INTERIM REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2017

Posteitaliane

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1. GROUP FINANCIAL AND OPERATIONAL HIGHLIGHTS

Results of operations for the three months ended 31 March (€m)	**2017**	2016
Total revenue	9,539	9,759
of which:		
from Postal and Business Services	914	936
from Financial Services	1,518	1,556
from Insurance Services and Asset Management	7,057	7,210
from Other Services	50	57
EBITDA	668	713
Operating profit/(loss)	526	562
Profit for the period	351	367
Gross ROE	6.9%	5.9%

Financial position (€m)	**at 31 March 2017**	at 31 December 2016
Non-current assets	3,088	2,867
Working capital	1,666	1,183
Net invested capital	2,989	1,909
Equity	7,305	8,134
Net funds/(debt)	4,316	6,225
Industrial net funds/(debt) (before adjusting for intersegment transactions)	103	893

Investment for the three months ended 31 March (€m)	**2017**	2016
Capital expenditure	81	62

Average workforce for the three months ended 31 March	**2017**	2016
Total permanent and flexible workforce expressed in full-time equivalent terms	137,916	142,582

Other operational data	**at 31 March 2017**	at 31 December 2016
Outstanding customer current accounts ('000) [1]	6,372	6,377
Client assets (€bn) [2]	498	493
Number of post offices	12,822	12,845

for the three months ended 31 March	**2017**	2016
Letters handled by Group (volumes in million)	838	922
Express Delivery items and Parcels handled by Group (volumes in million)	28	23
Current account deposits (average for the period in €m) [3]	54,533	47,991
Poste Vita group (net premium revenue in €m)	5,916	6,116
Number of PosteMobile SIM cards (average for the period in '000)	3,659	3,614

[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.

2. THE GROUP'S OPERATING SEGMENTS

1 Postal and Business Services

Letters Express Delvery. Logistics and Parcels, Philately and the activities carried out by the **Parent Company** for the other operating segments. This segment also includes the following companies:

Postel, SDA Express Courier, Mistral Air, EGI, Postecom, Postetutela

2 Financial Services

The provision of current accounts and payment services, financial products and loan products arranged by third parties

BancoPosta, Banca del Mezzogiorno

3 Insurance Services and Asset Management

The sale of Class I, III, IV and V life insurance products through Poste Vita and of non-life insurance products through Poste Assicura. The marketing and distribution of mutual investment funds

BancoPostaFondi SGR, Postevita, Posteassicura

4 Other Services

The activities carried out by Poste Mobile (MVNO and operator of the Group's telecommunications infrastructure)

Poste mobile

The following information aims to provide an update on changes to the Poste Italiane Group's organisational structure between the end of the previous year and the date of approval of this report. For more detailed information, reference should be made to the Annual Report for 2016.

On 8 February 2017, an agreement was reached to transfer the entire shareholding in Banca del Mezzogiorno-Medio Credito Centrale, with a total value of €390 million, from Poste Italiane to Agenzia Nazionale per l'Attrazione degli Investimenti e lo Sviluppo d'Impresa SpA (Invitalia). The transaction is expected to be completed during 2017, subject to approval from the Ministry of Economic Development, the Bank of Italy and the European Central Bank.

This qualifies as a related party transaction (as Poste Italiane and Invitalia are subject to the common control of the Ministry of the Economy and Finance), and, pursuant to the applicable legislation and regulations, was approved by the Board of Directors of Poste Italiane, with the consent of its Related and Connected Parties Committee.

Following clearance from the relevant antitrust authorities and authorisation from the Bank of Italy, and following fulfilment of the other suspensive conditions provided for in the preliminary agreement signed on 16 September 2016, on 15 February 2017, Poste Italiane acquired a 30% stake in FSIA Investimenti Srl, a company with a 49.5% interest in SIA SpA, a wholly owned subsidiary of FSI Investimenti SpA. The interest was acquired for a consideration of € 278,3 million The latter company is controlled by CDP Equity SpA through its 77.1% interest in the company. As a result of the transaction, Poste Italiane indirectly holds a 14.85% interest in SIA. 80% of the transaction price was paid on completion. At the same time as the transaction completed, the shareholders' agreement between Poste Italiane and CDP Equity, covering the governance and ownership structures of FSIA and SIA, over which the parties will exercise joint control, became effective.

3. MANAGEMENT AND SUPERVISORY BODIES

Board of Directors [1]	In office from 27 April 2017
Chairwoman	Maria Bianca Farina
Chief Executive Officer and General Manager	Matteo Del Fante
Directors	Giovanni Azzone Carlo Cerami Antonella Guglielmetti Francesca Isgrò Mimi Kung Roberto Rao Roberto Rossi

Board of Directors	In office until 27 April 2017
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 Antonio Santi Ermanno Sgaravato

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

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

Independent Auditors	
	PricewaterhouseCoopersSpA

In office from 28 April 2017

Audit and Risk Committee[5]	Remuneration Committee[5]	Nominations Committee[5]	Related and Connected Parties Committee[6]
Antonella Guglielmetti (Chairwoman) Giovanni Azzone Francesca Isgrò Roberto Rossi	Carlo Cerami (Chairman) Giovanni Azzone Roberto Rossi	Roberto Rao (Chairman) Antonella Guglielmetti Mimi Kung	Francesca Isgrò (Chairwoman) Carlo Cerami Mimi Kung Roberto Rao

In office until 27 April 2017

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) The Board of Directors was elected by the Annual General Meeting held on 27 April 2017 to serve for a period of three years, and will remain in office until the Annual General Meeting's approval of the financial statements for the year ended 31 December 2019. At a meeting held on 28 April 2017, the Board of Directors elected Matteo Del Fante to serve as Chief Executive Officer.

(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. On 30 January 2017, the Alternate Auditor, Andrea Bonechi, resigned from his position with immediate effect. As a result, the Annual General Meeting of 27 April 2017 elected Antonio Santi to serve as an Alternate Auditor.

(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 has three members. Following the resignation of Gennaro Terracciano with effect from 17 March 2017, the Board currently has two members. The Supervisory Board will remain in office for three years.

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

(5) This Committee was established by the Board of Directors on 10 September 2015. The current members were appointed by the Board of Directors' meeting of 28 April 2017.

(6) This Committee was established by the Board of Directors on 15 September 2016, with effect from 1 October 2016. The current members were appointed by the Board of Directors' meeting of 28 April 2017.

4. PERFORMANCE INDICATORS

The recognition, measurement and classification criteria used are consistent with those used in the preparation of the Annual Report for 2016 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 10 May 2017, the date on which Poste Italiane SpA's Board of Directors approved this interim report for the three months ended 31 March 2017.

The disclosures in the interim report are designed to provide an update on operations, events and circumstances taking place solely in the first quarter of 2017. Full disclosure is provided in the Annual Report for 2016.

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[1], 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 interim 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, non-current assets and disposal groups held for sale and liabilities related to assets held for sale.

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.

[1] Announcement 0092543 of 3 December 2015.

5. MACROECONOMIC AND MARKET ENVIRONMENT

The global economy registered slightly faster growth in the first quarter of 2017, as the broadly stable performances of the advanced economies was accompanied by an improvement in emerging countries. Alongside the improvement, world trade also grew, albeit at a relatively slow rate, as did commodity prices, with the exception of the price of oil which, after the significant rise seen during the previous year, has remained at the level seen at the end of 2016. Against this positive backdrop, risks linked to US trade policies, the results of elections in various European countries and the outcome of the Brexit negotiations remain.

As already noted, the US economy continued to grow, driven by strong internal demand, but growth could slow on the back of rising inflation, which will reduce consumers' spending power, and monetary policy. In March, the Federal Reserve raised the Fed Funds rate and indicated that it intended to slowly, but gradually, increase interest rates. In addition, the introduction of protectionist measures, aimed at reducing the country's trade deficit, could bring fewer advantages than initially thought.

The UK economy is also expected to have grown, with growth rates similar to those registered in 2016, despite the fact that the weakness of sterling, linked to the decision to leave the European Union, is driving inflation above the targets set by the central bank and this could threaten growth in internal demand.

Despite the stimulus measures introduced by the government and the central bank, Japan continues to see only moderate growth. The yen is expected to fall in value this year, which should benefit exports, provided that US protectionism does not threaten trade with this country.

Among emerging countries, China's economic growth is continuing, although at a slower rate, with investment by state-owned businesses providing the driving force. Growth in India is proving more robust, as internal demand continues to expand.

The rise in commodity prices has benefited exporting countries, above all Russia and Brazil, which could return to growth in the current year. The Brazilian government has announced new investment and Russia is benefitting from stronger industrial output and a stronger rouble, with potential for its prospects to improve further with elimination of the trade sanctions imposed.

The European recovery is strengthening on the back of consumer spending and growth in employment and wages. Capacity utilization rates in the leading Eurozone economies are close to historic highs and projections from the Euroframe network of research institutes point to an improvement in industrial activity in the first half of 2017. The European Central Bank has confirmed that it will continue with its expansionary approach to monetary policy in order to consolidate the rise in inflation over the medium term.

The formal start of talks between the UK and the European Union on 29 March 2017 could result in a period of uncertainty lasting at least two years.

In Italy, economic activity has continued to expand, with businesses seeing improved profitability and growth in investment, in part driven by tax incentives. Current figures point to moderate growth in consumer spending, partly at the expense of savings, and renewed inflation, which has eased fears of a deflationary spiral. There has been an improvement in consumer confidence, with positive prospects for employment, whilst businesses are complaining of a lack of available credit, reflecting the volume of non-performing loans in the banking system. Positive forecasts for economic activity in the coming months have been confirmed by initial data from Istat and the Bank of Italy, even if Political developments in Europe could weigh on the Italian economy.

6. GROUP OPERATING RESULTS

Profit for the first quarter of 2017 amounts to €351 million, down €16 million on the first quarter of the previous year. Operating profit totals €526 million (€562 million for the first quarter of 2016) and reflects reduced contributions from the Postal and Business Services segment (operating profit down €42 million compared with the first quarter of 2016) and the Financial Services segment (operating profit down €39 million compared with the first quarter of 2016). The reductions were only partially offset by a positive contribution to operating profit from the Insurance Services and Asset Management segment (up €47 million on the first quarter of 2016), having benefitted from, among other things, the performance of inflows into mutual investment funds.

RECLASSIFIED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the three months ended 31 March (€m)	2017	2016	Increase/(decrease)	
Revenue from sales and services and insurance premium revenue	8,011	8,277	(266)	-3.2%
Postal and Business Services	900	923	(23)	-2.5%
Financial Services	1,119	1,165	(46)	-3.9%
Insurance Services and Asset Management	5,942	6,132	(190)	-3.1%
Other Services	50	57	(7)	-12.3%
Other income from financial and insurance activities	1,513	1,467	46	3.1%
Financial Services	398	389	9	2.3%
Insurance Services and Asset Management	1,115	1,078	37	3.4%
Other operating income	15	15	-	n/s
Postal and Business Services	14	13	1	7.7%
Financial Services	1	2	(1)	-50.0%
Total revenue	**9,539**	**9,759**	**(220)**	**-2.3%**
Cost of goods and services	592	600	(8)	-1.3%
Net change in technical provisions for insurance business and other claims expenses	6,574	6,728	(154)	-2.3%
Other expenses from financial and insurance activities	135	197	(62)	-31.5%
Personnel expenses	1,480	1,505	(25)	-1.7%
Capitalised costs and expenses	(9)	(4)	(5)	n/s
Other operating costs	99	20	79	n/s
Total costs	**8,871**	**9,046**	**(175)**	**-1.9%**
EBITDA	**668**	**713**	**(45)**	**-6.3%**
Depreciation, amortisation and impairments	142	151	(9)	-6.0%
Operating profit/(loss)	**526**	**562**	**(36)**	**-6.4%**
Finance income/(costs)	2	3	(1)	-33.3%
Profit/(loss) on investments accounted for using the equity method	4	3	1	33.3%
Profit/(Loss) before tax	**532**	**568**	**(36)**	**-6.3%**
Income tax expense	181	201	(20)	-10.0%
Profit for the period	**351**	**367**	**(16)**	**-4.4%**

n/s: not significant

TOTAL REVENUE BY OPERATING SEGMENT

for the three months ended 31 March (€m)	2017	2016	Increase/(decrease)	
Postal and Business Services	914	936	(22)	-2.4%
Financial Services	1,518	1,556	(38)	-2.4%
Insurance Services and Asset Management	7,057	7,210	(153)	-2.1%
Other Services	50	57	(7)	-12.3%
Total revenue	**9,539**	**9,759**	**(220)**	**-2.3%**

Total revenue of €9.5 billion is down 2.3% on the first quarter of 2016. A more detailed look shows that Postal and Business Services contributed total revenue of €914 million, registering a reduction of 2.4% compared with the first quarter of 2016, due to a decline in traditional letter post.

Total revenue from Financial Services amounts to €1,518 million, marking a decline of 2.4%, primarily as a result of lower commissions earned on the distribution of postal savings products. The impact of this was only partly offset by an increase in “Other income from financial activities”, which is up from €389 million in the first quarter of 2016 to €398 million in the first quarter of 2017.

The Insurance Services and Asset Management segment contributed €7.1 billion to total revenue (€7.2 billion in the same period of the previous year), with premium revenue amounting to €5.9 billion (premium revenue of €6.1 billion in the same period of 2016). This represents a solid performance for the period, given the sharp decline in the Life market compared with the positive performance of 2016 (market data for new business to February 2017 shows a contraction of approximately 17% at national level).

Total revenue from Other Services amounts to €50 million (€57 million in the same period of 2016).

PERSONNEL EXPENSES

for the three months ended 31 March (€m)	2017	2016	Increase/(decrease)	
Salaries, social security contributions and sundry expenses (*)	1,487	1,501	(14)	-0.9%
Redundancy payments	2	6	(4)	-66.7%
Net provisions (uses) for disputes	(7)	1	(8)	n/s
Amounts recovered from staff due to disputes	(2)	(3)	1	-33.3%
Total personnel expenses	**1,480**	**1,505**	**(25)**	**-1.7%**

n/s: not significant

(*) This includes the following items: salaries and wages; social security contributions; employee termination benefits; temporary work; Directors' fees and expenses; other costs (cost recoveries).

Personnel expenses are down 1.7% from €1,505 million in the first quarter of 2016 to €1,480 million in the same period of 2017, largely due to a reduction in the ordinary component, linked to salaries, contributions and sundry expenses (down €14 million). This reflects a reduction in the average workforce employed during the period (approximately 4,700 fewer full-time equivalents or FTEs compared with the same period of the previous year), which has offset the increased costs resulting from a public holiday falling on a Sunday and provisions linked to the expected increase in pay in the renewed national collective labour contract.

The cost of early retirement incentives incurred during the quarter amounts to €2 million (€6 million in the first quarter of 2016) 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.

OPERATING RESULTS BY OPERATING SEGMENT

for the three months ended 31 March 2017 (€m)	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Adjustments and eliminations	Total
External revenue	914	1,518	7,057	50	-	9,539
Intersegment revenue	1,334	159	-	7	(1,500)	-
Total revenue	**2,248**	**1,677**	**7,057**	**57**	**(1,500)**	**9,539**
Costs	2,098	124	6,746	45	-	9,013
Intersegment costs	15	1,325	156	4	(1,500)	-
Total costs	**2,113**	**1,449**	**6,902**	**49**	**(1,500)**	**9,013**
Operating profit/(loss)	**135**	**228**	**155**	**8**	**-**	**526**

for the three months ended 31 March 2016 (€m)	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Adjustments and eliminations	Total
External revenue	936	1,556	7,210	57	-	9,759
Intersegment revenue	1,352	154	-	22	(1,528)	-
Total revenue	**2,288**	**1,710**	**7,210**	**79**	**(1,528)**	**9,759**
Costs	2,080	100	6,953	64	-	9,197
Intersegment costs	31	1,343	149	5	(1,528)	-
Total costs	**2,111**	**1,443**	**7,102**	**69**	**(1,528)**	**9,197**
Operating profit/(loss)	**177**	**267**	**108**	**10**	**-**	**562**

POSTAL AND BUSINESS SERVICES

THE POSTAL SERVICES MARKET

Letter volumes continued to decline in the first quarter of 2017, in line with the trend recorded by the main European incumbents. The pace and extent of the decline in 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 the Italian market, which continues to see a decline in the use of paper-based forms of communication, the approach adopted by the regulator (the *Autorità per le Garanzie nelle Comunicazioni* or *AGCom*), in recent years, 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. In contrast, the market for express delivery and parcel services continues to grow, primarily driven by the expansion of e-commerce.

POSTAL AND BUSINESS SERVICES SEGMENT PROFIT OR LOSS

for the three months ended 31 March (€m)	2017	2016	Increase/(decrease)	
Revenue from sales and services	900	923	(23)	-2.5%
Other operating income	14	13	1	7.7%
Total external revenue	**914**	**936**	**(22)**	**-2.4%**
Intersegment revenue	1,334	1,352	(18)	-1.3%
Total revenue	**2,248**	**2,288**	**(40)**	**-1.7%**
Cost of goods and services	497	492	5	1.0%
Personnel expenses	1,432	1,457	(25)	-1.7%
Depreciation, amortisation and impairments	132	138	(6)	-4.3%
Capitalised costs and expenses	(9)	(4)	(5)	n/s
Other operating costs	46	(3)	49	n/s
Intersegment costs	15	31	(16)	-51.6%
Total costs	**2,113**	**2,111**	**2**	**0.1%**
Operating profit/(loss) (EBIT)	**135**	**177**	**(42)**	**-23.7%**

n/s: not significant

The Postal and Business Services segment reports operating profit of €135 million, a reduction of €42 million on the same period of the previous year.

This performance reflects the decline in total revenue from €2,288 million in the first quarter of 2016 to €2,248 million (a fall of €40 million). This is due to the decline in traditional letter post and reduced intersegment revenue from distribution services provided to the Financial Services segment in accordance with specific internal operating guidelines.

Total costs of €2,113 million are broadly in line with the same period of 2016 (up 0.1%). The figure has benefitted from a €25 million fall in personnel expenses, due to an improvement in workforce efficiency and other costs efficiencies (down €16 million). The reductions were offset by an increase in other operating costs (up €49 million on the first quarter of 2016), which in the same period of the previous year had a positive balance following the release of provisions for disputes with third parties.

In 2015, a call for tenders was launched to find a suitable provider to manage the Group's customer service. On completion of the tender process, the companies to which the subsidiary, SDA Express Courier SpA, had outsourced the services until the end of 2015 – Uptime SpA, a joint venture (28.57% owned by SDA and 71.43% owned by Gepin) and Gepin Contact 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 on permanent part-time contracts. Following the outplacements provided for in the above agreement, the process of finding positions at Poste Italiane for personnel who have failed to find alternative employment began in the second half of February 2017.
As regards Gepin, efforts are being made, in collaboration with the Ministry for Economic Development, to find solutions for the company's personnel.

Strictly in terms of employment law, in recent months, a number of former employees of Gepin have brought legal actions against SDA and/or Poste Italiane, requesting their reinstatement. From a civil law standpoint, Gepin and Uptime SpA have brought a number of legal actions. Gepin has filed a claim for damages from SDA, amounting to €15.5 million, due to the alleged unjustified nature of termination of the above contracts, and has obtained an injunctive order for payment of approximately €3.7 million for uncontracted services that were in any event not provided. SDA has challenged the claims in court. At the first hearing, the court turned down the plaintiff's request for provisional execution of the injunction, postponing any decision until a later hearing.

Finally, on 21 December 2016, Poste Italiane and SDA were served a writ of summons by Gepin and Uptime, containing joint and several claims for approximately €66.4 million, as compensation for the damages incurred by Uptime SpA as a result of the alleged unjustified termination of the above contract, and for approximately €16.2 million, as compensation for the damages incurred by Gepin as a result of the alleged reduction in the value of its investment. These claims, which are without merit, have also been opposed in court. The first hearing, to be held on 27 April 2017, has been adjourned until 23 October 2017 for the admission of preliminary evidence and discussion.

An extraordinary general meeting of Uptime SpA's shareholders was held on 2 February 2017. During the meeting, the sole liquidator was made aware of a liability of approximately €3.5 million, which as yet requires further confirmation. Given that the general meeting voted, among other things, to cover the company's losses by reducing the share capital to zero and recapitalising the company, involving capital contributions or payments into a share premium reserve of the required amount, based on the financial position currently being reassessed. As the shareholder, Gepin Contact, has opted not to take up its rights, the entire capital increase could be subscribed for by just one of the shareholder, SDA Express Courier. The deadline for taking up the rights, originally set for 90 days after the above general meeting held on 2 February 2017, has subsequently been extended by a general meeting of Uptime's shareholders to 3 August 2017.
Lastly, during the first quarter, SDA Express Courier has been served with a number of bankruptcy petitions from former employees of Uptime. The initial bankruptcy hearing has been scheduled for 5 June 2017.

Again with regard to postal services, on 11 January 2017, the temporary consortium, Nexive SpA, applied to Lazio Regional Administrative Court for an injunction suspending and then annulling:

- Consip's announcement, dated 13 December 2016, excluding the temporary consortium headed by Nexive due to alleged irregularities committed by the consortium member, Ala Post Srl, regarding the payment of contributions and enforcing the related provisional guarantee;
- Consip's announcement, dated 20 December 2016, awarding the contract to Poste Italiane.

The plaintiff has also applied to the court for a specific performance order and, failing this, for equivalent compensation.
The call for tenders regarded the award of a contract to provide postal services for the Ministry of the Economy and Finance. The contract was worth a total of €2.4 million over a four-year period.

The Second Section of Lazio Regional Administrative Court upheld the challenge and annulled the two decisions in a judgement dated 5 April 2017. The Company has instructed its counsel to appeal this decision and apply for injunctive relief.

POSTAL SERVICE QUALITY

On 31 March 2017, the results for registered, bulk and priority mail and ordinary parcel post for the second half and whole of 2016 were submitted to the regulator (*Autorità per le Garanzie nelle Comunicazioni*, or *AGCom*). All the results are in line with the relevant regulatory targets. In addition, statistics relating to the quality of the service covering the notification of legal process the second half and whole of 2016 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, was assessed on the basis of the 2015 Stability Law and using, merely for reference purposes, the indicators for registered mail. All the statistics were in line with these targets.

The quality of ordinary mail for the whole of 2016 was monitored by the specialist, independent body appointed by the regulator.

In 2017, AGCom will publish the quality statistics for the universal postal services provided in 2016.

FINANCIAL SERVICES

FINANCIAL MARKET TRENDS

Against a backdrop marked by optimism regarding the global economic recovery, equity markets in all the advanced economies rose during the first three months of 2017. Long-term interest rates in the Eurozone have risen, primarily reflecting an improvement in the economic cycle, and an increase in sovereign risk premiums. The general rise in sovereign spreads has also involved Italian government bonds. The spread between 10-year Treasury Notes (BTPs) and 10-year German Bunds at 31 March 2017 was 182 basis points, compared with 172 basis points at 31 December 2016 and 106 basis points at 31 March 2016.

International equity markets performed strongly during the first quarter of 2017, registering their best quarterly performance since the end of 2013. In the US, the S&P500 rose 17% year on year, whilst European bourses (the Dow Jones Euro Stoxx) were up 10.5% over the same period. Italian equities performed in line with the other world markets, with the FTSE Mib ending the quarter 6% up (8.1% year on year), having benefitted from a strong performance from banking stocks.

In the currency markets, following on from the rise in the US dollar at the end of 2016, reflecting optimism over the new administration, the currency lost ground in the first quarter of 2017 (the euro/USD exchange rate at 31 March 2017 is 1.07, compared with 1.05 at 31 December 2016). Sterling also made up some of the decline registered at the end of 2016 in the first quarter of 2017, rising slightly against both the dollar and the euro (the euro/GBP exchange rate at 31 March 2017 is 0.855, compared with 0.856 at 31 December 2016).

THE BANKING SYSTEM

Bank deposits by resident Italian savers rose in the first quarter of 2017, with deposits totalling approximately €1,717 billion in March 2017, an increase of 0.5%. This was due to growth of over €54.5 billion in deposits (current accounts, certificates of deposit, repurchase agreements and bonds), which more than offset the €46 billion (12.3%) decline in funding through the issue of notes.

Funding costs (deposits, bonds and repurchase agreements) were in line with the figure for the end of 2016, with the average cost of customer deposits in March 2017 standing at 0.99%, compared with 0.97% in December 2016.

Bank lending rose in the first quarter of 2017, in line with the performance in the second half of 2016. In March 2017, total lending to Italian residents (private and Public Administration) - excluding interbank loans – amounted to approximately €1,804.3 billion, marking a year-on-year increase of 0.4%. Consumer and corporate loans are also up, with mortgage lending up 2.3%, based on official data for February 2017, compared with February 2016.

Doubtful loans within the banking system, after impairments, amount to €77 billion, down by approximately €9 billion on the figure for December 2016. In percentage terms, doubtful loans have fallen from 4.89% of total loans in December 2016 to 4.41% in February 2017. The average interest rate applied to consumer and corporate loans continues to be very low, with a figure of 2.82% in March 2017 (2.88% in December 2016 and 3.16% in March 2016).

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), further work on strengthening the measures designed to prevent, monitor and combat fraud has been carried out. Changes to procedures and IT systems also continued with a view to strengthening business continuity and information systems.

In view of the introduction into Italian law, from January 2018, of European Directives 2015/2366/EU (so-called "PSD2, governing payment services in the internal market) and "2014/65/EU (so-called "MiFID2"), assessments of the related procedures and IT systems were carried out during the quarter, as were activities concerning the planning of further initiatives designed to reinforce the processes involved in product governance, the provision of information to customers, customer profiling, advisory services and to train post office personnel.

FINANCIAL SERVICES SEGMENT PROFIT OR LOSS

for the three months ended 31 March (€m)	2017	2016	Increase/(decrease)	
Net interest income	371	382	(11)	-2.9%
Interest and similar income	391	393	(2)	-0.5%
Interest and similar expense	20	11	9	81.8%
Net fee and commission income	884	911	(27)	-3.0%
Fee and commission income	899	923	(24)	-2.6%
Fee and commission expense	15	12	3	25.0%
Profits/(Losses) on trading, on disposals or repurchases and fair value adjustments in hedge accounting	396	382	14	3.7%
Net interest and other banking income	1,651	1,675	(24)	-1.4%
Net losses /recoveries on impairment of loans and advances	(5)	(4)	(1)	25.0%
Net income from banking activities	1,646	1,671	(25)	-1.5%
Administrative expenses:	1,377	1,393	(16)	-1.1%
personnel expenses	33	33	-	n/s
other administrative expenses	1,344	1,360	(16)	-1.2%
Net provisions for risks and charges	16	4	12	n/s
Other operating income/(expenses)	25	7	18	n/s
Operating expenses	1,418	1,404	14	1.0%
Operating profit/(loss) (EBIT)	**228**	**267**	**(39)**	**-14.6%**

n/s: not significant

Operating profit generated by the Financial Services segment in the first quarter of 2017 amounts to €228 million, down 14.6% on the first quarter of 2016 (€267 million). The performance reflects a reduction in net interest and other banking income (down €24 million on the first quarter of 2016) and increases in net provisions for risks and charges (up €12 million compared with the first quarter of 2016) and in net other operating income (up €18 million on the first quarter of 2016).

The interest margin of €371 million is down 2.9% (€382 million in the first quarter of 2016), reflecting a reduction in the returns earned on BancoPosta RFC's investments in securities, in line with market trends, and an increase in the differentials payable on Asset Swaps entered into as part of the wider strategy to actively manage BancoPosta's investment portfolio.

Net fee and commission income of €884 million is down 3.0% on the same period of 2016, reflecting a reduction in commissions earned on the distribution of postal savings products (€355 million in the first quarter of 2017, compared with €407 million in the same period of 2016), only partially offset by the positive result represented by the aggregate amount from insurance broking, the processing of bills paid by payment slip, the distribution of loan products and other collection and payment services, which generated commissions of €528 million (€504 million in the first three months of 2016).

Net interest and other banking income is down from €1,675 million in the first quarter of 2016 to €1,651 million (a decline of 1.4%), generated by gains on the sale of available-for-sale financial assets held by BancoPosta RFC, totalling €396 million (€386 million in the same period of the previous year).

Net income from banking activities is thus down 1.5% from €1,671 million in the first quarter of 2016 to €1,646 million in the first quarter of 2017, after impairment losses on loans of €5 million, including the impairment of overdrawn current accounts held by BancoPosta's customers.

Despite a reduction in administrative expenses – down from €1,360 million in the first quarter of 2016 to €1,344 million in 2017, due to a reduction in intersegment costs paid for the services provided by the distribution network to the Financial Services segment -, operating expenses are up 1.0% compared with the first quarter of 2016. This reflects increased net provisions for risks and charges, due primarily to additional provisions made to cover the risks connected with the real estate funds marketed by Poste Italiane between 2002 and 2005, and adjustments to income generated in previous years from the distribution of loan products.

INSURANCE SERVICES AND ASSET MANAGEMENT

THE INSURANCE MARKET

Based on the available official data, new business for individual life insurance policies sold by Italian and non-EU-registered insurers, including additional single premiums, amounted to €13.5 billion in the first two months of 2017, marking a reduction of 24.3% compared with the same period of the previous year. If new life business reported by EU insurers is taken into account, the figure rises to €16.3 billion, down 17.5% on the same period of 2016.

A breakdown by class and type of product shows that there was a 36.1% decline in Class I premiums, which totalled €9.2 billion. New business for Class V policies also declined sharply (down 53.6%), falling 34.8% compared with the first two months of 2016 and registering total premium revenue of €222 million.

The remaining new business almost exclusively regards Class III policies (of the unit-linked type), which registered new business of €4.1 billion in the first two months of the year, up 32.6% on the same period of 2016. The contribution from new inflows into individual pension plans was also positive, with inflows rising 15.4% compared with the same period of 2016 to €214 million. Finally, new business in terms of pure risk policies amounts to €105 million (up 13.2% on the first two months of the previous year).

INSURANCE SERVICES AND ASSET MANAGEMENT SEGMENT PROFIT OR LOSS

for the three months ended 31 March (€m)	2017	2016	Increase/(decrease)	
Net insurance premium revenue	5,916	6,116	(200)	-3.3%
gross premium revenue	5,928	6,126	(198)	-3.2%
outward reinsurance premiums	12	10	2	20.0%
Fee and commission income	23	13	10	76.9%
Net financial income from assets related to traditional products	918	993	(75)	-7.6%
Net financial income from assets related to index- and unit-linked products	77	(96)	173	n/s
Net change in technical provisions for insurance business and other claims expenses	6,574	6,728	(154)	-2.3%
Claims paid	2,448	1,964	484	24.6%
Net change in technical provisions for insurance business	4,133	4,768	(635)	-13.3%
Change in technical provisions where investment risk is transferred to policyholders	(7)	(4)	3	75.0%
Investment management expenses	4	5	(1)	-20.0%
Acquisition and administration costs	186	177	9	5.1%
Net commissions and other acquisition costs	146	140	6	4.3%
Operating costs	40	37	3	8.1%
Other revenues/(costs), net	(15)	(8)	(7)	87.5%
Operating profit/(loss) (EBIT)	**155**	**108**	**47**	**43.5%**

n/s: not significant

Operating profit generated by the Insurance Services and Asset Management segment amounts to €155 million, marking an increase of 43.5% on the first quarter of the previous year and primarily reflecting increased returns on assets under management.

In a market that, as explained above, has seen a decline in business compared with 2016, total premium revenue in the first quarter of 2017, after the portion ceded to reinsurers, amounts to €5.9 billion, marking a slight 3.3% reduction compared with the €6.1 billion of the first quarter of 2016. This was essentially generated by the sale of life products, amounting to €5.9 billion (€6.1 billion in the first three months of 2016), whilst €25 million (up 39% on the €18 million of the first quarter of 2016) was generated by sales of non-life products.

With regard to assets under management in the first quarter of 2017, on the other hand, the period saw an increase in inflows into mutual investment funds, generating commission income of €23 million (up 76.9% on the same period of the previous year).

Net finance income from securities related to traditional products amounts to €918 million at the end of the period, marking a reduction with respect to the €993 million of the first three months of 2016. Given the less favourable financial market trends, this result is primarily due to lower net unrealised gains (attributed in full to policyholders under the shadow accounting method, given that these investments are included in separately managed accounts) of approximately €93 million. In contrast, thanks to growth in assets under management, ordinary income is up €95 million on the figure for the same period of 2016. Net realised gains for the period are also down by approximately €73 million.

As regards investments linked to index- and unit-linked products, finance income and commission income from management of the internal funds connected with unit-linked products amounts to approximately €77 million, compared with losses of approximately €96 million in the first quarter of 2016. 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 financial performance, the matching change in technical provisions, after the portion ceded to reinsurers, amounts to €6.6 billion, compared with the €6.7 billion of the same period of the previous year. Of the above change, claims paid to customers amount to approximately €2.5 billion (€2 billion in the same period of 2016), inclusive of policy expirations of approximately €1.5 billion. Total surrenders accounted for 2.8% of initial provisions (2.9% in March 2016), a figure that continues to be far lower than the market average.

Investment management expenses, amounting to €4 million, are in line with the €5 million of the first quarter of 2016 and primarily regard portfolio management fees and fees for the custody of securities.

Infra-group commissions for distribution and collection amount to €146 million (€140 million in the first quarter of 2016). These commissions benefit 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.

In keeping with the strategic objectives pursued in previous years, in the first quarter of 2017 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 protection and welfare segment.

The group’s commercial strategy focused almost entirely on sales of Class I and V investment and savings products (with volumes totalling approximately €5.8 billion), whilst the contribution from the sale of Class III products, totalling €94 million, was marginal and broadly in line with the figure for the first quarter of 2016.

Sales of regular premium products also performed well (*Multiutile Ricorrente*, *Long Term Care*, *Posta Futuro Da Grande*), with over 27 thousand policies sold in the quarter, as did sales of the *PostaPrevidenzaValore* product which, with almost 27 thousand policies sold during the period and a total number of members amounting to 899 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 almost 11 thousand new policies sold (before withdrawals) during the quarter, whilst over 28 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 enhancing the model for network support. 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 €39.9 million[2], up 59% on the same period of 2016 (€25.1 million). This performance was accompanied by a positive technical performance as a result of a reduced volume of claims with respect to the growth in sales.

In terms of investments during the period, against a backdrop marked by increasingly volatile interest rates and yields on government securities, the investment policy continues to be marked by the utmost prudence, based on the guidelines in the above-mentioned business plan. The portfolio is primarily invested in Italian government securities and corporate bonds, with an overall exposure that, whilst lower than in 2016, represents over 83% of the entire portfolio. In addition, in the first quarter of 2017, whilst maintaining a moderate risk appetite, the company continued with the gradual process of diversifying investments by increasing its exposure to equities (up from 14.2% at the end of 2016 to the current 16.3%), above all multi-asset, harmonised open-end funds of the UCITS (Undertakings for Collective Investment in Transferable Securities) type.
As a result of the above operating and financial performance, technical provisions for the direct Italian portfolio amount to €107.9 billion (€104.3 billion at the end of 2016), including €100.4 billion in mathematical provisions for Class I and V products (€95.9 billion at the end of 2016). Provisions for products where the investment risk is borne by policyholders amount to €6.3 billion (€6.8 billion at 31 December 2016). Deferred Policyholder Liability (DPL) provisions, linked to the change in the fair value of the financial instruments covering the provisions, are down from €9.3 billion at the end of 2016 to €7.4 billion.

Technical provisions for the non-life business, before the portion ceded to reinsurers, amount to €154.5 million at the end of the period, up 8% compared with the end of 2016.

Finally, with regard to the mutual investment funds business, gross inflows during the period amount to €830 million, up 41% on the same period of the previous year (€590 million). The performance of redemptions has resulted in net inflows of €532 million (€353 million in the first quarter of 2016). As a consequence, the assets of retail customers managed by Banco Posta Fondi Sgr are up from €7.3 billion at the end of December 2016 to €7.8 billion at 31 March 2017. Taking into account the portion of the Poste Vita group's technical provisions under management, total assets managed by BancoPosta Fondi SGR at 31 March 2017 have risen to €80.5 billion, representing growth of 0.7% compared with the €79.8 billion of the end of 2016.

[2] Gross premium revenue for the period amounts to €32.6 million.

OTHER SERVICES

THE MOBILE TELECOMMUNICATIONS MARKET

In early 2017, the mobile telecommunications market continued where it left off towards the end of 2016. Operators have further rationalised their price offerings, including ever bigger mobile data bundles, and adopted highly aggressive acquisition strategies, involving the launch of promotions offering prices below the market average and large-scale advertising campaigns, partly in response to the approaching market entry of new players, such as Kena Mobile, TIM's second brand (operating from 29 March 2017) and Iliad, the price leader in the French market.

OTHER SERVICES SEGMENT PROFIT OR LOSS

for the three months ended 31 March (€m)	2017	2016	Increase/(decrease)	
Revenue from sales and services	50	57	(7)	-12.3%
Total external revenue	**50**	**57**	**(7)**	**-12.3%**
Intersegment revenue	7	22	(15)	-68.2%
Total revenue	**57**	**79**	**(22)**	**-27.8%**
Cost of goods and services	35	49	(14)	-28.6%
Personnel expenses	4	5	(1)	-20.0%
Depreciation, amortisation and impairments	6	9	(3)	-33.3%
Other operating costs	0	1	(1)	n/s
Intersegment costs	4	5	(1)	-20.0%
Total costs	**49**	**69**	**(20)**	**-29.0%**
Operating profit/(loss) (EBIT)	**8**	**10**	**(2)**	**-20.0%**

n/s: not significant

The Other Services segment, which includes PosteMobile and Consorzio per i Servizi di Telefonia Mobile, reports operating profit of €8 million for the first quarter of 2017, down €2 million on the same period of the previous year (€10 million for the first quarter of 2016). The reduction reflects the performance of revenue, amounting to €57 million, having fallen 27.8%, primarily as a result of the demerger of the fixed line telecommunications business and its transfer to Poste Italiane SpA, in accordance with the deed executed on 27 April 2016. This has resulted in a reduction of €15 million in intersegment revenue in the first quarter of 2017 (down 68.2% compared with 2016). Mobile revenue is also down, reflecting the high degree of market competition, which has led to a reduction in the customer base since the last quarter of 2016. The performance of revenue was accompanied by a decline in operating costs linked to the falling volume of traffic, due to the above reduction in the active customer base, and the cost efficiencies resulting from the migration of SIMs from the ESP (Enhanced Service Provider) platform to the FULL (Full Mobile Virtual Network Operator) platform.

7. GROUP FINANCIAL POSITION AND CASH FLOW

Net invested capital and related funding

(€m)	at 31 March 2017	at 31 December 2016	Increase/(decrease)	
Non-current assets:				
Property, plant and equipment	2,026	2,080	(54)	-2.6%
Investment property	55	56	(1)	-1.8%
Intangible assets	506	513	(7)	-1.4%
Investments	501	218	283	n.s.
Total non-current assets (a)	**3,088**	**2,867**	**221**	**7.7%**
Working capital:				
Inventories	137	137	0	n.s.
Trade receivables and other receivables and assets	6,558	5,843	715	12.2%
Trade payables and other liabilities	(4,787)	(4,724)	(63)	1.3%
Current tax assets and liabilities	(242)	(73)	(169)	n.s.
Total working capital: (b)	**1,666**	**1,183**	**483**	**40.8%**
Gross invested capital (a+b)	**4,754**	**4,050**	**704**	**17.4%**
Provisions for risks and charges	(1,609)	(1,507)	(102)	6.8%
Provisions for employee termination benefits and pension plans	(1,299)	(1,347)	48	-3.6%
Deferred tax assets/(liabilities)	522	53	469	n.s.
Non-current assets and disposal groups held for sale and Liabilities related to assets held for sale (1)	621	660	(39)	-5.9%
Net invested capital	**2,989**	**1,909**	**1,080**	**56.6%**
Equity	**7,305**	**8,134**	**(829)**	**-10.2%**
Net funds	**4,316**	**6,225**	**(1,909)**	**-30.7%**

(1) Non-current assets and disposal groups held for sale amount to €2,665 million at 31 March 2017 and regard the following companies: BdM-MCC SpA (€2,596 million) and BancoPosta Fondi SpA SGR (€69 million). Liabilities related to assets held for sale amount to €2,044 million at the same date and regard the following companies: BdM-MCC SpA (€2,020 million) and BancoPosta Fondi SpA SGR (€24 million).

n/s: not significant

The Poste Italiane Group's **net invested capital** at 31 March 2017 amounts to €2,989 million (€1,909 million at 31 December 2016), amply financed by equity.

Non-current assets of €3,088 million are up €221 million compared with the end of 2016.

(€m)

	Property, plant and equipment	Investment property	Intangible assets	Investments	Total
Balance at 31 December 2016					
Cost	7,844	142	2,985	218	11,189
Accumulated amortisation and impairments	(5,764)	(86)	(2,472)	-	(8,322)
Carrying amount	**2,080**	**56**	**513**	**218**	**2,867**
Movements during the period					
Additions	27	-	54	283	364
Reclassifications (1)	-	-	-	-	-
Transfers and disposals (2)	-	-	(1)	-	(1)
Amortisation and impairments	(81)	(1)	(60)	-	(142)
Other changes	-	-	-	-	-
Total movements	**(54)**	**(1)**	**(7)**	**283**	**221**
Balance at 31 March 2017					
Cost	7,825	141	3,038	501	11,505
Accumulated amortisation and impairments	(5,799)	(86)	(2,532)	-	(8,417)
Carrying amount	**2,026**	**55**	**506**	**501**	**3,088**
Reclassifications (1)					
Cost	-	-	-	-	-
Accumulated amortisation	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**
Transfers and disposals (2)					
Cost	(46)	(1)	(1)	-	(48)
Accumulated amortisation	46	1	-	-	47
Total	**-**	**-**	**(1)**	**-**	**(1)**

In addition to depreciation, amortisation and impairments (including reversals of impairments) of €142 million, the movement in non-current assets reflects acquisition of the interest in FSIA Investimenti Srl, totalling €278 million, and capital expenditure of €81 million. This includes €65 million invested by Poste Italiane SpA and linked to investment in Information Technology, and investment in the modernisation and upgrade of properties.

Working capital amounts to €1,666 million at 31 March 2017, marking an increase of €483 million compared with the end of 2016. This essentially reflects an increase in trade receivables, collected after the end of the quarter, which offset the increase in net current tax liabilities.

Equity amounts to €7.3 billion at 31 March 2017, marking a reduction of €829 million compared with 31 December 2016. This primarily reflects movements in the fair value reserves (€1,166 million, after tax) due to movements in the fair value of investments in available-for-sale financial assets held by the Financial Services segment.
The above reductions were partially offset by profit for the period of €351 million.

ANALYSIS OF NET (DEBT)/FUNDS

Group net (debt)/funds by operating segment

Net funds/(debt) at 31 March 2017

(€m)

Balance at 31 March 2017	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Eliminations	Consolidated amount
Financial liabilities	**(2,499)**	**(60,871)**	**(1,024)**	**(2)**	**1,826**	**(62,570)**
Postal current accounts	-	(49,818)	-	-	338	(49,480)
Bonds	(818)	-	(765)	-	-	(1,583)
Borrowings from financial institutions	(400)	(5,183)	-	-	-	(5,583)
Other borrowings	-	-	-	-	-	-
Finance leases	(5)	-	-	(2)	-	(7)
MEF account, held at the Treasury	-	-	-	-	-	-
Derivative financial instruments	(44)	(2,017)	-	-	-	(2,061)
Other financial liabilities	(16)	(3,833)	(7)	-	-	(3,856)
Intersegment financial liabilities	(1,216)	(20)	(252)	-	1,488	-
Technical provisions for insurance business	**-**	**-**	**(115,494)**	**-**	**-**	**(115,494)**
Financial assets	**1,171**	**58,954**	**116,751**	**32**	**(1,683)**	**175,225**
Loans and receivables	135	8,704	100	-	-	8,939
Held-to-maturity financial assets	-	12,953	-	-	-	12,953
Available-for-sale financial assets	563	35,778	89,788	-	-	126,129
Financial assets at fair value through profit or loss	-	-	26,585	-	-	26,585
Derivative financial instruments	-	341	278	-	-	619
Intersegment financial assets	473	1,178	-	32	(1,683)	-
Technical provisions attributable to reinsurers	**-**	**-**	**72**	**-**	**-**	**72**
Net financial assets/(liabilities)	**(1,328)**	**(1,917)**	**305**	**30**	**143**	**(2,767)**
Cash and deposits attributable to BancoPosta	**-**	**2,957**	**-**	**-**	**-**	**2,957**
Cash and cash equivalents	**1,393**	**897**	**2,144**	**8**	**(316)**	**4,126**
Net funds/(debt)	**65**	**1,937**	**2,449**	**38**	**(173)**	**4,316**

Net funds/(debt) at 31 December 2016

(€m)

Balance at 31 December 2016	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Eliminations	Consolidated amount
Financial liabilities	**(1,947)**	**(59,225)**	**(1,012)**	**(2)**	**1,265**	**(60,921)**
Postal current accounts	-	(45,456)	-	-	331	(45,125)
Bonds	(812)	-	(759)	-	-	(1,571)
Borrowings from financial institutions	(402)	(5,381)	-	-	-	(5,783)
Other borrowings	-	-	-	-	-	-
Finance leases	(6)	-	-	(2)	-	(8)
MEF account, held at the Treasury	-	(2,429)	-	-	-	(2,429)
Derivative financial instruments	(51)	(2,305)	-	-	-	(2,356)
Other financial liabilities	(13)	(3,634)	(2)	-	-	(3,649)
Intersegment financial liabilities	(663)	(20)	(251)	-	934	
Technical provisions for insurance business	**-**	**-**	**(113,678)**	**-**	**-**	**(113,678)**
Financial assets	**1,236**	**58,681**	**115,596**	**29**	**(1,180)**	**174,362**
Loans and receivables	140	7,915	54	-	-	8,109
Held-to-maturity financial assets	-	12,683	-	-	-	12,683
Available-for-sale financial assets	574	37,263	90,406	-	-	128,243
Financial assets at fair value through profit or loss	-	-	24,903	-	-	24,903
Derivative financial instruments	-	191	233	-	-	424
Intersegment financial assets	522	629	-	29	(1,180)	-
Technical provisions attributable to reinsurers	**-**	**-**	**66**	**-**	**-**	**66**
Net financial assets/(liabilities)	**(711)**	**(544)**	**972**	**27**	**85**	**(171)**
Cash and deposits attributable to BancoPosta	**-**	**2,494**	**-**	**-**	**-**	**2,494**
Cash and cash equivalents	**1,556**	**1,320**	**1,324**	**21**	**(319)**	**3,902**
Net funds/(debt)	**845**	**3,270**	**2,296**	**48**	**(234)**	**6,225**

Total net funds at 31 March 2017 amount to €4,316 million, down on the figure for 31 December 2016 (when net funds amounted to €6,225 million). This primarily reflects the reduction in the fair value reserve for available-for-sale financial assets, amounting to approximately €1,635 million before tax, largely attributable to BancoPosta RFC’s investments and, to a lesser extent, to the subsidiary, Poste Vita.

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

ESMA net financial indebtedness		(€m)
	at 31 March 2017	at 31 December 2016
A. Cash	3	2
B. Other cash equivalents	1,398	1,575
C. Securities held for trading	-	-
D. Liquidity (A+B+C)	**1,401**	**1,577**
E. Current loans and receivables	**53**	**63**
F. Current bank borrowings	-	(2)
G. Current portion of non-current debt	(20)	(14)
H. Other current financial liabilities	(23)	(22)
I. Current financial debt (F+G+H)	**(43)**	**(38)**
J. Current net funds/(debt) (I+E+D)	**1,411**	**1,602**
K. Non-current bank borrowings	(400)	(400)
L. Bond issues	(798)	(798)
M. Other non-current liabilities	(44)	(50)
N. Non-current financial debt (K+L+M)	**(1,242)**	**(1,248)**
O. Industrial net funds/(debt) (ESMA guidelines) (J+N)	**169**	**354**
Non-current financial assets	645	651
Industrial net funds/(debt)	**814**	**1,005**
Intersegment loans and receivables	473	522
Intersegment financial liabilities	(1,184)	(634)
Industrial net funds/(debt) including intersegment transactions	**103**	**893**
of which:		
- Postal and Business Services	65	845
- Other	38	48

LIQUIDITY

	For the three months ended 31 March	
(€m)	2017	2016
Cash and cash equivalents at beginning of period	**3,902**	**3,142**
Net cash flow from/(for) operating activities	518	616
Net cash flow from/(for) investing activities	(300)	(163)
Net cash flow from/(for) financing activities and shareholder transactions	6	(502)
Net increase/(decrease) in cash	224	(49)
Cash and cash equivalents at end of period	**4,126**	**3,093**
- of which:		
Cash subject to investment restrictions	*435*	*-*
Cash attributable to technical provisions for insurance business	*1,848*	*1,301*
Other restricted cash	*33*	*36*

Operating activities generated a cash inflow of €518 million as a result of, among other things, profit for the period of €351 million.

The cash generated was used to fund acquisition of the investment in FSIA Investimenti Srl, totalling €222 million and representing 80% of the price paid, and to finance capital expenditure which, after disposals, resulted in an outflow of €80 million. Cash and cash equivalents rose €224 million in the first quarter of 2017.

Disclosures regarding financial assets and liabilities are provided in the section, "Consolidated financial statements at and for the three months ended 31 March 2017".

8. OUTLOOK

Throughout the remainder of 2017, the Poste Italiane will be engaged in implementing a new Business Plan, which aims to achieve further balanced growth of the business, and to continue to play a key role in driving Italy's innovation and modernisation, above all with regard to the services provided to the Public Administration.

In the Logistics-Postal segment, the Group will continue with the restructuring process embarked on in recent years, through the use of new automation technologies in support of operational processes. The aim is to boost the efficiency and quality of postal services and to improve competitiveness in the Express Delivery and Parcels market.

In 2017, the Financial Services segment will, among other things, focus on its position in the transaction banking market, with particular attention to developing collection and payment services, partly in view of the recent acquisition of an interest in SIA SpA. At the same time, the Group is committed to:

- developing the customer base, through targeted offerings of products and services capable of consolidating customer relations and boosting both deposits and the related investments in financial instruments;
- focusing on the management of Postal Savings, with the process of establishing the terms and conditions in the new Agreement, governing the provision of intermediation services on behalf of Cassa Depositi e Prestiti SpA due to continue;
- expanding the distribution of consumer credit products and consolidating digital banking activities as part of Poste Italiane's wider multi-channel strategy.

In view of ongoing volatility in the international and national financial markets, 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.

In addition, on 8 February 2017 Poste Italiane reached agreement with Invitalia for the sale of its entire shareholding in Banca del Mezzogiorno. Under the terms of the agreement, the date of signature marks the start of an interim period for which the agreement provides indications as to how the company is to be managed, with regard, above all, to the development of lending activities. Completion of the transaction is subject to receipt of the necessary clearance from the Ministry for Economic Development, the Bank of Italy and the European Central Bank.

The Insurance Services and Asset Management business, in addition to consolidating its leadership in the life market, will continue to expand its presence in the market for funds and Class III policies, guaranteeing transparency and close attention to the needs of customers. The segment will also continue to expand its presence in the market for protection and welfare products, partly by developing and reinforcing its integrated offerings and services (Pensions, Health and Care), taking advantage of the Poste Italiane Group's assets and role in society.

The above objectives will be pursued whilst strengthening the Group's cash flow generation, partly with a view to supporting our dividend policy which, whilst still to be finalised in the coming months, is in 2017 expected to be reasonably in line with the policy followed in the last two years.

As regards the Parent Company's financial investments, the Company will, in accordance with the terms of the related contract, continue to monitor the information provided by Midco SpA, the company that owns 51% of Alitalia SAI, and whose Contingent Convertible Notes, with a value of €83 million (originally €75 million) and a term to maturity of 20 years, Poste Italiane subscribed for on 23 December 2014. This investment does not give rise to any involvement on the part of Poste Italiane in the management of the issuer. On 2 May 2017, a general meeting of Alitalia SAI's shareholders noted the outcome of the referendum among the airline's employees, whose acceptance of the new business plan, drawn up in March 2017, was an essential condition to be met before the shareholders were willing to inject further capital into the company in order to finance the new plan. On the same date, in view of the serious financial difficulties faced by the airline, the withdrawal of support by shareholders and the impossibility of quickly finding alternative solutions, the company's board of directors decided to file for extraordinary administration, granted by Ministry for Economic Development decree. The decree has appointed a committee of three administrators, who have been given the task of managing the airline over the next six months. In this period, business continuity will be guaranteed by a bridge loan of €600 million from the Italian government. Based on the best information available, recent events and the terms and conditions applicable to the notes, at the date of preparation of this interim report, the amount due from Midco SpA has been measured on the same basis as in the past. This has been done whilst awaiting developments capable of reducing the current degree of objective uncertainty, so far unquantifiable, regarding recoverability of the loan as originally expected.

9. OTHER INFORMATION

RELATED PARTY TRANSACTIONS

The nature of the Parent Company's principal transactions with related parties during the first quarter of 2017 is summarised below, in order of importance.

- Amounts received from the MEF relate primarily to payment for carrying out the universal service (USO), the management of postal current accounts, the reimbursement of electoral tariff reductions and subsidies, and payments for delegated services, integrated e-mail services, the franking of mail on credit and the collection of tax returns. At 31 March 2017, the amount receivable for the above services totals €383 million.
- Amounts received from CDP SpA primarily relate to payment for the collection of postal savings deposits. At 31 March 2017, the amount receivable totals €719 million.

On 11 October 2016, Poste Italiane's Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised the execution of short-term repurchase agreements with Cassa Depositi e Prestiti with a total nominal amount of up to, but no more than, €2.5 billion. Whilst meeting CONSOB's definition of greater significance, the transaction is ordinary in nature and, therefore, again according to the same CONSOB regulations, is exempted from the decision-making procedures for such transactions. The first loans were granted under the above agreement in early 2017.

INDUSTRIAL RELATIONS

National Collective Labour Contract for non-managerial Poste Italiane staff

Negotiations with the labour unions, regarding renewal of the National Collective Labour Contract, continued in the first quarter of 2017. Among other things, the parties have substantially agreed on the proposed establishment of a Health Fund to provide supplementary insurance cover. In addition, the work of the three committees set up has led to agreement on the need to make a number of alterations to the text of the contract, partly in order to reflect several changes to the related legislation.

Paid leave for union representatives in accordance with art. 30 of Law 300/70

An agreement was reached with the unions on 7 February 2017 regarding the provision of paid leave to union representatives, in accordance with art. 30 of Law 300/70. The agreement is valid for three years (2017, 2018 and 2019) and, with respect to 2016, has reduced the total number of hours of leave available over the three-year period by approximately 66,000.

LABOUR DISPUTES

Compared with the same period of the previous year, the number of labour disputes is down by around 6.5% in the first quarter of 2017. The total number of actions brought amounted to 244, compared with 261 in 2016.

With regard to disputes over flexible employment:

- in relation to fixed-term contracts, 13 new claims were filed, compared with the 14 in the same period of the previous year. The proportion of cases lost was approximately 10.3% (around 9% in the first quarter of 2016);
- no new claims were brought in relation to temporary work (agency/temporary workers), compared with the 13 claims filed in the same period of the previous year. The proportion of these cases lost is approximately 35% (42 % in the first quarter of 2016).

The number of new disputes arising from other contractual terms and conditions amounts to 231 in the first quarter of 2017, in line with the figure of 234 for the same period of 2016. This area also includes dismissals on disciplinary grounds. New challenges amounted to 22 in the first quarter of 2017, compared with 33 in the same period of 2016, with the number of cases lost falling from around 32% in the first quarter of 2016 to approximately 16% in 2017.

A total of 1,227 disciplinary procedures were launched during the period, based on reports from the Security & Safety and/or Internal Auditing functions, namely on the basis of specific reports received from the competent local departments.

At the end of this process, 60 staff were dismissed (70 in 2016) and 1,068 received penalties without dismissal (1,384 in 2016). 99 procedures were concluded without consequence (157 in 2016).

Finally, the Labour Disputes unit has overseen specific pre-dispute resolution procedures relating to fixed-term contracts, with the aim of cutting the total number of disputes. This has consisted in assessments of the approximately 282 appeals and/or claims brought during the period and of the action to be taken.

10. PRINCIPAL 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 2016.

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

The first phase of implementation of the alternate day delivery model, launched in October 2015, covered 256 municipalities in the Lombardy, Piedmont, Friuli Venezia Giulia and Veneto regions. The second phase, launched in April 2016, saw a gradual rollout in approximately 2,400 municipalities in 16 Italian regions. Finally, pursuant to the above Resolution, the third phase of the new delivery model will not be implemented before February 2017 and will progressively involve approximately 2,500 municipalities in 18 regions. 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 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 was suspended on 29 April 2016, as the Regional Administrative Court, in declaring that the grounds submitted by the plaintiff were without basis and upholding the legality of the aforementioned resolution, had 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 16 September 2016, Poste Italiane submitted its observations to the Court of justice.
On 8 March 2017, the Piedmont branch of ANCI and the 41 Piedmont municipalities withdrew their challenge before Lazio Regional Administrative Court. In response, the Court of Justice has adjourned the proceedings whilst waiting for Lazio Regional Administrative Court to officially announce the conclusion of proceedings. On 13 March 2017, FIEG and Avvenire notified their decision to withdraw their challenge. Subsequently, on 27 April 2017, Codacons also withdrew its challenge. On 17 February 2017, the Municipality of Tarzo (Province of Treviso) filed a challenge with Lazio Regional Administrative Court, contesting the introduction of alternate day deliveries.

On the basis of Resolution 728/13/CONS "*Definition of the maximum tariffs for postal services falling within the scope of the universal service*", Poste Italiane submitted to the regulator (on 1 September 2016) and published (on 7 December 2016) a new price list for signed-for products, with the new prices to come into effect from 10 January 2017.
The new price list and the related acts are the subject of a legal challenge, notified on 16 January 2017, brought by the consumers' association, CODACONS. A date for the hearing on the merits of the case is awaited. This association also challenged previous changes to prices introduced by Poste Italiane with effect from 1 December 2014. Judgement of this earlier case is still pending, with a date for the hearing on the merits awaited.

On 16 March 2017, AGCom notified Poste Italiane that it was launched a penalty procedure (5/17/DSP) for the alleged violation of its universal service obligations relating to the handling of items of mail entrusted to other postal operators that finish up in Poste Italiane's network (governed by Resolution 621/15/CONS). On 14 April 2017, the Company submitted its defence brief to AGCom.

As regards obligations relating to the operation of post offices, with reference to Resolution 571/17/CONS, and following monitoring of the changes to post office opening hours during the summer period, carried out by IZI SpA in 2016, on 8 March 2017, the regulator notified a penalty procedure (3/17/DSP) for an alleged violation regarding one post office. The Company submitted a defence brief to AGCom, contesting the penalty, on 7 April 2017. Subsequently, on 2 May 2017, the Company filed a legal challenge with Lazio Regional Administrative Court.

AGCom penalty procedure 06/17/DSP alleges that Poste Italiane violated its legal obligations regarding provision of the Universal Postal Service, relating to the temporary closure of 14 post offices in the province of Salerno. The Company submitted defence briefs to AGCom, contesting the penalty, on 27 April 2017.

AGCM (THE ANTITRUST AUTHORITY)

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. With the ruling adopted at a meeting held on 16 December 2015, the Authority deemed that Poste Italiane 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 an order to pay compensation for damages incurred, arising from the violations referred to in the above ruling, amounting to approximately €375.8 million, as well as court fees. At the hearing held on 22 June 2016, after full discussion, the investigating judge upheld 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. Following completion of the investigation, the settlement hearing was scheduled for 29 March 2017. During this hearing, the investigating judge ordered the appointment of an independent expert and fixed 5 June 2017 as the deadline for the parties to propose the related terms of reference, indicating 15 June 2017 as the date for establishment of the terms of reference and for the swearing in of the expert.

Poste Italiane and PosteMobile lodged appeals against the AGCM's ruling before Lazio Regional Administrative Court in 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, backed 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.

Having assessed the implications of the Lazio Regional Administrative Court ruling, PosteMobile and Poste Italiane decided not to appeal and the ruling thereby became final.

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 2 March 2017, the AGCM sent Poste Italiane a request for information (DC 9033-LB) regarding current accounts held in the name of insurance brokers - with specific regard to matters relating to remote access, the procedure for amending account holders' names and management of accounts. Poste Italiane has responded to the request.

On 13 March 2017, the AGCM notified Poste Italiane of the launch of investigation pursuant to art. 27, paragraph 3 of the Consumer Code, with the aim of assessing whether or not the unilateral changes to the *Bancopostaclick* contract and to the fees applicable to the Postamat payment card constitute unfair commercial practices. Above all, the Authority intends to investigate whether Poste Italiane has failed to provide accurate information regarding the free nature of the Postamat card for *Bancopostaclick* current account customers, wrongfully inducing account holders to accept the additional cost of the Postamat card, not granting them the right to withdraw from the part of the contract relating to the Postamat card alone and providing for withdrawal from the current account package as a whole.

On 6 April 2017, Poste Italiane's representatives attended a hearing at the authority's offices, with the aim of assessing the potential for the submission of commitments designed to resolve the issues raised by the AGCM.

On 7 April 2017, the AGCM sent Poste Italiane a request for information (DC8950-BMC) relating to the document management, printing, enveloping and mailing services provided in relation to the notification of fines for breaches of the highway code. The Company's response is being prepared.

TAX DISPUTES

As part of activities relating to so-called "Help with Tax" (*tutoraggio fiscale*) initiative conducted by the Regional Tax Office for Lazio (Agenzia delle Entrate - *Direzione Regionale del Lazio*), in September 2016, Poste Vita SpA received a request for documentation pursuant to art. 32 of Presidential Decree 600/1973. This was followed, on 22 November 2016, by a raid on the company's premises, conducted in accordance with art. 52 of Presidential Decree 633/1972 and art. 33 of Presidential Decree 600/73, with the aim of verifying, for the tax years 2012 and 2013, the correct computation of outstanding claims provisions and the related tax treatment for the purposes of IRES and IRAP. On 30 November 2016, the company was notified of a tax assessment notice containing one violation in relation to IRES and IRAP, regarding the alleged non-deductibility of the cost of certain "lapsed" claims that have yet to be paid and that were, therefore, still included in the provisions at 31 December 2012 and 31 December 2013. The tax authorities' findings, relating to approximately 340 policies, amounting to a total of approximately €2.1 million for 2012 and approximately €0.2 million for 2013, solely regards the timing of recognition of the relevant costs. The inspectors' opinion is based on the assumption that the company, with regard to lapsed policies, should have included the provisions for claims no longer payable to beneficiaries in taxable income, and then applied a matching reduction in taxable income in future years, when payment of the policies took place. This, according to the tax authorities, because the company's decision to honour the policies, giving rise therefore to the possibility of deducting the related costs, can only be considered irrevocable and final when effective payment of the policy takes place. The company has so far acknowledged the inspectors' findings and, on 23 December 2016, filed a tax settlement proposal in accordance with art. 6, paragraph 1 of Legislative Decree 218 of 19 June 1997. The purposes of this was to enter into discussions with the offices responsible for issuing the notices of assessment, with the aim of obtaining a reduction in the tax to be paid and the related penalties. Following discussions, during which the company was able to demonstrate that claims on around 55% of the lapsed policies attributable to 2012 and approximately 88% of those attributable to 2013 had already been paid by 31 December 2015, amounting to a total of approximately €1.3 million. The tax authorities thus proposed to only recover IRES and IRAP in relation to the additional tax due for 2012 and 2013 on policies that, at 31 December 2015, were still included in outstanding claims provisions (amounting to approximately €0.357 million), to reduce the related penalties by a third as a result of the tax settlement and to reduce them by a further 50% with reference to the policies already paid in recognition of the company's good faith (approximately €0.153 million), in addition to interest charged at 3.5% per annum in accordance with the relevant tax legislation (approximately €0.105 million). As the irregularity merely regarded a question of timing, the additional IRES and IRAP payable will be recovered in the years in which the disputed amounts are paid to beneficiaries, with the company actually only incurring the penalties and interest. Following the board of directors' approval of the tax authorities' proposal on 21 March 2017, the company accepted the proposal on 27 March 2017 by paying the sums due.

BANK OF ITALY

On 10 February 2017, the Bank of Italy announced an inspection pursuant to art. 54 of Legislative Decree 385 of 1993, with the aim of assessing the governance, control and operational and IT risk management systems in relation to BancoPosta's operations.

CONSOB

The process of rolling out the "guided consultancy" service around the post office network continued in the first quarter of 2017, in accordance with the roll-out plan included in the information provided to the CONSOB in December 2016. The rollout will be completed by the end of 2017, with priority being given to the "MiFID offices with consulting rooms" (approximately 3,900, covering 83% of the target customers). The new "guided consultancy" platform, which is in use in 2,500 post offices at 12 April 2017, involves the introduction of standardised procedures designed to aid in identifying the best investment solution for the customer, keeping a systematic record of manager-customer relations.

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

On 20 March 2017, IVASS began an inspection of Poste Vita pursuant to art. 189 of the Private Insurance Code (Legislative Decree 209 of 7 September 2005). The focus of the inspection is "an audit of the best estimate of liabilities and the assumptions used in computing such liabilities and solvency capital requirements (SCR), including on a prospective basis". At the date of preparation of this report, the inspectors' activities are still in progress.

COMMISSIONE DI VIGILANZA SUI FONDI PENSIONE (THE PENSIONS REGULATOR)

On 4 October 2016, the pensions regulator launched an inspection focusing on the *PostaPrevidenza Valore* individual pension plan. The inspection at the offices of Poste Vita came to an end on 23 March 2017, and the company is awaiting formal communication from the regulator that the inspection process has been completed.

11. EVENTS AFTER 31 MARCH 2017

Events after the end of the reporting period are described in the above document and there are no further material events occurring after 31 March 2017 to report.

12. CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE THREE MONTHS ENDED 31 MARCH 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(€m)

ASSETS	at 31 March 2017	at 31 December 2016
Non-current assets		
Property, plant and equipment	2,026	2,080
Investment property	55	56
Intangible assets	506	513
Investments accounted for using the equity method	501	218
Financial assets	158,146	155,819
Trade receivables	4	4
Deferred tax assets	1,039	799
Other receivables and assets	3,073	2,682
Technical provisions attributable to reinsurers	72	66
Total	**165,422**	**162,237**
Current assets		
Inventories	137	137
Trade receivables	2,674	2,168
Current tax assets	15	15
Other receivables and assets	807	989
Financial assets	17,079	18,543
Cash and deposits attributable to BancoPosta	2,957	2,494
Cash and cash equivalents	4,126	3,902
Total	**27,795**	**28,248**
Non-current assets and disposal groups held for sale	**2,665**	**2,720**
TOTAL ASSETS	**195,882**	**193,205**

LIABILITIES AND EQUITY	at 31 March 2017	at 31 December 2016
Equity		
Share capital	1,306	1,306
Reserves	1,194	2,374
Retained earnings	4,805	4,454
Equity attributable to owners of the Parent	**7,305**	**8,134**
Equity attributable to non-controlling interests	-	-
Total	**7,305**	**8,134**
Non-current liabilities		
Technical provisions for insurance business	115,494	113,678
Provisions for risks and charges	700	658
Employee termination benefits and pension plans	1,299	1,347
Financial liabilities	6,871	8,404
Deferred tax liabilities	517	746
Other liabilities	1,050	1,071
Total	**125,931**	**125,904**
Current liabilities		
Provisions for risks and charges	909	849
Trade payables	1,398	1,506
Current tax liabilities	257	88
Other liabilities	2,339	2,147
Financial liabilities	55,699	52,517
Total	**60,602**	**57,107**
Liabilities related to assets held for sale	**2,044**	**2,060**
TOTAL EQUITY AND LIABILITIES	**195,882**	**193,205**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(€m)

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Revenue from sales and services	2,095	2,161
Insurance premium revenue	5,916	6,116
Other income from financial and insurance activities	1,513	1,467
Other operating income	15	15
Total revenue	**9,539**	**9,759**
Cost of goods and services	592	600
Net change in technical provisions for insurance business and other claims expenses	6,574	6,728
Other expenses from financial and insurance activities	135	197
Personnel expenses	1,480	1,505
Depreciation, amortisation and impairments	142	151
Capitalised costs and expenses	(9)	(4)
Other operating costs	99	20
Operating profit/(loss)	**526**	**562**
Finance costs	23	28
Finance income	25	31
Profit/(Loss) on investments accounted for using the equity method	4	3
Profit/(Loss) before tax	**532**	**568**
Income tax expense	181	201
PROFIT FOR THE PERIOD	**351**	**367**
of which, attributable to owners of the Parent	351	367
of which, attributable to non-controlling interests	-	-

Earnings per share	**0.269**	**0.281**
Diluted earnings per share	**0.269**	**0.281**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€m)

	For the three months ended 31 March 2017	For the year ended 31 December 2016	For the three months ended 31 March 2016
Profit/(Loss) for the period	**351**	**622**	**367**
Items to be reclassified in the Statement of profit or loss for the period			
Available-for-sale financial assets			
Increase/(decrease) in fair value during the period	(1,197)	(1,673)	(198)
Transfers to profit or loss	(438)	(592)	(369)
Cash flow hedges			
Increase/(decrease) in fair value during the period	(10)	(15)	43
Transfers to profit or loss	(4)	(22)	(17)
Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the period	473	627	153
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method	-	-	-
After-tax increase/(decrease) in reserves related to group of assets and liabilites held for sale	(4)	-	-
Items not to be reclassified in the Statement of profit or loss for the period			
Actuarial gains/(losses) on provisions for employee termination benefits and pension plans	-	(51)	-
Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the period	-	18	-
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method	-	-	
Total other comprehensive income	**(1,180)**	**(1,708)**	**(388)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**(829)**	**(1,086)**	**(21)**
of which, attributable to owners of the Parent	(829)	(1,086)	(21)
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	Reserves related to disposal groups and liabilites held for sale	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 2016	**1,306**	**299**	**1,000**	**2,739**	**9**	**-**	**-**	**4,305**	**9,658**	**-**	**9,658**
Total comprehensive income for the period	-	-	-	(407)	19	-	-	367	(21)	-	**(21)**
Attribution of profit to reserves	-	-	-	-	-	-	-	-	-	-	**-**
Dividends paid	-	-	-	-	-	-	-	-	-	-	**-**
Changes due to share-based payments	-	-	-	-	-	-	-	-	-	-	**-**
Other changes	-	-	-	-	-	-	-	-	-	-	**-**
Change in scope of consolidation	-	-	-	-	-	-	-	-	-	-	**-**
Other shareholder transactions	-	-	-	-	-	-	-	-	-	-	**-**
Balance at 31 March 2016	**1,306**	**299**	**1,000**	**2,332**	**28**	**-**	**-**	**4,672**	**9,637**	**-**	**9,637**
Total comprehensive income for the period	-	-	-	(1,241)	(46)	-	-	222	(1,065)	-	**(1,065)**
Attribution of profit to reserves	-	-	-	-	-	-	-	-	-	-	**-**
Dividends paid	-	-	-	-	-	-	-	(444)	(444)	-	**(444)**
Changes due to share-based payments	-	-	-	-	-	-	-	-	-	-	**-**
Other changes	-	-	-	-	-	-	2	-	2	-	**2**
Reclassifications to reserves related to disposal groups and liabilites held for sale	-	-	-	1	-	(1)	-	-	-	-	**-**
Change in scope of consolidation	-	-	-	-	-	-	-	-	-	-	**-**
Other shareholder transactions	-	-	-	-	-	-	-	4	4	-	**4**
Amount due from MEF following cancellation of EC Decision of 16 July 2008	-	-	-	-	-			6	6	-	**6**
Taxation	-	-	-	-	-			(1)	(1)	-	**(1)**
Balance at 31 December 2016	**1,306**	**299**	**1,000**	**1,092**	**(18)**	**(1)**	**2**	**4,454**	**8,134**	**-**	**8,134**
Total comprehensive income for the period	-	-	-	(1,166)	(10)	(4)	-	351 (*)	(829)	-	**(829)**
Attribution of profit to reserves	-	-	-	-	-	-	-	-	-	-	**-**
Dividends paid	-	-	-	-	-	-	-	-	-	-	**-**
Changes due to share-based payments	-	-	-	-	-	-	-	-	-	-	**-**
Other changes	-	-	-	-	-	-	-	-	-	-	**-**
Change in scope of consolidation	-	-	-	-	-	-	-	-	-	-	**-**
Other shareholder transactions	-	-	-	-	-	-	-	-	-	-	**-**
Balance at 31 March 2017	**1,306**	**299**	**1,000**	**(74)**	**(28)**	**(5)**	**2**	**4,805**	**7,305**	**-**	**7,305**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(€m)

		For the three months ended 31 March 2017	For the three months ended 31 March 2016
Unrestricted net cash and cash equivalents at beginning of period		**2,292**	**1,783**
Cash subject to investment restrictions		780	1
Cash attributable to technical provisions for insurance business		799	1,324
Amounts that cannot be drawn on due to court rulings		12	11
Current account overdrafts		2	5
Cash received on delivery (restricted) and other restrictions		17	18
Cash and cash equivalents at beginning of period		**3,902**	**3,142**
Cash and cash equivalents at beginning of period		**3,902**	**3,142**
Profit/(loss) for the period		351	367
Depreciation, amortisation and impairments		142	151
Losses and impairments/(recoveries) on receivables		10	7
(Gains)/Losses on disposals		(1)	-
Impairment of disposal groups		2	-
(Increase)/decrease in inventories		-	(1)
(Increase)/decrease in receivables and other assets		(744)	(194)
Increase/(decrease) in payables and other liabilities		197	359
Movement in group of assets and liabilites held for sale		26	-
Movement in provisions for risks and charges		106	9
Movement in provisions for employee termination benefits and pension plans		(48)	(25)
Differences in accrued finance costs and income (cash correction)		12	7
Other changes		5	(10)
Net cash flow generated by/(used in) non-financial operating activities	[a]	58	670
Increase/(decrease) in liabilities attributable to financial activities		1,929	1,388
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		14	(616)
Net cash generated by/(used for) held-to-maturity financial assets attributable to financial activities		(212)	103
(Increase)/decrease in cash and deposits attributable to BancoPosta		(463)	338
(Increase)/decrease in other assets attributable to financial activities		(790)	(508)
(Income)/expenses from financial activities		(610)	(599)
Cash generated by/(used for) assets and liabilities attributable to financial activities	[b]	(132)	106
Net cash generated by/(used for) financial assets at fair value through profit or loss attributable to insurance activities		(1,381)	(1,347)
Increase/(decrease) in net technical provisions for insurance business		3,890	4,266
Net cash generated by/(used for) available-for-sale financial assets attributable to insurance activities		(999)	(2,132)
(Increase)/decrease in other assets attributable to insurance activities		(46)	(114)
(Gains)/losses on financial assets/liabilities measured at fair value		(238)	(322)
(Income)/expenses from insurance activities		(634)	(511)
Cash generated by/(used for) assets and liabilities attributable to insurance activities	[c]	592	(160)
Net cash flow from/(for) operating activities	**[d]=[a+b+c]**	**518**	**616**
Investing activities			
Property, plant and equipment, investment property and intangible assets		(81)	(62)
Investments		(227)	-
Other financial assets		-	(103)
Disposals			
Property, plant and equipment, investment property and intangible assets and assets held for sale		2	2
Investments		-	-
Other financial assets		6	-
Change in scope of consolidation		-	-
Net cash flow from/(for) investing activities	**[e]**	**(300)**	**(163)**
Proceeds from/(Repayments of) borrowings		6	(502)
(Increase)/decrease in loans and receivables		-	-
Dividends paid		-	-
Net cash flow from/(for) financing activities and shareholder transactions	**[f]**	**6**	**(502)**
Net increase/(decrease) in cash	**[g]=[d+e+f]**	**224**	**(49)**
Cash and cash equivalents at end of period		**4,126**	**3,093**
Cash and cash equivalents at end of period		**4,126**	**3,093**
Cash subject to investment restrictions		(435)	-
Cash attributable to technical provisions for insurance business		(1,848)	(1,301)
Amounts that cannot be drawn on due to court rulings		(13)	(13)
Current account overdrafts		-	(12)
Cash received on delivery (restricted) and other restrictions		(20)	(11)
Unrestricted net cash and cash equivalents at end of period		**1,810**	**1,756**

FINANCIAL ASSETS AND LIABILITIES BY OPERATING SEGMENT

POSTAL AND BUSINESS SERVICES

Financial assets

At 31 March 2017, financial assets include:

- available-for-sale investments in Treasury Notes (BTPs) with a nominal value of €500 million (a fair value of €551 million);
- loans and receivables, represented by Contingent Convertible Notes with value of €83 million (a nominal value of €75 million) subscribed by Poste Italiane SpA and issued by Midco SpA, which owns 51% of Alitalia SAI, and guarantee deposits of €44 million relate to collateral provided to counterparties with whom the Parent Company has entered into asset swaps.

Financial liabilities

At 31 March 2017, financial liabilities include:

- bonds with a nominal value of €800 million issued in 2013 and accounted for at an amortised cost of €818 million;
- EIB loans with a total nominal value of €400 million;
- derivative instruments with fair value losses of €44 million, consisting of nine asset swaps used as fair value hedges to protect the value of BTPs with a nominal value of €375 million against movements in interest rates, and a swap contract entered into in 2013 to hedge the cash flows of a €50 million bond.

FINANCIAL SERVICES

Financial assets

At 31 March 2017, loans and receivables primarily include:

- amounts deposited with the MEF, totalling €5,312 million, including public sector customers' current account deposits, which earn a variable rate of return, calculated on a basket of government securities and money market indices;
- the balance of the Parent Company's MEF account, held at the Treasury, amounting to €1,663 million, primarily due to the amount receivable following the transfer of excess liquidity, less advances from the MEF to meet the cash requirements of BancoPosta and the balance of cash flows from the management of postal savings, carried out on behalf of CDP SpA;
- guarantee deposits of €1,325 million, relating to €1,260 million provided to counterparties in asset swap transactions (with collateral provided by specific Credit Support Annexes) and €65 million provided to counterparties in repurchase agreements involving fixed-income securities (with collateral contemplated by specific a Global Master Repurchase Agreements).

The Financial Services segment's investments in securities and equity instruments include:

- held-to-maturity financial assets accounted for at an amortised cost of €12,953 million (a *fair value* of €14,384 million);
- available-for-sale financial assets with a fair value of €35,778 million, including €35,663 million in Italian government securities and €115 million in equity instruments.

  Fair value losses on available-for-sale financial assets in the first quarter amount to €1,562 million. The balance includes a loss of €1,143 million, regarding the portion not hedged by fair value hedges, accounted for in the relevant equity reserve, and a loss of €419 million, relating to the hedged portion, accounted for in profit or loss.

At 31 March 2017, derivative assets attributable to the Financial Services segment amount to €341 million.

Financial liabilities

At 31 March 2017, financial liabilities include:

- payables deriving from postal current accounts, totalling €49,818 million, representing BancoPosta's direct deposits;
- borrowings from financial institutions, totalling €5,183 million, regarding repurchase agreements entered into by the Parent Company with major financial institutions, with a total nominal value of €4,651 million;
- derivative financial instruments with fair value losses of €2,017 million, entirely represented by hedges of BancoPosta RFC's investments.

In particular, BancoPosta RFC holds:

- cash flow hedges deriving from investments with a nominal value of €1,280 million (€1,790 million at 31 December 2016). BancoPosta RFC entered into the following transactions during the quarter:
    - the settlement of forward purchases outstanding at 31 December 2016, with a nominal value of €400 million;
    - the execution of new asset swaps used as cash flow hedge with a nominal value of €50 million;
    - the unwinding of asset swaps used as cash flow hedges for securities sold and hedging changes in the fair value of the securities (a nominal value of €160 million).

  At 31 March 2017, total net fair value losses on derivative financial instruments amount to €56 million.
- fair value hedges with a nominal value of €18,580 million (€16,150 million at 31 December 2016); new asset swaps with a notional value of €2,430 million were entered into during the quarter; these instruments recorded fair value gains of €412 million on the effective portion, whilst the underlying securities report fair value losses of €419 million, with the difference of €7 million due to differentials paid; at 31 March 2017, net fair value losses on these derivative instruments are approximately €1,620 million (losses of €2,052 million at 31 December 2016).

INSURANCE SERVICES AND ASSET MANAGEMENT

Financial assets

Available-for-sale financial assets, amounting to €89,788 million, include €87,751 million in bonds issued by European governments and prime corporates and, to a lesser extent, units in mutual funds and equities. During the period under review, the financial instruments in question recorded fair value losses of €2,064 million, of which €2,002 million was transferred to policyholders and recognised in technical provisions under the shadow accounting method.

Financial instruments at fair value through profit or loss consist of:

- fixed income securities, amounting to €8,571 million and consisting of €4,713 million in coupon stripped BTPs;
- structured bonds, amounting to €983 million and used primarily to cover contractual obligations deriving from Class III products;
- other investments, amounting to €17,031 million and relating to units of mutual investment funds, acquired with the aim of diversifying the insurance business's exposure to government bonds.

At 31 March 2017, outstanding derivatives primarily regard warrants executed by Poste Vita SpA to cover contractual obligations deriving from Class III policies with a fair value of €278 million and a nominal value of €4,846 million.

Financial liabilities and technical provisions

At 31 March 2017, the segment's financial liabilities primarily regard the subordinated loan with a nominal value of €750 million issued by Poste Vita SpA in 2014 and having an amortised cost of €765 million.

At the same date, technical provisions for the insurance business after the portion ceded to reinsurers, amount to €115,422 million.

EXPOSURE TO SOVEREIGN DEBT

The following table shows the Group's exposure to sovereign debt at 31 March 2017, including details of the nominal value, carrying amount and fair value of each type of portfolio.

Exposure to sovereign debt (€m)

Item	at 31 March 2017			at 31 December 2016		
	Nominal value	Carrying amount	Fair value	Nominal value	Carrying amount	Fair value
Italy	**116,477**	**123,823**	**125,254**	**114,065**	**125,851**	**127,615**
Held-to-maturity financial assets	12,796	12,953	14,384	12,392	12,683	14,447
Available-for-sale financial assets	98,220	105,374	105,374	95,479	106,924	106,924
Financial assets at FV through profit or loss	4,712	4,713	4,713	5,445	5,451	5,451
Non-current assets and disposal groups held for sale	749	783	783	749	793	793
Austria	**-**	**-**	**-**	**40**	**42**	**42**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	40	42	42
Financial assets at FV through profit or loss	-	-	-	-	-	-
Belgium	**140**	**143**	**143**	**95**	**103**	**103**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	140	143	143	95	103	103
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	**151**	**160**	**160**	**151**	**176**	**176**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	151	160	160	151	176	176
Financial assets at FV through profit or loss	-	-	-	-	-	-
Germany	**13**	**21**	**21**	**13**	**22**	**22**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	13	21	21	13	22	22
Financial assets at FV through profit or loss	-	-	-	-	-	-
Ireland	**10**	**10**	**10**	**-**	**-**	**-**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	10	10	10	-	-	-
Financial assets at FV through profit or loss	-	-	-	-	-	-
Netherlands	**-**	**-**	**-**	**-**	**-**	**-**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-
Financial assets at FV through profit or loss	-	-	-	-	-	-
Portugal	**-**	**-**	**-**	**-**	**-**	**-**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-
Financial assets at FV through profit or loss	-	-	-	-	-	-
Spain	**1,809**	**2,033**	**2,033**	**1,566**	**1,850**	**1,850**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	1,809	2,033	2,033	1,566	1,850	1,850
Financial assets at FV through profit or loss	-	-	-	-	-	-
Slovenia	**20**	**22**	**22**	**93**	**104**	**104**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	20	22	22	93	104	104
Financial assets at FV through profit or loss	-	-	-	-	-	-
Other Countries	**-**	**-**	**-**	**-**	**-**	**-**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-
Financial assets at FV through profit or loss	-	-	-	-	-	-
Total	**118,620**	**126,212**	**127,643**	**116,058**	**128,184**	**129,948**

13. DECLARATION OF THE MANAGER RESPONSIBLE FOR FINANCIAL REPORTING

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 three months ended 31 March 2017 is consistent with the underlying accounting records.