n/s
Profit/(loss) for the period	(2,296)	1,838	(4,134)	n/s
Investment	433	80	353	n/s
Equity (*)	2,158	4,577	(2,419)	-52.9%
Permanent workforce - average	146	153	(7)	-4.6%
Flexible workforce - average	42	84	(42)	-50.0%

(*) The amount shown in the column for the nine months ended 30 September 2015 refers to 31 December 2015.

n/s: not significant

BANCA DEL MEZZOGIORNO - MEDIOCREDITO CENTRALE SPA

for the nine months ended 30 September (€000)	2016	2015	Increase/(decrease)	
Net interest income	31,461	36,185	(4,724)	-13.1%
Net fee and commission income	36,222	31,290	4,932	15.8%
Profit/(loss) for the period	22,329	26,407	(4,078)	-15.4%
Financial assets (*)	2,496,403	2,523,777	(27,374)	-1.1%
Equity (*)	419,543	425,511	(5,968)	-1.4%
Permanent workforce - average	282	273	9	3.3%
Flexible workforce - average	24	19	5	26.3%

(*) The company paid dividends totalling €25 million during the six months ended 30 June 2016. The amount shown in the column for the nine months ended 30 September 2015 refers to 31 De

POSTE VITA SPA (*)

for the nine months ended 30 September (€000)	2016	2015	Increase/(decrease)	
Insurance premium revenue (**)	15,341,277	14,503,416	837,861	5.8%
Profit/(loss) for the period	265,665	231,077	34,588	15.0%
Financial assets (***)	116,258,024	102,210,858	14,047,166	13.7%
Technical provisions for insurance business (***)	113,743,260	100,201,523	13,541,737	13.5%
Equity (***)	3,580,542	3,283,955	296,587	9.0%
Permanent workforce - average	333	284	49	17.3%
Flexible workforce - average	4	2	2	n/s

(*) The figures shown have been prepared in accordance with IFRS and therefore may not coincide with those in the financial statements prepared under Italian GAAP and in accordance with the Italian Civil Code.

(**) Insurance premium revenue is reported gross of outward reinsurance premiums.

(***) The amount shown in the column for the nine months ended 30 September 2015 refers to 31 December 2015.

n/s: not significant

POSTE ASSICURA SPA (*)

for the nine months ended 30 September (€000)	2016	2015	Increase/(decrease)	
Insurance premium revenue (**)	79,371	69,758	9,613	13.8%
Profit/(loss) for the period	8,088	7,047	1,041	14.8%
Financial assets (***)	179,102	139,884	39,218	28.0%
Technical provisions for insurance business (***)	135,051	112,317	22,734	20.2%
Equity (***)	74,604	65,225	9,379	14.4%
Permanent workforce - average	52	52	-	n/s
Flexible workforce - average	1	0	1	n/s

(*) The figures shown have been prepared in accordance with IFRS and therefore may not coincide with those in the financial statements prepared under Italian GAAP and in accordance with the Italian Civil Code.

(**) Insurance premium revenue is reported gross of outward reinsurance premiums.

(***) The amount shown in the column for the nine months ended 30 September 2015 refers to 31 December 2015.

n/s: not significant

BANCOPOSTA FONDI SPA SGR

for the nine months ended 30 September (€000)	2016	2015	Increase/(decrease)	
Fee income	54,879	42,615	12,264	28.8%
Net fee income	30,599	25,199	5,400	21.4%
Profit/(loss) for the period	15,766	12,157	3,609	29.7%
Financial assets (liquidity and securities) (*)	89,857	65,851	24,006	36.5%
Equity (*)	72,323	56,820	15,503	27.3%
Permanent workforce - average	53	54	(1)	-1.9%
Flexible workforce - average	1	-	1	n/s

(*) The amount shown in the column for the nine months ended 30 September 2015 refers to 31 December 2015.

n/s: not significant

POSTEMOBILE SPA (*)

for the nine months ended 30 September (€000)	2016	2015	Increase/(decrease)	
Revenue from sales and services	206,955	249,427	(42,472)	-17.0%
Operating profit/(loss)	20,691	28,644	(7,953)	-27.8%
Profit/(loss) for the period	12,608	17,589	(4,981)	-28.3%
Investment	16,535	12,091	4,444	36.8%
Equity (**)	68,549	66,657	1,892	2.8%
Permanent workforce - average	252	306	(54)	-17.6%
Flexible workforce - average	8	4	4	n/s

(*) The partial demerger of the company's fixed line telecommunications business to Poste Italiane was executed on 27 April 2016 and the transaction was effective for legal, accounting and tax purposes from 1 May 2016.

(**) The amount shown in the column for the nine months ended 30 September 2015 refers to 31 December 2015.

n/s: not significant

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Condensed consolidated interim financial statements at and for the nine months ended 30 September 2016

1. INTRODUCTION

Poste Italiane SpA (the "Parent Company") is the company formed following conversion of the former Public Administration entity, "Poste Italiane", under Resolution 244 of 18 December 1997. Its registered office is at Viale Europa 190, Rome (Italy).

On 27 October 2015, the shares of Poste Italiane began trading on *Mercato Telematico Azionario* (the *MTA*, an electronic stock exchange). At 30 September 2016, the Company is 64.7% owned by the Ministry of the Economy and Finance ("MEF"), with the remaining shares held by institutional and retail investors. On 20 October 2016, the MEF subscribed for new shares issued by Cassa Depositi e Prestiti SpA (CDP), amounting to €2.930 billion, inclusive of the share premium. The new shares were paid for via the MEF's transfer of a 35% interest in Poste Italiane SpA to CDP. Poste Italiane SpA will continue to be under the control of the MEF.

These condensed consolidated financial statements refer to the nine months ended 30 September 2016 and have been prepared in euros, the currency of the economy in which the Group operates. They consist of the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes. Amounts in the financial statements are shown in millions of euros, unless otherwise stated.
The Poste Italiane Group's interim report for the nine months ended 30 September 2015 has not been audited.

2. BASIS OF PREPARATION

2.1 COMPLIANCE WITH IAS/IFRS

Poste Italiane Group's condensed consolidated interim financial statements are prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union ("EU") in EC Regulation 1606/2002 of 19 July 2002, and in accordance with Legislative Decree 38 of 28 February 2005, which governs the application of IFRS in Italian law. IFRS include all the International Financial Reporting Standards, International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC", previously known as the Standing Interpretations Committee or "SIC"), adopted by the European Union and contained in the EU regulations published as of 9 November 2016, the date on which the Board of Directors of Poste Italiane SpA approved these condensed consolidated interim financial statements.

2.2 BASIS OF PRESENTATION AND ACCOUNTING STANDARDS APPLIED

These condensed consolidated interim financial statements for the first nine months of 2016 have been prepared in accordance with IAS 34 – *Interim Financial Reporting*, taking into account any requirements resulting from the provisions of the draft Cabinet Office Decree approved by the Italian cabinet on 31 May

2016. This decree sets out the terms of Poste Italiane SpA's privatisation and the method for selling a further tranche of shares in the Company held by the MEF. Preparation of this document in accordance with IAS 34 does not put the Company under any obligation to use the same basis of presentation at the end of the first and third quarters of future years.

As permitted by the above standard, these financial statements provide less information than the annual financial statements (which are prepared in accordance with IAS 1 – *Presentation of Financial statements*), as they are intended to provide an update on the latest complete set of annual financial statements focusing on new activities, events and circumstances – to the extent considered relevant – as well as certain minimum additional information; accordingly, they do not duplicate information previously reported in the consolidated financial statements of the Poste Italiane Group at and for the year ended 31 December 2015, to which reference should be made for a more complete understanding of the matters reported herein. In accordance with IAS 34, the following information included in these financial statements is considered to be relevant in terms of providing an understanding of the changes in financial position, operating performance and cash flows during the first nine months of 2016.

The accounting policies and recognition, measurement and classification criteria adopted in preparing the consolidated interim financial statements are the same as those adopted in the preparation of the consolidated financial statements at and for the year ended 31 December 2015. However, to allow comparison on a like-for-like basis with amounts for the first nine months of 2015 and the year ended 31 December 2015 – considering the organisational changes that made it necessary to re-allocate certain companies to the relevant operating segments (see note 3.4) - certain amounts and notes have been reclassified.

In accordance with CONSOB Resolution 15519 of 27 July 2006, the statement of financial position, the statement of profit or loss and the condensed statement of cash flows show amounts deriving from related party transactions. The statement of profit or loss also shows, where applicable, income and expenses deriving from material non-recurring transactions, or transactions that occur infrequently in the normal course of business. Given the diverse nature and frequency of transactions conducted by Group companies, numerous income and expense items of a non-regular nature may occur with considerable frequency. These items of income and expense are only presented separately when they are both of an exceptional nature and were generated by a materially significant transaction.

At the date of approval of these financial statements, there is no established practice on which to base interpretation and application of newly published, or revised, international accounting standards. In addition, guidance regarding certain aspects of taxation[15] and interpretations based on examples of best practice or case-law cannot yet be regarded as exhaustive. Therefore, these financial statements have been prepared on the basis of information currently available and taking account of best practice. Any future changes or updated interpretations will be reflected in subsequent reporting periods, in accordance with the specific procedures provided for by the related standards.

[15] The tax authorities have issued regular official interpretations only in respect of certain of the tax-related effects of the measures contained in Legislative Decree 38 of 28 February 2005, Law 244 of 24 December 2007 (the 2008 Budget Law) and the Ministerial Decree of 1 April 2009, implementing the 2008 Budget Law, which introduced numerous changes to IRES and IRAP. The MEF Decree issued on 8 June 2011 contains instructions regarding the coordinated application of EU-endorsed international accounting standards coming into effect between 1 January 2009 and 31 December 2010, in addition to regulations governing determination of the tax bases for IRES and IRAP.

2.3 USE OF ESTIMATES

While preparation of the condensed consolidated interim financial statements at and for the nine months ended 30 September 2016 requires management to make more extensive use of estimates compared with the annual financial statements, there have been no changes with respect to the Poste Italiane Group's consolidated financial statements at and for the year ended 31 December 2015, in terms of either the type of estimates made or the methods of calculation and measurement adopted.

This section provides an update of those consistently adopted accounting estimates that, in view of changing conditions during the period, require an update. Reference is made to the Annual Report for 2015 for a comprehensive review of the use of estimates.

- **Revenue and receivables due from the State**

The Group has substantial receivables due from the State, though the amount is much lower than in the past. Revenue from activities carried out in favour of or on behalf of the State and Public Administration entities is recognised on the basis of the amount effectively accrued, with reference to the laws and agreements in force, taking account, in any event, of the instructions contained in legislation regarding the public finances. The legal framework of reference is still subject to change and, as has at times been the case in the past, circumstances may be such that estimates made in relation to previous financial statements, with effects on the statement of profit and loss, need to be changed. The complex process associated with the determination of receivables, which has not been completed yet, may result in changes in the results for the periods after 30 September 2016 to reflect variations in estimates, due to future regulatory enactments or following the finalisation of expired agreements to be renewed.

At 30 September 2016, the Poste Italiane Group's receivables outstanding with central and local government authorities amounted to approximately €1.2 billion (€1.3 billion at 31 December 2015), gross of provisions for doubtful debts. The significant decrease in the amounts outstanding at 30 September 2016 and 31 December 2015 reflects the effects of the review of the main exposures conducted by a joint working group with the MEF – Treasury and General Accounting Department, which ended in August 2015. On 7 August 2015, the MEF committed *"the Ministry to complete all the procedures necessary in order to pay the amounts due in accordance with procedures and timing consistent with the current privatisation process (…), including provision of the necessary funding"* and sent the Parent Company a legally binding letter signed by the Director General of the Treasury Department and General Accounting Office referring to the items described below (the "MEF letter").

The table below summarises receivables due from the State.

Receivables		At 30 September 2016	At 31 December 2015
Universal Service compensation	(i)	237	334
Electoral subsidies	(ii)	83	83
Remuneration of current account deposits	(iii)	14	15
Delegated services	(iii)	14	28
Distribution of Euroconvertors	(iv)	6	6
Other		3	3
Trade receivables due from the MEF		**357**	**469**
Loans and receivables due from the MEF for repayment of loans accounted for in liabilities		**1**	**3**
Shareholder transactions:			
Amount due from MEF following cancellation of EC Decision of 16 July 2008	(v)	**45**	**45**
Total amounts due from the MEF		**403**	**517**
Receivables due from Ministries and Public Administration entities: Cabinet Office for publisher tariff subsidies	(vi)	52	52
Receivables due from Ministries and Public Administration entities: Ministry for Econ. Dev.	(vii)	74	72
Other trade receivables due from Public Administration entities	(viii)	612	557
Trade receivables due from Public Administration entities		**738**	**681**
Other receivables and assets:			
Sundry receivables due from Public Administration entities	(ix)	**8**	**9**
Current tax assets and related interest	(x)	**58**	**59**
Total amounts due from the MEF and Public Administration entities		**1,207**	**1,266**

Specifically, at 30 September 2016, the total exposure to the State includes the following items.

(i) Receivables related to Universal Service compensation, totalling €237 million, including:

- €66 million relating to compensation for the third quarter of 2016, funded in the state budget for 2016, but not yet collected at 30 September 2016;
- €67 million relating to compensation for 2015, of which half funded in the state budget for 2017 and the other half unfunded;
- €104 million relating to compensation for previous years, of which €32 million funded in the state budget for 2016, €41 million funded in the state budget for 2017 and €31 million unfunded.

  In the first half of 2016, the Group received €131 million in compensation for the entire period, in monthly payments as per the new *Contratto di Programma* (Service Contract), an additional €131 million related to compensation for 2015 and €32 million related to compensation for past years.

(ii) Receivables related to electoral tariff subsidies, totalling €83 million, a sum acknowledged in the MEF Letter, almost fully funded in the state budget for 2016 and for prior years, and awaiting approval by the European Commission.

(iii) Sums due from the MEF in the amount of €28 million, accruing during the period and not giving rise to any particular concerns.

(iv) Receivables in the amount of €6 million, for the distribution of Euroconverters and acknowledged in the MEF letter, for which no provision has been made in the state budget.

(v) Receivables of €45 million following cancellation of the EC Decision of 16 July 2008 and the interest due as a result of the sentence of the European Court of 30 September 2013, the impact of which on the Parent Company's equity was deferred or adjusted. This amount was acknowledged in the MEF letter up to €6 million. However, to date, no provision has been made in the state budget.

(vi) Sums due from the Cabinet Office, totalling €52 million, of which approximately €51 million is expected to be collected in 2016 pursuant to Cabinet Office Decrees dated 13 November 2007 and 27 November 2008, whilst €1 million was acknowledged in the MEF Letter.

(vii) Receivables due from the Ministry of Economic Development, amounting to €74 million, in relation to which a negotiated settlement worth approximately €50 million was not cleared by the State Attorney's Office; as of the reporting date, legal proceedings were under way in relation to receivables of €62 million, whilst, with regard to the remaining balance, a joint working group has been set up with the debtor to agree on the amount of the services to be billed.

(viii) Regarding receivables outstanding with central and local government entities, totalling € 612 million, certain items are still overdue, mainly because no provision was made in the relevant budgets or in connection with contracts or agreements. To this end, steps continue to be taken to renew the expired agreements and to make the necessary provisions.

(ix) Other receivables of €8 million under collection, though provisions for the full amount have been made.

(x) Corporate income tax (IRES) overpayments and related interest to be recovered in relation to the unreported IRAP deduction of €58 million. In the second half of 2015, tax refunds due to overpayment were collected in the amount of €546 million, in keeping with the above MEF Letter. With reference to the remaining amount receivable, a dispute is under way, but the time necessary to reach a settlement is not known. However, Poste Italiane has taken all the steps necessary to collect the amount owed. Any elements of uncertainty or risk requiring the Parent Company's recalculation of these items will be reflected in future financial statements.

At 30 September 2016, provisions for doubtful debts reflect receivables for which no provision had been made in the state budget, receivables for which provision has only been made in the state budget forecast for 2017 and other past due sums. The final versions of legislation, contracts and procedures authorising payment of these items may result in the release of a portion of the provisions made to profit or loss, whilst new provisions and estimates may be necessary.

➢ Impairment tests and cash generating units

At 30 September 2016, the Company has performed the assessment required by paragraph 12 of IAS 36 – *Impairment of Assets,* in order to identify any change in circumstances that may have potentially altered the conclusions reached following the impairment testing of investments and goodwill at the end of 2015 and at the end of the first of 2016. Reference should be made to the relevant reports for a fuller understanding of the disclosures included in this document. In the absence of any new evidence of impairment, the Company has not conducted new tests.

➢ Measurement of other non-current assets

The current economic and financial crisis, which has resulted in highly volatile markets and great uncertainty with regard to economic projections, and the decline of the postal market in which the Group operates make it difficult to produce forecasts that can, with certainty, be defined as reliable.

In addition, in assessing the value of non-current assets of the Postal and Business service segment, account was taken of any effect on the value in use of certain properties, should such properties no longer be used in operations in future, making adjustments to certain impairment losses taken in the past in the light of new evidence available at 30 September 2016. The fair value of the Parent Company's properties used in operations continued to be significantly higher than their carrying amount. As in the past, in determining the value of properties used as post offices and sorting centres, Poste Italiane SpA's universal service obligation was taken into account, as was the inseparability of the cash flows generated from the properties that provide this service, which the Parent Company is required to operate throughout the country regardless of the expected profitability of each location. The unique nature of the operating processes involved and the substantial overlap between postal and financial activities within the same outlets, represented by post offices, were also considered. On this basis, the value in use of the Parent Company's land and buildings used in operations is relatively unaffected by changes in the commercial value of the properties concerned and, in certain critical market conditions, certain properties may have values that are significantly higher than their market value, without this having any impact on the cash flows or results of the Postal and Business Services segment.

2.4 SHARE-BASED PAYMENT

In accordance with IFRS 2 – *Share-Based Payment*, in the event of share-based payment transactions settled in cash, shares or other financial instruments, the Company is required to measure the goods or services acquired and the liability incurred at fair value. Until the liability is settled, the Company must remeasure the fair value of the liability at the end of each reporting period, recognising any changes in fair value in profit or loss for the period. In the event of benefits granted to employees, recognition should take place in the period in which the employees render service and the expense accounted for in employee benefit costs.

See note 3.7 - Other information for a description of Poste Italiane's "Long-term incentive plan for the period 2016-2018 (LTIP) – Phantom Stock Plan".

2.5 DETERMINATION OF FAIR VALUE

The Poste Italiane Group has adopted a fair value policy, setting out the general principles and rules to be applied in determining fair value for the purposes of preparing the financial statements, conducting risk management assessments and supporting the market transactions carried out by the Finance departments of the various Group entities. The principles and rules applied in measuring the fair value of financial instruments did not change compared with 31 December 2015 and have been identified in compliance with indications from the various (banking and insurance) regulators and the relevant accounting standards, ensuring consistent application of the valuation techniques adopted at the Group level.

In compliance with IFRS 13 - *Fair Value Measurement*, the following section provides information regarding the techniques used to measure the fair value of financial instruments within the Poste Italiane Group.

The assets and liabilities concerned (specifically assets and liabilities carried at fair value and carried at cost or amortised cost, for which fair value is required to be disclosed in the notes) are classified with reference to a hierarchy that reflects the materiality of the sources used for their valuation.

The hierarchy consists of three levels.

Level 1: this level is comprised of fair values determined with reference to prices quoted in active markets for identical assets or liabilities to which the entity has access on the measurement date. For the Poste Italiane Group, these include the following types of financial instruments:

Bonds quoted on active markets:

- **Bonds issued by EU government bodies or Italian or foreign corporate bonds**: measurement is based on bid prices, according to a hierarchy of sources where the MTS (the wholesale electronic market for government securities) ranks first, MILA (Milan Stock Exchange) second, for bonds intended for retail customers, and the CBBT (Bloomberg Composite Price) third;
- **Financial liabilities**: measurement is based on the ask prices quoted by CBBT (*Bloomberg Composite Price*).

Equities and ETFs (Exchange Traded Funds) quoted on active markets: measurement is based on the price resulting from the last trade of the day on the stock exchange of reference.

Quoted investment funds: measurement is based on the daily closing market price as provided by Bloomberg or the fund manager.

Level 1 bond price quotations incorporate a credit risk component.

Level 2: this level is comprised of fair values based on inputs other than Level 1 quoted market prices that are either directly or indirectly observable for the asset or liability. Given the nature of Poste Italiane Group's operations, the observable data used as input to determine the fair value of the various instruments include yield curves and projected inflation rates, ranges of rate volatility, inflation option premiums, asset swap spreads or credit default spreads which represent the creditworthiness of specific counterparties and any liquidity adjustments quoted by primary market counterparties.

For the Poste Italiane Group these include the following types of financial instruments:

Bonds quoted either on inactive markets or not at all:

- **Straight Italian and international government and non-government bonds**: valued using discounted cash flow techniques involving the computation of the present value of future cash flows, inputting rates from yield curves incorporating spreads reflecting credit risk that are based on spreads determined with reference to quoted and liquid benchmark securities issued by the issuer, or by other companies with similar characteristics to the issuer. Yield curves may be slightly adjusted to reflect liquidity risk relating to the absence of an active market.
- **Structured bonds:** measurement is based on a building blocks approach, where the structured bond is broken down into its basic components: the bond component and the option component. The bond component is measured by discounting cash flows to present value in line with the approach applicable to straight bonds, as defined above. The option component - which considering the features of the bonds included in the portfolio of the Poste Italiane Group relates to interest rate risk - is measured in accordance with a standard closed form expression as with classical option valuation models with underlyings exposed to such risks. In the case of structured bonds used to hedge index-linked policies (before ISVAP regulation no. 32), measurement is based on the bid price provided by the financial counterparties with which buyback agreements have been struck.

Unquoted equities: this category may be included here provided it is possible to use the price of quoted equities of the same issuer as a benchmark. The price inferred in this manner would be adjusted through the application of the discount implicit in the process to align the value of the unquoted shares to the quoted ones.

Unquoted investment funds: measurement is based on the latest available NAV (Net Asset Value) as provided by Bloomberg or as determined by the fund manager.

Derivative financial instruments:

- ***Interest Rate Swaps***:

  Plain vanilla interest rate swaps: valued using discounted cash flow techniques, involving the computation of the present value of future differentials between the receiver and payer legs of the swap. The construction of yield curves to estimate future cash flows indexed to market parameters (money market rates and/or inflation) and computation of the present value of future differentials are carried out using techniques commonly used in capital markets.

  Interest rate swaps with an embedded option: valuation is based on a building block approach, entailing decomposition of a structured position into its basic components: the linear and option components. The linear component is measured using the discounted cash flow techniques described for plain vanilla interest rate swaps above. Using the derivatives held in Poste Italiane's portfolio as an example, the option component is derived from interest rate or inflation rate risks and is valued using a closed form expression, as with classical option valuation models with underlyings exposed to such risks.

- **Warrants:** considering the features of the securities held, measurement is based on the local volatility model. In particular, considering that buyback agreements have been entered into with the counterparties that structured these warrants, and that such counterparties use valuation models consistent with those used by the Group, these instruments are measured on the basis of the bid price quoted by the counterparties.

The derivatives held in Poste Italiane's portfolio may be pledged as collateral and the fair value, consequently, need not be adjusted for counterparty risk. The yield curve used to compute present value is selected to be consistent with the manner in which cash collateral is remunerated. This approach is also followed for security in the form of pledged debt securities, given the limited level of credit risk inherent in the securities held as collateral by the Poste Italiane Group.

In the rare instances where collateral agreements do not substantially reduce counterparty risk, measurement takes place by discounting to present value the cash flows generated by the securities held as collateral, using as the input a yield curve that reflects the spread applicable to the issuer's credit risk. Alternatively, use is made of fair value to calculate the CVA/DVA (Credit Valuation Adjustment / Debit Valuation Adjustment), in relation to the main technical and financial characteristics of the agreements and the counterparty's probability of default.

Buy & Sell Backs used for the short-term investment of liquidity: valuation is based on discounted cash flow techniques involving the computation of the present value of future cash flows. Buy and Sell Back agreements may be pledged as collateral and the fair value, consequently, need not be adjusted for counterparty risk.

Fixed rate and variable rate instruments: measurement is based on the discounted cash flow approach. The counterparty's credit spread is considered through:

- use of the Italian government yield curve or the credit default swap (CDS) of the Italian Republic, in the case of Italian government agencies;
- use of quoted CDS yield curves or, if not available, the adoption of "synthetic" CDS yield curves represented by the counterparty's rating, as constructed starting from the input data observable on the market;
- use do yield curves based on the specific issuer's quoted bond prices.

Financial liabilities quoted either on inactive markets or not at all:

- **Straight bonds:** these are measured by discounting their future cash flows using as input a yield curve reflecting the spread applicable to the issuer's credit risk;
- **Structured bonds**: measurement is based on a building blocks approach, where the structured product is broken down into its basic components: the bond component and the option component. The bond component is measured by discounting cash flows to present value in line with the approach applicable to straight bonds, as defined above. The option component - which considering the features of the bonds included in the portfolio of the Poste Italiane Group relates to interest rate risk - is measured in accordance with a standard closed form expression as with classical option valuation models with underlyings exposed to such risks.
- **Borrowings:** these are measured by discounting their future cash flows using as input a yield curve reflecting the spread applicable to the credit risk.
- **Repurchase agreements** used to raise finance, are valued using discounted cash flow techniques involving the computation of future contractual cash flows. Repos may also be used for collateral, and in such cases fair value need not be adjusted for the counterparty credit risk.

Investment property (excluding former service accommodation) and inventories of properties held for sale: The fair value of both investment property and inventories has been determined mainly by discounting to present value the cash flows expected to be generated by the rental agreements and/or proceeds from sales, net of related costs. This process uses a discount rate that considers analytically the risks typical of the property.

Level 3: this category includes the fair value measurement of assets and liabilities using inputs that cannot be observed. For the Poste Italiane Group the following categories of financial instrument apply:

Fixed rate and variable rate instruments: measurement is based on discounted cash flow. The counterparty's credit spread is set according to best practices, by using the probability of default and transition matrices created by external information providers and loss given default parameters determined by prudential regulations for banks or in accordance with market standards.

Unlisted closed-end funds: these include funds that invest mainly in unlisted instruments. Their fair value is determined by considering the latest NAV (Net Asset Value), available at least every six months, reported by the fund manager. This NAV is adjusted according to the capital calls and reimbursements announced by the managers which occurred between the latest NAV date and the valuation date.

Investment property (former service accommodation): The value of this investment property is determined on the basis of the applicable law (Law 560 of 24 December 1993), which sets the selling price in case of sale to the tenant or the minimum selling price in case the property is sold through a public auction.

Unlisted equity instruments: this category includes shares for which no price is observable directly or indirectly in the market. A discount computed through an internal model is applied, in order to reflect the implicit cost in the process of converting the shares to be measured into listed shares.

2.6 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The following accounting standards, interpretations and amendments were applicable from 1 January 2016:

- **Annual improvement cycle in relation to IFRS 2010-2012** adopted with Regulation (EU) no. 28/2015 in connection with the annual projects to improve and revise international accounting standards.
- **IAS 19** - *Employee benefits – Defined Benefit Plans: Employee Contributions* amended by Regulation (EU) no. 29/2015. The amendment clarifies the application of IAS 19 to defined benefit plans in connection with contributions linked to service by the employee or a third party. These contributions reduce the entity's service cost in providing benefits and, to the extent that they are commensurate with the service provided by the employee in a given period, can be deducted fully from the cost for the period, instead of being allocated over the employee's years of remaining service.
- **IFRS 11** - *Joint Arrangements* amended by Regulation (EU) no. 2173/2015. The amendment provides that when an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business it will apply all the principles contained in IFRS 3. This applies to the acquisition of both the initial interest and additional interests. On the other hand, an interest held prior to the amendment is not re-measured; in the event that the acquisition of an additional interest allows the entity to retain joint control (i.e. the additional interest acquired does not give the entity a controlling interest).
- **IAS 16** - *Property, Plant and Equipment* and **IAS 38 –** *Intangible Assets* amended by Regulation (EU) no. 2231/2015. The amendment clarifies whether it is appropriate to use revenue-based methods to calculate the depreciation or amortisation of an asset (in addition to those permitted by the pre-existing versions of IAS 16 and IAS 38 for tangible and intangible assets, respectively). The amendment defined this method as inappropriate in the case of tangible assets and as appropriate for intangible assets but only if it can be demonstrated that revenue and the consumption of the economic benefits of the intangible assets are highly correlated. The amendment is founded on the existence of cases where the revenue generated by the activity that includes the use of an asset typically reflects factors that are not directly linked to consumption of the economic benefits embodied in the asset, such as selling activity, a different production process, changes in selling prices.
- **Annual improvement cycle in relation to IFRS 2012 – 2014** adopted with Regulation (EU) no. 2343/2015 in connection with the annual projects to improve and revise international accounting standards.
- **IAS 1** - *Presentation of Financial Statements* as amended by Regulation (EU) no. 2406/2015. The amendment aims to improve the effectiveness of disclosure and to encourage companies to apply

professional judgment in determining the information to be disclosed in their financial statements when applying IAS 1. In particular, the amendment clarifies the guidelines contained in IAS 1 on materiality, the aggregation of items, the presentation of subtotals, the structure of the financial statements and disclosures on the accounting policies adopted. The amendment also concerns the information required for the section on other components of comprehensive income. Specifically, the amendment requires explicit indication of the share of other comprehensive income pertaining to associates and joint ventures accounted for using the equity method, indicating which of those amounts will or will not be recycled subsequently to profit and loss.

- **IAS 27** - *Separate Financial Statements* amended by Regulation (EU) no. 2441/2015. Regarding entities that prepare separate financial statements, the amendment permits such entities to adopt the equity method to account for investments in subsidiaries, associates and joint ventures. This option is in addition to those permitted by the pre-existing version of IAS 27 (cost method and in accordance with IAS 39).
- Amendments to **IFRS 10 and 12** and to **IAS 28** adopted with Regulation (EU) no.1703/2016, with the aim of providing clarification regarding investment entities.

The accounting standards, interpretations and amendments that came into effect from 1 January 2016 have not had any effect on these condensed consolidated interim financial statements.

3. Poste Italiane Group at and for the nine months ended 30 September 2016

3.1 CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(€m)

ASSETS	Note	at 30 September 2016	*of which, related party transactions (note 3.5)*	at 31 December 2015	*of which, related party transactions (note 3.5)*
Non-current assets					
Property, plant and equipment	[A1]	2,062	-	2,190	-
Investment property	[A2]	57	-	61	-
Intangible assets	[A3]	483	-	545	-
Investments accounted for using the equity method	[A4]	215	*215*	214	*214*
Financial assets	[A5]	159,808	*3,880*	139,310	*3,988*
Trade receivables	[A7]	48	-	54	-
Deferred tax assets	[C12]	650	-	623	-
Other receivables and assets	[A8]	2,503	*1*	2,303	*1*
Technical provisions attributable to reinsurers		66	-	58	-
Total		**165,892**		**145,358**	
Current assets					
Inventories	[A6]	137	-	134	-
Trade receivables	[A7]	2,278	*801*	2,292	*904*
Current tax assets	[C12]	180	-	72	-
Other receivables and assets	[A8]	1,086	*4*	897	*2*
Financial assets	[A5]	19,764	*6,484*	20,780	*7,274*
Cash and deposits attributable to BancoPosta	[A9]	2,918	-	3,161	-
Cash and cash equivalents	[A10]	2,373	*365*	3,142	*391*
Total		**28,736**		**30,478**	
TOTAL ASSETS		**194,628**		**175,836**	

LIABILITIES AND EQUITY	Note	at 30 September 2016	*of which, related party transactions (note 3.5)*	at 31 December 2015	*of which, related party transactions (note 3.5)*
Equity					
Share capital	[B1]	1,306	-	1,306	-
Reserves	[B4]	3,166	-	4,047	-
Retained earnings		4,555	-	4,305	-
Equity attributable to owners of the Parent		**9,027**		**9,658**	
Equity attributable to non-controlling interests		-	-	-	-
Total		**9,027**		**9,658**	
Non-current liabilities					
Technical provisions for insurance business	[B5]	113,878	-	100,314	-
Provisions for risks and charges	[B6]	608	*48*	634	*50*
Employee termination benefits and pension plans	[B7]	1,478	-	1,361	-
Financial liabilities	[B8]	10,164	*84*	7,598	*77*
Deferred tax liabilities	[C12]	927	-	1,177	-
Other liabilities	[B10]	856	-	920	-
Total		**127,911**		**112,004**	
Current liabilities					
Provisions for risks and charges	[B6]	557	*10*	763	*11*
Trade payables	[B9]	1,332	*195*	1,453	*174*
Current tax liabilities	[C12]	354	-	53	-
Other liabilities	[B10]	2,214	*75*	2,025	*91*
Financial liabilities	[B8]	53,233	*20*	49,880	*3*
Total		**57,690**		**54,174**	
TOTAL EQUITY AND LIABILITIES		**194,628**		**175,836**	

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(€m)

Third quarter 2016	Third quarter 2015		Note	For the nine months ended 30 September 2016	*of which, related party transactions (note 3.5)*	For the nine months ended 30 September 2015	*of which, related party transactions (note 3.5)*
2,090	2,108	Revenue from sales and services	[C1]	6,406	*1,704*	6,498	*1,836*
4,837	5,069	Insurance premium revenue	[C2]	15,388	-	14,543	-
1,106	773	Other income from financial and insurance activities	[C3]	3,887	*64*	2,828	*74*
-	-	*of which, non-recurring income*		*121*		-	
14	21	Other operating income	[C4]	48	*1*	52	*4*
8,047	**7,971**	**Total revenue**		**25,729**		**23,921**	
594	635	Cost of goods and services	[C5]	1,809	*118*	1,874	*130*
5,505	5,090	Net change in technical provisions for insurance business and other claims expenses	[C6]	17,449	-	15,475	-
51	369	Other expenses from financial and insurance activities	[C7]	360	-	674	-
1,348	1,387	Personnel expenses	[C8]	4,333	*29*	4,370	*29*
140	136	Depreciation, amortisation and impairments	[C9]	439	-	425	-
(7)	(9)	Capitalised costs and expenses		(15)	-	(21)	-
63	71	Other operating costs	[C10]	158	*10*	194	*4*
353	**292**	**Operating profit/(loss)**		**1,196**		**930**	
21	15	Finance costs	[C11]	69	*1*	76	-
26	29	Finance income	[C11]	83	*1*	117	*2*
1	-	Profit/(Loss) on investments accounted for using the equity method	[A4]	7	-	-	-
359	**306**	**Profit/(Loss) before tax**		**1,217**		**971**	
117	119	Income tax expense	[C12]	410	-	349	-
-	-	*of which, non-recurring costs/(income)*		-		*(17)*	
242	**187**	**PROFIT FOR THE PERIOD**		**807**		**622**	
242	187	of which, attributable to owners of the Parent		807		622	
-	-	of which, attributable to non-controlling interests		-		-	

0.186	**0.143**	**Earnings per share**	[B3]	**0.618**		**0.476**	
0.186	**0.143**	**Diluted earnings per share**	[B3]	**0.618**		**0.476**	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€m)

Third quarter 2016	Third quarter 2015		Note	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
242	**187**	**Profit/(Loss) for the period**		**807**	**622**
		Items to be reclassified in the Statement of profit or loss for the period			
		Available-for-sale financial assets			
335	1,124	Increase/(decrease) in fair value during the period	[tab. B4]	(607)	902
(106)	(83)	Transfers to profit or loss	[tab. B4]	(588)	(433)
		Cash flow hedges			
(12)	57	Increase/(decrease) in fair value during the period	[tab. B4]	35	18
(7)	(27)	Transfers to profit or loss	[tab. B4]	(28)	(66)
(58)	(345)	Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the period		306	(133)
-	-	Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		-	-
		Items not to be reclassified in the Statement of profit or loss for the period			
(36)	-	Actuarial gains/(losses) on provisions for employee termination benefits and pension plans	[tab. B7]	(162)	86
11	-	Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the period		49	(27)
-	-	Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		-	-
127	**726**	**Total other components of comprehensive income**		**(995)**	**347**
369	**913**	**TOTAL COMPREHENSIVE INCOME FOR THE PERIOD**		**(188)**	**969**
369	913	of which, attributable to owners of the Parent		(188)	969
-	-	of which, attributable to non-controlling interests		-	-

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(€m)

	Equity									
		Reserves								
	Share capital	Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Reserve for investees accounted for using equity method	Retained earnings / (Accumulated losses)	Total equity attributable to owners of the Parent	Equity attributable to non-controlling interests	Total equity
Balance at 1 January 2015	**1,306**	**299**	**1,000**	**1,813**	**48**	**-**	**3,952**	**8,418**	**-**	**8,418**
Total comprehensive income for the period	-	-	-	320	(32)	-	681	969	-	**969**
Attribution of profit to reserves	-	-	-	-	-	-	-	-	-	**-**
Dividends paid	-	-	-	-	-	-	(250)	(250)	-	**(250)**
Changes due to share-based payments	-	-	-	-	-	-	-	-	-	**-**
Other changes	-	-	-	-	-	-	-	-	-	**-**
Change in scope of consolidation	-	-	-	-	-	-	-	-	-	**-**
Other shareholder transactions	-	-	-	-	-	-	-	-	-	**-**
Balance at 30 September 2015	**1,306**	**299**	**1,000**	**2,133**	**16**	**-**	**4,383**	**9,137**	**-**	**9,137**
Total comprehensive income for the period	-	-	-	606	(7)	-	(78)	521	-	**521**
Attribution of profit to reserves	-	-	-	-	-	-	-	-	-	**-**
Dividends paid	-	-	-	-	-	-	-	-	-	**-**
Changes due to share-based payments	-	-	-	-	-	-	1	1	-	**1**
Other changes	-	-	-	-	-	-	-	-	-	**-**
Change in scope of consolidation	-	-	-	-	-	-	-	-	-	**-**
Other shareholder transactions	-	-	-	-	-	-	(1)	(1)	-	**(1)**
Balance at 31 December 2015	**1,306**	**299**	**1,000**	**2,739**	**9**	**-**	**4,305**	**9,658**	**-**	**9,658**
Total comprehensive income for the period	-	-	-	(887)	5	-	694 (*)	(188)	-	**(188)**
Attribution of profit to reserves	-	-	-	-	-	-	-	-	-	**-**
Dividends paid	-	-	-	-	-	-	(444)	(444)	-	**(444)**
Changes due to share-based payments	-	-	-	-	-	-	-	-	-	**-**
Other changes	-	-	-	-	-	1	-	1	-	**1**
Change in scope of consolidation	-	-	-	-	-	-	-	-	-	**-**
Other shareholder transactions	-	-	-	-	-	-	-	-	-	**-**
Balance at 30 September 2016	**1,306**	**299**	**1,000**	**1,852**	**14**	**1**	**4,555**	**9,027**	**-**	**9,027**

(*) This item includes profit for the period of €807 million and actuarial losses on provisions for employee termination benefits for €162 million, after the related tax effect of €49 million.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(€m)

		For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Unrestricted net cash and cash equivalents at beginning of period		**1,783**	**747**
Cash subject to investment restrictions		1	511
Cash attributable to technical provisions for insurance business		1,324	415
Amounts that cannot be drawn on due to court rulings		11	11
Current account overdrafts		5	8
Cash received on delivery (restricted) and other restrictions		18	12
Cash and cash equivalents at beginning of period		**3,142**	**1,704**
Cash and cash equivalents at beginning of period		**3,142**	**1,704**
Profit/(loss) for the period		807	622
Depreciation, amortisation and impairments		439	425
Losses and impairments/(recoveries) on receivables		23	5
(Gains)/Losses on disposals		2	-
Impairment of available for sale investments		-	-
(Increase)/decrease in inventories		(3)	(1)
(Increase)/decrease in receivables and other assets		(458)	111
Increase/(decrease) in payables and other liabilities		293	277
Movement in provisions for risks and charges		(232)	(125)
Movement in provisions for employee termination benefits and pension plans		(46)	(29)
Differences in accrued finance costs and income (cash correction)		(18)	(46)
Other changes		51	20
Net cash flow generated by/(used in) non-financial operating activities	[a]	858	1,259
Increase/(decrease) in liabilities attributable to financial activities		4,419	(180)
Net cash generated by/(used for) held for trading financial assets attributable to financial activities		-	-
Net cash generated by/(used for) available-for-sale financial assets attributable to financial activities		(3,637)	(361)
Net cash generated by/(used for) held-to-maturity financial assets attributable to financial activities		498	1,404
(Increase)/decrease in cash and deposits attributable to BancoPosta		242	234
(Increase)/decrease in other assets attributable to financial activities		(672)	(712)
(Income)/expenses from financial activities		(779)	(680)
Cash generated by/(used for) assets and liabilities attributable to financial activities	[b]	71	(295)
Net cash generated by/(used for) financial assets at fair value through profit or loss attributable to insurance		(4,233)	(6,239)
Increase/(decrease) in net technical provisions for insurance business		11,431	10,097
Net cash generated by/(used for) available-for-sale financial assets attributable to insurance activities		(5,837)	(3,610)
(increase)/decrease in other assets attributable to insurance activities		(60)	(122)
(Gains)/losses on financial assets/liabilities measured at fair value		(1,009)	366
(Income)/expenses from insurance activities		(779)	(663)
Cash generated by/(used for) assets and liabilities attributable to insurance activities	[c]	(487)	(171)
Net cash flow from/(for) operating activities	**[d]=[a+b+c]**	**442**	**793**
- of which, related party transactions		**1,037**	**(804)**
Investing activities			
Property, plant and equipment, investment property and intangible assets		(252)	(229)
Investments		-	(211)
Other financial assets		(105)	-
Disposals			
Property, plant and equipment, investment property and intangible assets and assets held for sale		5	2
Investments		-	-
Other financial assets		100	6
Change in scope of consolidation		-	-
Net cash flow from/(for) investing activities	**[e]**	**(252)**	**(432)**
- of which, related party transactions		**(22)**	**(212)**
Proceeds from/(Repayments of) borrowings		(517)	(608)
(Increase)/decrease in loans and receivables		2	114
Dividends paid		(444)	(250)
Receivable authorised by 2015 Stability Law in implementation of Sentence of the European Court		-	535
Net cash flow from/(for)financing activities and shareholder transactions	**[f]**	**(959)**	**(209)**
- of which, related party transactions		**(285)**	**397**
Net increase/(decrease) in cash	**[g]=[d+e+f]**	**(769)**	**152**
Cash and cash equivalents at end of period		**2,373**	**1,856**
Cash and cash equivalents at end of period		**2,373**	**1,856**
Cash subject to investment restrictions		-	(315)
Cash attributable to technical provisions for insurance business		(669)	(939)
Amounts that cannot be drawn on due to court rulings		(12)	(11)
Current account overdrafts		-	-
Cash received on delivery (restricted) and other restrictions		(16)	(14)
Unrestricted net cash and cash equivalents at end of period		**1,676**	**577**

3.2 BASIS OF CONSOLIDATION

The Poste Italiane Group's consolidated financial statements include the financial statements of Poste Italiane SpA and of the companies over which the Parent Company directly or indirectly exercises control (as defined by IFRS 10), from the date on which control is obtained until the date on which control is no longer held by the Group.

The financial statements used for consolidation purposes have been prepared as at 30 September 2016 and have been adjusted, as required, to align them with the accounting policies adopted by the Parent Company.

Subsidiaries which, individually or taken together, would have no significant quantitative or qualitative impact on the Group's financial position, operating results and cash flows have not been included within the scope of consolidation and are therefore not consolidated on a line by line basis.

The criteria and basis of consolidation adopted are consistent with those adopted in preparing the consolidated financial statements at 31 December 2015, to which reference is made for further details.

The following table shows the number of subsidiaries by method of consolidation and measurement:

Subsidiaries	30 September 2016	31 December 2015
Consolidated on a line-by-line basis	17	19
Accounted for using the equity method	3	3
Total companies	**20**	**22**

During the first nine months of 2016, as part of a wider reorganisation of the Poste Italiane Group's structure, the following corporate actions took place, all of which directly or indirectly under the common control of the Parent Company:

- The deed for the merger of PosteShop SpA with and into Postel SpA was executed on 22 April 2016. The agreement was recorded with the Companies Register on 29 April 2016 and the merger was effective for legal, accounting, and tax purposes from 1 May 2016.
- On 28 June 2016, the Parent Company's Board of Directors authorised Poste Italiane to participate in the extraordinary general meeting of Poste Tributi ScpA's shareholders to adopt a resolution regarding the winding up and liquidation of the company. At the time of approval of this interim report, the consortium's extraordinary general meeting has yet to adopt a resolution on this matter.
- On 25 July 2016, the deed governing the merger of SDS Nuova Sanità Srl with and into SDS System Data Software Srl was signed and the merged entity renamed Poste Welfare Servizi Srl. The merger was effective for accounting and tax purposes from 1 January 2016.
- On 12 September 2016, the boards of directors of Poste Italiane SpA, Postecom SpA and Postel SpA approved the demerger and merger plan regarding the restructuring of Postecom, a wholly owned subsidiary of Poste Italiane. The transactions will entail the partial demerger of Postecom and the transfer of assets to Postel and the merger of Postecom with and into Poste Italiane, with effect from 1 April 2017.

In addition:

- On 16 September 2016, following resolutions passed by the board of directors of Cassa Depositi e Prestiti and Poste Italiane, a preliminary agreement was reached regarding the transfer by FSI Investimenti SpA (a CDP group company) to Poste Italiane of an indirect shareholding in SIA SpA, a leader in the provision of e-money, e-payment and network services. Under the agreement, in return for a projected total investment of €278 million, Poste Italiane will acquire a 30% stake in FSIA Investimenti Srl[16], a company with a 49.5% interest in SIA. On completion of the transaction, Poste Italiane will have an indirect interest of 14.85% in SIA. Completion of the transaction is subject to clearance from the relevant antitrust authorities and the Bank of Italy.
- The memorandum of association of Risparmio Holding SpA, which is owned by Poste Italiane (80%) and CDP (20%), was signed on 7 October 2016 and filed with the Companies' Register on 10 October 2016. The business purpose of the new company is to arrange for the acquisition of equity investments, loans to companies or entities in which it holds equity, and trading in securities, either directly and/or via its participating interest in a company specifically incorporated for this purpose.
- The memorandum of association of Equam SpA, 80% owned by Risparmio Holding SpA and 20% by Anima Holding SpA, was signed on 17 October 2016 and filed with the Companies' Register on 18 October 2016. This company's business purpose is to arrange for the acquisition of equity investments, loans to companies or entities in which it holds equity and trading in securities.

A list of subsidiaries consolidated on a line-by-line basis and associates accounted for using the equity method, together with key information, is provided in note 3.8.

[16] FSIA Investimenti Srl is wholly owned by FSI Investimenti SpA, which is in turn controlled by CDP Equity SpA via a 77% interest.

3.3 NOTES TO THE FINANCIAL STATEMENTS

ASSETS

A1 - PROPERTY, PLANT AND EQUIPMENT

The following table shows movements in property, plant and equipment in the first nine months of 2016:

tab. A1 - Movements in property, plant and equipment (€m)

	Land	Property used in operations	Plant and machinery	Industrial and commercial equipment	Leasehold improvements	Other assets	Assets under construction and prepayments	Total
Balance at 1 January 2015								
Cost	76	2,840	2,200	323	398	1,639	43	7,519
Accumulated depreciation	-	(1,429)	(1,792)	(288)	(202)	(1,383)	-	(5,094)
Accumulated impairment	-	(96)	(19)	(1)	(12)	(1)	-	(129)
Carrying amount	**76**	**1,315**	**389**	**34**	**184**	**255**	**43**	**2,296**
Movements during the year								
Additions	-	35	36	6	23	91	46	237
Adjustments	-	-	-	-	-	-	-	-
Reclassifications	-	11	8	-	6	12	(37)	-
Disposals	-	-	-	-	(2)	-	-	(2)
Change in scope of consolidation	-	-	-	-	-	-	-	-
Depreciation	-	(108)	(98)	(10)	(29)	(108)	-	(353)
(Impairments)/Reversal of impairments	-	8	(3)	-	7	-	-	12
Total movements	**-**	**(54)**	**(57)**	**(4)**	**5**	**(5)**	**9**	**(106)**
Balance at 31 December 2015								
Cost	76	2,883	2,209	329	424	1,719	52	7,692
Accumulated depreciation	-	(1,534)	(1,855)	(298)	(230)	(1,468)	-	(5,385)
Accumulated impairment	-	(88)	(22)	(1)	(5)	(1)	-	(117)
Carrying amount	**76**	**1,261**	**332**	**30**	**189**	**250**	**52**	**2,190**
Movements during the period								
Additions	-	13	21	3	12	37	30	116
Adjustments (1)	-	-	-	-	-	-	-	-
Reclassifications (2)	-	3	5	-	3	29	(31)	9
Disposals (3)	-	-	-	-	(1)	(2)	-	(3)
Depreciation	-	(83)	(67)	(7)	(23)	(83)	-	(263)
(Impairments)/Reversal of impairments	-	11	2	-	-	-	-	13
Total movements	**-**	**(56)**	**(39)**	**(4)**	**(9)**	**(19)**	**(1)**	**(128)**
Balance at 30 September 2016								
Cost	76	2,899	2,197	330	435	1,771	51	7,759
Accumulated depreciation	-	(1,617)	(1,884)	(303)	(251)	(1,539)	-	(5,594)
Accumulated impairment	-	(77)	(20)	(1)	(4)	(1)	-	(103)
Carrying amount	**76**	**1,205**	**293**	**26**	**180**	**231**	**51**	**2,062**
Adjustments (1)								
Cost	-	-	2	-	-	1	-	3
Accumulated depreciation	-	-	(2)	-	-	(1)	-	(3)
Accumulated impairment	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Reclassifications (2)								
Cost	-	3	5	-	3	30	(31)	10
Accumulated depreciation	-	-	-	-	-	(1)	-	(1)
Accumulated impairment	-	-	-	-	-	-	-	-
Total	**-**	**3**	**5**	**-**	**3**	**29**	**(31)**	**9**
Disposals (3)								
Cost	-	-	(40)	(2)	(4)	(16)	-	(62)
Accumulated depreciation	-	-	40	2	2	14	-	58
Accumulated Impairment	-	-	-	-	1	-	-	1
Total	**-**	**-**	**-**	**-**	**(1)**	**(2)**	**-**	**(3)**

At 30 September 2016, property, plant and equipment includes assets belonging to the Parent Company located on land held under concession or sub-concession, which are to be handed over free of charge at the end of the concession term. These assets have a total carrying amount of €72 million.

Capital expenditure of €116 million during the period, including €3 million in capitalised costs for self-constructed assets, consists primarily of:

- €13 million relating to extraordinary maintenance of post offices and local head offices around the country and mail sorting offices;
- €21 million relating to plant, with the most significant expenditure made by the Parent Company, of which €11 million for plant and equipment related to buildings and €4 million for the installation and extraordinary maintenance of video surveillance systems;

- €12 million to upgrade plant and the structure of properties held under lease;
- €37 million relating to "Other assets", most of which relate to the Parent Company, including €28 million for the purchase of new computer hardware for post offices and head offices and the consolidation of storage systems, and €3 million for the purchase of furniture and fittings in connection with the new layouts for post offices;
- €30 million relating to expenditure under way, mostly by the Parent Company, of which €16 million for the restyling of post offices, €4 million the purchase of new hardware and other technological equipment not included yet in the production process and €3 million for work on the restructuring of Primary Distribution Centres.

Reversals of impairment losses are due to changes in estimates relating to equipment at sorting centres, buildings (property used in operations) and leased commercial buildings (leasehold improvements) held by the Parent Company, and reflect prudent consideration of the effects on the relevant values in use that might arise as a result of reduced utilisation or future removal from the production cycle (note 2.3 – *Use of estimates*).

Reclassifications from **assets under construction**, totalling €31 million, relate primarily to the acquisition cost of assets that became available and ready for use during the year. In particular, these assets regard the rollout of hardware held in storage and completion of the process of restyling leased and owned properties.

At 30 September 2016, property, plant and equipment include assets under finance lease arrangements with a carrying amount of €10 million.

A2 - INVESTMENT PROPERTY

Investment property primarily relates to residential accommodation owned by Poste Italiane SpA in accordance with Law 560 of 24 December 1993. The following movements took place during the period:

tab. A2 - Movements in investment property (€m)

	Nine months ended 30 September 2016	Year ended 31 December 2015
Balance at 1 January		
Cost	144	147
Accumulated depreciation	(82)	(79)
Accumulated impairment	(1)	(1)
Carrying amount	**61**	**67**
Movements during the period		
Additions	-	-
Reclassifications (1)	-	-
Disposals (2)	(1)	(1)
Depreciation	(3)	(5)
(Impairments)/Reversal of impairments	-	-
Total movements	**(4)**	**(6)**
Balance at end of period		
Cost	142	144
Accumulated depreciation	(84)	(82)
Accumulated impairment	(1)	(1)
Carrying amount	**57**	**61**
Fair value at end of period	*114*	*113*
Reclassifications (1)		
Cost	-	-
Accumulated depreciation	-	-
Accumulated impairment	-	-
Total	**-**	**-**
Disposals (2)		
Cost	(2)	(3)
Accumulated depreciation	1	2
Accumulated impairment	-	-
Total	**(1)**	**(1)**

The fair value of **investment property** at 30 September 2016 includes approximately €66 million representing the sale price applicable to the Parent Company's former service accommodation in accordance with Law 560 of 24 December 1993, while the balance reflects price estimates computed internally by the Company[17].

Most of the properties included in this category are subject to lease agreements classifiable as operating leases, given that the Group retains substantially all the risks and rewards of ownership of the properties. Under the relevant agreements, tenants usually have the right to break off the lease with six months' notice. Given the resulting lack of certainty, the expected revenue flows from these leases are not referred to in these notes.

[17] In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, service accommodation qualifies for level 3, while the other investment property qualifies for level 2.

A3 - INTANGIBLE ASSETS

The following table shows movements in intangible assets in the first nine months of 2016:

tab. A3 - Movements in intangible assets (€m)

	Industrial patents, intellectual property rights, concessions, licences, trademarks and similar rights	Assets under construction and advances	Goodwill	Other	Total
Balance at 1 January 2015					
Cost	2,263	74	104	100	2,541
Accumulated amortisation and impairments	(1,874)	-	(57)	(81)	(2,012)
Carrying amount	**389**	**74**	**47**	**19**	**529**
Movements during the year					
Additions	155	72	18	6	251
Adjustments	-	-	-	-	-
Reclassifications	63	(68)	-	5	-
Transfers and disposals	-	-	-	(1)	(1)
Change in scope of consolidation	1	-	-	-	1
Amortisation and impairments	(212)	-	(12)	(11)	(235)
Total movements	**7**	**4**	**6**	**(1)**	**16**
Balance at 31 December 2015					
Cost	2,477	78	122	110	2,787
Accumulated amortisation and impairments	(2,081)	-	(69)	(92)	(2,242)
Carrying amount	**396**	**78**	**53**	**18**	**545**
Movements during the period					
Additions	55	79	-	2	136
Reclassifications (1)	39	(51)	-	3	(9)
Transfers and disposals (2)	-	(3)	-	-	(3)
Amortisation and impairments	(179)	-	-	(7)	(186)
Total movements	**(85)**	**25**	**-**	**(2)**	**(62)**
Balance at 30 September 2016					
Cost	2,567	103	122	116	2,908
Accumulated amortisation and impairments	(2,256)	-	(69)	(100)	(2,425)
Carrying amount	**311**	**103**	**53**	**16**	**483**
Reclassifications (1)					
Cost	37	(51)	-	4	(10)
Accumulated amortisation and impairments	2	-	-	(1)	1
Total	**39**	**(51)**	**-**	**3**	**(9)**
Transfers and disposals (2)					
Cost	(2)	(3)	-	-	(5)
Accumulated amortisation and impairments	2	-	-	-	2
Total	**-**	**(3)**	**-**	**-**	**(3)**

Investment in **Intangible assets** during the first nine months of 2016 amounts to €136 million, of which €12 million relates to internally developed software. Development costs, other than those incurred directly to produce identifiable software used, or intended for use, within the Group, are not capitalised.

Purchases of **industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights** total €55 million, before amortisation for the period, and relate primarily to the purchase and entry into service of new software programmes and the acquisition of software licences.

Purchases of **Intangible assets under construction** refer mainly to activities for the development of software for the infrastructure platforms and for BancoPosta services.

The table below shows amounts for the IT platform used in development of the Full MVNO (Mobile Virtual Network Operator) project and held under finance lease arrangements by PosteMobile SpA. The platform is amortised over 10 years.

tab. A3.1 - Intangible assets held under finance leases (€m)

	At 30 September 2016			At 31 December 2015		
Item	Cost	Accumulated depreciation	Carrying amount	Cost	Accumulated depreciation	Carrying amount
Industrial patents and intellectual property rights, concessions, licences, trademarks and similar rights	16	(4)	12	16	(2)	14
Total	**16**	**(4)**	**12**	**16**	**(2)**	**14**

The balance of **Intangible assets under construction** includes activities conducted by the Parent Company, primarily regarding the development of software relating to the infrastructure platform (€42 million), BancoPosta services (€25 million), the provision of support to the sales network (€12 million) and the postal products platform (€8 million).

During the period under review, the Group effected reclassifications from "Intangible assets under construction" to "Industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights", amounting to €39 million, primarily reflecting the completion and commissioning of software and the upgrade of existing software.

Goodwill consists of the following:

tab. A3.2 - Goodwill (€m)

Item	Balance at 30 September 2016	Balance at 31 December 2015
Postel SpA	33	33
Poste Welfare Servizi Srl	18	18
BdM - MCC SpA	2	2
Total	**53**	**53**

A4 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

tab. A4 - Investments (€m)

Item	Balance at 30 September 2016	Balance at 31 December 2015
Investments in associates	214	213
Investments in subsidiaries	1	1
Investments in joint ventures	-	-
Total	**215**	**214**

The main change during the period under review concerns the increase in the carrying amount of the investment in Anima Holding SpA, totalling approximately €0.5 million. This is due to the combined effect of a reduction of €7.7 million, following the payment of dividends for 2015, and an increase of €8.2 million, including €7.2 million representing the share of profit booked by the investee between 30 September 2015 and 30 June 2016 (the latest data available) and approximately €1 million due to the recognition of other items in equity.

A list of subsidiaries, joint ventures and associates accounted for using the equity method is provided in note 3.8, together with key data.

A5 – FINANCIAL ASSETS

The following table provides a breakdown of financial assets at 30 September 2016:

tab. A5 - Financial assets

Financial assets (€m)

Item	Balance at 30 September 2016			Balance at 31 December 2015		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Loans and receivables	1,299	9,947	11,246	1,303	9,205	10,508
Held-to-maturity financial assets	11,090	1,381	12,471	11,402	1,484	12,886
Available-for-sale financial assets	127,962	4,127	132,089	109,699	8,170	117,869
Financial assets at fair value through profit or loss	19,169	4,252	23,421	16,233	1,899	18,132
Derivative financial instruments	288	57	345	673	22	695
Total	**159,808**	**19,764**	**179,572**	**139,310**	**20,780**	**160,090**

Financial assets by operating segment (€m)

Item	Balance at 30 September 2016			Balance at 31 December 2015		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
FINANCIAL SERVICES	50,687	11,694	62,381	45,294	11,703	56,997
Loans and receivables	1,210	9,762	10,972	1,217	9,084	10,301
Held-to-maturity financial assets	11,090	1,381	12,471	11,402	1,484	12,886
Available-for-sale financial assets	38,204	533	38,737	32,247	1,113	33,360
Derivative financial instruments	183	18	201	428	22	450
INSURANCE SERVICES	108,463	8,005	116,468	93,463	8,908	102,371
Loans and receivables	-	128	128	-	66	66
Available-for-sale financial assets	89,189	3,586	92,775	76,985	6,943	83,928
Financial assets at fair value through profit or loss	19,169	4,252	23,421	16,233	1,899	18,132
Derivative financial instruments	105	39	144	245	-	245
POSTAL AND BUSINESS SERVICES	658	65	723	553	169	722
Loans and receivables	89	57	146	86	55	141
Available-for-sale financial assets	569	8	577	467	114	581
Derivative financial instruments	-	-	-	-	-	-
Total	**159,808**	**19,764**	**179,572**	**139,310**	**20,780**	**160,090**

Financial assets by operating segment break down as follows:

- Financial Services, related primarily to the financial assets of BancoPosta RFC[18] and BdM-MCC SpA;
- Insurance Services, includes the financial assets of Poste Vita SpA, of its subsidiary, Poste Assicura SpA, and those of BancoPosta Fondi SpA SGR;
- Postal and Business Services, representing all the other financial assets of the Group.

[18] The operations in question regard the financial services provided by the Parent Company pursuant to Presidential Decree 144/2001, which from 2 May 2011 are attributable to the ring-fenced capital, and which relate to the management of postal current account deposits, carried out in the name of BancoPosta but subject to statutory restrictions on the investment of the liquidity in compliance with the applicable legislation, and the management of collections and payments on behalf of third parties. Private customer deposits can only be used to purchase Eurozone government securities (due to the changes introduced by article 1, paragraph 1097 of Law no. 296 of 27 December 2006 and by article 1 paragraph 285 of the 2015 Stability Law (Law 190 of 23 December 2014), BancoPosta RFC can invest up to 50% of assets under management in Italian government securities). Conversely, funds deposited by Public Administration entities are placed with the Ministry of the Economy and Finance at a variable rate of interest linked to a basket of government securities and money market indices, in accordance with a specific agreement with the MEF regarding treasury services. Collection and payment services on behalf of third parties include the collection of postal savings (Postal Savings Passbooks and Postal Certificates), carried out on behalf of Cassa Depositi e Prestiti and the MEF, and services delegated by Public Administration entities. These transactions involve the use of cash advances from the Italian Treasury and the recognition of receivables awaiting financial settlement. The specific agreement with the MEF requires BancoPosta to provide daily statements of all cash flows, within two bank working days of the transaction date.

FINANCIAL SERVICES

Loans and receivables

tab. A5.1 - Loans and receivables (€m)

Item	Balance at 30 September 2016 Non-current assets	Current assets	Total	Balance at 31 December 2015 Non-current assets	Current assets	Total
Loans	1,202	297	1,499	1,217	689	1,906
Receivables	8	9,465	9,473	-	8,395	8,395
Amounts deposited with MEF	-	4,632	4,632	-	5,855	5,855
MEF account, held at the Treasury	-	1,599	1,599	-	1,331	1,331
Other financial receivables	8	3,234	3,242	-	1,209	1,209
Total	**1,210**	**9,762**	**10,972**	**1,217**	**9,084**	**10,301**

At 30 September 2016, **Loans** amounting to €1,499 million relate entirely to loans and financing provided to companies and individuals by BdM-MCC SpA. The fair value[19] of the loans provided by BdM-MCC SpA is €1,714 million.

The loans provided by BdM-MCC SpA, totalling €787 million, have been posted as collateral. In particular:

- €706 million was given as collateral for a short-term loan from the Bank of Italy within the scope of the ECB's open-market and longer-term refinancing operations (note B8);
- €81 million for a loan provided by Cassa Depositi e Prestiti.

As part of the bank's strategies, reflected in its Liquidity Plan for 2016, which was approved by the bank's board of directors on 28 April 2016, the subsidiary, BdM-MCC SpA is in the process of structuring a self-securitisation, in accordance with Law 130/1999, of a portfolio of residential mortgages. The transaction involves the sale for consideration, and without recourse, of the bank's portfolio of performing residential mortgages, with the total nominal value of the principal amounting to approximately €419 million. The transaction will take the following form: (i) the transfer of the above portfolio to a Special Purpose Vehicle, named MCC Residential Mortgage Backed Security Srl, (ii) BdM-MCC SpA's subscription for all the securities issued by the SPV, and (iii) the subsequent use of the Senior Tranche as collateral in refinancing operations with the ECB, having obtained ratings from two agencies and admission to listing on the Luxembourg Stock Exchange. The bank's board of directors gave the go-ahead for completion of the transaction on 18 October 2016.

Receivables, amounting to €9,473 million, reflect:

- **Amounts deposited with the MEF**, totalling €4,632 million, including public customers' current account deposits, which earn a variable rate of return, calculated on a basket of government bonds.
- The balance of the Parent Company's **MEF account**, held at the **Treasury**, amounting to €1,599 million, consisting of:

[19] In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure this item, this amount qualifies as level 3.

tab. A5.1.1 - MEF account, held at the Treasury (€m)

	Balance at 30 September 2016			Balance at 31 December 2015		
Item	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Balance of cash flows for advances	-	1,603	1,603	-	1,693	1,693
Balance of cash flows from management of postal savings	-	192	192	-	(170)	(170)
Amounts payable due to theft	-	(161)	(161)	-	(158)	(158)
Amounts payable for operational risks	-	(35)	(35)	-	(34)	(34)
Total	**-**	**1,599**	**1,599**	**-**	**1,331**	**1,331**

The *balance of cash flows for advances*, amounting to €1,603 million, represents the net amount receivable as a result of transfers of deposits and excess liquidity, less advances from the MEF to meet the cash requirements of BancoPosta. These break down as follows:

tab. A5.1.1 a) - Balance of cash flows for advances (€m)

	Balance at 30 September 2016			Balance at 31 December 2015		
Item	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Net advances	-	1,603	1,603	-	1,694	1,694
MEF postal current accounts and other payable	-	(670)	(670)	-	(672)	(672)
Ministry of Justice - Orders for payment	-	-	-	-	(1)	(1)
MEF - State pensions	-	670	670	-	672	672
Total	**-**	**1,603**	**1,603**	**-**	**1,693**	**1,693**

The *balance of cash flows from the management of postal savings*, amounting to a positive €192 million, represents the difference between withdrawals and deposits during the last two days of the period under review and cleared early in the following period. The balance at 30 September 2016 consists of €135 million receivable from Cassa Depositi e Prestiti and a €57 million receivable from the MEF for interest-bearing postal certificates issued on its behalf.

- **Other financial receivables** of €3,242 million break down as follows:

tab. A5.1.2 - Other financial receivables (€m)

	Balance at 30 September 2016			Balance at 31 December 2015		
Item	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Guarantee deposits	-	2,859	2,859	-	864	864
Items to be debited to customers	-	245	245	-	233	233
Items awaiting settlement with the banking system	-	119	119	-	106	106
Other receivables	8	11	19	-	6	6
Total	8	3,234	3,242	-	1,209	1,209

Guarantee deposits, totalling €2,859 million, relate to €2,801 million provided to counterparties in asset swap transactions (with collateral provided by specific Credit Support Annexes) and €58 million provided to counterparties in repurchase agreements (with collateral contemplated by specific a *Global Master Repurchase Agreements*).

Investments in securities and equity instruments

This item breaks down as follows:

tab. A5.2 - Investments in securities and equity instruments (€m)

Item	Note	Balance at 30 September 2016			Balance at 31 December 2015		
		Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Held-to-maturity financial assets		11,090	1,381	12,471	11,402	1,484	12,886
Fixed-income instruments	[tab. A5.2.1]	11,090	1,381	12,471	11,402	1,484	12,886
Available-for-sale financial assets		38,204	533	38,737	32,247	1,113	33,360
Fixed-income instruments	[tab. A5.2.1]	38,105	533	38,638	32,176	1,002	33,178
Equity instruments		99	-	99	71	111	182
Total		**49,294**	**1,914**	**51,208**	**43,649**	**2,597**	**46,246**

Investments in securities relate to investments in Italian government securities with a nominal value of €43,736 million, held primarily by BancoPosta RFC[20] and, to a lesser extent, by BdM-MCC SpA.

Movements in investments in securities in 2015 and in the first nine months of 2016 are as follows:

tab. A5.2.1 - Movements in investments in securities (€m)

Securities	HTM		AFS		FVPL		TOTAL	
	Nominal value	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount
Balance at 1 January 2015	**13,808**	**14,100**	**24,575**	**29,448**	**-**	**-**	**38,383**	**43,548**
Purchases		-		11,214		5,862		17,076
Transfers to equity		-		(395)		-		(395)
Change in amortised cost		3		(20)		-		(17)
Changes in fair value through equity		-		1,412		-		1,412
Changes in fair value through profit or loss		-		(432)		-		(432)
Changes in cash flow hedge transactions		-		-		-		-
Effect of sales on profit or loss		-		385		1		386
Accrued income		187		304		-		491
Sales, redemptions and settlement of accrued income		(1,404)		(8,738)		(5,863)		(16,005)
Balance at 31 December 2015	**12,612**	**12,886**	**27,165**	**33,178**	**-**	**-**	**39,777**	**46,064**
Purchases		992		9,726		-		10,718
Transfers to equity		-		(476)		-		(476)
Change in amortised cost		-		(23)		-		(23)
Changes in fair value through equity		-		(661)		-		(661)
Changes in fair value through profit or loss		-		2,295		-		2,295
Changes in cash flow hedge transactions		-		3		-		3
Effect of sales on profit or loss		-		463		-		463
Accrued income		83		126		-		209
Sales, redemptions and settlement of accrued income		(1,490)		(5,993)		-		(7,483)
Balance at 30 September 2016	**12,266**	**12,471**	**31,470**	**38,638**	**-**	**-**	**43,736**	**51,109**

* The item "Changes in cash flow hedge transactions", relates to the purchase of forward contracts in relation to cash flow hedge transactions, reflects changes in the fair value of such forward contracts between the date of purchase and the settlement date, which are recognised in equity, in the cash flow hedge reserve.

At 30 September 2016, the fair value[21] of the held-to-maturity portfolio, accounted for at amortised cost, is €14,667 million (including €83 million in accrued interest).

Securities with a nominal value of €7,228 million are encumbered as follows:

- €6,063 million used as collateral for repurchase agreements;
- €614 million used as collateral for asset swaps;
- €464 million delivered to the Bank of Italy as collateral for intraday credit extended to the Parent Company;
- €58 million delivered to counterparties as collateral for repurchase agreements;
- €29 million to secure SEPA Direct Debit operations.

The fair value of the available-for-sale portfolio is €38,638 million. The overall fair value gain for the period of €1,634 million has been recognised in the relevant equity reserve, recording a negative amount of €661

[20] The composition of this portfolio aims to replicate the financial structure of deposits paid into postal current accounts by private customers. Trend analysis for forecasting and prudential purposes is based on an appropriate statistical model developed for Poste Italiane SpA by a leading market operator. An Asset & Liability Management system has been developed to manage the relationship between customer deposits and investments.

[21] In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.

million in relation to the portion of the portfolio not hedged by fair value hedges, and through profit and loss, in relation to the gain of €2,295 million on the hedged portion.

The available-for-sale portfolio includes two fixed-rate bonds, in the amount of €750 million each, with six-monthly interest payments and maturing in 4 and 5 years, issued by Cassa Depositi e Prestiti and guaranteed by the Italian government (at 30 September 2016, the total fair value is €1,521 million).

Securities with a nominal value of €663 million are encumbered as follows:

- securities of €466 million provided as collateral to BDM-MCC SpA in connection with the ECB's open market and longer-term refinancing operations (through the Bank of Italy) (note B8);
- securities of €193 million provided by the Parent Company in relation to repurchase agreements.

Investments in equity instruments are attributable to BancoPosta RFC and primarily include:

- €69 million, reflecting the fair value of 756,280 Class B shares of Mastercard Incorporated. These shares are not traded on an organised exchange but are convertible into an equal number of Class A shares, which are listed on the New York Stock Exchange, if disposal is desired;
- €27 million, reflecting the fair value of 32,059 Visa Incorporated preference shares (Series C *Convertible Participating Preferred Stock*) received for the sale of the Visa Europe Ltd. share to Visa Incorporated on 21 June 2016. In exchange for the share in Visa Europe Ltd.[22], Poste Italiane received a consideration of €121 million (a sum recognised as non-recurring income and entered as "Other income from financial and insurance activities"), consisting of:
  - €88 million in cash;
  - €25 million, representing the fair value of 32,059 Visa Incorporated preference shares (Series C *Convertible Participating Preferred Stock*), convertible at the rate of 13.952[23] ordinary shares for each C share, minus a suitable illiquidity discount, considering the staggered conversion between the fourth and the twelfth year after the closing;
  - €8 million payable by Visa Incorporated after three years from the closing of the transaction;
- €3 million, reflecting the fair value of 11,144 class C shares of Visa Incorporated. These shares are not traded on an organised exchange, but are convertible into Class A shares (at the rate of four ordinary shares for each C share), which are listed on the New York Stock Exchange, if disposal is desired.

Fair value gains on the shares held by BancoPosta RFC, amounting to €3 million, have been recognised in the relevant equity reserve (section B4).

Derivative financial instruments

At 30 September 2016, derivative financial instruments attributable to the Financial Services segment, amounting to €201 million, include €67 million attributable to BancoPosta RFC and €134 million to BdM-MCC SpA.

The following table shows movements in the derivative instruments attributable to BancoPosta RFC:

22 On 21 December 2015, Visa Europe informed its Principal Members that each of them would receive a consideration for the purchase, and subsequent merger with and into Visa Incorporated, of Visa Europe Ltd, (in which Poste Italiane held an equity interest assigned to it when the company was incorporated).

23 Until the assigned shares are fully converted into ordinary shares, the share exchange ration may be reduced if Visa Europe Ltd. incurs liabilities that, as of the reporting date, were considered as merely contingent.

tab. A5.3 - Movements in derivative financial instruments (€m)

	Cash flow hedges				Fair value hedges		FVPL				Total	
	Forward purchases		Asset swaps		Asset swaps		Forward purchases		Forward sales			
	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value
Balance at 1 January 2015	**-**	**-**	**1,700**	**1**	**7,295**	**(1,672)**	**-**	**-**	**-**	**-**	**8,995**	**(1,671)**
Increases/(decreases) *	-	-	-	12	4,780	404	108	5	2,700	1	7,588	422
Gains/(Losses) through profit or loss **	-	-	-	-	-	-	-	-	-	-	-	-
Transactions settled ***	-	-	-	(39)	(320)	75	(108)	(5)	(2,700)	(1)	(3,128)	30
Balance at 31 December 2015	**-**	**-**	**1,700**	**(26)**	**11,755**	**(1,193)**	**-**	**-**	**-**	**-**	**13,455**	**(1,219)**
Increases/(decreases) *	150	3	100	35	4,425	(2,331)	-	-	-	-	4,675	(2,293)
Gains/(Losses) through profit or loss **	-	-	-	-	-	(3)	-	-	-	-	-	(3)
Transactions settled ***	(150)	(3)	(410)	(27)	(130)	60	-	-	-	-	(690)	30
Balance at 30 September 2016	**-**	**-**	**1,390**	**(18)**	**16,050**	**(3,467)**	**-**	**-**	**-**	**-**	**17,440**	**(3,485)**
Of which:												
Derivative assets	-	-	175	60	450	7	-	-	-	-	625	67
Derivative liabilities	-	-	1,215	(78)	15,600	(3,474)	-	-	-	-	16,815	(3,552)

* Increases / (decreases) refer to the nominal value of new transactions and changes in the fair value of the overall portfolio during the period.

** Gains and losses through profit or loss refer to any ineffective components of hedges, recognised in other income and other expenses from financial and insurance activities.

*** Transactions settled include forward transactions settled, accrued differentials and the settlement of asset swaps linked to securities sold.

During the period under review, the effective portion of interest rate hedges recorded an overall fair value gain of €35 million, reflected in the cash flow hedge reserve.

The fair value hedges in place, which are held to limit the price volatility of certain available-for-sale fixed rate instruments, saw their effective portion record a decrease in fair value of €2,331 million (of which €303 million attributable to financial instruments purchased during the period under review), whilst the hedged securities (tab. A5.2.1) recorded a fair value gain of €2,295 million, with the difference of €36 million due to paid or accruing differentials.

In the period under review, the Parent Company carried out the following transactions:

- entered into new asset swaps used as fair value hedges with a nominal value of €4,425 million;
- entered into new asset swaps used as cash flow hedges with a nominal value of €100 million;
- settled asset swaps used as fair value hedges for securities sold, with a nominal value of €130 million;
- settled asset swaps used as cash flow hedges for securities sold, with a nominal value of €410 million.

Movements in derivative instruments attributable to BdM-MCC SpA are as follows:

tab. A5.4 - Movements in derivative financial instruments (€m)

	Nine months ended 30 September 2016				Year ended 31 December 2015			
	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total
Balance at 1 January	-	123	-	**123**	-	133	-	**133**
Increases/(decreases)	-	24	-	24	-	-	-	-
Gains/(Losses) through profit or loss	-	-	-	-	-	-	-	
Transactions settled	-	(13)	-	(13)	-	(11)	-	(11)
Balance at end of period	**-**	**134**	**-**	**134**	**-**	**122**	**-**	**122**
Of which:								
Derivative assets	-	134	-	134	-	122	-	122
Derivative liabilities	-	-	-	-	-	-	-	-

Fair value gains of €134 million on derivatives designated as fair value hedges refers to the value of four interest rate swap contracts used to hedge bonds issued by BdM-MCC SpA (tab. B8), with a total nominal value of €349 million.

INSURANCE SERVICES

Receivables

Receivables of €128 million refer to the subscription and payment for unissued units of mutual investment funds (€69 million) and accrued interest to be collected (€57 million).

Available-for-sale financial assets

Movements in available-for-sale financial assets are as follows:

tab. A5.5 - Movements in available-for-sale financial assets (€m)

	Fixed-income instruments		Other investments	Equity instruments	Total
	Nominal value	Fair value	Fair value	Fair value	Fair value
Balance at 1 January 2015	**68,732**	**75,561**	**1,492**	**9**	**77,062**
Purchases		24,846	180	11	25,037
Transfers to equity		(371)	-	-	(371)
Changes in amortised cost		227	-	-	227
Fair value gains and losses through equity		1,092	(7)	(1)	1,084
Effects of sales on profit or loss		328	-	1	329
Accrued income		682	-	-	682
Sales, redemptions and settlement of accrued income		(20,061)	(49)	(12)	(20,122)
Balance at 31 December 2015	**74,226**	**82,304**	**1,616**	**8**	**83,928**
Purchases		16,579	486	23	17,088
Transfers to equity		(193)	-	-	(193)
Changes in amortised cost		111	-	-	111
Fair value gains and losses through equity		2,351	17	(3)	2,365
Effects of sales on profit or loss		217	-	-	217
Accrued income		510	-	-	510
Sales, redemptions and settlement of accrued income		(11,189)	(51)	(11)	(11,251)
Balance at 30 September 2016	**80,113**	**90,690**	**2,068**	**17**	**92,775**

The Group recorded fair value gains of €2,365 million in relation to its available-for-sale financial assets, as follows:

- net gains of €2,363 million deriving from the measurement of securities held by Poste Vita SpA, of which €2,313 million was transferred to policyholders, with a contra-entry made in technical provisions in accordance with the shadow accounting method;
- net fair value gains on the securities held by Poste Assicura SpA and BancoPosta Fondi SGR SpA, totalling €2 million.

The above changes in the fair value of available-for-sale financial assets during the period had a net positive impact on the relevant equity reserve of €52 million (tab. B4).

Fixed income instruments relate primarily to investments held by Poste Vita SpA, totalling €90,460 million (a nominal value of €79,900 million) issued by European governments and European blue-chip companies. These instruments are mainly intended to cover separately managed accounts, whose unrealised gains and losses are transferred to policyholders and recognised in specific technical provisions, under the shadow method of accounting applied. The remaining instruments regard investment of the company's free capital. These fixed income instruments comprise bonds issued by CDP SpA, with a fair value of €1,392 million (a nominal value of €1,197 million). The remaining balance is represented by the fair value of fixed income instruments, totalling €230 million, held by Poste Assicura SpA and by BancoPosta Fondi SpA SGR.

Other investments relate to units of mutual investment funds, of which €867 million consists of equity funds and €916 million of bond funds subscribed for entirely by Poste Vita SpA and allocated to the insurance company's separately managed accounts. The balance is represented by the fair value of units of property funds, totalling €285 million.

Financial instruments at fair value through profit or loss

Movements in financial instruments at fair value through profit or loss are as follows:

tab. A5.6 - Movements in financial instruments at fair value through profit or loss (€m)

	Fixed-income instruments		Structured bonds		Other investments	Total
	Nominal value	Fair value	Nominal value	Fair value	Fair value	Fair value
Balance at 1 January 2015	**7,404**	**7,369**	**1,965**	**2,368**	**2,418**	**12,155**
Purchases		816		-	7,394	8,210
Fair value gains and losses through profit or loss		65		22	(392)	(305)
Accrued income		26		-	-	26
Effects of sales on profit or loss		(6)		21	-	15
Sales/Settlement of accrued income		(711)		(1,065)	(193)	(1,969)
Balance at 31 December 2015	**7,542**	**7,559**	**1,155**	**1,346**	**9,227**	**18,132**
Purchases		2,001		-	3,156	5,157
Fair value gains and losses through profit or loss		231		6	770	1,007
Accrued income		44		4	-	48
Effects of sales on profit or loss		5		-	(3)	2
Sales/Settlement of accrued income		(452)		(21)	(452)	(925)
Balance at 30 September 2016	**9,118**	**9,388**	**1,138**	**1,335**	**12,698**	**23,421**

These financial instruments are held by the subsidiary, Poste Vita SpA, and relate to:

- **fixed income securities**, amounting to €9,388 million, consisting of €5,482 million in coupon stripped BTPs acquired primarily to cover the contractual obligations arising from Class III insurance policies, €3,883 million in corporate instruments issued by blue-chip companies covering the contractual obligations arising from separately managed accounts and €23 million in securities in which the company's free capital has been invested;
- **structured bonds**, amounting to €1,335 million and relating to investments whose returns are linked to particular market indices; such financial instruments include bonds issued by CDP SpA in a private placement with a fair value of €575 million (a nominal amount of €500 million) associated with Class I policies;
- **other investments**, amounting to €12,698 million and relating to units of mutual investment funds. These instruments include €5,871 million invested in the *Blackrock Diversified Distribution Fund*, a UCITS, and €4,199 million invested in *Multiflex* - Global Fund – PIMCO Multiasset, to cover Class I products, with the aim of diversifying the insurance business's exposure to government bonds (see also note 3.7 - Unconsolidated structured entities). Investments amounting to €775 million are used to cover Class III unit-linked products.

Derivative financial instruments

At 30 September 2016, outstanding instruments primarily relates to warrants executed by Poste Vita SpA to cover contractual obligations deriving from Class III policies with a fair value of €144 million and a nominal value of €5,558 million. The fair value of such derivative financial instruments has decreased by €100 million.

Details of the Group's warrants are as follows:

tab. A5.7 - Warrants (€m)

	At 30 September 2016		At 31 December 2015	
Policy	**Nominal value**	**Fair value**	**Nominal value**	**Fair value**
Alba	712	6	712	18
Terra	1,355	14	1,355	35
Quarzo	1,254	18	1,254	36
Titanium	656	20	656	36
Arco	174	21	174	30
Prisma	175	18	175	25
6Speciale	200	-	200	-
6Avanti	200	-	200	-
6Sereno	181	12	181	15
Primula	184	11	184	15
Top5	233	11	233	15
Top5 edizione II	234	13	234	20
Total	5,558	144	5,558	245

POSTAL AND BUSINESS SERVICES

Loans and receivables

These amount to €146 million and consist of **loans** of €80 million and **receivables** of €66 million.

Loans include €80 million (a nominal amount €75 million) in Contingent Convertible Notes[24], subscribed on 23 December 2014 by Poste Italiane SpA, in connection with the strategic transaction that resulted in Etihad Airways' acquisition of an equity interest in Alitalia SAI SpA[25]. The Notes were issued by Midco SpA, which in turn owns 51% of Alitalia SAI. The Contingent Convertible Notes, with a twenty-year term to maturity starting 1 January 2015, carry a nominal rate of interest of 7% per annum. Interest and principal payments will be made by Midco SpA if, and to the extent that, there is available liquidity. Based on the latest available business plan of the Alitalia Group, a reasonable estimate of the effective interest rate payable on the Notes amounts to approximately 4.6%.

Receivables, almost entirely attributable to the Parent Company, break down as follows:

tab. A5.8 - Receivables (€m)

	Balance at 30 September 2016			Balance at 31 December 2015		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Due from MEF for repayment of loans accounted for in liabilities	-	1	1	-	3	3
Guarantee deposits	-	57	57	-	52	52
Due from the purchasers of service accommodation	8	-	8	8	-	8
Total	**8**	**58**	**66**	**8**	**55**	**63**

Guarantee deposits of €57 million relate to collateral provided to counterparties with whom the Company has entered into asset swaps.

[24] This is a loan convertible, on the fulfilment of certain negative pledge conditions, into an equity instrument pursuant to art. 2346 of the Italian Civil Code, carrying the same rights associated with the loan.

[25] This is the so-called "Nuova Alitalia", the company to which all the aviation assets and activities of Alitalia Compagnia Aerea Italiana SpA, now CAI SpA, have been transferred. The company owns 100% of Midco SpA.

Available-for-sale financial assets

Available-for-sale financial assets, held primarily by the Parent Company, and the related movements break down as follows:

tab. A5.9 - Movements in available-for-sale financial assets (€m)

	Fixed-income instruments		Other investments		Equity instruments	Total
	Nominal value	Fair value	Nominal value	Fair value	Fair value	Fair value
Balance at 1 January 2015	**500**	**570**	**5**	**6**	**5**	**581**
Purchases		-		-	-	-
Redemptions		-		-	-	-
Transfers to equity reserves		-		-	-	-
Changes in amortised cost		1		-	-	1
Impairments		-		-	-	-
Fair value gains and losses through equity		4		-	-	4
Fair value gains and losses through profit or loss		(5)		-	-	(5)
Effects of sales on profit or loss		-		-	-	-
Accrued income		6		-	-	6
Sales and settlement of accrued income		(6)		-	-	(6)
Balance at 31 December 2015	**500**	**570**	**5**	**6**	**5**	**581**
Purchases		101		-	-	101
Redemptions		(100)		-	-	(100)
Transfers to equity reserves		-		-	-	-
Changes in amortised cost		-		-	-	-
Impairments		-		-	-	-
Fair value gains and losses through equity		(1)		-	-	(1)
Fair value gains and losses through profit or loss		3		-	-	3
Effects of sales on profit or loss		-		-	-	-
Accrued income		1		-	-	1
Sales and settlement of accrued income		(8)		-	-	(8)
Balance at 30 September 2016	**500**	**566**	**5**	**6**	**5**	**577**

Fixed income instruments regard BTPs with a total nominal value of €500 million (a fair value of €566 million). Of these, instruments with a value of €375 million have been hedged using asset swaps designated as fair value hedges.

Poste Italiane’s investment in CAI SpA (formerly Alitalia-CAI SpA), acquired for €75 million in 2013, has been written off.

Derivative financial instruments

Movements in derivative assets and liabilities are as follows:

tab. A5.10 - Movements in derivative financial instruments (€m)

	Nine months ended 30 September 2016				Year ended 31 December 2015			
	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total
Balance at 1 January	**(5)**	**(47)**	**-**	**(52)**	**-**	**(52)**	**(7)**	**(59)**
Increases/(decreases) (*)	(3)	(10)	-	(13)	1	(4)	1	(2)
Hedge completion	-	-	-	-	(6)	-	6	-
Gains/(Losses) through profit or loss (**)	-	-	-	-	-	-	-	-
Transactions settled (***)	(1)	10	-	9	-	9	-	9
Balance at end of period	**(9)**	**(47)**	**-**	**(56)**	**(5)**	**(47)**	**-**	**(52)**
Of which:								
Derivative assets	-	-	-	-	-	-	-	-
Derivative liabilities	(9)	(47)	-	(56)	(5)	(47)	-	(52)

* Increases/(decreases) refer to the nominal value of new transactions and changes in the fair value of the overall portfolio during the period.

** Gains and losses through profit or loss refer to any ineffective components of hedges, recognised in other income and other expenses from financial and insurance activities.

*** Transactions settled include forward transactions settled, accrued differentials and the settlement of asset swaps linked to securities sold.

At 30 September 2016, the derivative financial instruments held by the Parent Company, with fair value losses of €56 million, include:

- nine asset swaps used as fair value hedges in 2010 to protect the value of BTPs with a nominal value of €375 million against movements in interest rates. These instruments have enabled the Parent Company to sell the fixed rate on the BTPs of 3.75% and purchase a variable rate;
- a swap contract entered into in 2013 to hedge the cash flows of a €50 million bond issued on 25 October 2013 (section B.8). With this transaction, the Parent Company took on the obligation to pay a fixed rate of 4.035% and sold the variable rate of the bond which, at 30 September 2016, was 1.902%.

A6 - INVENTORIES

At 30 September 2016, net inventories break down as follows:

tab. A6 - Inventories (€m)

Item	Balance at 31 December 2015	Increase / (decrease)	Balance at 30 September 2016
Properties held for sale	114	3	117
Work in progress, semi-finished and finished goods and goods for resale	12	-	12
Raw, ancillary and consumable materials	8	-	8
Total	**134**	**3**	**137**

This item refers mainly to properties held for sale, relating to the portion of EGI SpA's real estate portfolio to be sold, whose fair value[26] at 30 September 2016 amounts to approximately €310 million.

A7 - TRADE RECEIVABLES

Trade receivables break down as follows:

tab. A7 - Trade receivables (€m)

Item	Balance at 30 September 2016			Balance at 31 December 2015		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Customers	48	2,066	2,114	54	1,968	2,022
MEF	-	210	210	-	322	322
Subsidiaries, associates and joint ventures	-	2	2	-	2	2
Prepayments to suppliers	-	-	-	-	-	-
Total	**48**	**2,278**	**2,326**	**54**	**2,292**	**2,346**

Receivables due from customers

tab. A7.1 - Receivables due from customers (€m)

Item	Balance at 30 September 2016			Balance at 31 December 2015		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Ministries and Public Administration entities	43	695	738	49	632	681
Cassa Depositi e Prestiti	-	364	364	-	397	397
Unfranked mail delivered and other value added services	27	298	325	27	322	349
Overseas counterparties	-	266	266	-	236	236
Parcel express courier and express parcel services	-	218	218	-	227	227
Amounts due for other BancoPosta services	-	151	151	-	109	109
Overdrawn current accounts	-	140	140	-	138	138
Property management	-	7	7	-	7	7
Other trade receivables	1	425	426	1	379	380
Provisions for doubtful debts	(23)	(498)	(521)	(23)	(479)	(502)
Total	**48**	**2,066**	**2,114**	**54**	**1,968**	**2,022**

Amounts due from **ministries and Public Administration entities** total €291 million, relating to Integrated Notification and mailroom services.

Movements in **provisions for doubtful debts** are as follows:

26 In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

tab. A7.2 - Movements in provisions for doubtful debts (€m)

Item	Balance at 1 January 2015	Net provisions	Deferred revenue	Uses	Balance at 31 December 2015	Net provisions	Deferred revenue	Uses	Change in scope of consolidation	Balance at 30 September 2016
Overseas postal operators	5	(1)	-	-	4	-	-	-	-	4
Public Administration entities	134	(5)	3	-	132	3	2	(1)	-	136
Private customers	314	27	-	(7)	334	16	-	(5)	-	345
	453	**21**	**3**	**(7)**	**470**	**19**	**2**	**(6)**	**-**	**485**
Interest on late payments	17	17	-	(2)	32	9	-	(5)	-	36
Total	**470**	**38**	**3**	**(9)**	**502**	**28**	**2**	**(11)**	**-**	**521**

Receivables due from the MEF

This item relates to trade receivables due to the Parent Company from the Ministry of the Economy and Finance.

tab. A7.3 - Receivables due from the MEF (€m)

Item	Balance at 30 September 2016	Balance at 31 December 2015
Universal Service compensation	237	334
Publisher tariff and electoral subsidies	83	83
Remuneration of current account deposits	14	15
Payment for delegated services	14	28
Distribution of euro converters	6	6
Other	3	3
Provision for doubtful debts due from the MEF	(147)	(147)
Total	**210**	**322**

Specifically:

- **Universal Service compensation** consists of the following:

tab. A7.3.1 - Universal Service compensation receivable (€m)

Item	Balance at 30 September 2016	Balance at 31 December 2015
First nine months of 2016	66	-
Remaining balance for 2015	67	198
Remaining balance for 2014	55	55
Remaining balance for 2012	23	23
Remaining balance for 2011	18	50
Remaining balance for 2005	8	8
Total	**237**	**334**

Compensation for the first half of 2016, amounting to €131 million, was collected on a monthly basis in accordance with the new *Contratto di Programma* (Service Contract) for 2015-2019, which came into force on 1 January 2016. The remaining amount receivable regards the third quarter of 2016, with provision made in the state budget for 2016. Moreover:

- Regarding the outstanding balance of the compensation for 2015, provision of €33.3 million has been made in the 2017 state budget forecast, while no funds have been earmarked for the remaining €33.3 million. The €131 million provided for in the 2015 state budget was collected in March 2016.
- Regarding the outstanding balance of the compensation for 2014, provision of €13.9 million has been made in the state budget for 2016, while provision of €41.5 million has been made in the state budget forecast for 2017.
- With reference to the services rendered in 2012, AGCom has recognised a net cost incurred by the Company of €327 million, compared with compensation of €350 million calculated by the Company. Provision has not been made in the state budget for the remaining €22.6 million. The Parent

Company appealed AGCom's decision on 13 November 2014 before the Regional Administrative Court (*TAR*).

- The outstanding balance of the compensation for 2011 is expected to be funded in the 2016 state budget.
- The outstanding receivable relating to compensation for 2005 was subject to cuts in the budget laws for 2007 and 2008.

Finally, regarding the outstanding balance of the compensation for 2013, which was collected in full in 2015, with resolution 493/14/CONS of 9 October 2014, AGCom has initiated an assessment of the net cost incurred by the Company. On 24 July 2015, the regulator notified the Company that it will extend the assessment to include the 2014 financial year. On 29 July 2016, AGCom published Resolution 166/16/CONS, launching a public consultation on the draft ruling concerning assessment of the net cost of the universal postal service in 2013 and 2014, in which the cost of universal provision was estimated to be €345 million for 2013 and €365 million for 2014. On 27 September 2016, Poste Italiane submitted its contribution to the consultation to the regulator.

- Receivables arising from **electoral subsidies** refer to compensation for previous years, for which provision has been almost entirely made in the state budget for 2016 and previous years, but which are subject to approval by the European Commission.
- The **remuneration of current account deposits** refers entirely to amounts accruing in the period under review and largely relates to the deposit of funds deriving from accounts opened by Public Administration entities and attributable to BancoPosta RFC.
- Payments for **delegated services** relate to fees accrued solely in the year under review for treasury services performed by Bancoposta on behalf of the state in accordance with a special agreement with the MEF, which was renewed on 11 June 2014 for the three-year period 2014-2016.

As already noted, at 30 September 2016, funds to pay some of the above receivables have not been appropriated in the state budget, which means that the payment is either suspended or deferred (note 2.3 – *Use of estimates*). Movements in **provisions for doubtful debts due from the MEF** are as follows:

tab. A7.4 - Movements in provisions for doubtful debts due from the MEF (€m)

	Balance at 1 January 2015	Net provisions	Deferred revenue	Uses	Balance at 31 December 2015	Net provisions	Deferred revenue	Uses	Balance at 30 September 2016
Provisions for doubtful debts	166	(68)	49	-	147	-	-	-	147

Provisions for doubtful debts due from the MEF reflect the lack of funding and/or the uncertainty related to medium/long-term forecasts for the state budget, which make it difficult to collect certain receivables recognised on the basis of legislation, contracts and agreements in force at the time of recognition.

A8 - OTHER RECEIVABLES AND ASSETS

This item breaks down as follows:

tab. A8 - Other receivables and assets (€m)

Item	Note	Balance at 30 September 2016			Balance at 31 December 2015		
		Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Substitute tax paid		2.352	671	3.023	2.147	520	2.667
Receivables relating to fixed-term contract settlements		136	85	221	144	95	239
Amounts due from social security agencies and pension funds (excl. fixed-term contract settlements)		-	87	87	-	77	77
Amounts restricted by court rulings		-	72	72	-	68	68
Accrued income and prepaid expenses from trading transactions		1	27	28	-	16	16
Tax assets		-	4	4	-	6	6
Other amounts due from associates		-	-	-	-	-	-
Other amounts due from subsidiaries		-	-	-	-	-	-
Other amounts due from joint ventures		-	-	-	-	-	-
Sundry receivables		14	155	169	12	127	139
Provisions for doubtful debts due from others		-	(62)	(62)	-	(59)	(59)
Other receivables and assets		2.503	1.039	3.542	2.303	850	3.153
Interest accrued on IRES refund	[C12.1]	-	47	47	-	47	47
Total		**2.503**	**1.086**	**3.589**	**2.303**	**897**	**3.200**

Specifically:

- **Substitute tax paid** refers mainly to:
  - €1,641 million paid in advance by Poste Vita SpA for the financial years 2012-2016, relating to withholding and substitute tax paid on capital gains on life policies[27];
  - €729 million charged to holders of Interest-bearing Postal Certificates and Class III and V insurance policies for stamp duty at 30 September 2016[28]. This amount is balanced by a matching entry in "Other taxes payable" until expiration or early settlement of the Interest-bearing Postal Certificates or the insurance policies, i.e. the date on which the tax is payable to the tax authorities (tab. B10.3);
  - €602 million relating to advances paid in relation to stamp duty to be paid in virtual form in 2016 and 2017 and charged to customers;
  - €16 million to advances paid in relation to withholding tax on interest earned by current account holders for 2016, which is to be recovered from customers.

- Amounts due from staff under **fixed-term contract settlements** consist of salaries to be recovered following the agreements of 13 January 2006, 10 July 2008, 27 July 2010, 18 May 2012, 21 March 2013 and 30 July 2015 between Poste Italiane SpA and the trade unions, regarding the re-employment by court order of staff previously employed on fixed-term contracts. This item refers to receivables with a present value of €221 million due from staff, from INPS and pension funds, recoverable in the form of variable instalments, the last of which is due in 2040.

- **Amounts that cannot be drawn on due to court rulings** include €59 million in amounts seized and not assigned to creditors, in the process of recovery, and €13 million in amounts stolen from the Parent Company in December 2007 as a result of an attempted fraud and that have remained on deposit with an overseas bank. The latter sum may only be recovered once the legal formalities are completed.

- Accrued interest on IRES refund, amounting to €47 million, refers to interest accruing up to 30 September 2016, in relation to the tax credit determined by an unreported deduction of IRAP paid on labour costs from IRES. With regard to the remaining overall tax credit, amounting to €58 million (i.e. including current tax assets and related interest), described in note 2.3 – *Use of estimates*, there is

[27] Of the total amount, €430 million, assessed on the basis of provisions at 30 September 2016, has yet to be paid and is accounted for in "Other taxes payable" (tab. B10.3).

[28] Introduced by article 19 of Law Decree 201/2011, converted as amended by Law 214/2011, in accordance with the MEF Decree dated 24 May 2012: Manner of implementation of paragraphs from 1 to 3 of article 19 of Law Decree 201 of 6 December 2011, on stamp duty on current accounts and financial products (Official Gazette 127 of 1 June 2012).

uncertainty over the time necessary to settle the issue and, with regard to most of the amount in question, Poste Italiane has taken steps to enforce its rights and collect the remaining amount due to it. More specifically, Poste Italiane has filed an appeal with the competent Tax Tribunal against the tax authorities' partial "silent rejection" of the above application for a refund. The tax authorities, reserving the right to disclose the findings of the review that it is still performing in relation to the application for an IRES refund, have filed an entry of appearance, contesting the initial and final terms for the calculation of interest. These disputes are still pending and Poste Italiane, considering its right to obtain a refund as valid and enforceable, has already submitted a reply, illustrating the reasons why the tax authorities' arguments are unfounded.

Movements in the related **provisions for doubtful debts** are as follows:

tab. A8.1 - Movements in Provisions for doubtful debts due from others (€m)

Item	Balance at 1 January 2015	Net provisions	Uses	Balance at 31 December 2015	Net provisions	Uses	Balance at 30 September 2016
Public Administration entities for sundry services	13	-	-	13	-	(1)	12
Receivables relating to fixed-term contract settlements	6	1	-	7	1	-	8
Other receivables	38	3	(2)	39	3	-	42
Total	**57**	**4**	**(2)**	**59**	**4**	**(1)**	**62**

A9 - CASH AND DEPOSITS ATTRIBUTABLE TO BANCOPOSTA

Details of this item are as follows:

tab. A9 - Cash and deposits attributable to BancoPosta (€m)

Item	Balance at 30 September 2016	Balance at 31 December 2015
Cash and cash equivalents in hand	2,696	2,943
Cheques	-	-
Bank deposits	222	218
Total	**2,918**	**3,161**

Cash at post offices, relating exclusively to BancoPosta RFC, regards cash deposits in postal current accounts, postal savings products (Interest-bearing Postal Certificates and Postal Savings Books) or advances obtained from the Italian Treasury to fund post office operations. This cash may only be used in settlement of these obligations. Cash and cash equivalents in hand are held at post offices (€1,021 million) and companies that provide cash transportation services whilst awaiting transfer to the Italian Treasury (€1,675 million). Bank deposits relate to BancoPosta RFC's operations and include amounts deposited in an account with the Bank of Italy to be used in interbank settlements, totalling €220 million.

A10 - CASH AND CASH EQUIVALENTS

tab. A10 - Cash and cash equivalents (€m)

Item	Balance at 30 September 2016	Balance at 31 December 2015
Bank deposits and amounts held at the Italian Treasury	1,997	2,741
Deposits with the MEF	365	391
Cash and cash equivalents in hand	11	10
Total	**2,373**	**3,142**

Bank deposits and amounts held at the Italian Treasury include €12 million whose use is restricted by court orders related to different disputes.

The balance of cash at 30 September 2016 includes approximately €697 million the use of which is restricted. This includes approximately €669 million in liquidity covering technical provisions for the insurance business.

EQUITY

B1 – SHARE CAPITAL

Poste Italiane SpA's share capital consists of 1,306,110,000 no-par value ordinary shares, of which, at 30 September 2016, the Ministry of the Economy and Finance holds 64.7%, while the remaining shares are held by institutional and retail investors.

All the shares in issue are fully subscribed and paid up. No preference shares have been issued and the Parent Company does not hold treasury shares.

The following table shows a reconciliation of the Parent Company's equity and profit/(loss) for the period with the consolidated amounts:

tab. B1 - Reconciliation of equity (€m)

	Equity at 30 September 2016	Changes in equity during first nine months of 2016	Profit/(loss) for first nine months of 2016	Equity at 31 December 2015	Changes in equity during 2015	Profit/(loss) for full year 2015	Equity at 1 January 2015
Financial statements of Poste Italiane SpA	**6,703**	**(1,465)**	**522**	**7,646**	**690**	**451**	**6,505**
- Undistributed profit (loss) of consolidated companies	2,610	-	299	2,311	-	424	1,887
- Investments accounted for using the equity method	11	1	7	3	-	3	-
- Balance of FV and CFH reserves of investee companies	229	31	-	198	(4)	-	202
- Actuarial gains and losses on employee termination benefits of investee companies	(9)	(5)	-	(4)	2	-	(6)
- Fees to be amortised attributable to Poste Vita SpA and Poste Assicura SpA	(40)	-	(1)	(39)	-	(5)	(34)
- Effects of contributions and transfers of business units between Group companies							
SDA Express Courier SpA	2	-	-	2	-	-	2
EGI SpA	(71)	-	-	(71)	-	(6)	(65)
Postel SpA	17	-	-	17	-	-	17
PosteShop SpA	1	-	-	1	-	-	1
- Effects of intercompany transactions (including dividends)	(671)	-	(33)	(638)	-	(392)	(246)
- Elimination of adjustments to value of consolidated companies	364	-	1	363	-	84	279
- Amortisation until1 January 2004/Impairment of goodwill	(139)	-	-	(139)	-	(12)	(127)
- Effects of tax consolidation arrangement	-	-	-	-	-	-	-
- Other consolidation adjustments	20	-	12	8	-	5	3
Equity attributable to owners of the Parent	**9,027**	**(1,438)**	**807**	**9,658**	**688**	**552**	**8,418**
- Non-controlling interests (excluding profit/(loss))	-	-	-	-	-	-	-
- Non-controlling interests in profit/loss	-	-	-	-	-	-	-
Non-controlling interests in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL CONSOLIDATED EQUITY	**9,027**	**(1,438)**	**807**	**9,658**	**688**	**552**	**8,418**

B2 – SHAREHOLDER TRANSACTIONS

In accordance with the resolution adopted by shareholders at the Annual General Meeting held on 24 May 2016, on 22 June 2016, the Parent Company paid dividends of €444 million (a dividend per share of €0.34).[29]

B3 – EARNINGS PER SHARE

Earnings per share

The calculation of basic and diluted earnings per share (EPS) is based on the Group's profit for the period. The denominator used in the calculation of both basic and diluted EPS is represented by the number of the Parent Company's shares in issue, given that no financial instruments with potentially dilutive effects have been issued at 30 September 2016 or at 30 September 2015.

29 Regarding shareholder transactions, as described more extensively in the Annual Report for 2015, following the ruling of the General Court of the European Union dated 13 September 2013, which found in favour of the Company, the Parent Company has a residual claim on the MEF of €45 million, relating to the return of sums paid in the past to the MEF out of retained earnings. Pending payment of the sum by the MEF, at 30 September 2016 – unchanged from 31 December 2015 - the relevant component of the Parent Company's equity is prudentially accounted for at a nil balance.

B4 – RESERVES

tab. B4 - Reserves (€m)

	Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Reserve for investees accounted for using equity method	Total
Balance at 1 January 2015	**299**	**1,000**	**1,813**	**48**	**-**	**3,160**
Increases/(decreases) in fair value during the period	-	-	902	18	-	920
Tax effect of changes in fair value	-	-	(288)	(6)	-	(294)
Transfers to profit or loss	-	-	(433)	(66)	-	(499)
Tax effect of transfers to profit or loss	-	-	139	22	-	161
Gains/(Losses) recognised in equity	-	-	320	(32)	-	288
Balance at 30 September 2015	**299**	**1,000**	**2,133**	**16**	**-**	**3,448**
Increases/(decreases) in fair value during the period	-	-	689	(5)	-	684
Tax effect of changes in fair value	-	-	(184)	2	-	(182)
Transfers to profit or loss	-	-	(34)	(5)	-	(39)
Tax effect of transfers to profit or loss	-	-	11	1	-	12
Adjustments for change in IRES tax rate introduced by 2016 Stability Law			124	-	-	124
Investees accounted for using equity method - share of OCI (net of tax)	-	-	-	-	-	-
Gains/(Losses) recognised in equity	-	-	606	(7)	-	599
Other	-	-	-	-	-	-
Balance at 31 December 2015	**299**	**1,000**	**2,739**	**9**	**-**	**4,047**
Increases/(decreases) in fair value during the period	-	-	(607)	35	-	(572)
Tax effect of changes in fair value	-	-	169	(10)	-	159
Transfers to profit or loss	-	-	(588)	(28)	-	(616)
Tax effect of transfers to profit or loss	-	-	139	8	-	147
Adjustments for change in IRES tax rate introduced by 2016 Stability Law	-	-	-	-	-	-
Investees accounted for using equity method - share of OCI (net of tax)	-	-	-	-	-	-
Gains/(Losses) recognised in equity	-	-	(887)	5	-	(882)
Other	-	-	-	-	1	1
Balance at 30 September 2016	**299**	**1,000**	**1,852**	**14**	**1**	**3,166**

Details are as follows:

- The **fair value reserve** regards changes in the fair value of available-for-sale financial assets. The decrease of €607 million occurred during the first nine months of 2016 was due to:
  - a net decrease of €658 million in available-for-sale financial assets attributable to the Group's Financial Services segment, due to the combined effect of a loss on securities of €661 million and a gain on equity instruments of €3 million;
  - a net increase of €52 million in available-for-sale financial assets attributable to the Group's Insurance Services segment;
  - a net decrease of €1 million in available-for-sale financial assets attributable to the Group's Postal and Business Services segment.
- The **cash flow hedge reserve**, attributable to the Parent Company, represents changes in the fair value of the effective portion of cash flow hedges outstanding. In the period under review, the net increase in the reserve of €35 million reflects a €38 million increase in the value of derivative financial instruments attributable to BancoPosta RFC and fair value losses of €3 million on swaps entered into to hedge cash flows relating to a €50 million bond issue.

LIABILITIES

B5 – TECHNICAL PROVISIONS FOR INSURANCE BUSINESS

These provisions refer to the contractual obligations of the subsidiaries, Poste Vita SpA and Poste Assicura SpA, in respect of their policyholders, inclusive of deferred liabilities resulting from application of the shadow accounting method, as follows:

tab. B5 - Technical provisions for insurance business (€m)

Item	Balance at 30 September 2016	Balance at 31 December 2015
Mathematical provisions	92,854	82,015
Outstanding claims provisions	903	1,179
Technical provisions where investment risk is transferred to policyholders	7,100	7,218
Other provisions	12,886	9,790
for operating costs	75	79
for deferred liabilities to policyholders	12,811	9,711
Technical provisions for claims	135	112
Total	**113,878**	**100,314**

Details of movements in technical provisions for the insurance business and other claims expenses are provided in the notes to the consolidated statement of profit or loss.

The provisions for deferred liabilities due to policyholders include portions of gains and losses attributable to policyholders under the shadow accounting method. In particular, the value of the provisions reflects the attribution to policyholders, in accordance with the relevant accounting standards of unrealised profits and losses on available-for-sale financial assets at 30 September 2016 and, to a lesser extent, on financial instruments at fair value through profit or loss.

B6 - PROVISIONS FOR RISKS AND CHARGES

Movements in provisions for risks and charges are as follows:

tab. B6 - Movements in provisions for risks and charges for the nine months ended 30 September 2016 (€m)

Item	Balance at 31 December 2015	Provisions	Finance costs	Released to profit or loss	Uses	Balance at 30 September 2016
Provisions for non-recurring charges	295	38	-	(8)	(16)	309
Provisions for disputes with third parties	399	34	-	(53)	(14)	366
Provisions for disputes with staff (1)	142	11	-	(3)	(20)	130
Provisions for personnel expenses	131	119	-	(5)	(43)	202
Provisions for restructuring charges	316	-	-	-	(284)	32
Provisions for expired and statute barred postal savings certificates	14	-	-	-	-	14
Provisions for taxation/social security contributions	24	4	1	-	(1)	28
Other provisions for risks and charges	76	13	-	-	(5)	84
Total	**1,397**	**219**	**1**	**(69)**	**(383)**	**1,165**
Overall analysis of provisions:						
- non-current portion	634					608
- current portion	763					557
	1,397					1,165

(1) Net accruals for Personnel expenses amount to €4 million. Service costs (legal assistance) total €4 million.

Movements in provisions for risks and charges for the year ended 2015 (€m)

Item	Balance at 31 December 2014	Provisions	Finance costs	Released to profit or loss	Uses	Balance at 31 December 2015
Provisions for non-recurring charges	278	50	-	(4)	(29)	295
Provisions for disputes with third parties	383	73	1	(32)	(26)	399
Provisions for disputes with staff (1)	184	16	-	(22)	(36)	142
Provisions for personnel expenses	115	80	-	(25)	(39)	131
Provisions for restructuring charges	256	316	-	-	(256)	316
Provisions for expired and statute barred postal savings certificates	14	-	-	-	-	14
Provisions for taxation/social security contributions	24	3	-	(3)	-	24
Other provisions for risks and charges	80	12	-	(10)	(6)	76
Total	**1,334**	**550**	**1**	**(96)**	**(392)**	**1,397**
Overall analysis of provisions:						
- non-current portion	601					634
- current portion	733					763
	1,334					1,397

(1) Net releases for Personnel expenses amount to €13 million. Service costs (legal assistance) total €7 million.

Specifically:

- **Provisions for non-recurring charges** relate primarily to the operational risks associated with the Group's financial activities. Provisions for the period mainly reflect liabilities arising from risks related to customer complaints regarding investment instruments and products deemed by them to be unsuited to their profiles and to have performances not in line with expectations, risks linked to customer complaints relating to the offer of certain savings products and write-downs and adjustments of income for previous years. Uses relate to the settlement of disputes and payment of liabilities during the period. Releases to profit or loss relate to liabilities recognised in the past that have failed to materialise.
- **Provisions for disputes with third parties** regard the present value of expected liabilities deriving from different types of legal and out-of-court disputes with suppliers and third parties, the related legal expenses, and penalties and indemnities payable to customers. Provisions for the period, totalling €34 million, reflect the estimated value of new liabilities measured on the basis of expected outcomes. The reduction of €53 million relates to the reversal of liabilities recognised in the past, whilst a reduction of €14 million regards the value of disputes settled.
- **Provisions for disputes with staff** regard liabilities that may arise following labour litigation and disputes of various types. Net provisions of €8 million relate to an update of the estimate of the liabilities and the related legal expenses, taking account of both the overall value of negative outcomes in terms of litigation, and the application of Law 183 of 4 November 2010 ("*Collegato lavoro*"), which has introduced a cap on current and future compensation payable to an employee in the event of "court-imposed

conversion" of a fixed-term contract. Uses of €20 million regard amounts used to cover the cost of settling disputes.

- **Provisions for personnel expenses** are made to cover expected liabilities arising in relation to the cost of labour, which are certain or likely to occur but whose estimated amount is subject to change. They have increased by the estimated amount of new liabilities (€119 million) and decreased as a result of settled disputes (€43 million).
- **Provisions for restructuring charges,** which were first established in 2015, reflect the estimated costs to be incurred by the Parent Company for early retirement incentives, under the current redundancy scheme for employees leaving the Company by 31 December 2017. Use of €284 million was made during the period under review.

B7 – EMPLOYEE TERMINATION BENEFITS AND PENSION PLANS

The following movements in employee termination benefits took place in the first nine months of 2016:

tab. B7 - Movements in provisions for employee termination benefits and pension plans (€m)

	Nine months ended 30 September 2016			Nine months ended 30 September 2015		
	Employee termination	Pension plans	Total	Employee termination	Pension plans	Total
Balance at 1 January	**1,357**	**4**	**1,361**	**1,475**	**3**	**1,478**
Change in scope of consolidation	-	-	-	-	-	-
Current service cost	1	-	1	1	-	1
Interest component	20	-	20	21	-	21
Effect of actuarial (gains)/losses	161	1	162	(86)	-	(86)
Uses for the period	(66)	-	(66)	(50)	-	(50)
Balance at end of period	**1,473**	**5**	**1,478**	**1,361**	**3**	**1,364**

The current service cost is recognised in personnel expenses, whilst the interest component is recognised in finance costs.

The main actuarial assumptions applied in calculating provisions for **employee termination benefits** and the **pension plan**, where the latter relates solely to BdM-MCC employees, are as follows:

tab. B7.1 - Economic and financial assumptions

	At 30 September 2016
Discount rate	0.80%
Inflation rate	1.50% for 2016 1.80% for 2017 1.70% for 2018 1.60% for 2019 2.00% from 2020 on
Annual rate of increase of employee termination benefits	2.625% for 2016 2.85% for 2017 2.775% for 2018 2.70% for 2019 3.00% from 2020 on

tab. B7.2 - Demographic assumptions

	At 30 September 2016
Mortality	RG48
Disability	INPS tables by age and sex
Pensionable age	Attainment of legal requirements for retirement

Actuarial gains and losses are generated by the following factors:

tab. B7.3 - Actuarial gains and losses

	Employee termination benefits at 30 September 2016	Pension plan at 30 September 2016
Change in demographic assumptions	-	-
Change in financial assumptions	173	-
Other experience-related adjustments	(12)	1
Total	**161**	**1**

The sensitivity of employee termination benefits and the pension plan to changes in the principal actuarial assumptions is analysed below.

tab. B7.4 - Sensitivity analysis

	Employee termination benefits at 30 September 2016	Pension plan at 30 September 2016
Inflation rate +0.25%	1,497	5
Inflation rate -0.25%	1,449	4
Discount rate +0.25%	1,435	4
Discount rate -0.25%	1,512	5
Turnover rate +0.25%	1,469	-
Turnover rate -0.25%	1,477	-

The following table provides further information in relation to employee termination benefits.

tab. B7.5 - Other information

	At 30 September 2016
Expected service cost	1
Average duration of defined benefit plan	11.3
Average employee turnover	0.41%

B8 - FINANCIAL LIABILITIES

Financial liabilities break down as follows at 30 September 2016:

tab. B8 - Financial liabilities (€m)

Item	Balance at 30 September 2016			Balance at 31 December 2015		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Payables deriving from postal current accounts	-	45,540	45,540	-	43,468	43,468
Borrowings	6,588	3,965	10,553	6,003	3,074	9,077
Bonds	2,026	16	2,042	2,011	37	2,048
Borrowings from financial institutions	4,561	3,941	8,502	3,984	3,034	7,018
Other borrowings	-	1	1	-	1	1
Finance leases	1	7	8	8	2	10
Derivative financial instruments	3,575	33	3,608	1,595	4	1,599
Cash flow hedges	63	24	87	88	(9)	79
Fair value hedges	3,512	9	3,521	1,507	13	1,520
Fair value through profit or loss	-	-	-	-	-	-
Other financial liabilities	1	3,695	3,696	-	3,334	3,334
Total	**10,164**	**53,233**	**63,397**	**7,598**	**49,880**	**57,478**

Payables deriving from postal current accounts

Payables deriving from postal current accounts represent BancoPosta's direct deposits.

Borrowings

Other than the guarantees described in the following notes, borrowings are unsecured and are not subject to financial covenants, which would require Group companies to comply with financial ratios or maintain a certain minimum rating.

Bonds

Bonds consist of the following:

- Two issues by Poste Italiane SpA, recognised at an amortised cost of €805 million under the EMTN – Euro Medium Term Note programme of €2 billion listed by the Company in 2013 on the Luxembourg Stock Exchange. In particular:
  - bonds with a nominal value of €750 million, placed through a public offering for institutional investors at a below par price of 99.66 on 18 June 2013. The bonds have a term to maturity of five years and pay annual coupon interest at a fixed rate of 3.25%. The fair value[30] of this borrowing at 30 September 2016 is €798 million;
  - bonds with a nominal value of €50 million subscribed by investors through a private placement at par on 25 October 2013. The term to maturity of the loan is ten years and the interest rate is 3.5% for the first two years and variable thereafter (EUR Constant Maturity Swap rate plus 0.955%, with a cap of 6% and a floor of 0%). The interest rate risk exposure was hedged as described in section A5; the fair value[31] of this borrowing at 30 September 2016 is €53 million.
- Subordinated bonds[32] with a nominal value of €750 million and accounted for at their amortised cost of €754 million, issued at a below par price of 99.597 by Poste Vita SpA on 30 May 2014 and listed on the Luxembourg Stock Exchange. The bonds have a five-year term to maturity and pay annual coupon interest of 2.875%. The fair value[33] of this liability at 30 September 2016 is €807 million.
- Four bonds with a value of €482 million issued by BdM-MCC SpA between 1998 and 1999 and maturing between 2018 and 2028, listed on the MOT. These bonds carry variable rates or simulate variable rate bonds through the use of fair value hedges, call for a total repayment on maturity of €508 million (nominal value plus interest) and have an amortised cost at the reporting date of €374 million. As a result of the above fair value hedges, at 30 September 2016 the carrying amount of the bonds reflects a fair value adjustment of €108 million. The total fair value[34] of the bonds at 30 September 2016 is €473 million. In June 2016, the Bank bought back bonds worth €15 million in the secondary market and unwound the associated hedges.

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[30] In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.
[31] In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.
[32] The bondholders rank below customers holding the company's insurance policies.
[33] In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.
[34] In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

Borrowings from financial institutions

This item breaks down as follows:

tab. B8.1 - Borrowings from financial institutions (€m)

Item	Balance at 30 September 2016			Balance at 31 December 2015		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Repurchase agreements	3,751	3,361	7,112	3,384	2,021	5,405
ECB loan	325	365	690	-	830	830
EIB fixed rate loan maturing 11 April 2018	200	-	200	200	-	200
EIB fixed rate loan maturing 23 March 2019	200	-	200	200	-	200
EIB variable rate loan maturing in 2017	-	1	1	-	1	1
Other borrowings	85	213	298	200	175	375
Current account overdrafts	-	-	-	-	5	5
Accrued interest expense	-	1	1	-	2	2
						-
Total	**4,561**	**3,941**	**8,502**	**3,984**	**3,034**	**7,018**

Borrowings from financial institutions are subject to standard negative pledge clauses[35].

Outstanding liabilities for repurchase agreements at 30 September 2016 amount to €7,112 million and relate to contracts with a total nominal value of €6,256 million, entered into by the Parent Company with major financial institutions. These liabilities consist of:

- €4,253 million relating to Long Term Repos entered into with primary counterparties, with the resulting resources invested in Italian fixed income government securities of a matching nominal amount;
- €2,859 million relating to BancoPosta's ordinary borrowing operations via repurchase agreement transactions with primary financial institutions, in order to optimise the match between investments and short-term movements in current account deposits by private customers, and as funding for incremental deposits to secure asset swap transactions.

At 30 September 2016, the fair value[36] of repurchase agreements amounts to €7,170 million.

ECB loans of €690 million have been obtained by BdM-MCC SpA, of which €365 million provided by the Bank of Italy in open market transactions and €325 million in connection with the Bank's participation in the second series of TLTRO-II (Targeted Long Term Refinancing Operations). At 30 September 2016, the fair value[37] of the ECB loans is €696 million.

At 30 September 2016, the fair value[38] of the two fixed rate EIB loans of €400 million is €406 million.

Other borrowings of €298 million refer almost entirely to:

- a short-term loan entered into by BdM-MCC SpA, totalling €145 million, and interbank borrowings of €50 million (the carrying amount at 30 September 2016 approximates to fair value);
- loans provided by Cassa Depositi e Prestiti SpA to BdM-MCC SpA, mainly to provide financing to small and medium enterprises amounting to €102 million (the carrying amount at 30 September 2016 approximates to fair value);
- loans amounting to an additional €1 million obtained by BdM-MCC SpA.

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35 A commitment given to creditors by which a borrower undertakes not to give senior security to other lenders ranking *pari passu* with existing creditors, unless the same degree of protection is also offered to them.

36 In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

37 In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 3.

38 In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

Credit facilities

At 30 September 2016, the following credit facilities are available:

- committed lines of €1,669 million, of which €794 million has been used;
- uncommitted lines of €1,633 million, of which €195 million has been used for short-term borrowings;
- overdraft facilities of €89 million;
- unsecured guarantee facilities with a value of €487 million (with €347 million available to the Parent Company), of which guarantees with a value of €321 million have been used on behalf of companies of the Poste Italiane Group in favour of third parties.

No collateral has been provided to secure the lines of credit obtained.

Moreover, from 2014, the Bank of Italy has granted BancoPosta RFC access to intraday credit in order to fund intraday interbank transactions. Collateral for this credit facility is provided by securities with a nominal value of €464 million, and the facility is unused at 30 September 2016.

Derivative financial instruments

Movements in derivative financial instruments during the period under review are described in section A5.

Other financial liabilities

Other financial liabilities have a fair value that approximates to their carrying amount and refer mainly to BancoPosta RFC.

tab. B8.2 - Other financial liabilities (€m)

	Balance at 30 September 2016			Balance at 31 December 2015		
Item	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Prepaid cards	-	1,939	1,939	-	1,454	1,454
Domestic and international money transfers	-	576	576	-	532	532
Cashed cheques	-	207	207	-	508	508
Tax collection and road tax	-	184	184	-	106	106
Amounts due to BdM-MCC SpA customers	-	165	165	-	88	88
Endorsed cheques	-	153	153	-	135	135
Amounts to be credited to customers	-	148	148	-	160	160
Guarantee deposits	-	139	139	-	205	205
Other amounts payable to third parties	-	65	65	-	65	65
Payables for items in process	-	100	100	-	60	60
Other	1	19	20	-	21	21
Total	**1**	**3,695**	**3,696**	**-**	**3,334**	**3,334**

Amounts due on prepaid cards relate to the electronic top-up of Postepay cards.

B9 - TRADE PAYABLES

Details are as follows:

tab. B9 - Trade payables (€m)

Item	Balance at 30 September 2016	Balance at 31 December 2015
Amounts due to suppliers	1,098	1,254
Prepayments and advances from customers	221	186
Other trade payables	9	10
Amounts due to subidiaries	1	2
Amounts due to associates	2	-
Amounts due to joint ventures	1	1
Total	**1,332**	**1,453**

Amounts due to suppliers

tab. B9.1 - Amounts due to suppliers (€m)

Item	Balance at 30 September 2016	Balance at 31 December 2015
Italian suppliers	955	1,118
Overseas suppliers	26	21
Overseas counterparties (1)	117	115
Total	**1,098**	**1,254**

(1) The amount due to overseas counterparties relates to fees payable to overseas postal operators and companies in return for postal and telegraphic services received.

Prepayments and advances from customers

Prepayments and advances from customers relate to amounts received from customers as prepayment for the following services to be rendered:

tab. B9.2 -Prepayments and advances from customers (€m)

Item	Balance at 30 September 2016	Balance at 31 December 2015
Prepayments from overseas suppliers	123	92
Automated franking	56	60
Unfranked mail	21	12
Postage-paid mailing services	6	5
Other services	15	17
Total	**221**	**186**

B10 - OTHER LIABILITIES

Details of this item are as follows:

tab. B10 - Other liabilities (€m)

Item	Balance at 30 September 2016			Balance at 31 December 2015		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Amounts due to staff	1	837	838	-	794	794
Social security payables	41	400	441	41	443	484
Other taxes payable	708	785	1,493	773	642	1,415
Amounts due to the MEF	-	21	21	-	21	21
Sundry payables	92	97	189	90	69	159
Accrued liabilities and deferred income	14	74	88	16	56	72
Total	**856**	**2,214**	**3,070**	**920**	**2,025**	**2,945**

Amounts due to staff

Amounts due to staff relate primarily to amounts accrued and not paid at 30 September 2016. Details are as follows:

tab. B10.1 - Amounts due to staff

Item	Balance at 30 September 2016			Balance at 31 December 2015		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Thirteenth and fourteenth month salaries	-	366	366	-	240	240
Incentives	1	342	343	-	413	413
Accrued vacation pay	-	48	48	-	56	56
Other amounts due to staff	-	81	81	-	85	85
Total	**1**	**837**	**838**	**-**	**794**	**794**

Social security payables

tab. B10.2 - Social security payables (€m)

Item	Balance at 30 September 2016			Balance at 31 December 2015		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
INPS	-	319	319	-	351	351
Pension funds	-	71	71	-	82	82
INAIL	41	3	44	41	3	44
Other agencies	-	7	7	-	7	7
Total	**41**	**400**	**441**	**41**	**443**	**484**

Specifically:

- **Amounts due to the *Istituto Nazionale per la Previdenza Sociale*** (*INPS*, the National Institute of Social Security) primarily relate to amounts due on salaries paid and accrued at 30 September 2016. This item also includes provisions for employee termination benefits still to be paid.
- **Amounts payable to pension funds** relate to sums due to FondoPoste and other pension funds following the decision by certain Group employees to join supplementary funds.
- **Amounts due to the *Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro*** (*INAIL*, the National Occupational Injury Compensation Authority) relate to injury compensation paid to employees of the Parent Company for injuries occurring up to 31 December 1998.

Other taxes payable

tab. B10.3 - Other taxes payable (€m)

Item	Balance at 30 September 2016			Balance at 31 December 2015		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Stamp duty payable	708	169	877	773	43	816
Tax due on insurance provisions	-	430	430	-	385	385
Withholding tax on employees' and consultants' salaries	-	91	91	-	113	113
VAT payable	-	36	36	-	21	21
Substitute tax	-	21	21	-	55	55
Withholding tax on postal current accounts	-	2	2	-	7	7
Other taxes due	-	36	36	-	18	18
Total	**708**	**785**	**1,493**	**773**	**642**	**1,415**

In particular:

- **Stamp duty,** which is paid via the virtual system at 30 September 2016, is shown gross of payments on account. The non-current portion of the stamp duty primarily relates to the amount accrued at 30 September 2016 on Interest-bearing Postal Certificates outstanding, with the remainder due on Class III and V insurance policies pursuant to the new law referred to in section A8.
- **Tax due on insurance provisions** relates to Poste Vita SpA and is described in section A8.

Amounts due to the MEF

This item includes:

- €12 million, reflecting payables arising from pension payments made by the MEF to former Poste Italiane SpA employees between 1 January 1994 and 31 July 1994;
- €9 million, relating to the return of the extraordinary contribution, pursuant to article 2 Law 778/85, received from the MEF to cover shortfalls in the pension fund of the former Postal and Telecommunications Administration.

The items in question were reviewed by a joint working group created with the MEF – Department of Treasury and General Accounting Department and included in the letter dated 7 August 2015.

Sundry payables

tab. B10.4 - Sundry payables (€m)

Item	Balance at 30 September 2016			Balance at 31 December 2015		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Sundry payables attributable to BancoPosta	75	8	83	76	8	84
Guarantee deposits	9	3	12	8	2	10
Other payables	8	86	94	6	59	65
Total	**92**	**97**	**189**	**90**	**69**	**159**

Sundry payables attributable to BancoPosta's operations primarily relate to prior year balances currently being verified.

The increase in **other payables** primarily reflects the estimate liability to the holders of a Class I *Partecipa* policy which, subject to certain conditions, envisages the return of initial premium loadings to policyholders chosen by lot. The liability of approximately €25 million at 30 September 2016 will be accounted for in technical provisions for the insurance business at the end of the year.

Accrued expenses and deferred income from trading transactions

Deferred income comprises:

- €22 million in prepaid telephone traffic sold by PosteMobile SpA as of 30 September 2016 and not yet used by customers;
- €20 million in fees on Postemat and Postepay Evolution cards collected in advance by the Parent Company;
- €8 million relating to grants approved by the competent authorities in favour of the Parent Company, where the associated costs have not yet been incurred.

STATEMENT OF PROFIT OR LOSS

C1 - REVENUE FROM SALES AND SERVICES

Revenue from sales and services, amounting to €6,406 million, breaks down as follows:

tab. C1 - Revenue from sales and Services (€m)

Item	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Postal and Business Services	2,687	2,783
Financial Services	3,501	3,504
Insurance Services and Asset Management	50	32
Mobile phone Services	168	179
Total	**6,406**	**6,498**

Postal and Business Services

Revenue from Postal and Business Services breaks down as follows:

tab. C1.1 - Revenue from Postal and Business services (€m)

Item	For the nine months ended 30 September 2016		For the nine months ended 30 September 2015	
Unfranked mail	843		866	
Automated franking by third parties and at post offices	583		606	
Express parcel and express courier services	320		301	
Integrated services	144		159	
Stamps	143		162	
Overseas mail and parcels	103		87	
Postage-paid mailing services	71		81	
Electronic document management and e-procurement services	29		28	
Telegrams	28		30	
Innovative services	10		15	
Logistics services	9		20	
Other postal services	63		55	
Total revenue from Postal Services		**2,346**		**2,410**
Air shipping services	47		71	
Income from application for residence permits	20		22	
Rentals	12		11	
PosteShop sales	1		7	
Other business services	64		65	
Total revenue from Business Services		**144**		**176**
Total market revenue		**2,490**		**2,586**
Universal Service compensation		197		197
Electoral subsidies		-		-
Total		**2,687**		**2,783**

Universal Service compensation relates to amounts paid by the MEF to cover the costs of fulfilling the Universal Service obligation. The amount reported for the period under review has been recognised on the basis of the new *Contratto di Programma* (Service Contract) for 2015-2019, which took effect on 1 January 2016.

Financial Services

Revenue from Financial Services - which relate mainly to services rendered by the Parent Company's BancoPosta RFC and by BdM-MCC SpA - break down as follows:

tab. C1.2 - Revenue from Financial Services (€m)

Item	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Fees for collection of postal savings deposits	1,174	1,214
Income from investment of postal current account deposits	1,137	1,158
Commissions on payment of bills by payment slip	348	331
Other revenues from current account services	333	349
Distribution of loan products	145	94
Fees for issue and use of prepaid cards	108	95
Income from delegated services	81	94
Fees for the management of public funds	37	32
Interest on loans and other income	36	42
Money transfers	30	33
Securities custody	4	6
Commissions from securities trading	3	3
Other products and services	65	53
Total	**3,501**	**3,504**

In particular:

- **Fees for the collection of postal savings deposits** relate to remuneration for the provision and redemption of Interest-bearing Postal Certificates and payments into and withdrawals from Postal Savings Books. This service is provided by Poste Italiane SpA on behalf of Cassa Depositi e Prestiti under the Agreement of 4 December 2014, covering the five-year period 2014-2018.
- **Income from the investment of postal current account deposits** breaks down as follows:

tab. C1.3 - Income from investment of postal current account deposits (€m)

Item	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Income from investments in securities	1,123	1,130
Interest income on held-to-maturity financial assets	411	433
Interest income on available-for-sale financial assets	727	692
Interest income on securities held for trading	-	-
Interest expense on asset swaps of available-for-sale financial assets	(20)	5
Interest income on repurchase agreements	5	-
Income from deposits held with the MEF	14	28
Remuneration of current account deposits (deposited with the MEF)	14	27
Differential on derivatives stabilising returns	-	1
Total	**1,137**	**1,158**

Income from investments in securities relates to interest earned on the investment of retail deposits. *Income from deposits held with the MEF* represents interest earned during the period on the investment of Public Administration customers' deposits and, to a lesser extent, interest earned on funds in the so-called buffer account held with the MEF.

Revenue from insurance and asset management services

This item amounts to €50 million, reflecting €43 million in commissions received from BancoPosta Fondi SGR SpA for the management of mutual funds and €7 million in revenue generated by Poste Welfare Servizi Srl.

Revenue from mobile telephony services

This item, amounting to €168 million, reflects revenue generated by PosteMobile SpA.

C2 - INSURANCE PREMIUM REVENUE

Details of this item are as follows:

tab. C2 - Insurance premium revenue (€m)

Item	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Life premiums*	15,329	14,493
Class I	14,862	14,316
Class III	404	115
Class IV	4	4
Class V	59	58
Non-life premiums*	59	50
Total	**15,388**	**14,543**

(*)Insurance premiums are shown net of outward reinsurance premiums.

C3 - OTHER INCOME FROM FINANCIAL AND INSURANCE ACTIVITIES

Details of this item are as follows:

tab. C3 - Other income from financial and insurance activities (€m)

Item	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Income from financial assets at fair value through profit or loss	1,412	373
Interest	209	137
Fair value gains	1,192	220
Realised gains	11	16
Income from available-for-sale financial assets	2,457	2,440
Interest	1,642	1,710
Realised gains	694	730
Realised gains on other equity instruments	121	-
Dividends received from other equity instruments	-	-
Income from fair value hedges	-	2
Fair value gains	-	2
Foreign exchange gains	3	3
Fair value gains	-	1
Realised gains	3	2
Other income	15	10
Total	**3,887**	**2,828**

Realised gains on other equity instruments refer to the gain on disposal of the equity interest in Visa Europe Ltd., as described in table A5.2.1.

C4 – OTHER OPERATING INCOME

Other operating income relates to the following:

tab. C4 - Other operating income (€m)

Item	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Recoveries of contract expenses and other recoveries	19	22
Government grants	9	10
Recovery of cost of seconded staff	1	1
Gains on disposals	1	1
Other income	18	18
Total	**48**	**52**

C5 - COSTS OF GOODS AND SERVICES

This item concerns:

tab. C5 - Cost of goods and services (€m)

Item	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Services	1,419	1,427
Lease expense	256	272
Raw, ancillary and consumable materials and goods for resale	108	130
Interest expense	26	45
Total	**1,809**	**1,874**

Service costs

tab. C5.1 - Services (€m)

Item	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Transport of mail, parcels and forms	388	372
Routine maintenance and technical assistance	187	193
Outsourcing fees and external service charges	138	122
Personnel services	118	122
Energy and water	94	102
Mobile telecommunication services for customers	82	84
Transport of cash	77	74
Credit and debit card fees and charges	58	55
Cleaning, waste disposal and security	48	47
Telecommunications and data trasmission	46	54
Mail, telegraph and telex	46	45
Advertising and promotions	36	41
Consultants' fees and legal expenses	24	32
Airport costs	20	23
Electronic document management, printing and enveloping services	18	23
Asset management fees	14	12
Insurance premiums	11	12
Agent commissions and other	10	11
Securities custody and management fees	1	1
Remuneration of Statutory Auditors	1	1
Other	2	1
Total	**1,419**	**1,427**

Lease expense

tab. C5.2 - Lease expense (€m)

Item	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Real estate leases and ancillary costs	142	145
Vehicle leases	52	58
Equipment hire and software licences	36	39
Other lease expense	26	30
Total	**256**	**272**

Raw, ancillary and consumable materials and goods for resale

tab. C5.3 - Raw, ancillary and consumable materials and goods for resale (€m)

Item	Note	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Consumables, advertising materials and goods for resale		63	69
Fuels and lubricants		41	54
Printing of postage and revenue stamps		5	6
SIM cards and scratch cards		2	2
Change in inventories of work in progress, semi-finished and finished goods and goods for resale	[tab. A6]	-	(1)
Change in inventories of raw, ancillary and consumable materials	[tab. A6]	-	3
Change in property held for sale	[tab. A6]	(3)	(3)
Other		-	-
Total		**108**	**130**

Interest expense

tab. C5.4 - Interest expense (€m)

Item	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Interest on customers' deposits	9	25
Interest expense on repurchase agreements	13	16
Interest due to MEF	1	-
Other interest expense and similar charges	3	4
Net remuneration of own liquidity recognised in finance income and costs	-	-
Total	**26**	**45**

Compared with the comparative period, interest paid to customers decreased, mainly as a result of a fall in the interest rates paid on certain postal current accounts.

C6 - NET MOVEMENT IN TECHNICAL PROVISIONS FOR INSURANCE BUSINESS AND OTHER CLAIM EXPENSES

This item breaks down as follows:

tab. C6 - Movements in technical provisions for insurance business and other claims expenses (€m)

Item	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Claims paid	6,007	5,366
Movement in mathematical provisions	10,843	11,372
Movement in outstanding claim provisions	(276)	17
Movement in Other technical provisions	972	(456)
Movement in technical provisions where investment risk is transferred to policyholders	(119)	(844)
Claim expenses and movement in other provisions - Non-life	22	20
Total	**17,449**	**15,475**

C7 - OTHER EXPENSES FROM FINANCIAL AND INSURANCE ACTIVITIES

The table below provides a breakdown of this item:

tab. C7 - Other expenses from financial and insurance activities (€m)

Item	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Expenses from financial instruments through profit or loss	298	596
Fair value losses	285	588
Realised losses	13	8
Expenses from available-for-sale financial instruments	7	45
Realised losses	7	45
Expenses from cash flow hedges	-	-
Fair value losses	-	-
Change in fair value of financial liabilities	-	-
Expenses from fair value hedges	3	-
Fair value losses	3	-
Foreign exchange losses	1	-
Fair value losses	1	-
Realised losses	-	-
Expenses incurred on repurchase agreements	6	-
Other expenses	45	33
Total	**360**	**674**

C8 - PERSONNEL EXPENSES

Personnel expenses include the cost of staff seconded to other organisations. The recovery of such expenses is posted to "Other operating income". Personnel expenses break down as follows:

tab. C8 - Personnel expenses (€m)

Item	Note	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Wages and salaries		3,230	3,246
Social security contributions		908	913
Provisions for employee termination benefits: current service cost	[tab. B7]	1	1
Provisions for employee termination benefits: supplementary pension funds and INPS		200	202
Agency staff		1	4
Remuneration and expenses paid to Directors		2	1
Early retirement incentives		14	21
Net provisions (reversals) for disputes with staff	[tab. B6]	4	1
Provisions for restructuring charges	[tab. B6]	-	-
Other personnel expenses/(cost recoveries)		(27)	(19)
Total personnel expenses		**4,333**	**4,370**
Income from settlements with fixed-term and agency staff		-	-
Total		**4,333**	**4,370**

Net provisions for disputes with staff and provisions for restructuring charges are described in section B6. Cost savings refer mainly to changes in estimates made in previous years.

The following table shows the Group's average headcount:

tab. C8.1 - Number of employees

Category	Number of employees (*) Average	
	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Executives	776	783
Middle managers	16,081	16,015
Operational staff	119,039	121,584
Back-office staff	1,102	1,486
Total employees on permanent contracts	**136,998**	**139,868**
Traineeships	-	-
Apprenticeships	34	44
Total	**137,032**	**139,912**

	Average	
	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Temporary contracts	13	121
Fixed-term contracts	4,602	3,547
Total	**4,615**	**3,668**
Total employees on permanent and flexible contracts	**141,647**	**143,580**

(*) Expressed in full-time equivalent terms.

C9 - DEPRECIATION, AMORTISATION AND IMPAIRMENTS

Depreciation, amortisation and impairments break down as follows:

tab. C9 - Depreciation, amortisation and impairments (€m)

Item	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Property, plant and equipment	263	266
Properties used in operations	83	81
Plant and machinery	67	74
Industrial and commercial equipment	7	7
Leasehold improvements	23	22
Other assets	83	82
Impairments/recoveries/adjustments of property, plant and equipment	(13)	(10)
Depreciation of investment property	3	4
Impairment/recoveries/adjustments of investment property	-	-
Amortisation and impairments of intangible assets	186	165
Industrial patents and intellectual property rights,concessions, lincenses, trademarks and similar rights	179	160
Other	7	5
Goodwill impairment	-	-
Total	**439**	**425**

C10 - OTHER OPERATING COSTS

Other operating costs break down as follows:

tab. C10 - Other operating costs (€m)

Item	Note	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Net provisions and losses on doubtful debts (uses of provisions)		23	5
Provisions for receivables due from customers	[tab. A7.2]	19	13
Provisions (reversal of provisions) for receivables due from MEF	[tab. A7.4]	-	(10)
Provisions (reversal of provisions) for sundry receivables	[tab. A8.1]	4	2
Losses on receivables		-	-
Operational risk events		24	28
Thefts		6	4
Loss of BancoPosta assets, net of recoveries		1	1
Other operating losses of BancoPosta		17	23
Net provisions for risks and charges made/(released)		24	77
for disputes with third parties	[tab. B6]	(19)	38
for non-recurring charges	[tab. B6]	30	34
for other risks and charges	[tab. B6]	13	5
Losses		2	1
Municipal property tax, urban waste tax and other taxes and duties		58	54
Other recurring expenses		27	29
Total		**158**	**194**

C11 - FINANCE INCOME/COSTS

Income from and costs incurred on financial instruments relate to assets other than those in which deposits collected by BancoPosta and the financial and insurance businesses are invested.

Finance income

tab. C11.1 - Finance income (€m)

Item	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Income from available-for-sale financial assets	72	93
Interest	73	79
Accrued differentials on fair value hedges	(7)	(7)
Realised gains	6	21
Dividends	-	-
Income from financial assets at fair value through profit or loss	-	-
Other finance income	8	20
Interest from the MEF	-	2
Interest on bank current accounts	-	-
Finance income on discounted receivables	5	9
Late payment interest	8	5
Impairment of amounts due as late payment interest	(8)	(5)
Income from subsidiaries	-	-
Interest on IRES refund	-	5
Adjustment of interest on IRES refund	-	-
Other	3	4
Foreign exchange gains	3	4
Total	**83**	**117**

Finance costs

tab. C11.2 - Finance costs (€m)

Item	Note	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Finance costs on financial liabilities		40	44
on bonds		37	37
on loans from Cassa Depositi e Prestiti		-	-
on borrowings from financial institutions		2	7
on derivative financial instruments		1	-
Finance costs on sundry financial assets		-	-
Realised losses on financial instruments at fair value through profit or loss		-	-
Finance costs on provisions for employee termination benefits and pension plans	[tab. B7]	20	21
Finance costs on provisions for risks	[tab. B6]	1	1
Other finance costs		5	6
Foreign exchange losses		2	4
Total		**69**	**76**

C12 - INCOME TAX EXPENSE

This item breaks down as follows:

tab. C12 - Income tax expense (€m)

Item	For the nine months ended 30 September 2016			For the nine months ended 30 September 2015		
	IRES	IRAP	Total	IRES	IRAP	Total
Current tax expense	296	64	360	271	57	328
Deferred tax income	57	11	68	39	(17)	22
Deferred tax expense	(13)	(5)	(18)	(1)	-	(1)
Total	**340**	**70**	**410**	**309**	**40**	**349**

Current tax expense

The table below shows movements in current tax expense for the period under review.

tab. C12.1 - Movements in current tax assets /(liabilities) (€m)

Item	Current taxes for the nine months ended 30 September 2016			Current taxes for the year ended 31 December 2015		
	IRES	IRAP		IRES	IRAP	
	Assets/ (Liabilities)	Assets/ (Liabilities)	Total	Assets/ (Liabilities)	Assets/ (Liabilities)	Total
Balance at 1 January	**(16)**	**35**	**19**	**587**	**48**	**635**
Payment of	126	9	135	225	50	275
prepayments for the current year	107	8	115	213	46	259
balance payable for the previous year	19	1	20	12	4	16
Collection of IRES refund claimed	-	-	-	(518)	-	(518)
Adjustment of IRES refund claimed	-	-	-	(9)	-	(9)
Provisions to profit or loss	(296)	(64)	(360)	(288)	(59)	(347)
Provisions to equity	20	8	28	(22)	(4)	(26)
Other	5	(1)	4	9	-	9
Balance at end of period	**(161)**	**(13)**	**(174)**	**(16)**	**35**	**19**
of which:						
Current tax assets	135	45	**180**	34	38	**72**
Current tax liabilities	(296)	(58)	**(354)**	(50)	(3)	**(53)**

In addition to tax payments on account for 2016, current tax assets of €180 million, at 30 September 2016, include €11 million relate to the remaining IRES refund to be received on the unreported IRAP deduction, following submission of a claim pursuant to article 6 of Law Decree 185 of 29 November 2008 and article 2 of Law Decree 201 of 6 December 2011. This legislation provided for the partial deduction of IRAP paid on personnel expenses from IRES (to this end, reference should be made to the relevant interest receivable in table A8).

Deferred tax assets and liabilities

Details of this item at 30 September 2016 are shown in the following table:

tab. C12.2 - Deferred taxes (€m)

Item	Balance at 30 September 2016	Balance at 31 December 2015
Deferred tax assets	650	623
Deferred tax liabilities	(927)	(1,177)
Total	**(277)**	**(554)**

The nominal tax rate for IRES, which is currently 27.5%, will be 24% as of 1 January 2017, whilst the Group's average statutory rate for IRAP at 31 December 2015 was 6.16%[39]. Movements in deferred tax assets and liabilities are shown below:

tab. C12.3 - Movements in deferred tax assets and liabilities (€m)

Item	For the nine months ended 30 September 2016	For the year ended 31 December 2015
Balance at 1 January	**(554)**	**(345)**
Net income/(expenses) recognised in profit or loss	(50)	(18)
Net non-recurring income/(expenses) recognised in profit or loss	-	17
Net non-recurring income/(expenses) recognised in profit or loss due to adjustment to IRES rate	-	(24)
Net income/(expenses) recognised in equity	327	(303)
Net non-recurring income/(expenses) recognised in equity due to adjustment to IRES rate	-	119
Balance at end of period	**(277)**	**(554)**

At 30 September 2016, deferred tax assets and liabilities recognised directly in equity are as follows:

tab. C12.4 - Income/(expense) recognised in equity (€m)

	Increases/(decreases) in equity	
Item	For the nine months ended 30 September 2016	For the year ended 31 December 2015
Fair value reserve for available-for-sale financial instruments	308	(198)
Cash flow hedge reserve for hedging instruments	(2)	19
Actuarial gains /(losses) on employee termination benefits	21	(4)
Retained earnings from shareholder transactions	-	(1)
Total	**327**	**(184)**

39 The nominal IRAP rate is 3.9% for most taxpayers (it is 4.20% for entities operating under concession arrangements in fields other than construction and motorway and tunnel management), 4.65% for banks and other financial institutions and 5.90% for insurance companies (+/-0.92%, representing regional increases and reductions, and +0.15% representing an increase for regions that have a national health service deficit).

3.4 OPERATING SEGMENTS

The identified operating segments are Postal and Business Services, Financial Services, and Insurance Services and Asset Management, with the remaining activities allocated to the Other Services segment.

Following a number of organisational changes, from 2016 the allocation of certain companies to the related operating segments has been updated. Specifically, BancoPosta Fondi SpA SGR, which was previously allocated to the Financial Services segment, now forms part of the Insurance Services and Asset Management segment (until 31 December 2015, the segment was named Insurance Services), whilst Poste Tributi ScpA, which was previously allocated to the Postal and Business Services segment, has been transferred to the Financial Services segment. The relevant comparative amounts for the first nine months of 2015 have been reclassified accordingly.

The Postal and Business Services segment also earns revenue from the services provided by the various Poste Italiane SpA functions to BancoPosta RFC. In this regard, separate General Operating Guidelines have been developed and approved by Poste Italiane SpA's Board of Directors which, in implementation of BancoPosta RFC's By-laws, identify the services provided by Poste Italiane SpA functions to BancoPosta and determines the manner in which they are remunerated.

The result for each segment is based on operating profit/(loss). All income components reported for operating segments are measured using the same accounting policies applied in the preparation of these consolidated financial statements.

The following results, which are shown separately in accordance with management's views and with applicable accounting standards, should be read in light of the integration of the services offered by the commercial network within the postal, financial and insurance businesses, also considering the obligation to carry out the Universal Postal Service.

(€m)

For the nine months ended 30 September 2016	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Adjustments and eliminations	Total
External revenue	2,728	4,107	18,725	169	-	25,729
Intersegment revenue	3,529	413	-	38	(3,980)	-
Total revenue	**6,257**	**4,520**	**18,725**	**207**	**(3,980)**	**25,729**
Operating profit/(loss)	**35**	**704**	**436**	**21**	**-**	**1,196**
Profit/(Loss) on investments accounted for using the equity method	-	-	7	-	-	7
Finance income/(costs)						14
Income tax expense						(410)
Profit/(loss) for the period						**807**

(€m)

For the nine months ended 30 September 2015	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Adjustments and eliminations	Total
External revenue	2,829	3,949	16,962	181	-	23,921
Intersegment revenue	3,364	388	-	69	(3,821)	-
Total revenue	**6,193**	**4,337**	**16,962**	**250**	**(3,821)**	**23,921**
Operating profit/(loss)	**(137)**	**670**	**368**	**29**	**-**	**930**
Profit/(Loss) on investments accounted for using the equity method	-	-	-	-	-	-
Finance income/(costs)						41
Income tax expense						(349)
Profit/(loss) for the period						**622**

Disclosure about geographical segments, based on the geographical areas in which the various Group companies are located or the location of its customers, is of no material significance. At 30 September 2016, all entities consolidated on a line-by-line basis are based in Italy, as is the majority of their client base; revenue from foreign clients does not represent a significant percentage of total revenue.

3.5 RELATED PARTY TRANSACTIONS

Impact of related party transactions on the financial position and results of operations

The impact of related party transactions on the financial position and results of operations is shown below.

tab. 3.5.1 - Impact of related party transactions on the financial position at 30 September 2016 (€m)

Name	Balance at 30 September 2016						
	Financial assets	Trade receivables	Other assets Other receivables	Cash and cash equivalents	Financial liabilities	Trade payables	Other liabilities
Subsidiaries							
Address Software Srl	-	-	-	-	-	-	-
Kipoint SpA	-	-	-	-	-	1	-
Joint ventures							
Uptime SpA	-	-	-	-	-	1	-
Associates							
Anima Holding Group	-	-	-	-	-	2	-
Other SDA group associates	-	2	-	-	-	-	-
Related parties external to the Group							
MEF	6,231	424	15	365	1	107	20
Cassa Depositi e Prestiti Group	3,767	366	-	-	103	18	-
Enel Group	67	72	-	-	-	11	-
Eni Group	211	21	-	-	-	10	-
Equitalia Group	-	71	-	-	-	2	8
Leonardo Group	15	-	-	-	-	28	-
Other related parties external to the Group	73	4	-	-	-	15	47
Provision for doubtful debts owing from external related parties	-	(159)	(10)	-	-	-	-
Total	**10,364**	**801**	**5**	**365**	**104**	**195**	**75**

At 30 September 2016, total provisions for risks and charges made to cover probable liabilities arising from transactions with related parties external to the Group attributable to trading relations amount to €58 million.

tab. 3.5.2 - Impact of related party transactions on the financial position at 31 December 2015 (€m)

Name	Balance at 31 December 2015						
	Financial assets	Trade receivables	Other assets Other receivables	Cash and cash equivalents	Financial liabilities	Trade payables	Other liabilities
Subsidiaries							
Address Software Srl	-	-	-	-	-	1	-
Kipoint SpA	-	-	-	-	-	1	-
Joint ventures							
Uptime SpA	-	-	-	-	-	1	-
Associates							
Anima Holding Group	-	-	-	-	-	-	-
Other SDA group associates	-	2	-	-	-	-	-
Related parties external to the Group							
MEF	7,189	541	13	391	2	102	21
Cassa Depositi e Prestiti Group	3,764	397	-	-	78	11	-
Enel Group	79	45	-	-	-	12	-
Eni Group	140	15	-	-	-	12	-
Equitalia Group	-	56	-	-	-	1	8
Leonardo Group	14	-	-	-	-	30	-
Other related parties external to the Group	76	5	-	-	-	3	62
Provision for doubtful debts owing from external related parties	-	(157)	(10)	-	-	-	-
Total	**11,262**	**904**	**3**	**391**	**80**	**174**	**91**

tab. 3.5.3 - Impact of related party transactions on the results of operations for the nine months ended 30 September 2016 (€m)

	Nine months ended 30 September 2016									
	Revenue				Costs					
					Capital expenditure		Current expenditure			
Name	Revenue from sales and services	Other operating income	Other income from financial and insurance activities	Finance income	Property, plant and equipment	Intangible assets	Goods and services	Personnel expenses	Other operating costs	Finance costs
Subsidiaries										
Address Software Srl	-	-	-	-	-	-	1	-	-	-
Kipoint SpA	-	-	-	-	-	-	1	-	-	-
Joint ventures										
Uptime SpA	-	-	-	-	-	-	1	-	-	-
Associates										
Anima Holding Group	-	-	-	-	-	-	2	-	-	-
Other SDA group associates	3	-	-	-	-	-	2	-	-	-
Related parties external to the Group										
MEF	386	1	-	-	-	-	3	-	3	1
Cassa Depositi e Prestiti Group	1,183	-	52	1	-	2	18	-	1	-
Enel Group	68	-	7	-	-	-	28	-	1	-
Eni Group	16	-	3	-	-	-	28	-	-	-
Equitalia Group	42	-	-	-	-	-	2	-	-	-
Leonardo Group	-	-	-	-	-	6	21	-	-	-
Other related parties external to the Group	6	-	2	-	-	-	11	29	2	-
Total	**1,704**	**1**	**64**	**1**	**-**	**8**	**118**	**29**	**7**	**1**

At 30 September 2016, net provisions for risks and charges made to cover probable liabilities arising from transactions with related parties external to the Group attributable to trading relations amount to €3 million.

tab. 3.5.4 - Impact of related party transactions on the results of operations for the nine months ended 30 September 2015 (€m)

	Nine months ended 30 September 2015									
	Revenue				Costs					
					Capital expenditure		Current expenditure			
Name	Revenue from sales and services	Other operating income	Other income from financial and insurance activities	Finance income	Property, plant and equipment	Intangible assets	Goods and services	Personnel expenses	Other operating costs	Finance costs
Subsidiaries										
Address Software Srl	-	-	-	-	-	-	1	-	-	-
Kipoint SpA	-	-	-	-	-	-	1	-	-	-
Joint ventures										
Uptime SpA	-	-	-	-	-	-	5	-	-	-
Associates										
Other SDA group associates	-	-	-	-	-	-	-	-	-	-
Related parties external to the Group										
MEF	449	1	-	2	-	-	2	-	(8)	-
Cassa Depositi e Prestiti Group	1,214	-	66	-	-	-	15	-	1	-
Enel Group	88	1	2	-	-	-	36	-	-	-
Eni Group	22	-	3	-	-	-	33	-	-	-
Equitalia Group	47	-	-	-	-	-	2	-	-	-
Leonardo Group	-	-	2	-	-	6	24	-	-	-
Other related parties external to the Group	16	2	1	-	-	-	11	29	2	-
Total	**1,836**	**4**	**74**	**2**	**-**	**6**	**130**	**29**	**(5)**	**-**

The nature of the Parent Company's principal transactions with related parties external to the Group is summarised below in order of relevance.

- Amounts received from the MEF relate primarily to payment for carrying out the USO, the management of postal current accounts, the reimbursement of electoral tariff reductions and, with regard to prior years, subsidies, and payment for delegated services, integrated e-mail services, the franking of mail on credit, the collection of tax returns and the collection and accounting for tax payments using form F24.
- Amounts received from CDP SpA primarily relate to payment for the collection of postal savings deposits. The costs incurred with the CDP Group refer mainly to software maintenance and electronic payment card management services performed by SIA SpA.
- Amounts received from the Enel Group primarily relate to payment for bulk mail shipments, unfranked mail, franking of mail on credit and postage paid mailing services, etc. The costs incurred primarily relate to the supply of gas.
- Amounts received from the Equitalia Group primarily relate to payment for the integrated notification service and for unfranked mail. The costs incurred primarily relate to electronic transmission of tax collection data.

- Amounts received from the Eni Group relate primarily to payment for mail shipments and collection and accounting for utility payments. The costs incurred relate to the supply of gas and the supply of fuel for motorcycles and vehicles.
- Purchases from the Leonardo Group primarily relate to the supply, by Finmeccanica SpA (formerly Selex ES SpA), of equipment, maintenance and technical assistance for mechanised sorting equipment, and systems and IT assistance regarding the creation of document storage facilities, specialist consulting and software maintenance, and the supply of software licences and of hardware.

Key management personnel

Key management personnel consist of Directors, members of the Board of Statutory Auditors and the Supervisory Board, managers at the first organisational level of the Parent Company and Poste Italiane's manager responsible for financial reporting. The related remuneration, gross of expenses and social security contributions, is as follows:

tab. 3.5.5 - Remuneration of key management personnel (€000)

Item	Nine months ended 30 September 2016	Nine months ended 30 September 2015
Remuneration to be paid in short/medium term	10,057	10,834
Post-employment benefits	390	446
Other benefits to be paid in longer term	-	-
Termination benefits	3,845	-
Share-based payments	699	-
Total	**14,991**	**11,280**

tab. 3.5.6 - Remuneration of Statutory Auditors (€000)

Name	Nine months ended 30 September 2016	Nine months ended 30 September 2015
Remuneration	1,110	1,189
Expenses	35	86
Total	**1,145**	**1,275**

The remuneration paid to members of the Supervisory Board who, since 24 May 2016 are no longer the same as the members of the Board of Statutory Auditors, amounts to approximately €30 thousand for the period from the date they took up office to 30 September 2016. In determining the remuneration, the amounts paid to managers of Poste Italiane who are members of the Supervisory Board is not taken into account, as this remuneration is passed on to the employer.

No loans were granted to key management personnel during the period under review and at 30 September 2016. Group companies do not report receivables in respect of loans granted to key management personnel.

Transactions with staff pensions funds

The Parent Company and its subsidiaries that apply the National Collective Labour Contract are members of the Fondoposte Pension Fund, the national supplementary pension fund for non-managerial staff. As indicated in article 14, paragraph 1 of Fondoposte's By-laws, the representation of members among the various officers and boards (the General Meeting of delegates, the Board of Directors, Chairman and Deputy Chairman, Board of Statutory Auditors) is shared equally between the workers and the companies that are members of the Fund. The Fund's Board of Directors takes decisions including:

- the general criteria for the allocation of risk in terms of investments and investment policies;
- the choice of fund manager and custodian bank.

3.6 OTHER INFORMATION ON FINANCIAL ASSETS AND LIABILITIES

Analysis of net funds

Following a number of organisational changes, from 2016, the allocation of certain companies to the related operating segments has altered. Specifically, BancoPosta Fondi SpA SGR, which was previously allocated to the Financial Services segment, now forms part of the Insurance Services and Asset Management segment (until 31 December 2015, the segment was named Insurance Services), whilst Poste Tributi ScpA, which was previously allocated to the Postal and Business Services segment, has been transferred to the Financial Services segment. The relevant comparative amounts for 31 December 2015 have been accordingly reclassified.

At 30 September 2016, the Poste Italiane Group's net funds are as follows:

tab. 3.6.1 - Net funds/(debt)

(€m)

Balance at 30 September 2016	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Eliminations	Consolidated amount	*of which, related parties*
Financial liabilities	**(2,288)**	**(61,978)**	**(1,163)**	**(2)**	**2,034**	**(63,397)**	
Postal current accounts	-	(45,846)	-	-	306	(45,540)	-
Bonds	(805)	(483)	(754)	-	-	(2,042)	-
Borrowings from financial institutions	(401)	(8,101)	-	-	-	(8,502)	*(102)*
Other borrowings	(1)	-	-	-	-	(1)	*(1)*
Finance leases	(6)	-	-	(2)	-	(8)	-
Derivative financial instruments	(56)	(3,552)	-	-	-	(3,608)	-
Other financial liabilities	(14)	(3,675)	(7)	-	-	(3,696)	*(1)*
Intersegment financial liabilities	(1,005)	(321)	(402)	-	1,728	-	-
Technical provisions for insurance business	**-**	**-**	**(113,878)**	**-**	**-**	**(113,878)**	**-**
Financial assets	**1,447**	**63,307**	**116,499**	**47**	**(1,728)**	**179,572**	
Loans and receivables	146	10,972	128	-	-	11,246	*6,263*
Held-to-maturity financial assets	-	12,471	-	-	-	12,471	-
Available-for-sale financial assets	577	38,737	92,775	-	-	132,089	*3,524*
Financial assets at fair value through profit or loss	-	-	23,421	-	-	23,421	*577*
Derivative financial instruments	-	201	144	-	-	345	-
Intersegment financial assets	724	926	31	47	(1,728)	-	-
Technical provisions attributable to reinsurers	**-**	**-**	**66**	**-**	**-**	**66**	**-**
Net financial assets/(liabilities)	**(841)**	**1,329**	**1,524**	**45**	**306**	**2,363**	
Cash and deposits attributable to BancoPosta	**-**	**2,918**	**-**	**-**	**-**	**2,918**	**-**
Cash and cash equivalents	**1,061**	**422**	**1,187**	**9**	**(306)**	**2,373**	***365***
Net funds/(debt)	**220**	**4,669**	**2,711**	**54**	**-**	**7,654**	

tab. 3.6.2 - Net funds/(debt)

(€m)

Balance at 31 December 2015	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Eliminations	Consolidated amount	*of which, related parties*
Financial liabilities	**(2,442)**	**(55,418)**	**(1,218)**	**(4)**	**1,604**	**(57,478)**	
Postal current accounts	-	(43,757)	-	-	289	(43,468)	*(1)*
Bonds	(811)	(479)	(758)	-	-	(2,048)	-
Borrowings from financial institutions	(917)	(6,101)	-	-	-	(7,018)	*(77)*
Other borrowings	(1)	-	-	-	-	(1)	*(1)*
Finance leases	(6)	-	-	(4)	-	(10)	-
Derivative financial instruments	(52)	(1,547)	-	-	-	(1,599)	-
Other financial liabilities	(14)	(3,314)	(6)	-	-	(3,334)	*(2)*
Intersegment financial liabilities	(641)	(220)	(454)	-	1,315		-
Technical provisions for insurance business	**-**	**-**	**(100,314)**	**-**	**-**	**(100,314)**	**-**
Financial assets	**1,396**	**57,574**	**102,409**	**26**	**(1,315)**	**160,090**	**-**
Loans and receivables	141	10,301	66	-	-	10,508	*8,724*
Held-to-maturity financial assets	-	12,886	-	-	-	12,886	-
Available-for-sale financial assets	581	33,360	83,928	-	-	117,869	*1,969*
Financial assets at fair value through profit or loss	-	-	18,132	-	-	18,132	*569*
Derivative financial instruments	-	450	245	-	-	695	-
Intersegment financial assets	674	577	38	26	(1,315)	-	-
Technical provisions attributable to reinsurers	**-**	**-**	**58**	**-**	**-**	**58**	**-**
Net financial assets/(liabilities)	**(1,046)**	**2,156**	**935**	**22**	**289**	**2,356**	**-**
Cash and deposits attributable to BancoPosta	**-**	**3,161**	**-**	**-**	**-**	**3,161**	**-**
Cash and cash equivalents	**1,315**	**485**	**1,615**	**16**	**(289)**	**3,142**	***391***
Net funds/(debt)	**269**	**5,802**	**2,550**	**38**	**-**	**8,659**	**-**

At 30 September 2016, the fair value reserves related to available-for-sale financial assets, not including tax effects, amount to €2,580 million (€3,775 million at 31 December 2015).

Industrial net (debt)/funds, in accordance with ESMA guidelines

An analysis of the industrial net funds/(debt) of the Postal and Business Services and Other Services segments at 30 September 2016, in accordance with ESMA guidelines, computed on the basis of paragraph 127 of the recommendations contained in ESMA document 319 of 2013, is provided below:

(€m)

	at 30 September 2016	at 31 December 2015
A. Cash	2	2
B. Other cash equivalents	1,068	1,329
C. Securities held for trading	-	-
D. Liquidity (A+B+C)	**1,070**	**1,331**
E. Current loans and receivables	**65**	**169**
F. Current bank borrowings	-	(515)
G. Current portion of non-current debt	(8)	(16)
H. Other current financial liabilities	(23)	(20)
I. Current financial debt (F+G+H)	**(31)**	**(551)**
J. Current net funds/(debt) (I+E+D)	**1,104**	**949**
K. Non-current bank borrowings	(400)	(400)
L. Bond issues	(798)	(797)
M. Other non-current liabilities	(56)	(57)
N. Non-current financial debt (K+L+M)	**(1,254)**	**(1,254)**
O. Industrial net funds/(debt) (ESMA guidelines) (J+N)	**(150)**	**(305)**
Non-current financial assets	658	553
Industrial net funds/(debt)	**508**	**248**
Intersegment loans and receivables	724	674
Intersegment financial liabilities	(958)	(615)
Industrial net funds/(debt) including intersegment transactions	**274**	**307**
of which:		
- Postal and Business Services	220	269
- Other	54	38

Determination of fair value

The fair value measurement techniques used by the Poste Italiane Group are described in note 2.5. This section provides additional information regarding determination of the value of the financial assets and liabilities recognised at their fair value. Additional information related to financial assets and liabilities recognised at their amortised cost is provided in the respective notes.

The table below breaks down the fair value of financial assets and liabilities by level in the fair value hierarchy:

Poste Italiane Group - Fair value hierarchy (€m)

Item	at 30 September 2016				at 31 December 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Available-for-sale financial assets	126,204	5,151	734	132,089	112,267	5,123	479	117,869
Equity instruments	17	72	32	121	8	70	117	195
Fixed-income instruments	126,181	3,713	-	129,894	112,253	3,799	-	116,052
Other investments	6	1,366	702	2,074	6	1,254	362	1,622
Financial assets at fair value through profit or loss	9,769	13,596	56	23,421	8,067	10,065	-	18,132
Fixed-income instruments	9,370	18	-	9,388	7,537	22	-	7,559
Structured bonds	-	1,335	-	1,335	-	1,346	-	1,346
Other investments	399	12,243	56	12,698	530	8,697	-	9,227
Derivative financial instruments	-	345	-	345	-	695	-	695
Total	**135,973**	**19,092**	**790**	**155,855**	**120,334**	**15,883**	**479**	**136,696**
Financial liabilities								
Financial liabilities at fair value	-	-	-	-	-	-	-	-
Derivative financial instruments	-	(3,608)	-	(3,608)	-	(1,599)	-	(1,599)
Total	-	**(3,608)**	-	**(3,608)**	-	**(1,599)**	-	**(1,599)**

Details of transfers of financial instruments measured at fair value between level 1 and level 2 of the hierarchy on a recurring basis are as follows.

Net transfers between Level 1 and 2 at 30 September 2016 (€m)

Item	from Level 1 to Level 2		from Level 2 to Level 1	
	Level 1	Level 2	Level 1	Level 2
Transfers of financial assets	**(165)**	**165**	**374**	**(374)**
Available-for-sale financial assets				
Equity instruments	-	-	-	-
Fixed-income instruments	(147)	147	354	(354)
Other investments	-	-	-	-
Financial assets at fair value through profit or loss				
Fixed-income instruments	(18)	18	20	(20)
Structured bonds	-	-	-	-
Other investments	-	-	-	-
Net transfers between Level 1 and 2	**(165)**	**165**	**374**	**(374)**

The reclassifications from level 1 to level 2 carried out at 30 September 2016 primarily refer to available-for-sale fixed-income instruments, whose fair value, at the end of the period, is not observable in a liquid and active market, as defined in the Group's Fair Value Policy.

The reclassifications from level 2 to level 1 primarily refer to fixed-income securities, the fair value of which is observable in a liquid and active market at 30 September 2016.

Reconciliation of the opening and closing balances of financial instruments measured at fair value, and classified in level 3, is shown below.

Poste Italiane Group - Movements in financial instruments at fair value (level 3) (€m)

Item	Financial assets			
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Derivative financial instruments	Total
Balance at 1 January 2015	**248**	**-**	**-**	**248**
Purchases/Issues	151	-	-	151
Sales/Extinguishment of initial accruals	(49)	-	-	(49)
Redemptions	-	-	-	-
Movements in fair value through profit or loss	-	-	-	-
Movements in fair value through equity	129	-	-	129
Transfers to profit or loss	-	-	-	-
Gains/Losses in profit or loss due to sales	-	-	-	-
Transfers to level 3	-	-	-	-
Transfers to other levels	-	-	-	-
Movements in amortised cost	-	-	-	-
Impairments	-	-	-	-
Other movements (including accruals at the end of the period)	-	-	-	-
Balance at 31 December 2015	**479**	**-**	**-**	**479**
Purchases/Issues	403	56	-	459
Sales/Extinguishment of initial accruals	(164)	-	-	(164)
Redemptions	-	-	-	-
Movements in fair value through profit or loss	-	-	-	-
Movements in fair value through equity	16	-	-	16
Transfers to profit or loss	-	-	-	-
Gains/Losses in profit or loss due to sales	-	-	-	-
Transfers to level 3	-	-	-	-
Transfers to other levels	-	-	-	-
Movements in amortised cost	-	-	-	-
Impairments	-	-	-	-
Other movements (including accruals at the end of the period)	-	-	-	-
Balance at 30 September 2016	**734**	**56**	**-**	**790**

Movements in level 3 of the hierarchy refer to purchases and redemptions of unlisted closed-end funds (a movement of approximately €396 million) by Poste Vita SpA. This category includes funds that invest primarily in unlisted instruments, whose fair value measurement is based on the latest available NAV (Net Asset Value) as announced by the fund manager. This NAV is adjusted according to the capital calls and reimbursements announced by the managers which occurred between the latest NAV date and the measurement date. These financial instruments primarily consist of investments in private equity funds and, to a lesser extent, real estate funds associated entirely with Class I products related to separately managed accounts.

Movements during the period in question include the sale of the Parent Company's investment in Visa Europe Ltd. (at 31 December 2015, accounted for at a fair value of €111 million), as described in note A5.2, and the recognition of the Series C Visa Inc. convertible preferred stock received as partial payment. The fair value of the Series C Visa Inc. convertible preferred stock (at 30 September 2016, equal to €27 million) is subject to change following alterations that may occur in the discount factor applied in determining fair value, in order to take into account the illiquid nature of the shares. This discount factor, estimated using an internal valuation technique, is above all influenced by the annual volatility of the underlying shares. Applying the maximum volatility according to the model used, the potential reduction in fair value could reach approximately 38%.

3.7 OTHER INFORMATION

Postal savings deposits

The following table provides a breakdown of postal savings deposits collected by the Parent Company in the name of and on behalf of Cassa Depositi e Prestiti, by category. The amounts are inclusive of accrued, unpaid interest.

tab. 3.7.1 - Postal savings deposits (€m)

Item	Balance at 30 September 2016	Balance at 31 December 2015
Post office savings books	118,795	118,721
Interest-bearing Postal Certificates	204,620	206,114
Cassa Depositi e Prestiti	133,596	135,497
MEF	71,024	70,617
Total	323,415	324,835

Assets under management

Assets under management by BancoPosta Fondi SpA SGR, measured at fair value using information available on the last working day of the period under review, break down as follows:

tab. 3.7.2 - Assets under management (€m)

Item	Balance at 30 September 2016	Balance at 31 December 2015
Collective investment funds		
Funds managed by the Group	6,993	5,625
Funds managed by third parties	30	109
Total	**7,023**	**5,734**

Average assets under management by the Group, invested in mutual funds, amount to €6,272 million in the first nine months of 2016. BancoPosta Fondi SpA SGR also manages the individual investment portfolios of Poste Vita SpA and Poste Assicura SpA.

Commitments

Purchase commitments relating primarily to the Parent Company break down as follows.

tab. 3.7.3 - Commitments (€m)

Item	Balance at 30 September 2016	Balance at 31 December 2015
Purchase commitments		
Property leases	504	521
Purchases of property, plant and equipment	63	52
Purchases of intangible assets	54	32
Investment property	-	-
Vehicle leases	265	61
Other leases	43	33
Committed lines of credit		
Loans agreed to be disbursed	42	58
Total	**971**	**757**

The increase in purchase commitments relating to the lease of the Group's fleet vehicles is due to the Parent Company's renewal of the related contract in the period.

EGI SpA has given commitments to purchase electricity, with a total value of €14.6 million, on regulated forward markets in the last quarter of 2016 and in 2017. At 30 September 2016, the corresponding market value is €15.2 million.

Guarantees

Guarantees issued by the Group are as follows:

tab. 3.7.4 - Guarantees (€m)

Item	Balance at 30 September 2016	Balance at 31 December 2015
Sureties and other guarantees issued:		
by banks/insurance companies in the interests of Group companies in favour of third parties	322	281
by the Group in its own interests in favour of third parties	-	-
Total	**322**	**281**

Third-party assets

tab. 3.7.5 - Third-party assets (€m)

Item	Balance at 30 September 2016	Balance at 31 December 2015
Bonds subscribed by customers held at third-party banks	5,484	5,592
Other assets	-	3
Total	**5,484**	**5,595**

Assets in the process of allocation

At 30 September 2016, the Parent Company had paid a total of €126 million in claims on behalf of the Ministry of Justice, for which, under the agreement between Poste Italiane SpA and the MEF, it has already been reimbursed by the Treasury, whilst awaiting acknowledgement of the relevant account receivable from the Ministry of Justice.

Unconsolidated structured entities

In order to make investments as consistent as possible with the risk-return profiles of the policies issued, ensuring management flexibility and efficiency, Poste Vita SpA has purchased over 50% of the assets managed by certain investment funds. In these cases, tests have been performed in keeping with IFRS to determine the existence of control. The results of the tests on such funds suggest that the company does not exercise any control within the meaning of IFRS 10 – *Consolidated Financial Statements*. However, these funds qualify as unconsolidated structured entities. A structured entity is an entity designed in such a way as not to make voting rights the key factor in determining control over it, as in the case where voting rights refer solely to administrative activities and the relevant operations are managed on the basis of contractual arrangements.

Nature of the involvement in the unconsolidated structured entity

The purpose of Poste Vita's investment in the funds is to diversify its portfolio of financial instruments intended to cover Class I products (Separately Managed Accounts), with the objective of mitigating the concentration of investments in Italian government bonds and euro-denominated corporate bonds. A list of the funds and certain details are provided below.

(€m)

ISIN	Name	Nature of entity	Activity of the Fund	% investment	NAV At	NAV Amount
IE00BP9DPZ45	BLACKROCK DIVERSIFIED DISTRIBUTION FUND	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100%	30 September 2016	5,871
LU1193254122	MFX - GLOBAL FUND - ASSET GLOBAL FUND (PIMCO MULTI ASSET)	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100%	30 September 2016	4,199
LU1407712014	MULTIFLEX - Global Optimal Multi Asset Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100%	30 September 2016	599
LU1407711800	MULTIFLEX - Dynamic Multi Asset Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100%	30 September 2016	599
LU1407712287	MULTIFLEX - Strategic Insurance Distribution	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100%	30 September 2016	598
IE00B1VWGP80	PIANO 400 FUND DEUTSCHE BANK	Open-end harmonised	Investment in a mix of asset classes, especially debt instruments of various sectors and countries	100%	22 September 2016	500
IT0004801996	TAGES CAPITAL PLATINUM	Non-harmonised fund of hedge funds	Pursuit of absolute returns, with low long-term volatility and correlation with the main financial markets	100%	31 August 2016	252
IT0004937691	TAGES PLATINUM GROWTH	Non-harmonised fund of hedge funds	Pursuit of absolute returns, with low long-term volatility and correlation with the main financial markets	100%	31 August 2016	193
LU1081427665	SHOPPING PROPERTY FUND 2	Closed-end harmonised fund	Master fund which invests primarily in commercial properties and, marginally, in office buildings and alternative sectors. It does not invest in property debt	63.80%	30 September 2016	86
IT0005174450	FONDO DIAMOND EUROZONE OFFICE UBS	Italian-registered, closed-end alternative real estate investment funds	Investment in "core" and "core plus" real estate assets for office use, located in the Eurozone and euro-denominated.	100%	30 September 2016	56
IT0004597396	ADVANCE CAPITAL ENERGY FUND	Closed-end non-harmonised fund of funds	Investments in energy companies to achieve capital appreciation and realise relevant gains, after exit	86.21%	30 September 2016	21
IT0005177263	FONDO CBRE DIAMOND	Italian-registered, closed-end alternative real estate investment funds	Investiment in real estate assets, real property rights, including those resulting from property lease arrangements, participating interests in property companies and in units of alternative real estate funds. The fund's investments will not be subject to particular restrictions on geographical location, but will in any event be located in Italy, and may be in properties with the following uses: logistics, care home, residential, hospitality, discretionary use and office or retail.	100%	30 September 2016	1
IT0005210387	DIAMOND EUROZONE RETAIL PROPERTY FUND	Italian-registered, closed-end alternative real estate investment funds	Investment in "core" and "core plus" real estate assets for retail use, located in the Eurozone and euro-denominated.	100%	30 September 2016	0

Nature of the risk

The company's investments in the funds in question are reported at fair value (mainly level 2 of the fair value hierarchy), on the basis of the NAV reported from time to time by the fund manager. These investments were made in connection with Class I policies (Separately Managed Accounts) and, as such, any changes in fair value are passed on to the policyholder under the shadow accounting mechanism.

Details at 30 September 2016 are provided below.

(€m)

ISIN	Name	Classification	Carrying amount	Maximum loss exposure*	Difference between carrying amount and maximum loss exposure	Method to determine maximum loss exposure
IE00BP9DPZ45	BLACKROCK DIVERSIFIED DISTRIBUTION FUND	Financial assets FVPL	5,871	602	5,269	Analytical VaR 99.5% annualised
LU1193254122	MFX - GLOBAL FUND - ASSET GLOBAL FUND (PIMCO MULTI ASSET)	Financial assets FVPL	4,199	534	3,665	Analytical VaR 99.5% over 1-year
LU1407712014	MULTIFLEX - Global Optimal Multi Asset Fund	Financial assets FVPL	599	45	554	Analytical VaR 99.5% over 1-year
LU1407711800	MULTIFLEX - Dynamic Multi Asset Fund	Financial assets FVPL	599	49	550	Analytical VaR 99.5% over 1-year
LU1407712287	MULTIFLEX - Strategic Insurance Distribution	Financial assets FVPL	598	65	533	Historical VaR 99.5% over a 1-year
IE00B1VWGP80	PIANO 400 FUND DEUTSCHE BANK	Available-for-sale financial assets	500	43	457	Change between market price as of reporting date and guaranteed performance
IT0004801996	TAGES CAPITAL PLATINUM	Available-for-sale financial assets	252	71	181	VaR 99.5% over a 1-year time horizon
IT0004937691	TAGES PLATINUM GROWTH	Available-for-sale financial assets	193	37	156	VaR 99.5% over a 1-year time horizon
LU1081427665	SHOPPING PROPERTY FUND 2	Available-for-sale financial assets	55	21	34	Analytical VaR 99.5% annualised
IT0005174450	FONDO DIAMOND EUROZONE OFFICE UBS	Financial assets FVPL	56	18	38	Analytical VaR 99.5% annualised
IT0004597396	ADVANCE CAPITAL ENERGY FUND	Available-for-sale financial assets	18	8	10	VaR 99.5% over a 1-year time horizon
IT0005177263	FONDO CBRE DIAMOND	Financial assets FVPL	1	0	1	Analytical VaR 99.5% annualised
IT0005210387	DIAMOND EUROZONE RETAIL PROPERTY FUND	Financial assets FVPL	0	0	0	Analytical VaR 99.5% annualised

** Maximum loss is estimated without considering the ability of liabilities to offset losses, thus representing a more prudential estimate*

Phantom Stock Plan

The Annual General Meeting of Poste Italiane SpA's shareholders held on 24 May 2016 approved the information circular for the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan", prepared in accordance with art 84-bis of the Regulations for Issuers. The LTIP, set up in line with market practices, aims to link a portion of the variable component of remuneration to the achievement of earnings targets and the creation of sustainable shareholder value.

Description of the Plan

As described in the above information circular for the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan", prepared in accordance with art 84-bis of the Regulations for Issuers, the Phantom Stock Plan for the period 2016-2018 entails the award to Beneficiaries of phantom stocks granting them the right to receive stock representing the value of Poste Italiane's shares and the related cash bonus at the end of a vesting period. The number of phantom stocks awarded to each Beneficiary is linked to the achievement of Performance Targets over a three-year period. The Plan covers a medium- to long-term period. In particular, the plan includes three award cycles, corresponding to the financial years 2016, 2017 and 2018, each with a duration of three years.

The phantom stocks are awarded if the performance targets are achieved, and converted at the same time into a cash bonus based on the market value of the shares in the thirty stock exchange trading days prior to the grant date for the phantom stocks or at the end of a retention period (as specified below). The key characteristics of the Plan are described below.

Beneficiaries

The beneficiaries of the Plan are: Poste Italiane's Chief Executive Officer, in his role as General Manager, certain managers within the Poste Italiane Group, including key management personnel, Risk Takers who work for BancoPosta RFC and personnel belonging to the Poste Vita insurance group.

Plan terms and conditions

The Performance Targets, to which receipt of the cash bonus is subject, are as follows:

- for the General Manager and other beneficiaries of the Plan employed by Poste Italiane, other than Bancoposta personnel, an indicator of earnings based on the Group's cumulative EBIT over a three-year period, used to account for the continuity and sustainability of earnings over the long term;
- for Beneficiaries included among BancoPostaRFC's Risk Takers, the three-year RORAC (Return On Risk Adjusted Capital), used for the LTIP with the aim of taking into account the continuity and sustainability of the long-term performance after appropriately adjusting for risk;
- for Beneficiaries included among personnel belonging to the Poste Vita insurance group, the RORAC registered by the Poste Vita insurance group over a three-year period, used for the LTIP with the aim of taking into account the continuity and sustainability of the long-term performance after appropriately adjusting for risk.

All Beneficiaries must be measured against an indicator of shareholder value creation, based on the Total Shareholder Return, used to measure performance based on the value created for Poste Italiane's shareholders compared with other FTSE MIB-listed companies.

Vesting of the Phantom Stocks is subject to achievement of the Performance Hurdle, designed to ensure sustainability of the Plan at Group level. The Performance Hurdle corresponds with achievement of a certain target for the Group's cumulative EBIT over a three-year period at the end of each Performance Period. In addition, in the case of the General Manager (and Chief Executive Officer) and BancoPostaRFC's Risk Takers, vesting of the Phantom Stocks is also subject to achievement of Qualifying Conditions, designed to ensure the stability of BancoPosta RFC's capital and liquidity position, as follows:

- Indicator of capital adequacy, based on CET 1 at the end of the period;
- Indicator of short-term liquidity, based on LCR at the end of the period.

For personnel belonging to the Poste Vita insurance group, vesting of the Phantom Stocks, in addition to achievement of the Performance Hurdle (Group's cumulative EBIT over a three-year period), is subject to achievement of specific Qualifying Conditions, namely the Solvency II ratio at the end of the period.

The Phantom Stocks will be awarded by the end of the year following the end of the Performance Period, and immediately converted into cash. In the case of the General Manager, BancoPostaRFC's Risk Takers and the Poste Vita group's personnel, they are subject to a one-year retention period, before they can be converted into cash.

Determination of fair value and effects on profit or loss

The total number of Phantom stocks awarded to the 55 Beneficiaries of the First Cycle of the Plan amounted to 706,643. The fair value of each stock at 30 September 2016 was estimated to be €6.1876. An independent expert, external to the Group, was appointed to measure the value of the stocks and this was based on best market practices. The cost recognised for the first nine months of 2016 is approximately €1.1 million, equivalent to the liability recognised in personnel expenses.

3.8 INFORMATION ON INVESTMENTS

tab. 3.8.1 - List of investments consolidated on a line-by-line basis (€000)

Name (Registered office)	% interest	Share capital	Profit / (loss) for the period	Equity
BancoPosta Fondi SpA SGR (Rome)	100.00%	12,000	15,766	72,323
Banca del Mezzogiorno - MedioCredito Centrale SpA (Rome)	100.00%	364,509	22,329	419,543
Consorzio Logistica Pacchi ScpA (Rome)	100.00%	516	-	516
Consorzio per i Servizi di Telefonia Mobile ScpA (Rome) (*)	100.00%	120	-	120
Consorzio PosteMotori (Rome)	80.75%	120	-	120
Europa Gestioni Immobiliari SpA (Rome)	100.00%	103,200	1,020	234,833
Mistral Air Srl (Rome) (**)	100.00%	1,000	(2,296)	2,158
PatentiViaPoste ScpA (Rome) (*)	86.86%	120	67	187
Postecom SpA (Rome)	100.00%	6,450	1,103	21,908
PosteMobile SpA (Rome)	100.00%	32,561	12,608	68,549
Poste Tributi ScpA (Rome) (*)	90.00%	2,583	-	2,488
PosteTutela SpA (Rome)	100.00%	153	436	13,056
Poste Vita SpA (Rome) (*)	100.00%	1,216,608	265,665	3,580,542
Poste Assicura SpA (Rome) (*)	100.00%	25,000	8,088	74,604
Postel SpA (Rome)	100.00%	20,400	(6,421)	96,298
SDA Express Courier SpA (Rome) (**)	100.00%	10,000	(20,735)	(21,316)
Poste Welfare Servizi Srl (Rome) (*)	100.00%	16	1,789	4,488

(*) The figures shown for these companies were prepared in accordance with IFRS and, as such, may vary from those available in the respective financial reports, which were prepared in accordance with the Italian Civil Code and Italian GAAP.

(**) Poste Italiane SpA is committed to providing financial support to the subsidiaries, SDA Express Courier SpA and Mistral Air Srl at least until 31 December 2016.

PosteShop SpA has been merged with and into Postel SpA, with effect for legal, tax and accounting purposes from 1 May 2016. The company reports a loss of €0.8 million for the first 4 months of 2016.

Conio Srl, which is wholly owned by Conio Inc., has been an associate since 16 February 2016, following the signature of a Shareholder Agreement between Postecom SpA, Conio Inc., Conio Holding LLS (and its founding shareholders).

SDS Nuova Sanità Srl has been merged with and into SDS System Data Software Srl (at the same time, the merged entity changed its name to Poste Welfare Servizi Srl), with effect for legal, tax and accounting purposes from 1 January 2016.

tab. 3.8.2 - List of investments accounted for using the equity method (€000)

Name (Registered office)	Carrying amount	% interest	Assets	Liabilities	Equity	Revenue and income	Profit / (loss) for the period
Address Software Srl (Rome)	178	51.00%	802	455	347	740	(43)
Anima Holding SpA (Milan) (a)	213,698	10.32%	1,178,373	411,884	766,489	380,552 (*)	38,716
Conio Inc. (San Francisco) (b)	47	20.00%	216	127	89	-	110
ItaliaCamp Srl (Rome) (c)	21	20.00%	640	536	104	613	83
Kipoint SpA (Rome)	569	100.00%	2,130	1,561	569	3,134	74
Programma Dinamico SpA (Rome) (d)	-	0.00%	136	166	(30)	-	(149)
Uptime SpA - in liquidation (Rome) (e)	-	28.57%	4,302	4,125	177	5,817	(6)
Other SDA Express Courier associates (f)	9						

(a) Data derived from the consolidated accounts for the period ended 30 June 2016, the latest available.
(b) Data for Conio Inc. and its subsidiary, Conio Srl.
(c) Data derived from the accounts for the period ended 31 December 2015, the latest approved by the company.
(d) Data derived from the accounts for the period ended 31 December 2014, the latest approved by the company; Group companies do not hold any equity interests in Programma Dinamico SpA.
(e) Data derived from the accounts for the period ended 31 December 2014, the latest approved by the company. On 16 March 2016, the company was placed in liquidation.
(f) The other associates of the SDA Express Courier Group are: Epiemme srl (dormant), International Speedy Srl (in liquidation), MDG Express Srl, Speedy Express Courier Srl and T.W.S. Express Courier Srl.
(*) The amount includes commissions, interest income and other similar income.

3.9 EVENTS AFTER 30 SEPTEMBER 2016

Events after the end of the reporting period are described in the above notes and there are no other significant events that have occurred after 30 September 2016.

4. RISK MANAGEMENT

Financial risks

This section provides a brief review of items in the financial statements subject to financial risk (prepared in accordance with IFRS 7 – *Financial Instruments: Disclosures*), provided in summary form as permitted by IAS 34 – *Interim Financial Reporting* (see section 2 "Basis of preparation" in these condensed consolidated interim financial statements).

Management of the Group's financial transactions and of the associated risks relates mainly to the operations of Poste Italiane SpA and Poste Vita SpA.

- The operations of **Poste Italiane SpA**'s BancoPosta RFC division consist of the management of liquidity generated by postal current account deposits, carried out in the name of BancoPosta but subject to statutory restrictions, and collections and payments on behalf of third parties. The funds deposited by private account holders in postal current accounts are invested in Eurozone government securities[40], whilst deposits by Public Administration entities are deposited with the MEF. The investment profile is based on the constant monitoring of habits of current account holders and the use of a leading market operator's statistical/econometric model that forecasts the interest rates and maturities typical of postal current accounts. Accordingly, the portfolio composition aims to replicate the financial structure of current accounts by private customers. The Company has also an asset-liability model in place to match the maturities of deposits and loans.

  During the first nine months of 2016, BancoPosta RFC's leverage ratio (the ratio of its core capital and total assets) declined as a result of the significant increase in activity, linked to the positive performance of deposits and the related investments. At 30 September 2016, the ratio is just below the limit of 3%, fixed by Poste Italiane SpA's Board of Directors. Informed, in May 2016, of the ratio's decline in the first quarter of the year, the Board of Directors decided to continue to keep a close eye on movements in the ratio, and acknowledged the potential need to strengthen BancoPosta RFC's capital position, at the end of the year, in order to restore the ratio to the target level set out in the Risk Appetite Framework.

- Financial instruments held by the insurance company, **Poste Vita SpA**, primarily relate to investments designed to cover its contractual obligations to policyholders on traditional life policies and index-linked and unit-linked policies.

  With regard to traditional life policies, classified under Class I and V, the gains and losses resulting from measurement of the investments designed to cover the related obligations are attributed in full to policyholders and accounted for in specific technical provisions under the shadow accounting method. The calculation technique used by the company in applying this method is based on the prospective yield on each separately managed account, considering a hypothetical realisation of unrealised gains and losses over a period of time that matches the assets and liabilities held in the portfolio. The impact of financial risk on investment performance can be absorbed in full or in part by the insurance provisions, based on the level and structure of the guaranteed minimum returns and the profit-sharing mechanisms of the "separate portfolio" for the policyholder. The company determines the sustainability of minimum returns through periodic analyses using an internal financial-actuarial (Asset-Liability Management)

[40] Following the amendment of art. 1, paragraph 1097 of Law 296 of 27 December 2006, introduced by art. 1, paragraph 285 of the 2015 Stability Law (Law 190 of 23 December 2014), it became possible for BancoPosta RFC to invest up to 50% of its deposits in securities guaranteed by the Italian government.

model which simulates, for each separate portfolio, the change in value of the financial assets and the expected returns under a "central scenario" (based on current financial and commercial assumptions) and under stress and other scenarios based on different sets of assumptions. This model makes it possible to manage the risks assumed by Poste Vita SpA on a quantitative basis, thereby fostering reduced earnings volatility and optimal allocation of financial resources.

Price risk

Price risk relates to financial assets that the Group has classified as "Available-for-sale" (AFS) or "Held for trading" and certain derivative financial instruments where changes in value are recognised in profit or loss.

Available-for-sale financial assets exposed to this risk mainly refer to Poste Vita SpA's position in "Other investments", represented by units of mutual investment funds, totalling €1,152 million, primarily to cover to meet obligations to policyholders under the separately managed portfolios, and the shares in Mastercard Incorporated and Visa Incorporated held by the Parent Company's BancoPosta RFC division, totalling €69 million and €30 million, respectively (tab. A5.2).

In relation to **financial assets recognised at fair value through profit or loss**, price risk concerns investments held by Poste Vita SpA, totalling €13,458 million, of which €1,535 million used to cover Class III policies, €11,922 million used to cover Class I policies and €1 million is invested in mutual fund units held in the Company's free capital.

Lastly, in relation to **derivative financial instruments,** the price risk relates to warrants with a value of €144 million, held by Poste Vita SpA to cover the benefits associated with the Class III policies.

Foreign exchange risk

Exposure to this risk primarily regards trade receivables and trade payables deriving from the Parent Company's relations with overseas counterparties, and the Parent Company's above investment in Mastercard and Visa shares (110 million US dollars at 30 September 2016).

Fair value interest rate risk

This refers to the effects of changes in interest rates on the price of fixed rate financial instruments or variable rate financial instruments converted to fixed rate via cash flow hedges and, to a lesser degree, the effects of change in interest rates on the spread of floating rate financial instruments or fixed rate financial instruments converted to variable rate via fair value hedges. The impact of these effects is directly related to the financial instrument's duration.

Available-for-sale financial assets exposed to the risk in question regard primarily fixed rate instruments held almost exclusively by the Parent Company and by Poste Vita SpA.
They include:

- fixed-income government bonds (inclusive of the CDP bonds) held by Poste Vita SpA, totalling €76,323 million (of which €7,943 million in inflation-indexed bonds); of this amount, €72,757 million is used to cover Class I and V policies linked to separately managed funds, €3,566 million relates to the Company's free capital;

- €36,364 million in fixed-income government bonds held by BancoPosta RFC, consisting of: fixed rate bonds amounting to €11,231 million; variable rate bonds converted into fixed rate bonds via cash flow asset swaps amounting to €1,773 million; variable rate bonds amounting to €2,853 million (including €2,681 million in inflation-indexed bonds and €172 million in CCTeus), fixed or variable rate bonds converted to variable rate positions via fair value hedges, amounting to €20,507 million (including €17,660 million in forward starts);
- €14,137 million in other, non-government bonds held by Poste Vita SpA, used mainly to meet obligations towards policyholders in relation to separately managed Class I and V policies;
- €1,521 million in fixed rate bonds issued by CDP, and guaranteed by the Italian government, held by BancoPosta RFC.

Within the context of **financial assets at fair value through profit or loss**, fair value interest rate risk concerns a portion of the fixed-income investments of Poste Vita SpA, totalling €9,388 million. These consist of investments with a fair value of €5,482 million, relating to coupon stripped[41] BTPs covering obligations associated with Class III insurance products, investments with a fair value of €3,906 million, relating to corporate bonds covering Class I and V contractual obligations, and investments with a fair value of €575 million, relating to bonds issued by CDP SpA to cover Class I policies.

Within the context of **derivative financial instruments**, the risk in question concerns the decrease in fair value, in the amount of €9 million, of a derivative contract entered into by the Parent Company in 2013 to hedge the cash flows of the bond with a nominal value of €50 million issued on 25 October 2013 (tab. A5.10). The cash flow hedge of the derivative in question kicked in on 25 October 2015, when the bond began paying variable interest rates. Before this date, the derivative was recognised at fair value through profit or loss.

At 30 September 2016, with reference to the interest rate risk exposure determined by the average duration[42] of the portfolios, the duration of BancoPosta's overall investments is 5.68. On the other hand, with respect to Poste Vita SpA's separately managed accounts, the duration of the matching assets is 6.22, while the duration of the liabilities is 7.54. The financial instruments intended to cover the technical provisions for Class III have maturities that match those of the liabilities.

Spread risk

The value of the portfolio of Italian government bonds is much more sensitive to the credit risk associated with the Italian Republic than to changes in so-called risk-free interest rates. This is due to the fact that changes in credit spreads are not hedged and regard to entire securities portfolio, meaning both the fixed and variable rate components. In this latter case, in fact, fair value derivatives, used to convert variable rate instruments, hedge only the risk-free interest rate risk and not credit risk. This means that a change in the credit spread has an equal impact on both fixed and variable instruments, whilst a change in the interest rate alone is reflected solely in the fixed rate portfolio, which is not covered by fair value hedges.
The first nine months of 2016 witnessed a fall in risk-free interest rates, partly in response to the current round of monetary stimulus measures implemented by central banks, accompanied by a slight increase in the spreads (with respect to German bunds) applicable to the government bonds issued by many other European

[41] Coupon stripping consists in detaching the interest payment coupons from a note or bond. Coupon stripping transforms each government security into a series of zero-coupon bonds. Each component may be traded separately.
[42] Duration is the indicator used to estimate the percentage change in price of in response to a shift in market returns.

countries, including Italy. In the case of Italian bonds with 10-year terms, this has resulted in a spread of 131 bps at 30 September 2016, higher than the 97 bps of 31 December 2015.

The period under review saw a general reduction in yields, reflecting the fact that the decrease in risk-free interest rates was greater than the increase in the credit spread, having the following impact on the Group's portfolio:

(i) BancoPosta RFC's available-for-sale portfolio (a nominal value of approximately €31 billion) benefitted, over the period, from a net increase in fair value of over €1.6 billion: the increase in the fair value of instruments hedged against interest rate risk, amounting to approximately €2.3 billion, was offset by a reduction in the fair value of the related derivatives, whilst the reduction in the fair value of unhedged instruments and of the component subject to spread risk (unhedged) was reflected in consolidated equity (approximately €0.7 billion);

(ii) Poste Vita insurance group's available-for-sale portfolio (fixed rate instruments with a nominal value of approximately €80 billion) registered an increase in fair value of approximately €2.4 billion, almost entirely passed on to policyholders and recognised in specific technical provisions under the shadow accounting mechanism (the impact on the specific fair value reserve amounts to approximately €52 million).

Credit risk

Credit risk refers to all assets, except shares and units of mutual funds.

This risk is managed as follows:

- minimum rating requirements for issuers/counterparties, based on the type of instrument;
- the monitoring of concentrations per issuer/counterparty;
- monitoring of changes in the ratings of counterparties.

During the first nine months of 2016, the ratings revised by the main agencies did not result in changes in the weighted average rating of the Group's exposures, which, for investments other than Italian government bonds, was A3 at 30 September 2016, unchanged from 31 December 2015.

Credit risk arising from derivative transactions is mitigated through rating limits and by monitoring group/counterparty concentrations. In relation to BancoPosta RFC and BdM-MCC SpA, interest rate and asset swap contracts are collateralised by deposits or the physical delivery of financial instruments (in accordance with Credit Support Annexes). Exposure is quantified and monitored using the "market value" method provided for by Regulation (EU) 575/2013 (Basel 3).

In relation to "Revenue and receivables due from the state", the nature of the Group's customers, the structure of revenue and the method of collection limit the risk of default on trade receivables. However, as explained in note 2.3, in the case of certain of the Parent Company's activities, regulated by statute and specific agreements or contracts involving particularly complex renewal processes, prompt and full payment of the amounts due is dependent on availability of the necessary funds in the state budget or in the budgets of the related public sector entities.

All receivables are subject to specific monitoring and reporting procedures to support credit collection activities.

Lastly, with regard to financial assets, as required by Communication DEM/11070007 of 28 July 2011, implementing Document 2011/266 published by the European Securities and Markets Authority (ESMA) and later amendments, Poste Italiane SpA's exposure to sovereign debt[43] at 30 September 2016 is shown in the table below, which provides details of the nominal value, carrying amount and fair value of each type of portfolio.

Poste Italiane Group - Exposure to sovereign debt (€m)

Item	at 30 September 2016			at 31 December 2015		
	Nominal value	Carrying amount	Fair Value	Nominal value	Carrying amount	Fair Value
Italy	**111,464**	**127,521**	**129,717**	**104,304**	**117,688**	**119,859**
Held-to-maturity financial assets	12,266	12,471	14,667	12,612	12,886	15,057
Available-for-sale financial assets	93,721	109,568	109,568	86,014	99,137	99,137
Financial assets at FV through profit or loss	5,477	5,482	5,482	5,678	5,665	5,665
Austria	**45**	**48**	**48**	**10**	**11**	**11**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	45	48	48	10	11	11
Financial assets at FV through profit or loss	-	-	-	-	-	-
Belgium	**95**	**113**	**113**	**95**	**93**	**93**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	95	113	113	95	93	93
Financial assets at FV through profit or loss	-	-	-	-	-	-
Finland	**35**	**36**	**36**	**-**	**-**	**-**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	35	36	36	-	-	-
Financial assets at FV through profit or loss	-	-	-	-	-	-
France	**206**	**257**	**257**	**208**	**217**	**217**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	206	257	257	208	217	217
Financial assets at FV through profit or loss	-	-	-	-	-	-
Germany	**13**	**23**	**23**	**25**	**32**	**32**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	13	23	23	25	32	32
Financial assets at FV through profit or loss	-	-	-	-	-	-
Ireland	**-**	**-**	**-**	**355**	**365**	**365**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	355	365	365
Financial assets at FV through profit or loss	-	-	-	-	-	-
Netherlands	**-**	**-**	**-**	**10**	**10**	**10**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	10	10	10
Financial assets at FV through profit or loss	-	-	-	-	-	-
Portugal	**-**	**-**	**-**	**28**	**29**	**29**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	28	29	29
Financial assets at FV through profit or loss	-	-	-	-	-	-
Spain	**2,093**	**2,616**	**2,616**	**1,359**	**1,487**	**1,487**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	2,093	2,616	2,616	1,359	1,487	1,487
Financial assets at FV through profit or loss	-	-	-	-	-	-
Slovenia	**93**	**106**	**106**	**40**	**43**	**43**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	93	106	106	40	43	43
Financial assets at FV through profit or loss	-	-	-	-	-	-
Other Countries	**43**	**59**	**59**	**-**	**-**	**-**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	43	59	59	-	-	-
Financial assets at FV through profit or loss	-	-	-	-	-	-
Total	**114,087**	**130,779**	**132,975**	**106,435**	**119,974**	**122,145**

[43] "Sovereign debt" includes bonds issued by, and loans provided to, central and local governments and government bodies.

Liquidity risk

In order to minimise the risk of experiencing difficulties in raising sufficient funds, at market conditions, to meet its obligations, Poste Italiane Group applies a financial policy based on:

- diversification of the various forms of short-term and long-term borrowings and counterparties;
- availability of relevant lines of credit in terms of amounts and the number of banks;
- gradual and consistent distribution of the maturities of medium/long-term borrowings;
- use of dedicated analytical models to monitor the maturities of assets and liabilities.

In terms of BancoPosta RFC's specific operations, the liquidity risk regards current account deposits, the related investment of the deposits in Eurozone government securities and the margins on derivative transactions. As to the policies sold by Poste Vita SpA, in order to analyse its liquidity risk profile, the company performs Asset/liability management (ALM) analysis to manage assets effectively in relation to its obligations to policyholders, and also develops projections of the effects deriving from financial market shocks (asset dynamics) and of the behaviour of policyholders (liability dynamics).

Lastly, for the proper evaluation of the liquidity risk attributable to BancoPosta RFC, it should be borne in mind that, unless they are restricted, investments in Eurozone government securities are highly liquid assets and can be used as collateral in interbank repurchase agreements to obtain short-term financing. This practice is normally adopted by BancoPosta.

Cash flow interest rate risk

Cash flow interest rate risk refers to the uncertainty over future cash flows generated by variable rate instruments and variable rate instruments created through fair value hedges following fluctuations in market interest rates.

Specifically, with respect to **financial assets**, the cash flow interest rate risk primarily relates to:

- a portion of the securities portfolio held by the Poste Vita group, with a nominal value of €12,460 million;
- investment by the Parent Company of the funds deriving from the current account deposits of Public Administration entities in deposits with the MEF, with a value of €4,632 million;
- fixed and variable rate government bonds with a total nominal value of €170 million, as well as fixed rate bonds swapped into variable rate through fair value hedges, with a total nominal amount of €2,340 million; and an inflation-linked bond issued by the Italian Republic, with a nominal value of €100 million, which has been hedged against changes in its fair value;
- collateral posted to secure liabilities arising in relation to derivative financial instruments, primarily held by BancoPosta RFC and amounting to €2,859 million.

In relation to **cash and cash equivalents**, cash flow interest rate risk primarily regards amounts deposited by the Parent Company with the MEF and held in the so-called buffer account, and bank and post office deposits attributable to Poste Italiane SpA and Poste Vita SpA.

Cash flow inflation risk

At 30 September 2016, cash flow inflation rate risk regards inflation-linked government securities not subject to cash flow hedges or fair value hedges. These securities are primarily held by Poste Vita SpA (a nominal value of €6,849 million) and BancoPosta RFC (a nominal value of €2,120 million).

Other risks

Operational risk

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. This category of risk includes losses resulting from fraud, human error, business disruption, systems failures, breach of contracts and natural disasters.

Certain contracts for the supply of IT services to BancoPosta RFC, relating to the management of investment products, expired in the latter part of 2015 and have been partially renewed in 2016. The operational implications are being carefully monitored, partly within the scope of the process of preparing for the introduction of the new “guided consultancy" service provided for in the Plan submitted to CONSOB, following the inspection completed in 2014. Rollout of the new platform began on 17 October 2016, in accordance with the Plan.

Insurance risks

Insurance risks derive from the stipulation of insurance contracts and the terms and conditions contained therein (technical bases adopted, premium calculation, terms and conditions of cash surrender, etc.). A full description of these risks is provided in the Annual Report for 2015.

Reputational risk

The main element of exposure to this risk is the fact that the Group’s business is by its nature exposed to elements of reputational risk, linked to market performance and primarily associated with the placement of investment products issued by third-party entities (bonds, certificates and real estate funds) or by Group companies (insurance policies issued by the subsidiary, Poste Vita SpA, and mutual funds managed by BancoPosta Fondi SpA SGR).

In this regard, in order to optimise the risk-return profile of the products offered to its customers, Poste Italiane SpA has adopted competitive selection policies and procedures for third-party issuers, entailing the selection of domestic and foreign issuers consisting solely of banks and other financial companies with investment grade ratings. In addition, in order to protect and safeguard the Group’s excellent reputation and public confidence in its operations and to protect its commercial interests from potential dissatisfaction among savers, significant monitoring activity is carried out throughout the Group to keep track of the performance of individual products and of changes in the risks to which customers are exposed; this involves conducting careful assessments based on the contractual nature of the products in question in terms of how they meet the needs of the various customers. In particular, with regard to real estate funds sold in the period 2002-2005, which have given rise to a number of complaints and disputes, in addition to assessing the need for provisions in the financial statements, Poste Italiane is closely monitoring market trends in order to protect its customers’ interests.

A call for tenders was launched in 2015 to select a Customer Service provider for the Group. On completion of the tender process, the companies to which SDA Express Courier had outsourced the services until the end of 2015 – Uptime SpA, a jointly controlled entity, and Gepin Contact SpA (the other shareholder in Uptime SpA) – were not awarded the contract and, on 30 December 2015, SDA terminated its relationships

with these companies, as provided for in the relevant contracts with effect from 1 July 2016.
With the regard to the transaction's impact on jobs, on 16 March 2016, an Extraordinary General Meeting of Uptime SpA's shareholders determined, with the vote of the majority shareholder (Gepin) alone, to terminate operations and wind-up the company. The shareholder, SDA, abstained. Following the start of the process that will make all 93 employees redundant, on 31 May 2016, Poste Italiane and labour unions representing most of the workers involved reached agreement on the redeployment of the workers involved. This envisages, among other things, that Poste Italiane will hire all former Uptime employees who have failed to find alternative employment by 31 December 2016 on permanent part-time contracts. As regards Gepin, negotiations involving the companies awarded the new contract, Poste Italiane and the labour unions, with a view to resolving employment issues, are still in progress.
Strictly in terms of employment law, in recent months, a number of former employees of Uptime/Gepin have filed a claim for wrongful dismissal, despite the agreements reached and the negotiations in progress. From a civil law standpoint, Gepin, also acting on behalf of the subsidiary, Uptime SpA, has filed a number of claims for damages amounting to a total of around €60 million, for the most part linked to the allegedly unjustified nature of termination of the above contracts. All the claims have been opposed in court. Based on the advice of its legal counsel, SDA believes that the claims have no legal basis.
Moreover, during 2016, Gepin served notice of three claims, one relating to uncontracted services that were in any event not provided, totalling approximately €3.7 million and immediately challenged in court, and a further two, amounting to €0.6 million and €1.2 million, which were paid by SDA as the related services had been duly invoiced.

Without prejudice to the agreement regarding Uptime's employees, the liquidator's issue of the liquidation balance sheet is awaited. The document will enable the Group to assess the economic impact of potential liabilities connected, for the most part, to the costs to be incurred as a result of the above redundancies.

5. PROCEEDINGS PENDING

Litigation

There were no material changes, during the first nine months of 2016, with regard to the information provided in the Annual Report for the year ended 31 December 2015, to which reference should be made for details of the proceedings in question.

Tax disputes

Upon conclusion of a general tax audit relating to the 2008 tax year, on 22 December 2011 **BdM-MCC SpA** received an official tax audit report contesting the deductibility of €19.6 million in costs, relating to agreements effected in 2008 to settle disputes with the Parmalat Group. The report further claims that BdM-MCC underreported its taxable income by €16.2 million, relating to the sale of non-performing loans to a company in the Unicredit Group, to which BdM-MCC belonged at the time. The appeal against the notice of assessment against the second of the two alleged violations was upheld by the Provincial Tax Tribunal on 2 October 2014, with the ruling confirmed on appeal on 10 May 2016. The tax authorities have yet to contest this latter ruling. However, given that responsibility for these events and the related conduct rests with the previous owner of the bank, whose lawyers are defending the bank in this case, it is felt that any liabilities arising from such violations cannot, in any way, be attributed to BdM-MCC SpA.

In November 2011, the tax authorities notified **EGI SpA** of three notices of assessment for the years 2006, 2007 and 2008, resulting in the identification of the same irregularity in each of the three years. This concerned the application, for the purposes of IRES, of art. 11, paragraph 2 of Law 413/1991 to properties of historical and artistic interest owned by EGI and leased by it to third parties. Following the ruling in first instance of the Provincial Tax Tribunal of Rome, on 7 May 2014, the company proceeded to pay a total amount due of approximately €2.1 million. Furthermore, as a result of the ruling in second instance, handed down by the Regional Tax Tribunal of Rome in EGI SpA's favour, on 10 June 2015, the company obtained a refund of the amount paid. On 24 April 2015, the tax authorities notified EGI that they had filed an appeal with the Court of Cassation, requesting annulment of the judgement on appeal, and on 12 June 2015 EGI SpA presented a cross appeal. The litigation is currently pending before the Supreme Court of Cassation.

In 2009, the Regional Tax Office for Large Taxpayers (Agenzia delle Entrate - *Direzione Regionale del Lazio - Ufficio Grandi Contribuenti*) notified **Poste Vita SpA** of an alleged violation of the VAT regulations in the 2004 tax year, resulting in fines of approximately €2.3 million for the alleged failure to pay VAT on invoices for service commissions. Poste Vita SpA appealed the above findings before the Provincial Tax Tribunal of Rome. In December 2010 and September 2011, the tax authorities sent notices of two further small fines for the same violation in fiscal years 2005 and 2006. These fines have also been appealed. With regard to the dispute over VAT for 2004 and 2006, the Provincial Tax Tribunal of Rome has found in the company's favour, ruling that the tax authorities' allegations are without grounds. The tax authorities have challenged such rulings by filing an appeal. The Regional Tax Tribunal of Rome rejected both appeals and confirmed the lack of grounds of the claims against Poste Vita. On 23 October 2015, the State Attorney's Office challenged these decisions and summoned the company to appear before the Court of Cassation. The counterclaims filed by Poste Vita before the Court of Cassation were served to the tax authorities on 3 December 2015 and subsequently entered in the Cassation's registry on 17 December 2015. The litigation is currently pending before the Court of Cassation. Regarding, on the other hand, the disputes relating to 2005, with a ruling filed on 24 December 2015, the Provincial Tax Tribunal of Rome found in favour of the company. This ruling was then appealed by the tax authorities, as notified to the company on 26 June 2016. The company entered an appearance before the court on 27 July 2016 and the date of the hearing is awaited. The likely outcomes of the tax disputes continue to be taken into account in determining provisions for risks and charges.

On 22 July 2014, the *Nucleo Polizia Tributaria Roma* (Tax Police) commenced a tax audit relating to **Postel SpA** regarding direct taxes and VAT for the tax years from 2009 to 2012 included. This audit came to an end on 25 November 2014, with delivery of a tax audit report in which the right to deduct VAT from purchases, applied by the company in 2010 and 2011, is contested. On 21 December 2015, the tax authorities served a tax assessment notice to the Company, for fiscal year 2010, whereby the company was ordered to pay €5.6 million plus fines and interest. Considering that the tax assessment notice contains a number of key aspects warranting a radical review of the assessment, and considering the remarks made under article 12, paragraph 7, of Law 212 of 27 July 2000, Postel SpA filed a tax settlement proposal, which was rejected. On 18 May 2016, the company appealed the assessment notice, whilst at the same time making a provisional payment of approximately €2.35 million. The likely outcome of this dispute has been taken into account in determining provisions for risks and charges.

In addition, on 6 July 2015, the *Nucleo Polizia Tributaria Roma* (Tax Police) carried out an inspection at Postel SpA regarding income tax, IRAP and withholding tax, pursuant to and in accordance with articles 32 and 33 of Presidential Decree 600 of 29 September 1973, article 35 of Law 4 of 7 January 1929, and art. 2 of Legislative Decree 68 of 19 March 2001. In particular, the inspection regarded the company's alleged failure to pay social security contributions for employees and/or contractors used by a supplier in the years from 2010 to 2014. The inspection was concluded on 8 October 2015 with delivery of a tax audit report, contesting the right to deduct VAT and the deductibility of IRAP applied by the company in the tax years 2010 and 2014. On 4 December 2015, the company filed a brief pursuant to article 12, paragraph 7, of Law 212/2000. On 21 December 2015, the tax authorities served the company with a tax assessment notice for 2010 where, in taking the view that the service contracts with the supplier were instead employment contracts, it requested the company to pay VAT, IRES and IRAP totalling €0.2 million, plus fines and interest. Considering that the tax assessment notice contains a number of key aspects warranting a radical review of the assessment, and considering the remarks made under article 12, paragraph 7, of Law 212 of 27 July 2000, on 27 January 2016, Postel SpA filed a tax settlement proposal, which was rejected. On 18 May 2016, the company appealed the assessment notice. The lack of any basis for the inspectors' claims suggests that, at present, it might be reasonably assumed that the matter will be closed in a positive manner.

Finally, on 18 October 2016, the tax authorities notified Postel SpA of a tax assessment notice, amounting to €1.2 million, plus penalties and interest, for 2011: the notice refers to the tax audit reports notified on 25 November 2014 and 8 October 2015, following the audits conducted by the tax authorities relating to e-procurement transactions entered into by the company and findings concerning the revision of contracts entered into with a supplier. The content of the notice is currently being assessed.

Social security disputes

Since 2012, the *Istituto Nazionale per la Previdenza Sociale* (INPS, the National Institute of Social Security) office at Genoa Ponente has issued Postel SpA and Postelprint SpA (regarding which an agreement relating to a merger with Postel SpA was signed on 27 April 2015, effective for accounting and tax purposes from 1

January 2015) a number of notices of adjustment, some of which have resulted in payment orders, for a total amount payable of €14.8 million at 30 September 2016. According to the agency, this amount represents unpaid social security contributions. The companies immediately challenged the grounds for the payment orders, initially through administrative channels before the Administrative Committee for Employee Pensions, and then in the form of legal action before the Court of Genoa. The Court awarded an injunction suspending the payment orders and adjourned the discussion until the related hearings. In a brief filed on 24 May 2014 with regard to one of the pending actions, INPS has for the first time clarified the nature of its claim for unpaid contributions, arguing that the two companies, whilst correctly paying pension contributions to IPOST (a fact that cannot be contested in the light of the authentic interpretation provided by art 7, paragraph 9 *sexies* of Law Decree 101/2013), should have paid non-pension contributions to INPS, on the assumption that IPOST represents a supplementary pension scheme and not an alternative to the general regime, and that its sole purpose is to provide old age, invalidity and survivors' pensions. According to this interpretation, Postel SpA is required to insure their employees with INPS in order to provide other forms of cover (income support, extraordinary income support, unemployment benefit and family benefits) not provided by IPOST. In part based on the opinion of its legal counsel, the company maintains that is has correctly applied the relevant legislation and that INPS's claims are without grounds. The degree of uncertainty linked to the outcome of the pending court cases, with the next hearing scheduled for 7 March 2017 at the Court of Genoa, has, in any event, been prudentially taken into account in calculating provisions for risks and charges at 30 September 2016.

Principal proceedings pending and relations with the authorities

European Commission

On 13 September 2013, the Court of Justice of the European Union upheld **Poste Italiane SpA**'s appeal, overturning the decision of the European Commission of 16 July 2008 on state aid, ordering the EC to pay legal costs. Acting on the European Commission's Decision, and in accordance with instructions from the Parent Company's shareholder, in November 2008 Poste Italiane SpA made available €443 million plus interest of €41 million to the MEF, which collected the sum in January 2009. In implementation of the European Court's (by then definitive) decision, in accordance with art.1 para. 281 of the 2015 Budget Law, (Law 190 of 23 December 2014), on 13 May 2015, the Company collected the amount of €535 million from its then sole shareholder, the MEF (Note B2). Following the European Court's decision, however, the European Commission reopened its review and appointed an external expert to determine whether (in accordance with art. 1, para. 31 of the 2006 Budget Law - Law 266 of 23 December 2005) the rates of interest earned by the Company on deposits with the MEF during the period from 1 January 2005 to 31 December 2007 were in line with market rates. The external expert has provided the Commission, on a preliminary basis, with an updated version of the analysis originally performed by the Commission. Poste Italiane will collaborate with the relevant national authorities to demonstrate the appropriate nature of the returns earned during the period in question. The relevant decision is expected by the end of 2016.

AGCM (the Antitrust Authority)

On 9 March 2015, the Authority notified **Poste Italiane SpA** of an investigation of BancoPosta RFC for alleged violation of articles 20, 21 and 22 of the Consumer Code, regarding the "Libretto Smart" product.

Specifically, the Authority claimed that, in advertising campaigns in February 2015, emphasis was placed on returns offered by Libretto Smart without providing details of the offer the advertised returns were associated with. On 12 June 2015, the Authority notified its rejection of the proposed set of commitments and its intention to ascertain whether any violation had occurred. On 3 July 2015, the Authority notified its intention to extend the investigation to include Cassa Depositi e Prestiti SpA. On 21 December 2015, the AGCM notified Poste Italiane of its final ruling, in which it deemed the Company's conduct unfair and imposed a fine of €0.54 million, limited to a tenth of the maximum applicable amount, taking into account the mitigating circumstance that Poste Italiane had adopted initiatives aimed at allowing customers to benefit from the bonus rate. Poste Italiane lodged an appeal against this ruling before the Lazio Regional Administrative Court (RG 2288/16) on 24 February 2016. At the hearing held on 23 March 2016, the court adjourned the case until a hearing on the merits. In addition, on 7 March 2016, the AGCM, as part of a compliance audit, sent a request for information on the nature of the Libretto Smart product from 1 July 2015 and on the related "Supersmart" offering. Poste Italiane replied to the Authority on 22 March 2016, and on 24 June 2016 AGCM informed Poste Italiane that insufficient evidence is currently available to conduct an investigation.

On 4 June 2015, the AGCM launched an investigation pursuant to art.8, paragraph 2 *quater* of Law 287/90, aimed at ascertaining whether actions taken by Poste Italiane were designed to prevent H3G SpA from accessing the post office network. Requests to participate in the investigation from Fastweb SpA and Vodafone Omnitel BV, as well as PosteMobile, were accepted. With the ruling adopted at a meeting held on 16 December 2015, the Authority deemed that Poste Italiane – at variance with the provisions of art. 8, paragraph 2 *quater* of Law 287/90 – failed, when requested, to offer a competitor of its subsidiary, PosteMobile, equal access to goods and services that are exclusively available from Poste Italiane, as they form part of the activities carried out within the scope of the Universal Postal Service. The Authority issued a warning to Poste Italiane that it should desist from such conduct in the future, but did not impose any fine.
Following the above ruling from the AGCM, on 23 December 2015, H3G also submitted a writ of summons to the Court of Rome, citing Poste Italiane and PosteMobile and requesting that the latter be ordered to pay compensation for damages incurred, arising from the violations referred to in the above ruling, amounting to approximately €338 million, as well as court fees. At the preliminary hearing, held on 7 April 2016, before the Civil Court of Rome, the court, upholding the procedural objection raised by Poste Italiane, adjourned the hearing until 22 June 2016. At this hearing, after full discussion, the investigating judge said he would decide on the procedural objection raised by Poste Italiane, regarding the lack of authority of H3G's legal representative to institute legal proceedings, and adjourned the case to a hearing on 1 December 2016, setting a deadline for the submission of depositions, pursuant to art. 183 of the Code of Civil Procedure.
Poste Italiane lodged an appeal against this ruling before Lazio Regional Administrative Court on 25 February 2016. PosteMobile also lodged an appeal against the final ruling before Lazio Regional Administrative Court on 19 February 2016.
On 28 September 2016, Lazio Regional Administrative Court published its ruling, rejecting the appeals lodged by Poste and Poste Mobile, whilst confirming the principle under which the obligation established by art. 8, paragraph 2-*quater* of Law 287/90 regards equality of treatment. As a result, H3G's request was unlawful, as it aimed to limit access to certain areas of Poste Italiane's network and was not interested in obtaining treatment equal to that applied by Poste Italiane to its subsidiary, Poste Mobile. In its ruling of 14 September 2016, the AGCM clarified that, at that time, there were no grounds to justify action pursuant to Law 287/90. Indeed, as highlighted by the AGCM, art. 8, paragraph 2-*quater* of Law 287/90 does not establish a generic obligation to grant access to the network on ad hoc terms, but an obligation to grant access on equivalent

terms to those applied to subsidiaries. In this latter regard, Poste Italiane has expressed a willingness to grant H3G access on terms equivalent to those applied to Poste Mobile.
Partly taking into account the percentage of uncertainty attaching to any judgment and impeding any quantification, it is now possible to state that the risk of an adverse outcome for Poste Italiane in the above dispute has been significantly reduced.

On 8 June 2016, the AGCM notified Poste Italiane of the launch of investigation pursuant to art. 14 of Law 287/90, aimed at determining whether behaviour towards Nexive SpA, in multi-item ordinary mail delivery markets, constitutes an abuse of its dominant market position as per art. 102 of the TFEU.
In particular, the AGCM intends to ascertain whether Poste Italiane refuses to offer Nexive, in geographical areas where the company does not have a presence with its own distribution networks, the Posta Time service, namely the service that Poste Italiane offers to end customers in those areas, only making available Bulk Mail, which has higher rates than Posta Time. Moreover, according to the Antitrust Authority, Poste Italiane operates a policy of applying loyalty-building discounts on its Posta Time product for the benefit of end customers. The proceedings will conclude on 31 October 2017.

***Autorità per le Garanzie nelle Comunicazioni* (AGCom - the Italian Communications Authority)**

Responsibility for providing the Universal Service was assigned to Poste Italiane SpA by Legislative Decree 261/1999 (art. 23, paragraph 2). This was later confirmed by Ministerial Decree of 17 April 2000 for a maximum period of up to fifteen years, subject to reduction as a result of deregulation of the sector. Legislative Decree 58/2011 then provided that Poste Italiane SpA should be the Universal Service provider for fifteen years from the date of entry into effect of the decree. This legislation also requires five-yearly assessments designed to ensure that provision of the service meets the criteria set out in the decree and to evaluate improvements to the efficiency of service provision. On 11 May 2016, AGCom announced commencement of this five-yearly assessment and, on 28 July 2016, issued the related Resolution 379/16/CONS. The Ministry for Economic Development issued a Decree on 25 August 2016, confirming that Poste Italiane’s provision of the universal service in the period from 30 April 2011 to 30 April 2016 had fulfilled the related requirements.

On 1 July 2016, AGCom published a press release on its website, announcing the start of a procedure entailing a review of the network access obligations set out in art. 6 of Resolution 728/13/CONS. The start of this procedure had been provided for in Resolution 396/15/CONS, approving the new tariffs and quality targets for the universal service, in response to changed conditions in the postal market. The procedure is due to be completed within 150 days of the date of publication of the release, subject to a reasoned request for an extension. On 1 September 2016, Poste Italiane submitted an initial document in which it explains its views on the issue and requests removal of the above obligation, which it deems to be unjustified. Subsequently, on 27 September, Poste Italiane ha sent the regulator the results of a study on this matter, accompanied by certain additional information relevant to the procedure.

On 29 July 2016, AGCom published Resolution 166/16/CONS, launching a public consultation on the draft ruling concerning assessment of the net cost of the universal postal service in 2013 and 2014. On 27 September 2016, Poste Italiane submitted its contribution to the consultation to the regulator.

Bank of Italy

In December 2015, the Bank of Italy's Financial Intelligence Unit (UIF) launched an investigation of **Poste Vita SpA** relating to money laundering prevention as per art. 47 and art. 53, paragraph 4, of Legislative Decree 231 of 2007. The above investigation came to an end on 8 April 2016, with receipt of the final document from the company, containing the clarifications and information requested by the UIF.

On 8 July 2016, the UIF sent Poste Vita a notice of assessment and violation, alleging the company's failure to promptly report suspect transactions (regarding transactions relating to a single policy) pursuant to art. 41 of Legislative Decree 231/2007. The violation in question, punishable with a fine amounting to between 1% and 40% of the value of the transactions, can result in a fine of up to €400,000. Poste Vita has sent the Ministry of the Economy and Finance a defence memorandum and has requested a hearing. On 27 July 2016, the Bank of Italy requested the company to take corrective action to resolve a number of issues emerging during the checks carried out, and asking the company to report back. The company informed the Bank that it was taking the necessary steps, after which it would report on the initiatives and corrective action undertaken.

On 18 July 2016, following a recent inspection at **Banca del Mezzoggiorno – MedioCredito Centrale**, completed on 20 April 2016, the Bank of Italy notified the findings of the audit, which identified certain aspects of the Bank's organisation and activities that require corrective action, expressing a partly unfavourable opinion. The inspection did not give rise to any imposition of fines on the bank or its representatives. In line with the relevant regulations, on 5 August 2016, the bank submitted its comments on the findings and its observations to the Bank of Italy, as well the overall plan for compliance initiatives, which have already been partially implemented.

IVASS - *Istituto per la Vigilanza sulle Assicurazioni* (the insurance regulator)

Following the inspection that took place between 1 April and 14 July 2014, for the purposes of assessing the governance, management and control of investments and financial risk, and compliance with anti-money laundering regulations, on 17 September 2014, IVASS notified **Poste Vita SpA** of its recommendations and the start of an administrative procedure regarding the alleged violation of four provisions concerning anti-money laundering regulations. On 12 May 2016, the Authority notified the company of the ruling in which two of the four violations challenged were upheld. Poste Vita paid the fine of €70,000 and, based on the findings of an analysis and assessment carried out, the company's Board of Directors decided not to challenge the ruling.

Finally, between September 2015 and September 2016, IVASS notified Poste Vita of seven alleged violations of art. 183, paragraph 1.a) of the *Codice delle Assicurazioni Private* (Private Insurance Code or CAP), as a result of delays in the payment of claims. Having ascertained that three of the above violations had been committed, in August 2016, IVASS notified Poste Vita that it was imposing the relevant fines, which are not of a significant amount. No fine is to be imposed for one of the remaining violations, whilst the other 3 proceedings are still pending.

CONSOB

There were no changes, during the first nine months of 2016, with regard to the information provided in the Annual Report for the year ended 31 December 2015, to which reference should be made for details of the proceedings in question. Further information is also provided in note 4 – Risk management – Other risks - Operational risk".

Data Protection Authority

On 29 May 2015, in response to certain press reports, Italy's Data Protection Authority asked Poste Italiane to provide information regarding alleged processing of the personal data of persons operating at companies appointed to monitor postal service quality standards. According to the Authority, the data was processed without providing the parties concerned with the relevant privacy notices and without obtaining their consent to use of the data. Poste Italiane has met all of the Authority's requests, providing a full and documented response and setting out details of the resulting internal audit carried out, the disciplinary proceedings regarding the staff involved and the organisational and procedural steps taken or in the process of being implemented. In the light of this, on 23 March 2016, the Authority, in view of the provisions of Authority regulation 1/2007 (art. 11, paragraph 1, letter d), announced that, at that time, there were no grounds for applying restrictions or prohibitions. From the findings of the internal audit, it appears, however, that certain members of staff interfered with quality control systems in violation of the Company's policy. It is currently impossible to ascertain whether this behaviour may have influenced determination of the service quality indicators recorded, and the possibility that the impact of such events may give rise to legal proceedings and fines cannot be ruled out.

In response to the above findings, 246 reprimands have been notified and, at 31 March 2016, there have been 15 dismissals and 156 disciplinary measures without dismissal relating to managerial and non-managerial staff.

A technical committee was set up to manage these proceedings in order to verify the findings regarding the contested audits, taking into account the defence arguments put forward by the parties concerned and any other evidence that may emerge. All these measures also refer to the Company's right to take action to protect its rights and interests with respect to findings that may yet emerge and damages the Company may suffer for any reason or cause whatsoever.

Following completion of the audit carried out in the meantime, an in-depth investigation was conducted. This identified specific evidence of wrongdoing by the personnel involved.

As a result, disciplinary action was taken against a further 988 people from early May 2016 onwards. On completion of the related procedures, which were carried out with the aid of the above technical committee, there were a total of 976 disciplinary measures without dismissal relating to managerial and non-managerial staff.

This marks the end of any possible disciplinary action, given that there are no further irregularities to be penalised.

In 2015, a long-term transformation programme was launched aimed at increasing the level of automation of mail and parcel logistics procedures, in all processing phases, from collection to delivery, partly through the development of ICT support systems and platforms. This programme will enable a substantial strengthening of performance monitoring.

In this context, the Company has submitted a statement to the judiciary, appearing as the injured party and submitting a report prepared by Internal Auditing, in which the measures taken by the Company, including action against the personnel involved, are described. The report has also been filed with the other independent authorities.

6. DECLARATION OF THE MANAGER RESPONSIBLE FOR FINANCIAL REPORTING AND INDEPENDENT AUDITORS' REPORT

The manager responsible for financial reporting, Luciano Loiodice, declares, pursuant to paragraph 2 of article 154-bis of the Consolidated Law on Finance, that the accounting information contained in this interim report for the nine months ended 30 September 2016 is consistent with the underlying accounting records.

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REVIEW REPORT

POSTE ITALIANE SPA

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2016

REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2016

To the Shareholders of
Poste Italiane SpA

Foreword

We have reviewed the accompanying condensed consolidated interim financial statements of Poste Italiane SpA and its subsidiaries ("Poste Italiane Group") as of 30 September 2016, comprising the consolidated statement of financial position, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the condensed consolidated statement of cash flows and the related notes. The directors of Poste Italiane SpA are responsible for the preparation of the condensed interim consolidated financial statements as of 30 September 2016 in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements as of 30 September 2016 based on our review.

Scope of review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of condensed consolidated interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed consolidated interim financial statements as of 30 September 2016.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of Poste Italiane Group as of

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30 September 2016 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Other aspects

The condensed consolidated interim financial statements of the Poste Italiane Group as of 30 September 2015 were not reviewed.

Rome, 15 November 2016

PricewaterhouseCoopers SpA

Signed by

Monica Biccari
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers. We have not examined the translation of the financial statements referred to in this report.