INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2017

CONTENTS

GROUP FINANCIAL AND OPERATIONAL HIGHLIGHTS

Results of operations for the six months ended 30 June (€m)	**2017**	2016
Total revenue	18,029	17,682
of which:		
from Postal and Business Services	1,812	1,884
from Financial Services	2,840	2,830
from Insurance Services and Asset Management	13,274	12,854
from Other Services	103	114
EBITDA	1,128	1,142
Operating profit/(loss)	847	843
Profit for the period	510	565
Gross ROE	10.0%	9.4%

Financial position (€m)	**at 30 June 2017**	at 31 December 2016
Non-current assets	3,048	2,867
Working capital	1,934	1,183
Net invested capital	3,024	1,909
Equity	7,307	8,134
Net funds/(debt)	4,283	6,225
Industrial net funds/(debt) (before adjusting for intersegment transactions)	54	893

Investment for the six months ended 30 June (€m)	**2017**	2016
Capital expenditure	182	151

Average workforce for the six months ended 30 June	**2017**	2016
Total permanent and flexible workforce expressed in full-time equivalent terms	137,970	142,014

Other operational data	**at 30 June 2017**	at 31 December 2016
Outstanding customer current accounts ('000) [1]	6,321	6,377
Client assets (€bn) [2]	500	493
Number of post offices	12,822	12,845

for the six months ended 30 June	**2017**	2016
Letters handled by Group (volumes in million)	1,627	1,799
Express Delivery items and Parcels handled by Group (volumes in million)	55	46
Current account deposits (average for the period in €m) [3]	54,613	48,101
Poste Vita group (net premium revenue in €m)	11,098	10,551
Number of PosteMobile SIM cards (average for the period in '000)	3,652	3,619

[1] This figure does not include transaction accounts.

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

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

INTERIM REPORT ON OPERATIONS FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. 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] Giulia Bongiorno [5]

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[6]	Remuneration Committee[6]	Nominations Committee[6]	Related and Connected Parties Committee[7]
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. 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 member was appointed by the Board of Directors' meeting of 22 June 2017 to replace Gennaro Terracciano, who resigned on 17 March 2017.

(6) 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.

(7) 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.

2. GROUP ORGANISATIONAL STRUCTURE

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:

2 Financial Services

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

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

4 Other Services

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

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[1], from Poste Italiane to Agenzia Nazionale per l'Attrazione degli Investimenti e lo Sviluppo d'Impresa SpA (Invitalia). The transaction was authorised by the Ministry for Economic Development and the European Central Bank in June 2017 and by the Bank of Italy on 19 July 2017. The latter also finalised the related regulatory arrangements, approving certain terms of the transaction, satisfaction of which will result in completion of the transaction. In accordance with the contract of sale, the parties will complete the activities and fulfil the conditions necessary in order to complete the transaction, taking all reasonable steps to proceed with closing in the shortest time possible. In this regard, on 26 July 2017, an extraordinary general meeting of the bank's shareholders approved a reduction of €160 million in the share capital, following receipt of authorisation from the Supervisory Authority in compliance with art. 56 of the Consolidated Law on Banking (*TUB*). Once the transaction has closed, this sum will be distributed to Poste Italiane as part of the sale price.

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 prior 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 latter company is controlled by CDP Equity SpA through its 77.1% interest in the company. The interest was acquired for a consideration of €278.3 million. 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.

This is also a related party transaction (as Poste Italiane and FSI Investimenti 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 prior consent of its Related and Connected Parties Committee.

[1] During the period under review, the sale price has been adjusted downwards by approximately €2 million, equal to the cost of dismantling the bank's network of agents, which was incurred by Poste Italiane SpA.

The partial demerger of assets belonging to Postecom SpA to Postel SpA, consisting of Postecom's investments in PatentiViaPoste ScpA and Consorzio Poste Motori was effective for legal, accounting and tax purposes from 1 April 2017, as was the merger of what remained of the company with and into Poste Italiane.

The following information regards other Group companies:

- the subsidiary, SDA Express Courier SpA, reports a net loss of €7.7 million for the first half of 2017 (a net loss of €13.9 million for the first half of 2016), requiring the company to apply art. 2446 of the Italian Civil Code (a reduction in capital due to losses in excess of one third of its capital)[2];
- the subsidiary, Mistral Srl, reports a net loss of €4.4 million (a net loss of €2.7 million for the first half of 2016) and having, at 31 March 2017, already fallen within the scope of art. 2482-ter of the Italian Civil Code (capital below the legal minimum), called an extraordinary general meeting of shareholders which, on 28 June 2017, approved a capital injection of €4 million.

DISTRIBUTION CHANNELS AND MULTICHANNEL STRATEGY

Organisational initiatives continued during the first half of the year aimed at optimising commercial management of retail[3] segments. The "new retail service model" was implemented at an additional 1,595 post offices with consulting rooms, bringing the total number of post offices thus equipped to 3,904 (2,309 post offices at 31 December 2016). Further post offices were equipped with the "Guided Consultancy" platform which, in addition to assisting counter staff with compliance with regulations regarding investment products and services, provides a guide to identifying the best investment solutions for customers. At 30 June 2017, 3,926 post offices have been equipped (105 at 31 December 2016).
The network of Specialist Commercial Financial Promoters was also boosted[4] (395 staff at 30 June 2017, compared with 374 at 31 December 2016), who continue to provide their services to retail customers exclusively at post offices. Indeed, Poste Italiane SpA suspended its off-premises offering to this type of customer from June 2017.
Other activities regarded: the opening of 2 new Spazi Filatelia shops (Rome and Florence); expansion of the network of multi-ethnic post offices (27 at 30 June 2017, compared with the 23 operating at 31 December 2016); an increase in the number of pick-up points at post offices for undelivered mail items in line with a more customer-focused approach (11,297 pick-up points at 30 June 2017, compared with 9,956 at 31 December 2016).

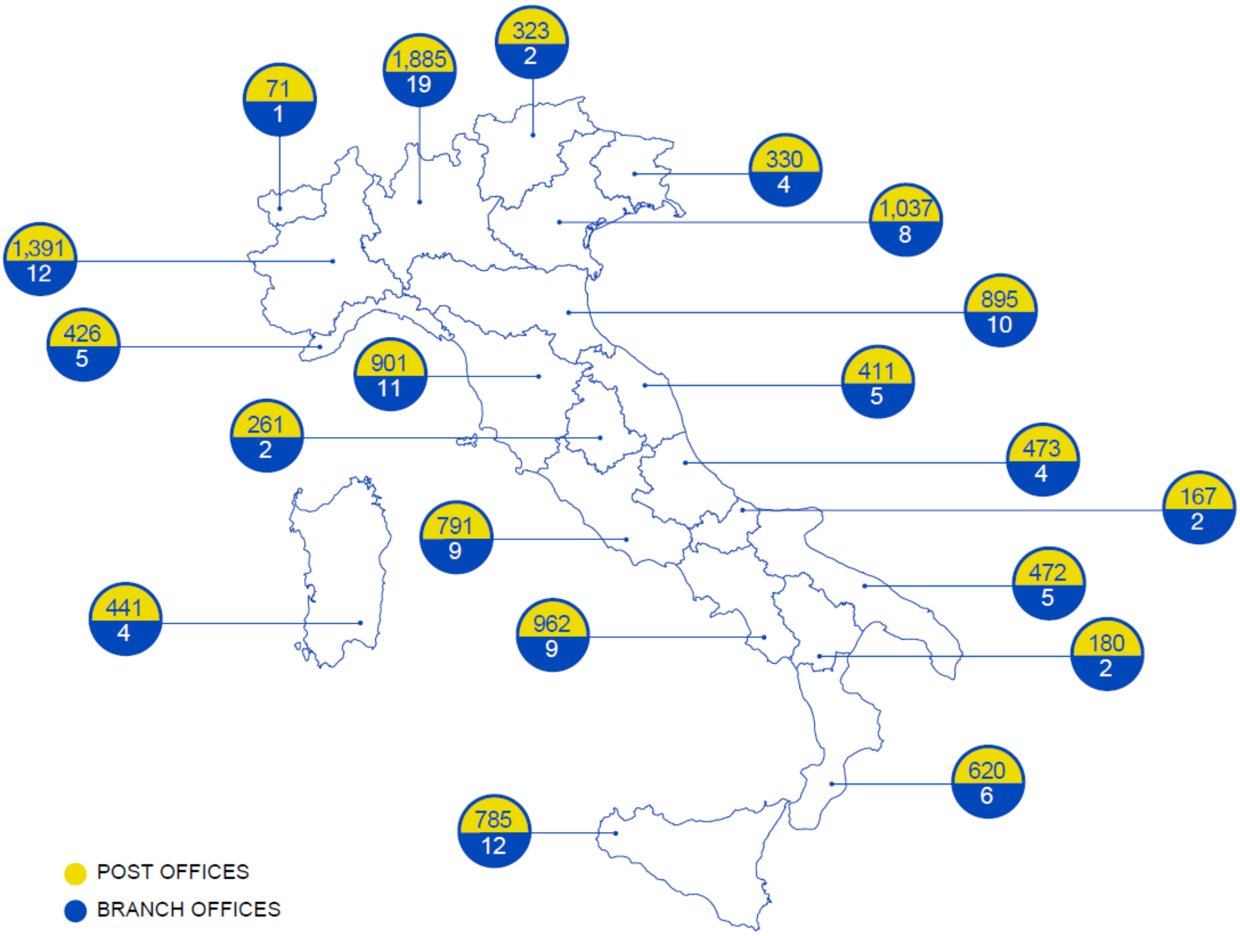
In the first half of 2017, the Poste Risponde Contact Centre handled approximately 12.1 million contacts (9.6 million contacts in the same period of 2016), of which 84% for the captive market. Alongside the usual customer relationship management and commercial network support services, new initiatives designed to support the Group's businesses included completion of the roll-out at all Call Centres of the new front-end assistance application which enables Call Centre staff to improve customer management.

The online distribution channel, via the website www.poste.it and other dedicated web portals, provides access to online services for 13.7 million retail[5] and business customers (12.7 million at 31 December 2016), operating as a direct end-to-end sales channel and as a support provider for other channels.
As well as carrying out evolutionary maintenance work on the portal during the first half of 2017, a series of initiatives was carried out as part of the digital transformation process, with the aim of improving the Group's online offering. In

[2] Poste Italiane SpA is committed to providing financial support to the subsidiaries SDA Express Courier SpA and Mistral Air Srl at least until 31 December 2017.
[3] Sales and contact channels regarding retail customers and Small and Medium Enterprises (SMEs) are supervised by the Private Customer function, which coordinates the network of post offices and contact centre services.
[4] The Specialist Business Financial Promotors are responsible for the promotion and sale of certain investment products and services.
[5] The figure refers to registered and active users.

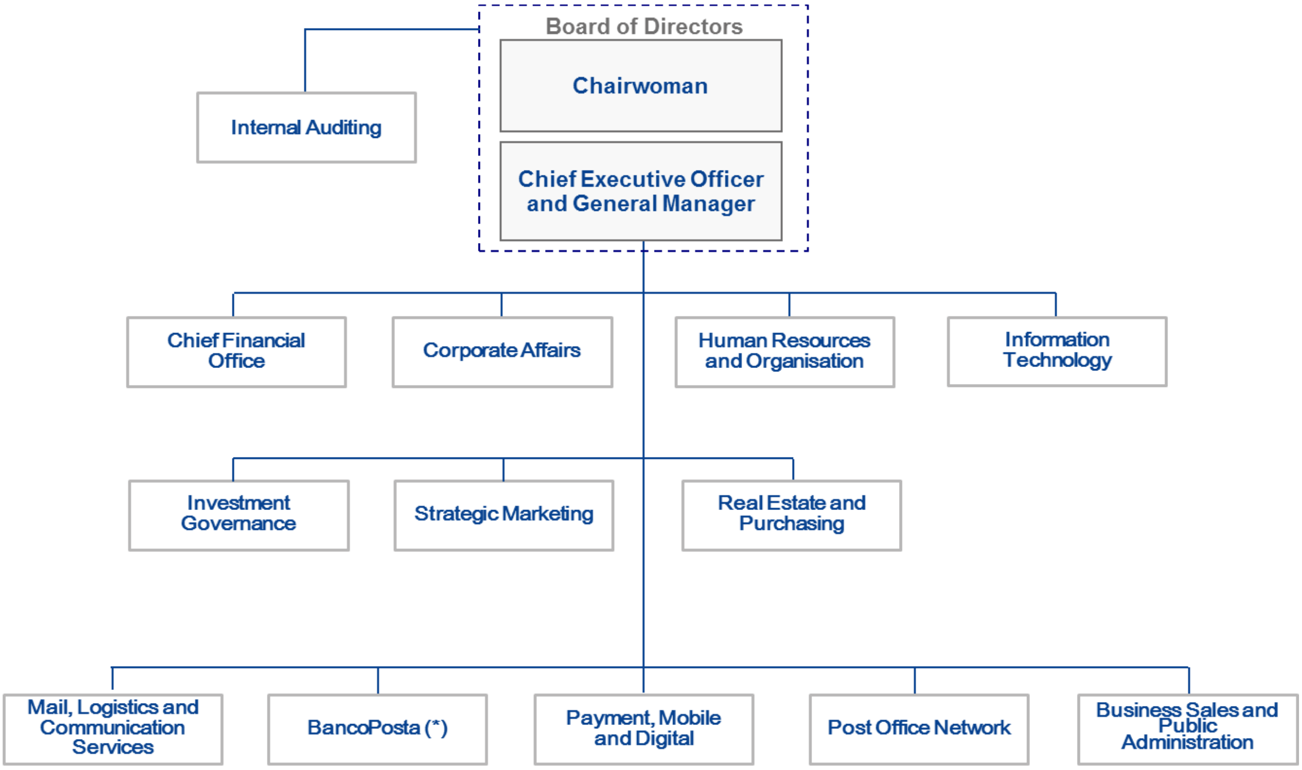
particular, the various Poste Italiane apps were enhanced with new functions for customers (for example, the possibility to change, within pre-set limits, maximum withdrawal and payment amounts for cards, and the introduction of a chatbot[6] that provides a rapid guide to operations that may be carried out at post offices).

GEOGRAPHICAL DISTRIBUTION OF POST OFFICES AND BRANCH OFFICES



6 Chatbot (from "chat" and "bot", which is an abbreviation for the word robot) is a programme through which you can "speak" to a robot equipped with artificial intelligence that is programmed to give structured, sensible and pertinent answers to questions it has been asked.

ORGANISATIONAL STRUCTURE OF POSTE ITALIANE SPA



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

During the first half of 2017, the organisational structure of Poste Italiane was redefined, maintaining the key principles underlying the organisational model previously adopted, including:

- the focus on the core businesses;
- strengthening the role of support functions as competence centres to serve the businesses and the governance of cross-cutting processes;
- the simplification of operating models.

In this context, the main changes introduced regard:

- establishment of the Corporate Affairs function, which is responsible for external and internal communication, public affairs, legal, corporate and regulatory affairs, and relations with regulators, as well as matters regarding the Group's security and safety and risk management. In this regard, it should also be noted that, in order to guarantee joint management of legal matters, the Local Legal Affairs teams, which previously operated within Private Customer Area Offices, have been incorporated within the above-mentioned centralised function;
- establishment of the Real Estate and Purchasing function, within which the procurement activities formerly allocated to the Mail, Logistics and Communication Services and BancoPosta functions have also been incorporated.

Finally, in July, in order to cope better with the keen competition already apparent in the payments sector, partly in connection with the introduction of the new European Payment Services Directive (PSD2), the new Payment, Mobile and Digital function was established, aimed at creating a single unit responsible for developing payment solutions by bringing together the Group's distinctive skill sets.

3. PERFORMANCE INDICATORS

In keeping with the guidelines of the European Securities and Markets Authority (ESMA/2015/1415), in addition to the financial disclosures required by International Financial Reporting Standards (IFRS) that have been used in the preparation of the condensed interim report on the six months ending 30 June 2017, 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.

In addition, as a result of the current process of disposing of the subsidiaries, BancoPosta Fondi SpA SGR and Banca del Mezzogiorno-MCC SpA (described in the section on the Group's organisational structure) – in continuation of with the approach adopted in the Annual Report for 2016 – the Group has applied the provisions of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". The application of IFRS 5 in order to present the above corporate actions has involved presentation of the two companies' net assets, in the Poste Italiane Group's condensed consolidated interim financial statements, as "Non-current assets and disposal groups held for sale" and "Liabilities related to assets held for sale" and restatement of the related amounts, where lower, in line with the expected realisable value.

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. Following the above application of IFRS 5, the assets and liabilities attributable to BancoPosta Fondi SGR and BdM-MCC are shown separately within the Group's net invested capital in "Non-current assets and disposal groups held for sale" and "Liabilities related to assets held for sale", including financial assets and liabilities.

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. Following the above application of IFRS 5, net (debt)/funds does not take into account the financial assets and liabilities attributable to BdM-MCC SpA and BancoPosta Fondi SpA SGR, which are classified in "Non-current assets and disposal groups held for sale" and "Liabilities related to assets held for sale".

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.

4. GROUP OPERATING RESULTS

MACROECONOMIC ENVIRONMENT

The growth outlook for the global economy strengthened during the first six months of 2017, driven by the expansionary policies adopted in the main areas. This progressive improvement has benefitted international trade, which has increased, thanks to greater investment in many economies.

Whilst boosting the performances of the world's financial markets, these trends bring with them a number of risks linked to uncertainty regarding future economic policy. This is connected, among other things, with the potential introduction of protectionist measures in the United States, the UK's exit from the European Union and ongoing geopolitical tensions.

The global recovery has yet to be reflected in commodity prices, above all the price of oil which, despite extension of the cuts in production agreed by OPEC members and their allies at the end of November 2016, has fallen in the period under review, reaching an average of around 50/55 US dollars a barrel. The decision, taken by a number of Arab countries (Saudi Arabia, the United Arab Emirates, Bahrein and Egypt), to break off relations with Qatar has not had a major impact on prices.

Among industrialised countries, the US economy has recorded a slowdown, with GDP growth coming in below expectations, reflecting weaker stocks and public spending. Growth continued, however, thanks to investment, which represents the main driver of growth, together with consumer spending and exports, which have benefitted from a weaker dollar. The Federal Reserve, at its June meeting, raised interest rates by only a small amount, confirming its positive growth outlook for the current year. Wage growth in the USA remains low, in spite of robust employment.

The UK economy grew in early 2017, driven by exports that have benefitted from the weakness of sterling. Growth has, however, been below expectations, whilst inflation has risen and this could have a negative impact on consumer spending. In addition, the outcome of the recent general election in June, which failed to provide a clear result, has increased political uncertainty and risks compromising the government's position in the Brexit negotiations.

Japan's recovery is strengthening and its monetary policy will continue to be expansionary, at least until the Bank of Japan's 2% target for inflation has been met.

Among emerging countries, producer prices in China have fallen over the last few months due to a decline in economic activity linked to reduced domestic demand and an increase in the cost of credit. Fears of a possible slowdown in economic growth and increased public debt have led Moody's to cut its rating for the first time in almost thirty years.

India's growth is more robust, driven by a constant increase in domestic demand.

The Eurozone recovery continues to strengthen and the European Central Bank (ECB), together with a number of international bodies, has raised its forecasts for GDP growth. The rise in employment has led to improved sentiment in all sectors of the economy and has provided further support for consumer spending. In contrast, the rise in the value of the euro could lead to a decline in net exports.

The ECB has confirmed that, despite the improve economic outlook, it intends to continue with its expansionary monetary policy, as inflation remains well off target: the Bank's governing council has, in fact, noted that the lower inflation outlook compared with expectations is due to market trends, such as the performance of energy prices.

Italian economic activity has continued to grow and, based on the outlook announced by Istat, GDP growth in 2017 should be slightly up on the figure for 2016. Domestic demand, excluding stocks, should make a positive contribution to growth, as should consumer spending, driven by improvements in the jobs market. Investment is expected to remain at around the levels seen in 2016, benefitting partly from the positive impact of the ECB's expansionary monetary policy on the credit market. Deflation risks have fallen and there are no new pricing pressures.

The Italian economy is expected to improve further in the coming months, although public debt remains high, a fact that will not allow the government to commit to large-scale investment.

CONSOLIDATED OPERATING RESULTS

Operating profit for the first half of 2017 amounts to €847 million, slightly up on the figure for the same period of the previous year (€843 million in the first half of 2016). This essentially reflects the positive contribution to operating profit from the Insurance Services and Asset Management segment, having benefitted from, among other things, the performance of inflows into mutual investment funds.

Profit for the period of €510 million is down 9.7% on the same period of the previous year (a profit of €565 million in the comparative period). This reflects an increase in finance costs (up from the €9 million in the first half of 2016 to €84 million in the first half of 2017), reflecting the impairment loss of €82 million on the *Contingent Convertible Notes* subscribed for by Poste Italiane in 2014 and issued by Midco SpA. This company's performance is described in the section on the Group's financial position. In addition, the comparative period benefitted from non-recurring income of €121 million, following the sale of the investment in Visa Europe Ltd, which took place as part of Visa Inc.'s acquisition of this company.

RECLASSIFIED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June (€m)	2017	2016	Increase/(decrease)	
Revenue from sales and services and insurance premium revenue	15,335	14,867	468	3.1%
Postal and Business Services	1,786	1,855	(69)	-3.7%
Financial Services	2,298	2,315	(17)	-0.7%
Insurance Services and Asset Management	11,148	10,583	565	5.3%
Other Services	103	114	(11)	-9.6%
Other income from financial and insurance activities	2,665	2,781	(116)	-4.2%
Financial Services	540	512	28	5.5%
Insurance Services and Asset Management	2,125	2,269	(144)	-6.3%
Other operating income	29	34	**(5)**	-14.7%
Postal and Business Services	26	29	(3)	-10.3%
Financial Services	2	3	(1)	-33.3%
Insurance Services and Asset Management	1	2	(1)	-50.0%
Total revenue	**18,029**	**17,682**	**347**	**2.0%**
Cost of goods and services	1,197	1,215	(18)	-1.5%
Net change in technical provisions for insurance business and other claims expenses	12,171	11,944	227	1.9%
Other expenses from financial and insurance activities	380	309	71	23.0%
Personnel expenses	2,934	2,985	(51)	-1.7%
	(13)	(8)	(5)	62.5%
Other operating costs	232	95	137	n/s
Total costs	**16,901**	**16,540**	**361**	**2.2%**
EBITDA	**1,128**	**1,142**	**(14)**	**-1.2%**
Depreciation, amortisation and impairments	281	299	(18)	-6.0%
Operating profit/(loss)	**847**	**843**	**4**	**0.5%**
Finance income/(costs)	(84)	9	(93)	n/s
Profit/(loss) on investments accounted for using the equity method	9	6	3	50.0%
Profit/(Loss) before tax	**772**	**858**	**(86)**	**-10.0%**
Income tax expense	262	293	(31)	-10.6%
Profit for the period	**510**	**565**	**(55)**	**-9.7%**

n/s: not significant

TOTAL REVENUE BY OPERATING SEGMENT

for the six months ended 30 June (€m)	2017	2016	Increase/(decrease)	
Postal and Business Services	1,812	1,884	(72)	-3.8%
Financial Services	2,840	2,830	10	0.4%
Insurance Services and Asset Management	13,274	12,854	420	3.3%
Other Services	103	114	(11)	-9.6%
Total revenue	**18,029**	**17,682**	**347**	**2.0%**

Total revenue of €18.0 billion is up 2% on the first half of 2016, primarily due to the previously mentioned positive performance of insurance services and asset management and the stable performance of Financial Services.

A more detailed look shows that Postal and Business Services contributed total revenue of €1,812 million, registering a reduction of 3.8% compared with the first half of 2016, due to a decline in traditional letter post.

Total revenue from Financial Services is up from the €2,830 million of the first half of 2016 to €2,840 million, benefitting from an increase in "Other income from financial activities", amounting to €540 million (up 5.5% on the €512 million of the first half of 2016).

The Insurance Services and Asset Management segment contributed €13.3 billion to total revenue (€12.9 billion in the same period of the previous year), with premium revenue amounting to €11.1 billion (premium revenue of €10.6 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 June 2017 shows a contraction of approximately 12.9% at national level).

Total revenue from Other Services, provided by PosteMobile and Consorzio per i Servizi di Telefonia Mobile, amounts to €103 million (€114 million in the same period of 2016), marking a reduction due to a decline in mobile service revenue, reflecting tough competition in the market.

OPERATING COSTS

Total costs, not including depreciation, amortisation and impairments, amount to €16.9 billion, having increased 2.2% compared with the first half of the previous year (when the figure was €16.5 billion). This is essentially due to an increase in the change in technical provisions, which are closely linked with the performance of premium revenue at the subsidiary, Poste Vita. This item is up from €11.9 billion in the first half of 2016 to €12.2 billion in the first half of 2017.

Other expenses from financial and insurance activities are up from the €309 million of the first half of 2016 to €380 million and, among other things, reflect the impairment loss recognised by PosteVita on its investment in the Atlante fund, amounting to €93 million. As this is an investment allocated to separately managed accounts, this amount has been deducted from deferred liabilities due to policyholders. The impact of the impairment on the Group's profit or loss for the period amounts to €12 million and relates to management of the company's free capital (further details are provided in the section on "Insurance Services and Asset Management").

Personnel expenses

for the six months ended 30 June (€m)	2017	2016	Increase/(decrease)	
Salaries, social security contributions and sundry expenses (*)	2,944	2,980	(36)	-1.2%
Redundancy payments	4	11	(7)	-63.6%
Net provisions (uses) for disputes	(10)	(1)	(9)	n/s
Amounts recovered from staff due to disputes	(4)	(5)	1	-20.0%
Total personnel expenses	**2,934**	**2,985**	**(51)**	**-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; share-based payments; other costs (cost recoveries).

Personnel expenses are down 1.7% from €2,985 million in the first half of 2016 to €2,934 million in the same period of 2017, largely due to a reduction in the ordinary component, linked to salaries, contributions and sundry expenses (down

€36 million or 1.2%). This reflects a reduction in the average workforce employed during the period (approximately 4,000 fewer full-time equivalents or FTEs compared with the same period of the previous year), which has offset the increased costs resulting from provisions linked to the expected increase in pay in the renewed national collective labour contract, and a rise in the average salary payable (linked primarily to the fact that staff cuts have mainly affected logistics and postal operations, where salaries are below the average for the Group as a whole).

The cost of early retirement incentives incurred during the period amounts to €4 million (€11 million in the first half 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 to cover the estimated costs to be incurred by the Parent Company for early retirement incentives, under the current redundancy scheme for employees leaving the Company by 31 December 2018.

Finally, personnel expenses benefitted by €10 million due to the net release of provisions for disputes, following a revision of the estimated liabilities and of the related legal expenses.

OPERATING RESULTS BY OPERATING SEGMENT

for the six months ended 30 June 2017 (€m)	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Adjustments and eliminations	Total
External revenue	1,812	2,840	13,274	103	-	18,029
Intersegment revenue	2,453	301	-	12	(2,766)	-
Total revenue	**4,265**	**3,141**	**13,274**	**115**	**(2,766)**	**18,029**
Costs	4,159	317	12,612	94	-	17,182
Intersegment costs	31	2,434	292	9	(2,766)	-
Total costs	**4,190**	**2,751**	**12,904**	**103**	**(2,766)**	**17,182**
Operating profit/(loss)	**75**	**390**	**370**	**12**	**-**	**847**

for the six months ended 30 June 2016 (€m)	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Adjustments and eliminations	Total
External revenue	1,884	2,830	12,854	114	-	17,682
Intersegment revenue	2,440	280	-	33	(2,753)	-
Total revenue	**4,324**	**3,110**	**12,854**	**147**	**(2,753)**	**17,682**
Costs	4,197	203	12,316	123	-	16,839
Intersegment costs	53	2,422	268	10	(2,753)	-
Total costs	**4,250**	**2,625**	**12,584**	**133**	**(2,753)**	**16,839**
Operating profit/(loss)	**74**	**485**	**270**	**14**	**-**	**843**

POSTAL AND BUSINESS SERVICES

THE POSTAL SERVICES MARKET

Traditional letter post continued to decline in the first half 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.

The Italian market continues to see a decline in the use of paper-based forms of communication. This trend continues to be driven by a number of structural factors, such as reduced use of Direct Marketing and unaddressed mail for advertising, and the declining use of paper statements by certain specific industries, such as banking and telecommunications, where prepaid forms of payment are in use.

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 six months ended 30 June (€m)	2017	2016	Increase/(decrease)	
Revenue from sales and services	1,786	1,855	(69)	-3.7%
Other operating income	26	29	(3)	-10.3%
Total external revenue	**1,812**	**1,884**	**(72)**	**-3.8%**
Intersegment revenue	2,453	2,440	13	0.5%
Total revenue	**4,265**	**4,324**	**(59)**	**-1.4%**
Cost of goods and services	993	994	(1)	-0.1%
Personnel expenses	2,841	2,893	(52)	-1.8%
Depreciation, amortisation and impairments	260	274	(14)	-5.1%
Capitalised costs and expenses	(13)	(8)	(5)	62.5%
Other operating costs	78	44	34	77.3%
Intersegment costs	31	53	(22)	-41.5%
Total costs	**4,190**	**4,250**	**(60)**	**-1.4%**
Operating profit/(loss) (EBIT)	**75**	**74**	**1**	**1.4%**

The Postal and Business Services segment reports operating profit of €75 million, in line with the same period of the previous year. Total revenue is down from €4,324 million in the first half of 2016 to €4,265 million (a decline of €59 million), essentially due to the decline in traditional letter post.

Similarly, total costs of €4,190 million are down on the first half of 2016 (a decline of €60 million), benefitting from a fall in personnel expenses of €52 million, due to an improvement in workforce efficiency and other cost efficiencies (down €22 million on the first half of 2016). The reductions were offset by an increase of €34 million in other operating costs compared with the first half of 2016, which benefitted from the release of provisions for disputes with third parties as the related liabilities for which provision had been made in previous years failed to materialise.

Operating results

Group Letter Post

for the six months ended 30 June	Volumes (in millions)				Revenue (€m)			
	2017	2016	Increase/(decrease)		2017	2016	Increase/(decrease)	
Unrecorded Mail and Philately	734	788	(54)	-6.9%	434	503	(69)	-13.7%
Recorded Mail	96	101	(5)	-5.0%	482	485	(3)	-0.6%
Direct Marketing and Unaddressed Mail	338	388	(50)	-12.9%	79	86	(7)	-8.1%
Integrated Services	13	18	(5)	-27.8%	77	103	(26)	-25.2%
Other (*)	446	504	(58)	-11.5%	120	131	(11)	-8.4%
Universal Service Obligation (USO) compensation and Tariff subsidies (**)					150	131	19	14.5%
Total	**1,627**	**1,799**	**(172)**	**-9.6%**	**1,342**	**1,439**	**(97)**	**-6.7%**

(*) Includes services for publishers, multi-cnannel services, printing, document management, other basic services.

(**) Universal Service compensation also includes compensation relating to the ordinary parcels service. Tariff subsidies regard market revenue earned in return for the provision of services at discounted prices in accordance w ith the relevant legislation.

The performance of the Group's Letter Post services reflects a reduction in volumes and revenue, with declines of 9.6% (172 million fewer items) and 6.7% (a decline of €97 million), respectively, compared with 2016. This essentially due to the structural decline in traditional postal services, in part reflecting the progressive shift away from paper-based communication towards digital forms (letter post replaced by e-mail, electronic billing, etc.).

The decline in Unrecorded Mail (54 million fewer items, down 6.9% on the first half of 2016) generated a corresponding reduction in revenue of €69 million (down 13.7%), reflecting, as previously mentioned, the rise in e-substitution.

Despite a reduction in volumes (down from 101 million items in the first half of 2016 to 96 million in the first half of 2017), revenue from Recorded Mail remained broadly stable at €482 million. This primarily reflects price increases for Registered Mail and the notification of legal process introduced from 10 January 2017.

Direct Marketing and Unaddressed Mail volumes and revenue are down 12.9% and 8.1%, respectively, reflecting the Group's decision to exit the unaddressed mail market and customers rationalising their mail spend.

Integrated Services registered a declines of 27.8% in volumes and 25.2% in revenue when compared with the same period of the previous years. This essentially reflects a reduction in use of the Integrated Notification Service and a different price mix due to competitive pressures.

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

The compensation partially covering the cost of the Universal Service for the first half of 2017, as provided for in the *Contratto di Programma* (Service Contract) for 2015-2019, in effect from 1 January 2016, amounts to €131 million. Publisher tariff subsidies, introduced from 1 January 2017, amount to €19 million.

Group Express Delivery, Logistics and Parcels

for the six months ended 30 June	Volumes (in millions)				Revenue (€m)			
	2017	2016	Increase/(decrease)		2017	2016	Increase/(decrease)	
Express delivery	**54**	**45**	**9**	**20.0%**	**303**	**268**	**35**	**13.1%**
Domestic Express delivery	44	36	8	22.2%	240	211	29	13.7%
International Express delivery	10	9	1	11.1%	63	57	6	10.5%
Parcels	**1**	**1**	**-**	**n/s**	**17**	**18**	**(1)**	**-5.6%**
Domestic Parcels	1	1	-	n/s	7	7	-	n/s
International Parcels	-	-	-	n/s	10	11	(1)	-9.1%
Other (*)					**22**	**28**	**(6)**	**-21.4%**
Total Express delivery, Logistics and Parcels	**55**	**46**	**9**	**19.6%**	**342**	**314**	**28**	**8.9%**

n/s: not significant

(*) The item, "Other", includes Dedicated Services, Logistics, other SDA Express Courier SpA services and other revenue attributable to Consorzio Logistica Pacchi ScpA.

The Express Delivery, Logistics and Parcels segment saw growth in the volume of items transported and in revenue, registering increases of 19.6% (9 million more items handled) and 8.9% (up €28 million), respectively, compared with the same period of 2016. This good performance is essentially due to growth in the National Express Delivery segment, which registered a rise of 8 million in the number of items handled and a €29 million increase in revenue (volumes up 22.2% and revenue up 13.7%, compared with the first half of 2016), due to the good performance posted by e-commerce in the B2C segment.

The International Express Delivery segment also performed well (volumes up 11.1%, and revenue up 10.5%) again driven by an increase in international shipments also linked to e-commerce.

POSTAL SECTOR REGULATION

With regard to the costs that postal service operators are expected to incur in order to fund the activities of AGCom - in relation to its role as the country's postal regulator – Law Decree 50 of 24 April 2017, converted into Law 96 of 21 June 2017 (art. 65), has repealed the provisions of Legislative Decree 261/99, establishing that, with effect from 2017, such costs are to be governed solely according to the procedures set out in art. 1.c. 65 and 66 of Law 266/2005, basing the calculation on the revenue earned by postal service operators.

Law Decree 244/2016 of 30 December 2016 (the so-called "*Mille Proroghe*" decree), converted into Law 19 of 27 February 2017, has extended the provision of subsidies for postal services introduced by the Interministerial Decree of 21 October 2010, aimed at publishing houses and non-profit organisations entered in the Register of Communications Providers (*ROC*), and has also restored the government subsidies introduced by Law 46 of 27 February 2004. The Decree also confirmed the subsidised tariffs for promotional mailshots by non-profit organisations.

The state budget for 2017 has made provision of €60 million for the period 2017-2019. Law Decree 50/2017 then reduced the provision for 2017 by approximately €2.5 million. This compensation is classified as state aid and must, therefore, be notified to the European Commission, after which the Commission has 60 days to express an official opinion on the compatibility of the aid with EU law, unless this deadline is extended to provide time to request information.

In June 2017, the Italian authorities proceeded with pre-notification to the European Commission.

Other regulatory measures regarding the sector include the draft version of the "Annual market and competition law", which is currently undergoing its fourth reading in the Senate before final approval. Art. 1, paragraph 57 provides for the repeal, from 10 September 2017, of art. 4 of Legislative Decree 261/99, giving Poste Italiane SpA exclusive rights (as the Universal Service provider) to offer services relating to legal process and the notification of violations of the Highway Code. As the parliamentary procedure has yet to be completed, the rights are still attributed to Poste Italiane.

OPERATING REVIEW

The process of restructuring postal and logistics operations continued in the first half of 2017 and has the aim of developing a new, quality Universal Service that is sustainable and in keeping with the changing needs of citizens. In this regard, as part of the optimisation, digital transformation and automation process, steps have been taken to make changes to sorting processes. These include the installation of a new sorting system at the Milan Roserio sorting centre, with the aim of automating the manual process of sorting small packages and items of addressed mail. At the Bologna sorting centre, the first unit to adopt a "Lean manufacturing" approach has begun operating. This has involved reengineering the various stages of the sorting process, giving the operator a central role (introducing, for example, new equipment to make operations and work stations safer and ergonometric) in order to improve the efficiency of all stages of the process.

The partnership with Amazon, covering the delivery of small packages throughout Italy, using the network of postmen and women, was further extended.

In 2015, calls for tenders were launched to find a suitable provider to manage the Group's customer service. On completion of the tender process, the companies to which SDA Express Courier had outsourced the services until the end of 2015 – Uptime SpA (at the time, 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 on permanent part-time contracts all former Uptime employees who have failed to find alternative employment. 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 February 2017. As regards Gepin, the loss of jobs resulting from the redundancies at the Rome and Naples Casavatore sites has been dealt with through an agreement with the Ministry for Economic Development. As a result, RTI System House, the company awarded the contract to provide Poste Italiane's customer service, has agreed to hire the related personnel on permanent employment contracts.

Strictly in terms of employment law, in recent months, a number of former employees of Gepin Contact have brought civil actions against Poste Italiane before the Civil Court, Employment Section.

In particular, 53 plaintiffs have asked the Court of Naples to ascertain and/or declare that a permanent employment relationship was established and existed between the plaintiffs and Poste Italiane, and to order Poste Italiane to reinstate the plaintiffs and, in any event, to hire them, and to assume responsibility for all the legal and financial consequences, including payment of all accrued salaries not paid by Gepin. The related hearing is scheduled for 13 September 2017.

A similar action has been brought by 20 plaintiffs before the Court of Rome, requesting that Poste Italiane and/or SDA be ordered to reinstate and compensate the personnel concerned. A number of these cases were taken under advisement at the hearing of 19 July, whilst others are at the pre-trial stage.

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.

On 21 December 2016, Gepin and Uptime served Poste Italiane and SDA with a writ of summons to appear before the Companies Section of the Civil Court of Rome. The writ contains joint and several claims for approximately €66.4 million, as compensation for the damages incurred by Uptime SpA, 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. Poste Italiane has appeared before the court. The first hearing for presentation of the bill of complaint has already been held. The next hearing is scheduled for 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 has yet to be confirmed. On this basis, 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 eventually be subscribed for by just one of the shareholders, SDA

Express Courier. On 1 June 2017, the Court of Rome, in the appeal brought in accordance with art. 2409 of the Italian Civil Code, accepted a number of criticisms made by the board of statutory auditors and SDA, ordering an inspection of Uptime in liquidation and appointing an inspector. On 5 June 2017, a preliminary bankruptcy hearing was held before the Bankruptcy Court in Rome, during which the court accepted a request for an adjournment to assess the potential for SDA to subscribe for the above shares. The hearing was thus adjourned until 25 September 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. At the hearing held to discuss the application for injunctive relief, the case was adjourned until 18 January 2018 for a hearing on the merits.

POSTAL SERVICE QUALITY

With regard to the quality of universal postal services, targets for which are set by AGCom, regulations for the sector require Poste Italiane to submit data regarding the quality of the services included in the Universal Service to the regulator every six months (and, in any event, within three months following the deadline for the relevant six-month period). An exception is made for ordinary mail, which is monitored by the specialist, independent body appointed by the regulator[7].
The results, together with the findings of the independent body, are published annually by AGCom as part of its review of the quality of universal postal services.
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 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 were also 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.
Moreover, on 19 May 2017, the Company submitted data to AGCom, at the regulator's request, regarding the quality of products falling within the scope of the Universal Service in the areas included in the first phase of the rollout of the alternate day delivery model. The data referred to 2016.
On 25 May 2017, AGCom published the results of its review of the quality of universal postal services for 2016 (priority, ordinary, registered and bulk mail and ordinary parcel post) and the results for each product in the areas included in the first phase of the rollout of the alternate day delivery model. All the results for 2016 are above the relevant regulatory targets.

[7] In Resolution 608/16/CONS dated 6 December 2016, published on 10 January 2017, and following a tender procedure launched with Determination 132/16/SAG of 21 July 2016, the regulator announced that it had selected IZI SpA for the three-year period from 1 December 2016 to 30 November 2019.

With regard to the quality of non-universal postal services, on 28 June 2017, the Company, in compliance with Resolution 413/14/CONS, submitted data to AGCom regarding the postal services offered on the open market in 2016. The data has also been published on the Company's website.

FINANCIAL SERVICES

FINANCIAL MARKET TRENDS

Global equity markets performed well in the first six months of 2017. In June, the US S&P500 index had risen 16.8% over the year to date, with similar performances recorded by European bourses (the Dow Jones Euro Stoxx index), which were up 16%. Italian equities outperformed the European average, with the FTSE Mib up 23% over the year to June.

On the bond markets, the spread between 10-year Treasury Notes (BTPs) and 10-year German Bunds was highly volatile, reaching peaks above 200 basis points before falling to 168 basis points at 30 June 2017 (172 basis points at 31 December 2016).

In the currency markets, following on from the rise in the US dollar at the end of 2016, in part reflecting optimism over the new administration, the currency lost ground in the first half of 2017 (the euro/USD exchange rate at 30 June 2017 is 1.14, compared with 1.05 at 31 December 2016). Sterling, on the other hand, has been broadly stable (the euro/GBP exchange rate at 30 June 2017 is 0.879, compared with 0.856 at 31 December 2016).

THE BANKING SYSTEM

Bank deposits by resident Italian savers rose in the first half of 2017, with deposits totalling approximately €1,708 billion in June 2017, an increase of 0.35%. This was due to growth of €58 billion in deposits (current accounts, certificates of deposit, repurchase agreements and bonds), which offset the €52 billion decline in funding through the issue of notes.

Funding costs (deposits, bonds and repurchase agreements) are down compared with the figure for the end of 2016, with the average cost of customer deposits in June 2017 standing at 0.95%, compared with 0.99% in December 2016.

Bank lending rose in the first half of 2017, in line with the performance in the second half of 2016. In June 2017, total lending to Italian residents (private and Public Administration) - excluding interbank loans – amounted to approximately €1,806 billion, marking a year-on-year increase of 0.9%. Consumer and corporate loans are also up, with mortgage lending up 2.5%, based on official data for May 2017, compared with May 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 4.38% in May 2017. The average interest rate applied to consumer and corporate loans continues to be very low, with a figure of 2.76% in June 2017 (2.85% in December 2016 and 3.05% in June 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 period. This was accompanied by 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 the training of post office personnel.

Finally, work began on compliance with Directive 2016/97/EU (so-called "IDD"), which will come into effect in 2018. This Directive aims to boost protections for customers during the distribution of insurance products.

FINANCIAL SERVICES SEGMENT PROFIT OR LOSS

for the six months ended 30 June (€m)	2017	2016	Increase/(decrease)	
Net interest income	734	760	(26)	-3.4%
Interest and similar income	775	782	(7)	-0.9%
Interest and similar expense	41	22	19	86.4%
Net fee and commission income	1,815	1,780	35	2.0%
Fee and commission income	1,846	1,807	39	2.2%
Fee and commission expense	31	27	4	14.8%
Profits/(Losses) on trading, on disposals or repurchases and fair value adjustments in hedge accounting	522	499	23	4.6%
Net interest and other banking income	3,071	3,039	32	1.1%
Net losses /recoveries on impairment of loans and advances	(8)	(5)	(3)	60.0%
Net income from banking activities	3,063	3,034	29	1.0%
Administrative expenses:	2,539	2,521	18	0.7%
personnel expenses	65	64	1	1.6%
other administrative expenses	2,474	2,457	17	0.7%
Net provisions for risks and charges	100	16	84	n/s
Other operating income/(expenses)	34	12	22	n/s
Operating expenses	2,673	2,549	124	4.9%
Operating profit/(loss) (EBIT)	**390**	**485**	**(95)**	**-19.6%**

n/s: not significant

Operating profit generated by the Financial Services segment in the first half of 2017 amounts to €390 million, down 19.6% on the same period of 2016 (€485 million). The previous first half, however, benefitted from non-recurring income generated by the sale of the Group's investment in Visa Europe, which resulted in a gain of €121 million in the first half of 2016.

The net interest income of €734 million is down 3.4% (€760 million in the same period of 2016), reflecting a reduction in the returns on investments in securities 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 €1,815 million is up 2% on the same period of 2016, primarily reflecting the positive performance of insurance broking, the distribution of loan products and transaction banking, where commissions amount to €1,048 million (€1,012 million in the first six months of 2016). Commissions earned on the distribution and management of postal savings products amount to €771 million, in line with the figure for the first half of 2016.

Net interest and other banking income is up from €3,039 million in the first half of 2016 to €3,071 million (up 1.1%). This includes gains on the sale of available-for-sale financial assets held by BancoPosta RFC, totalling €532 million (€506 million in the same period of the previous year).

Net income from banking activities is thus up 1%, rising from €3,034 million for the first half of 2016 to €3,063 million in the same period of 2017. This is after impairment losses on loans of €7.5 million, including the impairment of overdrawn current accounts held by BancoPosta's customers.

Operating expenses are up 4.9% on the first half of 2016, reflecting, among other things, increased net provisions for risks and charges, due primarily to additional provisions made to cover the risks connected with investment products and services sold in the past and whose performances are not in line with customers' expectations.

Operating results

for the six months ended 30 June (€m)	2017	2016	Increase/(decrease)	
Revenue from:				
management of deposits taken and related investments (1)	1,265	1,143	122	10.7%
postal savings	771	771	-	n/s
fees for collection and payment services (2)	504	520	(16)	-3.1%
the placement and distribution of financial products (3)	162	166	(4)	-2.4%
electronic money services (4)	138	230	(92)	-40.0%
Total	**2,840**	**2,830**	**10**	**0.4%**

(1) Includes returns and capital gains from sales.

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

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

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

n/s: not significant

Total revenue generated by the Financial Services segment in the first half of 2017 amounts to €2,840 million (€2,830 million in the first half of 2016). Of this amount, revenue from the investment of postal current account deposits accounts for €1,265 million (€1,143 million in the same period of 2016), having benefitted from the positive performance of the securities portfolio, resulting in realised gains of €538 million on the sale of securities (€386 million in the same period of 2016). This result more than offset the reduction in interest income on investments, which is down from €757 million in the first half of 2016 to €727 million in the first half of 2017. Despite a rise in the amount invested due to an increase in deposits[8], this figure reflects a reduction in average returns on investments.

Sales of postal savings products, where revenue is linked to a mechanism agreed with Cassa Depositi e Prestiti SpA, contributed €771 million to revenue, in line with the figure for the first half of 2016. At 30 June 2017, Savings Book deposits amount to €111 billion (€118 billion at 30 June 2016), whilst savings in the form of Interest-bearing Postal Certificates amount to €208 billion (€206 billion at 30 June 2016).

Revenue from collection and payment services is down €16 million to €504 million, primarily reflecting a reduction in the volume of payment slips processed, as well as a reduction in revenue from delegated services, following the cessation of payments made by occasional workers using vouchers from March 2017.

Revenue from the provision of electronic money services is down €92 million compared with the same period of the previous year. However, the comparative period benefitted from income resulting from the sale of the Group's investment in Visa Europe, which resulted in a gain of €121 million in the first half of 2016. After adjusting for this item, revenue from these services is up €29 million on the first half of 2016, primarily reflecting good performances for the Postepay and Postepay Evolution cards.

OPERATING REVIEW

In the Financial Services segment, commercial initiatives designed to expand the Group's digital banking activities continued, as did efforts to strengthen its position in the transaction banking market and to enhance the offering of Postal Savings products.

In this context, efforts to improve the Group's online offering included the addition of personalised remote banking solutions for specific customer targets. This included the launch of BPIOL EASY, the new product for sole traders and freelance professionals, who have simpler online needs.

8 Average deposits are up from €48.1 billion at 30 June 2016 to €54.6 billion at 30 June 2017 (including Group companies' investments and amounts payable to financial institutions under repurchase agreements).

With regard to *transaction banking*, marketing of the new Conto BancoPosta account began in May. This account gives holders access to all the related services across any channel, enabling them to manage their account from the post office, a PC or a smartphone using the new BancoPosta APP.

Within the context of acquiring services, a new offering was targeted at sole traders and freelance professionals, enabling them to accept both Postamat cards and PagoBancomat, VISA, Vpay, VISA Electron, Maestro and MasterCard debit cards, using physical POS and Mobile POS devices supplied by Poste Italiane. The service, which is being offered at special launch price, enables payments to be credited to Bancoposta Affari current accounts or the new Postepay Evolution Business card.

With regard to Postal Savings, in an effort to boost deposits, with a view to fulfilling its role as a provider of a Service of General Economic Interest (SGEI), as provided for in the Ministry of the Economy and Finance decree of 6 October 2004, the range of savings products was extended in May, in terms of both type of product and the returns on offer. Specifically, two initiatives were launched, alongside a highly effective advertising campaign through major media outlets, relating to the offer of two Supersmart offerings aimed at all the holders of Libretto Smart books and a *BFP a 3 anni Plus* interest bearing postal certificate. These initiatives have begun to bear fruit in terms of an increase in Postal Savings deposits, above all with regard to net inflows into Interest-bearing Postal Certificates.

Finally, the number of Postepay cards issued stands at over 17 million at 30 June 2017, including around 4 million Postepay Evolution cards. The number of Postamat cards in circulation is stable at 7 million.

INSURANCE SERVICES AND ASSET MANAGEMENT

THE INSURANCE MARKET

Based on the available official data (source: ANIA), new business for life insurance policies in the first six months of 2017 amounted to €41.7 billion (down 12.9% on the same period of the previous year), slowing the decline registered in early 2017. If new life business reported by EU insurers is taken into account (€9.2 billion), the figure rises to €50.9 billion, down 11.6% on the same period of 2016.

Analysing the composition and performance of new business, Class I premiums amount to €26.6 billion, down 26.6% compared with the same period of the previous year. New business for Class V policies also declined (down 25.2%), with premium revenue totalling €775 million. New business for unit-linked Class III life products bucked the trend, generating premium revenue of €14.3 billion (up 35.5%). The contribution from new inflows into individual pension plans was also positive, with inflows of €624 million up 8.1% on the first six months of 2016. In addition, new business in terms of pure risk policies amounts to €391 million (up 17.3% on the same period of 2016). Of this amount, €108 million (accounting for 28%) relates to stand-alone policies not bundled together with mortgages or consumer credit products (up 18.5% on the first six months of 2016). Single premiums continued to be the preferred form of payment for policyholders, representing 93% of total premiums written and 61% of policies by number.

With regard, finally, to distribution channel, most new business was obtained through banks, post offices and financial promoters, accounting for 85% of the total.

Total direct Italian premiums in the non-life insurance market, thus including policies sold by Italian and overseas insurers, amounted to €8.9 billion in the first quarter of 2017, in line with the first quarter of 2016. This marked a reversal of the negative trend seen over the last 4 years (source: ANIA). The only segment to record a decline was vehicle insurance (third-party land vehicle and land vehicle hull policies), which fell 2.0%, whilst the other non-life classes rose 1.8%. In detail, third-party land vehicle premiums amounted to €3.4 billion (down 3.5% on the first quarter of 2016), whilst land vehicle hull premiums amounted to €0.8 billion (up 5.4%). As noted above, the other classes confirmed the growth seen in recent quarters, with the related premium revenue totalling over €4.7 billion (up 1.8%).

In terms of volumes and growth rate, the best-performing classes were medical, with premiums of €0.7 billion (up 7.2%), legal expenses, with premiums of €0.1 billion (up 8.6%) and assistance, with premiums of €0.2 billion (up 7.1%)

In terms of distribution channel, agents continued to lead the way with a market share of 75.8%, although this is down on the figures for previous years (76.6% in the first quarter of 2016). Agents are followed by brokers, with an 8.6% share, and banks and post offices, with a 6.4% share.

INSURANCE SERVICES AND ASSET MANAGEMENT SEGMENT PROFIT OR LOSS

for the six months ended 30 June (€m)	2017	2016	Increase/(decrease)	
Net insurance premium revenue	11,098	10,551	547	5.2%
gross premium revenue	11,122	10,573	549	5.2%
outward reinsurance premiums	24	22	2	9.1%
Fee and commission income	45	28	17	60.7%
Net financial income from assets related to traditional products	1,717	2,101	(384)	-18.3%
Net financial income from assets related to index- and unit-linked products	75	(113)	188	n/s
Net change in technical provisions for insurance business and other claims expenses	12,171	11,944	227	1.9%
Claims paid	5,141	3,693	1,448	39.2%
Net change in technical provisions for insurance business	7,044	8,262	(1,218)	-14.7%
Change in technical provisions where investment risk is transferred to policyholders	(14)	(11)	3	27.3%
Investment management expenses	9	9	-	n/s
Acquisition and administration costs	356	329	27	8.2%
Net commissions and other acquisition costs	273	250	23	9.2%
Operating expenses	83	79	4	5.1%
Other revenue/(costs), net	(29)	(15)	(14)	93.3%
Operating profit/(loss) (EBIT)	**370**	**270**	**100**	**37.0%**

n/s: not significant

Operating profit generated by the Insurance Services and Asset Management segment amounts to €370 million, marking an increase of 37% on the same period of the previous year, primarily due to growth in assets under management (mutual funds and technical provisions).

In a market that, as explained above, has seen a decline in business compared with 2016, the Poste Vita Group's total premium revenue in the first half of 2017, after the portion ceded to reinsurers, amounts to €11.1 billion, up 5.2% compared with the €10.6 billion of the first half of 2016. This was essentially generated by the sale of life products, amounting to €11.0 billion (€10.5 billion in the first six months of 2016), whilst the contribution from non-life products remains marginal, with net premium revenue of €49 million (€38 million in the first half of 2016). In terms of asset management, the positive performance of inflows and the resulting increase in assets under management have generated commission income of €45 million (up 60.7% on the same period of the previous year).

Net financial income from assets related to traditional products amounts to €1,717 million at the end of the period, marking a reduction with respect to the €2,101 million of the first six 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 €92 million. In contrast, thanks to growth in assets under management, ordinary income is up €156 million on the figure for the same period of 2016.

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 €75 million, compared with losses of approximately €113 million in the first half 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 €12.2 billion, compared with €11.9 billion of the same period of the previous year. Of the above change, claims paid to customers amount to €5.1 billion (€3.7 billion in the same period of 2016), inclusive of policy expirations of approximately €3.1 billion. Total surrenders accounted for 2.9% of initial provisions (3.0% at 30 June 2016), a figure that continues to be well below the market average.

Investment management expenses, amounting to €9.0 million, are in line with the €8.9 million of the first half of 2016 and primarily regard portfolio management fees and fees for the custody of securities.

Given the positive operating performance, commissions for distribution and collection amount to €273 million (€250 million in the first half 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.

Operating expenses are up from €79 million in the first half of 2016 to €83 million, reflecting, among other things, an increase in the workforce in response to the ongoing growth of the insurance business. The cost income ratio continues to improve, falling from 29% in the first half of 2016 to 22%.

Net other costs of €29 million (€15 million in the first half of 2016) primarily reflect the reversal, in the period under review, of premium revenue for previous years.

OPERATING REVIEW

In keeping with the strategic objectives pursued in previous years, in the first half 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.

Thanks in part to its constant focus on products, on strengthening the support provided to the distribution network and on boosting customer loyalty, the commercial strategy focused almost entirely on sales of Class I and V investment and savings products (traditional separately managed accounts), with premium revenue, after the portion ceded to reinsurers, amounting to €10.8 billion (€10.2 billion in the same period of 2016). The contribution from the sale of Class III products, totalling €232 million, was marginal, having fallen from the €310 million of the first half of 2016.

Sales of regular premium products also performed well (*Multiutile Ricorrente*, *Long Term Care*, *Posta Futuro Da Grande*), with over 49 thousand policies sold in the period, as did sales of the *PostaPrevidenzaValore* product which, with over 45 thousand policies sold during the period and a total number of members amounting to approximately 915 thousand, has enabled Poste Vita to consolidate its role in the pensions market.

Sales of pure risk policies (term life insurance) also performed well. These are sold in stand-alone versions (not bundled together with products of a financial nature), with over 20 thousand new policies sold during the first half, whilst over 18 thousand were new policies (not including those cancelled during the period), 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 an extremely positive performance, with total premium revenue for the period of €73.3 million[9], up 28% on the same period of 2016 (€57.2 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 around 83% of the entire portfolio. In addition, in the first half 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 17.1%), 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 €110.8 billion (€104.3 billion at the end of 2016), including €103.6 billion in mathematical provisions for Class I and V

[9] Gross premium revenue for the period amounts to €64.7 million.

products (€95.9 billion at the end of 2016). Provisions for products where the investment risk is borne by policyholders amount to approximately €6.0 billion, down from the €6.8 billion of 31 December 2016, primarily due to a Class III product reaching maturity. 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 €7.7 billion, against a backdrop of heightened market volatility.

Technical provisions for the non-life business, before the portion ceded to reinsurers, amount to €160 million at the end of the period, up 12% compared with the end of 2016.

Finally, with regard to the mutual investment funds business, gross inflows from retail customers during the period amount to €1,255 million, up 8.8% on the €1,153 million of the same period of the previous year. The performance of redemptions has resulted in net inflows of €730 million, substantially in line with the figure for the first half of 2016. As a consequence and in the light of financial market trends, the retail customer assets are up from €7,269 million at the end of 2016 to €7,997 million at 30 June 2017. Taking into account the portion of the Poste Vita group's technical provisions under management, total assets managed by BancoPosta Fondi SGR at 30 June 2017 have risen to €82.6 billion (up €2.8 billion compared with the end of 2016).

Atlante and Atlante II funds

In April 2016, Poste Vita decided to invest approximately €260 million in an alternative investment fund called "Atlante", and, on 27 July 2016, invested approximately a further €200 million in the alternative investment fund named "Atlante II". Both funds, which are managed by Quaestio Capital Management SGR SpA, are closed-end funds restricted to professional investors, investing primarily in financial instruments issued by banks looking to strengthen their capital and non-performing loans held by various Italian banks.

At 30 June 2017, the Atlante fund has called up €228 million (the Atlante fund called up a total of €17 million during the period, which was invested in the Atlante II fund), including €202 million allocated to the separately managed account, *PostaValorePiù*, and €26 million allocated to the company's free capital. The Atlante II fund's capital, subscribed and called up during the period under review, is entirely allocated by the company to the separately managed account, *PostaValorePiù*, and amounts to €72 million.

With specific regard to measurement of the value of the Atlante fund, already when preparing its financial statements for 2016, PosteVita had recognised an impairment loss equal to approximately 50% (€106 million, including approximately €93 million recognised in deferred liabilities due to policyholders).

On 21 July 2017, the management company announced that the value of the Atlante fund's units at 30 June 2017 was €78 thousand, a value that reflects, therefore, the write-off of the value of the Veneto-based banks (Veneto Banca and Banca Popolare di Vicenza) in which the fund has invested and representing a reduction of around 80% with respect to the nominal value. The value of the fund is, therefore, represented by the investment in the Atlante II fund. In contrast, the value of Atlante II fund's units at 30 June 2017 amounts to €352 thousand, reflecting the historical cost of the investments made. In view of the above, the management company has announced that it is considering the possibility of winding up the Atlante fund, which it plans to discuss with investors' representatives.

The Group has thus written down the remaining 50% of its investment, with the sole exception of the amount invested in the Atlante II fund.

The impairment losses recognised in the first half of 2017 total €105 million. Of this amount, €93 million, allocated to separately managed accounts, has been deducted from deferred liabilities due to policyholders, whilst the €12 million relating to the insurance company's free capital has been recognised in finance costs.

The total impairment loss recognised at 30 June 2017 thus amounts to €211 million. Of this amount, finance costs recognised in relation to the investment of PosteVita's free capital in 2016 and in the first half of 2017 amount to a total of €24 million.

OTHER SERVICES

THE MOBILE TELECOMMUNICATIONS MARKET

During the first half of 2017, the mobile market was marked by highly aggressive acquisition strategies adopted by the leading operators, involving the launch of deeply discounted offers, targeted at the customers of mobile virtual network operators, partly in response to the approaching market entry of new players, such as Kena Mobile, TIM's second brand, which has been positioned as a low-cost, no-frills virtual operator, operating from 29 March 2017, Vei (Vodafone's mobile virtual network operator) and Iliad, the price leader in the French market, whose entry is expected for the end of 2017.
Competition in the Italian market has resulted in slight changes in market share, with gross acquisition trends in line with the previous year, whilst all operators have experienced an increase in churn rates.

OTHER SERVICES SEGMENT PROFIT OR LOSS

for the six months ended 30 June (€m)	2017	2016	Increase/(decrease)	
Revenue from sales and services	103	114	(11)	-9.6%
Intersegment revenue	12	33	(21)	-63.6%
Total revenue	**115**	**147**	**(32)**	**-21.8%**
Cost of goods and services	75	94	(19)	-20.2%
Personnel expenses	7	10	(3)	-30.0%
Depreciation, amortisation and impairments	11	17	(6)	-35.3%
Other operating costs	1	2	(1)	-50.0%
Intersegment costs	9	10	(1)	-10.0%
Total costs	**103**	**133**	**(30)**	**-22.6%**
Operating profit/(loss) (EBIT)	**12**	**14**	**(2)**	**-14.3%**

The Other Services segment, which includes PosteMobile and Consorzio per i Servizi di Telefonia Mobile, reports operating profit of €12 million for the first half of 2017, down €2 million on the same period of the previous year (€14 million for the first half of 2016). The reduction reflects the performance of revenue, amounting to €115 million, having fallen 21.8% (total revenue of €147 million in the first half of 2016). This reflects 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, which has resulted in a reduction of €21 million in intersegment revenue in the first half of 2017. Mobile revenue is also down due to the high degree of market competition, which has led to a decline in the customer base.
Against this backdrop, in order to reverse the decline that began in the last quarter of 2016 and drive acquisitions, PosteMobile has expanded its range of services and, with a view to diversifying its offering, on 10 April 2017 entered the fixed line market with an offering built around simplicity, reliability and affordability.

In line with the performance of revenue, the cost of goods and services is also down, declining from €94 million in the first half of 2016 to €75 million. This primarily reflects the impact of the above demerger of the fixed line telecommunications business (a reduction of €14 million compared with the first half of 2016), and the reduction in traffic and the cost efficiencies resulting from the migration of SIM cards from the ESP (Enhanced Service Provider) platform to the Full MVNO (Full Mobile Virtual Network Operator) platform.
Personnel expenses of €7 million are down €3 million, reflecting the reduction in the workforce deriving from the demerger of the fixed line telecommunications business.

5. GROUP FINANCIAL POSITION AND CASH FLOW

NET INVESTED CAPITAL AND THE RELATED FUNDING

(€m)	at 30 June 2017	at 31 December 2016	Increase/(decrease)	
Non-current assets:				
Property, plant and equipment	1,997	2,080	(83)	-4.0%
Investment property	54	56	(2)	-3.6%
Intangible assets	498	513	(15)	-2.9%
Investments accounted for using the equity method	499	218	281	n/s
Total non-current assets (a)	**3,048**	**2,867**	**181**	**6.3%**
Working capital:				
Inventories	137	137	-	n/s
Trade receivables and other receivables and assets	6,232	5,843	389	6.7%
Trade payables and other liabilities	(4,349)	(4,724)	(375)	-7.9%
Current tax assets and liabilities	(86)	(73)	13	17.8%
Total working capital: (b)	**1,934**	**1,183**	**751**	**63.5%**
Gross invested capital (a+b)	**4,982**	**4,050**	**932**	**23.0%**
Provisions for risks and charges	(1,617)	(1,507)	110	7.3%
Provisions for employee termination benefits and pension plans	(1,251)	(1,347)	(96)	-7.1%
Deferred tax assets/(liabilities)	403	53	350	n/s
Non-current assets and disposal groups held for sale and liabilities related to assets held for sale [1]	507	660	(153)	-23.2%
Net invested capital	**3,024**	**1,909**		
Equity	**7,307**	**8,134**	**(827)**	**-10.2%**
Net funds	**4,283**	**6,225**	**(1,942)**	**-31.2%**

[1] Non-current assets and disposal groups amount, at 30 June 2017, to €2,591 million and regard BdM-MCC SpA, totalling €2,522 million, and BancoPosta Fondi SpA SGR, totalling €69 million. Liabilities related to assets held for sale amount to €2,084 million and regard BdM-MCC SpA, totalling €2,070 million, and BancoPosta Fondi SpA SGR, totalling €14 million.

n/s: not significant

The Poste Italiane Group's net invested capital at 30 June 2017 amounts to €3,024 million, amply financed by equity. A comparison with the figures for the end of the previous year, when the above indicator totalled €1,909 million, shows that there has been a significant increase, primarily due to movements in working capital (up €751 million compared with 31 December 2016). This is dealt with below.

Non-current assets amount to €3,048 million (€2,867 million at the end of 2016). The increase is primarily due to acquisition of the investment in FSIA Investimenti Srl for €278 million, as described in the section on the Group's organisational structure. In addition to depreciation, amortisation and impairments of €281 million in the first half, movements in non-current assets reflect capital expenditure of €182 million, including €151 million invested by Poste Italiane and primarily relating to IT assets. In particular, work on developing hardware, storage and backup systems continued, as did work on the rationalisation and consolidation of the Group's Data Centre infrastructure. Over the years, these activities have led to the original 35 data rooms distributed nationwide being reduced to the current 7 fully operational Data Centres. The process of rationalising the Data Centres also includes insourcing of the technology infrastructure used by Group companies. This has involved upgrading the Poste Vita group's Disaster Recovery solution at the Turin Data centre and installation of the infrastructure needed to host the ICT systems used by SDA group companies, now located at the Rome site.

The upgrade of IT hardware also proceeded at local level (post offices, head offices and delivery offices), as did the optimisation of applications, including enhancement of the OMP platform (the order management system for postal services), which aims to completely reengineer the undelivered mail service, in order to reduce waiting times for customers and provide a more efficient service.

To support the planned Digital Transformation, improvements were made to the retail section of the poste.it website and the Post Office APP during the first half of 2017.
As regards Insurance Services, improvements were made to the platforms involved in the provision of services for the sale and after-sales management of insurance contracts (Life and Non-life). The changes will enable compliance with the insurance broking regulations in force.
Work on the single Customer Database also continued, in line with the project carried out in the previous year, designed to ensure close links with the Customer Relationship Management (CRM) and Enterprise Data Warehouse (EDWH) systems. Work on upgrading the customer BIC in readiness for creation of the single Customer Database also continued.

Initiatives in the Postal Logistics segment continued during the first half of 2017, focusing on three areas of intervention: “Postal network operations”, with procurement of the necessary equipment for use in guaranteeing operational continuity at offices and delivery centres; “Optimisation of the postal network”, with completion of the process for collecting business post during the first half; and “Evolution of the postal network”, involved the installation of new sorting equipment.
With reference to investment in business support, an electronic registered mail service has been introduced and work on upgrading the Group’s technology infrastructure and logistics network continued. The aim is to boost overall sorting capacity in order to respond to the growth in e-commerce and improve the quality of the services provided.
With regard to other Group companies, around 50% of Poste Mobile’s investment focused on developing new devices to be included in the kit used in providing Electronic Postman services, with the aim of supporting development of the Group’s business processes. Further investment regarded completion of the project that has enabled Poste Mobile to enter the fixed line market in 2017.

There was further investment in the modernisation and renovation of buildings, in keeping with Poste Italiane’s property development strategy, with the main focus on property used in operations. In particular, work continued on planned renovation and non-routine maintenance work, with the aim of upgrading and improving property used in operations in order to meet workplace needs and those related to the services provided, as well as initiatives designed to improve staff health and safety. Non-routine maintenance works (heating and air-conditioning units, electrical and fire prevention equipment, etc.) were also carried out during the first half, as well as work on restoring normal service at post offices where criminal acts had taken place.

Working capital amounts to €1,934 million at 30 June 2017, marking an increase of €751 million compared with the end of 2016. This reflects both the movement in payments on account of withholding tax and substitute tax on capital gains on life insurance policies, and a reduction in amounts payable to staff linked to early retirement incentives, recognised in provisions in the previous year, for employees leaving the Group’s employment during the first half.
The increase in provisions for risks and charges, amounting to €110 million, represents the balance of new provisions and uses/releases. The increase primarily reflects liabilities relating to personnel expenses and, as noted with regard to the operating results of the Financial Services segment, updated estimates of the liabilities deriving from operational risk. In this regard, during the first half, the Group monitored the process and procedures involved in liquidating real estate funds managed by other management companies and in the past sold by Poste Italiane, and whose redemption is due to take place in the current or following year. This has enabled an update of estimates of the liabilities that may be incurred by the Group.

The increase in net deferred tax assets, after offsetting against deferred tax liabilities, amounts to €350 million. This is largely due to the net positive effect on taxation (an increase in deferred tax assets and/or a reduction in deferred tax liabilities) of increased fair value losses on investments in available-for-sale financial assets.

The net balance of "Non-current assets and disposal groups held for sale" and "Liabilities related to assets held for sale" amounts to €507 million, with €452 million attributable to BdM-MCC and €55 million to BancoPosta Fondi. The movement reflects the alignment of the value of the related assets and liabilities with their estimated realisable values at 30 June 2017.

Equity amounts to €7 billion at 30 June 2017, a reduction of €1 billion compared with 31 December 2016. This reflects movements in the fair value reserves (€1 billion, after tax), reflecting positive and negative movements in the fair value of investments in available-for-sale financial assets held by the Financial Services segment. The reduction in equity also reflects the payment of dividends totalling €509 million (€0.39 per share), as approved by the Annual General Meeting of 27 April 2017 and paid to shareholders on 21 June 2017.
The above reductions were partially offset by profit for the period of €510 million.

GROUP NET FUNDS/(DEBT) BY OPERATING SEGMENT

at 30 June 2017 (€m)	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Eliminations	Consolidated amount
Financial liabilities	(1,969)	(62,878)	(1,003)	(2)	1,337	(64,515)
Technical provisions for insurance business	-	-	(118,658)	-	-	(118,658)
Financial assets	963	61,208	119,482	44	(1,033)	180,664
Technical provisions for claims attributable to reinsurers	-	-	75	-	-	75
Net financial assets/(liabilities)	**(1,006)**	**(1,670)**	**(104)**	**42**	**304**	**(2,434)**
Cash and deposits attributable to BancoPosta	-	3,236	-	-	-	3,236
Cash and cash equivalents	1,003	560	2,254	15	(351)	3,481
Net funds/(debt)	**(3)**	**2,126**	**2,150**	**57**	**(47)**	**4,283**

at 31 December 2016 (€m)	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)
Technical provisions for insurance business	-	-	(113,678)	-	-	(113,678)
Financial assets	1,236	58,681	115,596	29	(1,180)	174,362
Technical provisions for claims 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 30 June 2017 amount to €4,283 million, down from the figure at 31 December 2016 (when it was €6,225 million). This primarily reflects a decrease in the fair value reserve for available-for-sale financial assets of approximately €1,187 million, before the related taxation, largely due to the performance of BancoPosta RFC's investments in securities. The performance of net funds was also influenced by the payment of €222 million to acquire the interest in FSIA Investimenti Srl and by the payment of dividends, totalling €509 million.

INDUSTRIAL NET FUNDS/(DEBT), IN ACCORDANCE WITH ESMA GUIDELINES

An analysis of the industrial net funds/(debt) of the Postal and Business Services and Other Services segments at 30 June 2017, in accordance with ESMA guidelines, computed on the basis of paragraph 127 of the recommendations contained in ESMA document 319 of 2013, is provided below:

(€m)	at 30 June 2017	at 31 December 2016
A. Cash	4	2
B. Other cash equivalents	1,014	1,575
C. Securities held for trading	-	-
D. Liquidity (A+B+C)	**1,018**	**1,577**
E. Current loans and receivables	**57**	**63**
F. Current bank borrowings	(201)	(2)
G. Current portion of non-current debt	(750)	(14)
H. Other current financial liabilities	(35)	(22)
I. Current financial debt (F+G+H)	**(986)**	**(38)**
J. Current net funds/(debt) (I+E+D)	**89**	**1,602**
K. Non-current bank borrowings	(200)	(400)
L. Bond issues	(50)	(798)
M. Other non-current liabilities	(41)	(50)
N. Non-current financial debt (K+L+M)	**(291)**	**(1,248)**
O. Industrial net funds/(debt) (ESMA guidelines) (J+N)	**(202)**	**354**
Non-current financial assets	563	651
Industrial net funds/(debt)	**361**	**1,005**
Intersegment loans and receivables	343	522
Intersegment financial liabilities	(650)	(634)
Industrial net funds/(debt) including intersegment transactions	**54**	
of which:		
- Postal and Business Services	*(3)*	*845*
- Other	*57*	*48*

With regard to Poste Italiane SpA's financial investments, in accordance with the terms of the related contract, the Company has continued to monitor the information provided by the debtor, Midco SpA, the company that owns 51% of Alitalia SAI, and whose Contingent Convertible Notes, with an original value of €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.

On 11 May 2017, the Court of Civitavecchia declared Alitalia SAI SpA to be insolvent.

On 5 July 2017, a general meeting of Midco SpA's shareholders approved the company's financial statements for the year ended 31 December 2016, in which its investment in Alitalia SAI was written off. The financial statements show that the company's equity has been reduced to such an extent as to trigger conversion of the Notes held by Poste Italiane SpA into equity instruments. Based on the above events, at 30 June 2017 the Notes, accounted for at a total value of €82 million at 31 December 2016, including interest recognised, have been written off and the related impairment loss, of a non-recurring nature, has been recognised in finance costs.

LIQUIDITY

for the six months ended 30 June (€m)	2017	2016
Cash and cash equivalents at beginning of period	**3,902**	**3,142**
Cash flow from/(for) operating activities	480	(292)
Cash flow from/(for) investing activities	(404)	(152)
Cash flow from/(for) financing activities and shareholder transactions	(497)	(955)
Movement in cash	**(421)**	**(1,399)**
Cash and cash equivalents at end of period	**3,481**	**1,743**
of which:		
Cash subject to investment restrictions	-	202
Cash attributable to technical provisions for insurance business	*1,806*	*487*
Other cash subject to restrictions	*37*	*36*

Operating activities generated a cash inflow of €480 million as a result of, among other things, profit for the period of €510 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 €180 million. Cash and cash equivalents is down €421 million, after the payment of dividends totalling €509 million.

6. HUMAN RESOURCES

HEADCOUNT

	Average number of employees (*)		
Permanent workforce	**for the six months ended 30 June 2017**	**for the year ended 31 December 2016**	**for the six months ended 30 June 2016**
Executives	743	773	782
Middle managers	15,895	16,113	16,064
Operational staff	114,843	118,720	119,467
Back-office staff	830	1,052	1,129
Total workforce on permanent contracts	**132,311**	**136,658**	**137,442**
Fixed-term training contracts	1	-	-
Apprenticeships	17	32	35
Total	**132,329**	**136,690**	**137,477**
Flexible workforce	**for the six months ended 30 June 2017**	**for the year ended 31 December 2016**	**for the six months ended 30 June 2016**
Temporary contracts	2	11	21
Fixed-term contracts	5,639	4,545	4,516
Total	**5,641**	**4,556**	**4,537**
Total permanent and flexible workforce	**137,970**	**141,246**	**142,014**

(*) Expressed in full-time equivalent terms.

In the first half of 2017 a total of 2 million hours of training were provided, of which 52% in the classroom and 48% online, corresponding to 900 thousand participations[10]. Classroom participations accounted for 16% and online participations 84% of the total, due to the launch of certain e-learning initiatives aimed at the entire workforce, including courses on the "Data Protection Code", "Legislative Decree 231/01" and the "2017 performance appraisal scheme".

The main technical and specialist training initiatives were aimed at Private Customer staff – regarding, among other things, guided consultancy, banking transparency, and asset management and savings protection – and staff from the Mail, Logistics and Communication function affected by operational changes in the delivery segment.

HUMAN RESOURCES MANAGEMENT AND DEVELOPMENT

External recruitment and selection of professional staff for the Bancoposta function continued during the first six months of the year and, specifically regarding digital skills, for the Strategic Marketing function.

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

On the development front, on completion of the performance appraisal procedure which involved the entire workforce (a total of around 135 thousand appraisals), the communication campaign continued on the development of the procedure, which in July 2017 will see activation of the new mid-year feedback procedure.

Scouting and development activities continued in connection with the managerial skills model. Specifically, initiatives were carried out aimed at identifying and developing young talent and enhancing the development of middle managers. This was followed by feedback sessions with senior managers and coaching for participants.

[10] The participations include staff who have attended one or more training courses.

Mapping of the specialist technical skills of Distribution Centre managers was launched, involving 185 people of the approximately 500 due to take part in the process.
Finally, management review meetings were held with all function heads to map the managerial team in the performance/potential matrix in order to identify the best staff, draw up succession plans for second-level organisational roles, and plan individual growth and development plans.

Compensation

Regarding the MBO management incentive scheme, the evaluation of objectives relating to 2016 was completed and bonuses were paid out in May 2017. Moreover, an overall framework was defined, together with objectives for the General Manager and a scheme for key management personnel, in line with the principles set out in the "Remuneration Report 2017", approved by the Annual General Meeting of 27 April 2017. The same Meeting also approved the information circular, prepared in accordance with art 84-bis of the Regulations for Issuers, regarding the "Short-term equity-based incentive plan for 2017 for BancoPosta RFC's material risk takers".

The Remuneration Report 2017, comprises:

- Section I, which illustrates the 2017 remuneration and incentive policies for the Board of Directors, the Board of Statutory Auditors and key management personnel;
- Section II, which sets out the compensation paid for 2016 to individual corporate officers, as well as aggregate compensation for key management personnel;
- the annex, "Guidelines for BancoPosta RFC's remuneration and incentive policies for 2017", prepared in compliance with the regulatory requirements for the providers of banking services, relating to compensation for BancoPosta RFC personnel; the annex also sets out remuneration paid during 2016, regarding individuals falling within the specific scope of the guidelines.

For further details, reference should be made to the "Remuneration Report 2017" available at: http://www.posteitaliane.it/resources/editoriale/pdf/En/assemblea/2017/Relazione-Remunerazione-2017-ENG.pdf

The information circular on the "Short-term equity-based incentive plan for 2017" illustrates the main features of the plan which provides short-term variable incentives for BancoPosta RFC's material risk takers, with 50% of the incentive in the form of phantom stocks, namely units representing the value of Poste Italiane SpA's shares. The document also points out that 40-60% of the short-term variable component will be deferred for a period of 3-5 years.
For further details, reference should be made to the information circular which is posted at:
http://www.posteitaliane.it/resources/editoriale/pdf/En/assemblea/2017/Documento-Informativo-Piano-BP-2017-ENG.pdf

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 early 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.

Performance-related bonus

On 19 July 2017, an agreement was reached on performance-related bonuses for Poste Italiane SpA, Poste Vita SpA, Poste Assicura SpA, Postetutela SpA, EGI SpA and BancoPosta Fondi SpA SGR. The agreement, which is valid for one year, enables assessment of the contributions made by staff towards the achievement of corporate objectives in 2017.

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.

Bilateral Agencies

The activities of the *Ente Bilaterale per la Formazione e Riqualificazione del Personale* (the Bilateral Agency for Staff Training and Retraining) continued to support the development, presentation and activation of various projects, and concluded several agreements that enabled Poste Italiane to obtain finance from Fondimpresa. In the first six months of the year, approximately 140 training plans with a value of approximately €4 million were accounted for at Fondimpresa.

European Social Dialogue

During the plenary meeting of the European Social Dialogue Committee for the postal sector, Poste Italiane was appointed to chair the "Training, Health and Safety" working group, within which the Company will coordinate implementation of the "Promoting Social Dialogue in the postal sector in an enlarged Europe" project. The initiative, approved and financed by the European Commission, aims to spread awareness of the European social dialogue among employers and labour unions as well as analysing the impact of digital transformation in the postal sector. The project will be implemented over the next two years.

Social policies and Corporate Social Responsibility

During the first half of the year, the welfare system continued to improve the quality of inclusive services provided to socially vulnerable groups, and develop initiatives geared towards the needs of employees and their families. Therefore, attention continued to be focused on vital social issues such as mediation, healthcare and prevention, integration of the disabled, education and appreciation of diversity.

The "PosteOrienta" project, aimed at providing professional guidance workshops and carrying out research dedicated to employees' children, saw the participation of more than 700 youngsters.

During the first six months of the year, 260 staff took advantage of the socially innovative organisational and technological tool of telecommuting.

In order to enhance appreciation of gender diversity and inclusion, Poste Italiane, which has joined a dedicated intercompany network, participated in the promotion of the Women in Motion campaign, set up to encourage the presence of women in technical departments and debunk gender stereotypes, by hosting a workshop for young female students. Moreover, in partnership with the Valore D Association, initiatives aimed at strengthening female leadership continued, including via participation in thematic welfare workshops. Regarding the initiatives aimed at encouraging the development of active parenthood, the "maam u" initiative for staff on maternity leave continued, with around 360 staff members participating in the maam platform and 70 in the Engage programme.

LABOUR DISPUTES

Compared with the same period of the previous year, Poste Italiane SpA's labour disputes registered a slight fall in the number of actions brought in the first half of 2017 (556 new claims were filed compared, with 563 in the same period of 2016).

With regard to disputes over flexible employment:

- in relation to fixed-term contracts, 41 new claims were filed, compared with the 29 in the same period of the previous year. The number of cases lost – calculated on the basis of outcomes notified regardless of the year in which the claims were filed – was approximately 10% (around 11% in 2016);
- no new claims were brought in relation to temporary work (agency/temporary workers), compared with the 14 claims filed in the first half of 2016. The proportion of these cases lost is approximately 47% (46% in the first half of 2016).

The number of new disputes arising from other contractual terms and conditions amounts to 515 in the first half of 2017, slightly down on the figure of 520 for the same period of 2016. This area also includes dismissals on disciplinary grounds. New challenges amounted to 47 in the first half of 2017, compared with 112 in the same period of 2016, with the number of cases lost falling from around 28% in the first half of 2016 to approximately 13% in 2017.

A total of 2,337 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, 102 staff were dismissed (112 in the first half of 2016) and 2,030 received penalties without dismissal (2,436 in the first half of 2016). 205 procedures were concluded without consequence (185 in the first half of 2016).

The principal grounds for dismissal included: "irregular securities trading" (around 22%); "unjustified absence" (around 21%); "serious operational negligence" (around 15%); and "criminal convictions/proceedings" (around 9%). The main reasons for the imposition of penalties without dismissal were: "operational negligence" (around 27%); "failure to fulfil service duties and obligations" (around 23%); and "absence in the event of health inspection visits and failure to comply with sickness regulations" (around 17%).

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 466 appeals and/or claims brought during the period and of the action to be taken.

7. RISK MANAGEMENT

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

The model involves an integrated risk management process, implemented according to a continuous and dynamic approach. It exploits the existing risk management systems applicable to each segment (financial, insurance, postal and logistics) and business process, bringing them into line with the specific methods and tools envisaged by the model, so as to help in developing risk management behaviours and expertise throughout the Group’s operations. Moreover, to support the process of identifying and describing risks, the model uses a Risk Model that classifies risks on the basis of five categories: strategic, regulatory and compliance, insurance, operational and financial, as described below.

This classification system, in line with the relevant best practices and, when present, with specific regulatory requirements, is shared at Group level and updated periodically, including with regard to business operations and the outcomes of assessment activities.

STRATEGIC RISK

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

REGULATORY AND COMPLIANCE RISK

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

INSURANCE RISK

This category of risk regards technical risks resulting from insurance operations (non-life technical, health technical and life technical) and is dealt with in Poste Italiane's condensed consolidated interim financial statements for the six months ended 30 June 2017 (Analysis of risk management).

OPERATIONAL RISK

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

Certain types of operational risk are described below.

Risk of attacks/external event risk

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

Work on boosting active security measures in post offices continued in the first half of 2017, including the implementation, integration and replacement of alarm and video surveillance systems, using technologically advanced equipment. Passive security was also strengthened via the installation of anti-theft devices. Great attention is also paid to combating the risks deriving from potential fraud inside and outside the Company, including online identity theft, phishing, malware, IP addresses identified as malicious and other data.

Risks connected to health and safety regulations

In its model for managing workplace health and safety, Poste Italiane has identified 5 new operating units: 4 that coincide with the business functions (Mail, Logistics and Communication, BancoPosta, Private Customer and Business Sales and Public Administration) and 1 that includes the remaining staff functions. All the units are now dealt with as a uniform whole by the Security and Safety function which performs a management, coordination and control role with regard to workplace health and safety and the environment.

During the first half of 2017, among other things, the new risk assessment documents of the Mail, Logistics and Communication and BancoPosta functions were updated, and the requirements for updating the new risk assessment document for the Private Customer function were defined.

The information campaign aimed at building awareness of safety at work issues also continued. This has involved many post offices and distribution centres with a view to taking further action to reduce accidents.

Finally, further mandatory training in occupational safety was provided, in continuation of the training courses run in previous years. Training courses for emergency team staff were also updated, and spread across several sites to facilitate greater participation in the courses.

Information technology risk

Within the context of the risks associated with tangible events (e.g., fires, earthquakes, water damage, equipment breakdowns) and/or intangible events (breaches of trust, unexpected network outages, cybercrime), data breaches have assumed growing importance. The direct consequences are the loss, destruction or unauthorised disclosure of sensitive and confidential information.

In this regard, Poste Italiane has designed an integrated Information Security Governance model for the Group. The model sets out the related roles, responsibilities and activities in order to provide strategic guidance for the monitoring of the Group's data security infrastructure. In particular, the programme of activities aimed at guaranteeing a constant match between IT security processes and the IT systems development strategy and the evolution of external threats continued during the first half of the year. Checks on the state of security systems were also carried out and necessary actions taken to reduce the levels of risk detected.

During the period, when certain highly publicised cyber attacks were launched across the global network, the relevant corporate departments collaborated with Italian partners from CERT (Computer Emergency Response Team) and the results of analyses conducted revealed that no breaches of the Company's network had occurred.

FINANCIAL RISK

The risk environment is defined on the basis of the framework established by IFRS 7 – "Financial Instruments: Disclosures*"*, which distinguishes between four main types of risk (a non-exhaustive classification):

- market risk;
- credit risk;
- liquidity risk;
- cash flow interest rate risk.

These types of risk are dealt with in Poste Italiane's condensed consolidated interim financial statements for the six months ended 30 June 2017 ("Risk management").

8. EVENTS AFTER 30 JUNE 2017

Events after the end of the reporting period have been described in other sections of the Report and no other material events have occurred after 30 June 2017.

9. OUTLOOK

Throughout the second half of 2017, the Poste Italiane Group will be engaged in drawing up a new Business Plan, focusing on the achievement of further balanced growth of the business, and continuation of its role in driving Italy's innovation, 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 by exploiting synergies in the postal logistics network and all available assets. The Group is also committed to improving 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 acquisition of an interest in SIA SpA. At the same time, the Group is committed to:

- leveraging 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.

The transfer of Poste Italiane's entire shareholding in Banca del Mezzogiorno-Medio Credito Centrale to Agenzia nazionale per l'attrazione degli investimenti e lo sviluppo d'impresa SpA (Invitalia) was authorised by the Ministry for Economic Development and the European Central Bank in June 2017 and by the Bank of Italy on 19 July 2017. The latter also finalised the related regulatory arrangements, approving certain terms of the transaction, satisfaction of which will result in its completion. In accordance with the contract of sale, the parties will complete the activities and fulfil the conditions necessary in order to complete the transaction, taking all reasonable steps to proceed with closing in the shortest time possible. In this regard, on 26 July 2017, an extraordinary general meeting of the bank's shareholders approved a reduction of €160 million in the share capital, following receipt of authorisation from the Supervisory Authority in compliance with art. 56 of the Consolidated Law on Banking (*TUB*). Once the transaction has closed, this sum will be distributed to Poste Italiane as part of the sale price.

The Insurance Services and Asset Management business, in addition to consolidating its leadership in the life market, the Group 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.

With regard to the partnership agreements between Poste Italiane SpA and Anima Holding, work on exploiting the potential synergies between the Group's distribution capabilities and the investee's industry know-how will continue.

The above objectives will be pursued whilst strengthening the Group's cash flow generation, with a view to maximising total returns for shareholders.

10. PRINCIPAL RELATIONS WITH THE AUTHORITIES

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 255 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. The third phase, which has been authorised by AGCom for approximately 2,500 municipalities in 18 regions, has yet to be launched. 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 by introducing a dedicated delivery network.

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 challenge brought by Piedmont branch of ANCI and the 41 Piedmont municipalities before Lazio Regional Administrative Court was withdrawn. In response, the Court of Justice has adjourned the proceedings whilst waiting for Lazio Regional Administrative Court to officially announce the conclusion of proceedings. In a ruling on 22 June 2017, the Lazio Regional Administrative Court announced the conclusion of the proceedings and withdrew the application for a preliminary ruling from the European Court of Justice.

On 13 March 2017, FIEG and Avvenire notified their decision to withdraw their challenge. Subsequently, on 27 April 2017, Codacons also withdrew its challenge and the Lazio Regional Administrative Court announced the conclusion of the proceedings with a ruling on 21 June 2017.

Certain municipalities also filed a challenge with the Lazio Regional Administrative Court, contesting the introduction of alternate day deliveries. However, the municipalities subsequently withdrew their challenge before the Lazio Regional Administrative Court, which regarding two cases (Municipality of Zeri and Municipality of San Mauro Cilento) has already concluded the proceedings, while for the Municipality of Tarzo conclusion of the proceedings is awaited.

With regard to the issue of right of access to the universal postal network, Poste Italiane's challenge to Resolution 728/13/CONS is still pending. This has imposed an obligation on the Company to provide, at the request of third parties, equal and reasonably free access to be negotiated with the parties. Whilst awaiting an outcome, Poste Italiane has received four requests for access to the universal postal network, none of which has so far resulted in an agreement granting network access to another operator or in disputes, relating to negotiations, before AGCom. Subsequently, with Resolution 651/16/CONS, published on 23 December 2016, the regulator then launched a public consultation on its outline proposals for changes to the provisions regarding access to Poste Italiane's postal network and infrastructure.

Poste Italiane submitted its contribution to the debate and explained its views during a hearing held at AGCom's offices in February 2017. Subsequently, in May, AGCom sent companies operating in the sector a number of questionnaires aimed at providing further information on the workings of the postal market (outcomes of tenders organised by the Public Administration, volumes handled and trends relating to mail reposted in the universal network).

On the basis of Resolution 728/13/CONS, 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 coming 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.

Following a dispute brought by the operator GPS (Globe Postal Services) and a prior public consultation, AGCom adopted Resolution 621/15/CONS regarding regulations governing the return of items of mail entrusted to other postal operators that finish up in Poste Italiane's network. Under this ruling, Poste Italiane is obliged to revise the "*Contract terms and conditions regarding the return of items of mail entrusted by senders to other postal operators that finish up in Poste Italiane's network*", including three distinct return procedures[11] and, on this basis, a reformulation of the rates charged, taking into account, among other things, the principle of cost orientation (avoidable cost) and applying discounts for certain volumes.
Poste Italiane proceeded to amend its Contract Terms and Conditions and informed all contracted operators, as well as GPS, about the new Contract Terms and Conditions.
Given the financial impact this ruling may have on Poste Italiane – especially the possibility of only being able to recover additional costs with the new rates –, the Company appealed the ruling before the Lazio Regional Administrative Court. On 22 September 2016, the Regional Administrative Court published its judgment, partially upholding the arguments supporting Poste Italiane's appeal. In particular, the Regional Administrative Court has upheld the appeal insofar as it relates to the principle under which the additional costs alone may be recovered, establishing Poste Italiane's right to recover the full cost of the service through the prices charged. Following the above judgment, Poste Italiane proposed a number of changes to the Contract Terms and Conditions to AGCom. The regulator, however, asked the Company to wait for a new resolution on the issue before publishing new Contract Terms and Conditions.
Despite this, both AGCom and Nexive (as well as GPS, which has submitted a cross appeal on the appeal brought by AGCom) have appealed to the Council of State. In particular, AGCom has requested an injunction halting implementation of the Regional Administrative Court ruling. The hearing on the merits before the Council of State was held on 4 May 2017, and a decision on the appeal is currently awaited.
GPS has challenged certain communications sent to it by AGCom before the Lazio Regional Administrative Court. The communications were aimed at obliging the operator to agree to Poste Italiane's new Contract Terms and Conditions (deemed by AGCom to be in line with the resolution). GPS has also contested AGCom's prohibition against use of the term "stamp" to indicate the "stickers" used by GPS. This challenge was rejected by the Lazio Regional Administrative Court on 26 July 2017.

Also regarding mail items entrusted to other postal operators that finish up in Poste Italiane's network, on 16 March 2017 AGCom notified Poste Italiane that it was launching a penalty procedure (5/17/DSP) for the alleged violation of its

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

universal service obligations relating to such items. On 14 April 2017, the Company submitted its defence brief to AGCom, which was presented at a hearing on 17 May 2017.

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. With Resolution 221/17/CONS of 6 June 2017, the regulator dismissed the proceedings.

Subsequently, with penalty procedure 6/17/DSP, AGCom alleged that Poste Italiane had 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.

Finally, regarding deregulation of legal process and the notification of violations of the Highway Code provided for in the draft "Annual market and competition law", ahead of the future regulation of these services, on 8 June 2017 AGCom requested the leading market operators to gather information regarding this matter. The Company submitted its contribution on 23 June 2017.

AGCM (THE ANTITRUST AUTHORITY)

On 4 June 2015, the AGCM launched an investigation pursuant to art.8, paragraph 2 *quater* of Law 287/90, aimed at ascertaining whether actions taken by Poste Italiane were designed to prevent H3G SpA from accessing the post office network. Requests to participate in the investigation from Fastweb SpA and Vodafone Omnitel BV, as well as PosteMobile, were accepted. With the ruling adopted at a meeting held on 16 December 2015, the Authority deemed that Poste Italiane – at variance with the provisions of art. 8, paragraph 2 *quater* of Law 287/90 – failed, when requested, to offer a competitor of its subsidiary, PosteMobile, equal access to goods and services that are exclusively available from Poste Italiane, as they form part of the activities carried out within the scope of the Universal Postal Service. In the same ruling, the Authority also ruled that Poste Italiane should desist from such conduct in the future. The Authority did not impose a 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, and submission of the depositions pursuant to art. 183 of the Code of Civil Procedure, 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. At this hearing, the court opted to base its terms of reference on those proposed by PosteMobile and fixed a deadline for the parties to submit any proposed changes and for PosteMobile to propose any counter-proposals. The hearing was adjourned until 10 May 2018 for examination of the expert's report.

Poste Italiane lodged an appeal against the AGCM's ruling on 25 February 2016, with PosteMobile also lodging an appeal against the final ruling before Lazio Regional Administrative Court on 19 February 2016. On 28 September 2016, Lazio Regional Administrative Court rejected the appeals, whilst confirming the key 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[12].

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 13 March 2017, the AGCM notified Poste Italiane SpA 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 27 April 2017, Poste Italiane submitted direct commitments designed to resolve the competition issues raised by the AGCM. At the hearing held on 9 June 2017, the Authority stated that the commitments were insufficient to remedy the alleged infringements.

On 27 June 2017, Poste Italiane submitted a revised version of the commitments. The deadline for completion of the proceeding has been extended until 27 September 2017.

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. On 8 and 12 May 2017, Poste Italiane submitted a detailed reply to the regulator, providing a precise answer to each question.

BANK OF ITALY

In the first half of 2017, the Bank of Italy conducted 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. The inspection began on 10 February 2017 and was completed on 5 May 2017. The related Inspection Report was issued on 20 July 2017. Poste Italiane will respond within the required deadline.

CONSOB

The process of rolling out the "guided consultancy" platform around the Poste Italiane's post office network continued in the first half of 2017, in accordance with the roll-out plan included in the information provided to the CONSOB in December 2016. At 30 June 2017, the new platform, introducing standardised procedures designed to aid in identifying the best investment solution for the customer, enabling a systematic record of manager-customer relations to be kept, is present in all "MiFID offices with consulting rooms" (approximately 3,900, covering 83% of the target customers).

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

During the first half, IVASS conducted an inspection of **Poste Vita SpA** pursuant to art. 189 of the Private Insurance Code (Legislative Decree 209 of 7 September 2005). The inspection began on 20 March 2017 and came to an end on 28 June 2017. The focus of the inspection was "an audit of the best estimate of liabilities and the assumptions used in

[12] In fact, in its ruling of 14 September 2016, the AGCM clarified that, at that time, there were no grounds to justify action pursuant to Law 287/90, as art. 8, paragraph 2-*quater* of Law 287/90 does not establish a generic obligation to grant access to the network on ad hoc terms, but an obligation to grant access on equivalent terms to those applied to subsidiaries.

computing such liabilities and solvency capital requirements (SCR), including on a prospective basis". Poste Vita provided the documentation requested and is now waiting to know the regulator's conclusions and the outcome of the inspection.

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. On 14 July 2017, the regulator notified the company that the inspection had been completed.

Garante per la protezione dei dati personali (the Data Protection Authority)

With Resolution 16625/117468 of 9 May 2017, the Data Protection Authority carried out an inspection at the office of Poste Italiane in Viale Europa 175, Rome, pursuant to articles 157 and 158 of Legislative Decree 196/2003, containing the Data Protection Code. The purpose of the inspection was to gather information in application of data protection legislation relating to the correct implementation of SPID technology.

The inspection was aimed at verifying compliance with data protection regulations in relation to data processed as part of digital identity management activities pursuant to the Prime Ministerial Decree of 24 October 2014, "Definition of the characteristics of the public system for the management of the digital identities of citizens and businesses (SPID)".

The inspection entailed accessing the PosteID Service data banks, as well as related checks on the treatment of locations and systems where IT data processing is carried out.

During the three inspections carried out at Poste Italiane's offices, the managers from the Data Protection Authority introduced actions aimed at checking procedures and methods relating to the identification of parties requesting a digital identity, and any difficulties arising during the issue of SPID identities. Digital identity issue and access tests were carried out, via PosteID, relating to various service providers' digital services. The role of Customer Care was assessed, with special attention paid to the applications used. In addition to documentation regarding individual requests, Poste Italiane provided all the documentation submitted to *AgID-Agenzia per l'Italia Digitale* (the Digital Italy Agency) to the regulator.

The regulator prepared reports on each visit carried out at the Company, concluding that no irregularities had been found during the inspection procedure.

Information on litigation and tax and social security disputes is provided in Poste Italiane's condensed consolidated interim financial statements for the six months ended 30 June 2017.

11. OTHER INFORMATION

THE ENVIRONMENT

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

Over two-thirds of Poste Italiane's polluting emissions are attributable to the energy used to supply its properties. For this reason, a plan to optimise energy use, by encouraging staff to adopt a virtuous approach to energy, has been in place for several years. This includes information campaigns focusing on the need to save energy (for example, on the careful use of "heat pumps"), and the introduction of technical initiatives designed to reduce waste, including the installation and activation of energy management devices for monitoring energy consumption, measurement at the sites where energy consumption is highest and the correct setting of temperatures and time-settings for cooling and heating systems.

Fleet management is also a key component of the Group's green strategy, which has seen deployment of low environmental impact vehicles (powered by electricity, natural gas and LPG), and a four-wheel fleet renewed in 2016, which means that Poste Italiane now has vehicles in lower pollution, fuel consumption and specific emissions categories with respect to those previously in use.

Also, as part of the mobility management project, which aims to support the adoption of sustainable mobility solutions in urban areas with a view to encouraging staff to help reduce CO_2 emissions, the Group is implementing various initiatives, including: special agreements enabling the Group's employees to purchase annual season tickets for local public transport in certain Italian cities; initiatives aimed at facilitating use of the car-sharing service for daily commuting; and installation of company changing rooms at the Mestre (VE) site and at the Rome headquarters in order to encourage staff to walk and cycle to work.

Finally, the Group continued to participate in international programmes aimed at reducing greenhouse gas emissions, such as the Environmental Measurement and Monitoring System (EMMS) run by the International Post Corporation (IPC), the Greenhouse Gas Reduction Programme set up by Posteurop, and the new OSCAR (Online Solution for Carbon Analysis and Reporting) programme, launched in July by the UPU (Universal Postal Union) with the aim of reporting and monitoring the CO_2 emissions of postal operators.

RELATED PARTY TRANSACTIONS

Internal related parties include subsidiaries and associates directly or indirectly managed by Poste Italiane SpA. External related parties include the majority shareholder, the Ministry of the Economy and Finance, entities controlled, also jointly, by the Ministry of the Economy and Finance, and companies associated with them. The Group's key management personnel and pension funds providing post-employment benefits for staff employed by the Group and related entities are also related parties. The state and public bodies, other than the Ministry of the Economy and Finance, are not deemed to be related parties. Transactions involving financial assets and liabilities represented by instruments traded on organised markets are not deemed to be related party transactions.

With the aim of ensuring the transparency and substantial and procedural correctness of transactions with related parties and connected persons, Poste Italiane has adopted "Guidelines for the management of transactions with related and connected parties", approved by Poste Italiane SpA's Board of Directors in July 2015 and the latest amendments of 11 October 2016. The Guidelines have been drawn up in compliance with the principles established by the CONSOB in the Regulation adopted with Resolution 17221 of 12 March 2010 and Announcement DEM/10078683 of 24 September 2010.

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

The scope of application of the Guidelines differs depending on the applicable regulations. This means that the CONSOB's requirements apply to Poste Italiane (in carrying out both its postal activities and those of BancoPosta and in the conduct of transactions with Poste Italiane's related parties through subsidiaries), whilst the standards issued by the Bank of Italy apply solely to BancoPosta's transactions with Poste Italiane's connected parties. The updated version of the Guidelines is published on Poste Italiane's website at:

http://www.posteitaliane.it/en/governance/company-documents/related-parties-connected-persons.shtml

The document is also available in the section dedicated to BancoPosta at:

http://www.posteitaliane.it/it/governance/documenti_bancoposta/operativita_parti_correlate_sogg_collegati.shtml.

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 in accordance with the above agreement in the first half of 2017.

No other significant related party transactions were carried out in the first half of 2017.

Details of the impact of related party transactions on the financial position and profit or loss are provided in Poste Italiane's condensed consolidated interim financial statements for the six months ended 30 June 2017 ("Related party transactions").

STATEMENT OF RECONCILIATION OF PROFIT AND EQUITY

The statement of reconciliation of the Parent Company's profit/(loss) for the period and Equity with the consolidated amounts at 30 June 2017, compared with the statement at 31 December 2016, is included in Poste Italiane's condensed consolidated interim financial statements for the six months ended 30 June 2017 ("Share capital").

EXCEPTIONAL AND/OR UNUSUAL TRANSACTIONS

Disclosures regarding exceptional and/or unusual transactions in the first half of 2017 are provided in Poste Italiane's condensed consolidated interim financial statements for the six months ended 30 June 2017 ("Exceptional and/or unusual transactions").

APPENDIX – KEY PERFORMANCE INDICATORS FOR PRINCIPAL POSTE ITALIANE GROUP COMPANIES

POSTE ITALIANE SPA for the six months ended 30 June (€m)	2017	2016	Increase/(decrease)	
Revenue from sales and services	4,583	4,630	(47)	-1.0%
Operating profit/(loss)	469	573	(104)	-18.2%
Profit/(loss) for the period	261	406	(145)	-35.7%
Investment (*)	439	118	321	n/s
Equity (**)	5,118	6,160	(1,042)	-16.9%
Permanent workforce - average	128,425	133,284	(4,859)	-3.6%
Flexible workforce - average	5,475	4,344	1,131	26.0%

(*) The figure for the first half of 2015 includes financial investments of €288 million.

(**) The amount shown in the column for the six months ended 30 June 2016 refers to 31 December 2016.

n/s: not significant

OTHER COMPANIES

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

POSTEL SPA (*) for the six months ended 30 June (€000)	2017	2016	Increase/(decrease)	
Revenue from sales and services	115,036	112,074	2,962	2.6%
Operating profit/(loss)	2,073	(3,005)	5,078	n/s
Profit/(loss) for the period	507	(4,390)	4,897	n/s
Investment	5,649	4,538	1,111	24.5%
Equity (**)	102,011	96,081	5,930	6.2%
Permanent workforce - average	1,122	1,187	(65)	-5.5%
Flexible workforce - average	25	37	(12)	-32.4%

(*) The demerger of the consortia owned by Postecom SpA and their transfer to Postel SpA was effective for legal, tax and accounting purposes from 1 April 2017.

(**) The amount shown in the column for the six months ended 30 June 2016 refers to 31 December 2016.

n/s: not significant

SDA EXPRESS COURIER SPA for the six months ended 30 June (€000)	2017	2016	Increase/(decrease)	
Revenue from sales and services	286,217	279,977	6,240	2.2%
Operating profit/(loss)	(10,205)	(18,208)	8,003	44.0%
Profit/(loss) for the period	(7,666)	(13,946)	6,280	45.0%
Investment	1,118	1,554	(436)	-28.1%
Equity (*)	1,731	9,125	(7,394)	-81.0%
Permanent workforce - average	1,368	1,409	(41)	-2.9%
Flexible workforce - average	71	69	2	2.9%

(*) The amount shown in the column for the six months ended 30 June 2016 refers to 31 December 2016.

POSTE TUTELA SPA for the six months ended 30 June (€000)	2017	2016	Increase/(decrease)	
Revenue from sales and services	42,335	43,285	(950)	-2.2%
Operating profit/(loss)	223	470	(247)	-52.6%
Profit/(loss) for the period	170	369	(199)	-53.9%
Investment	58	5	53	n/s
Equity (*)	13,331	13,153	178	1.4%
Permanent workforce - average	16	16	-	n/s

(*) The amount shown in the column for the six months ended 30 June 2016 refers to 31 December 2016.

n/s: not significant

EUROPA GESTIONI IMMOBILIARI SPA				
for the six months ended 30 June (€000)	2017	2016	Increase/(decrease)	
Revenue from sales and services	44,782	44,828	(46)	-0.1%
Operating profit/(loss)	2,250	1,753	497	28.4%
Profit/(loss) for the period	862	356	506	n/s
Investment	453	248	205	82.7%
Equity (*)	236,268	235,402	866	0.4%
Permanent workforce - average	28	30	(2)	-6.7%

(*) The amount shown in the column for the six months ended 30 June 2016 refers to 31 December 2016.

n/s: not significant

MISTRAL AIR SRL				
for the six months ended 30 June (€000)	2017	2016	Increase/(decrease)	
Revenue from sales and services	35,913	33,821	2,092	6.2%
Operating profit/(loss)	(5,389)	(3,563)	(1,826)	-51.2%
Profit/(loss) for the period	(4,355)	(2,850)	(1,505)	-52.8%
Investment	158	259	(101)	-39.0%
Equity (*)	1,273	1,687	(414)	-24.5%
Permanent workforce - average	136	145	(9)	-6.2%
Flexible workforce - average	41	40	1	2.5%

(*) The amount shown in the column for the six months ended 30 June 2016 refers to 31 December 2016. Equity for the first half of 2017 includes the Parent Company's injection of €4 million in new capital during the first half.

BANCA DEL MEZZOGIORNO - MEDIOCREDITO CENTRALE SPA				
for the six months ended 30 June (€000)	2017	2016	Increase/(decrease)	
Net interest income	18,649	21,048	(2,399)	-11.4%
Net fee and commission income	27,101	23,423	3,678	15.7%
Profit/(loss) for the period	5,168	12,979	(7,811)	-60.2%
Financial assets	2,546,620	2,685,827	(139,207)	-5.2%
Equity (*)	430,180	425,042	5,138	1.2%
Permanent workforce - average	292	281	11	3.9%
Flexible workforce - average	18	25	(7)	-28.0%

(*) The amount shown in the column for the six months ended 30 June 2016 refers to 31 December 2016.

POSTE VITA SPA (*)				
for the six months ended 30 June (€000)	2017	2016	Increase/(decrease)	
Insurance premium revenue (**)	11,057,651	10,521,538	536,113	5.1%
Profit/(loss) for the period	221,900	164,852	57,048	34.6%
Financial assets (***)	119,272,389	115,417,452	3,854,937	3.3%
Technical provisions for insurance business (***)	118,498,140	113,534,750	4,963,390	4.4%
Equity (***)	3,482,564	3,292,074	190,490	5.8%
Permanent workforce - average	372	325	47	14.5%
Flexible workforce - average	3	6	(3)	-50.0%

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

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

(***) The amount shown in the column for the six months ended 30 June 2016 refers to 31 December 2016.

POSTE ASSICURA SPA (*)				
for the six months ended 30 June (€000)	2017	2016	Increase/(decrease)	
Insurance premium revenue (**)	64,720	51,708	13,012	25.2%
Profit/(loss) for the period	11,510	4,399	7,111	161.7%
Financial assets (***)	209,707	178,146	31,561	17.7%
Technical provisions for insurance business (***)	159,954	143,164	16,790	11.7%
Equity (***)	85,864	76,057	9,807	12.9%
Permanent workforce - average	50	54	(4)	-7.4%
Flexible workforce - average	-	1	(1)	n/s

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

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

(***) The amount shown in the column for the six months ended 30 June 2016 refers to 31 December 2016.

n/s: not significant

BANCOPOSTA FONDI SPA SGR				
for the six months ended 30 June (€000)	2017	2016	Increase/(decrease)	
Fee income	53,464	35,058	18,406	52.5%
Net fee income	28,641	19,684	8,957	45.5%
Profit/(loss) for the period	15,087	9,923	5,164	52.0%
Financial assets (liquidity and securities) (*)	80,698	62,242	18,456	29.7%
Equity (*)	60,753	46,013	14,740	32.0%
Permanent workforce - average	56	53	3	5.7%
Flexible workforce - average	0	1	(1)	n/s

(*) The amount shown in the column for the six months ended 30 June 2016 refers to 31 December 2016.
n/s: not significant

POSTEMOBILE SPA				
for the six months ended 30 June (€000)	2017	2016	Increase/(decrease)	
Revenue from sales and services	114,929	146,573	(31,644)	-21.6%
Operating profit/(loss)	11,740	14,505	(2,765)	-19.1%
Profit/(loss) for the period	8,190	9,181	(991)	-10.8%
Investment	13,273	12,709	564	4.4%
Equity (*)	64,307	56,043	8,264	14.7%
Permanent workforce - average	211	274	(63)	-23.0%
Flexible workforce - average	4	8	(4)	-50.0%

(*) The amount shown in the column for the six months ended 30 June 2016 refers to 31 December 2016.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. INTRODUCTION

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

Poste Italiane’s shares have been listed on the *Mercato Telematico Azionario* (the *MTA*, an electronic stock exchange) since 27 October 2015 and, at 30 June 2017, the Company is 35% owned by Cassa Depositi e Prestiti SpA (“CDP”) and 29.3% owned by the Ministry of the Economy and Finance (“MEF”), with the remaining shares held by institutional and retail investors. Poste Italiane SpA continues to be under the control of the MEF.

These condensed consolidated financial statements refer to the six months ended 30 June 2017 and have been prepared in euros, the currency of the economy in which the Group operates. They consist of the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes. Amounts in the financial statements and the notes are shown in millions of euros, unless otherwise stated.

2 BASIS OF PREPARATION

2.1 COMPLIANCE WITH IAS/IFRS

The Poste Italiane Group’s condensed consolidated interim financial statements are prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and endorsed by the European Union (“EU”) in EC Regulation 1606/2002 of 19 July 2002, and in accordance with Legislative Decree 38 of 28 February 2005, which governs the application of IFRS in Italian law. IFRS includes all the International Financial Reporting Standards, International Accounting Standards (“IAS”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”, previously known as the Standing Interpretations Committee or “SIC”), adopted by the European Union and contained in the EU regulations published as of 2 August 2017, the date on which the Board of Directors of Poste Italiane SpA approved the interim report.

2.2 BASIS OF PRESENTATION AND ACCOUNTING STANDARDS APPLIED

These consolidated interim financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* and article 154-ter (paragraph 3) of the Consolidated Law on Finance. As permitted by IAS 34, they provide less information than the annual financial statements (which are prepared in accordance with IAS 1 – *Presentation of Financial statements*), as they are intended to provide an update on the latest complete set of annual financial statements focusing on new activities, events and circumstances – to the extent considered relevant – as well as certain minimum additional information; accordingly, they do not duplicate information previously reported in the consolidated financial statements of the Poste Italiane Group at and for the year ended 31 December 2016, to which reference should be made for a more complete understanding of the matters reported herein. In accordance with IAS 34, the following information included in these financial statements is considered to be relevant in terms of providing an understanding of the changes in financial position, operating performance and cash flows during the first six months of 2017.

The accounting policies and recognition, measurement and classification criteria adopted in preparing the consolidated interim financial statements are the same as those adopted in the preparation of the consolidated financial statements at and for the year ended 31 December 2016. However, to allow comparison on a like-for-like basis with the amounts for the six months ended 30 June 2016 and for the year ended 31 December 2016, certain amounts and notes have been reclassified.

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

With regard to the interpretation and application of newly published, or revised, international accounting standards, and to certain aspects of taxation[13], where the related interpretations are based on examples of best practice or case-law that cannot yet be regarded as exhaustive, the financial statements have been prepared on the basis of the relevant best practices. Any future changes or updated interpretations will be reflected in subsequent reporting periods, in accordance with the specific procedures provided for by the related standards.

2.3 USE OF ESTIMATES

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

This section provides an update of those consistently adopted accounting estimates that, in view of changing conditions during the six months ended 30 June 2017, require an update. Reference is made to the Annual Report for 2016 for a comprehensive review of the use of estimates.

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

The Group has substantial receivables due from the State, though the amount is much lower than in the past. Revenue from activities carried out in favour of or on behalf of the State and Public Administration entities is recognised on the basis of the amount effectively accrued, with reference to the laws and agreements in force, taking account, in any event, of the instructions contained in legislation regarding the public finance. The legal framework of reference is still subject to change and, as has at times been the case, circumstances were such that estimates made in relation to previous financial statements, with effects on the statement of profit and loss, had to be changed. The complex process associated with the determination of receivables, which has not been completed yet, may result in changes in the results for periods subsequent to 30 June 2017 to reflect variations in estimates, due to future regulatory enactments or following the finalisation of expired agreements to be renewed.

At 30 June 2017, Poste Italiane Group's receivables outstanding with central and local authorities amounted to approximately €1.1 billion (€1 billion at 31 December 2016), gross of provisions for doubtful debts. The significant decrease in the amounts outstanding at 30 June 2017 and 31 December 2016, with respect to the past, reflects the effects of the review of the main exposures conducted by a joint working group with the MEF – Treasury and General Accounting Department, which ended in August 2015. On 7 August 2015, the MEF committed *"the Ministry to complete all the procedures necessary in order to pay the amounts due in accordance with procedures and timing consistent with the current privatisation process (…), including provision of the necessary funding"* and sent the Parent Company a letter

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

signed by the Director General of the Treasury Department and General Accounting Office (the "MEF Letter"), constituting a legally binding commitment.

The table below summarises receivables due from the State.

Receivables		at 30 June 2017	at 31 December 2016 (€m)
Universal Service compensation	(i)	161	139
Electoral subsidies	(ii)	83	83
Remuneration of current account deposits	(iii)	13	8
Delegated services	(iii)	28	28
Distribution of Euroconvertors	(iv)	6	6
Other		3	3
Trade receivables due from the MEF		**294**	**267**
Loans and receivables due from the MEF			
for repayment of loans accounted for in liabilities		**-**	**1**
Shareholder transactions:			
Amount due from MEF following cancellation of EC Decision of 16 July 2008	(v)	**45**	**45**
Total amounts due from the MEF		**339**	**313**
Receivables due from Ministries and Public Administration entities: Cabinet Office for publisher tariff subsidies	(vi)	20	1
Receivables due from Ministries and Public Administration entities: Ministry for Econ. Dev.	(vii)	77	75
Other trade receivables due from Public Administration entities	(viii)	566	557
Trade receivables due from Public Administration entities		**663**	**633**
Other receivables and assets:			
Sundry receivables due from Public Administration entities	(ix)	**8**	**8**
Amounts receivable for IRES refund		55	56
Amounts receivable for IRAP refund		11	-
Current tax assets and related interest	(x)	**66**	**56**
Total amounts due from the MEF and Public Administration entities		**1,076**	**1,010**

Specifically, at 30 June 2017, the total exposure to the State includes the following items.

(i) Receivables related to Universal Service compensation, totalling €161 million, including:

- €22 million in remaining compensation for the period received in July 2017;
- €67 million relating to the remaining compensation due for 2015, which is funded in the state budget for 2017;
- €72 million relating to compensation for previous years, of which €41 million is funded in the state budget for 2017 and €31 million is unfunded.

As per the *Contratto di Programma* (Service Contract) for the period 2015-2019, in effect from 1 January 2016, €109 million in compensation accruing during the period was received in the first half of 2017.

(ii) Receivables related to electoral tariff subsidies, totalling €83 million, a sum acknowledged in the MEF Letter, fully funded in the state budget for 2017 and for prior years, and awaiting approval by the European Commission.

(iii) Sums totalling €41 million due from the MEF for the period and not giving rise to any particular concerns.

(iv) Receivables in the amount of €6 million, for the distribution of Euroconverters, which has been acknowledged in the MEF letter and included in the state budget for 2017.

(v) Receivables of €45 million following cancellation of the EC Decision of 16 July 2008 and the interest due as a result of the sentence of the European Court of 30 September 2013, the impact of which on the Parent Company's equity was deferred or adjusted. This amount was acknowledged in the MEF letter up to €6 million and included in the state budget for 2017.

(vi) A sum due from the Cabinet Office, including €19 million accruing during the period[14], included in the state budget for 2017 and awaiting approval by the European Commission, and a residual sum of €1 million, which has been acknowledged in the MEF Letter and included in the state budget for 2017.

(vii) Receivables due from the Ministry of Economic Development, amounting to €77 million, including receivables of €62 million that are the subject of legal proceedings following the decision by the State Attorney's Office not to clear a negotiated settlement worth approximately €50 million; with regard to the remaining amount, a joint

[14] Publisher tariff subsidies were reinstated by Law Decree 244 of 30 December 2016 (the so-called "*Mille Proroghe*" decree), in effect from 1 January 2017 and converted with amendments into Law 19 of 27 February 2017.

working group has been set up with the debtor to agree on the amount of the services to be billed, partly on the basis of the results of the expert appraisal conducted as part of the above legal action.

(viii) Regarding receivables outstanding with central and local government entities, totalling €566 million, certain items are still overdue, mainly because no appropriation was made in the relevant budgets or in connection with contracts or agreements. To this end, steps continue to be taken to renew the expired agreements and to make the necessary provisions.

(ix) Other receivables of €8 million, for which provisions for doubtful debts for the full amount have been made.

(x) Remaining current tax assets and the related interest to be recovered in relation to:

- €55 million in IRES to be recovered on the unreported lump-sum deduction equal to 10% of IRAP and the unreported deduction of IRAP incurred on personnel expenses, including €8 million in principal and €47 million in interest. Recovery of a large part of the amount due, attributable to the Parent Company, Poste Italiane, is the subject to two disputes heard by the Provincial Tax Tribunal for Rome, which has upheld Poste Italiane's appeals, ordering the tax authorities in Rome to refund the amounts claimed, in addition to the payment of interest. The tax authorities have appealed the first ruling before the Regional Tax Tribunal. The statutory deadline for appealing the second ruling, notified in July 2017, has yet to expire. Any elements of uncertainty or risk arising as the disputes progress will be re-assessed by the Company and reflected in future financial statements. There is uncertainty over the time necessary to collect the amounts due.
- €11 million in IRAP to be recovered on the unreported deduction of expenses for disabled personnel in 2003. This receivable, including accrued interest of approximately €2 million at 30 June 2017, was assessed during the first half under review, following the ruling handed down by the Regional Tax Tribunal for Lazio, which has upheld an earlier appeal brought by the Parent Company, challenging the failure of the tax authorities in Rome to refund the amount claimed. This ruling was not appealed within the statutory deadline and is thereby final.

At 30 June 2017, provisions for doubtful debts reflect receivables for which no appropriation had been made in the state budget and other past due amounts with Public Administration entities.

➢ Impairment tests and cash generating units

Goodwill and other non-current assets are tested for impairment in accordance with the applicable accounting standards. In particular, two cash generating units (CGUs) are identified for the Parent Company - BancoPosta RFC and the remaining Postal and Business Services segment - and goodwill has not been allocated to either of these. Each of the other Group companies and of the other investments in associates and joint ventures is considered a separate CGU. Details of goodwill are provided in tables A3.2 and A4.

The impairment tests at 30 June 2017 were performed on the basis of the five-year business plans of the units concerned or the latest available information. Data from the last year of the plan has been used to project cash flows for subsequent years over an indefinite time, and the resulting value was then discounted using the Discounted Cash Flow (DCF) method. For the determination of value in use, NOPLAT (net operating profit less adjusted taxes) was capitalised using an appropriate growth rate and discounted using the related WACC (Weighted Average Cost of Capital)[15].

➢ Measurement of other non-current assets

The current economic and financial crisis - which has resulted in highly volatile markets and great uncertainty with regard to economic projections - and the decline of the postal market in which the Group operates make it difficult to produce forecasts that can, with certainty, be defined as reliable. In this context, at 30 June 2017, the Parent Company's Postal and Business Services segment was tested again for impairment. In this respect, reference was made, among other things, to the transfer prices that BancoPosta RFC is expected to pay for the services provided by Poste Italiane's

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15 In the test carried out at 30 June 2017, use was made of an assumed long-term growth rate of 1.4%, while the WACC for each CGU tested for impairment, determined in accordance with best market practices and for each operating segment, ranged from 6.07% to 7.33%. The cost of equity (Ke) is 7.39% for banking activities and 8.39% for asset management activities.

network, as determined in the 2015-2019 business plan approved by the Parent Company's Board of Director on 15 May 2015. The impairment test determined that the related carrying amounts are fair.

In addition, in assessing the value of non-current assets of the Postal and Business service segment, account was taken of any effect on the value in use of certain properties, should such properties no longer be used in operations in future, making adjustments to certain impairment losses taken in the past in the light of new evidence available at 30 June 2017. The fair value of the Parent Company's properties used in operations continued to be significantly higher than their carrying amount. As in the past, in determining the value of properties used as post offices and sorting centres, Poste Italiane SpA's universal service obligation was taken into account, as was the inseparability of the cash flows generated from the properties that provide this service, (which the Parent Company is required to operate throughout the country regardless of the expected profitability of each location); the unique nature of the operating processes involved and the substantial overlap between postal and financial activities within the same outlets, represented by post offices, were also considered. On this basis, the value in use of the Parent Company's land and buildings used in operations is relatively unaffected by changes in the commercial value of the properties concerned and, in certain critical market conditions, certain properties may have values that are significantly higher than their market value, without this having any impact on the cash flows or results of the Postal and Business Services segment.

➢ Provisions for risks and charges

The Group makes provisions for probable liabilities deriving from operational risk, disputes with staff, suppliers, and third parties and, in general, for liabilities deriving from present obligations. These provisions cover the liabilities that could result from legal action of varying nature, the impact on profit or loss of seizures incurred and not yet definitively assigned, adjustments to income generated in previous years and risks linked to disputes with customers regarding certain investment products whose performance is not in line expectations. Determination of the provisions involves the use of estimates based on current knowledge of factors that may change over time, potentially resulting in outcomes that may be significantly different from those taken into account in preparing these financial statements.

➢ Share-based payments

As more fully described in section D4, the Annual General Meeting of Poste Italiane SpA's shareholders held on 24 May 2016 approved the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan". The Plan terms and conditions link the award of the related options to the occurrence of certain events, such as the achievement of performance targets and performance hurdles and, in certain areas of operation, compliance with certain capital adequacy and short-term liquidity requirements. For these reasons, measurement of the liability, based on the outcome of an appraisal by external actuaries, involves the use of estimates based on current knowledge of factors that may change over time, potentially resulting in outcomes that may be significantly different from those taken into account in preparing these financial statements.

2.4 DETERMINATION OF FAIR VALUE

The Poste Italiane Group has adopted a fair value policy, setting out the general principles and rules to be applied in determining fair value for the purposes of preparing the financial statements, conducting risk management assessments and supporting the market transactions carried out by the Finance departments of the various Group entities. The principles and rules to be applied in measuring the fair value of financial instruments are unchanged with respect to 31 December 2016 and have been defined in compliance with indications from the various (banking and insurance) regulators and the relevant accounting standards, ensuring consistent application of the valuation techniques adopted at

Group level. The methods used have been revised, where necessary, to take into account developments in operational procedures and in market practices during the year.

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

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

The hierarchy consists of three levels.

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

Bonds quoted on active markets:

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

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

Quoted investment funds: measurement is based on the daily closing market price as provided by Bloomberg or the fund manager.
Level 1 bond price quotations incorporate a credit risk component. Exchange rates published by the European Central Bank are used in determining the value of financial instruments denominated in currencies other than the euro.

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

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

Bonds either quoted on inactive markets or not at all:

- **Straight Italian and international government and non-government bonds:** valued using discounted cash flow techniques involving the computation of the present value of future cash flows, inputting rates from yield curves incorporating spreads reflecting credit risk that are based on spreads determined with reference to quoted and liquid benchmark securities issued by the issuer, or by other companies with similar characteristics to the issuer. Yield curves may be slightly adjusted to reflect liquidity risk relating to the absence of an active market.
- **Structured bonds:** measurement is based on a building blocks approach, where the structured bond is broken down into its basic components: the bond component and the option component. The bond component is measured by discounting cash flows to present value in line with the approach applicable to straight bonds, as defined above. The option component - which considering the features of the bonds included in the portfolio of the Poste Italiane Group

relates to interest rate risk - is measured in accordance with a standard closed form expression as with classical option valuation models with underlyings exposed to such risks. In the case of structured bonds used to hedge index-linked policies (before ISVAP regulation no. 32), measurement is based on the bid price provided by the financial counterparties with which buyback agreements have been struck.

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

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

Derivative financial instruments:

- **Interest rate swaps:**

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

  Interest rate swaps with an embedded option: valuation is based on a building block approach, entailing decomposition of a structured position into its basic components: the linear and option components. The linear component is measure using the discounted cash flow techniques described for plain vanilla interest rate swaps above. Using the derivatives held in Poste Italiane's portfolio as an example, the option component is derived from interest rate or inflation rate risks and is valued using a closed form expression, as with classical option valuation models with underlyings exposed to such risks.
- **Bond forwards:** valuation is based on the present value of the differential between the forward price of the underlying instrument as of the measurement date and the settlement price.
- **Warrants:** considering the features of the securities held, measurement is based on the equity local volatility model. In particular, considering that buyback agreements have been entered into with the counterparties that structured these warrants, and that such counterparties use valuation models consistent with those used by the Group, these instruments are measured on the basis of the bid price quoted by the counterparties.

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

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

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

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

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

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

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

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

Level 3: this category includes the fair value measurement of assets and liabilities using inputs which cannot be observed, in addition to Level 2 inputs. For the Poste Italiane Group the following categories of financial instrument apply:

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

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

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

Unquoted equity instruments: this category includes shares for which no price is observable directly or indirectly in the market. Measurement of these instruments is based on the price of quoted equities of the same issuer as a benchmark. The price inferred in this manner would be adjusted through the application of the discount implicit in the process to align the value of the unquoted shares to the quoted ones, calculated using internal models.

2.5 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS AND THOSE SOON TO BE EFFECTIVE

2.5.1 Accounting standards and interpretations soon to be effective

The following are applicable from 1 January 2018:

- **IFRS 15** – *Revenue from Contracts with Customers*, adopted with Regulation (EU) no. 1905/2016.
  The new standard, which will replace IAS 18 - *Revenue*, IAS 11 – *Construction Contracts* and IFRIC 13 – *Customer Loyalty Programmes*, introduces a model for revenue recognition that is no longer based on the nature of the item to be transferred to the customer (goods, services, interest, royalties, etc.), but is based on the distinction between a performance obligation that is fulfilled at a point in time and one that is fulfilled over time.
  In the case of a performance obligation fulfilled at a point in time, revenue must be recognised only when full control of the good or service exchanged has been transferred to the customer. Not only must exposure to the significant risks and rewards related to ownership of the good or service be taken into account, but also physical possession, acceptance by the customer and the existence of legal title, etc.
  In the case of a performance obligation fulfilled over time, measurement and recognition of revenue should, in theory, reflect progressive levels of customer satisfaction; in practice, the entity must apply an accounting method based on the stage of completion or the costs incurred. The standard provides specific guidance to aid the entity in choosing the most appropriate accounting method.
  Finally, the new standard requires each individual performance obligation assumed by the seller should be accounted for separately, rather than within the context of a contract and/or transaction.
  As a result of this approach, measurement and the timing of revenue recognition may differ from the approach used under IAS 18.

- **IFRS 9** – *Financial Instruments,* adopted with Regulation (EU) no. 2067/2016.
  The purpose of the new accounting standard, which will replace a large part of IAS 39 – *Financial Instruments: Recognition and Measurement* from 1 January 2018, is to improve disclosures on financial instruments with the aim of addressing the concerns that arose during the financial crisis. The standard also introduces an accounting model that aims to ensure the timely recognition of expected impairment losses on financial assets. The changes introduced by the standard can be summarised within the following three categories:
  i) **Classification and measurement** of financial assets based on the business model determined by senior management that defines how the related financial assets are managed and on the characteristics of the expected contractual cash flows. The new standard envisages three different categories of financial assets (compared to four categories under the existing IAS 39):
     Amortised cost: financial assets held to collect the contractual cash flows, represented by solely payments of principal and interest;
     Fair value through other comprehensive income (**FVTOCI**): financial assets held to collect the contractual cash flows, represented exclusively by payments of principal and interest, and flows resulting from the sale of the assets;
     Fair value through profit or loss (**FVTPL**): a residual category within which financial assets not falling within the previous categories are classified.

  ii) **Impairment**: under the new model, Expected Losses or credit losses are recognised on an expected basis over the life of the financial instrument, requiring immediate recognition, rather than the occurrence of a trigger event, as under the existing Incurred Losses model. IFRS 9 requires entities to account for 12-month expected credit losses (stage 1) from the moment of initial recognition of the financial instrument. Expected credit losses must instead be measured over the remaining life of the asset being measured when there has been a significant deterioration in the credit quality of the financial instrument since initial recognition (stage 2) or in the case of credit-impaired assets (stage 3).

iii) ***General Hedge accounting***: partially amended with respect to IAS 39. Key aspects of the main changes introduced relate to: an expanded scope of application of hedge accounting; the testing of hedge effectiveness is only prospective; the introduction of the option of rebalancing without interrupting the pre-existing hedge.

There are no substantial changes in the classification and measurement of financial liabilities with respect to IAS 39. The only change is the accounting treatment of own credit risk: in the case of financial liabilities designated at fair value (the so-called fair value option), the standard requires changes in the fair value of financial liabilities resulting from a change in own credit risk to be recognised in equity, unless this treatment were to create or amplify an accounting mismatch in profit for the period, whilst the remaining changes in the fair value of the liabilities must be recognised in profit or loss.

The potential impact on the Poste Italiane Group's financial reporting of the accounting standards, amendments and interpretations due to come into effect is currently being assessed.

2.5.2 IFRS 15 and 9: Transitional provisions and ESMA disclosures

The following information is provided in accordance with the recommendations issued in 2016 by the European Securities and Markets Authority ("ESMA") in its annual Public Statements. The recommendations aim to facilitate the gradual and transparent application of IFRS 15 and IFRS 9, and ensure appropriate disclosure in annual and interim financial statements published prior to the effective date for the new standards.

IFRS 15: Revenue from Contracts with Customers

The Poste Italiane Group has opted to apply IFRS 15 from its effective date (1 January 2018, as required by EU Regulation 1905/2016, which published the standard). The Group has not opted for early application.

The Group began a preliminary assessment of the impact of IFRS 15 in 2016 that is in the process of being completed. The Group has taken into account the clarifications issued by the IASB in April 2016, as well as the results of discussions with the *ad hoc* Technical Resource Group set up by the IASB to aid first-time adopters of the new standard, and will assess any further developments as practice evolves.

The initial assessment begun in 2016 was almost completed during the first half under review. The Group has utilised an assessment method that follows the logical steps involved in the new process of identifying and measuring revenue contained in IFRS 15, using a tool developed internally. Specifically, the Group has assessed existing contracts of sale, categorised according to the nature of the Group's different areas of business, to identify any gaps between the accounting policies currently applied and those introduced by the new standard. The revenue streams[16] identified, on the basis of specific and consistent contractual characteristics, are summarised below, together with the results of the analysis conducted:

- **Revenue from Postal and Business Services**: based on the results of the analysis in progress, the Group does not expect the accounting models currently used to differ significantly from those soon to be introduced.
- **Revenue from Financial Services**: based on the results of the analysis in progress, the Group does not expect the accounting models currently used to differ significantly from those soon to be introduced.
- **Mobile service revenue**: based on the results of the analysis, the Group reasonably expects to apply a different revenue recognition model that will, however, not have a significant impact and consisting of changes to the allocation of bundle discounts.

[16] Identification of the listed revenue streams is subject to change as the above analysis progresses.

Generally, at this stage in the assessment, no significant effects have been identified.

Finally, in view of the new disclosure requirements, the Group has begun a detailed assessment of its systems, policies and procedures to evaluate any resulting impact.

The Group believes that further analysis will confirm expectations regarding the potential impact of IFRS 15. Furthermore, the Group believes that its planning and completion of the current evaluation process will enable it, in the coming months, to obtain exhaustive qualitative and quantitative information, and the elements necessary in order to complete preparations for adoption of IFRS 15 in time for its entry into force.

IFRS 9: Financial Instruments

The Poste Italiane Group has opted to apply IFRS 9 from its effective date (1 January 2018, as required by EU Regulation 2067/2016, which published the standard). The Group has not opted for early application.

After conducting a preliminary assessment of the main areas of impact, in 2017 the Poste Italiane Group has initiated a project designed to closely examine the various areas affected by the standard, to evaluate its qualitative and quantitative impact, and to identify and implement the applications and organisational changes necessary in order to ensure consistent, organic and effective adoption within the Group as a whole and across all the companies that belong to it.

The project, divided into the three different fieldworks (Classification & Measurement, Impairment and Hedge Accounting) and three separate stages (Assessment, Design and Implementation). The Assessment stage was completed in June and the Group is now engaged in the Design stage, which is expected to be completed in September.

Based on the assessments conducted so far, the main effects expected relate to:

- A different classification of investments in securities, based on the various business models (in the process of assessment) and the nature of the expected contractual cash flows.
- Recognition of an expected loss on government and corporate securities, the value of which is not currently quantifiable as this depends on the impairment models in the process of being designed and on the staging policies used. This provision for expected losses is reasonably expected to have an impact on the Group’s equity on first-time application of the new standard and may potentially impact profit or loss in subsequent years. In terms of trade receivables, which will be tested for impairment using the simplified approach, the Group has begun a review of its credit management policies to bring them into line with the new rules introduced by IFRS 9.

With regard to hedge accounting, a preliminary analysis has not indicated any concerns over the possibility of retaining existing hedging relationships.

The above project is also being applied to the insurance segment, in which the Group operates through Poste Vita SpA and its subsidiary, Poste Assicura SpA. Whilst the conclusions regarding the existed impact of the new standard still apply, the Group is awaiting the EU’s endorsement of the ”Amendment to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”, so that it can based its assessment on a fully defined regulatory framework.

POSTE ITALIANE GROUP AT AND FOR THE SIX MONTHS ENDED 30 JUNE 2017

3.1 CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(€m)

ASSETS	Note	at 30 June 2017	*of which, related party transactions (note D2)*	at 31 December 2016	*of which, related party transactions (note D2)*
Non-current assets					
Property, plant and equipment	[A1]	1,997	-	2,080	-
Investment property	[A2]	54	-	56	-
Intangible assets	[A3]	498	-	513	-
Investments accounted for using the equity method	[A4]	499	*499*	218	*218*
Financial assets	[A5]	163,051	*2,052*	155,819	*2,059*
Trade receivables	[A7]	5	-	4	-
Deferred tax assets	[C12]	911	-	799	-
Other receivables and assets	[A8]	2,987	*1*	2,682	*1*
Technical provisions attributable to reinsurers		75	-	66	-
Total		**170,077**		**162,237**	
Current assets					
Inventories	[A6]	137	-	137	-
Trade receivables	[A7]	2,278	*828*	2,168	*789*
Current tax assets	[C12]	189	-	15	-
Other receivables and assets	[A8]	962	*12*	989	*10*
Financial assets	[A5]	17,613	*7,602*	18,543	*6,191*
Cash and deposits attributable to BancoPosta	[A9]	3,236	-	2,494	-
Cash and cash equivalents	[A10]	3,481	*549*	3,902	*1,310*
Total		**27,896**		**28,248**	
Non-current assets and disposal groups held for sale	**[A11]**	**2,591**	*55*	**2,720**	*49*
TOTAL ASSETS		**200,564**		**193,205**	

LIABILITIES AND EQUITY	Note	at 30 June 2017	*of which, related party transactions (note D2)*	at 31 December 2016	*of which, related party transactions (note D2)*
Equity					
Share capital	[B1]	1,306	-	1,306	-
Reserves	[B4]	1,517	-	2,374	-
Retained earnings		4,484	-	4,454	-
Equity attributable to owners of the Parent		**7,307**		**8,134**	
Equity attributable to non-controlling interests		-	-	-	-
Total		**7,307**		**8,134**	
Non-current liabilities					
Technical provisions for insurance business	[B5]	118,658	-	113,678	-
Provisions for risks and charges	[B6]	681	*56*	658	*50*
Employee termination benefits and pension plans	[B7]	1,251	-	1,347	-
Financial liabilities	[B8]	5,259	-	8,404	-
Deferred tax liabilities	[C12]	508	-	746	-
Other liabilities	[B10]	1,035	-	1,071	-
Total		**127,392**		**125,904**	
Current liabilities					
Provisions for risks and charges	[B6]	936	*11*	849	*10*
Trade payables	[B9]	1,403	*202*	1,506	*205*
Current tax liabilities	[C12]	275	-	88	-
Other liabilities	[B10]	1,911	*132*	2,147	*89*
Financial liabilities	[B8]	59,256	*86*	52,517	*2,430*
Total		**63,781**		**57,107**	
Liabilities related to assets held for sale	**[A11]**	**2,084**	*108*	**2,060**	*130*
TOTAL EQUITY AND LIABILITIES		**200,564**		**193,205**	

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(€m)

	Note	For the six months ended 30 June 2017	*of which, related party transactions (note D2)*	For the six months ended 30 June 2016	*of which, related party transactions (note D2)*
Revenue from sales and services	[C1]	4,237	*1,093*	4,316	*1,122*
Insurance premium revenue	[C2]	11,098	-	10,551	-
Other income from financial and insurance activities	[C3]	2,665	*8*	2,781	*8*
of which, non-recurring income		-		*121*	
Other operating income	[C4]	29	*2*	34	*1*
Total revenue		**18,029**		**17,682**	
Cost of goods and services	[C5]	1,197	*97*	1,215	*77*
Net change in technical provisions for insurance business and other claims expenses	[C6]	12,171	-	11,944	-
Other expenses from financial and insurance activities	[C7]	380	-	309	-
Personnel expenses	[C8]	2,934	*18*	2,985	*20*
Depreciation, amortisation and impairments	[C9]	281	-	299	-
Capitalised costs and expenses		(13)	-	(8)	-
Other operating costs	[C10]	232	*10*	95	*6*
Operating profit/(loss)		**847**		**843**	
Finance costs	[C11]	142	-	48	-
of which, non-recurring costs		*82*	-	-	-
Finance income	[C11]	58	-	57	-
of which, non-recurring income		*2*		-	
Profit/(Loss) on investments accounted for using the equity method	[A4]	9	-	6	-
Profit/(Loss) before tax		**772**		**858**	
Income tax expense	[C12]	262	-	293	-
of which, non-recurring costs/(income)		*(9)*		-	
PROFIT FOR THE PERIOD		**510**		**565**	
of which, attributable to owners of the Parent		510		565	
of which, attributable to non-controlling interests		-		-	

Earnings per share	[B3]	**0.391**		**0.432**	
Diluted earnings per share	[B3]	**0.391**		**0.432**	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€m)

	Note	For the six months ended 30 June 2017	For the year ended 31 December 2016	For the six months ended 30 June 2016
Profit/(Loss) for the period		**510**	**622**	**565**
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	[tab. B4]	(591)	(1,673)	(942)
Transfers to profit or loss	[tab. B4]	(596)	(592)	(482)
Cash flow hedges				
Increase/(decrease) in fair value during the period	[tab. B4]	(18)	(15)	47
Transfers to profit or loss	[tab. B4]	(1)	(22)	(21)
Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the period		350	627	364
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		(1)	-	-
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	[tab. B7]	41	(51)	(126)
Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the period		(12)	18	38
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		-	-	-
Total other comprehensive income		**(828)**	**(1,708)**	**(1,122)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**(318)**	**(1,086)**	**(557)**
of which, attributable to owners of the Parent		(318)	(1,086)	(557)
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	-	-	-	(1,052)	18	-	-	477	(557)	-	**(557)**
Attribution of profit to reserves	-	-	-	-	-	-	-	-	-	-	**-**
Dividends paid	-	-	-	-	-	-	-	(444)	(444)	-	**(444)**
Changes due to share-based payments	-	-	-	-	-	-	-	-	-	-	**-**
Other changes	-	-	-	-	-	-	1	-	1	-	**1**
Change in scope of consolidation	-	-	-	-	-	-	-	-	-	-	**-**
Other shareholder transactions	-	-	-	-	-	-	-	-	-	-	**-**
Balance at 30 June 2016	**1,306**	**299**	**1,000**	**1,687**	**27**	**-**	**1**	**4,338**	**8,658**	**-**	**8,658**
Total comprehensive income for the period	-	-	-	(596)	(45)	-	-	112	(529)	-	**(529)**
Attribution of profit to reserves	-	-	-	-	-	-	-	-	-	-	**-**
Dividends paid	-	-	-	-	-	-	-	-	-	-	**-**
Changes due to share-based payments	-	-	-	-	-	-	-	-	-	-	**-**
Other changes	-	-	-	-	-	-	1	-	1	-	**1**
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	-	-	-	-	-			(2)	(2)	-	**(2)**
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	-	-	-	(843)	(13)	(1)	-	539 (*)	(318)	-	**(318)**
Attribution of profit to reserves	-	-	-	-	-	-	-	-	-	-	**-**
Dividends paid	-	-	-	-	-	-	-	(509)	(509)	-	**(509)**
Changes due to share-based payments	-	-	-	-	-	-	-	-	-	-	**-**
Other changes	-	-	-	-	-	-	-	-	-	-	**-**
Change in scope of consolidation	-	-	-	-	-	-	-	-	-	-	**-**
Other shareholder transactions	-	-	-	-	-	-	-	-	-	-	**-**
Balance at 30 June 2017	**1,306**	**299**	**1,000**	**249**	**(31)**	**(2)**	**2**	**4,484**	**7,307**	**-**	**7,307**

(*) This item includes profit for the period of €510 million and actuarial losses on provisions for employee termination benefits of €41 million after the related taxation of €12 million.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(€m)

		For the six months ended 30 June 2017	For the six months ended 30 June 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		510	565
Depreciation, amortisation and impairments		281	299
Losses and impairments/(recoveries) on receivables		22	18
(Gains)/Losses on disposals		(1)	1
Impairment of disposal groups		7	-
Impairment of available-for-sale investments		12	-
Impairment loss on Contingent Convertible Notes		82	-
(Increase)/decrease in inventories		-	(3)
(Increase)/decrease in receivables and other assets		(452)	(397)
Increase/(decrease) in payables and other liabilities		(379)	(63)
Movement in group of assets and liabilites held for sale		145	-
Movement in provisions for risks and charges		114	(27)
Movement in provisions for employee termination benefits and pension plans		(55)	(30)
Differences in accrued finance costs and income (cash correction)		(22)	(29)
Other changes		(12)	8
Net cash flow generated by/(used in) non-financial operating activities	[a]	252	342
Increase/(decrease) in liabilities attributable to financial activities		4,149	4,321
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		(1,607)	(2,751)
Net cash generated by/(used for) held-to-maturity financial assets attributable to financial activities		(211)	103
(Increase)/decrease in cash and deposits attributable to BancoPosta		(742)	605
(Increase)/decrease in other assets attributable to financial activities		(1,348)	(1,054)
(Income)/expenses from financial activities		(1,039)	(999)
Cash generated by/(used for) assets and liabilities attributable to financial activities	[b]	(798)	225
Net cash generated by/(used for) financial assets at fair value through profit or loss attributable to insurance activities		(2,481)	(2,348)
Increase/(decrease) in net technical provisions for insurance business		6,827	7,662
Net cash generated by/(used for) available-for-sale financial assets attributable to insurance activities		(1,936)	(4,592)
(Increase)/decrease in other assets attributable to insurance activities		(48)	(5)
(Gains)/losses on financial assets/liabilities measured at fair value		(363)	(710)
(Income)/expenses from insurance activities		(973)	(866)
Cash generated by/(used for) assets and liabilities attributable to insurance activities	[c]	1,026	(859)
Net cash flow from/(for) operating activities	**[d]=[a+b+c]**	**480**	**(292)**
- of which, related party transactions		**(3,826)**	**379**
Investing activities			
Property, plant and equipment, investment property and intangible assets		(183)	(151)
Investments		(228)	-
Other financial assets		(1)	(106)
Disposals			
Property, plant and equipment, investment property and intangible assets and assets held for sale		3	5
Investments		-	-
Other financial assets		5	100
Change in scope of consolidation		-	-
Net cash flow from/(for) investing activities	**[e]**	**(404)**	**(152)**
- of which, related party transactions		**(218)**	**(9)**
Proceeds from/(Repayments of) borrowings		11	(513)
(Increase)/decrease in loans and receivables		1	2
Dividends paid		(509)	(444)
Net cash flow from/(for) financing activities and shareholder transactions	**[f]**	**(497)**	**(955)**
- of which, related party transactions		**(327)**	**(286)**
Net increase/(decrease) in cash	**[g]=[d+e+f]**	**(421)**	**(1,399)**
Cash and cash equivalents at end of period		**3,481**	**1,743**
Cash and cash equivalents at end of period		**3,481**	**1,743**
Cash subject to investment restrictions		-	(202)
Cash attributable to technical provisions for insurance business		(1,806)	(487)
Amounts that cannot be drawn on due to court rulings		(13)	(20)
Current account overdrafts		-	(6)
Cash received on delivery (restricted) and other restrictions		(24)	(10)
Unrestricted net cash and cash equivalents at end of period		**1,638**	**1,018**

BASIS OF CONSOLIDATION AND CORPORATE ACTIONS

BASIS OF CONSOLIDATION

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

The consolidated financial statements have been specifically prepared at 30 June 2017, after appropriate adjustment, where necessary, to align accounting policies with those of the Parent Company.

Subsidiaries that, in terms of their size or operations, are, either individually or taken together, irrelevant to a true and fair view of the Group's results of operations and financial position have not been included within the scope of consolidation.

The criteria and basis of consolidation adopted in these interim financial statements are consistent with those adopted in preparing the consolidated financial statements at 31 December 2016, to which reference is made for further details.

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

Subsidiary	30 June 2017	31 December 2016
Consolidated on a line-by-line basis	16	17
Accounted for using the equity method	7	6
Total companies	**23**	**23**

PRINCIPAL CORPORATE ACTIONS COMPLETED OR INITIATED DURING THE PERIOD

The following material events took place during the first half of 2017:

- On 24 January 2017, the appointment and powers of the liquidator to take charge of Poste Tributi ScpA, whose liquidation was approved by the extraordinary general meeting of the company's shareholders held on 30 December 2016, was published in the Companies' Register.
- On 30 January 2017, the deed governing the partial demerger of assets belonging to Postecom SpA to Postel SpA, and the ensuing deed regarding the merger of Postecom SpA with and into Poste Italiane SpA, were executed. The assets transferred to Postel SpA include the investments previously held by Postecom SpA in Consorzio PosteMotori (22.63%) and in the joint-stock consortium, PatentiViaPoste ScpA (17.21%). The transaction was effective for legal, accounting and tax purposes from 1 April 2017.
- Following receipt of clearance from the relevant antitrust authorities and authorisation from the Bank of Italy, and fulfilment of the conditions precedent set out in the preliminary agreement dated 16 September 2016, on 15 February 2017 Poste Italiane acquired a 30% stake in FSIA Investimenti Srl at a cost of €278.3 million. This company owns a 49.5% interest in SIA SpA (SIA), a wholly owned subsidiary of FSI Investimenti, in turn a subsidiary of CDP Equity SpA via its 77.1% interest in the company. Following this transaction, Poste Italiane holds an indirect interest of 14.85% in SIA. 80% of the above consideration was paid on completion. The final price is subject to upward or downward adjustment based on predetermined amounts for SIA's net debt at 31 December 2016 and its operating results for 2017. 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. At 30 June 2017, the carrying amount of the investment in FSIA Investimenti Srl is equal to the acquisition cost, plus Poste Italiane SpA's share of the company's profit at 31 March 2017 (the latest available figures). The Parent Company has elected to apply the option provided for in paragraphs 45 *et seq.* of IFRS 3 and to complete measurement of the fair value of the investment within twelve months of the acquisition date.
- On 8 May 2017, Anima Holding proceeded to increase its capital via the issue of 8,333,947 new shares following exercise of all the options under the LTIP plan for 2014-2016. As a result, at 30 June 2017, Poste Italiane SpA's

interest in Anima Holding SpA has been diluted from 10.32% to 10.04%.

- On 27 July 2017, the Board of Directors of Equam SpA called an extraordinary general meeting of the company's shareholders to approve the winding up and liquidation of the company.

DISPOSAL GROUPS

Information about further corporate actions in the process of being carried out is provided below in accordance with the requirements of IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.

- **BancoPosta Fondi SpA SGR**: on 10 November 2016, Poste Italiane SpA, Cassa Depositi e Prestiti and Anima Holding SpA signed a framework agreement providing for the transfer of Poste Italiane's interest in BancoPosta Fondi SpA SGR to Anima Holding, subject to the approval of the respective corporate bodies, including the respective related and connected parties committees. Poste Italiane is in contact with Anima Holding with a view to better defining the existing cooperation agreements between the parties, in accordance with the guidelines contained in the Poste Italiane Group's new Business Plan, which is in the process of being finalised. The Plan is due to be approved and presented to the financial community by the end of the first quarter of 2018. Any future changes to the final terms and conditions of the expected transaction, yet to be defined, will be disclosed in future financial statements in accordance with the relevant accounting standards.
- **BdM-MCC SpA**: In line with the Group's strategic guidelines and following negotiations during the last quarter of 2016, resulting in a proposal from the buyer on 10 January 2017, on 8 February 2017 the boards of directors of Poste Italiane SpA and Agenzia Nazionale per l'Attrazione degli Investimenti e lo Sviluppo d'Impresa SpA (Invitalia) approved the transfer of Poste Italiane's 100% interest in Banca del Mezzogiorno–MedioCreditoCentrale SpA (BdM-MCC SpA) to Invitalia at a total price of €390 million[17]. The transaction was authorised by the Ministry for Economic Development and the European Central Bank in June 2017 and by the Bank of Italy on 19 July 2017. The latter also finalised the related regulatory arrangements, approving certain terms of the transaction, satisfaction of which will result in completion of the transaction. In accordance with the contract of sale, the parties will complete the activities and fulfil the conditions necessary in order to complete the transaction, taking all reasonable steps to proceed with closing in the shortest time possible. In this regard, on 26 July 2017, an extraordinary general meeting of the bank's shareholders approved a reduction of €160 million in the share capital, subject to authorisation from the Supervisory Authority in compliance with art. 56 of the Consolidated Law on Banking (*TUB*). Once the transaction has closed, this sum will be distributed to Poste Italiane as part of the sale price.

Adoption of IFRS 5 in order to present the above corporate actions has resulted, at the reporting date, in recognition of the net assets of BancoPosta Fondi SpA SGR and BdM-MCC SpA as "Non-current assets and disposal groups held for sale" and "Liabilities related to assets held for sale" and restatement of the related amounts, where lower, in line with the expected realisable value (section A11).

[17] During the period under review, the sale price has been adjusted downwards by approximately €2 million, equal to the cost of dismantling the bank's network of agents, which was incurred by Poste Italiane SpA.

NOTES TO THE FINANCIAL STATEMENTS

ASSETS

A1 – PROPERTY, PLANT AND EQUIPMENT

The following table shows movements in property, plant and equipment in the first half of 2017:

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

	Land	Property used in operations	Plant and machinery	Industrial and commercial equipment	Leasehold improvements	Other assets	Assets under construction and prepayments	Total
Balance at 1 January 2016								
Cost	76	2,883	2,209	329	424	1,719	52	7,692
Accumulated depreciation	-	(1,534)	(1,855)	(298)	(230)	(1,468)	-	(5,385)
Accumulated impairment	-	(88)	(22)	(1)	(5)	(1)	-	(117)
Carrying amount	**76**	**1,261**	**332**	**30**	**189**	**250**	**52**	**2,190**
Movements during the year								
Additions	-	29	46	7	26	72	41	221
Adjustments	-	-	-	-	-	-	-	-
Reclassifications	-	3	7	-	3	35	(39)	9
Disposals	-	-	(1)	-	(2)	(1)	-	(4)
Change in scope of consolidation	-	-	-	-	-	-	-	-
Depreciation	-	(110)	(87)	(9)	(33)	(110)	-	(349)
(Impairments)/Reversal of impairments	-	10	4	-	-	-	-	14
Recl. to non-current assets and disposal groups held for sale	-	-	-	-	-	(1)	-	(1)
Total movements	**-**	**(68)**	**(31)**	**(2)**	**(6)**	**(5)**	**2**	**(110)**
Balance at 31 December 2016								
Cost	76	2,915	2,211	333	448	1,807	54	7,844
Accumulated depreciation	-	(1,644)	(1,893)	(304)	(260)	(1,562)	-	(5,663)
Accumulated impairment	-	(78)	(17)	(1)	(5)	-	-	(101)
Carrying amount	**76**	**1,193**	**301**	**28**	**183**	**245**	**54**	**2,080**
Movements during the period								
Additions	-	9	18	3	6	30	13	79
Adjustments (1)	-	-	-	-	-	-	-	-
Reclassifications (2)	-	6	13	-	2	2	(23)	-
Disposals (3)	-	-	-	-	(1)	-	-	(1)
Depreciation	-	(56)	(41)	(4)	(15)	(52)	-	(168)
(Impairments)/Reversal of impairments	-	5	2	-	-	-	-	7
Total movements	**-**	**(36)**	**(8)**	**(1)**	**(8)**	**(20)**	**(10)**	**(83)**
Balance at 30 June 2017								
Cost	76	2,930	2,179	330	453	1,847	44	7,859
Accumulated depreciation	-	(1,700)	(1,871)	(302)	(273)	(1,622)	-	(5,768)
Accumulated impairment	-	(73)	(15)	(1)	(5)	-	-	(94)
Carrying amount	**76**	**1,157**	**293**	**27**	**175**	**225**	**44**	**1,997**
Adjustments (1)								
Cost	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-
Accumulated impairment	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Reclassifications (2)								
Cost	-	6	(23)	-	2	39	(23)	1
Accumulated depreciation	-	-	36	-	-	(37)	-	(1)
Accumulated impairment	-	-	-	-	-	-	-	-
Total	**-**	**6**	**13**	**-**	**2**	**2**	**(23)**	**-**
Disposals (3)								
Cost	-	-	(27)	(6)	(3)	(29)	-	(65)
Accumulated depreciation	-	-	27	6	2	29	-	64
Accumulated Impairment	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**(1)**	**-**	**-**	**(1)**

At 30 June 2017, **property, plant and equipment** includes assets belonging to the Parent Company located on land held under concession or sub-concession, which are to be handed over free of charge at the end of the concession term. These assets have a total carrying amount of €60 million.

Capital expenditure of €79 million in the first half of 2017 consists largely of:

- €9 million relating to extraordinary maintenance of post offices and local head offices around the country and mail sorting offices;
- €18 million relating to plant, with the most significant expenditure made by the Parent Company, of which €6 million for the installation of ATMs, €5 million for plant and equipment related to buildings and €3 million for the purchase of telecommunications infrastructure;
- €6 million to upgrade plant and the structure of properties held under lease;

- €30 million relating to "**Other assets**", with the most significant expenditure made by the Parent Company and including €20 million for the purchase of new computer hardware for post offices and head offices and the consolidation of storage systems, €2 million for the purchase of furniture and fittings in connection with the new layouts for post offices and €4.5 million for the purchase, by PosteMobile SpA, of electronic equipment (handheld computers, POS devices) for the use in providing Electronic Postman services;
- €13 million relating to assets under construction, primarily by the Parent Company, including €5 million for the purchase of hardware and other technological equipment not yet operational, €2 million for the restyling of post offices and €2 million for the renovation of primary distribution centres.

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

At 30 June 2017, property, plant and equipment include assets under finance lease arrangements with a carrying amount of €9 million.

A2 – INVESTMENT PROPERTY

Investment property relates to residential accommodation owned by Poste Italiane SpA in accordance with Law 560 of 24 December 1993. The following movements have taken place:

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

	Six months ended 30 June 2017	Year ended 31 December 2016
Balance at 1 January		
Cost	142	144
Accumulated depreciation	(85)	(82)
Accumulated impairment	(1)	(1)
Carrying amount	**56**	**61**
Movements during the period		
Additions	1	-
Disposals (1)	(1)	(1)
Depreciation	(2)	(4)
(Impairments)/Reversal of impairments	-	-
Total movements	**(2)**	**(5)**
Balance at end of period		
Cost	142	142
Accumulated depreciation	(87)	(85)
Accumulated impairment	(1)	(1)
Carrying amount	**54**	**56**
Fair value at end of period	*115*	*113*
Disposals (1)		
Cost	(1)	(2)
Accumulated depreciation	-	1
Accumulated impairment	-	-
Total	**(1)**	**(1)**

The fair value of **investment property** at 30 June 2017 includes €68 million representing the sale price applicable to the Parent Company's former service accommodation in accordance with Law 560 of 24 December 1993, while the balance reflects price estimates computed internally by the Company[18].

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

A3 –INTANGIBLE ASSETS

The following table shows carrying amounts and movements in intangible assets in the first half of 2017:

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

	Industrial patents, intellectual property rights, concessions, licences, trademarks and similar rights	Assets under construction and advances	Goodwill	Other	Total
Balance at 1 January 2016					
Cost	2,477	78	122	110	2,787
Accumulated amortisation and impairments	(2,081)	-	(69)	(92)	(2,242)
Carrying amount	**396**	**78**	**53**	**18**	**545**
Movements during the year					
Additions	138	87	-	5	230
Reclassifications	53	(68)	-	6	(9)
Transfers and disposals	-	(2)	-	(1)	(3)
Change in scope of consolidation	-	-	-	-	-
Amortisation and impairments	(232)	-	-	(10)	(242)
Recl. to non-current assets and disposal groups held for sale	-	(1)	(2)	(5)	(8)
Total movements	**(41)**	**16**	**(2)**	**(5)**	**(32)**
Balance at 31 December 2016					
Cost	2,662	94	120	109	2,985
Accumulated amortisation and impairments	(2,307)	-	(69)	(96)	(2,472)
Carrying amount	**355**	**94**	**51**	**13**	**513**
Movements during the period					
Additions	44	56	-	3	103
Reclassifications (1)	63	(60)	-	(3)	-
Transfers and disposals (2)	-	-	-	-	-
Amortisation and impairments	(115)	-	-	(3)	(118)
Total movements	**(8)**	**(4)**	**-**	**(3)**	**(15)**
Balance at 30 June 2017					
Cost	2,776	90	120	100	3,086
Accumulated amortisation and impairments	(2,429)	-	(69)	(90)	(2,588)
Carrying amount	**347**	**90**	**51**	**10**	**498**
Reclassifications (1)					
Cost	70	(60)	-	(12)	(2)
Accumulated amortisation	(7)	-	-	9	2
Total	**63**	**(60)**	**-**	**(3)**	**-**
Transfers and disposals (2)					
Cost	-	-	-	-	-
Accumulated amortisation	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

Investment in **intangible assets** during the first half of 2017 amounts to €103 million, of which €13 million relates to internally developed software. Research and development costs, other than those incurred directly to produce identifiable software used, or intended for use, within the Group, are not capitalised.

Purchases of **industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights** total €44 million, before amortisation for the period, and relate primarily to the purchase and entry into service of new software programmes and the acquisition of software licences.

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

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

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

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

Item	At 30 June 2017			At 31 December 2016		
	Cost	Accumulated amortisation	Carrying amount	Cost	Accumulated amortisation	Carrying amount
Industrial patents and intellectual property rights, concessions, licences, trademarks and similar rights	16	(5)	11	16	(4)	12
Total	**16**	**(5)**	**11**	**16**	**(4)**	**12**

The balance of **intangible assets under construction** includes activities conducted by the Parent Company, primarily regarding the development of software relating to the infrastructure platform (€32 million), BancoPosta services (€24 million), for use in providing support to the sales network (€13 million), for the postal products platform (€11 million) and for the engineering of reporting processes for other business and staff functions (€4 million).

During the period the Group made reclassifications from intangible assets under construction to industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights, amounting to €60 million, reflecting the completion and commissioning of software and the upgrade of existing software.

Goodwill refers to the following:

tab. A3.2 - Goodwill (€m)

Item	Balance at 30 June 2017	Balance at 31 December 2016
Postel SpA	33	33
Poste Welfare Servizi Srl	18	18
Total	**51**	**51**

Goodwill has been tested for impairment in accordance with the relevant accounting standards. Based on the information available and the impairment tests conducted, no impairment charges were taken.

A4 – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

tab. A4 - Investments (€m)

Item	Balance at 30 June 2017	Balance at 31 December 2016
Investments in associates	216	217
Investments in subsidiaries	2	1
Investments in joint ventures	281	-
Total	**499**	**218**

The movement in **investments** primarily regards:

- the net reduction in the carrying amount of the investment in Anima Holding SpA (an associate), amounting to approximately €0.7 million, reflecting the combined effect of a reduction of €7.7 million, following the payment of dividends for 2016, and an increase of €7.1 million, including €6.6 million representing the share of profit booked by the investee between 30 September 2016 and 31 March 2017 (the latest data available);

- the acquisition of the investment in FSIA Investimenti Srl (a joint venture) for €278.3 million in February 2017 (see the information provided in the section, "Basis of consolidation and corporate actions"). The carrying amount of this investment was subsequently increased by over €2 million, primarily due to the investee's result for the first quarter of 2017.

At 30 June 2017, given the highly volatile performance of Anima Holding SpA's shares, the value of goodwill implicit in the carrying amount of the investment was tested for impairment. Based on the prospective information available, there was no need to recognise an impairment loss on the goodwill accounted for at the time of acquisition of the investment.

A list of subsidiaries, joint ventures and associates accounted for using the equity method is provided in section D5, together with key data.

A5 –FINANCIAL ASSETS

The following table provides a breakdown of financial assets at 30 June 2017:

tab. A5 - Financial assets

Financial assets (€m)

	Balance at 30 June 2017			Balance at 31 December 2016		
Item	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Loans and receivables	16	9,402	9,418	98	8,011	8,109
Held-to-maturity financial assets	12,409	612	13,021	11,213	1,470	12,683
Available-for-sale financial assets	125,499	4,101	129,600	123,175	5,068	128,243
Financial assets at fair value through profit or loss	24,444	3,376	27,820	20,996	3,907	24,903
Derivative financial instruments	683	122	805	337	87	424
Total	**163,051**	**17,613**	**180,664**	**155,819**	**18,543**	**174,362**

Financial assets by operating segment (€m)

	Balance at 30 June 2017			Balance at 31 December 2016		
Item	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
FINANCIAL SERVICES	49,366	11,196	60,562	47,299	10,753	58,052
Loans and receivables	8	9,255	9,263	8	7,907	7,915
Held-to-maturity financial assets	12,409	612	13,021	11,213	1,470	12,683
Available-for-sale financial assets	36,399	1,328	37,727	35,893	1,370	37,263
Derivative financial instruments	550	1	551	185	6	191
INSURANCE SERVICES	113,122	6,360	119,482	107,868	7,728	115,596
Loans and receivables	-	102	102	-	54	54
Available-for-sale financial assets	88,545	2,761	91,306	86,720	3,686	90,406
Financial assets at fair value through profit or loss	24,444	3,376	27,820	20,996	3,907	24,903
Derivative financial instruments	133	121	254	152	81	233
POSTAL AND BUSINESS SERVICES	563	57	620	652	62	714
Loans and receivables	8	45	53	90	50	140
Available-for-sale financial assets	555	12	567	562	12	574
Derivative financial instruments	-	-	-	-	-	-
Total	**163,051**	**17,613**	**180,664**	**155,819**	**18,543**	**174,362**

Financial assets by operating segment break down as follows:

- Financial Services, relating primarily to the financial assets of BancoPosta RFC ;
- Insurance Services, consisting of the financial assets of Poste Vita SpA and its subsidiary, Poste Assicura SpA;
- Postal and Business Services, representing all the other financial assets of the Group.

FINANCIAL SERVICES

Loans and receivables

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

Item	Balance at 30 June 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Loans	-	-	-	-	-	-
Receivables	8	9,255	9,263	8	7,907	7,915
Amounts deposited with MEF	-	5,357	5,357	-	6,189	6,189
MEF account, held at the Treasury	-	2,245	2,245	-	-	-
Other financial receivables	8	1,653	1,661	8	1,718	1,726
Total	**8**	**9,255**	**9,263**	**8**	**7,907**	**7,915**

Receivables of €9,263 million reflect:

- **Amounts deposited with the MEF,** totalling €5,357 million, including public customers' current account deposits, which earn a variable rate of return, calculated on a basket of government bonds and money market indices[19].
- the Parent Company's **MEF account**, held at the **Treasury**, amounting to €2,245 million, consisting of:

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

Item	Balance at 30 June 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current liabilites	Current liabilites	Total
Balance of cash flows for advances	-	2,283	2,283	-	(2,239)	(2,239)
Balance of cash flows from management of postal savings	-	155	155	-	4	4
Amounts payable due to theft	-	(158)	(158)	-	(159)	(159)
Amounts payable for operational risks	-	(35)	(35)	-	(35)	(35)
Total	**-**	**2,245**	**2,245**	**-**	**(2,429)**	**(2,429)**

The *balance of cash flows for advances*, amounting to €2,283 million, represents the net amount receivable as a result of transfers of deposits and any excess liquidity, less advances from the MEF to meet the cash requirements of BancoPosta[20]. These break down as follows:

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

Item	Balance at 30 June 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current liabilites	Current liabilites	Total
Net advances	-	2,283	2,283	-	(2,239)	(2,239)
MEF postal current accounts and other payables	-	(671)	(671)	-	(671)	(671)
Ministry of Justice - Orders for payment	-	-	-	-	-	-
MEF - State pensions	-	671	671	-	671	671
Total	**-**	**2,283**	**2,283**	**-**	**(2,239)**	**(2,239)**

The *balance of cash flows from the management of postal savings*, amounting to a positive €155 million, represents the difference between withdrawals and deposits during the last two days of the period under review and cleared early in the following period. The balance at 30 June 2017 consists of €132 million receivable from Cassa Depositi e Prestiti and €23 million receivable from the MEF for interest-bearing postal certificates issued on its behalf.

[19] The rate in question is calculated as follows: 50% is based on the return on 6-month BOTs, with the remaining 50% based on the monthly average Rendistato index. The latter represents the average yield on government securities with maturity greater than 1 year, approximating the return on 7-year BTPs.

[20] At 31 December 2016, "Net advances" had a debit balance as a result of the provisions of Law Decree 244 of 30 December 2016 (the so-called "*Mille Proroghe*" decree), which modified the timing of pension payments, postponing the payment of pensions for January 2017 by one bank working day. As a result, deposit of the amount required to pay the pensions for January 2017 by the paying entity, INPS, took place on the first working day of the month of payment, rather than on the last working day in December 2016. At 30 June 2017, this item has a balance in line with the figure at 30 June 2016.

Amounts payable due to thefts from post offices regard the Parent Company's liability to the MEF on behalf of the Italian Treasury for losses resulting from theft and fraud, totalling €158 million. This liability derives from cash withdrawals from the Treasury to make up for the losses resulting from these criminal acts, in order to ensure that post offices can continue to operate.

- **Other financial receivables** of €1,661 million break down as follows:

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

	Balance at 30 June 2017			Balance at 31 December 2016		
Item	**Non-current assets**	**Current assets**	**Total**	**Non-current assets**	**Current assets**	**Total**
Guarantee deposits	-	1,237	1,237	-	1,435	1,435
Items to be debited to customers	-	274	274	-	116	116
Items awaiting settlement with the banking system	-	125	125	-	147	147
Other receivables	8	17	25	8	20	28
Total	8	1,653	1,661	8	1,718	1,726

Guarantee deposits, totalling €1,237 million relate to €1,190 million provided to counterparties in asset swap transactions (with collateral provided by specific Credit Support Annexes) and €47 million provided to counterparties in repurchase agreements involving fixed-income securities (with collateral contemplated by specific Global Master Repurchase Agreements).
Other amounts to be charged to customers, amounting to €274 million, primarily include withdrawals from BancoPosta ATMs, the use of debit cards issued by BancoPosta, cheques, and other collection items settled in the clearing house.
Other receivables include €8 million arising from Poste Italiane's sale of the Visa Europe Ltd. share to Visa Incorporated, payable after three years from 21 June 2016, when the transaction was consummated.

Investments in securities and equity instruments

This item breaks down as follows:

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

		Balance at 30 June 2017			Balance at 31 December 2016		
Item	**Note**	**Non-current assets**	**Current assets**	**Total**	**Non-current assets**	**Current assets**	**Total**
Held-to-maturity financial assets		12,409	612	13,021	11,213	1,470	12,683
Fixed income instruments	[tab. A5.2.1]	12,409	612	13,021	11,213	1,470	12,683
Available-for-sale financial assets		36,399	1,328	37,727	35,893	1,370	37,263
Fixed income instruments	[tab. A5.2.1]	36,283	1,328	37,611	35,789	1,370	37,159
Equity instruments		116	-	116	104	-	104
Total		**48,808**	**1,940**	**50,748**	**47,106**	**2,840**	**49,946**

Investments in securities relate to investments in Italian government securities with a nominal value of €47,278 million, held primarily by BancoPosta RFC.
Movements in investments in securities in 2016 and in the first six months of 2017 are as follows:

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

Securities	HTM		AFS		FVPL		TOTAL	
	Nominal value	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount
Balance at 1 January 2016	**12,612**	**12,886**	**27,165**	**33,178**	**-**	**-**	**39,777**	**46,064**
Purchases		1,121		11,228		316		12,665
Transfers to equity		-		(476)		-		(476)
Change in amortised cost		(3)		(38)		-		(41)
Changes in fair value through equity		-		(1,643)		-		(1,643)
Changes in fair value through profit or loss		-		856		-		856
Changes in cash flow hedge transactions (*)		-		3		-		3
Effect of sales on profit or loss		-		471		-		471
Accrued income		170		334		-		504
Recl. to non-current assets and disposal groups held for sale		-		(749)		-		(749)
Sales, redemptions and settlement of accrued income		(1,491)		(6,005)		(316)		(7,812)
Balance at 31 December 2016	**12,392**	**12,683**	**32,178**	**37,159**	**-**	**-**	**44,570**	**49,842**
Purchases		1,581		5,586		-		7,167
Transfers to equity		-		(591)		-		(591)
Change in amortised cost		(4)		(38)		-		(42)
Changes in fair value through equity		-		(560)		-		(560)
Changes in fair value through profit or loss		-		(830)		-		(830)
Changes in cash flow hedge transactions (*)		(22)		-		-		(22)
Effect of sales on profit or loss		-		533		-		533
Accrued income		153		331		-		484
Recl. to non-current assets and disposal groups held for sale		-		-		-		-
Sales, redemptions and settlement of accrued income		(1,370)		(3,979)		-		(5,349)
Balance at 30 June 2017	**12,796**	**13,021**	**34,482**	**37,611**	**-**	**-**	**47,278**	**50,632**

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

At 30 June 2017, the fair value[21] of the held-to-maturity portfolio, accounted for at amortised cost, is €14,499 million (including €153 million in accrued interest).

The fair value of the available-for-sale portfolio is €37,611 million. The overall fair value loss for the period of €1,390 million, including a loss of €560 million in relation to the portion of the portfolio not hedged by fair value hedges recognised in the relevant equity reserve, and a loss of €830 million in relation to the hedged portion recognised through profit and loss.

The available-for-sale portfolio includes two fixed rate bonds, amounting to €750 million each, with six-monthly interest payments and maturing in 4 and 5 years, issued by Cassa Depositi e Prestiti and guaranteed by the Italian government (at 30 June 2017, the fair value amounts to €1,506 million).

Investments in equity instruments primarily include:

- €80 million, reflecting the fair value of 756,280 Class B shares of Mastercard Incorporated. These shares are not traded on an organised exchange but are convertible into an equal number of Class A shares, which are listed on the New York Stock Exchange, if disposal is desired;
- €32 million, representing the fair value of 32,059 Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock) received for the sale of the Visa Europe Ltd. share to Visa Incorporated on 21 June 2016; these shares are convertible at the rate of 13.948[22] ordinary shares for each C share, minus a suitable illiquidity discount, considering the staggered conversion between the fourth and the twelfth year after the closing;
- €4 million, representing the fair value of 11,144 class C shares of Visa Incorporated. These shares are not traded on an organised exchange, but are convertible into Class A shares (at the rate of four ordinary shares for each C share), which are listed on the New York Stock Exchange, if disposal is desired.

  Fair value gains on the shares held by BancoPosta RFC in the period under review, amounting to €12 million, have been recognised in the relevant equity reserve (section B4).

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

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

Derivative financial instruments

At 30 June 2017, derivative financial instruments attributable to the Financial Services segment, amounting to €551 million, are attributable to BancoPosta RFC.

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

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

	Cash flow hedges				Fair value hedges		FVPL				Total	
	Forward purchases		Asset swaps		Asset swaps		Forward purchases		Forward sales			
	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value
Balance at 1 January 2016	**-**	**-**	**1,700**	**(26)**	**11,755**	**(1,193)**	**-**	**-**	**-**	**-**	**13,455**	**(1,219)**
Increases/(decreases) *	875	6	100	(19)	4,525	(885)	-	1	-	(1)	5,500	(898)
Gains/(Losses) through profit or loss **	-	-	-	-	-	(1)	-	-	-	-	-	(1)
Transactions settled ***	(475)	(3)	(410)	(20)	(130)	27	-	(1)	-	1	(1,015)	4
Balance at 31 December 2016	**400**	**3**	**1,390**	**(65)**	**16,150**	**(2,052)**	**-**	**-**	**-**	**-**	**17,940**	**(2,114)**
Increases/(decreases) *	-	(25)	50	6	3,355	819	-	-	-	-	3,405	800
Gains/(Losses) through profit or loss **	-	-	-	-	-	-	-	-	-	-	-	-
Transactions settled ***	(400)	22	(160)	2	(300)	77	-	-	-	-	(860)	101
Balance at 30 June 2017	**-**	**-**	**1,280**	**(57)**	**19,205**	**(1,156)**	**-**	**-**	**-**	**-**	**20,485**	**(1,213)**
Of which:												
Derivative assets	-	-	175	41	10,435	510	-	-	-	-	10,610	551
Derivative liabilities	-	-	1,105	(98)	8,770	(1,666)	-	-	-	-	9,875	(1,764)

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

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

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

During the period under review, the effective portion of interest rate hedging instruments recorded an overall net fair value loss of €19 million reflected in the cash flow hedge reserve.

The effective portion of fair value hedges, held to limit the price volatility of certain available-for-sale fixed rate instruments, yielded a net fair value gain of €819 million in the period under review (of which €54 million attributable to financial instruments purchased during the period under review), whilst the hedged securities (tab. A5.2.1) recorded a net fair value loss of €830 million, with the difference of €11 million due to paid differentials.

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

- the settlement of forward purchases outstanding at 31 December 2016, totalling €400 million;
- new asset swaps used as cash flow hedges with a nominal value of €50 million;
- the settlement of asset swaps, used as cash flow hedges for securities sold, with a nominal value of €160 million;
- new asset swaps used as fair value hedges, totalling €3,355 million;
- the settlement of asset swaps, used as fair value hedges for securities sold, with a nominal value of €300 million.

INSURANCE SERVICES

Receivables

Receivables of €102 million relate primarily to Poste Vita SpA's subscription and payment for unissued units of mutual investment funds (€86 million) and accrued interest to be collected (€16 million).

Available-for-sale financial assets

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

tab. A5.4 - Movements in available-for-sale financial assets (€m)

	Fixed income instruments		Other investments	Equity instruments	Total
	Nominal value	Fair value	Fair value	Fair value	Fair value
Balance at 1 January 2016	**74,226**	**82,304**	**1,616**	**8**	**83,928**
Purchases		21,670	734	25	22,429
Transfers to equity		(282)	12	-	(270)
Changes in amortised cost		174	-	-	174
Fair value gains and losses through equity		(680)	-	(4)	(684)
Impairments		-	(106)	-	(106)
Effects of sales on profit or loss		261	(11)	1	251
Accrued income		704	-	-	704
Recl. to non-current assets and disposal groups held for sale		(44)	-	-	(44)
Sales, redemptions and settlement of accrued income		(15,730)	(232)	(14)	(15,976)
Balance at 31 December 2016	**80,524**	**88,377**	**2,013**	**16**	**90,406**
Purchases		12,228	365	14	12,607
Transfers to equity		(200)	35	-	(165)
Changes in amortised cost		183	-	-	183
Fair value gains and losses through equity		(1,798)	59	1	(1,738)
Impairments		-	(105)	-	(105)
Effects of sales on profit or loss		136	(34)	1	103
Accrued income		686	-	-	686
Sales, redemptions and settlement of accrued income		(10,018)	(637)	(16)	(10,671)
Balance at 30 June 2017	**83,703**	**89,594**	**1,696**	**16**	**91,306**

The Group recorded a net fair value loss of €1,738 million in relation to its available-for-sale financial assets. This breaks down as follows:

- net losses of €1,736 million deriving from the measurement of securities held by Poste Vita SpA, of which €1,696 million was transferred to policyholders, with a contra-entry made in technical provisions in accordance with the shadow accounting method;
- net losses on the securities held by Poste Assicura SpA, totalling €2 million.

The above changes in the fair value of available-for-sale financial assets during the period had a net negative impact on the relevant equity reserve of €42 million (tab. B4).

Fixed income instruments relate to investments held by Poste Vita SpA, totalling €89,385 million (nominal value of €83,503 million) issued by European governments and European blue-chip companies. These instruments are mainly intended to cover separately managed accounts where gains and losses are transferred in full to policyholders and recognised in technical provisions using the shadow accounting method. The remaining instruments regard investment of the company's free capital. The remaining balance consists of the fair value of fixed income instruments, totalling €209 million, held by Poste Assicura SpA.
These fixed income instruments comprise bonds issued by CDP SpA, with a fair value of €1,269 million (a nominal value of €1,131 million).

Other investments relate to units of mutual investment funds, totalling €1,696 million, of which €831 million consists primarily of equity funds and €538 million primarily of bond funds subscribed to entirely by Poste Vita SpA and allocated to the insurance company's separately managed accounts. The remaining balance consists of the fair value of units of property funds, totalling €327 million.

In April 2016, Poste Vita decided to invest approximately €260 million in an alternative investment fund called "Atlante I", and, in July 2016, invested approximately a further €200 million in the alternative investment fund named "Atlante II". Both funds, which are managed by Quaestio Capital Management, are closed-end funds restricted to professional investors, investing primarily in financial instruments issued by banks looking to strengthen their capital and non-performing loans held by various Italian banks. At 30 June 2017, the Atlante I fund has called up €228 million (the Atlante I fund called up a total of €17 million during the period, which was invested in the Atlante II fund), including €202 million allocated to separately managed accounts and €26 million allocated to the company's free capital. The Atlante II fund's capital, subscribed and called up during the period under review, is primarily allocated by the company to separately managed accounts and amounts to €72 million.

In view of recent events regarding the assets in which the Atlante I fund has invested, and information from the management company on 21 July 2017 relating to the value of the fund's units at 30 June 2017, the Group has written off its investment, with the sole exception of the amount invested in the Atlante II fund. The total impairment loss recognised at 30 June 2017 thus amounts to €211 million. Impairment losses recognised in the first half of 2017 total €105 million. Of this amount, €93 million, allocated to separately managed accounts, has been deducted from deferred liabilities due to policyholders (reflecting application of the shadow accounting method), whilst the €12 million relating to the insurance company's free capital has been recognised in finance costs.

Financial instruments at fair value through profit or loss

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

tab. A5.5 - Movements in financial instruments at fair value through profit or loss (€m)

	Fixed income instruments		Structured bonds		Other investments	Total
	Nominal value	Fair value	Nominal value	Fair value	Fair value	Fair value
Balance at 1 January 2016	**7,542**	**7,559**	**1,155**	**1,346**	**9,227**	**18,132**
Purchases		2,579		346	5,537	8,462
Fair value gains and losses through profit or loss		145		(3)	485	627
Accrued income		47		-	-	47
Effects of sales on profit or loss		6		(4)	(5)	(3)
Sales/Settlement of accrued income		(770)		(693)	(899)	(2,362)
Balance at 31 December 2016	**9,379**	**9,566**	**857**	**992**	**14,345**	**24,903**
Purchases		522		4	4,379	4,905
Fair value gains and losses through profit or loss		25		(4)	337	358
Accrued income		39		-	-	39
Effects of sales on profit or loss		(3)		4	3	4
Sales/Settlement of accrued income		(1,541)		(450)	(398)	(2,389)
Balance at 30 June 2017	**8,413**	**8,608**	**500**	**546**	**18,666**	**27,820**

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

- **fixed income securities**, amounting to €8,608 million and consisting of €4,679 million in coupon stripped BTPs acquired to cover the contractual obligations arising on Class III insurance policies, while the balance of €3,873 million is made up of corporate bonds issued by blue-chip companies and primarily linked to separately managed accounts, with €56 million relating to securities in which the company's free capital has been invested.
- **structured bonds**, amounting to €546 million, relating solely to the private placement of bonds issued by CDP SpA (nominal amount of €500 million) acquired to cover the contractual obligations arising on Class I insurance policies. The overall reduction is primarily due to redemption of an index-linked policy, totalling €446 million.
- **other investments,** amounting to €18,666 million and primarily relating to units of mutual investment funds, include €17,630 million to cover Class I products and €1,036 million to cover Class III products. Details of the funds in question are provided in note 3.7 on "Unconsolidated structured entities".

Derivative financial instruments

At 30 June 2017, outstanding instruments consist of warrants executed by Poste Vita SpA to cover contractual obligations deriving from Class III policies with a fair value of €254 million and a notional amount of €4,607 million. Details of the Group's warrants are as follows.

tab. A5.6 - Warrants

(€m)

	At 30 June 2017		At 31 December 2016	
Policy	Nominal value	Fair value	Nominal value	Fair value
Alba	-	-	712	17
Terra	1,282	36	1,355	27
Quarzo	1,174	44	1,254	35
Titanium	621	40	656	34
Arco	165	33	174	30
Prisma	166	28	175	25
6Speciale	200	-	200	-
6Avanti	200	-	200	-
6Sereno	173	17	181	15
Primula	176	16	184	15
Top5	224	18	233	16
Top5 edizione II	226	22	234	19
Total	4,607	254	5,558	233

POSTAL AND BUSINESS SERVICES

Loans and receivables

Loans, with a zero balance, include Contingent Convertible Notes with an original value of €75 million, a twenty-year term to maturity and issued by Midco SpA, which in turn owns 51% of the airline, Alitalia SAI. The Notes were subscribed by Poste Italiane SpA on 23 December 2014, in connection with the strategic transaction that resulted in Etihad Airways' acquisition of an equity interest in Alitalia SAI, without giving rise to any involvement on the part of Poste Italiane in the management of the issuer or its subsidiary. Interest and principal payments were provided for in the relevant terms and conditions if, and to the extent that, there was available liquidity. The loan was convertible, on the fulfilment of certain negative pledge conditions, into an equity instrument pursuant to art. 2346 paragraph 6 of the Italian Civil Code, carrying the same rights associated with the Notes. From 1 January 2015, the Notes paid a nominal rate of interest of 7% per annum.

In the six months ended 30 June 2017 and until the date of approval of these interim financial statements, the Parent Company continued to monitor the information provided by the above Midco SpA under the terms of the related contract. On 2 May 2017, following a general meeting of Alitalia SAI's shareholders, which noted the serious financial difficulties faced by the airline, the withdrawal of support by shareholders and the impossibility of quickly finding alternative solutions, the airline's board of directors decided to file for extraordinary administration, granted by Ministry for Economic Development decree. On 11 May 2017, the Court of Civitavecchia declared Alitalia SAI SpA to be insolvent and, on 17 May 2017, the appointed administrators invited expressions of interest from parties wishing to acquire the airline and take it out of extraordinary administration. On 5 July 2017, a general meeting of Midco SpA's shareholders approved the company's financial statements for the year ended 31 December 2016, in which its investment in Alitalia SAI was written off. The financial statements show that the company's equity has been reduced to such an extent as to trigger conversion of the Notes held by Poste Italiane SpA into equity instruments. Based on the above events, at 30 June 2017, the Notes accounted for at a total value of €82 million at 31 December 2016, including interest recognised, have been written off and the related impairment loss, of a non-recurring nature, has been recognised in finance costs for the period under review (section C11.2).

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

tab. A5.7 - Receivables (€m)

	Balance at 30 June 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Due from MEF for repayment of loans accounted for in liabilities	-	-	-	-	1	1
Guarantee deposits	-	45	45	-	50	50
Due from the purchasers of service accommodation	8	-	8	7	-	7
Total	**8**	**45**	**53**	**7**	**51**	**58**

Guarantee deposits of €45 million relate to collateral provided to counterparties with whom the Company has entered into asset swaps.

Available-for-sale financial assets

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

tab. A5.8 - Movements in available-for-sale financial assets (€m)

	Fixed income instruments		Other investments		Equity instruments	Total
	Nominal value	Fair value	Nominal value	Fair value	Fair value	Fair value
Balance at 1 January 2016	**500**	**570**	**5**	**6**	**5**	**581**
Purchases		100		-	-	100
Redemptions		(100)		-	-	(100)
Transfers to equity reserves		-		-	-	-
Changes in amortised cost		-		-	-	-
Impairments		-		-	-	-
Fair value gains and losses through equity		(4)		1	-	(3)
Fair value gains and losses through profit or loss		(3)		-	-	(3)
Effects of sales on profit or loss		-		-	-	-
Accrued income		5		-	-	5
Sales and settlement of accrued income		(6)		-	-	(6)
Balance at 31 December 2016	**500**	**562**	**5**	**7**	**5**	**574**
Purchases		-		-	-	-
Redemptions		-		-	-	-
Transfers to equity reserves		-		-	-	-
Changes in amortised cost		-		-	-	-
Impairments		-		-	-	-
Fair value gains and losses through equity		(1)		-	-	(1)
Fair value gains and losses through profit or loss		(6)		-	-	(6)
Effects of sales on profit or loss		-		-	-	-
Accrued income		5		-	-	5
Sales and settlement of accrued income		(5)		-	-	(5)
Balance at 30 June 2017	**500**	**555**	**5**	**7**	**5**	**567**

Fixed income instruments regard BTPs with a total nominal value of €500 million (fair value of €555 million). Of these, instruments with a value of €375 million have been hedged using asset swaps designated as fair value hedges.

Equity instruments primarily reflects the investment in CAI SpA (formerly Alitalia CAI SpA), which was acquired for €75 million in 2013 and written off in 2014, and the historical cost of approximately €4.5 million for the 15% equity interest in Innovazione e Progetti ScpA, which is in liquidation.

Derivative financial instruments

Movements in derivative assets and liabilities are as follows:

tab. A5.9 - Movements in derivative financial instruments (€m)

	Six months ended 30 June 2017				Year ended 31 December 2016			
	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total
Balance at 1 January	**(7)**	**(44)**	**-**	**(51)**	**(5)**	**(47)**	**-**	**(52)**
Increases/(decreases) (*)	1	1	-	2	(3)	(7)	-	(10)
Hedge completion	-	-	-	-	-	-	-	-
Transactions settled (**)	-	6	-	6	1	10	-	11
Balance at end of period	**(6)**	**(37)**	**-**	**(43)**	**(7)**	**(44)**	**-**	**(51)**
Of which:								
Derivative assets	-	-	-	-	-	-	-	-
Derivative liabilities	(6)	(37)	-	(43)	(7)	(44)	-	(51)

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

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

At 30 June 2017, the derivative financial instruments held by the Parent Company, with fair value losses of €43 million, include:

- nine asset swaps used as fair value hedges entered into in 2010 to protect the value of BTPs with a nominal value of €375 million against movements in interest rates. These instruments have enabled the Parent Company to sell the fixed rate on the BTPs of 3.75% and purchase a variable rate;
- a swap contract entered into in 2013 to hedge the cash flows of a €50 million bond issued on 25 October 2013 (section B.8). With this transaction, the Company took on the obligation to pay a fixed rate of 4.035% and sold the variable rate of the bond which, at 30 June 2017, is 1.339%.

A6 - INVENTORIES

At 30 June 2017, net inventories break down as follows:

tab. A6 - Inventories (€m)

Item	Balance at 31 December 2016	Increase / (decrease)	Balance at 30 June 2017
Properties held for sale	118	1	119
Work in progress, semi-finished and finished goods and goods for resale	12	(1)	11
Raw , ancillary and consumable materials	7	-	7
Total	**137**	**-**	**137**

This item refers mainly to properties held for sale, which include the portion of EGI SpA's real estate portfolio to be sold, whose fair *value*[23] at 30 June 2017 amounts to approximately €302 million.

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

A7 – TRADE RECEIVABLES

Trade receivables break down as follows:

tab. A7 - Trade receivables (€m)

Item	Balance at 30 June 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Customers	5	2,014	2,019	4	1,929	1,933
MEF	-	263	263	-	236	236
Subsidiaries, associates and joint ventures	-	1	1	-	3	3
Prepayments to suppliers	-	-	-	-	-	-
Total	**5**	**2,278**	**2,283**	**4**	**2,168**	**2,172**

Receivables due from customers

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

Item	Balance at 30 June 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Ministries and Public Administration entities	-	663	663	-	633	633
Cassa Depositi e Prestiti	-	374	374	-	364	364
Unfranked mail delivered and other value added services	24	298	322	24	274	298
Overseas counterparties	-	309	309	-	285	285
Parcel express courier and express parcel services	-	255	255	-	238	238
Amounts due for other BancoPosta services	-	104	104	-	113	113
Overdrawn current accounts	-	143	143	-	142	142
Property management	-	7	7	-	7	7
Other trade receivables	-	389	389	-	376	376
Provisions for doubtful debts	(19)	(528)	(547)	(20)	(503)	(523)
Total	**5**	**2,014**	**2,019**	**4**	**1,929**	**1,933**

Amounts due from **ministries and Public Administration entities** include €322 million relating to Integrated Notification and mailroom services and €57 million in amounts due for the payment of pensions and vouchers on behalf of INPS (the National Institute of Social Security). In order to settle this latter amount, INPS has expressed a willingness to offset receivables due to the Company with liabilities that, in Poste Italiane's opinion, are not subject to the same degree of certainty, liquidity or enforceability, and which the Company has recognised according to the procedures and to the extent required by the relevant accounting standards. Whilst waiting for the counterparty to acknowledge its obligations, the Parent Company has instructed its legal counsel to take the necessary steps to recover the amount due.

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

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

Item	Balance at 1 January 2016	Net provisions	Deferred revenue	Uses	Recl. to non-current assets and disposal groups held for sale	Balance at 31 December 2016	Net provisions	Deferred revenue	Uses	Balance at 30 June 2017
Overseas postal operators	4	1	-	-	-	5	-	-	-	5
Public Administration entities	132	2	3	(2)	(3)	132	3	2	-	137
Private customers	334	21	-	(7)	-	348	15	-	-	363
	470	**24**	**3**	**(9)**	**(3)**	**485**	**18**	**2**	**-**	**505**
Interest on late payments	32	10	-	(4)	-	38	7	-	(3)	42
Total	**502**	**34**	**3**	**(13)**	**(3)**	**523**	**25**	**2**	**(3)**	**547**

Receivables due from the MEF

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

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

Item	Balance at 30 June 2017	Balance at 31 December 2016
Universal Service compensation	161	139
Publisher tariff and electoral subsidies	83	83
Remuneration of current account deposits	13	8
Payment for delegated services	28	28
Distribution of Euroconverters	6	6
Other	3	3
Provision for doubtful debts due from the MEF	(31)	(31)
Total	**263**	**236**

Specifically:

- **Universal Service compensation** includes:

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

Item	Balance at 30 June 2017	Balance at 31 December 2016
First half months 2017	22	-
Remaining balance for 2015	67	67
Remaining balance for 2014	41	41
Remaining balance for 2012	23	23
Remaining balance for 2005	8	8
Total	**161**	**139**

Receivables accruing in the first half of 2017 amounted to €131 million, of which €109 million was collected during the period and €22 million was collected in July 2017. In addition:

- the outstanding balances of the compensation for 2015 and 2014 have been provided for in the state budget for 2017;
- with reference to the services rendered in 2012, AGCom has recognised a net cost incurred by the Company of €327 million, compared with compensation of €350 million originally recognised. Provision has not been made in the state budget for the remaining €23 million. Poste Italiane SpA appealed AGCom's decision before the Regional Administrative Court (*TAR*) on 13 November 2014;
- the outstanding receivable relating to compensation for 2005 was subject to cuts in the budget laws for 2007 and 2008.

Finally, with regard to the outstanding balance of the compensation for 2013, which was collected in full in 2015, with resolution 493/14/CONS of 9 October 2014, AGCom has initiated an assessment of the net cost incurred by the Company. On 24 July 2015, the regulator notified the Company that it will extend the assessment to include the 2014 financial year. On 29 July 2016, AGCom published Resolution 166/16/CONS, launching a public consultation on the draft ruling concerning assessment of the net cost of the universal postal service in 2013 and 2014, in which the cost of universal provision was estimated to be €345 million for 2013 and €365 million for 2014, compared with revenue of €343 and €277 million, respectively, recognised in the Parent Company's statement of profit or loss for services rendered in those years. The Parent Company submitted its observations to the public consultation on 27 September 2016.

- Receivables arising from **electoral subsidies** refer to compensation for previous years. Funds have been earmarked in the state budgets for 2017 and previous years, but they are still being reviewed by the European Commission.

- The **remuneration of current account deposits** refers primarily to amounts accruing in the period under review and almost entirely relates to the deposit of funds deriving from accounts opened by Public Administration entities and attributable to BancoPosta RFC. These deposits are governed by a specific agreement with the MEF, which expired on 31 December 2016 and is in the process of being renewed.
- Payments for **delegated services** relate to fees accrued solely in the period under review for treasury services performed by Bancoposta on behalf of the state in accordance with a specific agreement with the MEF, which expired on 31 December 2016 and is in the process of being renewed.

Movements in **provisions for doubtful debts due from the MEF** are as follows:

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

	Balance at 1 January 2016	Net provisions	Deferred revenue	Uses	Balance at 31 December 2016	Net provisions	Deferred revenue	Uses	Balance at 30 June 2017
Provisions for doubtful debts	147	(7)	(109)	-	31	-	-	-	31

These provisions, which are unchanged with respect to the beginning of the period, reflect the lack of funding of the state budget, which make it difficult to collect certain receivables recognised on the basis of laws, contracts and agreements in force at the time of recognition.

A8 - OTHER RECEIVABLES AND ASSETS

This item breaks down as follows:

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

		Balance at 30 June 2017			Balance at 31 December 2016		
Item	**Note**	**Non-current assets**	**Current assets**	**Total**	**Non-current assets**	**Current assets**	**Total**
Substitute tax paid		2,860	540	3,400	2,546	564	3,110
Receivables relating to fixed-term contract settlements		112	89	201	121	89	210
Amounts due from social security agencies and pension funds (excl. fixed-term contract settlements)		-	95	95	-	89	89
Amounts restricted by court rulings		-	72	72	-	71	71
Accrued income and prepaid expenses from trading transactions		-	26	26	-	16	16
Tax assets		-	5	5	-	4	4
Sundry receivables		15	144	159	15	163	178
Provisions for doubtful debts due from others		-	(64)	(64)	-	(60)	(60)
Other receivables and assets		2,987	907	3,894	2,682	936	3,618
Amount due from MEF following cancellation of EC Decision of 16 July 2008	[B2]	-	6	6	-	6	6
Interest accrued on IRES refund	[C12.1]	-	47	47	-	47	47
Interest accrued on IRAP refund	[C12.1]	-	2	2	-	-	-
Total		**2,987**	**962**	**3,949**	**2,682**	**989**	**3,671**

Specifically:

- **Substitute tax paid** refers mainly to:
  - €1,965 million paid in advance by Poste Vita SpA for the financial years 2012-2017, relating to withholding and substitute tax paid on capital gains on life policies[24];
  - €892 million charged to holders of Interest-bearing Postal Certificates and Class III and V insurance policies for stamp duty at 30 June 2017[25]. This amount is balanced by a matching entry in “Other tax liabilities” until expiration or early settlement of the Interest-bearing Postal Certificates or the insurance policies, i.e. the date on which the tax is payable to the tax authorities (tab. B10.3);
  - €495 million relating to advances paid in relation to stamp duty to be paid in virtual form in 2017 and 2018 and to be recovered from customers.

[24] Of the total amount, €471 million, assessed on the basis of provisions at 30 June 2017, has yet to be paid and is accounted for in “Other tax liabilities” (tab. B10.3).

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

- Amounts due from staff under **fixed-term contract settlements** consist of salaries to be recovered following the agreements of 13 January 2006, 10 July 2008, 27 July 2010, 18 May 2012, 21 March 2013 and 30 July 2015 between Poste Italiane SpA and the trade unions, regarding the re-employment by court order of staff previously employed on fixed-term contracts. This item refers to receivables with a present value of €201 million from staff, from INPS and pension funds recoverable in the form of variable instalments, the last of which is due in 2040.
- Amounts that **cannot be drawn on due to court rulings** include €59 million in amounts seized and not assigned to creditors, in the process of recovery, and €13 million in amounts stolen from the Parent Company in December 2007 as a result of an attempted fraud and that have remained on deposit with an overseas bank. The latter sum may only be recovered once the legal formalities are completed.
- **Accrued interest on IRES refund**, amounting to €47 million, refers to interest accruing up to 30 June 2017 in relation to the tax credit determined by an unreported deduction of IRAP incurred on personnel expenses from IRES and almost entirely attributable to the Parent Company. Recovery of the amount in question has been disputed and, on 24 November 2016, the Provincial Tax Tribunal for Rome upheld Poste Italiane's appeal, ordering the tax authorities in Rome to refund the amounts claimed. With regard to the remaining overall tax credit, amounting to €55 million (i.e. including current tax assets and related interest), described in note 2.3 – *Use of estimates*, there is uncertainty over the time necessary to collect the amount due.
- **Accrued interest on IRAP refund**, amounting to €2 million, refers to interest accruing up to 30 June 2017 on IRAP to be recovered on the unreported deduction of expenses for disabled personnel in 2003, described in section C12.

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

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

Item	Balance at 1 January 2016	Net provisions	Uses	Balance at 31 December 2016	Net provisions	Uses	Balance at 30 June 2017
Public Administration entities for sundry	13	-	-	13	-	-	13
Receivables relating to fixed-term	7	-	-	7	2	-	9
Other receivables	39	4	(3)	40	2	-	42
Total	**59**	**4**	**(3)**	**60**	**4**	**-**	**64**

A9 - CASH AND DEPOSITS ATTRIBUTABLE TO BANCOPOSTA

Details of this item are as follows:

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

Item	Balance at 30 June 2017	Balance at 31 December 2016
Cash and cash equivalents in hand	3,032	2,269
Bank deposits	204	225
Total	**3,236**	**2,494**

Cash at post offices, relating exclusively to BancoPosta RFC, relates to cash deposits on postal current accounts, postal savings products (Interest-bearing Postal Certificates and Postal Savings Books) or advances obtained from the Italian Treasury to fund post office operations. This cash may only be used in settlement of these obligations. Cash and cash equivalents in hand are held at post offices (€1,142 million) and companies that provide cash transportation services whilst awaiting transfer to the Italian Treasury (€1,890 million). Bank deposits relate to BancoPosta RFC's operations and include amounts deposited in an account with the Bank of Italy to be used in interbank settlements, totalling €202 million.

A10 – CASH AND CASH EQUIVALENTS

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

Item	Balance at 30 June 2017	Balance at 31 December 2016
Bank deposits and amounts held at the Italian Treasury	2,918	2,581
Deposits with the MEF	549	1,310
Cash and cash equivalents in hand	14	11
Total	**3,481**	**3,902**

The balance of cash at 30 June 2017 includes approximately €1,843 million the use of which is restricted, including €1,806 million in liquidity covering technical provisions for the insurance business, €13 million whose use is restricted by court orders and €24 million resulting from the collection of cash on delivery and amounts subject to other restrictions.

A11 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND LIABILITIES RELATED TO ASSETS HELD FOR SALE

Net assets held for sale, after eliminating intercompany items, amount to €507 million. This includes amounts relating to BdM-MCC SpA, totalling €452 million, and BancoPosta Fondi SpA SGR, totalling €55 million, which, as a result of decisions taken by the Group's management, meet the requirements of IFRS 5 for classification in these items.

Non-current assets and disposal groups held for sale amount to €2,591 million, and consist of BdM-MCC SpA (€2,522 million) and BancoPosta Fondi SpA SGR (€69 million).

Movements in this item are as follows:

tab. A11.1 - Non-current assets and disposal groups held for sale

Item	Balance at 31 December 2016	Impairments	Other movements	Balance at 30 June 2017
Property, plant and equipment	2	-	-	2
Intangible assets	7	-	-	7
Non-current financial assets	2,154	-	(153)	2,001
Non-current trade receivables	56	-	25	81
Deferred tax assets	12	-	(1)	11
Other non-current assets	-	-	-	-
Current trade receivables	9	-	4	13
Current financial assets	375	-	21	396
Current tax assets	9	-	3	12
Other current assets	43	-	(9)	34
Cash and cash equivalents	90	-	(12)	78
Impairments of disposal groups held for sale	(37)	(7)	-	(44)
Total	**2,720**	**(7)**	**(122)**	**2,591**

The impairment of €7 million relates to BdM-MCC SpA and has been recognised to align the carrying amount of the company's net assets with their estimated realisable value, less costs to sell (further details are provided in the section, "Basis of consolidation and corporate actions").

Liabilities related to assets held for sale amount to €2,084 million and include BdM-MCC SpA (€2,070 million) and BancoPosta Fondi SpA SGR (€14 million).

Movements in this item are as follows:

tab. A11.2 - Liabilities related to assets held for sale

Item	Balance at 31 December 2016	Other movements	Balance at 30 June 2017
Non-current provisions for risks and charges	1	-	1
Employee termination benefits and pension plans	8	-	8
Non-current financial liabilities	880	149	1,029
Deferred tax liabilities	1	(1)	-
Other non-current liabilities	-	-	-
Trade payables	9	(1)	8
Current financial liabilities	1,144	(126)	1,018
Current provisions for risks and charges	5	(2)	3
Current tax liabilities	3	3	6
Other current liabilities	9	2	11
Total	**2,060**	**24**	**2,084**

EQUITY

B1 – SHARE CAPITAL

The share capital consists of 1,306,110,000 no-par value ordinary shares, of which CDP holds 35% and the MEF 29.3%, while the remaining shares are held by institutional and retail investors.

At 30 June 2017, all the shares in issue are fully subscribed and paid up. No preference shares have been issued and the Parent Company does not hold treasury shares.

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

tab. B1 - Reconciliation of equity (€m)

	Equity at 30 June 2017	Changes in equity during first six months of 2017	Profit/(loss) for first six months of 2017	Equity at 31 December 2016	Changes in equity during 2016	Profit/(loss) for full year 2016	Equity at 1 January 2016
Financial statements of Poste Italiane SpA	**5,118**	**(1,303)**	**261**	**6,160**	**(2,111)**	**625**	**7,646**
- Undistributed profit (loss) of consolidated companies	2,988	-	252	2,736	-	425	2,311
- Investments accounted for using the equity method	19	-	9	10	1	6	3
- Balance of FV and CFH reserves of investee companies	130	(33)	-	163	(35)	-	198
- Actuarial gains and losses on employee termination benefits of investee companies	(4)	1	-	(5)	(1)	-	(4)
- Fees to be amortised attributable to Poste Vita SpA and Poste Assicura SpA	(41)	-	(2)	(39)	-	-	(39)
- Effects of contributions and transfers of business units between Group companies							
SDA Express Courier SpA	2	-	-	2	-	-	2
EGI SpA	(71)	-	-	(71)	-	-	(71)
Postel SpA	17	-	-	17	-	-	17
PosteShop SpA	1	-	-	1	-	-	1
- Effects of intercompany transactions (including dividends)	(1,078)	(2)	(8)	(1,068)	-	(430)	(638)
- Elimination of adjustments to value of consolidated companies	408	-	8	400	-	37	363
- Amortisation until1 January 2004/Impairment of goodwill	(139)	-	-	(139)	-	-	(139)
- Impairments of disposal groups held for sale	(44)	-	(7)	(37)	-	(37)	-
- Other consolidation adjustments	1	-	(3)	4	-	(4)	8
Equity attributable to owners of the Parent	**7,307**	**(1,337)**	**510**	**8,134**	**(2,146)**	**622**	**9,658**
- Non-controlling interests (excluding profit/(loss))	-	-	-	-	-	-	-
- Non-controlling interests in profit/loss	-	-	-	-	-	-	-
Non-controlling interests in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL CONSOLIDATED EQUITY	**7,307**	**(1,337)**	**510**	**8,134**	**(2,146)**	**622**	**9,658**

B2 – SHAREHOLDER TRANSACTIONS

As resolved at the Annual General Meeting of shareholders held on 27 April 2017, on 21 June 2017 the Parent Company paid dividends totalling €509 million, based on a dividend per share of €0.39.

With regard to other shareholder transactions, following the ruling of the General Court of the European Union dated 13 September 2013, Poste Italiane SpA has a residual claim on the MEF of €45 million, relating to the return of sums paid in the past to the MEF out of retained earnings. At 30 June 2017, the sum of €6 million, previously recognised in the MEF's letter of 7 August 2015, has been earmarked in the state budget for 2017 and has, therefore, been recognised in "Other receivables and assets"[26].

B3 – EARNINGS PER SHARE

Earnings per share

The calculation of basic and diluted earnings per share (EPS) is based on the Group's profit for the year. The denominator used in the calculation of both basic and diluted EPS is represented by the number of the Parent Company's shares in issue, given that no financial instruments with potentially dilutive effects had been issued at 30 June 2017 or at 30 June 2016.

[26] Deferred tax assets of approximately €2 million on this amount have already been used; the overall impact on equity thus amounts to approximately €4 million. Absent further recognition of claims by the MEF, in line with the past, at 30 June 2017, the component of the Company's equity relating to the residual receivable of approximately €39 million is shown with a nil balance.

B4 – RESERVES

tab. B4 - Reserves (€m)

	Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Reserves related to group of assets and liabilities held for sale	Reserve for investees accounted for using equity method	Total
Balance at 1 January 2016	**299**	**1,000**	**2,739**	**9**	**-**	**-**	**4,047**
Increases/(decreases) in fair value during the period	-	-	(942)	47	-	-	(895)
Tax effect of changes in fair value	-	-	264	(14)	-	-	250
Transfers to profit or loss	-	-	(482)	(21)	-	-	(503)
Tax effect of transfers to profit or loss	-	-	108	6	-	-	114
Investees accounted for using equity method - share of OCI (net of tax)	-	-	-	-	-	-	-
Gains/(Losses) recognised in equity	-	-	(1,052)	18	-	-	(1,034)
Other	-	-	-	-	-	1	1
Balance at 30 June 2016	**299**	**1,000**	**1,687**	**27**	**-**	**1**	**3,014**
Increases/(decreases) in fair value during the period	-	-	(731)	(62)	-	-	(793)
Tax effect of changes in fair value	-	-	213	18	-	-	231
Transfers to profit or loss	-	-	(110)	(1)	-	-	(111)
Tax effect of transfers to profit or loss	-	-	32	-	-	-	32
Investees accounted for using equity method - share of OCI (net of tax)	-	-	-	-	-	-	-
Gains/(Losses) recognised in equity	-	-	(596)	(45)	-	-	(641)
Reserves related to disposal groups and liabilities held for sale	-	-	1	-	(1)	-	-
Other	-	-	-	-	-	1	1
Balance at 31 December 2016	**299**	**1,000**	**1,092**	**(18)**	**(1)**	**2**	**2,374**
Increases/(decreases) in fair value during the period	-	-	(591)	(18)	-	-	(609)
Tax effect of changes in fair value	-	-	173	5	-	-	178
Transfers to profit or loss	-	-	(596)	(1)	-	-	(597)
Tax effect of transfers to profit or loss	-	-	171	1	-	-	172
Investees accounted for using equity method - share of OCI (net of tax)	-	-	-	-	(1)	-	(1)
Gains/(Losses) recognised in equity	-	-	(843)	(13)	(1)	-	(857)
Other	-	-	-	-	-	-	-
Balance at 30 June 2017	**299**	**1,000**	**249**	**(31)**	**(2)**	**2**	**1,517**

Details are as follows:

- The **fair value reserve** relates to changes in the fair value of available-for-sale financial assets which, during the first half of 2017, recorded losses of €591 million reflected in the reserve as follows:
  - a net decrease of €548 million in available-for-sale financial assets attributable to the Group's Financial Services segment, due to the combined effect of a loss on securities of €560 million and a gain on equity instruments of €12 million;
  - a net decrease of €42 million in available-for-sale financial assets attributable to the Group's Insurance Services segment;
  - a net decrease of €1 million in available-for-sale financial assets attributable to the Group's Postal and Business Services segment.
- The **cash flow hedge reserve**, attributable to the Parent Company, represents changes in the fair value of the effective portion of cash flow hedges outstanding. In the first half of 2017, total fair value losses of €18 million are attributable to the value of BancoPosta RFC's derivative financial instruments.

LIABILITIES

B5 – TECHNICAL PROVISIONS FOR INSURANCE BUSINESS

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

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

Item	Balance at 30 June 2017	Balance at 31 December 2016
Mathematical provisions	104,061	96,333
Outstanding claims provisions	729	942
Technical provisions where investment risk is transferred to policyholders	5,960	6,900
Other provisions	7,748	9,360
for operating costs	83	79
for deferred liabilities to policyholders	7,665	9,281
Technical provisions for claims	160	143
Total	**118,658**	**113,678**

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

The **provisions for deferred liabilities due to policyholders** include portions of gains and losses attributable to policyholders under the shadow accounting method. In particular, the value of the provisions reflects the attribution to policyholders, in accordance with the relevant accounting standards, of unrealised profits and losses on available-for-sale financial assets at 30 June 2017 and, to a lesser extent, on financial instruments at fair value through profit or loss.

Technical provisions attributable to reinsurers are accounted for in assets in the statement of financial position and amount to €75 million.

B6 – PROVISIONS FOR RISKS AND CHARGES

Movements in provisions for risks and charges are as follows:

tab. B6 - Movements in provisions for risks and charges for the six months ended 30 June 2017 (€m)

Item	Balance at 31 December 2016	Provisions	Finance costs	Released to profit or loss	Uses	Recl. to liabilities related to assets held for sale	Balance at 30 June 2017
Provisions for operational risk	364	101	-	-	(77)	-	388
Provisions for disputes with third parties	349	28	-	(20)	(6)	-	351
Provisions for disputes with staff (1)	120	5	-	(12)	(13)	-	100
Provisions for personnel expenses	196	306	-	-	(30)	-	472
Provisions for restructuring charges	342	-	-	-	(175)	-	167
Provisions for expired and statute barred postal savings certificates	14	-	-	-	-	-	14
Provisions for taxation/social security contributions	28	1	-	-	-	-	29
Other provisions for risks and charges (2)	94	13	-	-	(11)	-	96
Total	**1,507**	**454**	**-**	**(32)**	**(312)**	**-**	**1,617**
Overall analysis of provisions:							
- non-current portion	658						681
- current portion	849						936
	1,507						1,617

(1) Net accruals for Personnel expenses amount to €10 million. Service costs (legal assistance) total €3 million.

Movements in provisions for risks and charges for the year ended 2016 (€m)

Item	Balance at 31 December 2015	Provisions	Finance costs	Released to profit or loss	Uses	Recl. to liabilities related to assets held for sale	Balance at 31 December 2016
Provisions for operational risk	295	96	-	(10)	(17)	-	364
Provisions for disputes with third parties	399	54	-	(82)	(22)	-	349
Provisions for disputes with staff (1)	142	22	-	(13)	(30)	(1)	120
Provisions for personnel expenses	131	152	-	(28)	(56)	(3)	196
Provisions for restructuring charges	316	342	-	-	(316)	-	342
Provisions for expired and statute barred postal savings certificates	14	-	-	-	-	-	14
Provisions for taxation/social security contributions	24	5	1	(1)	(1)	-	28
Other provisions for risks and charges (2) (2)	76	27	-	(1)	(6)	(2)	94
Total	**1,397**	**698**	**1**	**(135)**	**(448)**	**(6)**	**1,507**
Overall analysis of provisions:							
- non-current portion	634						658
- current portion	763						849
	1,397						1,507

(1) Net accruals for Personnel expenses amount to €3 million. Service costs (legal assistance) total €6 million.

(2) Net provisions of €22 million and €4 million are recognised in "Other operating costs" and "Profit/(Loss) on investments accounted for using the equity method", respectively.

Specifically:

- The **provisions for operational risk**, previously called "Provisions for non-recurring charges", primarily regard liabilities arising from the Group's financial services, provided by BancoPosta. Provisions for the period, totalling €101 million, primarily reflect the best estimate of risks linked to disputes with customers regarding certain investment instruments and products sold in the past and whose performance is not in line expectations, adjustments to income generated in previous years and expenses to be incurred in connection with seizures effected by BancoPosta as garnishee-defendant. Uses, amounting to €77 million, include €54 million relating to liabilities to customers who purchased units issued by the IRS real estate fund, following the decision to take extraordinary measures by Poste Italiane's Board of Directors on 16 January 2017. In this regard, in addition to proceeding with steps designed to protect customers, during the first half, the Group monitored the process and procedures involved in liquidating real estate funds managed by other management companies and in the past sold by Poste Italiane, and whose redemption is due to take place in the current or following year. This has enabled an update of estimates of the liabilities that may be incurred by the Group.
- **Provisions for disputes with third parties** include the present value of expected liabilities deriving from different types of legal and out-of-court disputes with suppliers and third parties, the related legal expenses, and penalties and indemnities payable to customers. Provisions for the period of €28 million reflect the estimated value of new liabilities measured on the basis of expected outcomes. The reduction of €20 million relates to the reversal of liabilities recognised in the past, whilst a reduction of €6 million regards the value of disputes settled.
- **Provisions for disputes with staff** include liabilities that may arise following labour litigation and disputes of various types. Net releases of €7 million relate to an update of the estimate of the liabilities and the related legal

expenses, taking account of both the overall value of negative outcomes in terms of litigation, and the application of Law 183 of 4 November 2010 (“*Collegato lavoro*”), which has introduced a cap on current and future compensation payable to an employee in the event of "court-imposed conversion" of a fixed-term contract. Uses of €13 million relate to amounts used to cover the cost of settling disputes.

- **Provisions for personnel expenses** are made to cover expected liabilities arising in relation to the cost of labour that are certain or likely to occur but whose estimated amount is subject to change.
- **Provisions for restructuring charges,** which were established in 2016, reflect the estimated costs to be incurred by the Parent Company for early retirement incentives, under the current redundancy scheme for employees leaving the Company by 31 December 2018. Use of €175 million was made during the period under review.

B7 – EMPLOYEE TERMINATION BENEFITS AND PENSIONS PLANS

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

	Six months ended 30 June 2017			Six months ended 30 June 2016		
	Employee termination	Pension plans	Total	Employee termination	Pension plans	Total
Balance at 1 January	**1,347**	**-**	**1,347**	**1,357**	**4**	**1,361**
Current service cost	-	-	-	-	-	-
Interest component	11	-	11	15	-	15
Effect of actuarial (gains)/losses	(41)	-	(41)	126	-	126
Uses for the period	(66)	-	(66)	(45)	-	(45)
Balance at end of period	**1,251**	**-**	**1,251**	**1,453**	**4**	**1,457**

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

The main actuarial assumptions applied in calculating provisions for **employee termination benefits** and the **pension plan** (the latter relating solely to BdM-MCC employees and, at 31 December 2016, was reclassified to “Liabilities related to assets held for sale”), are as follows:

tab. B7.1 - Economic and financial assumptions

	At 30 June 2017	At 31 December 2016	At 30 June 2016
Discount rate	1.67%	1.31%	1.05%
Inflation rate	1.50%	1.50%	1.50% for 2016 1.80% for 2017 1.70% for 2018 1.60% for 2019 2.00% from 2020 on
Annual rate of increase of employee termination benefits	2.625%	2.625%	2.625% for 2016 2.85% for 2017 2.775% for 2018 2.70% for 2019 3.00% from 2020 on

tab. B7.2 - Demographic assumptions

	30 June 2017
Mortality	RG48
Disability	INPS tables by age and sex
Pensionable age	Attainment of legal requirements for retirement

tab. B7.3 - Actuarial gains and losses

	30 June 2017		30 June 2016	
	Employee termination benefits	Pension plan	Employee termination benefits	Pension plan
Change in demographic assumptions	-	-	-	-
Change in financial assumptions	(43)	-	135	-
Other experience-related adjustments	2	-	(9)	-
Total	**(41)**	**-**	**126**	**-**

tab. B7.4 - Sensitivity analysis

	30 June 2017		30 June 2016	
	Employee termination benefits	Pension plan	Employee termination benefits	Pension plan
Inflation rate +0.25%	1,270	-	1,476	4
Inflation rate -0.25%	1,233	-	1,429	4
Discount rate +0.25%	1,222	-	1,415	4
Discount rate -0.25%	1,281	-	1,492	4
Turnover rate +0.25%	1,250	-	1,449	-
Turnover rate -0.25%	1,252	-	1,456	-

tab. B7.5 - Other information

	30 June 2017
Expected service cost	1
Average duration of defined benefit plan	10.4
Average employee turnover	0.26%

B8 - FINANCIAL LIABILITIES

Financial liabilities break down as follows at 30 June 2017:

tab. B8 - Financial liabilities (€m)

Item	Balance at 30 June 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Payables deriving from postal current accounts	-	51,537	51,537	-	45,125	45,125
Borrowings	3,499	3,363	6,862	6,097	1,265	7,362
Bonds	797	752	1,549	1,545	26	1,571
Borrowings from financial institutions	2,701	2,605	5,306	4,551	1,232	5,783
Other borrowings	-	-	-	-	-	-
Finance leases	1	6	7	1	7	8
MEF account, held at the Treasury	-	-	-	-	2,429	2,429
Derivative financial instruments	1,759	48	1,807	2,306	50	2,356
Cash flow hedges	82	22	104	87	21	108
Fair value hedges	1,677	26	1,703	2,219	29	2,248
Fair value through profit or loss	-	-	-	-	-	-
Other financial liabilities	1	4,308	4,309	1	3,648	3,649
Total	**5,259**	**59,256**	**64,515**	**8,404**	**52,517**	**60,921**

Payables deriving from postal current accounts

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

Borrowings

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

Bonds

Bonds consist of the following:

- Two issues by Poste Italiane SpA, recognised at an amortised cost of €800 million, under the €2 billion EMTN – Euro Medium Term Note programme launched by the Company in 2013 and listed on the Luxembourg Stock Exchange. In particular:
  - bonds with a nominal value of €750 million, placed through a public offering for institutional investors at a below par price of 99.66 on 18 June 2013. The bonds have a term to maturity of five years and pay annual coupon interest at a fixed rate of 3.25%. The fair value[27] of this borrowing at 30 June 2017 is €776 million;
  - bonds with a nominal value of €50 million subscribed by investors through a private placement at par on 25 October 2013. The term to maturity of the loan is ten years and the interest rate is 3.5% for the first two years and variable thereafter (EUR Constant Maturity Swap rate plus 0.955%, with a cap of 6% and a floor of 0%). The interest rate risk exposure was hedged as described in section A5; the fair value[28] of this borrowing at 30 June 2017 is €53 million.
- Subordinated bonds[29] with a nominal value of €750 million and accounted for at their amortised cost of €749 million, issued at a below par price of 99.597 by Poste Vita SpA on 30 May 2014 and listed on the Luxembourg Stock Exchange. The bonds have a five-year term to maturity and pay annual coupon interest of 2.875%. The fair value[30] of this liability at 30 June 2017 is €790 million.

Borrowings from financial institutions

This item breaks down as follows:

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

Item	Balance at 30 June 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Repurchase agreements	2,501	2,404	4,905	4,151	1,230	5,381
ECB loan	-	-	-	-	-	-
EIB fixed rate loan maturing 11 April 2018	-	200	200	200	-	200
EIB fixed rate loan maturing 23 March 2019	200	-	200	200	-	200
EIB variable rate loan maturing in 2017	-	-	-	-	-	-
Other borrowings	-	-	-	-	-	-
Current account overdrafts	-	-	-	-	2	2
Accrued interest expense	-	1	1	-	-	-
Total	**2,701**	**2,605**	**5,306**	**4,551**	**1,232**	**5,783**

Borrowings from financial institutions are subject to standard negative pledge clauses[31].

Outstanding liabilities for repurchase agreements at 30 June 2017 amount to €4,905 million and relate to contracts with a total nominal value of €4,396 million, entered into by the Parent Company with major financial institutions. These liabilities consist of:

- €3,653 million relating to Long Term Repos entered into with primary counterparties, with the resulting resources invested in Italian fixed income government securities of a matching nominal amount;

27 In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.
28 In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.
29 The bondholders rank below customers holding the company's insurance policies.
30 In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.
31 A commitment given to creditors by which a borrower undertakes not to give senior security to other lenders ranking *pari passu* with existing creditors, unless the same degree of protection is also offered to them.

- €1,252 million relating to BancoPosta's ordinary borrowing operations via repurchase agreement transactions with primary financial institutions as funding for incremental deposits used as collateral.

At 30 June 2017, the fair value[32] of the above repurchase agreements amounts to €4,925 million.

The fair value[33] of the two fixed rate EIB loans of €400 million obtained by the Parent Company amounts to €403 million at 30 June 2017.

Credit facilities

At 30 June 2017, the following credit facilities are available:

- committed lines of €1,173 million that have not been used;
- uncommitted lines of credit of €1,108.8 million, of which €28 thousand has been used in the form of medium/long-term borrowings;
- overdraft facilities of €167.8 million, of which €10 thousand has been used;
- unsecured guarantee facilities with a value of €637.2 million (with €505.2 million available to the Parent Company), of which guarantees with a value of €317.1 million have been used on behalf of companies of the Poste Italiane Group in favour of third parties.

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

From 2014, the Bank of Italy has granted BancoPosta RFC access to intraday credit in order to fund intraday interbank transactions. Collateral for this credit facility is provided by securities with a nominal value of €470 million, and the facility is unused at 30 June 2017.

Derivative financial instruments

Movements in derivative financial instruments during the first half of 2017 are described in section A5.

Other financial liabilities

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

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

Item	Balance at 30 June 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Prepaid cards	-	2,439	2,439	-	2,161	2,161
Domestic and international money transfers	-	723	723	-	599	599
Cashed cheques	-	230	230	-	284	284
Tax collection and road tax	-	274	274	-	153	153
Endorsed cheques	-	169	169	-	148	148
Amounts to be credited to customers	-	176	176	-	75	75
Guarantee deposits	-	72	72	-	32	32
Other amounts payable to third parties	-	70	70	-	66	66
Payables for items in process	-	128	128	-	117	117
Other	1	27	28	1	13	14
Total	**1**	**4,308**	**4,309**	**1**	**3,648**	**3,649**

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

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

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

B9 – TRADE PAYABLES

Details are as follows:

tab. B9 - Trade payables (€m)

Item	Balance at 30 June 2017	Balance at 31 December 2016
Amounts due to suppliers	1,150	1,283
Prepayments and advances from customers	221	209
Other trade payables	15	12
Amounts due to subidiaries	1	2
Amounts due to associates	-	-
Amounts due to joint ventures	16	-
Total	**1,403**	**1,506**

Amounts due to suppliers

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

Item	Balance at 30 June 2017	Balance at 31 December 2016
Italian suppliers	975	1,131
Overseas suppliers	45	24
Overseas counterparties (1)	130	128
Total	**1,150**	**1,283**

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

Prepayments and advances from customers

These items relate to amounts received from customers as prepayment for the following services to be rendered:

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

Item	Balance at 30 June 2017	Balance at 31 December 2016
Prepayments from overseas suppliers	111	123
Automated franking	56	53
Unfranked mail	31	14
Postage-paid mailing services	7	7
Other services	16	12
Total	**221**	**209**

B10 – OTHER LIABILITIES

Details of these items are as follows:

tab. B10 - Other liabilities (€m)

Item	Balance at 30 June 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Amounts due to staff	2	634	636	1	913	914
Social security payables	38	341	379	38	451	489
Other taxes payable	892	674	1,566	927	624	1,551
Amounts due to the MEF	-	21	21	-	21	21
Sundry payables	92	151	243	91	70	161
Accrued liabilities and deferred income	11	90	101	14	68	82
Total	**1,035**	**1,911**	**2,946**	**1,071**	**2,147**	**3,218**

Amounts due to staff

Amounts due to staff relate primarily to amounts accrued and not paid at 30 June 2017. Details are as follows:

tab. B10.1 - Amounts due to staff (€m)

Item	Balance at 30 June 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Thirteenth and fourteenth month salaries	-	240	240	-	236	236
Incentives	2	233	235	1	533	534
Accrued vacation pay	-	93	93	-	55	55
Other amounts due to staff	-	68	68	-	89	89
Total	**2**	**634**	**636**	**1**	**913**	**914**

At 30 June 2017, provisions have been made for certain payables due to staff, the amount of which is still being determined (note B.6).

Social security payables

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

Item	Balance at 30 June 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
INPS	-	264	264	-	358	358
Pension funds	-	68	68	-	83	83
INAIL	38	3	41	38	3	41
Other agencies	-	6	6	-	7	7
Total	**38**	**341**	**379**	**38**	**451**	**489**

Specifically:

- **Amounts due to the *Istituto Nazionale per la Previdenza Sociale*** (*INPS*, the National Institute of Social Security) primarily relate to amounts due on salaries paid and accrued at 30 June 2017. This item also includes provisions for employee termination benefits still to be paid. Compared with 31 December 2016, the amounts accrued for the 13th and the 14th month salaries have been adjusted to the six-month period.
- **Amounts payable to pension funds** relate to sums due to FondoPoste and other pension funds following the decision by certain Group employees to join supplementary funds.
- **Amounts due to the *Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro*** (*INAIL*, the National Occupational Injury Compensation Authority) relate to injury compensation paid to employees of the Parent Company for injuries occurring up to 31 December 1998.

Other tax liabilities

tab. B10.3 - Other taxes liabilities (€m)

Item	Balance at 30 June 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Stamp duty payable	892	74	966	927	-	927
Tax due on insurance provisions	-	471	471	-	443	443
Withholding tax on employees' and consultants' salaries	-	41	41	-	113	113
VAT payable	-	25	25	-	18	18
Substitute tax	-	25	25	-	24	24
Withholding tax on postal current accounts	-	1	1	-	3	3
Other taxes due	-	37	37	-	23	23
Total	**892**	**674**	**1,566**	**927**	**624**	**1,551**

Specifically:

- **Stamp duty,** paid via the virtual system at 30 June 2017, is shown gross of payments on account. The non-current portion of the stamp duty relates to the amount accrued at 30 June 2017 on Interest-bearing Postal Certificates outstanding and on Class III and V insurance policies pursuant to the new law referred to in section A8;

- **Tax due on insurance provisions** relates to Poste Vita SpA and is described in section A8.

Amounts due to the MEF

The item includes:

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

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

Sundry payables

tab. B10.4 - Sundry payables (€m)

Item	Balance at 30 June 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Sundry payables attributable to BancoPosta	75	22	97	75	7	82
Guarantee deposits	10	3	13	9	2	11
Other payables	7	126	133	7	61	68
Total	**92**	**151**	**243**	**91**	**70**	**161**

Sundry payables attributable to BancoPosta's operations mainly regard prior year balances currently being verified. The increase in **other payables** primarily reflects the remaining €56 million, recognised in the period under review, relating to the acquisition of the interest in FSIA Investimenti Srl (see "Basis of consolidation and corporate actions").

STATEMENT OF PROFIT OR LOSS

C1 - REVENUE FROM SALES AND SERVICES

Revenue from sales and services, amounting to €4,237 million, breaks down as follows:

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

Item	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Postal and Business Services	1,786	1,855
Financial Services	2,298	2,315
Insurance Services and Asset Management	50	32
Mobile service revenue	103	114
Total	**4,237**	**4,316**

Postal and Business Services

Revenue from Postal and Business Services breaks down as follows:

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

Item	For the six months ended 30 June 2017		For the six months ended 30 June 2016	
Unfranked mail	567		586	
Automated franking by third parties and at post offices	382		415	
Express parcel and express courier services	214		218	
Integrated services	67		102	
Stamps	81		100	
Overseas mail and parcels	83		71	
Postage-paid mailing services	46		50	
Electronic document management and e-procurement services	19		21	
Telegrams	21		18	
Innovative services	6		8	
Logistics services	5		6	
Other postal services	61		42	
Total revenue from Postal Services		**1,552**		**1,637**
Air shipping services	20		20	
Income from application for residence permits	12		14	
Rentals	8		8	
Other business services	44		45	
Total revenue from Business Services		**84**		**87**
Total market revenue		**1,636**		**1,724**
Universal Service compensation		131		131
Electoral subsidies		19		-
Total		**1,786**		**1,855**

In detail:

- **Universal Service compensation** relates to amounts paid by the MEF to cover the costs of fulfilling the Universal Service obligation. The amount reported for the period under review, amounting to €131 million, has been recognised on the basis of the new *Contratto di Programma* (Service Contract) for 2015-2019, which took effect on 1 January 2016.
- **Publisher tariff subsidies**[34] relate to the amount receivable by the Parent Company from the *Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria* (Cabinet Office – Publishing department) as compensation for the discounts applied to publishers and non-profit organisations when sending mail. The compensation is determined on the basis of the tariffs set in the decree issued by the Ministry for Economic Development, in agreement with the Ministry of the Economy and Finance, on 21 October 2010 and Law Decree 63 of 18 May 2012, as converted into Law 103 of 16 July 2012. In this regard, provision has been made in the state budget for 2017 to cover the discounts applied by the Parent Company in the period under review, but the subsidies are subject to the approval of the European Commission.

Financial Services

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

[34] Law Decree 244/2016 (the so-called "*Mille Proroghe*" decree), converted with amendments into Law 19 of 27 February 2017, has extended the provision of subsidies for postal services introduced by the Interministerial Decree of 21 October 2010, aimed at publishing houses and non-profit organisations entered in the Register of Communications Providers (*ROC*), and has also restored the government subsidies introduced by Law 46 of 27 February 2004. The Decree also confirmed the subsidised tariffs for promotional mailshots by non-profit organisations.

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

Item	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Fees for collection of postal savings deposits	771	771
Income from investment of postal current account deposits	727	757
Commissions on payment of bills by payment slip	226	238
Other revenues from current account services	228	222
Distribution of loan products	101	99
Fees for issue and use of prepaid cards	90	69
Income from delegated services	52	54
Fees for the management of public funds	27	24
Interest on loans and other income	22	24
Money transfers	19	20
Securities custody	3	3
Commissions from securities trading	2	2
Other products and services	30	32
Total	**2,298**	**2,315**

Specifically:

- **Fees for the collection of postal savings deposits** relate to remuneration for the provision and redemption of Interest-bearing Postal Certificates and payments into and withdrawals from Postal Savings Books. This service is provided by Poste Italiane SpA on behalf of Cassa Depositi e Prestiti under the Agreement of 4 December 2014 covering the five-year period 2014-2018. Discussions with the above counterparty continued during the period under review, with the aim of confirming a number of conditions included in the Agreement of 4 December 2014 covering the five-year period 2014-2018, requiring the parties to renegotiate existing agreements in good faith. Whilst awaiting the agreement of new terms and conditions, Poste Italiane has recognised revenue from the services rendered during the period on the basis of the Agreement of 4 December 2014. Any impact of a new agreement on the Company's operating results, not as yet foreseeable, will be taken into account, on an accruals basis, once such an impact can be reasonably assessed.

- **Income from the investment of postal current account deposits** breaks down as follows:

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

Item	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Income from investments in securities	712	746
Interest income on held-to-maturity financial assets	249	278
Interest income on available-for-sale financial assets	486	475
Interest income on securities held for trading	-	-
Interest expense on asset swaps of available-for-sale financial assets	(26)	(10)
Interest income on repurchase agreements	3	3
Income from deposits held with the MEF	15	11
Remuneration of current account deposits (deposited with the MEF)	15	11
Differential on derivatives stabilising returns	-	-
Total	**727**	**757**

Income from investments in securities relates to interest earned on investment of deposits paid into postal current accounts by private customers.

Income from deposits held with the MEF primarily represents accrued interest for the year on amounts deposited by Public Administration entities.

Revenue from insurance and asset management services

This item amounts to €50 million, reflecting €45 million in commissions received from BancoPosta Fondi SGR SpA for the management of mutual funds and €5 million in revenue generated by Poste Welfare Servizi Srl.

Revenue from mobile telephony services

This item, amounting to €103 million, reflects revenue generated by PosteMobile SpA.

C2 - INSURANCE PREMIUM REVENUE

Details of this item are as follows:

tab. C2 - Insurance premium revenue (€m)

Item	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Life premiums*	11,049	10,513
Class I	10,756	10,146
Class III	232	310
Class IV	13	3
Class V	48	54
Non-life premiums*	49	38
Total	**11,098**	**10,551**

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

C3 - OTHER INCOME FROM FINANCIAL AND INSURANCE ACTIVITIES

Details of this item are as follows:

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

Item	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Income from financial assets at fair value through profit or loss	753	933
Interest	176	77
Fair value gains	556	853
Realised gains	21	3
Income from available-for-sale financial assets	1,897	1,837
Interest	1,194	1,132
Realised gains	703	584
Realised gains on other equity instruments	-	121
Dividends received from other equity instruments	-	-
Income from fair value hedges	1	-
Fair value gains	1	-
Foreign exchange gains	2	2
Fair value gains	-	-
Realised gains	2	2
Other income	12	9
Total	**2,665**	**2,781**

Income from available-for-sale financial assets includes gains of €537 million realised by the Financial Services segment, attributable in full to BancoPosta RFC, and gains of €166 million realised by the Insurance Services segment.

C4 - OTHER OPERATING INCOME

Other operating income relates to the following:

tab. C4 - Other operating income (€m)

Item	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Recoveries of contract expenses and other recoveries	11	13
Government grants	5	7
Recovery of cost of seconded staff	1	1
Gains on disposals	2	1
Other income	10	12
Total	**29**	**34**

C5 - COST OF GOODS AND SERVICES

The following table provides a breakdown of the cost of goods and services:

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

Item	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Services	949	952
Lease expense	166	170
Raw , ancillary and consumable materials and goods for resale	69	74
Interest expense	13	19
Total	**1,197**	**1,215**

Cost of services

tab. C5.1 - Services

(€m)

Item	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Transport of mail, parcels and forms	270	262
Routine maintenance and technical assistance	118	124
Outsourcing fees and external service charges	95	93
Personnel services	73	82
Energy and water	61	64
Mobile telecommunication services for customers	46	54
Transport of cash	49	50
Credit and debit card fees and charges	41	36
Cleaning, waste disposal and security	31	31
Telecommunications and data trasmission	31	33
Mail, telegraph and telex	28	31
Advertising and promotions	39	30
Consultants' fees and legal expenses	14	15
Airport costs	10	8
Electronic document management, printing and enveloping services	15	14
Asset management fees	9	9
Insurance premiums	8	7
Agent commissions and other	6	6
Securities custody and management fees	1	1
Remuneration of Statutory Auditors	1	1
Other	3	1
Total	**949**	**952**

Lease expense

tab. C5.2 - Lease expense

(€m)

Item	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Real estate leases and ancillary costs	92	95
Vehicle leases	35	34
Equipment hire and software licences	23	24
Other lease expense	16	17
Total	**166**	**170**

Raw, ancillary and consumable materials and goods for resale

tab. C5.3 - Raw, ancillary and consumable materials and goods for resale

(€m)

Item	Note	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Consumables, advertising materials and goods for resale		39	48
Fuels and lubricants		26	25
Printing of postage and revenue stamps		3	3
SIM cards and scratch cards		1	1
Change in inventories of work in progress, semi-finished and finished goods and goods for resale	[tab. A6]	1	(2)
Change in inventories of raw, ancillary and consumable materials	[tab. A6]	-	1
Change in property held for sale	[tab. A6]	(1)	(2)
Other		-	-
Total		**69**	**74**

Interest expense

tab. C5.4 - Interest expense (€m)

Item	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Interest on customers' deposits	4	6
Interest expense on repurchase agreements	5	10
Interest due to MEF	2	1
Other interest expense and similar charges	2	2
Portion of interest expense on own liquidity (finance costs)	-	-
Total	**13**	**19**

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

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

Item	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Claims paid	5,339	4,275
Movement in mathematical provisions	7,726	7,465
Movement in outstanding claim provisions	(214)	(595)
Movement in Other technical provisions	246	700
Movement in technical provisions where investment risk is transferred to policyholders	(939)	85
Claim expenses and movement in other provisions - Non-life	13	14
Total	**12,171**	**11,944**

The movement in technical provisions is shown net of the impact of the shadow accounting method described in note B5 to liabilities in these financial statements.

C7 - OTHER EXPENSES FROM FINANCIAL AND INSURANCE ACTIVITIES

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

Item	Note	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Expenses from financial instruments through profit or loss		163	270
Fair value losses		149	263
Realised losses		14	7
Expenses from available-for-sale financial instruments		167	4
Impairment	[tab. A5.4]	93	-
Realised losses		74	4
Expenses from cash flow hedges		-	-
Fair value losses		-	-
Change in fair value of financial liabilities		-	-
Expenses from fair value hedges		-	3
Fair value losses		-	3
Foreign exchange losses		1	-
Fair value losses		1	-
Realised losses		-	-
Other expenses		49	32
Total		**380**	**309**

C8 - PERSONNEL EXPENSES

Personnel expenses include the cost of staff seconded to other organisations. The recovery of such expenses, determined by the relevant chargebacks, is included in “Other operating income”. Personnel expenses break down as follows:

tab. C8 - Personnel expenses (€m)

Item	Note	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Wages and salaries		2,198	2,226
Social security contributions		619	626
Provisions for employee termination benefits: current service cost	[tab. B7]	-	-
Provisions for employee termination benefits: supplementary pension funds and INPS		130	133
Agency staff		-	1
Remuneration and expenses paid to Directors		1	1
Early retirement incentives		4	11
Net provisions (reversals) for disputes with staff	[tab. B6]	(10)	(1)
Provisions for restructuring charges	[tab. B6]	-	-
Amounts recovered from staff due to disputes		(4)	(5)
Share-based payment		1	-
Other personnel expenses/(cost recoveries)		(5)	(7)
Total		**2,934**	**2,985**

Net provisions for disputes with staff are described in section B6.

Cost recoveries refer mainly to changes in estimates made in previous years.

The following table shows the Group’s average headcount:

tab. C8.1 - Number of employees

Category	Number of employees (*)	
	Average	
	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Executives	743	782
Middle managers	15,895	16,064
Operational staff	114,843	119,467
Back-office staff	830	1,129
Total employees on permanent contracts	**132,311**	**137,442**
Traineeships	1	-
Apprenticeships	17	35
Total	**132,329**	**137,477**
	Average	
	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Temporary contracts	2	21
Fixed-term contracts	5,639	4,516
Total	**5,641**	**4,537**
Total employees on permanent and flexible contracts	**137,970**	**142,014**

(*) Figures expressed in full-time equivalent terms.

C9 - DEPRECIATION, AMORTISATION AND IMPAIRMENTS

Depreciation, amortisation and impairments break down as follows:

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

Item	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Property, plant and equipment	168	178
Properties used in operations	56	54
Plant and machinery	41	46
Industrial and commercial equipment	4	5
Leasehold improvements	15	16
Other assets	52	57
Impairments/recoveries/adjustments of property, plant and equipment	(7)	(8)
Depreciation of investment property	2	2
Impairment/recoveries/adjustments of investment property	-	-
Amortisation and impairments of intangible assets	118	127
Industrial patents and intellectual property rights,concessions, lincenses, trademarks and similar rights	115	122
Other	3	5
Goodwill impairment	-	-
Total	**281**	**299**

C10 – OTHER OPERATING COSTS

Other operating costs break down as follows:

tab. C10 - Other operating costs (€m)

Item	Note	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Net provisions and losses on doubtful debts (uses of provisions)		22	18
Provisions for receivables due from customers	[tab. A7.2]	18	15
Provisions (reversal of provisions) for receivables due from MEF	[tab. A7.4]	-	-
Provisions (reversal of provisions) for sundry receivables	[tab. A8.1]	4	3
Losses on receivables		-	-
Operational risk events		24	17
Thefts		2	4
Loss of BancoPosta assets, net of recoveries		1	1
Other operating losses of BancoPosta		21	12
Net provisions for risks and charges made/(released)		122	(5)
for disputes with third parties	[tab. B6]	8	(25)
for non-recurring charges	[tab. B6]	101	11
for other risks and charges	[tab. B6]	13	9
Losses		1	2
Municipal property tax, urban waste tax and other taxes and duties		36	42
Impairments of disposal groups held for sale	[tab. A11.1]	7	-
Other recurring expenses		20	21
Total		**232**	**95**

C11 - FINANCE INCOME/COSTS

Income from and costs incurred on financial instruments relate to assets other than those held by BancoPosta and the insurance business.

Finance income

tab. C11.1 - Finance income (€m)

Item	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Income from available-for-sale financial assets	45	49
Interest	47	49
Accrued differentials on fair value hedges	(5)	(5)
Realised gains	3	5
Dividends	-	-
Income from financial assets at fair value through profit or loss	1	-
Other finance income	6	6
Foreign exchange gains	6	2
Total	**58**	**57**

Finance costs

tab. C11.2 - Finance costs (€m)

Item	Note	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Finance costs on financial liabilities		26	27
on bonds		24	25
on borrowings from financial institutions		1	1
on derivative financial instruments		1	1
Finance costs on sundry financial assets		12	-
Impairment loss on available-for-sale investments		12	-
Realised losses on financial instruments at fair value through profit or loss		-	-
Finance costs on provisions for employee termination benefits and pension plans	[tab. B7]	11	15
Finance costs on provisions for risks	[tab. B6]	1	1
Impairment loss on Convertible Contingent Notes	[tab. A5]	82	-
Other finance costs		3	3
Foreign exchange losses		7	2
Total		**142**	**48**

C12 - INCOME TAX EXPENSE

This item breaks down as follows:

tab. C12 - Income tax expense (€m)

Item	For the six months ended 30 June 2017			For the six months ended 30 June 2016		
	IRES	IRAP	Total	IRES	IRAP	Total
Current tax expense	232	41	273	235	52	287
Deferred tax income	(39)	(1)	(40)	10	1	11
Deferred tax expense	23	6	29	(3)	(2)	(5)
Total	**216**	**46**	**262**	**242**	**51**	**293**

Current tax assets and liabilities

In the movements in current tax assets and liabilities shown below, the provisions to profit or loss, totalling €264 million, do not take into account provisions for current tax expense for the period made by BdM-MCC SpA and BancoPosta Fondi SGR SpA, which are classified in "Non-current assets and disposal groups held for sale and liabilities related to assets held for sale", amounting to €9 million.

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

Item	Current taxes for the six months ended 30 June 2017			Current taxes for the year ended 31 December 2016		
	IRES	IRAP		IRES	IRAP	
	Assets/ (Liabilities)	Assets/ (Liabilities)	Total	Assets/ (Liabilities)	Assets/ (Liabilities)	Total
Balance at 1 January	**(63)**	**(10)**	**(73)**	**(16)**	**35**	**19**
Payment of	206	40	246	288	29	317
prepayments for the current year	138	27	165	269	27	296
balance payable for the previous year	68	13	81	19	2	21
Collection of IRES refund claimed	(1)	-	(1)	-	-	-
IRAP refund claimed	-	9	9	-	-	-
Provisions to profit or loss	(225)	(48)	(273)	(358)	(73)	(431)
Provisions to equity	1	(2)	(1)	20	2	22
Other	7	-	7	3	(3)	-
Balance at end of period	**(75)**	**(11)**	**(86)**	**(63)**	**(10)**	**(73)**
of which:						
Current tax assets	151	38	**189**	12	3	**15**
Current tax liabilities	(226)	(49)	**(275)**	(75)	(13)	**(88)**

In addition to payments on account for 2017, current tax assets of €189 million at 30 June 2017 include:

- the remaining IRES refund €8 million to be received on the unreported IRAP deduction, following submission of a claim pursuant to article 6 of Law Decree 185 of 29 November 2008 and article 2 of Law Decree 201 of 6 December 2011. This legislation provided for the partial deduction of IRAP paid on personnel expenses from IRES (to this end, reference should be made to the relevant interest receivable in tab. A8);
- the IRAP refund of €9 million to be recovered on the unreported deduction of expenses for disabled personnel in 2003. This receivable, which is of a non-recurring nature, was assessed during the first half under review, following the ruling handed down by the Regional Tax Tribunal for Lazio, which has upheld an earlier appeal brought by the Parent Company (see the description provided in note 2.3 – Use of estimates). At 30 June 2017, accrued interest of €2 million has also been recognised on this sum (also of a non-recurring nature). Given the nature of this income, it has been accounted for in finance income (tab. C11.1), with the related receivable recognised in "Other receivables and assets" (tab. A8).

Deferred tax assets and liabilities

Details of this item at 30 June 2017 are shown in the following table:

tab. C12.2 - Deferred taxes (€m)

Item	Balance at 30 June 2017	Balance at 31 December 2016
Deferred tax assets	911	799
Deferred tax liabilities	(508)	(746)
Total	**403**	**53**

The nominal tax rate for IRES is 24% from 1 January 2017, whilst the Group's average statutory rate for IRAP, calculated at 31 December 2016, is 5.96%[35]. Movements in deferred tax assets and liabilities are shown below:

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

Item	For the six months ended 30 June 2017	For the year ended 31 December 2016
Balance at 1 January	**53**	**(554)**
Net income/(expenses) recognised in profit or loss	12	11
Net non-recurring income/(expenses) recognised in profit or loss	-	-
Net non-recurring income/(expenses) recognised in profit or loss due to adjustment to IRES rate	-	(14)
Net income/(expenses) recognised in equity	338	621
Net non-recurring income/(expenses) recognised in equity due to adjustment to IRES rate	-	-
Recl. to disposal groups and liabilities held for sale	-	(11)
Balance at end of period	**403**	**53**

At 30 June 2017, deferred tax assets and liabilities recognised directly in equity are as follows:

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

Item	Increases/(decreases) in equity	
	For the six months ended 30 June 2017	For the year ended 31 December 2016
Fair value reserve for available-for-sale financial instruments	344	617
Cash flow hedge reserve for hedging instruments	6	10
Actuarial gains /(losses) on employee termination benefits	(12)	(4)
Retained earnings from shareholder transactions	-	(2)
Total	**338**	**621**

[35] The nominal IRAP rate is 3.90% for most taxpayers, 4.65% for banks and other financial entities and 5.90% for insurance companies (+/-0.92%, representing regional increases and cuts and +0.15% representing an increase for regions that have a healthcare deficit).

Additional information

D1 – Operating segments

The identified operating segments are Postal and Business Services, Financial Services and Insurance Services and Asset Management, with the remaining activities allocated to the Other Services segment.

The Postal and Business Services segment also earns revenue from the services provided by the various Poste Italiane SpA functions to BancoPosta RFC. In this regard, separate General Operating Guidelines have been developed and approved by Poste Italiane SpA's Board of Directors which, in implementation of BancoPosta RFC's By-laws, identify the services provided by Poste Italiane SpA functions to BancoPosta and determines the manner in which they are remunerated.

The result for each segment is based on operating profit/(loss) and gains/losses on intermediation. All income components reported for operating segments are measured using the same accounting policies applied in the preparation of these consolidated financial statements.

The following results, which are shown separately in accordance with management's views and with applicable accounting standards, should be read in light of the integration of the services offered by the sales force within the postal, financial and insurance businesses, also considering the obligation to carry out the Universal Postal Service.

(€m)

For the six months ended 30 June 2017	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Adjustments and eliminations	Total
External revenue	1,812	2,840	13,274	103	-	18,029
Intersegment revenue	2,453	301	-	12	(2,766)	-
Total revenue	**4,265**	**3,141**	**13,274**	**115**	**(2,766)**	**18,029**
Operating profit/(loss)	**75**	**390**	**370**	**12**	**-**	**847**
Profit/(Loss) on investments accounted for using the equity method	-	2	7	-	-	9
Finance income/(costs)						(84)
Income tax expense						(262)
Profit/(loss) for the period						**510**

(€m)

For the six months ended 30 June 2016	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Adjustments and eliminations	Total
External revenue	1,884	2,830	12,854	114	-	17,682
Intersegment revenue	2,440	280	-	33	(2,753)	-
Total revenue	**4,324**	**3,110**	**12,854**	**147**	**(2,753)**	**17,682**
Operating profit/(loss)	**74**	**485**	**270**	**14**	**-**	**843**
Profit/(Loss) on investments accounted for using the equity method	-	-	6	-	-	6
Finance income/(costs)						9
Income tax expense						293
Profit/(loss) for the period						**565**

Disclosure about geographical segments, based on the geographical areas in which the various Group companies are based or the location of its customers, is of no material significance. At 30 June 2017, all entities consolidated on a line-by-line basis are based in Italy, as is the majority of their client base; revenue from foreign clients does not represent a significant percentage of total revenue.

D2 - Related party transactions

Impact of related party transactions on the financial position and profit or loss

The impact of related party transactions on the financial position and profit or loss is shown below.

Impact of related party transactions on the financial position at 30 June 2017 (€m)

Name	Balance at 30 June 2017								
	Financial assets	Trade receivables	Other assets Other receivables	Cash and cash equivalents	Financial liabilities	Trade payables	Other liabilities	Non-current assets and disposal groups held for sale	Liabilities related to assets held for sale
Subsidiaries									
Address Software Srl	-	-	-	-	-	1	-	-	-
Kipoint SpA	-	-	-	-	-	1	-	-	-
Joint ventures									
FSIA Group	-	-	-	-	-	16	-	-	-
Associates									
Anima Holding Group	-	-	-	-	-	-	-	-	1
Other SDA group associates	-	-	-	-	-	-	-	-	-
Related parties external to the Group									
MEF	7,602	354	23	549	-	110	21	-	-
Cassa Depositi e Prestiti Group	2,052	374	-	-	86	1	56	31	101
Enel Group	-	31	-	-	-	8	-	-	-
Eni Group	-	5	-	-	-	12	-	19	-
Equitalia Group	-	100	-	-	-	3	8	-	6
Leonardo Group	-	-	-	-	-	33	-	-	-
Other related parties external to the Group	-	6	-	-	-	17	47	5	-
Provision for doubtful debts owing from external related parties	-	(42)	(10)	-	-	-	-	-	-
Total	**9,654**	**828**	**13**	**549**	**86**	**202**	**132**	**55**	**108**

At 30 June 2017, total provisions for risks and charges made to cover probable liabilities arising from transactions with related parties external to the Group attributable to trading relations amount to €67 million.

Impact of related party transactions on the financial position at 31 December 2016 (€m)

Name	Balance at 31 December 2016								
	Financial assets	Trade receivables	Other assets Other receivables	Cash and cash equivalents	Financial liabilities	Trade payables	Other liabilities	Non-current assets and disposal groups held for sale	Liabilities related to assets held for sale
Subsidiaries									
Address Software Srl	-	-	-	-	-	1	-	-	-
Kipoint SpA	-	-	-	-	-	1	-	-	-
Associates									
Anima Holding Group	-	-	-	-	-	-	-	-	1
Other SDA group associates	-	2	-	-	-	-	-	-	-
Related parties external to the Group									
MEF	6,190	330	21	1,310	2,430	108	20	1	-
Cassa Depositi e Prestiti Group	2,060	365	-	-	-	19	-	22	129
Enel Group	-	31	-	-	-	11	-	-	-
Eni Group	-	7	-	-	-	14	-	19	-
Equitalia Group	-	90	-	-	-	3	8	-	-
Leonardo Group	-	-	-	-	-	30	-	-	-
Other related parties external to the Group	-	6	-	-	-	18	61	7	-
Provision for doubtful debts owing from external related parties	-	(42)	(10)	-	-	-	-	-	-
Total	**8,250**	**789**	**11**	**1,310**	**2,430**	**205**	**89**	**49**	**130**

Impact of related party transactions on profit or loss for the six months ended 30 June 2017 (€m)

Name	Six months ended 30 June 2017									
	Revenue				Costs					
					Capital expenditure		Current expenditure			
	Revenue from sales and services	Other operating income	Other income from financial and insurance activities	Finance income	Property, plant and equipment	Intangible assets	Goods and services	Personnel expenses	Other operating costs	Finance costs
Subsidiaries										
Address Software Srl	-	-	-	-	-	-	-	-	-	-
Kipoint SpA	-	-	-	-	-	-	1	-	-	-
Joint ventures										
FSIA Group	-	-	-	-	-	1	13	-	-	-
Associates										
Anima Holding Group	1	-	-	-	-	-	2	-	-	-
Other SDA group associates	1	-	-	-	-	-	-	-	-	-
Related parties external to the Group										
MEF	235	2	-	-	-	-	3	-	1	-
Cassa Depositi e Prestiti Group	778	-	8	-	-	-	4	-	-	-
Enel Group	43	-	-	-	-	-	16	-	2	-
Eni Group	11	-	-	-	-	-	21	-	-	-
Equitalia Group	19	-	-	-	-	-	1	-	-	-
Leonardo Group	-	-	-	-	-	5	16	-	-	-
Other related parties external to the Group	5	-	-	-	-	-	20	18	-	-
Total	**1,093**	**2**	**8**	**-**	**-**	**6**	**97**	**18**	**3**	**-**

At 30 June 2017, total provisions for risks and charges made to cover probable liabilities arising from transactions with related parties external to the Group attributable to trading relations amount to €7 million.

Impact of related party transactions on profit or loss for the six months ended 30 June 2016 (€m)

Name	Six months ended 30 June 2016									
	Revenue				Costs					
					Capital expenditure		Current expenditure			
	Revenue from sales and services	Other operating income	Other income from financial and insurance activities	Finance income	Property, plant and equipment	Intangible assets	Goods and services	Personnel expenses	Other operating costs	Finance costs
Subsidiaries										
Address Software Srl	-	-	-	-	-	-	-	-	-	-
Kipoint SpA	-	-	-	-	-	-	1	-	-	-
Joint ventures										
Uptime SpA	-	-	-	-	-	-	1	-	-	-
Associates										
Anima Holding Group	-	-	-	-	-	-	1	-	-	-
Other SDA group associates	2	-		-	-	-	1	-	-	-
Related parties external to the Group										
MEF	252	1	-	-	-	-	1	-	2	-
Cassa Depositi e Prestiti Group	777	-	8	-	-	-	12	-	-	-
Enel Group	47	-	-	-	-	-	17	-	-	-
Eni Group	12	-	-	-	-	-	21	-	-	-
Equitalia Group	28	-	-	-	-	-	1	-	-	-
Leonardo Group	-	-	-	-	2	1	15	-	-	-
Other related parties external to the Group	4	-	-	-	-	-	6	20	2	-
Total	**1,122**	**1**	**8**	**-**	**2**	**1**	**77**	**20**	**4**	**-**

The nature of the Parent Company's principal transactions with related parties external to the Group is summarised below in order of significance.

- Amounts received from the MEF relate primarily to payment for carrying out the USO, the management of postal current accounts, for delegated services, integrated e-mail services, the franking of mail on credit, collection services and accounting for tax collection data.
- Amounts received from CDP SpA primarily relate to payment for the collection of postal savings deposits.
- Amounts received from the Enel Group primarily relate to payment for bulk mail shipments, unfranked mail and the collection and accounting for utility payments. The costs incurred primarily relate to the supply of gas and electricity.
- Amounts received from the Equitalia Group primarily relate to payment for the integrated notification service and for unfranked mail. The costs incurred primarily relate to electronic transmission of tax collection data.
- Amounts received from the Eni Group relate primarily to payment for mail shipments and collection and accounting for utility payments. The costs incurred relate to the supply of gas and of fuel for motorcycles and vehicles.

- Purchases from the Leonardo Group primarily relate to the supply, by Leonardo SpA (formerly Selex ES SpA) of equipment, maintenance and technical assistance for mechanised sorting equipment, and systems and IT assistance regarding the creation of document storage facilities, specialist consulting services and software maintenance, and the supply of software licences and of hardware.

Impact of related party transactions and positions

Impact of related party transactions (€m)

Item	Total in financial statements	Total related parties	Impact (%)	Total in financial statements	Total related parties	Impact (%)
	30 June 2017			31 December 2016		
Assets and liabilities						
Financial assets	180,664	9,654	5.3	174,362	8,250	4.7
Trade receivables	2,283	828	36.3	2,172	789	36.3
Other receivables and assets	3,949	13	0.3	3,671	11	0.3
Cash and cash equivalents	3,481	549	15.8	3,902	1,310	33.6
Non-current assets and disposal groups held for sale	2,591	55	2.1	2,720	49	2
Provisions for risks and charges	1,617	67	4.1	1,507	60	4.0
Financial liabilities	64,515	86	0.1	60,921	2,430	4.0
Trade payables	1,403	202	14.4	1,506	205	13.6
Other liabilities	2,946	132	4.5	3,218	89	2.8
Liabilities related to assets held for sale	2,084	108	5.2	2,060	130	6
	Six months ended 30 June 2017			Six months ended 30 June 2016		
Profit or loss						
Revenue from sales and services	4,237	1,093	25.8	4,316	1,122	26.0
Other income from financial and insurance activities	2,665	8	0.3	2,781	8	0.3
Other operating income	29	2	6.9	34	1	2.9
Cost of goods and services	1,197	97	8.1	1,215	77	6.3
Personnel expenses	2,934	18	0.6	2,985	20	0.7
Other operating costs	232	10	4.3	95	6	6.3
Finance costs	142	-	n.a.	48	-	n.a.
Finance income	58	-	n.a.	57	-	n.a.
Cash flows						
Cash flow from/(for) operating activities	480	- 3,826	n.a.	(292)	379	n.a.
Cash flow from/(for) investing activities	(404)	(218)	54.0	(152)	(9)	n.a.
Cash flow from/(for) financing activities and shareholder transactions	(497)	(327)	65.8	(955)	(286)	29.9

Key management personnel

Key management personnel consist of Directors, members of the Board of Statutory Auditors and of the Supervisory Board, managers at the first organisational level of the Parent Company and Poste Italiane's manager responsible for financial reporting. The related remuneration, gross of expenses and social security contributions, of such key management personnel as defined above is as follows:

Remuneration of key management personnel (€000)

Item	Six months ended 30 June 2017	Six months ended 30 June 2016
Remuneration to be paid in short/medium term	6,883	6,907
Post-employment benefits	220	261
Other benefits to be paid in longer term	316	199
Termination benefits	139	3,764
Share-based payments	(101)	-
Total	**7,457**	**11,131**

Income relating to share-based payments, totalling €101 thousand, regards a change in the number of beneficiaries compared with 31 December 2016, partially offset by a change in the fair value of the liabilities resulting from the Long-term Incentive Plan for 2016 - 2018 during the period under review.

Remuneration of Statutory Auditors

Name	Six months ended 30 June 2017	Six months ended 30 June 2016
		(€000)
Remuneration	695	731
Expenses	24	30
Total	**719**	**761**

The remuneration paid to members of the Parent Company's Supervisory Board who, since 24 May 2016, are no longer the same as the members of the Board of Statutory Auditors, amounts to approximately €32 thousand at 30 June 2017. In determining the remuneration, the amounts paid to managers of Poste Italiane who are members of the Supervisory Board is not taken into account, as this remuneration is passed on to the employer.

No loans were granted to key management personnel during the first half of 2017 and, at 30 June 2017, Group companies do not report receivables in respect of loans granted to key management personnel.

Transactions with staff pensions funds

The Parent Company and its subsidiaries that apply the National Collective Labour Contract are members of the Fondoposte Pension Fund, the national supplementary pension fund for non-managerial staff. As indicated in article 14, paragraph 1 of Fondoposte's By-laws, the representation of members among the various officers and boards (the General Meeting of delegates, the Board of Directors, Chairman and Deputy Chairman, Board of Statutory Auditors) is shared equally between the workers and the companies that are members of the Fund. The Fund's Board of Directors takes decisions including:

- the general criteria for the allocation of risk in terms of investments and investment policies;
- the choice of fund manager and custodian bank.

D3 – Other information on financial assets and liabilities

Analysis of net funds/(debt) by operating segment

At 30 June 2017, the Poste Italiane Group's net funds are as follows:

Net funds/(debt) at 30 June 2017 (€m)

Balance at 30 June 2017	Postal and Business Services	Financial Services	Insurance Services and Asset	Other Services	Eliminations	Consolidated amount	*of which, related parties*
Financial liabilities	**(1,969)**	**(62,878)**	**(1,003)**	**(2)**	**1,337**	**(64,515)**	
Postal current accounts	-	(51,912)	-	-	375	(51,537)	-
Bonds	(800)	-	(749)	-	-	(1,549)	-
Borrowings from financial institutions	(401)	(4,905)	-	-	-	(5,306)	*(86)*
Other borrowings	-	-	-	-	-	-	-
Finance leases	(5)	-	-	(2)	-	(7)	-
MEF account, held at the Treasury	-	-	-	-	-	-	-
Derivative financial instruments	(43)	(1,764)	-	-	-	(1,807)	-
Other financial liabilities	(26)	(4,280)	(3)	-	-	(4,309)	-
Intersegment financial liabilities	(694)	(17)	(251)	-	962	-	-
Technical provisions for insurance business	**-**	**-**	**(118,658)**	**-**	**-**	**(118,658)**	**-**
Financial assets	**963**	**61,208**	**119,482**	**44**	**(1,033)**	**180,664**	
Loans and receivables	53	9,263	102	-	-	9,418	*7,602*
Held-to-maturity financial assets	-	13,021	-	-	-	13,021	-
Available-for-sale financial assets	567	37,727	91,306	-	-	129,600	*1,506*
Financial assets at fair value through profit or loss	-	-	27,820	-	-	27,820	*546*
Derivative financial instruments	-	551	254	-	-	805	-
Intersegment financial assets	343	646	-	44	(1,033)	-	-
Technical provisions attributable to reinsurers	**-**	**-**	**75**	**-**	**-**	**75**	**-**
Net financial assets/(liabilities)	**(1,006)**	**(1,670)**	**(104)**	**42**	**304**	**(2,434)**	
Cash and deposits attributable to BancoPosta	**-**	**3,236**	**-**	**-**	**-**	**3,236**	**-**
Cash and cash equivalents	**1,003**	**560**	**2,254**	**15**	**(351)**	**3,481**	***549***
Net funds/(debt)	**(3)**	**2,126**	**2,150**	**57**	**(47)**	**4,283**	

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	*of which, related parties*
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)	*(2,429)*
Derivative financial instruments	(51)	(2,305)	-	-	-	(2,356)	-
Other financial liabilities	(13)	(3,634)	(2)	-	-	(3,649)	*(1)*
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	*6,190*
Held-to-maturity financial assets	-	12,683	-	-	-	12,683	-
Available-for-sale financial assets	574	37,263	90,406	-	-	128,243	*1,509*
Financial assets at fair value through profit or loss	-	-	24,903	-	-	24,903	*551*
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**	***1,310***
Net funds/(debt)	**845**	**3,270**	**2,296**	**48**	**(234)**	**6,225**	**-**

Net funds at 30 June 2017 amount to €4,283 million, down from the figure at 31 December 2016 (when it was €6,225 million). This primarily reflects a decrease in the fair value reserve for available-for-sale financial assets of approximately €1,187 million, before the related taxation, largely due to the performance of BancoPosta RFC's investments in securities. The performance of net funds was also influenced by the payment of €222 million to acquire the interest in FSIA Investimenti Srl and by the payment of dividends, totalling €509 million.

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

An analysis of the industrial net funds/(debt) of the Postal and Business Services and Other Services segments at 30 June 2017, in accordance with ESMA guidelines, computed on the basis of paragraph 127 of the recommendations contained in ESMA document 319 of 2013, is provided below:

ESMA net financial indebtedness (€m)

	at 30 June 2017	at 31 December 2016
A. Cash	4	2
B. Other cash equivalents	1,014	1,575
C. Securities held for trading	-	-
D. Liquidity (A+B+C)	**1,018**	**1,577**
E. Current loans and receivables	**57**	**63**
F. Current bank borrowings	(201)	(2)
G. Current portion of non-current debt	(750)	(14)
H. Other current financial liabilities	(35)	(22)
I. Current financial debt (F+G+H)	**(986)**	**(38)**
J. Current net funds/(debt) (I+E+D)	**89**	**1,602**
K. Non-current bank borrowings	(200)	(400)
L. Bond issues	(50)	(798)
M. Other non-current liabilities	(41)	(50)
N. Non-current financial debt (K+L+M)	**(291)**	**(1,248)**
O. Industrial net funds/(debt) (ESMA guidelines) (J+N)	**(202)**	**354**
Non-current financial assets	563	651
Industrial net funds/(debt)	**361**	**1,005**
Intersegment loans and receivables	343	522
Intersegment financial liabilities	(650)	(634)
Industrial net funds/(debt) including intersegment transactions	**54**	**893**
of which:		
- Postal and Business Services	(3)	845
- Other	57	48

Determination of fair value

The fair value measurement techniques used by the Poste Italiane Group are described in note 2.4. This section provides additional information regarding determination of the fair value of the financial assets and liabilities recognised at their fair value. Additional information related to financial assets and liabilities recognised at their amortised cost is provided in the respective notes.

The table below breaks down the fair value of financial assets and liabilities by level in the fair value hierarchy:

Fair value hierarchy (€m)

Item	at 30 June 2017				at 31 December 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Available-for-sale financial assets	124,360	4,484	756	129,600	122,497	4,958	788	128,243
Equity instruments	16	84	37	137	16	77	32	125
Fixed income instruments	124,337	3,423	-	127,760	122,474	3,624	-	126,098
Other investments	7	977	719	1,703	7	1,257	756	2,020
Financial assets at fair value through profit or loss	9,122	18,315	383	27,820	10,094	14,635	174	24,903
Fixed income instruments	8,600	8	-	8,608	9,535	31	-	9,566
Structured bonds	-	546	-	546	-	992	-	992
Other investments	522	17,761	383	18,666	559	13,612	174	14,345
Derivative financial instruments	-	805	-	805	-	424	-	424
Non-current assets and disposal groups held for sale	781	110	-	891	793	123	-	916
Total	**134,263**	**23,714**	**1,139**	**159,116**	**133,384**	**20,140**	**962**	**154,486**
Financial liabilities								
Financial liabilities at fair value	-	-	-	-	-	-	-	-
Derivative financial instruments	-	(1,807)	-	(1,807)	-	(2,356)	-	(2,356)
Total	-	**(1,807)**	-	**(1,807)**	-	**(2,356)**	-	**(2,356)**

The item, "Non-current assets and disposal group held for sale" includes the fair value of financial instruments held by BdM-MCC SpA and BancoPosta Fondi SGR SpA.

Details of transfers of financial instruments measured at fair value between level 1 and level 2 of the hierarchy on a recurring basis are as follows, mainly referred to Poste Vita SpA.

Net transfers between Level 1 and 2 at 30 June 2017 (€m)

Item	From Level 1 to Level 2		From Level 2 to Level 1	
	Level 1	Level 2	Level 1	Level 2
Transfers of financial assets	**(261)**	**261**	**287**	**(287)**
Available-for-sale financial assets				
Equity instruments	-	-	-	-
Fixed income instruments	(82)	82	211	(211)
Other investments	-	-	-	-
Financial assets at fair value through profit or				
Fixed income instruments	-	-	21	(21)
Structured bonds	-	-	-	-
Other investments	(179)	179	55	(55)
(Net transfers between Level 1 and 2)	**(261)**	**261**	**287**	**(287)**

Reclassifications from level 1 to level 2 at 30 June 2017 refer to financial instruments classified as available-for-sale and financial instruments at fair value through profit or loss, whose value, at the end of the period, is not observable in a liquid and active market, as defined in the Group's Fair Value Policy. In particular, transfers of available-for-sale financial instruments primarily regard the transfer from level 1 to level 2 of an instrument issued by CDP (a fair value of €69 million at 30 June 2017), whilst transfers of financial instruments at fair value through profit or loss primarily regard the Unit-linked RADAR fund (a fair value of €166 million at 30 June 2017).

Reclassifications from level 2 to level 1 regard financial instruments whose fair value at 30 June 2017 is observable in a liquid and active market. In particular, transfers of available-for-sale financial instruments primarily regard the transfer of coupon-stripped Italian government bonds (a fair value of €180 million at 30 June 2017), whilst transfers of financial instruments at fair value through profit or loss primarily regard units in BlackRock funds.

Reconciliation of the opening and closing balances of financial instruments measured at fair value on a recurring basis, classified in level 3, is shown below.

Movements in financial instruments at fair value (level 3) (€m)

Item	Financial assets			
	Available-for-sale financial assets	Financial asset at fair value through profit or loss	Derivative financial instruments	Total
Balance at 1 January 2016	**479**	**-**	**-**	**479**
Purchases/Issues	656	174	-	830
Sales/Extinguishment of initial accruals	(266)	-	-	(266)
Redemptions	-	-	-	-
Movements in fair value through profit or loss	-	-	-	-
Movements in fair value through equity	25	-	-	25
Transfers to profit or loss	-	-	-	-
Gains/Losses in profit or loss due to sales	-	-	-	-
Transfers to level 3	-	-	-	-
Transfers to other levels	-	-	-	-
Movements in amortised cost	-	-	-	-
Impairments	(106)	-	-	(106)
Other movements (including accruals at the end of the	-	-	-	-
Balance at 31 December 2016	**788**	**174**	**-**	**962**
Purchases/Issues	113	207	-	320
Sales/Extinguishment of initial accruals	(84)	-	-	(84)
Redemptions	-	-	-	-
Movements in fair value through profit or loss	-	2	-	2
Movements in fair value through equity	44	-	-	44
Transfers to profit or loss	-	-	-	-
Gains/Losses in profit or loss due to sales	-	-	-	-
Transfers to level 3	-	-	-	-
Transfers to other levels	-	-	-	-
Movements in amortised cost	-	-	-	-
Impairments	(105)	-	-	(105)
Other movements (including accruals at the end of the	-	-	-	-
Balance at 30 June 2017	**756**	**383**	**-**	**1,139**

Financial instruments classified in level 3 are primarily held by Poste Vita SpA and Poste Italiane SpA.

In the case of the Group's insurance company, instruments in level 3 regard funds that invest primarily in unlisted instruments, whose fair value measurement is based on the latest available NAV (Net Asset Value) as announced by the fund manager. This NAV is subsequently adjusted according to the capital calls and reimbursements announced by the managers which occurred between the latest NAV date and the measurement date. These financial instruments primarily consist of investments in private equity funds and, to a lesser extent, real estate funds associated entirely with Class I products related to Separately Managed Accounts. Movements regard new investments, redemptions of unlisted closed-end funds, changes in fair value during the period and the impairment loss on the investment in the alternative investment fund, "Atlante", described in section A5.4.

In addition, movements during the period under review include the change in the fair value of 5 million shares representing Series C Visa Inc. convertible preferred stock held by the Parent Company.

D4 – Other information

Postal savings deposits

The following table provides a breakdown of postal savings deposits collected by the Parent Company in the name of and on behalf of Cassa Depositi e Prestiti, by category. The amounts are inclusive of accrued, unpaid interest.

Postal savings deposits (€m)

Item	Balance at 30 June 2017	Balance at 31 December 2016
Post office savings books	111,144	118,938
Interest-bearing Postal Certificates	207,905	203,962
Cassa Depositi e Prestiti	138,767	134,121
MEF	69,138	69,841
Total	**319,049**	**322,900**

Assets under management

Assets under management by BancoPosta Fondi SpA SGR, measured at fair value using information available on the last working day of the period, amount to €7,997 million at 30 June 2017 (€7,269 million at 31 December 2016).

Commitments

Purchase commitments relating primarily to the Parent Company break down as follows.

Commitments (€m)

Item	Balance at 30 June 2017	Balance at 31 December 2016
Purchase commitments		
Property leases	488	501
Purchases of property, plant and equipment	59	41
Purchases of intangible assets	62	27
Vehicle leases	239	260
Other leases	44	28
Total	**892**	**857**

At 30 June 2017, EGI SpA has given commitments to purchase electricity, with a total value of €10.5 million, on regulated forward markets in the second half of 2017 and in 2018. At 30 June 2017, the corresponding market value is €11.7 million.

Guarantees

Unsecured guarantees issued by the Group are as follows:

Guarantees (€m)

Item	Balance at 30 June 2017	Balance at 31 December 2016
Sureties and other guarantees issued:		
by banks/insurance companies in the interests of Group companies in favour of third parties	318	321
Total	**318**	**321**

Third-party assets

Third-party assets		(€m)
Item	**Balance at 30 June 2017**	**Balance at 31 December 2016**
Bonds subscribed by customers held at third-party banks	4,971	5,262
Total	**4,971**	**5,262**

Assets in the process of allocation

At 30 June 2017, the Parent Company had paid a total of €101 million in claims on behalf of the Ministry of Justice, for which, under the agreement between Poste Italiane SpA and the MEF, it has already been reimbursed by the Treasury, whilst awaiting acknowledgement of the relevant account receivable from the Ministry of Justice.

Unconsolidated structured entities

In order to make investments as consistent as possible with the risk-return profiles of the policies issued, ensuring management flexibility and efficiency, in certain cases Poste Vita SpA has purchased over 50% of the assets managed by certain investment funds. In these cases, tests have been performed in keeping with IFRS to determine the existence of control. The results of the tests on such funds suggest that the company does not exercise any control within the meaning of IFRS 10 – *Consolidated Financial Statements*. However, these funds qualify as unconsolidated structured entities. A structured entity is an entity designed in such a way as not to make voting rights the key factor in determining control over it, as in the case where voting rights refer solely to administrative activities and the relevant operations are managed on the basis of contractual arrangements.

Nature of the involvement in the unconsolidated structured entity

The purpose of Poste Vita's investment in the funds is to diversify its portfolio of financial instruments intended to cover Class I products (Separately Managed Accounts), with the objective of mitigating the concentration of investments in Italian government. Details are provided below.

(€m)

ISIN	Name	Nature of entity	Activity of the Fund	% investment	NAV At	NAV Amount
IE00BP9DPZ45	BLACKROCK DIVERSIFIED DISTRIBUTION FUND	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30 June 2017	5,847
LU1193254122	MFX - GLOBAL FUND - ASSET GLOBAL FUND (PIMCO MULTI ASSET)	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30 June 2017	4,122
LU1407711800	MULTIFLEX - Dynamic Multi Asset Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30 June 2017	2,447
LU1407712014	MULTIFLEX - Global Optimal Multi Asset Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30 June 2017	2,454
LU1407712287	MULTIFLEX - Strategic Insurance Distribution	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30 June 2017	2,176
IE00B1VWGP80	PIANO 400 FUND DEUTSCHE BANK	Open-end harmonised	Investment in a mix of asset classes, especially debt instruments of various sectors and countries	100	30 June 2017	486
IT0004937691	TAGES PLATINUM GROWTH	Non-harmonised fund of hedge funds	Pursuit of absolute returns, with low long-term volatility and correlation with the main financial markets	100	31 May 2017	458
IT0005212193	DIAMOND ITALIAN PROPERTIES	Italian-registered, closed-end alternative real estate investment funds	Investment in real estate assets, real property rights, including those resulting from property lease-translational arrangements, concessions and other similar rights in accordance with the legislation from time to time in effect	100	31 March 2017	120
LU1081427665	SHOPPING PROPERTY FUND 2	Closed-end harmonised fund	Master fund which invests primarily in commercial properties and, marginally, in office buildings and alternative sectors. It does not invest in property debt	63.77	31 March 2017	87
IT0005174450	FONDO DIAMOND EUROZONE OFFICE UBS	Italian-registered, closed-end alternative real estate investment funds	Investment in "core" and "core plus" real estate assets for retail use, located in the Eurozone and euro-denominated	100	31 March 2017	56
IT0004597396	ADVANCE CAPITAL ENERGY FUND	Closed-end non-harmonised fund of funds	Investments in energy companies to achieve capital appreciation and realise relevant gains, after exit	86.21	30 June 2017	27
IT0005210593	DIAMOND OTHER SECTOR ITALIA	Italian-registered, closed-end alternative real estate investment funds	Investment in real estate assets, real property rights, including those resulting from property lease arrangements, participating interests in property companies and the professional management and development of the fund's assets	100	31 December 2016	-
IT0005215113	FONDO CBRE DIAMOND	Italian-registered, closed-end alternative real estate investment funds	Investiment in real estate assets, real property rights, including those resulting from property lease arrangements, participating interests in property companies and in units of alternative real estate funds	100	30 June 2017	50
IT0005210387	DIAMOND EUROZONE RETAIL PROPERTY FUND	Italian-registered, closed-end alternative real estate investment funds	Investment in "core" and "core plus" real estate assets for office use, located in the Eurozone and euro-denominated	100	31 March 2017	69
QU0006738052	Prima EU Private Debt Opportunity Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30 June 2017	8
LU1581282842	Indaco SICAV SIF - Indaco CIFC US Loan	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds, loans and equities)	100	30 June 2017	80
LU1500341752	MULTIFLEX-DYNAMIC LT M/A-CM	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30 June 2017	100
LU1500341240	MULTIFLEX-LT OPTIMAL M/A-CM	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30 June 2017	100

Nature of the risk

The company's investments in the funds in question are reported at fair value (mainly level 2 of the fair value hierarchy), on the basis of the NAV reported from time to time by the fund manager. These investments were made in connection with Class I policies (Separately Managed Accounts) and, as such, any changes in fair value are passed on to the policyholder under the shadow accounting mechanism.

Details at 30 June 2017 are provided below.

(€m)

ISIN	Name	Classification	Carrying amount	Maximum loss exposure*	Difference between carrying amount and maximum loss exposure	Method to determine maximum loss exposure
IE00BP9DPZ45	BLACKROCK DIVERSIFIED DISTRIBUTION FUND	Financial assets FVPL	5,847	349	5,498	Analytical VaR 99.5% annualised
LU1193254122	MFX - GLOBAL FUND - ASSET GLOBAL FUND (PIMCO MULTI ASSET)	Financial assets FVPL	4,122	364	3,758	Analytical VaR 99.5% over 1-year
LU1407711800	MULTIFLEX - Dynamic Multi Asset Fund	Financial assets FVPL	2,447	308	2,139	Analytical VaR 99.5% over 1-year
LU1407712014	MULTIFLEX - Global Optimal Multi Asset Fund	Financial assets FVPL	2,454	237	2,217	Analytical VaR 99.5% over 1-year
LU1407712287	MULTIFLEX - Strategic Insurance Distribution	Financial assets FVPL	2,176	300	1,876	Historical VaR 99.5% over a 1-year
IE00B1VWGP80	PIANO 400 FUND DEUTSCHE BANK	Available-for-sale financial assets	486	75	411	Change between market price as of reporting date and guaranteed performance
IT0004937691	TAGES PLATINUM GROWTH	Available-for-sale financial assets	458	90	368	VaR 99.5% over a 1-year time horizon
IT0005212193	DIAMOND ITALIAN PROPERTIES	Financial assets FVPL	120	30	90	Analytical VaR 99.5% annualised
LU1081427665	SHOPPING PROPERTY FUND 2	Available-for-sale financial assets	55	22	33	Analytical VaR 99.5% annualised
IT0005174450	FONDO DIAMOND EUROZONE OFFICE UBS	Financial assets FVPL	56	14	42	Analytical VaR 99.5% annualised
IT0004597396	ADVANCE CAPITAL ENERGY FUND	Available-for-sale financial assets	23	12	11	VaR 99.5% over a 1-year time horizon
IT0005210593	DIAMOND OTHER SECTOR ITALIA	Financial assets FVPL	-	-	-	Analytical VaR 99.5% annualised
IT0005215113	FONDO CBRE DIAMOND	Financial assets FVPL	50	17	33	Analytical VaR 99.5% annualised
IT0005210387	DIAMOND EUROZONE RETAIL PROPERTY FUND	Financial assets FVPL	69	17	52	Analytical VaR 99.5% annualised
QU0006738052	Prima EU Private Debt Opportunity Fund	Financial assets FVPL	8	4	4	VaR 99.5% over a 1-year time horizon
LU1581282842	Indaco SICAV SIF - Indaco CIFC US Loan	Financial assets FVPL	80	40	40	VaR 99.5% over a 1-year time horizon
LU1500341752	MULTIFLEX-DYNAMIC LT M/A-CM	Financial assets FVPL	100	3	97	Analytical VaR 99.5% annualised
LU1500341240	MULTIFLEX-LT OPTIMAL M/A-CM	Financial assets FVPL	100	2	98	Analytical VaR 99.5% over 1-year

** Maximum loss is estimated without considering the ability of liabilities to offset losses, thus representing a more prudential estimate*

The table below shows the types of financial instruments in which the funds invest and the main markets of reference.

(€m)

Asset class	Fair Value
Financial instruments	
Corporate bonds	6,609
Government bonds	8,754
Other investments net of liabilities	1,842
Equity instruments	929
Cash	542
Derivatives	
Swaps	9
Futures	1
Forwards	1
Total	**18,687**

Market traded on and UCITS	Fair Value
New York	2,050
Germany (Frankfurt, Berlin, Munich)	2,931
London	583
Luxembourg	219
Dublin	654
Eurotlx	527
Euromtf	286
Tokyo	358
Euronext	408
Trace	1,645
Singapore	251
Hong Kong	66
Other	7,470
Funds	1,239
Total	**18,687**

Phantom Stock Plan

The Annual General Meeting of Poste Italiane SpA's shareholders held on 24 May 2016 approved the information circular for the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan", prepared in accordance with art 84-bis of the Regulations for Issuers. The LTIP, set up in line with market practices, aims to link a portion of the variable component of remuneration to the achievement of earnings targets and the creation of sustainable shareholder value over the long term.

Determination of fair value and effects on profit or loss

At 30 June 2017, the total number of phantom stocks awarded to the 51 beneficiaries of the First Cycle of the Plan amount to 652,140. An independent expert, external to the Group, was appointed to measure the value of the stocks and this was based on best market practices. The cost recognised for the first half of 2017 is approximately €0.6 million, whilst the liability recognised in amounts due to staff at 30 June 2017 totals €1.9 million.

D5 – Information on investments

Details are as follows:

List of investments consolidated on a line-by-line basis (€000)

Name (Registered office)	% interest	Share capital	Profit / (loss) for the period	Equity
Consorzio Logistica Pacchi ScpA (Rome)	100.00%	516	-	516
Consorzio per i Servizi di Telefonia Mobile ScpA (Rome) (*)	100.00%	120	-	120
Consorzio PosteMotori (Rome)	80.75%	120	-	120
Europa Gestioni Immobiliari SpA (Rome)	100.00%	103,200	862	236,268
Mistral Air Srl (Rome) (**)	100.00%	1,000	(4,355)	1,273
PatentiViaPoste ScpA (Rome) (*)	86.86%	120	166	292
PosteMobile SpA (Rome)	100.00%	32,561	8,190	64,307
Poste Tributi ScpA (Rome) (*)(**)	100.00%	2,583	(627)	(1,129)
PosteTutela SpA (Rome)	100.00%	153	170	13,331
Poste Vita SpA (Rome) (*)	100.00%	1,216,608	221,900	3,482,564
Poste Assicura SpA (Rome) (*)	100.00%	25,000	11,510	85,864
Postel SpA (Rome)	100.00%	20,400	507	102,011
SDA Express Courier SpA (Rome) (**)	100.00%	10,000	(7,666)	1,731
Poste Welfare Servizi Srl (Rome) (*)	100.00%	16	1,229	6,311
Investments held for sale or disposal				
Banca del Mezzogiorno - MedioCredito Centrale SpA (Rome)	100.00%	364,509	5,168	430,180
BancoPosta Fondi SpA SGR (Rome)	100.00%	12,000	15,087	60,753

(*) The figures shown for these companies were prepared in accordance with IFRS and, as such, may vary from those available in the respective financial reports, which were prepared in accordance with the Italian Civil Code and Italian GAAP.

(**) Poste Italiane SpA is committed to providing financial support to the subsidiaries SDA Express Courier SpA and Mistral Air Srl at least until 31 December 2017 and to Poste Tributi ScpA throughout its liquidation.

Postecom SpA was merged with and into Poste Italiane SpA with effect for legal and tax purposes from 1 April 2017. The company reports a profit of €0.6 million for the first quarter of 2017.

List of investments accounted for using the equity method (€000)

Name (Registered office)	Nature of investment	Carrying amount	% interest	Assets	Liabilities	Equity	Revenue and income	Profit / (loss) for the period
Address Softw are Srl (Rome)	Subsidiary	207	51.00%	1,015	611	404	493	(23)
Anima Holding SpA (Milan) (a)	Associate	215,908	10.32%	1,311,588	448,700	862,888	190,202 (*)	25,864
Conio Inc. (San Francisco) (b)	Associate	51	20.00%	199	56	143	-	124
Equam SpA (Roma)	Joint venture	101	64.00%	1,420	1,262	158	-	(53)
FSIA Investimenti Srl (Milano) (c)	Joint venture	280,422	30.00%	347,823	62,735	285,088	8,262	7,512
Indabox Srl (Roma)	Subsidiary	1,454	100.00%	898	56	842	24	(50)
ItaliaCamp Srl (Rome) (d)	Associate	21	20.00%	941	670	271	879	161
Kipoint SpA (Rome)	Subsidiary	645	100.00%	2,100	1,456	644	2,197	88
Programma Dinamico SpA - in liquidation (Rome) (e)	Subsidiary	-	0.00%	136	166	(30)	-	(149)
Risparmio Holding SpA (Roma)	Joint venture	108	80.00%	619	357	262	-	(92)
Other SDA Express Courier associates (f)	Associate	3						

(a) Data derived from the consolidated accounts for the period ended 31 March 2017, the latest approved by the company. At 30 June 2017, the percentage interest is 10.04%.

(b) Data for Conio Inc. and its subsidiary, Conio Srl.

(c) Data for the period ended 31 March 2017, including the value of the SIA group measured using the equity method.

(d) Data derived from the accounts for the period ended 31 December 2016, the latest approved by the company.

(e) Data derived from the accounts for the period ended 31 December 2015, the latest approved by the company; Group companies do not hold any equity interests in Programma Dinamico SpA.

(f) The other associates of the SDA Express Courier Group are: Uptime SpA (in liquidation), MDG Express Srl and Speedy Express Courier Srl.

(*) The amount includes commissions, interest income and other similar income.

4. RISK MANAGEMENT

E1 – FINANCIAL RISKS

This section provides a brief review of items in the financial statements subject to financial risk (prepared in accordance with IFRS 7 – *Financial Instruments: Disclosures*), provided in summary form as permitted by IAS 34 – *Interim Financial Reporting* (see the section, “Basis of preparation”, in these condensed consolidated interim financial statements).

Management of the Group’s financial transactions and of the associated risks relates mainly to the operations of Poste Italiane SpA and Poste Vita SpA.

- The operations of **Poste Italiane SpA**’s BancoPosta RFC division consist of the management of liquidity generated by postal current account deposits, carried out in the name of BancoPosta but subject to statutory restrictions, and collections and payments on behalf of third parties. The funds deposited by private account holders in postal current accounts are invested in Eurozone government securities[36], whilst deposits by Public Administration entities are deposited with the MEF. The investment profile is based on the constant monitoring of habits of current account holders and the use of a leading market operator's statistical/econometric model that forecasts the interest rates and maturities typical of postal current accounts. Accordingly, the portfolio composition aims to replicate the financial structure of current accounts by private customers. The Company has also an asset-liability model in place to match the maturities of deposits and loans.
  During the first half of 2017, BancoPosta RFC’s leverage ratio (the Basel 3 leverage ratio) was approximately 3.1% (3% is the minimum level required by the regulations), following the measures taken to strengthen the capital position at the end of 2016 in response to the positive performance of current account deposits. The relevant functions will continue to keep a close eye on the leverage ratio throughout 2017 to ensure, over time, that it continues to meet the related targets, thresholds and limits established in the RAF (Risk Appetite Framework) and assess the potential need for further action to strengthen capital ratios at the end of the year, as was necessary in 2016.
- Financial instruments held by the insurance company, **Poste Vita SpA**, primarily relate to investments designed to cover its contractual obligations to policyholders on traditional life policies and index-linked and unit-linked policies.
  With regard to traditional life policies, classified under Class I and V, the gains and losses resulting from measurement of the investments designed to cover the related obligations are attributed in full to policyholders and accounted for in specific technical provisions under the shadow accounting method. The calculation technique used by the company in applying this method is based on the prospective yield on each separately managed account, considering a hypothetical realisation of unrealised gains and losses over a period of time that matches the assets and liabilities held in the portfolio. The impact of financial risk on investment performance can be absorbed in full or in part by the insurance provisions, based on the level and structure of the guaranteed minimum returns and the profit-sharing mechanisms of the “separate portfolio” for the policyholder. The company determines the sustainability of minimum returns through periodic analyses using an internal financial-actuarial (Asset-Liability Management) model which simulates, for each separate portfolio, the change in value of the financial assets and the expected returns under a “central scenario” (based on current financial and commercial assumptions) and under stress and other scenarios based on different sets of assumptions. This model makes it possible to manage the risks assumed by Poste Vita SpA on a quantitative basis, thereby fostering reduced earnings volatility and optimal allocation of financial resources.

[36] Following the amendment of art. 1, paragraph 1097 of Law 296 of 27 December 2006, introduced by art. 1, paragraph 285 of the 2015 Stability Law (Law 190 of 23 December 2014), it became possible for BancoPosta RFC to invest up to 50% of its deposits in securities guaranteed by the Italian government.

Price risk

Price risk relates to financial assets that the Group has classified as “Available-for-sale” (AFS) or “Held for trading” and certain derivative financial instruments where changes in value are recognised in profit or loss.

Available-for-sale financial assets exposed to this risk mainly refer to Poste Vita SpA’s position in “Other investments”, represented by units of mutual investment funds, totalling €1,158 million, primarily to cover to meet obligations to policyholders under the separately managed portfolios, and the shares in Mastercard Incorporated and Visa Incorporated held by the Parent Company’s BancoPosta RFC division, totalling €80 million and €36 million, respectively.

In relation to **financial assets recognised at fair value through profit or loss**, price risk concerns investments held by Poste Vita SpA, totalling €18,578 million, of which €17,542 million used to cover Class I policies and €1,036 million used to cover Class III policies.

Lastly, in relation to **derivative financial instruments,** the price risk relates to warrants with a value of €254 million, held by Poste Vita SpA to cover the benefits associated with the Class III policies.

Foreign exchange risk

Exposure to this risk primarily regards trade receivables and trade payables deriving from the Parent Company’s relations with overseas counterparties, and the Parent Company’s above investment in Mastercard and Visa shares (132 million US dollars at 30 June 2017) and units in certain funds held by Poste Vita SpA (34 million US dollars at 30 June 2017).

Fair value interest rate risk

This refers to the effects of changes in interest rates on the price of fixed rate financial instruments or variable rate financial instruments converted to fixed rate via cash flow hedges and, to a lesser degree, the effects of change in interest rates on the spread of floating rate financial instruments or fixed rate financial instruments converted to variable rate via fair value hedges. The impact of these effects is directly related to the financial instrument’s duration.

Available-for-sale financial assets exposed to the risk in question regard primarily fixed rate instruments held almost exclusively by the Parent Company and by Poste Vita SpA.

They include:

- fixed income government bonds held by Poste Vita SpA, totalling €74,954 million (of which €10,238 million in inflation-indexed bonds); of this amount, €71,795 million is used to cover Class I and V policies linked to separately managed funds and €3,159 million relates to the company’s free capital;
- €36,105 million in fixed income government bonds held by BancoPosta RFC, which consist of: fixed rate bonds amounting to €10,862 million; variable rate bonds converted into fixed rate bonds via cash flow swaps amounting to €1,577 million; variable rate bonds amounting to €2,674 million (of which €2,503 million in inflation-linked instruments and €171 million CCTeus) and fixed or variable rate bonds converted to variable rate positions via fair value hedges, amounting to €20,992 million (of which €18,751 million in forward starts);
- €14,431 million in other, non-government bonds held by Poste Vita SpA, used mainly to meet obligations towards policyholders in relation to separately managed Class I and V policies;
- €1,506 million in fixed rate bonds issued by CDP and guaranteed by the Italian government, held by BancoPosta RFC.

Within the context of **financial assets at fair value through profit or loss**, fair value interest rate risk concerns a portion of the fixed rate investments of Poste Vita SpA, totalling €8,608 million. These consist of investments with a fair value of €4,679 million (including coupon stripped[37] BTPs primarily covering obligations associated with Class III insurance products and investments with a fair value of €3,929 million relating to corporate bonds primarily covering Class I and V contractual obligations), bonds issued by CDP SpA with a fair value of €546 million, covering Class I policies, and, to a lesser extent, Poste Vita SpA's other investments, consisting of units of mutual funds, totalling €88 million.

Within the context of **derivative financial instruments**, the risk in question concerns a derivative contract entered into by the Parent Company in 2013 to hedge the cash flows of the bond with a nominal value of €50 million (tab. A5.9).

At 30 June 2017, with reference to the interest rate risk exposure determined by the average duration[38] of the portfolios, the duration of BancoPosta's overall investments is 5.25.

Spread risk

The value of the portfolio of bonds issued or guaranteed by the Italian government is much more sensitive to the credit risk associated with the Italian Republic than to changes in so-called risk-free interest rates. This is due to the fact that changes in credit spreads are not hedged and relate to the entire securities portfolio, meaning both the fixed and variable rate components. In this latter case, in fact, fair value derivatives, used to convert variable rate instruments, hedge only the risk-free interest rate risk and not credit risk. This means that a change in the credit spread has an equal impact on both fixed and variable instruments.

The first half of 2017 was marked by a high degree of volatility, driven primarily by political uncertainty. The outcome of the Dutch elections and those in France led to a reduction in the spread, which had exceeded 200 bps in April. The yield on 10-year Treasury Notes (BTPs) is higher than at the end of 2016, despite a similar spread (169 bps at 30 June 2017), reflecting a rise in risk-free rates over the first half thanks to the progressive improvement in the Eurozone economy. This resulted in:

(i) a net reduction in the fair value of the Poste Vita insurance group's available-for-sale portfolio (fixed income instruments with a nominal value of approximately €84 billion) of approximately €1.8 billion, almost entirely passed on to policyholders and recognised in specific technical provisions under the shadow accounting method;

(ii) a net reduction in the fair value of BancoPosta RFC's available-for-sale portfolio (a nominal value of approximately €34 billion) of approximately €1.4 billion. The reduction in the fair value of instruments hedged against interest rate risk, amounting to approximately €0.8 billion, was offset by an increase in the fair value of the related derivatives, whilst the reduction in the fair value of unhedged instruments and of the component subject to spread risk (unhedged) was reflected in consolidated equity (approximately €0.6 billion).

Credit risk

Credit risk refers to all assets, except shares and units of mutual funds.
This risk is managed as follows:

- minimum rating requirements for issuers/counterparties, based on the type of instrument;
- the monitoring of concentrations per issuer/counterparty;
- monitoring of changes in the ratings of counterparties.

During the first half of 2017, the ratings revised by the main agencies resulted in changes in the weighted average rating of the exposures of the Parent Company, Poste Italiane SpA, which, for investments other than Italian government bonds, was A3 at 30 June 2017, equivalent to the Group's average rating at the same date.

[37] Coupon stripping consists in detaching the interest payment coupons from a note or bond. Coupon stripping transforms each government security into a series of zero-coupon bonds. Each component may be traded separately.
[38] Duration is the indicator used to estimate the percentage change in price in response to a shift in market returns.

Credit risk arising from derivative transactions is mitigated through rating limits and by monitoring group/counterparty concentrations. In addition, interest rate, asset swap and forward purchase contracts are collateralised by deposits or the physical delivery of financial instruments (in accordance with Credit Support Annexes). Exposure is quantified and monitored using the "market value" method provided for by Regulation (EU) 575/2013 (Basel 3).

In relation to "Revenue and receivables due from the state", the nature of the Group's customers, the structure of revenue and the method of collection limit the risk of default on trade receivables. However, as explained in note 2.3, in the case of certain of the Parent Company's activities, regulated by statute and specific agreements or contracts involving particularly complex renewal processes, prompt and full payment of the amounts due is dependent on availability of the necessary funds in the state budget or in the budgets of the related public sector entities.

All receivables are subject to specific monitoring and reporting procedures to support credit collection activities.

Lastly, with regard to financial assets, as required by Communication DEM/11070007 of 28 July 2011, implementing Document 2011/266 published by the European Securities and Markets Authority (ESMA) and later amendments, the Group's exposure to sovereign debt[39] at 30 June 2017 is shown in the table below, which provides details of the nominal value, carrying amount and fair value of each type of portfolio.

Exposure to sovereign debt (€m)

Item	at 30 June 2017			at 31 December 2016		
	Nominal value	Carrying amount	Fair Value	Nominal value	Carrying amount	Fair Value
Italy	**120,036**	**128,103**	**129,581**	**114,065**	**125,851**	**127,615**
Held-to-maturity financial assets	12,796	13,021	14,499	12,392	12,683	14,447
Available-for-sale financial assets	101,822	109,622	109,622	95,479	106,924	106,924
Financial assets at FV through profit or loss	4,674	4,679	4,679	5,445	5,451	5,451
Non-current assets and disposal groups held for sale	744	781	781	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	**95**	**98**	**98**	**95**	**103**	**103**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	95	98	98	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**	**166**	**166**	**151**	**176**	**176**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	151	166	166	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	-	-	-	-	-	-
Spain	**1,576**	**1,814**	**1,814**	**1,566**	**1,850**	**1,850**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	1,576	1,814	1,814	1,566	1,850	1,850
Financial assets at FV through profit or loss	-	-	-	-	-	-
Slovenia	**20**	**23**	**23**	**93**	**104**	**104**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	20	23	23	93	104	104
Financial assets at FV through profit or loss	-	-	-	-	-	-
Total	**121,901**	**130,235**	**131,713**	**116,058**	**128,184**	**129,948**

[39] "Sovereign debt" includes bonds issued by, and loans provided to, central and local governments and government bodies.

Liquidity risk

In order to minimise the risk of experiencing difficulties in raising sufficient funds, at market conditions, to meet its obligations, Poste Italiane Group applies a financial policy based on:

- diversification of the various forms of short-term and long-term borrowings and counterparties;
- availability of relevant lines of credit in terms of amounts and the number of banks;
- gradual and consistent distribution of the maturities of medium/long-term borrowings;
- use of dedicated analytical models to monitor the maturities of assets and liabilities.

In terms of BancoPosta RFC's specific operations, the liquidity risk regards current account deposits and the cash loaded onto prepaid cards, the related investment of the deposits in Eurozone government securities and/or in securities guaranteed by the Italian government, and the margins on derivative transactions. As to the policies sold by Poste Vita SpA, in order to analyse its liquidity risk profile, the company performs Asset/liability management (ALM) analysis to manage assets effectively in relation to its obligations to policyholders, and also develops projections of the effects deriving from financial market shocks (asset dynamics) and of the behaviour of policyholders (liability dynamics).

Lastly, for the proper evaluation of the liquidity risk, it should be borne in mind that, unless they are restricted, investments in Eurozone government securities are highly liquid assets and can be used as collateral in interbank repurchase agreements to obtain short-term financing. This practice is normally adopted by BancoPosta.

Cash flow interest rate risk

Cash flow interest rate risk refers to the uncertainty over future cash flows generated by variable rate instruments and variable rate instruments created through fair value hedges following fluctuations in market interest rates.

Specifically, with respect to **financial assets**, the cash flow interest rate risk primarily relates to:

- a portion of the securities portfolio held by Poste Vita SpA, with a nominal value of €13,626 million;
- investment by the Parent Company of the funds deriving from the current account deposits of Public Administration entities in deposits with the MEF, with a nominal value of €5,357 million;
- fixed and variable rate government bonds with a total nominal value of €170 million, as well as fixed rate bonds swapped into variable rate through fair value hedges, with a total nominal amount of €2,840 million (including €800 million in fair value hedged instruments where the related hedge begins to have an impact in the 12 months following the period under review), and an inflation-linked bond issued by the Italian Republic, with a nominal value of €100 million, which has been hedged against changes in its fair value;
- receivables of €1,237 million, reflecting collateral posted to secure liabilities arising in relation to derivative financial instruments, primarily held by BancoPosta RFC.

In relation to **cash and cash equivalents**, cash flow interest rate risk primarily regards amounts deposited by the Parent Company with the MEF and held in the so-called buffer account, in addition to the bank deposits of Poste Italiane SpA and Poste Vita SpA.

Cash flow inflation risk

At 30 June 2017, cash flow inflation risk relates to inflation-linked government securities not subject to cash flow hedges or fair value hedges. These securities are primarily held by Poste Vita SpA (a nominal value of €9,328 million) and BancoPosta RFC (a nominal value of €2,145 million).

Other risks

Operational risk

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. This category of risk includes losses resulting from fraud, human error, business disruption, systems failures, breach of contracts and natural disasters. Operational risk includes legal risk.

In 2017, a series of steps have been taken to refine the operational risk management framework, with the aim of making the process of recording operational losses more efficient and mitigating such risks. This has involved the creation of cross-functional working groups. Support has also been provided to the specialist units and the user responsible for the process of analysing and assessing IT risk, in keeping with the approach adopted in 2016.

A full description of this type of risk is provided in the Annual Report for 2016.

Insurance risks

Insurance risks derive from the stipulation of insurance contracts and the terms and conditions contained therein (technical bases adopted, premium calculation, terms and conditions of cash surrender, etc.). A full description of these risks is provided in the Annual Report for 2016.

Reputational risk

The main element of exposure to this risk is the fact that the Group's business is by its nature exposed to elements of reputational risk, linked to market performance and primarily associated with the placement of investment products issued by third-party entities (bonds, certificates and real estate funds) or by Group companies (insurance policies issued by the subsidiary, Poste Vita SpA, and mutual funds managed by BancoPosta Fondi SpA SGR).

In this regard, in order to optimise the risk-return profile of the products offered to its customers, Poste Italiane SpA has adopted competitive selection policies and procedures for third-party issuers, entailing the selection of domestic and foreign issuers consisting solely of banks and other financial companies with investment grade ratings. In addition, in order to protect and safeguard the Group's excellent reputation and public confidence in its operations and to protect its commercial interests from potential dissatisfaction among savers, significant monitoring activity is carried out throughout the Group to keep track of the performance of individual products and of changes in the risks to which customers are exposed; this involves conducting careful assessments based on the contractual nature of the products in question in terms of how they meet the needs of the various customers.

In particular, with regard to real estate funds sold in the period 2002-2005, which have given rise to a number of complaints and disputes, the Company is continuing to closely monitor performance through to the respective maturities. This has enabled the Company to assess any impact on the related provisions for risks and charges recognised in the financial statements and, during the six months ended 30 June 2017, to prudently revise estimates of the liabilities arising from the risks linked to disputes with customers regarding certain investment instruments and products sold in the past, which have yet to mature and whose performance is not in line expectations. As previously reported in this regard, on 16 January 2017, Poste Italiane SpA's Board of Directors passed a resolution aimed at consolidating its historical customer relationships, based on trust and transparency. This will involve taking steps to protect all the customers who, in 2003, purchased units issued by the Invest Real Security real estate fund, against a different economic and regulatory backdrop compared with today's, and still held the units at 31 December 2016, the date of the Fund's maturity. The aim was to allow each investor to recover the difference between the amount they invested at the time of subscription, increased by any income distributions or early returns of capital over the life of the Fund, and the amount that the investor will receive from the Fund's "Interim Liquidation Distribution" (the "Difference"). In particular, an initial phase of the initiative came to a conclusion in the first half, with over 75% of eligible customers accepting the Company's offer. This is to be followed by a second phase, during which customers who were late in hearing about the offer, or in responding during the first phase, will be encouraged to take part in the initiative. The estimated liabilities resulting from this initiative have been recognised in "Provisions for risks and charges" (note B6). At 30 June 2017, implementation of the initiative has so far resulted in the use of provisions totalling €54 million.

Information on categories of reputational risk other than those linked to the sale of financial products is provided below.

In 2015, calls for tenders were launched to find a suitable provider to manage the Group's customer service. On completion of the tender process, the companies to which SDA Express Courier had outsourced the services until the end of 2015 – Uptime SpA and Gepin Contact SpA (the other shareholder of Uptime SpA) - were not awarded the contract and, on 30 December 2015, SDA terminated its relationships with these companies, as provided for in the relevant contracts, with effect from 1 July 2016.

With the regard to the transaction's impact on jobs, on 16 March 2016, an ordinary general meeting of Uptime SpA's shareholders determined, with the vote of the majority shareholder (Gepin) alone, to terminate operations and wind-up the company. The shareholder, SDA, abstained. Following the start of the process that will make all 93 employees redundant, on 31 May 2016, Poste Italiane and labour unions representing most of the workers involved reached agreement on the redeployment of the workers involved. This envisages, among other things, that Poste Italiane will hire all former Uptime employees who have failed to find alternative employment 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, the loss of jobs resulting from the redundancies at the Rome and Naples Casavatore sites has been dealt with through an agreement with the Ministry for Economic Development. As a result, RTI System House, the company awarded the contract to provide Poste Italiane's customer service, has agreed to hire the related personnel on permanent employment contracts.

Strictly in terms of employment law, in recent months, a number of former employees of Gepin Contact have brought civil actions against Poste Italiane before the Civil Court, Employment Section.
In particular, 53 plaintiffs have asked the Court of Naples to ascertain and/or declare that a permanent employment relationship was established and existed between the plaintiffs and Poste Italiane, and to order Poste Italiane to reinstate the plaintiffs and, in any event, to hire them, and to assume responsibility for all the legal and financial consequences, including payment of all accrued salaries not paid by Gepin. The related hearing is scheduled for 13 September 2017.
A similar action has been brought by 20 plaintiffs before the Court of Rome, requesting that Poste Italiane and/or SDA be ordered to reinstate and compensate the personnel concerned. A number of these cases were taken under advisement at the hearing of 19 July, whilst others are at the pre-trial stage.

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.

On 21 December 2016, Gepin and Uptime served Poste Italiane and SDA with a writ of summons to appear before the Companies Section of the Civil Court of Rome. The writ contains 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. Poste Italiane has appeared before the court. The first hearing for presentation of the bill of complaint has already been held. The next hearing is scheduled for 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. On this basis, 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 eventually be subscribed for by just one of the shareholders, SDA Express Courier.

On 1 June 2017, the Court of Rome, in the appeal brought in accordance with art. 2409 of the Italian Civil Code, accepted a number of criticisms made by the board of statutory auditors and SDA, ordering an inspection of Uptime in liquidation and appointing an inspector. On 5 June 2017, a preliminary bankruptcy hearing was held before the Bankruptcy Court in Rome, during which the court accepted a request for an adjournment to assess the potential for SDA to subscribe for the above shares. The hearing was thus adjourned until 25 September 2017.

5. PROCEEDINGS PENDING AND RELATIONS WITH THE AUTHORITIES

F1- LITIGATION

On 27 February 2015, the tax authorities notified **Poste Italiane SpA** of an indictment for accounting irregularities before the Court of Auditors for the Lazio region, regarding a number of accounting records for the handling and distribution of revenue stamps in the years between 2007 and 2010. The hearing was held on 2 July 2015. With sentence no. 332 of 9 July 2015, the Court of Auditors for the Lazio region fined the Parent Company an amount of €8 million, plus monetary revaluation and legal interest. The sentence was notified on 9 September 2015. The Company filed an appeal and the date of the first hearing is pending. In the meantime, the tax authorities collected the sum under the guarantee and requested payment of the remaining sum pursuant to the decision. The Company complied by paying the required amount. The Court of Auditors scheduled the appeal hearing for 26 April 2017. At the hearing held to discuss the appeal on 14 June 2017, the Court of Auditors took the case under advisement. The related judgement is thus awaited.

Details of other proceedings pending, which did not undergo significant changes in the first half of 2017, are provided in the Annual Report for 2016.

F2 –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.

Details of other proceedings pending, which did not undergo significant changes in the first half of 2017, are provided in the Annual Report for 2016.

F3 – SOCIAL SECURITY DISPUTES

Since 2012, the *Istituto Nazionale per la Previdenza Sociale* (INPS, the National Institute of Social Security) office at Genoa Ponente has issued Postel SpA and Postelprint SpA (regarding which an agreement relating to a merger with Postel SpA was signed on 27 April 2015, effective for accounting and tax purposes from 1 January 2015) a number of notices of adjustment, some of which have resulted in payment orders, for a total amount payable of €17 million at 30 June 2017. According to INPS, this amount represents social security contributions that the two companies failed to pay and which are used to provide income support, extraordinary income support, unemployment benefit and family benefits not provided by IPOST. The companies immediately challenged the grounds for the payment orders, initially through administrative channels before the Administrative Committee for Employee Pensions, and then in the form of legal action before the Court of Genoa. On 20 October 2016, the Ministry of Labour stated that the social security contributions system applicable to Poste Italiane also applies to all the other Group companies, with the sole exception of those that provide air transport, banking and express delivery services.
With regard to the three combined actions bringing together the five pending before the Court of Genoa, on 11 July 2017, the court announced its judgement, only partially upholding the claim brought by INPS, amounting to €9 million. As a result, Postel was ordered merely to pay the difference in contributions between the family allowances paid by Postel to the employees and the amount claimed by INPS in the form of family benefit contributions. This means that Postel was order to pay just €0.218 million.
Over time, given the degree of uncertainty linked to the outcome of the pending court cases, Postel, in consultation with its legal counsel, made provisions for risks and charges based on the estimated liabilities arising in the period between receipt of the first notice from INPS and 30 June 2017. This was done taking into account the amount already formally claimed by INPS in the form of payment orders and notices of adjustment, and amounts for periods for which no formal claims had been made, after deducting amounts paid directly by the company to its employees in the form of family allowances. Postel's legal counsel has reserved the right to examine the judgement once the related reasons have been filed.

F4 – PRINCIPAL PROCEEDINGS PENDING AND RELATIONS WITH THE AUTHORITIES

European Commission

Details of proceedings pending, which did not undergo significant changes in the first half of 2017, are provided in the Annual Report for 2016.

AGCM (the Antitrust Authority)

On 4 June 2015, the AGCM launched an investigation pursuant to art.8, paragraph 2 *quater* of Law 287/90, aimed at ascertaining whether actions taken by Poste Italiane were designed to prevent H3G SpA from accessing the post office network. Requests to participate in the investigation from Fastweb SpA and Vodafone Omnitel BV, as well as **PosteMobile**, were accepted. With the ruling adopted at a meeting held on 16 December 2015, the Authority deemed that Poste Italiane – at variance with the provisions of art. 8, paragraph 2 *quater* of Law 287/90 – failed, when requested, to offer a competitor of its subsidiary, PosteMobile, equal access to goods and services that are exclusively available from Poste Italiane, as they form part of the activities carried out within the scope of the Universal Postal Service. In the same ruling, the Authority also ruled that Poste Italiane should desist from such conduct in the future. The Authority did not impose a fine.

Poste Italiane lodged an appeal against the AGCM's ruling on 25 February 2016, with PosteMobile also lodging an appeal against the final ruling before Lazio Regional Administrative Court on 19 February 2016. On 28 September 2016, Lazio Regional Administrative Court published its ruling, rejecting the appeals lodged by Poste and Poste Mobile, whilst confirming the principle, 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[40]. 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.

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, and submission of the depositions pursuant to art. 183 of the Code of Civil Procedure, 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. At this hearing, the court opted to base its terms of reference on those proposed by PosteMobile and fixed a deadline for the parties to submit any proposed changes and for PosteMobile to propose any counter-proposals. The hearing was adjourned until 10 May 2018 for examination of the expert's report.

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 13 March 2017, the AGCM notified Poste Italiane SpA 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 27 April 2017, Poste Italiane submitted direct commitments designed to resolve the competition issues raised by the AGCM. At the hearing held on 9 June 2017, the Authority stated that the commitments were insufficient to remedy the alleged infringements. On 27 June 2017, Poste Italiane submitted a revised version of the commitments. The deadline for completion of the proceeding has been extended until 27 September 2017.

Details of other proceedings pending, which did not undergo significant changes in the first half of 2017, are provided in the Annual Report for 2016.

[40] In fact, in its ruling of 14 September 2016, the AGCM clarified that, at that time, there were no grounds to justify action pursuant to Law 287/90, as art. 8, paragraph 2-*quater* of Law 287/90 does not establish a generic obligation to grant access to the network on ad hoc terms, but an obligation to grant access on equivalent terms to those applied to subsidiaries.

AGCOM (the Italian Communications Authority)

With regard to the issue of right of access to the universal postal network, Poste Italiane's challenge to Resolution 728/13/CONS is still pending. This has imposed an obligation on the Company to provide, at the request of third parties, equal and reasonably free access to be negotiated with the parties. Whilst awaiting an outcome, Poste Italiane has received four requests for access to the universal postal network, none of which has so far resulted in an agreement granting network access to another operator or in disputes, relating to negotiations, before AGCom. On 23 December 2016, AGCom then launched a public consultation on its outline proposals for changes to the provisions regarding access to Poste Italiane's postal network and infrastructure. Poste Italiane submitted its contribution to the debate and explained its views during a hearing held at AGCom's offices in February 2017. Subsequently, in May, AGCom sent companies operating in the sector a number of questionnaires aimed at providing further information on the workings of the postal market (outcomes of tenders organised by the Public Administration, volumes handled and trends relating to mail reposted in the universal network).

Details of other proceedings pending, which did not undergo significant changes in the first half of 2017, are provided in the Annual Report for 2016.

Bank of Italy

In the first half of 2017, the Bank of Italy conducted 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. The inspection began on 10 February 2017 and was completed on 5 May 2017. The related Inspection Report was issued on 20 July 2017. Poste Italiane will respond within the required deadline.

Details of other proceedings pending, which did not undergo significant changes in the first half of 2017, are provided in the Annual Report for 2016.

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

On 20 March 2017, IVASS began an inspection of **Poste Vita SpA** pursuant to art. 189 of the Private Insurance Code (Legislative Decree 209 of 7 September 2005). The inspection was concluded on 28 June 2017. The focus of the inspection was "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". Poste Vita provided the documentation requested and is now waiting to know the regulator's conclusions and the outcome of the inspection.

Between September 2015 and June 2017, IVASS has notified **Poste Vita SpA** of eleven alleged violations of art. 183, paragraph 1.a) of the *Codice delle Assicurazioni Private* (Private Insurance Code or CAP), as a result of the payment of claims beyond the 30-day term provided for in the related contracts. With regard to four of the above violations, the company has been notified of the same number of injunctions relating to violation of art. 183, paragraph 1.a) of the CAP. The fines imposed amount to approximately €35 thousand, which the company has already paid.
One of the proceedings has been withdrawn by the regulator in response to Poste Vita's defence. A further six proceedings are still pending. Poste Vita has submitted its defence, but the regulator has yet to reach a decision. The company has yet to submit a defence for one of these, notified on 14 June 2017.

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. On 14 July 2017, the regulator notified the company that the inspection had been completed on 30 June 2017.

CONSOB

The process of rolling out the “guided consultancy" service around the Poste Italiane’s post office network continued in the first half of 2017, in accordance with the roll-out plan included in the information provided to the CONSOB in December 2016. At 30 June 2017, the new platform, introducing standardised procedures designed to aid in identifying the best investment solution for the customer, enabling a systematic record of manager-customer relations to be kept, is present in all “MiFID offices with consulting rooms” (approximately 3,900, covering 83% of the target customers).

Garante per la protezione dei dati personali (the Data Protection Authority)

On 15 January 2014, at the end of an investigation launched in 2009, the Authority imposed a fine of €0.34 million on **Postel SpA**, which the company accounted for in its financial statements for 2013. The company appealed the Authority’s ruling before the Civil Court of Rome, requesting an injunction suspending its implementation, which was accepted by the judge with a ruling on 16 June 2014. On 21 January 2016, the designated judge reduced the fine by €0.1 million, rejecting the other preliminary exceptions raised on the merits. As a result of this decision, the relevant liabilities recognised in the financial statements for the year ended 31 December 2016 were adjusted accordingly. On 21 March 2017, Equitalia Servizi di riscossione SpA notified the company of a payment order in which, in addition to requesting payment of a fine of €0.24 million, as reduced by the judgement handed won by the Court of Rome, it also applied, among other things, an additional amount of €0.12 million. The company has appealed the order before the Court of Rome, requesting an injunction suspending its execution. With regard to this payment order, on 15 June 2017, Equitalia Servizi di Riscossione SpA proceeded to seize sums due to Postel from INPS in accordance with articles 72-*bis* and 48-*bis* of Presidential Decree 602/73. In response, the company filed a further request with the Authority asking for execution of the order to be delayed whilst awaiting the decision of the court regarding the application for injunctive relief.

Details of other proceedings pending, which did not undergo significant changes in the first half of 2017, are provided in the Annual Report for 2016.

Autorità Nazionale Anticorruzione (the Italian National Anti-Corruption Authority)

On 18 November 2016, the Italian National Anti-Corruption Authority (ANAC) notified Postel SpA that it was launching an investigation following a report from the commissioning body, Fondimpresa, following Postel’s exclusion from a tender called to award a contract for the provision of digital mail and document storage services. The total value of the contract was €0.362 million. The exclusion was based on the fact that Postel, subjected to the checks required by art. 48, paragraph 2 of Legislative Decree 163/2006, did not provide evidence, within the required deadline, that it could meet the related financial and technical and organisational requirements contained in the tender terms and conditions. ANAC scheduled a hearing for March 2017, specifying that the term for conclusion of the proceeding (180 days from the start) would be suspended in this period. Postel’s defence during the hearing at ANAC was based on the fact that, although there was a delay, the company had provided ample evidence of its ability to meet the requirements set out in the tender terms and conditions. Postel also argued that the delay in providing proof of its ability to meet the requirements was due to the fact that, in calculating the term of 10 days, it had only taken into account working days. On 4 July 2017, ANAC sent Postel and the commissioning body “Notification of the outcome of the investigation”, setting a new deadline of 7 days in order to acquire further proof and for the submission of any additional arguments for the defence. In response, Postel again requested a hearing before the Authority’s committee in order to provide any further clarification that the Authority deemed necessary in addition to the information already provided in the earlier brief and at the hearing of 9 March 2017.

MATERIAL NON-RECURRING EVENTS AND/OR TRANSACTIONS

G1 – MATERIAL NON-RECURRING EVENTS AND/OR TRANSACTIONS

A brief summary of the impact of material non-recurring events and transactions, involving the Poste Italiane Group in the first half of 2017, is provided below, as required by CONSOB ruling DEM/6064293 of 28 July 2006. In this regard, events and transactions are defined as such when their occurrence is non-recurring, being transactions or events that do not recur frequently in the ordinary course of business:

- an impairment loss of €82 million on the *Convertible Contingent Notes* issued by Midco SpA, recognised, in view of the nature of the loss, in finance costs (see also note A5);
- income of €9 million relating to the IRAP refund to be recovered on the unreported deduction of expenses for disabled personnel in 2003. This receivable was included in current tax income following the ruling handed down by the Regional Tax Tribunal for Lazio, which has upheld an earlier appeal brought by the Parent Company (see the description provided in note 2.3 – Use of estimates). Accrued interest of €2 million has also been recognised on this sum (also of a non-recurring nature). Given the nature of this income, it has been accounted for in finance income.

EXCEPTIONAL AND/OR UNUSUAL TRANSACTIONS

H1 – EXCEPTIONAL AND/OR UNUSUAL TRANSACTIONS

Under the definition provided by the CONSOB ruling of 28 July 2006, the Poste Italiane Group did not conduct any exceptional and/or unusual transactions in the first half of 2017.
In this regard, such transactions are defined as transactions that due to their significance/materiality, the nature of the counterparties, the purpose of the transaction, the manner of determining the transfer price and timing of the transaction may give rise to doubts over the correctness and/or completeness of the disclosures in the financial statements, over a conflict of interest, safeguards for the Company's financial position and protections for non-controlling shareholders.

EVENTS AFTER THE END OF THE REPORTING PERIOD

I1 – EVENTS AFTER 30 JUNE 2017

Events after the end of the reporting period are described in the above notes and no other significant events have occurred after 30 June 2017.

6. ATTESTATION OF THE MANAGER RESPONSIBLE FOR FINANCIAL REPORTING AND INDEPENDENT AUDITORS' REPORT

Attestation of the condensed consolidated interim financial statements for the six months ended 30 June 2017 pursuant to art. 154-*bis* of Legislative Decree 58/1998 and art. 81-*ter* of CONSOB Regulation 11971 of 14 May 1999

1. The undersigned, Matteo Del Fante, as Chief Executive Officer, and Luciano Loiodice, as Manager responsible for Poste Italiane SpA's financial reporting, having also taken account of the provisions of art.154-*bis*, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998, hereby attest to:

- the adequacy with regard to the nature of the Poste Italiane Group and
- the effective application of the administrative and accounting procedures adopted in preparation of the Poste Italiane Group's condensed consolidated interim financial statements during the period from 1 January 2017 to 30 June 2017.

2. In this regard, it should be noted that:
- the adequacy of the administrative and accounting procedures adopted in preparation of the Poste Italiane Group's condensed consolidated interim financial statements was verified by assessment of the internal control system over financial reporting. This assessment was conducted on the basis of the criteria contained in the Internal Control–Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO);
- the assessment of the internal control system over financial reporting did not identify any material issues.

3. We also attest that:

3.1 the Poste Italiane Group's condensed consolidated interim financial statements for the six months ended 30 June 2017:

a) have been prepared in compliance with the International Financial Reporting Standards endorsed by the European Union through EC Regulation 1606/2002, issued by the European Parliament and by the Council on 19 July 2002;
b) are consistent with the underlying accounting books and records;
c) give a true and fair view of the financial position and results of operations of the issuer and the companies included in the scope of consolidation.

3.2 the Directors' Interim Report on Operations includes a reliable analysis of significant events during the first six months of the year and of their impact on the condensed consolidated interim financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year. The Interim Report on Operations also includes a reliable analysis of material related party transactions.

Rome, Italy
2 August 2017

Chief Executive Officer	Manager responsible for financial reporting
Matteo Del Fante	Luciano Loiodice

REVIEW REPORT

POSTE ITALIANE SPA

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2017

REVIEW REPORT ON CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Poste Italiane SpA

Foreword

We have reviewed the accompanying condensed interim consolidated financial statements of Poste Italiane SpA and its subsidiaries ("Poste Italiane Group") as of 30 June 2017, comprising the consolidated statement of financial position, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the condensed consolidated statement of cash flows and the related notes. The directors of Poste Italiane SpA are responsible for the preparation of the condensed interim consolidated financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of condensed interim consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed interim consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements of Poste Italiane Group as of

PricewaterhouseCoopers SpA

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30 June 2017 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Rome, 4 August 2017

PricewaterhouseCoopers SpA

Signed by

Monica Biccari
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers. We have not examined the translation of the financial statements referred to in this report.