

ANNUAL REPORT 2017

Posteitaliane

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DIRECTORS' REPORT ON OPERATIONS FOR THE YEAR ENDED 31 DECEMBER 2017

Posteitaliane

1. STATEMENT FROM THE CHAIRWOMAN AND THE CHIEF EXECUTIVE OFFICER

Dear shareholders,

The 2017 results highlight Poste Italiane's strategic role in Italy's development and the Company's ability to generate profits, provide quality services to customers and at the same time create value for shareholders, employees and all our stakeholders.

These results reassure us about our ability to face the profound social, environmental and economic changes that are transforming the environment in which we operate, including a radical digital transformation, the continuing backdrop of globalisation, new demographic trends and lifestyles, and climate change.

With a history going back more than 150 years, Poste Italiane is now able to combine the traditional mail sector with the new frontiers of digitalisation, through innovation in financial and insurance services and mobile communications. With almost 13,000 post offices and over 30,000 postmen and women, Poste Italiane is an integral part of the country's social and productive fabric, unparalleled in Italy in terms of its size, recognisability, reach and the trust accorded by its customers.

On the basis of these unique characteristics, in early 2018 we drew up the new Deliver 2022 Strategic Plan, which sets out a plan for the Group's development in line with market needs. This includes a focus on professional development and the nurturing of talent, whilst committing to an investment programme of approximately €2.8 billion over the period of the Plan, centred on digital development, automation and reorganisation of the service model for retail, business and Public Administration customers.

We have completed a reorganisation of our operating segments, in order to improve the visibility and transparency of the main value drivers for each segment. A part of this process is the creation of the new Payments, Mobile and Digital segment, with the aim of centralising the management of payment services, which will also be extended to include the activities envisaged by the new European Payment Services Directive (PSD2).

The soundness of the choices we have made enables us to pay our shareholders a dividend of €0.42 per share for 2017, which will increase by 5% a year until 2020, after which our intention is to maintain a minimum payout of 60% from 2021.

The Annual Report for 2017 also contains Poste Italiane's first consolidated Non-Financial Statement, which provides information on the Company's organisational model, policies and risks in accordance with the requirements of Legislative Decree 254/2016 and the standards defined by the Global Reporting Initiative, an international benchmark for sustainability reporting. The consolidated Non-Financial Statement was built around the 13 topics we have recognised as being material, by virtue of the significance of the impacts generated by Poste Italiane and those that most influence our stakeholders' decisions. Examples include economic and financial sustainability, inclusion in all its forms, our contribution to innovation and digitalisation, cyber security, the customer experience and service quality, and human capital.

All of our activities, impacts and achievements are built on a solid foundation: our people, our human capital. This is why training, professional development, the appreciation of diversity, safety in the workplace and the wellbeing of all our employees are cornerstones of the Group's strategy.

We know how to change by steadfastly maintaining our values.

Thanks to the determination and enthusiasm of our people, together with the trust of our stakeholders, we will manage to bring about our ambitious mission: to accompany citizens, businesses and Public Administration entities on the road to the new digital economy by offering simple, transparent and reliable mail, logistics, savings, transaction banking and insurance products and services.

2. ORGANISATIONAL STRUCTURE

MANAGEMENT AND SUPERVISORY BODIES

Board of Directors ⁽¹⁾

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 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

PricewaterhouseCoopers SpA

Audit, Risk and Sustainability Committee ⁽⁶⁾	Remuneration Committee ⁽⁶⁾	Nominations and Corporate Governance Committee ⁽⁶⁾	Related and Connected Parties Committee ⁽⁶⁾
Antonella Guglielmetti (Chairwoman) Giovanni Azzone Francesca Isgrò Roberto Rossi	Carlo Cerami (Chairman) Giovanni Azzone Roberto Rossi	Roberto Rao (Chairman) Antonella Guglielmetti Mimi Kung	Francesca Isgrò (Chairwoman) Carlo Cerami Mimi Kung Roberto Rao

⁽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.

⁽²⁾ The Board of Statutory Auditors was elected by the Ordinary General Meeting 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⁾ The Supervisory Board was appointed by the Board of Directors' meeting of 24 May 2016 for a three-year term.

⁽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 (as replacement for Gennaro Terracciano, who resigned on 17 March 2017) and resigned in March 2018.

⁽⁶⁾ Committee members were appointed by the Board of Directors' meeting of 28 April 2017. At the meeting of 19 February 2018, the Board of Directors renamed the Nominations Committee and the Audit and Risk Committee the Nominations and Corporate Governance Committee and the Audit, Risk and Sustainability Committee, respectively.

CORPORATE GOVERNANCE

Poste Italiane's shares are listed on the Mercato Telematico Azionario (the MTA, an electronic stock exchange) organised and managed by Borsa Italiana SpA. The Company is controlled by the Ministry of the Economy and Finance (MEF), which holds 64.26% of the share capital, including a direct 29.3% interest and an indirect 35% interest through Cassa Depositi e Prestiti SpA (CDP), itself controlled by the MEF. The remaining 35.74% of the share capital is represented by the free float.

The corporate governance structure reflects the recommendations in the Corporate Governance Code for listed companies published by Borsa Italiana, the provisions of Legislative Decree 58 of 24 February 1998 (the Consolidated Law on Finance), where applicable, and the Supervisory Standards issued by the Bank of Italy and applicable to Poste Italiane in view of the unbundled activities conducted by BancoPosta RFC (Patrimonio destinato BancoPosta).

Poste Italiane has adopted a "traditional" governance model, separating the roles of the Board of Directors and the Board of Statutory Auditors. The Company's accounts are audited by an independent firm of auditors. Poste Italiane's financial management is overseen by the Italian Court of Auditors (Law 259 of 21 March 1958); the relevant controls are conducted by a Magistrate appointed by the Court of Auditors, who attends meetings of the Board of Directors and the Board of Statutory Auditors.

The Board of Directors and Board of Statutory Auditors are elected and dismissed by the [General Meeting of shareholders](#), which is also responsible for determining the related remuneration and for appointing independent auditors. The General Meeting also approves the annual financial statements, amendments to the Company's By-laws and transactions of a non-recurring nature, such as rights issues, mergers and demergers.

The [Board of Directors](#) consists of nine members (eight non-executives and one executive) and normally meets once a month to examine and vote on resolutions regarding the Business Plan and the annual budget, the operating performance, the results of operations, proposals relating to the organisational structure and transactions of strategic importance. The Board met 14 times in 2017. Of the nine members of the Board, seven meet the requirements to qualify as independent.

In accordance with the provisions of the Italian Civil Code, the Board of Directors has delegated certain executive powers to the Chief Executive Officer and has established, in accordance with the recommendations in the Corporate Governance Code and the Bank of Italy's supervisory standards, four Board Committees to provide recommendations and advice: the Nominations and Corporate Governance Committee, the Remuneration Committee, the Audit, Risk and Sustainability Committee and the Related and Connected Parties Committee. The members of the latter committee are all independent Directors, with roles and responsibilities defined by the regulations governing related and connected party transactions. At a meeting on 25 January 2018, in line with the recommendations of the Corporate Governance Code, the Board set out the criteria for defining operations of strategic, economic and financial importance, keeping them within its sphere of competence.

The role of the [Chairwoman](#) is to lead and oversee the Board of Directors. She is the Company's legal representative and exercises the powers provided for by law and the Company's By-laws, and those assigned by the Board of Directors' meeting of 28 April 2017, and subsequently modified at the meeting of 25 January 2018.

The [Chief Executive Officer and General Manager](#), to whom all key departments report, has full powers for the administration of the Company across the organisational structure, unless otherwise provided for by law and the Company's By-laws and with the exception of the powers reserved to the Board of Directors. The

Chief Executive Officer is also the Company's legal representative within the scope of the powers delegated to him.

The [Board of Statutory Auditors](#) in office has 3 standing members and 3 alternates. The Board verifies compliance with the law, the Company's By-laws and with correct corporate governance principles, also verifying the adequacy of the organisational structure and administrative and accounting systems adopted by the Company and their functionality. The Board of Statutory Auditors met 40 times during the year.

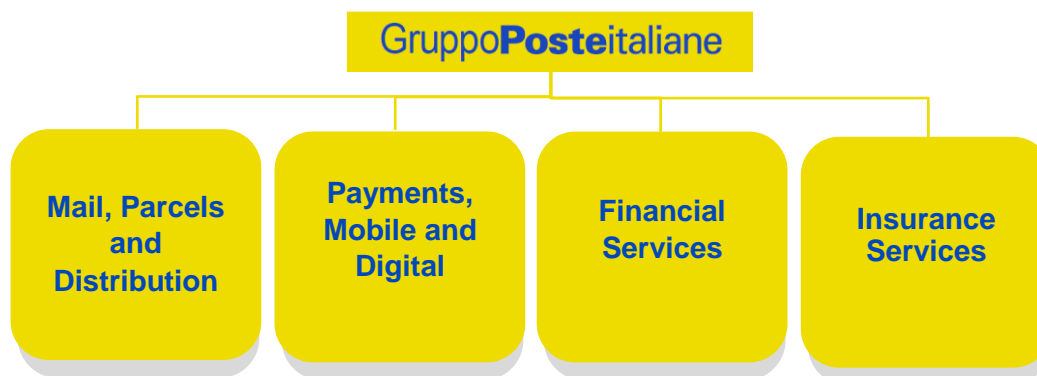
The [Supervisory Board](#) in office has three members. It is endowed with autonomous powers of initiative and control, supervises the functioning of and compliance with the Organisational Model pursuant to Legislative Decree 231/2001 and updates it in line with changes in the organisational structure and the relevant regulatory framework, by making justified proposals to the Chief Executive Officer, who submits them to the Board of Directors.

The [auditing firm](#) PricewaterhouseCoopers SpA has been appointed to audit the Company's accounts for the period 2011-2019. The appointment was made in conformity with Legislative Decree 39/2010 ("Implementation of Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts"). With regard to the governance system adopted by BancoPosta RFC, the rules governing the organisation, management and control of BancoPosta's operations are contained in the specific BancoPosta RFC Regulation.

As a result of the new Supervisory Standards applicable to BancoPosta RFC, issued by the Bank of Italy on 27 May 2014, Poste Italiane, in providing financial services to the public, is comparable – for the purposes of application of corporate governance regulations – to a major bank in terms of size and operational complexity.

This Annual Report comprises the following documents: The Directors' Report on Operations (including the consolidated Non-Financial Statement pursuant to Legislative Decree 231/2001) 254/16), the Poste Italiane Group's consolidated financial statements, Poste Italiane SpA's separate financial statements, including BancoPosta RFC's separate report, and the related attestations pursuant to art. 154 *bis*, paragraph 5, of Legislative Decree 58/1998 and the reports of the Board of Statutory Auditors and the Independent Auditors, relating to the financial year ended 31 December 2017, as well as the "Report on Corporate Governance and the Ownership Structure" published in the Governance section of the Company's website, which has been incorporated for reference purposes. The latter document may be consulted for further details on the Corporate Governance structure.

ORGANISATIONAL STRUCTURE AND OPERATING SEGMENTS



In line with the new strategic guidelines set out in the Deliver 2022 Strategic Plan presented to the financial community on 27 February 2018, the Group's activities are divided into four operating segments: Mail, Parcels and Distribution; Payments, Mobile and Digital; Financial Services; Insurance Services.

The operating segments, and especially Mail, Parcels and Distribution, are supported by two distribution channels for retail customers, on the one hand, and business and Public Administration customers, on the other. These channels operate alongside a series of corporate functions responsible for policy, governance, controls and the provision of services supporting business processes.

The organisational model, which ensures the development of synergies within the Group as part of an integrated approach to operations, is applied via governance and operating models, characterised by:

- coherent and integrated management of the Group, ensuring a uniform and coordinated approach to the market, whilst taking into account the central importance of customers and exploiting potential synergies, as well as assigning responsibility for coordinating subsidiaries to the relevant functions within the Parent Company according to operating segment;
- corporate functions capable of ensuring, through coordination and integration of their respective areas of expertise, coherent fulfilment of their assigned roles at Group level and the provision of shared services closely aligned with business needs, thus ensuring efficiency, economies of scale, quality and effective support for the different businesses.

Corporate actions during the year

Having received clearance from the relevant antitrust authorities and authorisation from the Bank of Italy, on 15 February 2017, Poste Italiane acquired a 30% interest in FSIA Investimenti Srl for a consideration of €278.3 million. The investee owns 49.5% of SIA SpA (SIA) and was previously a wholly owned subsidiary of FSI Investimenti SpA. FSI Investimenti is in turn controlled by CDP Equity SpA, which holds 77.1% of the company. Following this transaction, Poste Italiane holds an indirect interest of 14.85% in SIA. At the same time as completing the acquisition of an interest in FSIA Investimenti Srl, Poste Italiane SpA also signed a "deed of pledge", in which it declared that it was bound by, to the extent and in the exercise of its investment in the acquired company, the obligations provided for in a loan agreement entered into by FSIA Investimenti Srl with a number of banks on 28 May 2014.

Under the sale agreements, the price is subject to an upward adjustment of €0.55 million based on the value of SIA's net debt at 31 December 2016.

The transaction, between related parties (given that Poste Italiane SpA and Invitalia SpA are under the common control of the Ministry of the Economy and Finance), in accordance with the law and the related regulations, was approved by Poste Italiane SpA's Board of Directors, with the prior consent of the Board's Related and Connected Parties Committee.

Through the vehicle entity, FSIA, the shareholders, FSI Investimenti (CDP Equity) and Poste Italiane will exercise control over SIA.

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.

Following issue of the relevant consents by the Ministry for Economic Development, the European Central Bank and the Bank of Italy, on 7 August 2017, Poste Italiane SpA and Invitalia SpA, Agenzia nazionale per l'attrazione degli investimenti e lo sviluppo d'impresa, completed the sale to the latter of Poste Italiane SpA's 100% interest in Banca del Mezzogiorno-Medio Credito Centrale. The transaction, between related parties (given that Poste Italiane SpA and Invitalia SpA are under the common control of the Ministry of the Economy and Finance), in accordance with the law and the related regulations, was approved by Poste Italiane SpA's Board of Directors, with the prior consent of the Board's Related and Connected Parties Committee.

On 9 November 2017, the respective boards of directors approved the merger of Poste Tutela SpA (a wholly owned subsidiary of Poste Italiane SpA) with and into Poste Italiane. Poste Tutela is the company that provided – primarily to the Group - transport, cash collection and counting, custody, armed security and porter services, by coordinating a widespread network of specialist third-party operators located throughout Italy. The transaction will be effective for legal purposes from 1 March 2018, and for accounting and tax purposes from 1 January 2018.

On 21 December 2017, Poste Italiane and Anima Holding SpA (in which Poste Italiane holds a 10.04% interest) signed a Memorandum of Understanding with the aim of strengthening their partnership in the asset management sector. The transaction envisages the partial spin-off of management of the assets underlying Poste Vita SpA's Class I insurance products (totalling over €70 billion), previously attributed to BancoPosta Fondi SpA SGR, to Anima SpA SGR. As a result of the spin-off, following receipt of the necessary consents from the relevant supervisory authorities, Poste Italiane SpA will receive newly issued shares in Anima SpA SGR that will at the same time be acquired by Anima Holding SpA in return for a cash payment of €120 million. The partnership agreements between the Poste Italiane Group and Anima Holding SpA, dating back to July 2015, by virtue of which Anima Holding SpA has been delegated to manage the retail funds established by BancoPosta Fondi SpA SGR and the assets underlying Poste Vita SpA's Class III insurance products, will be amended and expanded. The extended partnership will have a duration of 15 years.

On 25 January 2018, Poste Italiane SpA's Board of Directors authorised the subscription for the rights issue to be carried out by Anima Holding SpA and approved by an extraordinary general meeting of Anima's shareholders on 15 December 2017. The offer period is between 26 March 2018 and 12 April 2018.

On 6 March 2018, Poste Italiane SpA and Anima Holding SpA, together with Poste Vita SpA, BancoPosta Fondi SpA SGR and Anima SpA SGR, to the extent of their respective responsibilities, signed implementing agreements designed to strengthen their partnership in the asset management sector, in accordance with the terms and conditions announced in December 2017.

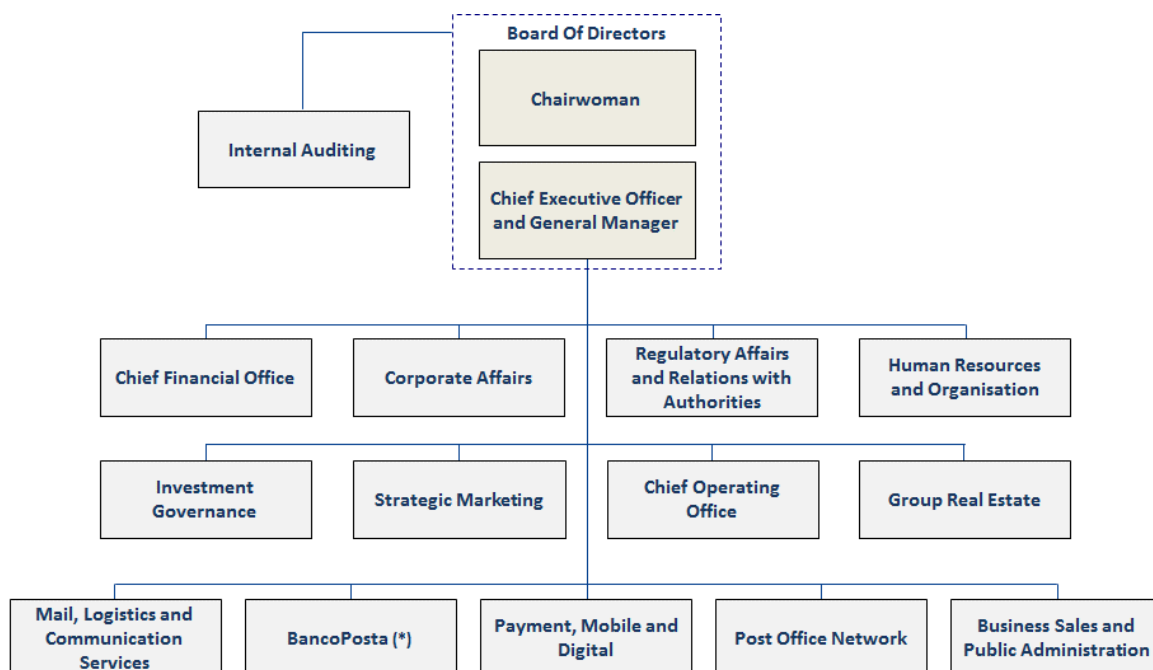
As a result of these transactions, Poste Italiane will retain its 100% interest in BancoPosta Fondi SGR, with the aim of creating a competence centre for the management of the Group's financial investments. The transaction will also enable the Company to boost training and refresher courses for Poste Italiane's distribution network, in relation to asset management, and to expand the range of products offered to savers. In particular, with regard to the spin-off and sale, determination of the final price, quantified as €120 million, will be subject to an earnout in Poste Italiane's favour, in the event of an increase in income from the management mandates/delegations assigned to Anima SGR, in addition to certain thresholds and a price adjustment mechanism in Anima Holding's favour, which is of marginal importance. The consideration will be paid in full on completion of the transaction by 31 December 2018, subject to suspensive conditions relating to receipt of the necessary consents from the competent authorities and following the subscription for and redemption of one or more share issues by Anima Holding SpA, with a value of at least €250 million.

Finally, with the aim of more effectively driving growth in the payment services market and strengthening the service offering for retail, business and Public Administration customers, Poste Italiane has decided to combine the Poste Italiane Group's distinctive competencies in the field of mobile and digital payments in one entity.

This will involve the contribution in kind to PosteMobile SpA of the e-money and payment services operated by BancoPosta RFC and PosteMobile's establishment of a separate entity – to include the above unit – to specialise in e-money and payment services, and through which PosteMobile SpA will be able to operate as an electronic money institution, whilst also continuing to operate as a mobile virtual network operator.

The transaction, together with the proposed change to BancoPosta RFC and to its By-laws, and the grant of the related authority to submit a request for authorisation to the Bank of Italy, was approved by Poste Italiane's Board of Directors on 25 January 2018. Should the Bank clear the transaction, the Annual General Meeting of Poste Italiane's shareholders will be asked to vote on the proposed removal of the ring-fence that applies to BancoPosta RFC from the assets, contractual rights and authorisations that make up the e-money and payment services unit.

POSTE ITALIANE SPA'S ORGANISATIONAL STRUCTURE



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

In 2017, a process to develop the organisational model was launched aimed at guaranteeing a sharper focus on business priorities, strengthening oversight of the quality of services provided to customers and strategic stakeholders, and enabling operational efficiencies by creating a shared services centre to ensure a correct balance of service quality, flexibility and cost control, and greater efficiency in the management of the control system, partly through the use of technologies.

The main innovations introduced regarded:

- The establishment of the Corporate Affairs function, which has taken over responsibility for all processes relating to communication, the development of public affairs and legal and corporate matters, as well as for those relating to procurement management, corporate protection and philately management. Moreover, the Corporate Affairs function includes the Group Risk Management function, which is the sole reference point for the governance and management of all risks.
- The establishment of the Regulatory Affairs and Relations with Authorities function, which oversees regulatory matters and the management of relations with supervisory authorities relating to the postal sector.
- The establishment of the Chief Operating Office function to create a centralised customer services and back office model that guarantees operating excellence and improvement of the customer experience.
- The centralisation of the planning and control units previously operating in the other corporate and business functions within the Chief Financial Office function, with the exception of those relating to BancoPosta RFC, which are subject to functional coordination, with the aim of ensuring uniform governance of the planning and control processes.

Moreover, as mentioned above, in order to better tackle the competitive challenge already underway in the payments sector, and also with regard to the introduction of the new European Payment Services Directive (PSD2), the Payments, Mobile and Digital function was established with the aim of creating a single payment solutions offering by combining the Group's distinctive competencies in this area.

DISTRIBUTION CHANNELS AND MULTICHANNEL STRATEGY

The Group has an integrated, multichannel distribution network, which serves the country's entire population via a physical network of post offices and staff on the ground and a virtual infrastructure with state-of-the-art multimedia channels.

The customer contact channels are managed by two Poste Italiane business functions dedicated to the sale of products and services and specialised by type of customer: Private Customer and Business and Public Administration.

The [Private Customer](#) function manages the commercial front end for the Private Customer and SME segments.

The organisation of the commercial network and related operational support processes breaks down into three levels:

- Multiregional Area Offices;
- Branch Offices;
- post offices, classified with respect to their organisation, into central, reporting, standard and basic.

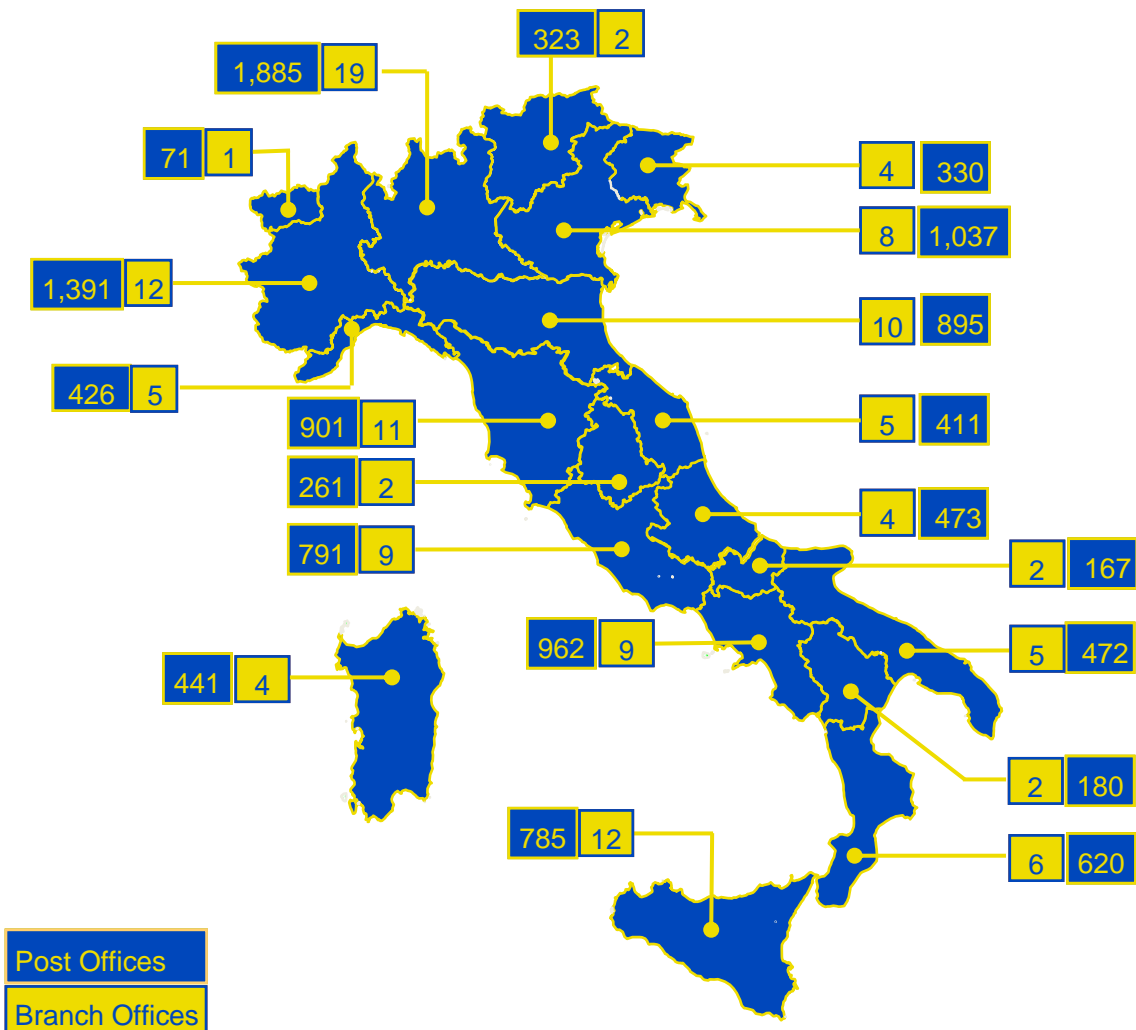
In continuation of the rationalisation process¹, the number of post offices was reduced from 12,845 at 31 December 2016 to 12,822 at 31 December 2017.

	At 31 December 2017		At 31 December 2016	
	Number	Workforce	Number	Workforce
Multiregional Area Offices	9	1,319	9	1,600
Branch Offices	132	3,591	132	3,664
Post offices	12,822	56,765	12,845	57,779

All workforce data is shown in full-time equivalent terms.

¹ The rationalisation of the post office network is being carried out in accordance with the criteria laid down by the Ministerial Decree of 7 October 2008 and AGCom Resolution 342/14/CONS.

GEOGRAPHICAL DISTRIBUTION OF POST OFFICES AND BRANCH OFFICES



Organisational initiatives aimed at optimising the commercial management of the retail and SME segments continued during the year. The New Retail Service Model² was implemented at further post offices and the process of enabling post offices to use the "guided consultancy" platform was completed. In addition to helping counter staff with regulatory requirements regarding investment products and services, this platform serves as a guide in identifying the best investment solutions for customers. At 31 December 2017, the platform was present in all post offices.

² The model provides for a more focused approach to customers with the introduction of consultants specialised in terms of target customer, and new staff roles dedicated to welcoming and guiding customers.

Commercial network
(number)

At 31 December 2017 At 31 December 2016

	At 31 December 2017	At 31 December 2016
Consulting rooms	6,482	6,376
Consultants and specialists	10,236	10,319
Ethnic post offices	27	23
Corners marketing PosteMobile products and services	341	340
UP Corners ¹	118	108
Postamat ATM network	7,257	7,249

¹ This format is present in post offices with high growth potential, with the aim of promoting the offer of ancillary current account services and providing information on the insurance offering, directing interested customers to the relevant insurance specialists.

In 2017 the "Poste Risponde" **Contact Centre** handled around 26 million contacts (21 million in 2016). 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 web distribution **channel**, via the website www.poste.it and other dedicated web portals, provides access to online services for 15 million retail³ and business customers (13 million at 31 December 2016), operating as a direct end-to-end sales channel and as a support provider for other channels.

In addition to evolutionary maintenance work on the portals during 2017, as part of the digital transformation process, initiatives were continued with the aim of improving the Group's online offering. In 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 chatbot⁴ that provides a rapid guide to operations that may be carried out at post offices).

Poste Italiane's Business and Public Administration function is responsible for commercial operations and sales of Group products and services regarding large companies and Central and Local Government, via the following organisational model:

- central management dedicated to commercial coordination of the top business sales force, and the management of central government;
- dedicated pre- and post-sales functions, at central and local level;
- a function dedicated to the development of indirect channels and prospective customers;
- five Area Offices (Lombardy and Northwest, Northeast, North-Central, Central, South) each responsible for commercial operations in their own area via management of the local sales force and implementation of marketing initiatives defined on the basis of a model that targets initiatives by customer segment.

POSTE ITALIANE SPA'S DISTRIBUTION NETWORK

The Mail, Logistics and Communication function oversees the related area of business at Group level⁵.

The logistics network⁶ is locally organised on two levels, the first of which deals with coordination and is represented by Area Logistics Offices responsible for one or more regions, whilst the second is operational and includes sorting centres (mechanical and manual) and distribution centres (Delivery Offices).

³ The figure refers to registered and active users at 31 December 2017.

⁴ Chatbot (from chat and bot, which is an abbreviation for the word robot) is a program 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.

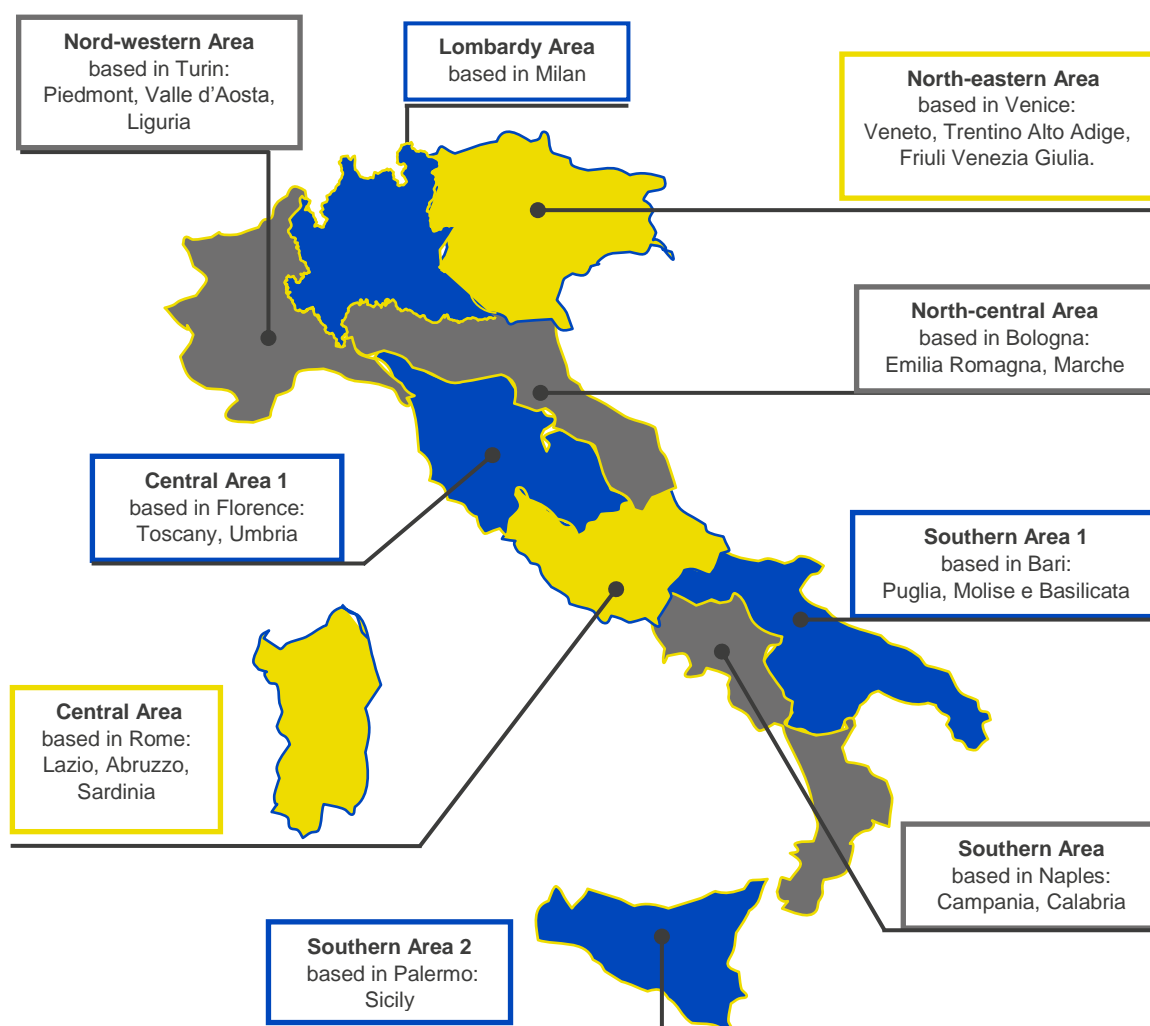
⁵ Postel SpA, SDA Express Courier SpA, Consorzio Logistica Pacchi ScpA and Mistral Air Srl report to the Mail, Logistics and Communication function.

	At 31 December 2017		At 31 December 2016	
	Number	Workforce	Number	Workforce
Multiregional Area Offices ^(*)	9	1,095	9	1,836
Sorting Centres	16	7,470	16	7,833
Priority Centres	7	803	7	849
Logistics support	2	225	2	248
Delivery Offices ^(**)	2,051	38,105	2,117	40,717
Total	2,085	47,698	2,151	51,483

All workforce data is shown in full-time equivalent terms.

^(*) The geographical distribution of Multiregional Area Offices at 31 December 2017 is as follows: Piedmont, Valle d'Aosta and Liguria; Lombardy; Veneto, Trentino Alto Adige and Friuli Venezia Giulia; Emilia Romagna and Marche; Tuscany and Umbria; Lazio, Abruzzo, Molise and Sardinia; Campania and Calabria; Puglia and Basilicata; Sicily.

^(**) Delivery staff include 28,635 postmen and women and delivery supervisors (30,959 at 31 December 2016).



⁶ The logistics process covers receipt, collection, transport, sorting and delivery.

3. MACROECONOMIC ENVIRONMENT

In 2017, the world economy grew at a brisk pace, outstripping expectations in both the major industrialised countries and emerging economies. Indeed, all the leading research institutes and international organisations revised their GDP estimates upwards. The most recent analyses by the International Monetary Fund (World Economic Outlook, January 2018) put world growth at 3.7% by the end of 2017 (up from 3.2% in 2016) and estimate growth of 3.9% for 2018). This expansion was underpinned by consumption, and also by international trade, which confirms the positive and accelerating trend compared with 2016.

Despite the recovery in oil prices from September (Brent rose from \$56.7 per barrel at the end of September 2017 to around \$67 per barrel at the end of December), as a result of demand trends and maintenance of the agreement to curb supply among the main oil producing countries, inflation remained moderate, due to the effects of certain structural changes relating to the labour market that kept a lid on wage rises.

On the whole, the global outlook remains favourable, although certain geopolitical uncertainty factors persist, linked to the possible development of North Korea's nuclear programme, the US Administration's management of tax reform plans and protectionist policies, and the prospects of the European integration process and the Brexit negotiations.

In the USA, after a slowdown in the early months of the year, growth steadily picked up enabling, for the eighth year running, GDP growth of around 2.5% and an unemployment rate of around 4%. This growth was largely driven by household consumption, exports and non-residential fixed investment. In this context of economic consolidation, in December the FED announced an increase of 25 basis points in the target range of interest rates for Federal Funds (1.25-1.50%) and expressed its intention to implement further increases in 2018.

In the United Kingdom, after the preliminary agreement on future relations with the European Union (a two-year transition period is envisaged), the economic cycle registered a favourable trend (according to data from the Office for National Statistics the growth stood at 1.5%, higher than the consensus estimate of 1.4%), characterised by positive signs of recovery in private consumption and a low unemployment rate, accompanied by an acceleration in inflation linked to the weakening of sterling. In this context, the Bank of England tightened its monetary policy stance, bringing the official rate back to 0.5%, after reducing it following the Brexit referendum.

The Japanese economy also witnessed an accelerating growth rate in 2017, thanks to the contribution of domestic demand and exports, and an uptick in private investment. The labour market trend was positive and household confidence remained buoyant. Despite the positive economic phase, monetary policy was still expansionary as inflation continued to be moderate.

The promising international economic scenario also favoured the performance of the main emerging economies, which were set on a positive growth path, albeit at varying paces.

After its Party Congress, China also confirmed vigorous growth in 2017, with GDP rising 6.8%, which is above the targets set by the government. This figure was underpinned by accelerating expansion of services, net exports and domestic demand, which together with a resilient agricultural sector offset the industrial slowdown. The Central Bank gradually tightened monetary conditions, leading to a further increase in interbank rates.

In India, growth, driven by domestic demand, continued, reaching a substantial 6.6%, albeit slowed down by demonetisation (withdrawal from circulation of large denomination banknotes).

The Brazilian economy consolidated signs of recovery. Production activities benefited from the recovery in foreign trade and the increase in commodity prices in US dollar terms. Strong political uncertainty remains linked to the forthcoming elections.

The economies of the Eurozone countries strengthened, embarking on a steady growth path (up 0.4 / 0.8 pp compared to the IMF and OECD forecasts at the beginning of the year). The recovery in foreign demand, the expansionary monetary policy of the European Central Bank (ECB), low inflation and the decline in political risk were the key factors in bolstering the economy. This enabled a recovery in household consumption, supported by the expanding labour market. Companies also benefited from strong global growth and the expansionary credit policy.

The euro area economic cycle indicator (€-coin), which estimates the underlying trend for the area's GDP, rose from 0.68 in January 2017 to 0.91 in December.

However, the 2% inflation target set by the ECB has not yet been reached, partly due to the steady strengthening of the exchange rate.

In this favourable international scenario, the Italian economy registered a robust growth rate, even though the economic activity trend was lower than in many other Eurozone countries and in the EMU as a whole. Unlike in the past, the recovery is affecting all economic sectors, from industry to services. Investment also picked up, boosted by fiscal stimulus policies. The Bank of Italy's coincident indicator, ITA-coin, rose from 0.10 in January 2017 to 0.49 in December, highlighting the expansionary phase.

Employment and the labour market in general have benefited from this favourable economic situation. The banking sector continued its efforts to reduce non-performing loans (net non-performing loans fell by approximately 26% from €86.8 billion in December 2016 to €64.4 billion in December 2017).

On the bond markets, the spread between ten-year BTPs and Bunds was somewhat volatile, with values above 200 basis points in the first half of 2017, then normalising from July onwards (fluctuating between 150 and 190 basis points) and reaching around 160 basis points at 31 December 2017. The yield on ten-year BTPs fluctuated between 1.90 and 2.40% during the first half of the year. In December it touched a low of 1.65%, before closing the year at 2% as a result of the increase in market rates.

4. GROUP FINANCIAL REVIEW

As noted in the section on the organisational structure, from 2017, the method of presenting the revenue and cost components relating to the life and non-life insurance businesses has been revised. In this regard, the statement of profit or loss now includes a new item, *Revenue from insurance services after movements in technical provisions and other claims expenses*, providing a synthetic indication of the Insurance Services segment's contribution to the Group's operating result. This item is defined as the sum of premium revenue net of outward reinsurance premiums, income and losses from financial instruments attributable to insurance activities and movements in technical provisions and other claims expenses.

In addition, Bancoposta Fondi SGR SpA, previously allocated to the Insurance Services segment, was reallocated to the Financial Services segment in 2017.

These changes are also reflected in the alternative performance indicators presented in this Report (a description is provided in an Appendix), in line with the guidance published by the European Securities and Markets Authority on 5 October 2015 (ESMA/2015/1415).

Results of operations	2017	2016	Increase/(decrease)	
<i>for the year ended 31 December (€m)</i>				
Total revenue	10,629	10,643	(14)	-0.1%
<i>of which:</i>				
Mail, Parcels and Distribution	3,631	3,822	(191)	-5.0%
Payments, Mobile and Digital	586	570	16	2.8%
Financial Services	4,956	5,009	(53)	-1.1%
Insurance Services	1,456	1,242	214	17.2%
Total costs	9,506	9,602	(96)	-1.0%
<i>of which:</i>				
Total personnel expenses	6,093	6,241	(148)	-2.4%
<i>of which personnel expenses</i>	5,594	5,732	(138)	-2.4%
<i>of which early retirement incentives</i>	499	509	(10)	-2.0%
Other operating costs	2,868	2,780	88	3.2%
Depreciation, amortisation and impairments	545	581	(36)	-6.2%
EBITDA	1,668	1,622	46	2.8%
EBIT	1,123	1,041	82	7.9%
EBIT Margin	10.6%	9.8%	0.8%	
Finance income/(costs) and profit/(loss) on investments accounted for using the equity method	(56)	15	(71)	n/s
Profit before tax	1,067	1,056	11	1.0%
Income tax expense	378	434	(56)	-12.9%
Profit for the year	689	622	67	10.8%
Earnings per share	0.53	0.48	0.05	10.9%
Dividend per share (€)	0.42	0.39	0.03	7.7%
ROE	9.6%	8.9%	0.7%	
Financial position	2017	2016	Increase/(decrease)	
<i>at 31 December (€m)</i>				
Group capital expenditure	467	451	16	3.5%
Non-current assets	3,077	2,867	210	7.3%
Net working capital	1,452	1,183	269	22.7%
Gross invested capital	4,529	4,050	479	11.8%
Sundry provisions and other assets/liabilities	(2,546)	(2,141)	(405)	18.9%
Net invested capital	1,983	1,909	74	3.9%
Equity	7,550	8,134	(584)	-7.2%
Net funds	(5,567)	(6,225)	(658)	-10.6%
Net debt/(funds) of the Mail, Parcels and Distribution segment (ESMA)	(845)	(705)	140	19.9%

Principal KPIs	2017	2016	Increase/(decrease)	
at 31 December (€m)				
Client assets (€m) ¹	506,240	492,707	13,533	2.7%
Net inflows (€m)	3,304	5,353	(2,048)	-38.3%
Average workforce expressed in full-time equivalent terms	138,040	141,246	(3,206)	-2.3%
Ordinary unit cost of labour (€000)	40.8	40.6	0.2	0.5%
Mail, Parcels and Distribution				
Letters handled by the Group (volumes in millions) ²	3,167	3,430	(263)	-7.7%
Parcels handled by Group (volumes in millions)	113	97	16	16.5%
Number of delivery centres	2,085	2,151	(66)	-3.1%
Number of post offices	12,822	12,845	(23)	-0.2%
Payment, Mobile and Digital				
Number of cards in issue (in millions)	25.2	23.5	1.7	7.2%
Cards (value of transactions in €m)	23,880	20,597	3,283	15.9%
PosteMobile SIM cards (average in thousands)	3,679	3,643	36	1.0%
Financial Services				
Postal Savings (average in €m)	305,611	309,819	(4,208)	-1.4%
Average return	0,51%	0,51%	-	
Current account deposits (average for the period in €m)	55,769	49,643	6,126	12.3%
Average return on current accounts without capital gains	2.70%	3.10%	-0.4%	
Gross gains (€m)	547	473	74	15.6%
Insurance Services				
Net technical provisions (€m)	123,650	113,678	9,972	8.8%
Gross premium revenue, Poste Vita group (€m) ³	20,404	19,938	466	2.3%

¹ These amounts include postal savings deposits, the mutual investment funds marketed, Poste Vita's technical provisions and current account deposits.

² The figure for 2016 does not include unaddressed mail.

³ Includes premium revenue before outward reinsurance premiums attributable to Poste Vita SpA and Poste Assicura SpA and Poste Welfare Servizi Srl's revenue.

CONSOLIDATED OPERATING RESULTS

The performance in 2017 has enabled the Group to achieve consolidated operating profit of €1,123 million, registering growth of 7.9% compared with the previous year (€1,041 million). This was primarily due to the positive contribution to the result from the Insurance Services segment.

Profit for the year of €689 million is up 10.8% on the previous year (profit of €622 million), despite the impairment loss of €82 million on the Contingent Convertible Notes subscribed for by Poste Italiane in December 2014 at an original cost of €75 million and issued by Midco SpA, in addition to the impairment loss of €12 million on the investment of Poste Vita's free capital in the Atlante fund.

With regard to the Contingent Convertible Notes, On 11 May 2017, the Court of Civitavecchia declared Alitalia SAI SpA, a 51% owned subsidiary of MidCo 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, a non-recurring loss equal to the total value of the Notes, amounting to €82 million at 31 December 2016, including interest recognised, has been recognised in finance costs for 2017.

The Group's total revenue amounts to €10.6 billion and is broadly in line with the previous year (down 0.1%). In detail, total revenue from Mail, Parcels and Distribution services amounts to €3,631 million, marking a decline of 5% compared with 2016. This reflects a reduction in traditional letter post, with the number of items falling from 3,430 million in 2016 to 3,167 million in 2017 (a decline of 7.7%). Parcel revenue, on the other

hand, continued to grow, with volumes rising 16.5% from 97 million items (revenue of €649 million) in 2016 to 113 million (revenue of €693 million) in 2017.

The Payments, Mobile and Digital segment contributed €586 million to total revenue, including revenue from payment services, e-money products and PosteMobile SpA's telecommunications services.

Total revenue from Financial Services is down from €5,009 million in 2016 to €4,956 million (a decline of 1.1%). However, it should be noted that the figure for the comparable period included non-recurring income of €121 million generated by the sale of the Group's investment in Visa Europe Ltd. and revenue resulting from the investment in Banca del Mezzogiorno–MCC, amounting to approximately €56 million. The figure for 2017, on the other hand, has benefitted from income of €91 million generated by the sale of shares in Mastercard Incorporated. After stripping out the above items from the figure for 2016, revenue for 2017 is up €33 million (1%).

The Insurance Services segment contributed €1,456 million to total revenue (€1,242 million in the previous year), reflecting an increase in premium revenue and in the return on technical provisions, partially offset by the movement in the provisions due to a rise in obligations to policyholders. The overall result, bearing in mind the decline in the life market with respect to the positive performance of 2016 (new business is down 5.2% at national level at 31 December 2017), confirms the good performance.

The cost of goods and services is down from €2,442 million in 2016 to €2,370 million in 2017, reflecting a reduction across all items of expenditure and the Group's commitment to achieving cost savings.

Personnel expenses are down 2.4% from €6,241 million in 2016 to €6,093 million in 2017, largely reflecting a reduction in the ordinary component (down €138 million, or 2.4%), reflecting a decrease in the average workforce during the year (approximately 3,200 fewer FTEs compared with the previous year).

The cost of early retirement incentives during the year amounts to €499 million (€509 million in 2016), primarily relating to non-managerial staff for which provisions of €446 million have been made (€342 million in 2016) to the provisions for early retirement incentives, made 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 2019.

The ordinary unit cost of labour has risen from €40.6 thousand to €40.8 thousand, primarily due to renewal of the National Collective Labour Agreement.

Other operating costs are up from €301 million in 2016 to €465 million in 2017, above all due to the impact of provisions for risks, above all those relating to the voluntary action taken to protect customers who had invested in the Europa Immobiliare 1 fund.

CONSOLIDATED FINANCIAL POSITION AND CASH FLOW

at 31 December (€m)	2017	2016	Increase/(decrease)	
Non-current assets:				
Property, plant and equipment	2,001	2,080	(79)	-3.8%
Investment property	52	56	(4)	-7.1%
Intangible assets	516	513	3	0.6%
Non-current financial assets	508	218	290	n/s
Total non-current assets (a)	3,077	2,867	210	7.3%
Working capital:				
Inventories	138	137	1	0.7%
Trade receivables and other receivables and assets	6,032	5,843	189	3.2%
Trade payables and other liabilities	(4,788)	(4,724)	(64)	1.4%
Current tax assets and liabilities	70	(73)	143	n/s
Total working capital: (b)	1,452	1,183	269	22.7%
Gross invested capital (a+b)	4,529	4,050	479	11.8%
Provisions for risks and charges	(1,595)	(1,507)	(88)	5.8%
Provisions for employee termination benefits and pension plans	(1,274)	(1,347)	73	-5.4%
Deferred tax assets/(liabilities)	323	53	270	n/s
Non-current assets and disposal groups held for sale and liabilities related to assets held for sale	-	660	(660)	n/s
Net invested capital	1,983	1,909	74	3.9%
Equity	7,550	8,134	(584)	-7.2%
Net (funds)/debt	(5,567)	(6,225)	658	-10.6%

n/s: not significant

The Poste Italiane Group's **net invested capital** at 31 December 2017 amounts to €1,983 million (€1,909 million at 31 December 2016).

Non-current assets total €3,077 million, marking an increase of €210 million compared with the end of 2016. This primarily reflects acquisition of the investment in FSIA Investimenti Srl, partially offset by the negative effect of the movements in non-current assets (capital expenditure of €467 million, offset by depreciation, amortisation and impairments of €545 million).

The Poste Italiane Group's **capital expenditure** amounted to €467 million in 2017 (up €16 million or 3.5% on 2016) and was designed to support achievement of the objectives in the "Deliver 2022" Strategic Plan. Most expenditure is focused on Mail, Parcels and Distribution services, where the upgrade of the Group's technological resources and its logistics network continued, with a view to boosting overall sorting capacity and responding to the growth in volumes driven by e-commerce, as well as to improving the quality of service provided. The process of renewing the hardware used in post offices and the evolution and enhancement of the applications used in supplying services also continued.

Investment also focused on development and supply of the kits used by postmen and women (POS devices and printers), with the aim of driving the development of the Group's business processes.

The group also invested in the upgrade and improvement of property used in operations and in improvements to occupational safety, in compliance with the related statutory requirements (Legislative Decree 81/08).

In the Financial Services segment, in 2017 the Group invested in ICT assets to support the market position, the offering and revenue. Expenditure focused on improvements to the quality of processes, above all in relation to Postal Savings and Loans, and on ensuring compliance with regulatory requirements for the banking sector (MiFID, the prevention of money laundering and the financing of terrorism, Bank of Italy and CONSOB supervision). In terms of transaction banking, the commercial rollout of the new BancoPosta account began in May. The new product enables account holders to access all the services across a range of channels.

As regards electronic money, in February 2017, the new PostePay Evolution Business card for freelance professionals and sole traders was launched and, with regard to Full Acquiring services, the proprietary “card present” offering, with physical and mobile POS for use by SME customers was launched.

The Digital Transformation programme involved reengineering and improvement of the user experience on the poste.it website and of the related APPs and, as regards Payments, Mobile and Digital, support was provided for the development of new services and the acquisition of new customer targets.

In Insurance Services, work on planning for the segment’s growth continued, as did investment in ongoing functional/infrastructural improvements to key business support systems .

Working capital amounts to €1,452 million at 31 December 2017, up €269 million on 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 decline in net current tax liabilities, reflecting the reduction in the IRES rate from 1 January 2017.

The increase of €88 million in provisions for risks and charges primarily reflects the liabilities that Poste Italiane will incur for staff taking voluntary early retirement by 31 December 2019, and the charges relating to the voluntary action taken to protect customers who had invested in the Europa Immobiliare 1 fund, as approved by Poste Italiane SpA’s Board of Directors on 19 February 2018.

The increase in net deferred tax assets, amounting to €270 million, largely reflects the net positive effect on taxation of fair value losses on investments in available-for-sale financial assets (a reduction in deferred tax liabilities).

The net balance of “Non-current assets and disposal groups held for sale” and “Liabilities related to assets held for sale” has decreased by €660 million, following completion of the sale to Invitalia of the 100% interest in Banca del Mezzogiorno – MedioCredito Centrale on 7 August 2017.

Equity amounts to €7.6 billion at 31 December 2017, a reduction of €584 million compared with 31 December 2016. This is due to payment of dividends totalling €509 million and the movement in the fair value reserve (€721 million, net of tax), reflecting positive and negative movements in the fair value of investments in available-for-sale financial assets. The above reductions in equity were partially offset by profit for the year of €689 million.

ANALYSIS OF NET (FUNDS)/DEBT

(€m)

At 31 December 2016	Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Eliminations	Consolidated amount
Financial liabilities	2,087	2,284	59,219	1,012	(3,681)	60,921
Technical provisions for insurance business*	-	-	-	113,612	-	113,612
Financial assets	(1,236)	(2,609)	(58,529)	(115,596)	3,608	(174,362)
Net debt/(net funds)	851	(325)	690	(972)	(73)	171
Cash and deposits attributable to BancoPosta	-	-	(2,494)	-	-	(2,494)
Cash and cash equivalents	(1,556)	(21)	(1,320)	(1,324)	319	(3,902)
Net (funds)/debt	(705)	(346)	(3,124)	(2,296)	246	(6,225)

* Technical provisions for the insurance business are shown net of technical provisions ceded to reinsurers.

(€m)

At 31 December 2017	Mail, Parcels and Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Eliminations	Consolidated amount
Financial liabilities	2,249	2,970	62,063	1,017	(5,055)	63,244
Technical provisions for insurance business*	-	-	-	123,579	-	123,579
Financial assets	(1,097)	(3,283)	(60,688)	(125,860)	4,162	(186,766)
Net debt/(net funds)	1,152	(313)	1,375	(1,264)	(893)	57
Cash and deposits attributable to BancoPosta	-	-	(3,196)	-	-	(3,196)
Cash and cash equivalents	(1,997)	(21)	(396)	(907)	893	(2,428)
Net (funds)/debt	(845)	(334)	(2,217)	(2,171)	-	(5,567)

* Technical provisions for the insurance business are shown net of technical provisions ceded to reinsurers.

Total net funds at 31 December 2017 amount to €5,567 million, down on the figure for 31 December 2016 (when net funds amounted to €6,225 million). This primarily reflects the reduction in the fair value of available-for-sale financial assets (€991 million). The fair value reserve for available-for-sale financial assets amounts to €520 million before tax (€1,512 million at 31 December 2016).

ANALYSIS OF NET (FUNDS)/DEBT FOR THE MAIL, PARCELS AND DISTRIBUTION SEGMENT (ESMA)

at 31 December (€m)	2017	2016
A. Cash	(4)	(2)
B. Other cash equivalents	(1,993)	(1,554)
C. Securities held for trading	-	-
D. Liquidity (A+B+C)	(1,997)	(1,556)
E. Current loans and receivables	(245)	(63)
F. Current bank borrowings	201	2
G. Current portion of non-current debt	763	14
H. Other current financial liabilities	82	22
I. Current financial debt (F+G+H)	1,046	38
J. Current net (funds)/debt (I+E+D)	(1,196)	(1,581)
K. Non-current bank borrowings	200	400
L. Bond issues	49	798
M. Other non-current liabilities	36	48
N. Non-current financial debt (K+L+M)	285	1,246
O. Industrial net (funds)/debt (ESMA guidelines) (J+N)	(911)	(335)
Non-current financial assets	(585)	(651)
Industrial net (funds)/debt	(1,496)	(986)
Intersegment loans and receivables	(267)	(522)
Intersegment financial liabilities	918	803
Industrial net (funds)/debt after adjusting for intersegment transactions	(845)	(705)

The borrowings shown in the above analysis primarily regard the following:

- an EIB loan maturing in 2018, amounting to €200 million, with a nominal value of the same amount (current bank borrowings);
- an EIB loan maturing in 2019 amounting to €200 million, with a nominal value of the same amount (current bank borrowings);
- a bond issue maturing in 2019, totalling €763 million, with a nominal value of €750 million (the current portion of non-current debt);
- a private placement of €49.6 million (bonds in issue).

The net funds attributable to the Mail, Parcels and Distribution segment are up €140 million from €705 million at 31 December 2016 to €845 million at 31 December 2017. This reflects:

- an outflow of €318 million for investing activities, primarily linked to capital expenditure of €425 million, in addition to acquisition of the investment in FSIA Investimenti Srl for €278 million and the sale of BdM-MCC SpA for approximately €390 million;
- the net outflow for dividends of €465 million, which takes into account dividends paid to shareholders (€509 million);
- a positive movement in working capital, totalling €155 million, deriving from the collection of Universal Service compensation of €108 million;
- a negative movement in tax liabilities/assets of approximately €129 million;
- an operating loss of €30 million.

5. OPERATING RESULTS BY OPERATING SEGMENT

(€m)

2017	Mail, Parcels and Distribution	Payments, Mobile and Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Total revenue	8,128	914	5,970	1,457	(5,840)	10,629
External revenue	3,631	586	4,956	1,456	-	10,629
Intersegment revenue	4,497	328	1,014	1	(5,840)	-
Total costs	8,645	719	5,324	658	(5,840)	9,506
Costs	8,580	225	562	139	-	9,506
Total personnel expenses	5,922	31	103	37	-	6,093
<i>of which personnel expenses</i>	<i>5,430</i>	<i>31</i>	<i>97</i>	<i>36</i>	-	<i>5,594</i>
<i>of which early retirement incentives</i>	<i>492</i>	-	<i>6</i>	<i>1</i>	-	<i>499</i>
Other operating costs	2,153	172	458	85	-	2,868
Depreciation, amortisation and impairments	505	22	1	17	-	545
Intersegment costs	65	494	4,762	519	(5,840)	-
EBIT	(517)	195	646	799	-	1,123
EBIT MARGIN	-6.4%	21.3%	10.8%	54.8%	-	10.6%
Finance income/(costs)	(119)	(1)	(2)	49	-	(73)
Profit/(loss) on investments accounted for using the equity method	(2)	7	12	-	-	17
Intersegment finance income/(costs)	9	-	(4)	(5)	-	-
Profit/(Loss) before tax	(629)	201	652	843	-	1,067
Income tax expense	(127)	55	153	297	-	378
Profit for the year	(502)	146	499	546	-	689

(€m)

2016	Mail, Parcels and Distribution	Payments, Mobile and Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Total revenue	8,362	929	5,991	1,242	(5,881)	10,643
External revenue	3,822	570	5,009	1,242	-	10,643
Intersegment revenue	4,540	359	982	-	(5,881)	-
Total costs	8,798	716	5,331	638	(5,881)	9,602
Costs	8,710	243	511	138	-	9,602
Total personnel expenses	6,055	31	120	35	-	6,241
<i>of which personnel expenses</i>	<i>5,554</i>	<i>31</i>	<i>113</i>	<i>34</i>	-	<i>5,732</i>
<i>of which early retirement incentives</i>	<i>501</i>	-	<i>7</i>	<i>1</i>	-	<i>509</i>
Other operating costs	2,119	182	390	89	-	2,780
Depreciation, amortisation and impairments	536	30	1	14	-	581
Intersegment costs	88	473	4,820	500	(5,881)	-
EBIT	(436)	213	660	604	-	1,041
EBIT MARGIN	-5.2%	22.9%	11.0%	48.6%	-	9.8%
Finance income/(costs)	(41)	(1)	(1)	52	-	9
Profit/(loss) on investments accounted for using the equity method	(4)	-	10	-	-	6
Intersegment finance income/(costs)	19	-	(6)	(13)	-	-
Profit/(Loss) before tax	(462)	212	663	643	-	1,056
Income tax expense	(83)	68	198	251	-	434
Profit for the year	(379)	144	465	392	-	622

MAIL, PARCELS AND DISTRIBUTION

The postal services market

The European postal market continues to be characterised by declining demand for the distribution of letters, newspapers, periodicals and advertising – as a result of the spread of electronic communications – and increasing demand for parcel services, thanks to the development of e-commerce, which is also sustained by new technologies (e.g. online purchases and mobile payments).

The Italian market confirms the reduced inclination, compared to other European countries, to use paper forms of communication. The reduction in the use of Direct Marketing and unaddressed mail as commercial communication tools, as well as the lesser propensity to use paper reporting tools by some specific industries such as banking and telecommunications, characterised by the use of prepaid consumption models, have had a particularly strong impact.

The Express Delivery and Parcel services market, on the other hand, continued to grow, registering an 8%⁷ increase in domestic activities (which account for approximately 80% of the total) compared to 2016, while services based on delivery to or receipt from overseas countries grew on average by 12.5%¹.

MAIL, PARCELS AND DISTRIBUTION SEGMENT PROFIT OR LOSS

for the year ended 31 December (€m)	2017	2016	Increase/(decrease)	
Mail	2,650	2,907	(257)	-8.8%
Parcels	693	649	44	6.8%
Other revenue	288	266	22	8.3%
Intersegment revenue	4,497	4,540	(43)	-0.9%
Total revenue	8,128	8,362	(234)	-2.8%
Personnel expenses	5,922	6,055	(133)	-2.2%
<i>of which personnel expenses</i>	5,430	5,554	(124)	-2.2%
<i>of which early retirement incentives</i>	492	501	(9)	-1.8%
Other operating costs	2,153	2,119	34	1.6%
Intersegment costs	65	88	(23)	-26.1%
Total costs	8,140	8,262	(122)	-1.5%
EBITDA	(12)	100	(112)	n/s
Depreciation, amortisation and impairments	505	536	(31)	-5.8%
EBIT	(517)	(436)	(81)	-18.6%
EBIT MARGIN	-6.4%	-5.2%	-1.1%	
Finance income/(costs)	(112)	(26)	(86)	n/s
Profit/(Loss) before tax	(629)	(462)	(167)	-36.1%
Income tax expense	(127)	(83)	(44)	-53.0%
Profit for the year	(502)	(379)	(123)	-32.5%

n/s: not significant

The Mail, Parcels and Distribution segment reported an operating loss of €517 million, up €81 million on the operating loss of €436 million of the previous year. This performance reflects the decrease in revenue from letter post, due to the contraction in volumes in its traditional market (down €257 million compared to 2016), and in intersegment revenue (down €43 million compared to 2016), which is governed by operating guidelines for the remuneration of distribution services provided to other segments. Moreover, 2016 benefitted from approximately €108 million in deferred revenue from previous years.

Parcels revenue, on the other hand, rose 6.8% (up €44 million compared to 2016) mainly due to the positive performance of the Domestic segment (volumes up €16 million compared to 2016). The segment's results also reflect the fact that, from 10 September 2017, the subsidiary, SDA, was affected by industrial action that lasted a number of weeks until mid-October, causing delays in the collection and delivery of packages, above all heavy items.

Costs of €8,140 million have decreased compared with 2016 (down €122 million) due to a reduction in personnel expenses (down €133 million), only partially offset by an increase in other operating costs (up €34 million), of which the 2016 balance benefitted from the release of provisions for disputes with third parties (around €7 million), as the related liabilities for which provision had been made in previous years failed to materialise.

⁷ Source: AGCom Communications Observatory no. 4/2017.

PERFORMANCE ANALYSIS

Mail

for the year ended 31 December	Volumes (in millions)				Revenue (€m)			
	2017	2016	Increase/(decrease)		2017	2016	Increase/(decrease)	
Unrecorded Mail	1,381	1,491	(110)	-7.4%	811	934	(123)	-13.2%
Recorded mail	199	201	(2)	-1.0%	981	965	16	1.7%
Direct Marketing ⁽¹⁾	677	737	(60)	-8.1%	155	176	(21)	-11.9%
Integrated services	27	34	(7)	-20.6%	176	207	(31)	-15.0%
Other ⁽²⁾	883	967	(84)	-8.7%	222	254	(32)	-12.6%
Universal Service Obligation (USO) compensation and tariff subsidies ⁽³⁾					305	371	(66)	-17.8%
Total Mail attributable to the Group	3,167	3,430	(263)	-7.7%	2,650	2,907	(257)	-8.8%

⁽¹⁾ The figure for 2016 does not include unaddressed mail.

⁽²⁾ Includes services for publishers, multi-channel services, printing, document management, other basic services.

⁽³⁾ Universal Service compensation also includes compensation relating to the standard parcels service. Tariff subsidies relate to external revenue earned on products and services discounted in accordance with the law.

The performance of the Group's Mail services saw volumes and revenue decrease by 7.7% (263 million fewer items) and 8.8% (down €257 million), respectively, compared with 2016. This is primarily due to falling volumes in the traditional postal services market, partly as a result of the gradual dematerialisation of communications (letters replaced by e-mails, invoices sent online, etc.).

In detail, the contraction in volumes of Unrecorded Mail (110 million fewer items, or 7.4% less than in 2016) led to a fall in revenue of €123 million (down 13.2%).

Despite a reduction in volumes (2 million fewer items compared with the previous year), the Recorded Mail segment registered an increase in revenue of €981 million (up 1.7% compared with 2016), primarily due to tariff adjustments applied to Registered Mail and Legal Process products from 10 January 2017.

Direct Marketing and Unaddressed Mail volumes fell respectively by 8.1% and 11.9%, due to customers rationalising their mail spend.

Integrated Services registered a decrease in volumes and revenue of 20.6% and 15%, respectively, compared with the previous year. This decrease is mainly due to a fall in the number of Integrated Notification Service (SIN) deliveries, as well as tariff adjustments resulting from competitive pressure on SIN Registered Mail product.

Finally, 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 2017, as provided for in the 2015-2019 Service Contract in force from 1 January 2016, was set at €262 million. The publisher tariff subsidies, introduced from 1 January 2017, amount to €43 million.

In 2016, as previously mentioned, total revenue attributable to Universal Service compensation amounted to €371 million and took into account the release of compensation (approximately €108 million) held back in previous years, following new provision made by the Ministry of the Economy and Finance to cover previous contractual commitments.

Parcels

	Volumes (in millions)				Revenue (€m)			
	2017	2016	Increase/(decrease)		2017	2016	Increase/(decrease)	
B2B	29	30	(1)	-3.3%	207	220	(13)	-5.9%
B2C	58	41	17	41.5%	235	171	64	37.4%
Other	26	26	n.s.	n.s.	251	258	(7)	-2.7%
Total parcels	113	97	16	16.5%	693	649	44	6.8%

The performance of the Parcels segment saw significant growth in volumes and revenue, with volumes up 16.5% (16 million more items) and revenue rising 6.8% (up €44 million), respectively, compared with 2016. This positive performance is essentially due to the expansion of e-commerce in Italy in the B2C segment (17 million more items, equivalent to an increase of 41.5% and a rise of €64 million in terms of revenue or a 37.4% increase compared to 2016). This growth was partially offset by a reduction in volumes and revenue in the B2B segment (1 million fewer items, equivalent to a 3.3% decrease and a €13 million decline in revenue, down 5.9% compared with 2016). This was mainly due to the effect of the industrial unrest that regarded the subsidiary, SDA, in September and October, which hit its operating performance.

Regulatory environment

The *Contratto di Programma* (Service Contract) regulates relations between the Ministry for Economic Development and Poste Italiane SpA in connection with the Universal Postal Service.

The current *Contratto di Programma* (Service Contract) for 2015-2019 was signed by the parties on 15 December 2015 and was formally submitted to the European Commission for the usual assessments relating to European regulations regarding state aid; it is effective from 1 January 2016 to 31 December 2019.

The European Commission has approved government compensation for the period 2012-2015 and 2016-2019, payable to Poste Italiane for provision of the Universal Postal Service, deeming it to be compatible with European Union regulations regarding state aid.

The 2018 Budget Law (Law 205 of 27 December 2017) established that the Service Contract may include - at the request of one of the parties and with effect from 1 January 2020 - the activities of collection, transport, sorting and distribution of postal items weighing up to 5 kilograms⁸. The same law also introduced the option for small municipalities to enter into special additional agreements with the Universal Postal Service provider to increase the frequency of actual delivery times, in line with large towns.

Legislative Decree 244 of 30 December 2016, the so-called *Milleproroghe* ("Thousand Extensions") Decree, converted into Law 19 of 27 February 2017, in force since 1 January 2017, extended the reduced postal rates set out in the Interministerial Decree of 21 October 2010 for the deliveries of publishers and non-profit associations and organisations entered in the Register of Communications Operators, and reinstated the government tariff subsidies provided for by Law no. 46 of 27 February 2004 until 2019. The Decree also confirmed the reduced rates for promotional mailings by non-profit associations and organisations and reinstated the related government tariff subsidies until 2019.

Law 124 of 4 August 2017, the "Annual market and competition law", came into effect on 29 August 2017. The legislation provides for the repeal, from 10 September 2017, of art. 4 of Legislative Decree 261/1999 and amendment of the related articles, removing the exclusive right to offer services relating to legal process and the notification of violations of the Highway Code (art. 1, paragraph 57). The law also establishes that the issue of an individual licence to provide such services must be subject to specific requirements and a universal service obligation covering the security, quality, continuity, availability and provision of the services.

⁸ Currently, pursuant to Legislative Decree 261/99, Poste Italiane SpA (which is responsible for the Universal Service until 30 April 2026) is obliged to provide a nationwide service to collect, transport, sort and distribute postal items weighing up to 2 kg and parcels weighing up to 20 kg, as well as the services relating to registered and insured items.

In this regard, the regulator (the *Autorità per le Garanzie nelle Comunicazioni* or AGCom) launched a public consultation and subsequently issued Resolution 77/18/CONS regarding regulations governing the issue of special individual licences to provide postal services relating to legal process and related communications, as well as notification of violations of the Highway Code.

Moreover, the regulations governing the service relating to legal process and violations of the Highway Code were further amended by the 2018 Budget Law, which brought the provisions of Law 890/1982 "Legal process and related communications postal service" into line with the new provisions of Law 124/2017.

Operating review

As part of activities to optimise its operating processes, during the year the Group completed the study of a new joint delivery model, aimed at ensuring the evolution of the delivery network in line with the development of e-commerce and changing customer needs. In particular, the new model enables parcels to be delivered via the network of postmen and women, and introduces afternoon and weekend shifts in order to facilitate successful delivery and meet addressees' expectations. This new model was agreed with the labour unions and will be progressively implemented starting in 2018.

The process of restructuring the sector continued in 2017, with the aim of revisiting a new, high-quality, sustainable Universal Service that is in line with citizens' changing requirements. In this context and as part of the optimisation, digitisation and automation process, measures were implemented to redefine sorting processes. These included the installation of a new sorting plant at the Milan Roserio Sorting Centre, aimed at automating the manual processing of parcels and small format recorded mail, and the inauguration, at the Bologna Sorting Centre, of the first department reorganised in accordance with "lean manufacturing" methodology (with the introduction, for example, of new equipment to make operations and workstations safer and more ergonomic).

In addition, as part of the digital transformation process, a digital pick-up service for undelivered registered mail was launched in July, which may be subscribed to via Poste Italiane's SPID enabled PostelD digital identity service. Secure access via Poste ID and the use of a remote digital signature means that this service has complete legal validity, equivalent to physically picking up items at the post office.

Finally, with regard to the Group's commitment to providing a good customer experience, work is continuing to improve knowledge of all aspects of customers' purchasing behaviour and to develop systems for listening to and surveying customers.

On 30 December 2015, SDA terminated contracts for the provision of call centre services previously entered into with Uptime SpA – a company in which it held a 28.57% interest – and Gepin Contact SpA - Uptime SpA's majority shareholder – with effect from 1 July 2016.

Gepin then filed a claim for damages from SDA, amounting to €15.5 million, relating 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. SDA challenged the claims in court.

In December 2016, Poste Italiane and SDA were served a writ of summons by Gepin and Uptime, containing claims for damages of approximately €66.4 million, in the case of Uptime (in liquidation), and approximately €16.2 million, in the case of Gepin. At the hearing in October 2017, Gepin Contact SpA's legal counsel announced the company's bankruptcy.

In September 2017, SDA subscribed for Uptime's entire share capital. The latter then filed for a voluntary early arrangement with creditors. The above claim for €66.4 million in damages from SDA and Poste Italiane has not been taken up by the liquidator overseeing Gepin's bankruptcy and has, therefore, been cancelled. Formal cancellation of the claim by the Civil Court of Rome is now awaited.

THE QUALITY OF THE UNIVERSAL POSTAL SERVICE

The quality results achieved for the Universal Service, whose objectives are defined by AGCom, are shown below. Poste Italiane sends these results to the regulator, except for those regarding ordinary mail, which are monitored by an independent specialised body appointed by the Authority⁹. The regulator verifies compliance with the objectives and publishes the results annually, together with those regarding ordinary mail reported by the independent body.

for the year ended 31 December		2017		2016	
Product	Delivery within	Target	Actual	Target	Actual
Posta 1 - Priority	1 day	80.0%	82.2%	80.0%	83.9%
Posta 1 - Priority	4 days	98.0%	99.1%	98.0%	99.2%
Posta 4 - Ordinary ⁽¹⁾	4 days	90.0%	91.2%	90.0%	96.0%
Bulk mail	4 days	90.0%	96.7%	90.0%	97.0%
Registered mail	4 days	90.0%	95.1%	90.0%	97.0%
Insured mail	4 days	90.0%	99.6%	90.0%	99.8%
Standard parcels	4 days	90.0%	92.2%	90.0%	96.8%

⁽¹⁾ Based on data certified by IZI at the request of AGCom.

PAYMENTS, MOBILE AND DIGITAL

Regulatory and market environment

With Legislative Decree 218 of 15 December 2017, published in Official Gazette no. 10 of 13 January 2018, EU Directive 2015/2366 on payment services in the internal market (so-called "PSD2") has been transposed into Italian law. The creation of a "single payments area" in Europe has, for some years, resulted in restructuring and innovation of the payments market, given further impetus with the entry into effect of PSD2, which has also increased the level of competition. The principal changes introduced by PSD2 regard the opening up of the market to greater competition, resulting in the launch of new forms of payment and new market entrants (PSPs – Payment Services Providers), resulting in an improved offering. Another important aspect regards greater protections for digital payment service users, both in terms of security, data protection and authentication, and in terms of new responsibilities for users.

Italy's payment services market is characterised by a highly dynamic electronic payments segment driven by online payments (bank transfers and payments by card), which were up 13% in 2016¹⁰ compared with the previous year, and in general by card transactions (up 14% in 2016 versus 2015). Direct debits have also seen strong growth (up 16% in 2016 versus 2015). Overall, the number of payments made using instruments providing an alternative to cash rose 8% between 2015 and 2016, confirming the trend seen in recent years.

Digital innovation is a further driver of this transformation of the payments landscape, with market innovation driven by both the rapid take-up of new technologies, resulting in services capable of offering users continuous and highly flexible access to money transfer solutions, and the European regulatory framework, which aims to encourage innovation and competition in the payment services market. These developments

⁹ With Resolution 608/16/CONS published on 10 January 2017, the Authority, following the outcome of the tender procedure launched by Resolution 132/16/SAG, selected the company, IZI SpA, for the three-year period 1 December 2016 - 30 November 2019.

¹⁰ The annual report of the Bank of Italy's "Payments Committee Italy" for 2016.

reflect the transformational impact that the internet has had on the economy, finance and social behaviour: more recently, the so-called “digital revolution” has reached the door of finance with the birth of Fintech (Financial Technology Innovation) which, in applying technological innovation to financial services, has given rise to new business models, new channels and new products, above all with regard to e-commerce and mobile payments.

In this market environment, it will become increasingly important for market operators to increase their focus and degree of specialisation, and to speed up the development and rollout of new payment solutions to offer to consumers, businesses and the Public Administration. Moreover, this will have to be accompanied by cost efficiencies in order to compensate for the decline in margins, which will continue to be a feature of the sector. This has resulted in a number of major combinations, in Europe and in Italy, aimed at creating large “hubs” specialising in the handling and commercialisation of payment services.

Following an assessment of the impact of the new legislation in 2017, steps were taken to amend contract terms and conditions (those for current accounts, debit cards, acquiring and prepaid cards) and implement changes to IT systems, procedures and organisational arrangements (above all, a review of the processes for managing complaints and for making refunds in the event of unauthorised transactions). A specific training programme will also be run in 2018, with the aim of updating both network and headquarters staff on the key changes introduced by the legislation.

During 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, and Iliad, the price leader in the French market, whose entry is expected in the first half of 2018. The strategies adopted are based on CRM and Win-Back¹¹ offerings. At the same time, the trend towards convergent landline and mobile services has strengthened, as has the development of varying degrees of partnership between the suppliers of digital content and the operators of telecommunications networks. In this context, the penetration of broadband is playing a key role in development of the market, with a further increase in coverage seen in 2017.

The total number of lines¹² in the third quarter of 2017 amounts to around 99 million, including approximately 15 million Machine to Machine (M2M) SIM cards. In terms of market share, Wind-TRE, the market leader, has remained more or less stable, followed by Telecom Italia and Vodafone. PosteMobile has a market share of around 4%, with over 49% of mobile virtual network customers.

¹¹ Win-Back offerings aim to regain former customers who can opt for mobile number portability (MNP).

¹² Source: AGCom Communications Observatory no. 4/2017.

PAYMENTS, MOBILE AND DIGITAL SEGMENT PROFIT OR LOSS

for the year ended 31 December (€m)	2017	2016	Increase/(decrease)	
E-money	212	166	46	27.7%
Other payments	163	180	(17)	-9.4%
Mobile	211	224	(13)	-5.8%
Intersegment revenue	328	359	(31)	n/s
Total revenue	914	929	(15)	-1.6%
Personnel expenses	31	31	-	n/s
<i>of which personnel expenses</i>	31	31	-	n/s
<i>of which early retirement incentives</i>	-	-	-	n/s
Other operating costs	172	182	(10)	-5.5%
Intersegment costs	494	473	21	4.4%
Total costs	697	686	11	1.6%
EBITDA	217	243	(26)	-10.7%
Depreciation, amortisation and impairments	22	30	(8)	-26.7%
EBIT	195	213	(18)	-8.5%
EBIT MARGIN	21.3%	22.9%	-1.6%	
Finance income/(costs)	6	(1)	7	n/s
Profit/(Loss) before tax	201	212	(11)	-5.2%
Income tax expense	55	68	(13)	-19.1%
Profit for the year	146	144	2	1.4%

n/s: not significant

As already noted, the new Payments, Mobile and Digital (PMD) segment aims to centralise the management of payment services – partly in view of the new activities envisaged by PSD2 – and operate as a competence centre to support the implementation of the Group's digital strategy. The segment includes the collection and payment services provided by BancoPosta RFC (managed in outsourcing), the e-money products and services offered by PosteMobile SpA, which has acquired significant experience over the years in digital services and in mobile banking and mobile payments. The investment in SIA SpA has also been allocated to the PMD segment.

In line with the digital transformation process, the BPIOL Remote Banking offering has evolved towards personalised solutions for specific customer targets, such as BPIOL EASY, the new Remote Banking solution for freelance professionals and sole traders with simpler online banking needs.

Development of the *Bollettino* service (for paying bills) continued, with the inclusion in the new *BancoPosta and Ufficio Postale* apps of the functions offered in the payments section of the website at www.poste.it. The aim is to standardise the user experience across the various channels, creating a single digital ecosystem.

As regards electronic money, the new PostePay Evolution Business card for freelance professionals and sole traders has been launched, enabling the holder to access collection services through a range of channels, thanks to synergies with BancoPosta's acquiring services. At 31 December 2017, the number of Postepay cards issued exceeds 17 million, including approximately 4.7 million Postepay Evolution cards, whilst the number of Postamat cards in circulation is stable at 7 million.

FINANCIAL SERVICES

Financial market trends

Global equity markets performed well in 2017. The US S&P500 index closed the year up 18.6% over the year, whilst European bourses (the *Dow Jones Euro Stoxx*) rose 8.1% over the same period. Italian equities outperformed the European average, with the FTSE Mib, after a choppy start to the year, rising strongly from April on to register an annual increase of 19.7% at the end of December.

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 in the first half of 2017, before returning to more normal levels from July (ranging between 150 and 190 basis points). The spread was 159 basis points at 31 December 2017.

In the currency markets, in 2017, witnessed a sharp fall in the value of the US dollar (the euro/USD exchange rate at the end of December 2017 was 1.20, compared with 1.14 at the end of June 2017 and 1.05 at 31 December 2016). Likewise sterling, after remaining broadly stable in the first half of 2017, went into decline, presumably due to uncertainty surrounding the start-up of negotiations regarding the country's exit from the European Union (the average euro/GBP exchange rate at the end of December 2017 was 0.89, compared with 0.88 at 30 June 2017 and 0.86 at 31 December 2016).

Banking system

Funding by Italian banks in 2017, represented by deposits by resident Italian savers and the issue of bonds, was stable overall, with total funding at December 2017 amounting to approximately €1,728 billion, down 0.01% on the previous year. As in past years, this reflects an increase in deposits by resident Italian savers (current accounts, certificates of deposit and repurchase agreements) of €51 billion in absolute terms year-on-year (up 3.6% compared with the end of 2016), offset by a sharp decline in investments in bonds, amounting to the same amount (marking a year-on-year decline of 15.2%).

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 December 2017 standing at 0.89%, compared with 0.99% in December 2016.

Bank lending rose in 2017. In December 2017, total lending to Italian residents (private sector and the Public Administration) - excluding interbank loans – amounted to approximately €1,786 billion, marking a year-on-year increase of 2.4%. Consumer loans are also up, with mortgage lending up 3.4% year-on-year, based on data for November 2017.

Doubtful loans within the banking system, after impairments and provisions made from own funds, amount to approximately €66 billion in November 2017, down on the figure for December 2016 (€87 billion). In percentage terms, doubtful loans have fallen from 4.89% of total loans in December 2016 to 3.74% in November 2017. The average interest rate applied to consumer and corporate loans continues to be very low, with a figure of 2.69% in December 2017 (2.85% in December 2016)¹³.

Regulatory environment

On 3 January 2018, the new Directive 2014/65/UE (so-called "MiFID2") came into effect throughout the European Union, introducing changes to the regulations in the Consolidated Law on Finance (legislative

¹³ Sources: Bank of Italy Economic Bulletin; ABI Monthly Outlook – Economy and Financial-Credit Markets; Data from Il Sole 24 Ore.

Decree 58/98) and the Regulations for Issuers. The new regulations have increased the efficiency and transparency of financial markets, boosting protections for investors and strengthening certain organisational requirements and rules for intermediaries. Following an assessment of the impact of the new regulations, in 2017, Poste Italiane took steps to ensure compliance with the new statutory requirements, primarily regarding improvements to product governance, the provision of information to customers, customer profiling, advisory services and the training of post office personnel.

In addition, Legislative Decree 90/2017 came into effect in July 2017, implementing Directive (EU) 2015/849, regarding “prevention of the use of the financial system for the purposes of money laundering or terrorist financing” (the so-called Money Laundering Directive IV), which has amended Legislative Decree 231/07. The Decree emphasises the need for a risk-based approach, inducing regulated entities to adopt measures designed to identify, assess and mitigate the risk of money laundering and terrorist financing, resulting in changes to the way in which checks on customers are carried out. In this regard, a number of assessments of the Company’s procedures were carried out (the organisational structure and internal control systems) and the process planning of the necessary changes began, including the training of personnel. The scope of entities belonging to the category of Politically Exposed Persons (PEPs) was also expanded and, in the case of bearer passbooks, the new regulations have introduced a ban on their issue and transfer and a requirement to close all such accounts by 31 December 2018. Specific limits have also been imposed on the distribution of bearer prepaid cards.

FINANCIAL SERVICES SEGMENT PROFIT OR LOSS

for the year ended 31 December (€m)	2017	2016	Increase/(decrease)	
Capital gains	547	473	74	15.6%
Interest income	1,478	1,510	(32)	-2.1%
Collection of postal savings	1,566	1,577	(11)	-0.7%
Transaction banking	1,008	1,061	(53)	-5.0%
Distribution of third-party products	272	327	(55)	-16.8%
Asset management	85	61	24	39.3%
Intersegment revenue	1,014	982	32	3.3%
Total revenue	5,970	5,991	(21)	-0.4%
Personnel expenses	103	120	(17)	-14.2%
<i>of which personnel expenses</i>	97	113	(16)	-14.2%
<i>of which early retirement incentives</i>	6	7	(1)	-14.3%
Other operating costs	458	390	68	17.4%
Depreciation, amortisation and impairments	1	1	n/s	n/s
Intersegment costs	4,762	4,820	(58)	-1.2%
Total costs	5,324	5,331	(7)	-0.1%
EBIT	646	660	(14)	-2.1%
EBIT MARGIN	10.8%	11.0%	-0.2%	
Finance income/(costs)	6	3	3	n/s
Profit/(Loss) before tax	652	663	(11)	-1.7%
Income tax expense	153	198	(45)	-22.7%
Profit for the year	499	465	34	7.3%

n/s: not significant

Operating profit generated by the Financial Services segment in 2017 amounts to €646 million, down 2.1% compared with the previous year (€660 million). The change essentially reflects the impact of non-recurring transactions (the sale of the investment in Visa Europe Ltd. in 2016 for €121 million and of shares in Mastercard in 2017 for €91 million), with a €30 million reduction in gains with respect to 2016, and an

increase in provisions for risks and charges, linked to financial instruments and investment products sold in previous years, whose performance has not been in line with customers' expectations.

Total revenue generated by the segment is down compared with the previous year (a decline of 0.4%), primarily reflecting a reduction in income from the distribution of third-party financial products (down 16.8%) which, whilst the distribution of loan products performed well (up 3.2%), suffered the effects of the absence of BDM-MCC's contribution, after this company was sold on 7 August 2017. The reduction in revenue also reflects a 5% decline in revenue from transaction banking, due to a reduction in the volume of payment of bills using payment slips, and the above decrease in income from the sales of shares in Visa and Mastercard. These results are only partially offset by an increase in gains (up 15.6%), increased fees from asset management at BancoPosta Fondi SGR (up 39.3%) and a rise in intersegment revenue (up 3.3%), resulting from an increase in income from insurance brokerage (up 3.2%).

The segment's total costs are broadly in line with the previous year (down 0.1%), as the above increase in BancoPosta RFC's provisions for risks and charges were offset by a reduction in intersegment costs.

Income tax expense for the year, after benefitting from the reduction in the IRES rate, is €153 million (down 22.7% compared with 2016). This results in profit for the year of €499 million (up 7.3% compared with 2016).

OPERATING REVIEW

Commercial initiatives designed to enhance the offering of Postal Savings products and to strengthen the position in the transaction banking market and in the distribution of consumer and corporate credit continued. 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), the range of savings products was extended in terms of both type of product and the returns on offer. A number of initiatives were launched, alongside a highly effective advertising campaign through major media outlets, relating to the offer of several *Supersmart* offerings with different durations (180, 360 and 540 days), 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. In addition, the simplification of processes undertaken in 2017, involving both physical and virtual channels, has resulted in a number of changes, including the introduction at post offices of the "Passbook Transformation" service, which enables holders to change the form of their passbook by dematerialising their paper version and switching from an Ordinary version of the book to the Smart version. At the same time, passbook holders can also request and/or activate related products and services.

On 14 December 2017, following the resolutions approved by their respective boards of directors, Cassa Depositi e Prestiti SpA and Poste Italiane SpA signed a new agreement covering the collection of postal savings in the three-year period 2018-2020. On the one hand, the intention is to consolidate the role played by Interest-bearing Postal Certificates and Savings Books in the Italian savings market, by increasing investment in technology, advertising, promotions and training, so as to widen the customer base for savings products, whilst, on the other, launching a new and expanded range of services.

In terms of transaction banking, the commercial rollout of the new BancoPosta account began. The new product enables account holders to access all the services across a range of channels, managing their account from a post office, their PC or from a smartphone equipped with the new BancoPosta APP.

With regard to third-party loan products, new solutions have been introduced with a view to expanding the offering and making products more accessible. In particular, the offering of personal loan products for current account and savings book holders has been revamped and the range of BancoPosta salary loans has been

expanded. This included the addition of an offering specifically targeted at public sector employees, who now have the option of obtaining additional cash equal to one monthly repayment, provided that, when this sum is aggregated with the existing salary loan, the total does not exceed two-fifths of their monthly salary. For the business segment, December witnessed the commercial rollout, in partnership with Compass, of the Fido POS product, offering a revolving short-term credit facility to freelance professionals and sole traders who have an account with BancoPosta.

In terms of Bancoposta's capital structure, the CET 1 ratio for 2017 is 17%, compared with 16% in 2016, confirming the strength of the entity's balance sheet, which was further boosted by Poste Italiane SpA's contribution of fresh capital of €210 million in 2018.

The leverage ratio for 2017 is 3.1%, compared with 3.0% for 2016.

INSURANCE SERVICES

The insurance services market

Based on the available official data (source: ANIA), new business for [life insurance](#) policies in 2017 amounted to €82.4 billion (down 5.2% compared with the previous year). If new life business reported by EU insurers is taken into account, the figure rises to €99.9 billion, down 5.2% on 2016.

Analysing the composition and performance of new business, Class I premiums amount to €51.4 billion, down 18.1% compared with the previous year. New business for Class V policies also declined (down 8.1%), with premium revenue totalling €2.1 billion. New business for unit-linked Class III life products bucked the trend, generating premium revenue of €28.0 billion (up 32.9%). The contribution from new inflows into individual pension plans was also positive, with inflows of €1.5 billion, registering an increase 3.7% compared with 2016.

Single premiums continued to be the preferred form of payment for policyholders, representing 93.5% of total premiums written and 62.2% of policies by number.

With regard, finally, to distribution channel, over two-thirds of new business was obtained through banks and post offices, with premium revenue of €55.5 billion corresponding to 67.4% of the total.

Based on the latest official data, total direct Italian premiums in the [non-life insurance market](#), thus including policies sold by Italian and overseas insurers amounted to €25.6 billion at the end of the third quarter of 2017, slightly up on the same period of 2016 (up 0.4%). This marked a reversal of the negative trend seen over the last five years (source: ANIA). Reversal of the trend reflects the contribution made by growth in other non-life classes (up 2.0% on the same period of the previous year) and an easing off of the decline in premium revenue from vehicle insurance. In detail, third-party land vehicle premiums amounted to €10.2 billion, down 2.8% compared with the third quarter of 2016 (when the decline was 5.9%), whilst land vehicle hull premiums amounted to €2.2 billion (up 7% on the same period of 2016).

In terms of distribution channel, as regards policies sold by Italian and overseas insurers, agents continued to lead the way with a market share of 76.8%, slightly down on the figure for previous years (77.5% in the third quarter of 2016). Brokers represent the second most popular channel for non-life products, with a market share of 8.1%. Banks and post offices also recorded growth in their market share to 6.7% (5.7% in the third quarter of 2016).

Regulatory environment

IVASS has recently announced (Letter to the Market, dated 12 January 2018) the “Results of the comparative analysis on the Own Risk and Solvency Assessment Reports” (ORSA), based on the information requested in the Letter to the Market of 21 April 2017 (the impact on capital and solvency ratios of low interest rates and increased credit spreads on financial assets). IVASS has acknowledged the qualitative improvement with respect to previous years, with regard above all to the greater accuracy of the method used and increased awareness of the central importance of the ORSA process in the company’s management. It also indicated the need for an overall strengthening of the ORSA for Solvency II purposes.

The regulations issued by IVASS during the year include:

- IVASS Regulation 34 of 7 February 2017, laying down provisions on governance concerning the valuation of assets and liabilities other than technical provisions and the criteria used for their valuation and the relative report on the Regulation;
- IVASS Regulation 35 of 7 February 2017, on the adjustment for the loss-absorbing capacity of technical provisions and deferred taxes for the determination of the solvency capital requirement calculated using the standard formula.

INSURANCE SERVICES SEGMENT PROFIT OR LOSS

for the year ended 31 December (€m)	2017	2016	Increase/(decrease)	
Life premium revenue	20,244	19,804	440	2.2%
Life net income ^(*)	3,425	3,290	135	4.1%
Movements in premium reserve, technical provisions, reinsurance and other Life claims expenses	(22,313)	(21,928)	(385)	1.8%
Net Life revenue	1,356	1,166	190	16.3%
Non-life premium revenue	99	80	19	23.8%
Non-life net income ^(*)	12	16	(4)	-25.0%
Movements in premium reserve, technical provisions, reinsurance and other Non-life claims expenses	(22)	(30)	8	-26.7%
Net Non-life revenue	89	66	23	34.8%
Other operating income	12	10	2	20.0%
Total revenue	1,457	1,242	215	17.3%
Personnel expenses	37	35	2	5.7%
<i>of which personnel expenses</i>	36	34	2	5.9%
<i>of which early retirement incentives</i>	1	1	-	n/s
Other operating costs	85	89	(4)	-4.5%
Depreciation, amortisation and impairments	17	14	3	21.4%
Intersegment costs	519	500	19	3.8%
Total costs	658	638	20	3.1%
EBIT	799	604	195	32.3%
EBIT MARGIN	54.8%	48.6%	6.2%	
Finance income/(costs)	44	39	5	12.8%
Profit/(Loss) before tax	843	643	200	31.1%
Income tax expense	297	251	46	18.3%
Profit for the year	546	392	154	39.3%

(*) After expenses deriving from insurance activities.

n/s: not significant

Operating profit generated by the Insurance Services segment totals €799 million, marking an increase of 32.3% compared with the previous year (€604 million). In addition to the positive operating performance, this

also reflects a greater contribution from net life insurance income, relating to management of the technical provisions.

Net finance income amounts to €44 million (income from the investment of free capital, totalling €71 million, after deducting interest payable on subordinated loans, amounting to €27 million) and profit for the year totals €546 million (up 39.3%).

The Poste Vita group's total premium revenue, after the portion ceded to reinsurers, of €20.3 billion, marking an increase of 2.3% compared with the €19.9 billion of 2016. This was generated essentially by the sale of life products, amounting to €20.2 billion (€19.8 billion in 2016), whilst there was strong growth in sales of non-life products, which premium revenue of €99 million (€80 million in 2016).

Net income amounts to €3,437 million (€3,306 million in 2016), including €3,425 million (€3,290 million in 2016) generated by the life business and primarily regarding:

- €3,335 million net finance income from securities related to traditional products, an increase of €64 million compared with the €3,271 million of 2016. This primarily reflects an increase in ordinary income of approximately €391 million compared with 2016 – reflecting growth in assets under management -, which offset the impact of less favourable financial market trends, which led to a reduction in unrealised gains of approximately €252 million on investments included in separately managed accounts - attributed in full to policyholders under the shadow accounting method – and net realised gains of approximately €75 million;
- €123 million in net finance income and commission income from management of the internal funds connected with index- and unit-linked products, up on the €35 million of 2016. This amount, which reflects market volatility, is almost entirely matched by a corresponding change in technical provisions.

As a result of the above operating performance and the corresponding revaluation of insurance liabilities due to the positive financial performance, the movement in technical provisions, after the portion ceded to reinsurers, amounts to €22.3 billion, compared with €22.0 billion in the previous year. claims paid to customers total €10.9 billion (€7.5 billion in 2016) and include policy expirations of €6.6 billion (€3.8 billion in 2016), with €4.1 billion of this sum attributable to Class III policies. Total surrenders amount to €3.0 billion (€2.6 billion in 2016), accounting for 2.9% of initial provisions (2.9% at 31 December 2016), a figure that continues to be far lower than the industry average (the latest figure published on ANIA's website at 30 September 2017 is 6.78%).

Other operating income of €12 million (€10 million in 2016) almost exclusively regards revenue generated by Poste Welfare Servizi.

Net revenue thus amounts to €1,457 million, marking growth of 17.2% compared with 2016 (€1,242 million).

Total costs of €658 million are up €20 million compared with 2016 and regard:

- commissions paid for distribution, collection and maintenance of €482 million (€464 million in 2016). The increase has benefitted the Group's Financial Services segment, which is responsible for marketing the products, and the Postal and Business Services segment in return for the distribution services provided;
- other costs of €176 million (€174 million in 2016), primarily regarding personnel expenses and other operating costs.

OPERATING REVIEW

In keeping with the strategic objectives set in 2016, in 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 to its constant focus on products, strengthened support for the distribution network and growing customer loyalty, Poste Vita recorded a good performance in 2017, despite the previously mentioned decline in new life business.

The commercial strategy focused almost entirely on sales of Class I and V investment and savings products (traditional separately managed accounts), with premium revenue at the end of the year amounting to approximately €19.7 billion (€19.3 billion in 2016). Premium revenue from Class III policies in 2017 amounted to €537 million (€475 million in 2016). The commercial launch of a new unit-linked product, offering a form of long-term savings plan (an individual savings plan, or *PIR - Piano individuale di Risparmio*)¹⁴ was launched on 27 June 2017. Premium revenue from this product amounts to €225.1 million at the end of 2017. Sales of regular premium products also performed well (*Multiutile Ricorrente, Long Term Care, Posta Futuro Da Grande*), as did sales of the *PostaPrevidenzaValore* product which, with around 943 thousand policies sold during the period, has enabled Poste Vita to consolidate its role in the pensions market.

Sales of pure risk policies (term life insurance) also performed well, including both those sold in stand-alone versions (not bundled together with products of a financial nature) and those sold bundled together with financial obligations deriving from mortgages and loans sold through Poste Italiane's network.

As regards insurance broking, work on IT systems and procedures began with a view to ensuring compliance with EU Directive 2016/97, which aims to boost protections for customers during the sale of insurance products (the so-called "IDD" Directive). The Directive is expected to be transposed into Italian legislation in 2018.

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 €141.3 million¹⁵, up 19% on the figure for 2016 (€118.8 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, the investment policy was marked by the utmost prudence. This has resulted in a portfolio primarily invested in Italian government securities and corporate bonds, with an overall exposure that, whilst lower than in 2016, represents over 80% of the entire portfolio. In addition, whilst maintaining a moderate risk appetite, during the year the company continued with the gradual process of diversifying investments by increasing its exposure to equities (up from 14% of the portfolio to the current 19%), 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 €123.6 billion (€113.6 billion at the end of 2016), primarily including €111.5 billion in

¹⁴ Individual savings plans (*Piani Individuali di Risparmio* or *PIR*) are the new form of investment product introduced by the government in the 2017 budget law, with the aim of supporting Italian SMEs. These products offer significant tax breaks for investors.

¹⁵ Gross premium revenue for the period amounts to €131.1 million.

mathematical provisions for Class I and V products (€96.9 billion at the end of 2016) and provisions for products where the investment risk is borne by policyholders, amounting to approximately €3.5 billion (€6.9 billion at 31 December 2016). The decline in the latter provisions reflects products reaching maturity during the period. Deferred Policyholder Liability (DPL) provisions, linked to the change in the fair value of the financial instruments covering the provisions relating to products included in separately managed accounts, amount to €8.2 billion, compared with €9.3 billion at the beginning of the year.

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 (€143 million).

In terms of the prudential Solvency II requirements, which came into effect from 1 January 2016, an early indication of Poste Vita's solvency position at 31 December 2017 shows that it has own funds of €8,519 million, up approximately €456 million on the €8,063 million of the end of 2016. This reflects the positive impact of financial market trends on the securities portfolio and on technical provisions (a reduction in the spread on government securities and an increase in risk-free interest rates). The growth in own funds was, however, accompanied by an increase in capital requirements of €307 million (from €2,737 million at the end of 2016 to €3,048 million at 31 December 2017), reflecting the increase in capital required to cover technical risk, primarily due to growth of the business (for example, surrender risk under the standard formula), partially offset by the investment diversification policy adopted by the company from the first quarter, which has resulted in an overall reduction in capital requirements in relation to market risk.

As a result of the above trends, whilst slightly down with respect to the figure for the end of 2016 (a decline from 294% to 279% at the end of December 2017), the solvency ratio continues to be well above the regulatory requirement and the market average.

[Atlante and Atlante 2 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" (now called the "Italian Recovery Fund"). Both funds, which are managed by Quaestio Capital Management SGR SpA, are closed-end funds restricted to institutional investors, and invest primarily in financial instruments issued by banks looking to strengthen their capital and in non-performing loans held by various Italian banks.

At 31 December 2017, the Atlante fund has called up €239.6 million, including €211.9 million allocated to the separately managed account, *PostaValorePiù*, and €27.7 million allocated to the company's free capital, whilst the Atlante 2 fund has called up a total of €101.9 million, allocated in full to the separately managed account, *PostaValorePiù*.

With particular regard to the Atlante fund, the Group, when preparing the financial statements for the year ended 31 December 2016, had already recognised an impairment loss on the investment of equal to approximately 50% (€106 million, including approximately €94 million recognised in deferred liabilities due to policyholders).

Subsequently, in view of the value of the fund's units at 30 June 2017, communicated by the management company, which has quantified the reduction in the nominal value of the investment as approximately 80%, the Group has recognised a further impairment loss equal to 50% of its investment, with the sole exception of the amount invested in the Atlante II fund.

Impairment losses recognised in 2017 total €105 million (€106 million in 2016). 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 in the two-year period from 2016 to 2017 thus amounts to €211 million, with the total finance costs recognised on the investment of Poste Vita's free capital totalling a cumulative amount of €24 million.

As regards the Atlante II fund, the value of the fund's units, as announced by the management company at 30 June 2017 (the latest available figure), reflects the historical cost of the investments.

6. CONSOLIDATED NON-FINANCIAL STATEMENT

Introduction

On 22 October 2014, the European Parliament and the Council of the European Union approved Directive 2014/95/EU (the Barnier Directive) regarding the disclosure of non-financial information by companies. The Directive was created to improve the uniformity and comparability of non-financial information, and to map and monitor risks associated with business activities and thus facilitate investors' access to such information. The Directive was implemented in the Italian legal system by Legislative Decree 254 of 30 December 2016, which obliges large companies that are public interest entities to provide a non-financial statement "*insofar as necessary to ensure understanding of a company's activity, its performance, results and the impact it produces*".

The purpose of Poste Italiane's Non-Financial Statement (NFS or "Statement"), prepared for the first time with reference to the financial year ended 31 December 2017, is to ensure that the Group's organisational model, activities, main risks and performance indicators are understood with regard to environmental, social, personnel, and human rights aspects as well as the fight against active and passive corruption, and that they are relevant to the Company's activities and characteristics.

The main topics relating to business sustainability, which, on the one hand, are key elements for a more in-depth analysis of the Non-Financial Statement and, on the other, are part of the economic and social scenario in which the Poste Italiane Group carries out its mission and tackles its business challenges, are summarised below.

Sustainability challenges

Digitalisation, globalisation, new demographic phenomena and lifestyles, climate change and depletion of natural resources, are just some of the current trends. Understanding, interpreting and responding to these social, environmental and economic changes, integrating sustainability into the business to improve competitiveness and ensuring long-term profitability by creating shared value, add up to the challenge companies are facing in the third millennium.

The digital future is now

Digitalisation is a key element for the modernisation and sustainability of a country, as it helps to reduce environmental impacts and meet social needs, such as inclusion, through new ways of accessing information, and products and services. Digitalisation also has an extraordinary impact on business, operating and service models in the various sectors in which the Group operates. In the mail and parcel sector, for example, ways of interacting with customers and suppliers have changed in supply chains that are increasingly complex and integrated by automated digital processes, in order to cope with the rise of e-commerce.

In the financial sector, regarding Payments, Mobile & Digital, new payment methods, faster and more efficient transactions, security and personal data protection have been promoted with the introduction of PSD2 (the Revised Payment Service Directive), the EU directive on the retail payment system, which has been in force since January 2018.

In the insurance sector, the Internet of Things (IoT)¹⁶ enables new offering models regarding e-health, home insurance and third-party motor insurance. Analysis of Big Data also has potential linked to the monitoring of

¹⁶ The Internet of Things (IoT) is the expression used to define all electronic equipment and devices, other than personal computers, that are connected to the internet (e.g. cars, fitness sensors, air-conditioning systems, etc.).

policyholders' behavioural data, which is reflected in innovative policies and services aimed at improving the customer experience.

Digitalisation creates a need for increasingly advanced protection systems to combat cybercrime via cyber security tools, methodologies and processes to protect personal data, strategic services and the intellectual property of citizens, companies and the Public Administration. Therefore, it is vital that companies adopt adequate prevention and protection systems to safeguard their tangible and intangible assets and those of their stakeholders.

[New business approaches to meet the social challenges of the third millennium](#)

Growing life expectancy, a low birth rate and immigration are changing Italian society and the approach to the development of products and services, especially in the banking and insurance sector. Immigration is a structural phenomenon in terms of its size and the effect it has on Italy's economic and social fabric, while financial inclusion is an important incentive for accelerating the process of integrating immigrants. The financial inclusion rate among the adult population in Italy is 87%, while the percentage of adult foreign citizens holding a current account is 73% (source: World Bank).

Health and healthy lifestyles are some of the issues covered by the new insurance sector models that are emerging in Europe, based on incentives for virtuous customer behaviour that can generate positive impacts on the community and insurance companies' costs.

The labour market has entered the "fourth industrial revolution", a set of transformations that, thanks to robotics, digital innovation and artificial intelligence, is changing not only companies' business models, but also the way human capital is used. Today, companies have to manage a complex "ecosystem" of people as a result of the steady rise in the retirement age and the consequent longer period spent in the world of work, which entails the simultaneous presence of five generations who all have different values, experiences and aspirations that need to be managed. Recognising and valuing all forms of diversity has a strategic objective that brings advantages in terms of internal atmosphere, a sense of belonging, productivity and innovation.

[Climate change](#)

With the 2016 Paris Climate Agreement, 195 countries committed to keeping the global temperature increase well below 2 degrees Celsius compared to pre-industrial times. It is estimated that emissions of 26 billion tonnes of CO₂ equivalent would have to be cut by 2030 to remain below 1.5 degrees. Companies are called upon to assess the possible risks and opportunities (e.g. energy efficiency, sustainable mobility, and green financing and insurance services) associated with their business, taking into account national and international developments.

The postal sector is experiencing a continuous and rapid increase in the volume of parcels in circulation due to the increase in e-commerce, and this affects the need for sustainable transport and logistics to minimise emissions into the atmosphere. The mail segment, which has seen a steady decline in volumes due to the replacement of traditional physical postal services (so-called e-substitution) by electronic services, and the creation of new innovative digital services such as online mail advertising and electronic notification services, can also undoubtedly make a significant contribution to reducing environmental impact.

[The creation of shared value](#)

Given the deterioration of ecological balances, the persistence of social inequalities and sustainable de-growth processes, business models are being renewed to create shared value. The shared value approach developed by Michael Porter, a professor at Harvard Business School, is based on the assumption that it is necessary to identify a new model of capitalism, overwhelmed as we are by the economic and financial crises of recent years. Based on their own mission, companies with a public service role are increasingly called

upon to redefine productivity in the value chain and evaluate forms of investment that aim to obtain positive results in financial, social and environmental terms, and also to support the nation's economic system. In recent years *impact investing*, namely *investments into companies, organisations and funds with the intention of generating a measurable and favourable social or environmental impact together with or instead of a financial return*¹⁷, is becoming more reliable, to the extent that banks, insurance companies and pension funds are unanimously promoting it.

THE TOPICS RELEVANT TO US [GRI 102-46 GRI 102-47; GRI 103-1]

Poste Italiane has begun the due process to ensure compliance with the regulatory requirements set out in Legislative Decree 254/2016 which also specifies that the reporting standards – issued by authoritative supranational, international or national bodies, both public and private – used to comply with non-financial reporting requirements should be clarified. The Group chose to adopt the approach recommended by the Global Reporting Initiative (GRI), which is the most widely used standard at international level, given that, in addition to covering the aspects required by the EU Directive and consequently by Decree 254, it expresses the concept of materiality, another important element of convergence with the Decree.

In 2017, the Group carried out a materiality analysis in order to identify the relevant topics to ensure understanding of its activities, performance, results and impact. Indeed, materiality is the threshold beyond which a topic becomes sufficiently relevant to be reported.

The process that led to definition of the material topics was broken down into three phases:

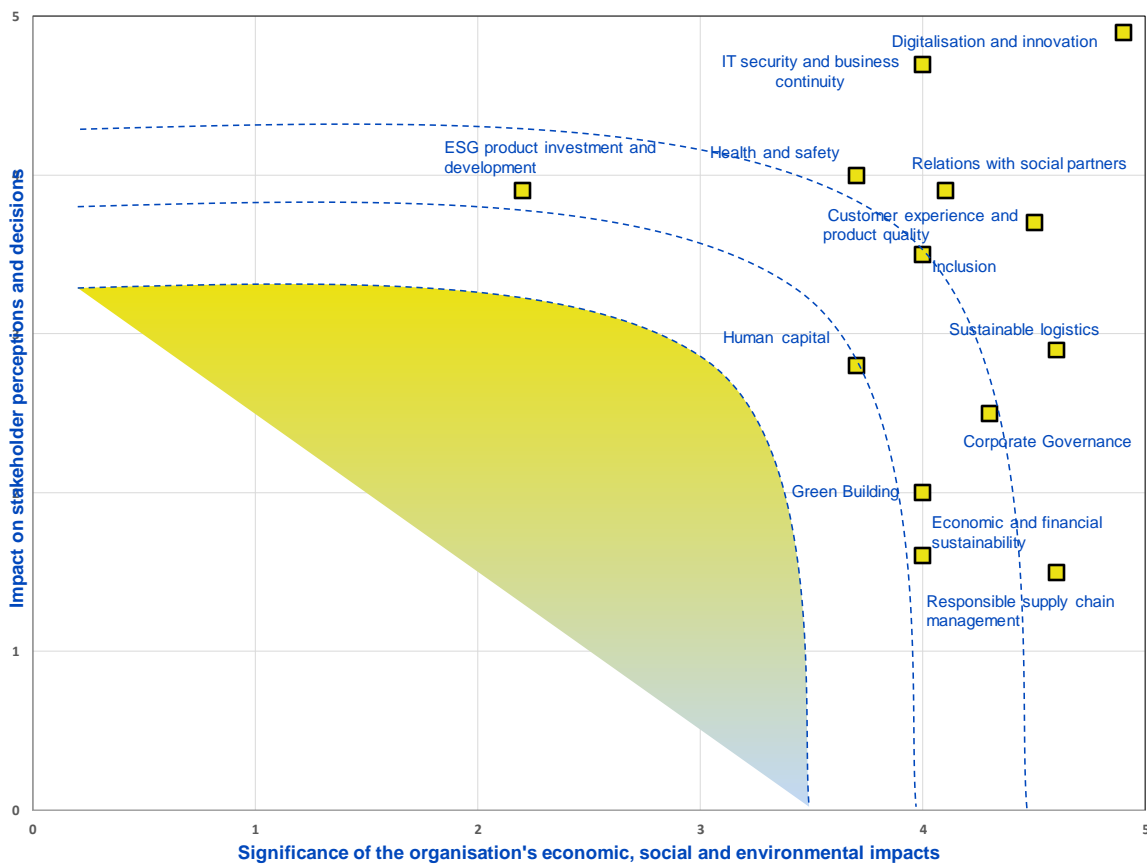
- **Identification of relevant topics**, based on analysis of the external scenario and comparable companies, sustainability trends, commitments already made by the Group and communicated in public documents, stakeholder expectations, and international standards (Sustainability Accounting Standards Board, RobecoSAM).
- **Attribution of relevance** of the topics identified based on internal analysis of corporate documentation and policies, interviews with the various corporate departments, and the expectations of key stakeholders via listening and engagement initiatives.
- Positioning of the relevant topics within the materiality matrix and **identification of the material topics**.

The Materiality Matrix and a description of the material topics identified and used in the Non-Financial Statement are provided below, except for the topics of Economic and Financial Sustainability and Corporate Governance, which are dealt with in the Report on Operations and in the Report on Corporate Governance and the Ownership Structure.

The impact of the material topics identified are all caused by the organisation, with the exception of the topics relating to sustainable logistics and health and safety, which are also caused by suppliers who operate on behalf of Poste Italiane, accounting for a significant part of the Group's operations.

¹⁷ Cambridge Associates and Global Impact Investing Network (GIIN).

The Poste Italiane Group's materiality matrix



Material topics	Brief description
Digitalisation and innovation	Responding to new customer needs through innovation of the products and services provided, as well as of processes, especially via the opportunities offered by digitalisation.
IT security and business continuity	Guarantee the confidentiality of customers' data, safeguard intellectual property and protect assets from cyber attacks inside or outside the organisation. Prevent operational disruptions through implementation of disaster recovery plans, and promote the fight against terrorism through data analysis. Plan business continuity through the prevention and management of process interruptions that may cause inconvenience to customers and business partners, as well as loss of revenue.
Relations with social partners	Establish relations with labour unions, based on principles of fairness and respect for roles, with the aim of finding shared solutions aimed at achieving growth, competitiveness and business continuity.
Health and safety	Ensure high standards of health, safety and security for workers and customers: - in all the Group's premises; - on the means of transport used, including by suppliers, for delivery services; - when staff are travelling.
Customer experience and product quality	Adoption of service models aimed at promoting the quality of the products and services offered. Systematic engagement, satisfaction surveys and effective complaints management, which are essential elements in enhancing the relationship with customers and responding to their needs. Offer a unique and distinctive experience that goes beyond traditional product and service provision.
Inclusion	For the Group, inclusion means: - promoting access to financial and insurance services for the most excluded groups; - contributing to the process of integration of the most vulnerable groups; - promoting access to new information technologies and digital literacy (e.g. Education 2.0 in schools).
Sustainable logistics	Provide logistics solutions that reduce atmospheric emissions and the use of non-renewable natural resources, with particular reference to the mail and parcel delivery sector.
Human capital	Identify the best talents, promote training courses and strategies for professional enhancement and development. Protect the Group's intellectual assets, skills, know-how, experience and organisational knowledge.
Corporate Governance	Maintain a sound Corporate Governance system consisting of rules, standards, practices and a monitoring system, to reduce the risk of behaviours and decisions that may compromise the organisation's value and operating performance. Comply with current legislation regarding combating all forms of active and passive corruption.
Green building	Minimise the environmental impact of the Group's offices and buildings, in terms of energy use, water consumption, waste, and raw material consumption. Promote green procurement by incorporating "minimum environmental criteria" in all phases of the goods and services procurement process.
Responsible supply chain management	Guarantee ethical behaviour within the supply chain, with particular reference to: legislative compliance; measures to combat fraud and corruption; working conditions and health and safety; and environmental aspects.
Economic and financial sustainability	Guarantee long-term economic results and safeguard the stability, strength and profitability of the Group in the long term.
ESG product investment and development	Integrate sustainability into the development of new services and products and incorporate Environmental, Social and Governance (ESG) criteria into investment decisions, in order to create social and environmental value as well as generating profits.

[Our stakeholders](#) [GRI 102-40 GRI 102-41 GRI 102-42 GRI 102-43 GRI 102-44]

The stakeholder dialogue and engagement procedures are based on respect for Poste Italiane's policies and organisational models, which are essential for guiding relations with the various stakeholder categories, taking into account expectations and integrating them within corporate strategies.

The following table shows the main stakeholder categories and engagement methods, as well as the types of activity through which Poste Italiane constantly communicates and interacts, based on an approach that takes into account the legitimacy of a relationship, proximity, influential power and impacts linked to its activities.

Listening tools and engagement with key stakeholders	
Stakeholders	Engagement and communication methods
Shareholders, investors and lenders, and the financial community	<ul style="list-style-type: none"> - Shareholders' Meeting - Road shows and dedicated meetings - Financial relations and periodic presentations - Corporate Governance Report - Company website - Press releases
Customers	<ul style="list-style-type: none"> - Periodic customer satisfaction and customer experience surveys
Staff	<ul style="list-style-type: none"> - Internal communication tools (newsletters, intranet, mailing, etc.) - Internal and external events dedicated to staff
Labour unions	<ul style="list-style-type: none"> - Periodic meetings - First- and second-level bargaining
Suppliers	<ul style="list-style-type: none"> - Specific meetings
Public Sector and local authorities	<ul style="list-style-type: none"> - Specific meetings - Conferences - Corporate communication
Central, local and international institutions National/international industry associations and other organisations Supervisory and regulatory authorities	<ul style="list-style-type: none"> - Periodic communications - Meetings on specific issues and participation in working groups - Organisation of events and meetings on specific issues
Local communities	<ul style="list-style-type: none"> - Partnerships - Community projects, sponsorships, donations - Dialogue with local institutions
Media	<ul style="list-style-type: none"> - Press releases - Contacts during the launch of relevant projects, publication of documents, interviews, events

Explanatory notes

[GRI 102-11; GRI 102-45; GRI 102-46; GRI 102-50 GRI 102-51 GRI 102-52 GRI 102-53 GRI 102-54]

Poste Italiane's Consolidated Non-Financial Statement ("NFS" or the "Statement"), which was prepared for the first time with reference to the year ended 31 December 2017 in compliance with the requirements of Legislative Decree 254/2016, and was approved by Poste Italiane SpA's Board of Directors on 29 March 2018, pursuant to art. 3, paragraph 10 of the Decree, requires a separate assurance report from the independent auditors, PricewaterhouseCoopers SpA.

As already mentioned, for the preparation of the NFS the GRI Sustainability Reporting Standards have been adopted, in accordance with the core option, published in 2016 by the GRI - Global Reporting Initiative. The standards' indicators, which correspond to Poste Italiane's material topics, are shown at the beginning of each section and next to the headings of the tables regarding quantitative data linked to the material topics.

It should be noted that Poste Italiane's operational organisational model serves the development of synergies within the Group and provides for the focus of Poste Italiane SpA (the Parent Company) on management and coordination activities.

The terms "Poste Italiane", "Group" or "Company" are used in the NFS to refer to the Poste Italiane Group.

Implementation of the obligations set out in Legislative Decree 254/2016 entails application of new criteria and methods, which may be based on subjective assessments and estimates linked to the Company's specific historical experience and on assumptions that are deemed reasonable and realistic with respect to the relevant circumstances, on a case-by-case basis. Application of these estimates and assumptions might influence the values shown in the NFS, so Poste Italiane has opted to use estimated indicators as little as possible. The estimated data regard certain items relating to energy consumption inside and outside the organisation. In particular, data regarding electricity consumption (for security purposes and relating to outsourced data centres), natural gas and district heating for the Group's real estate facilities have been calculated taking into account costs incurred and average tariffs, while consumption of diesel and LPG have been estimated on the basis of historical data and the actual amounts pumped into tanks. All the consumption connected with logistics is estimated in terms of distance travelled and/or the average consumption of a vehicle and the load transported, except for company cars.

The Poste Italiane Group will closely monitor upcoming regulatory and interpretative developments, as well as the best market practices that will gradually become available, and assess any consequent effects on possible estimates and the information contained in future non-financial statements.

The scope of reporting includes companies consolidated on a line-by-line basis for financial reporting, and the reporting year is 2017. Comparable quantitative data for 2016 is provided. For each material topic, if applicable, information has been provided on the relevant management and organisational model, policies, including due diligence policies, and the results achieved through their application, as well as certain non-financial performance indicators.

The Poste Italiane Group guarantees its stakeholders that its business will be conducted in line with the objectives set by the Board of Directors, in awareness of the risks that may affect the achievement of these objectives and the value of the Company. The principal risks associated with material topics deriving from the Group's activities are shown in the table below.

Material topics	Principal risks
Digitalisation and innovation	Delayed innovation of products and services offered to customers and of related operating processes, resulting in negative perception of the Company by stakeholders.
IT security and business continuity	Malfunctions and/or deficiencies in the security of IT systems that may lead to personal data breaches, loss or impairment of data, operational freezes or slow downs, and customer service disruptions.
Relations with social partners	Risks related to industrial unrest and labour union strikes that may have an impact on business continuity and on stakeholders' perception of the Company.
Health and safety	Risks of non-compliance with regulations that protect workers' health and safety, which may lead to criminal, civil and/or administrative sanctions, as well as financial, economic and/or reputational damage to the Company.
Customer experience and product quality	Limited satisfaction of business and consumer customers needs, regarding the various products and services, throughout the customer life cycle, as well as provision of poor quality and failure to comply with regulatory and contractual standards, resulting in the payment of fines and penalties.
Inclusion	Risks connected with lack of attention to inclusion issues, leading to negative impacts on the Company's reputation.
Sustainable logistics	Risks connected with inadequate management of the Group's logistics and production processes, including in terms of environmental sustainability, which might influence stakeholders' perception of the Company.
Human capital	Risks connected with a lack of/inadequate staff management in terms of professional enhancement, training and development.
Corporate Governance	Risks connected with a Corporate Governance system that is not in line with leading practices, resulting in negative impacts on the Company's reputation.
Green building	Risks connected with inadequate management of the Group's buildings, including in terms of environmental sustainability, which may influence stakeholders' perception of the Company.
Responsible supply chain management	Risks connected with relations with suppliers, with possible impacts in terms of compliance and financial damage due to fraudulent behaviour.
Economic and financial sustainability	Deterioration of the Company's reputation in the financial community (rating agencies, investment banks, analysts, etc.) which could have a negative impact on the share price.
ESG product investment and development	Risks connected with inadequate assessment of social and environmental impacts in the development of new products and services, which may influence stakeholders' perception of the Company.

Regarding the material topics identified, compared to the others, the ESG product investment and development topic, which particularly concerns Poste Vita Group companies and Banco Posta Fondi SGR, will follow a more significant development path in the short to medium term, also in line with national and international best practices.

The following table shows the link between the areas specifically required by Legislative Decree 254 and the sections of the NFS in which they are dealt with.

Legislative Decree 254/2016, art. 3, para. 1, areas	References
Energy consumption, water consumption, GHG emissions, polluting emissions, other environmental aspects).	§ Green building § Sustainable logistics
Aspects relating to personnel management, gender equality, international and supranational employment conventions, dialogue with social partners, impact on health and safety, other personnel matters)	§ Human capital § Relations with social partners § Health and safety
Respect for human rights	§ Inclusion § Responsible supply chain management
Social aspects	§ IT security and business continuity
	§ Customer Experience and the quality of products
	§ Digitalisation and Innovation
	§ Inclusion § Responsible supply chain management
Combatting active and passive corruption	§ Combatting corruption

The 13 material topics identified above have been grouped into three value areas, which comprise the way in which the Poste Group is integrating sustainability into its core business, including:

- Looking to the future
- Valuing people
- Taking care of the world around us

and are summarised in the following table through the macro-initiatives that are used in applying the values in the Group's operations.

Topics relevant to us	The forms they take
LOOKING TO THE FUTURE	
Digitalisation and innovation	Digital transformation Dematerialisation of contracts and transactions
	Dematerialisation of communications
	Digitalisation of relations between citizens and the Public Administration National Traffic Police Violation Centre
	IT security and business continuity
Customer experience and product quality	Permanent security plan Activities to combat cybercrime and regarding innovation in the security field Business continuity plans
	Relations with consumer associations Keeping in touch with customers Post office waiting times
	Corporate Governance
Economic and financial sustainability	Fighting corruption Whistleblowing The Audit, Risk and Sustainability Committee
	Directors' Report on Operations: - Group operating and financial performance - Operating results by sector of activity
VALUING PEOPLE	
Relations with social partners	National Collective Labour Agreement Paid leave for union duties Labour union safeguards Bilateral Agencies European Social Dialogue

	Strengthening of sorting and delivery processes
Health and safety	Vehicle safety Post office security National security Security training for staff Occupational injuries
Human capital	Poste Italiane's workforce numbers Development activities Professional training programmes
Responsible supply chain management	Occupational injuries Social and environmental clauses in contracts Green procurement Transparency

TAKING CARE OF THE WORLD AROUND US

Inclusion	Equal opportunity access to services Cultural integration Financial inclusion of citizens in difficulty Inclusion of minors <i>Il Risparmio che fa Scuola</i> (savings education project) Inclusion of senior citizens Insurance inclusion Gender inclusion Equal Opportunities Committee Inclusion of disabled people
Sustainable logistics	Energy consumption and emissions Partnerships at international level Waste management Water Postel – the materials used
Green building	Mail and parcels logistics Vehicle fleet numbers Logistics under contract Mistral Air aircraft fleet Mobility management
ESG product investment and development	To be defined in the next sustainability plan

LOOKING TO THE FUTURE

Digitalisation and innovation

Responding to new customer needs through innovation of the products and services provided, as well as of processes, especially via the opportunities offered by digitalisation.

Against a backdrop of change that requires development of its business and, above all, focusing on its customers, Poste Italiane has launched an important process of digitalisation involving the entire Group, given the complexity and variety of the sectors in which it operates. To this end, the Company has identified organisational responsibilities and adopted specific policies to ensure adequate oversight of the issue.

The importance given to aspects relating to innovation and digitalisation of business processes and of the products and services provided is confirmed by the Group's mission, which is a *driver for inclusive development in Italy, accompanying citizens, businesses and the Public Administration on the road towards the new digital economy by offering simple, high-quality, transparent and reliable services.*

The commitment to digital innovation is translated into concrete terms in the Deliver 2022 Strategic Plan, which presented the new corporate organisation with the establishment of a new Payment, Mobile & Digital operating segment, created to best meet the competitive challenge that will arise with implementation of the new European PSD2 directive.

Digitalisation

Digital initiatives improve process efficiency and customers' perception of quality, and enable reductions in environmental impacts relating, for example, to travel and paper consumption.

Digital is now a key driver in the relationship with consumers who interact with Poste Italiane using multiple channels, both physically through the network of 12,822 post offices and 28,635 postmen and women, and using the website via computers and apps for smartphones or tablets.

The digitalisation process aims to enhance the post office network, develop multi-channel access methods and tools to interpret and anticipate customer needs, qualify the Company as a key stakeholder for the Public Administration, and encourage the inclusion and development of the digital economy. The main services that have been implemented it in recent years include:

Financial and insurance services

- the payment portal, which may be accessed from the [poste.it](#) website, is a single environment where users can easily pay bills, utilities and charges to companies and the Public Administration, and have the receipts delivered directly to their mailboxes;
- the new platform in the home banking area of the [Poste.it/consumer](#) website;
- Ordinary and Smart Postal Savings Books which may be issued in paper or dematerialised form, as may Interest-bearing Postal Certificates;
- the Remote Banking BancoPostaImpresa Online (BPIOL) service, dedicated to professional and entrepreneurial activities, the non-profit sector and the Public Administration;
- the Poste Vita pension simulator, a digital platform that enables users to assess their pension contributions situation and build up supplementary pension income by constantly monitoring results obtained.

Postal services

- the Digital Pick-up service for undelivered registered mail, which enables the addressee to collect a registered item in the event of non-delivery due to the addressee's absence, as an alternative to the physical process, via the SPID enabled PosteID Digital Identity service;
- the Electronic Postman service, which enables direct payment of pre-paid bills for the main utilities to postmen and women at one's own home, topping up telephone and Postepay cards, and booking collection of registered mail or a PosteMobile SIM card by making an appointment on the toll-free number 803.160 or via the www.poste.it website;
- hybrid electronic mail, which breaks down into these phases: electronic acceptance, electronic sorting, printing, enveloping and delivery of a message in paper form.

Across all business segments, and therefore by distribution channel

- Postepay, Bancoposta, Post Office and PosteID apps, which enable various functions, including management of BancoPosta current accounts and Postepay prepaid cards; telephone top-ups; the payment of bills; booking your turn at a post office counter; sending money in Italy and around the world (p2p); secure online access to public services; tracking sent parcels and mail; and sending telegrams, registered mail, mail and parcels on the move;
- free Wi-Fi available at 4,119 post offices (32% of the total), 895 of which were activated in 2017 alone, and may be accessed with a single registration for a maximum of three hours per day;
- VoIP technology installed at 7,100 post offices, which makes it possible to have a telephone conversation via an internet connection.

Digital services in numbers

Category	2016	2017
Customers registered on Poste Italiane's digital channels (websites and apps) (millions)	12.5	15
Digital identities issued (millions)	0.6	1.8
Postepay apps downloaded ^(*) (millions)	4.4	6.1
Bancaposta apps downloaded ^(*) (millions)	2.1	3
Post Office apps downloaded ^(*) (millions)	0.8	1.8
PosteID apps downloaded ^(*) (millions)	0.7	1.4
PosteMobile apps downloaded ^(**) (millions)	2.0	2.7
Transactions carried out via consumer digital channels (websites and apps) ^(***) (millions)	33	39

Focus – Poste Vita customers

Poste Vita Insurance Group customers registered in the reserved area (no.)	316,436	417,657
Customers who use Poste Vita and Poste Assicura services via mobile devices (%)	28.1	31.6

(*) App downloads refer to iOS and Android users who have downloaded the app from the launch of the first version until the date indicated (31 December 2016 and 31 December 2017).

(**) App downloads refer to iOS, Android and Windows users who have downloaded the app from the launch of the first version until the date indicated (31 December 2016 and 31 December 2017).

(***) Including SEPA and overseas bank transfers and certified transfers qualifying for tax relief, giro transfers, the electronic payment of bills, tax returns, Postepay top-ups, Moneygram, money transfers, telephone top-ups.

Dematerialisation of contracts and transactions

The Electronic Management of Contracts and Transactions (EMCT) project aims to implement complete electronic processing, which will enable elimination of the printing and paper storage of millions of pages of documents in post offices, and notification of customers via email regarding their contract copy with the introduction of electronic originals signed by electronic signature and stored in accordance with regulations. In 2017, dematerialisation procedures were extended to new contracts and transactions.

At the end of 2017, the new dematerialised management procedures were extended to 9,943 post offices (78%) and approximately 5,000 Consulting Rooms (75%) and now cover 90% of the main procedures carried out by customers and 96% of the corresponding transactions.

The environmental benefits include lower consumption of resources (paper) and waste generation (toner cartridges), less energy used for printing, and reduced CO2 emissions. In terms of improved operational efficiency, benefits include more rapid consultation of documents and quicker access to information, and shorter response times for checks and assessments. For customers, dematerialisation means that the process of entering into a contract is simplified (e.g. opening a current account in real time).

Dematerialisation of procedures and corresponding transactions

Types of procedure (data in thousands)	2016		2017	
	No. Procedures	% dematerialised	No. Procedures	% dematerialised
Certificates	819	89%	1,289	94%
Current accounts	705	84%	417	86%
Savings Books	417	78%	674	93%
Postepay Evolution *	-	-	1,227	91%
Life insurance policies*	-	-	274	70%
MiFID	1,270	96%	2,571	96%
Poste Mobile	22	44%	815	70%
Total procedures**	3,233	89%	7,267	90%
Corresponding transactions***	2016		2017	
Total transactions (millions)	28.0		31.5	
Total electronic transactions (millions)	27.0		30.3	
Dematerialised transactions (%)	96.4%		96.2%	

* Dematerialisation services activated in the second half of 2016

** The increase in the volume of dematerialised procedures in 2016 and 2017 is linked to the increase in the number of post offices equipped to handle them (around 8,000 in 2016 and around 10,000 in 2017), and to the addition of new types of contract.

*** The increase in the volumes of electronic transactions in 2016 and 2017 is due to the "digitalisation" of certain transactions, resulting in the elimination of receipts. Indeed, in 2017, digitalised transaction volumes totalled approximately 30 million.

Dematerialisation of communications

The Group company, Postel SpA, provides communications services to businesses and Public Administration entities, offering a full range of services including mass printing and enveloping, electronic document management, direct marketing and commercial printing. Postel provides its customers with a technology platform for the digitalisation of communications and document management processes, enabling the dematerialisation and electronic processing of documents – including receipt, creation, collation, classification, storage and custody – regardless of the method or channel through which they arrive at the Company.

Communications are stored electronically at the Postel Data Centre and made available to the addressee. The dematerialisation of mail enables verification and monitoring of the receipt of sent documents at all stages of the process.

Moreover, the Digital Pick-up service enables addressees to digitally collect registered mail that was undelivered due to their absence, as an alternative to the physical process.

Digitalisation of relations between citizens and the Public Administration

With a view to simplifying relations, Poste Italiane, which acts as an intermediary between citizens and the Public Administration, operates as an Identity Provider, via the PostelID Digital Identity service, which is enabled by the Public Digital Identity System (SPID).

The SPID enabled [PostelID Digital Identity service](#) enables users to create a digital profile to access all of Poste Italiane's online services and apps, as well as the services of Public Administration entities and private providers that are registered users of SPID. A SPID enabled PostelID Digital Identity may be applied for online

by all adult Italian citizens who have been visually recognised at a Poste Italiane post office, as they have previously purchased, for example, a BancoPosta financial product, or have a National Services Card (NSC), an Electronic Identity Card (ICE), or a digital signature, or have directly registered online at a post office, or at home using a postman or woman's palmtop computer, for those citizens who do not have a recognised online identification device.

The [Sportello Amico](#) network, which is present in 5,734 post offices (45%), offers services including payment for healthcare, the printing of birth, death and other certificates, the issue of land surveys, and the issue or renewal of Electronic Residence Permits. In 2017, 894,000 residence permit applications were handled, and subsequently dematerialised and sent to the relevant police headquarters.

National Traffic Police Violation Centre: The Group supports the Traffic Police in the management of the entire fines process relating to offences deriving from automatic detection systems (Tutor), by providing an IT platform to support the authority with regard to complete digitalisation of all incoming procedures. This platform enables a reduction in document processing time, and thus reduces the time required to respond to complaints and contributes to optimal use of the Public Administration's resources.

The Centre handles an average of 1,200 procedures per day, 60% of which are paper and 40% via certified e-mail, with an annual total of over 700,000 records.

[IT security and business continuity](#)

Guarantee the confidentiality of customers' data, safeguard intellectual property and protect assets from cyber-attacks inside or outside the organisation. Prevent operational interruptions by implementing procedures regarding the management of security incidents and disaster recovery plans, with a view to preventing and managing process interruptions that could cause inconvenience to customers and business partners, as well as a loss of revenue.

Poste Italiane has always considered IT security and business continuity to be priority and strategic components, due to the nature of the services offered and the large number of customers served. Therefore, the Company has identified organisational responsibilities and adopted specific policies to ensure adequate management of the topic.

The main objective in managing IT security is to guarantee adequate levels of confidentiality, integrity, and availability of the data and services provided. In order to pursue this objective, in addition to technological measures, organisational and regulatory provisions have also been adopted for operating processes, thus guaranteeing an adequate level of protection, as well as a constant flow of information to internal auditing bodies and/or the relevant authorities.

To monitor the risks relating to information security and information systems, within the Corporate Protection function:

- a single contact person, the Chief Information Security Officer, has been identified for risk connected with IT security;
- integrated management of cyber security risk is in place;
- greater operating effectiveness and efficiency is guaranteed by reducing the fragmentation of operating processes among functions.

The IT security framework adopted by Poste Italiane breaks down into various levels of intervention:

- The IT Security Policy is the documentation system through which objectives and strategic guidelines are expressed, aimed at directing the security management of IT resources and processes that support business services, in order to contain, within predefined acceptable limits, the risk of compromising their confidentiality, integrity and availability, in terms of business protection and also in contributing to the fight against cybercrime incidents.
- Assessment of IT risk, aimed at identifying and evaluating potential breach scenarios regarding the confidentiality, integrity and availability of ICT resources that support business services, as well as guiding the implementation of appropriate vertical risk reduction measures on applications and individual IT assets (middleware, operating systems, databases, etc.) in accordance with the IT risk propensity threshold defined for the business services which use the ICT resources concerned.
- The Permanent Security Plan (PSP), consisting of all the cross-cutting interventions and technological projects required to guarantee the presence, update and correct functioning of security platforms, to provide operational security processes, and to carry out all the necessary checks and assessments to maintain the risk profile at acceptable levels over time;
- Security by Design activities which – during the analysis, design, implementation and production phases of new services or modification of existing services, as well as within the change processes of IT systems – are aimed at identifying the security requirements to ensure adequate protection of the ICT resources involved. The ultimate goal of Security By Design activities is to affect the entire value chain and ensure compliance with legal regulations and IT security standards, as well as to integrate IT security within IT and service creation processes.
- Cross-cutting security technology infrastructure. The security infrastructure platforms serve to guarantee and protect corporate IT resources against targeted cyberattacks, while at the same time ensuring the Company's compliance with laws and regulations.
- Management of IT security incidents regarding prevention of, response to and management of IT security incidents through a single synthesis and activity coordination hub, via integrated management of information flows deriving from the various IT security controls, thus providing a single operational interface for security information sharing activities externally, and continuous security support internally.
- Third party certification. Faced with external influences, due to the increasing complexity of the business and changes in legislation and regulations, as well as developments in the internal environment, aimed at boosting technological leverage and raising the quality of its offering, Poste Italiane guarantees structured oversight of quality issues in the IT and security areas. This oversight is based on the application of an Integrated IT and Security Quality Management System that incorporates the aspects highlighted by international standards and industry benchmarks.
- Innovation projects in the security area. Poste Italiane pursues innovation in the field of IT security by carrying out scenario studies and research into vertical security issues, with a specific focus on identity management, mobile security and distributed ledgers (blockchain technology).

Specifically, the [Information Security Policy](#) contains the strategic IT security management guidelines that all Group companies have adopted with respect to the specific nature of their business. The policy defines security objectives and requirements regarding regulatory and voluntary compliance with industry standards and best practices. Based on this policy, a documentation system has been defined, including: safety requirements and rules, technical and organisational standards, procedures and instructions that explain the

operating procedures of safety processes, and details of the tasks and activities performed by operating personnel.

Poste Italiane has obtained certification for its integrated management system regarding IT and security service provision processes, [in accordance with the ISO 27001](#) (IT Security), [ISO 20000](#) (IT processes) and [ISO 9001](#) (Quality international standards).

[IT risk analysis](#) is aimed at identifying and assessing potential breach scenarios regarding the confidentiality, integrity and availability of the ICT resources that support business services. The methodology is broken down into several macro-phases involving identification of analysis areas and the related scope of the assets, identification and assessment of impacts, threats and vulnerabilities, calculation of potential risk, actual risk and the treatment of residual risk.

With particular attention paid to the scope of Bank of Italy Circular 285/13, the annual IT risk analysis update regarding BancoPosta's ICT assets was carried out, including a focus on the assets that support online payment services in compliance with Guideline 2.1 issued by the European Banking Authority (EBA).

This activity led to preparation of a Synthesis Report on IT risk analysis for 2017, which was approved by Poste Italiane's Board of Directors in December.

Through [Security by Design](#) activities, the Group identifies requirements relating to the design of a new service or the modification of existing services, with the aim of safeguarding ICT resources throughout the value chain. With regard to aspects relating to Security by Design, security requirements were provided for more than one thousand development initiatives.

In addition, security requirements were provided not only for IT but also for the process relating to provision of new business products and services during the "Service Creation" phase, including SPID, the new Poste.it Business portal, and Personal Financial Management in the BancoPosta app.

In compliance with current legislation regarding data security, and the prevention and combating of cybercrime, specific [incident handling](#) procedures have also been set up regarding the prevention, management and escalation of cyber security incidents that cause damage to the Company's IT assets, violation of internal policies and/or regulations, and the loss, modification or unauthorised disclosure of or illicit access to personal data transmitted, stored or otherwise processed. The management of IT security incidents is formalised via a specific operating procedure that enables security incidents to be monitored and dealt with. Regarding [personal data protection](#), Poste Italiane has adopted preventive security measures to minimise the risks of destruction, loss, unauthorised access and unauthorised processing of personal data, in compliance with the requirements of Legislative Decree 196/2003.

[Privacy violation and data leaks \[GRI 418-1\]](#)

	2016	2017
Total number of complaints received regarding violations of privacy	12	6
Number of complaints received from third parties and recognised by the organisation	12	6
Number of complaints received from regulatory bodies	0	0
Total number of breaches of customer privacy and losses of customer data identified	0	0

[Permanent security plan](#)

The 2015-2019 Permanent Security Plan (PPS), which is revised and updated annually, has been drawn up to manage important IT security activities, initiatives and projects, in order to protect ICT resources and to adapt the countermeasures provided for by the various regulations and reference standards. It deals with the continuous evolution of IT risks on a permanent basis, and includes processing activities as well as projects regarding implementation of cross-cutting technological infrastructures to support all the services provided.

In 2017, a series of project initiatives were managed and monitored at the 11 sites where the permanent plan is in place, thus enabling various initiatives to be completed:

1. IT security and risk assessment
2. Infrastructure security
3. Environment segregation
4. Applications security
5. User Identity and Access Management (IAM)
6. Digital security
7. Critical applications security
8. ICT security compliance
9. Environment certification security
10. Internal auditing system
11. Corporate customers' security.

In addition to the implementation projects, the initiatives that have been fully deployed include:

- the [Secure Code Review](#), which entails a security review of the application code to ensure that security checks are in place, that they execute what has been requested, and that the code has been developed in line with the principal secure development best practices.
- the process of [masking personal data](#) in a non-production environment, guided via the SeDaM (Secure Data Masking) platform, which is aimed at reducing the risk of exposure of real production data to third parties and/or unauthorised parties through processes and procedures to reduce the use of real data in non-production environments, to anonymise real data in non-production environments, and to mask said data.
- activities regarding the security of all apps displaying trademarks attributable to Poste Italiane that may be used through official (Google Play Store and Apple Store) as well as alternative markets, with the aim of analysing the types of data collected and possibly transmitted, and preventing customers' exposure to direct or indirect violations (e.g. fraud or reputational damage) attributable to their misuse.

[Combatting cybercrime and innovation in the security field](#)

In recent years, the Company has set up three technological hubs to guarantee and monitor cyber security:

Poste Italiane's [Computer Emergency Response Team \(CERT\)](#) is made up of a team of security experts and is responsible for coordinating all activities to respond to computer emergencies. The CERT is aimed at security specialists and large organisations, as well as customers and consumers, to whom it offers its experience and expertise to ensure that the internet is used correctly. In particular, the Centre deals with prevention, analysis and protection from cyber threats; it coordinates all activities in response to cyber emergencies and builds up relations with private individuals with a view to sharing knowledge in the field of cyber security. For example, information sharing in 2017 enabled useful information to be shared on newly detected threats and related Indicators of Compromise (IoC), with regard to specific threats, attacks and vulnerabilities with a potential impact on the Company's infrastructure and assets.

The [Security Innovation Lab](#) set up in Trento in collaboration with the Italian hub of EIT Digital – a core partner of the European Institute of Innovation and Technology (EIT) – is engaged in applied research and has launched numerous project initiatives as part of the European FP7 programmes – the Seventh Framework Programme for Research and Technological Development – and Horizon 2020, the European Framework Programme for Research and Innovation (2014-2020).

The [Cyber Security Technological Cluster](#) in Cosenza, set up as part of the Research and Competitiveness 2007-2013 National Operational Programme financed by the Ministry of Education, Universities and Research. Its purpose is to implement solutions to safeguard electronic payments. The Cluster's primary objective is to study, define and implement models, methodologies and developmental prototypes for the analysis of cyber threats and the protection of personal data, in order to enhance Poste Italiane's defence and response capabilities and ensure effective and efficient management of privacy matters within the Group, also by virtue of the issue of EU data protection regulations (EU Regulation 2016/679).

In recent years, Poste Italiane has also launched several IT security projects financed via EU programmes, including the Waffle project as part of the EU's EIT Digital 2017 initiative to prevent phishing attacks aimed at persuading users to reveal their confidential information and then steal their identity.

The objective is to manage – from a protection but also and above all from a prevention perspective – new emerging risks in a context that for business growth requires products, processes and services with innovative characteristics, new technologies, and a high level of competitiveness. Participation in these projects has brought technological, procedural and economic benefits, as well as enabling Poste Italiane to be part of a network of over 50 partners in the various member countries, including universities and research centres, public institutions (ministries and agencies) and private companies.

Poste Italiane's commitment to cyber security is also reflected in its participation in international sectoral organisations, including the European Electronic Crime Task Force (EECTF)¹⁸ and the Global Cyber Security Center (GCSEC)¹⁹.

During 2017, the Company also organised various training activities, which were carried out via 7 workshops that regarded the new Privacy Regulations and their requirements, information resilience and business protection, the Internet of Things, the human factor and cyber security, open data and data science, security in the new digital bank, and finally the issue of trust in the digital age.

[Business continuity plans](#)

Pursuant to Bank of Italy Circular 285/13, the Group has developed the following plans, which are held ready to be activated:

- a BancoPosta [Business Continuity](#) plan, which aims to illustrate the decisions made with regard to strategic and organisational issues and the assignment of roles and responsibilities with regard to business continuity;
- a [Disaster Recovery](#) plan, which defines technical and organisational measures to deal with events that could cause the unavailability of data processing centres that support operations;
- a [Crisis Management](#) plan aimed at supporting the various corporate actors involved in an emergency situation that impacts financial services.

¹⁸ Founded in 2009 by Poste Italiane, in agreement with the Postal and Communications Police, the Department of Public Security of the Ministry of the Interior and the United States Secret Service, with the aim of building a strategic alliance at European level to suppress and prosecute activities related to cybercrime.

¹⁹ Not-for-profit organisation, created to promote cyber security in Italy and the rest of the world. The Centre was founded and financed by Poste Italiane and other associated companies.

Business continuity plan resources

	2016	2017
Investment (€m)	4.1	3.6
Drills (no.)	4	5
Number of persons involved	180	180
Mainframe services (open services under development) covered by disaster recovery plans (%)	100%	100%

Investment refers to business continuity management and technology disaster recovery planning.

Customer experience and the quality of products

Adoption of service models aimed at promoting the quality of the products and services offered. Systematic engagement, satisfaction surveys and effective complaints management, which are essential elements in enhancing the relationship with customers and responding to their needs. Offer a unique and distinctive experience that goes beyond traditional product and service provision.

Poste Italiane's approach to quality is based on the principle of providing simplified and transparent information to customers, and the equality and impartiality of the services provided to all customers without discrimination.

Poste Italiane has identified organisational responsibilities and adopted specific policies to ensure adequate management of this issue.

The objective is to guarantee a qualified and competent response to the needs of customers and the market, via adoption of technological and organisational solutions. The commitment to quality and the Customer Experience is specifically implemented in the areas of responsibility assigned within the organisation. In order to strengthen the supervision of product quality, the Corporate Reliability function was established, which, among other things, is responsible for verifying the actual compliance of operating and commercial processes with the service levels set out in the quality and performance indicators.

A quality management system has been adopted in compliance with the ISO 9001 international standard, in all the sectors in which the Group operates.

Two new customer experience indicators were introduced into the Company in 2015: the Net Promoter Score (NPS) to measure the performance of business units (Bancoposta, Mail, Communications and Logistics and Poste Vita) and the Customer Effort Score (CES) to monitor the various channels (post offices, call centres and the internet).

Based on the information from customer surveys, a detailed analysis and priority list is developed, which is useful for planning improvement activities.

The Company also set out a customer-centred design process, aimed at obtaining simple and effective user interaction at the various touch points (including post office layout, apps and the internet), which puts customers at the centre of design activities, involving them from the outset through needs analysis, and verification of the concept and the usability of the prototypes created.

Since 2016, improvement of the process of monitoring the quality of customer relations has been integrated with Lean Six Sigma methodology, which is based on analysis of a large amount of data and the use of statistical tools to identify the causes of problems encountered by customers.

The quality of the Universal Postal Service

Product	Delivery within	2017		2016	
		Target	Actual	Target	Actual
Posta 1 - Priority	1 day	80.0%	82.2%	80.0%	83.9%
Posta 1 - Priority	4 days	98.0%	99.1%	98.0%	99.2%
Posta 4 - Ordinary ⁽¹⁾	4 days	90.0%	91.2%	90.0%	96.0%
Bulk mail	4 days	90.0%	96.7%	90.0%	97.0%
Registered mail	4 days	90.0%	95.1%	90.0%	97.0%
Insured mail	4 days	90.0%	99.6%	90.0%	99.8%
Standard parcels	4 days	90.0%	92.2%	90.0%	96.8%

⁽¹⁾ Based on data certified by IZI at the request of AGCom.

The relationship with consumer associations

In 2011, Poste Italiane and representatives of the 19 consumer associations that belong to the Advisory Committee signed a framework agreement, which was renewed in 2014, that defined rules for dialogue and established *Cantiere consumatori*, a permanent advisory working group, aimed at constantly improving the quality of the products and services offered to customers. The agreement guarantees stability in relations with consumer associations, and has boosted dialogue and cooperation. The permanent working group has given rise to various projects to provide joint information to customers on important issues such as new products, tariffs and service reorganisation, while settlement procedures have continued to be a tool for the amicable settlement of disputes. Since 2015, settlement procedures have been part of the AGCom (Italian Communications Authority) dispute management system and are among the list of alternative dispute resolution (ADR) procedures recognised by law, including with regard to the European Union. In the last two years, Group company settlement procedures have generated a total of 3,043 applications for conciliation, of which 2,452 have been discussed. Taking into account the outcomes over the last two years, agreement has been reached by the parties in 75% of cases.

Settlements

	2016	2017
Retail postal product disputes discussed	678	831
<i>of which settled</i>	88%	84%
Business postal product disputes discussed	37	94
<i>of which settled</i>	68%	88%
Bancaposta product disputes discussed	352	370
<i>of which settled</i>	51%	49%
PosteMobile product disputes discussed	17	38
<i>of which settled</i>	71%	61%
IRS Real Estate Fund disputes discussed	n.a.	35
<i>of which settled</i>	n.a.	100%
Total disputes discussed	1,084	1,368
<i>of which settled</i>	811	1,022

Keeping in touch with customers

The cooperation of customers in the submission of complaints is essential in identifying and eliminating the causes of inconveniences and putting in place the necessary corrective actions to improve processes. All Group companies have implemented specific procedures that set out principles and rules for handling complaints, which are approved and periodically reviewed by the Boards of Directors.

In 2017, the "Poste Risponde" Contact Centre handled more than 26 million contacts (21 million in 2016). Assistance is provided regarding financial and postal services, insurance and pension services and the mobile telecommunications services provided by Poste Mobile. In 2017, two new toll-free numbers were dedicated to customer care and the start-up of Health Card-related services at post offices. Customer care

campaigns were conducted, involving approximately 15,000 calls aimed at gathering opinions on specific after-sales processes.

In 2017, Poste Italiane and 12 other large companies signed a memorandum of understanding regarding call centres, which set out good social and commercial practices for managing customer contact services, either directly or indirectly. The objective is to limit relocation "by setting the threshold for services provided in Italy at 80%", and also by establishing that "95% of direct activities are carried out in Italy within six months of signing a contract, and that for new contracts at least 80% of the outsourced activities are carried out in Italy".

Customer complaints by type

	2016	2017
Post offices		
Complaints received (no.)	9,880	10,096
Average reply time (days)	n.d.	32
Mail		
Complaints received (no.)	96,177	89,681
Average reply time (days)	22	34
Parcels		
Complaints received (no.)	92,300	122,580
Average reply time (days)	21	14
Financial services		
Complaints received*	60,961	76,107
Average reply time (days)	35	21
Insurance services		
Complaints received (no.)	3,658	2,577
Average reply time (days)	16	16
Investigations initiated by the Insurance Regulator (no.)	299	169
Poste Mobile complaints		
Mobile telephone complaints received** (no.)	141,356	33,098
Average reply time (days)	12	3
Landline complaints received (no.)	n.a.	469
Average reply time (days)	n.a.	6

* The increase in BancoPosta complaints (the figures do not include appeals to the extrajudicial Financial and Banking Ombudsman and Financial Disputes Ombudsman) primarily regarded these products: Savings Books, due to the lowering of interest rates and an increase in the number of ISEE (Equivalent Economic Status Indicator) checks on deposits; prepaid cards due to the gradual introduction of Postepay Evolution, which offers more services to customers; Interest-bearing Postal Certificates, due to customers' differing yield expectations.

** The high volume of mobile telephone complaints in 2016 is connected with technical malfunctions occurring during initial trials of the mass migration of customers from the ESP to the FULL platform. In 2017, complaints decreased thanks to certain measures taken, implemented from the end of 2016.

Post office waiting times

The new queue management system, present in 2,948 post offices (23%), is a multi-channel system that cuts service provision and use times by scheduling priorities and flows based on the number of users in a queue. The new technology enables the use of various channels to access a post office, including a service selection kiosk, a reader for BancoPosta, Libretto and Impresa cards, digital channels (apps and websites) for booking appointments, and QR code scanning for collecting mail and parcels held at post offices.

Customers' experience in post offices*

	2016	2017
Average waiting time in post offices (minutes)	8.61	8.97
Customer served within 15 minutes (%)	82.9	81.9
Waiting times (1-10)*	7.9	8.0
Overall post office experience*	8.4	8.7

* Source: Post Office Barometer 2017, 5,069 interviews with post office users, Doxa.

Combatting corruption

Comply with current legislation regarding combatting all forms of active and passive corruption.

Corruption is an unacceptable obstacle to business efficiency and fair competition. Poste Italiane has identified organisational responsibilities and adopted specific policies to ensure appropriate management of this issue. To this end, the Company has set up a Fraud Management and Security Intelligence function, which is an operational and functional reference point for corporate structures to report illegal or suspicious events, and constantly provides an anti-fraud service engaged on several fronts: analysis and assessment of fraud risks; direct collaboration with the police, the judicial police and the judicial authorities; support for other corporate functions such as business and money laundering prevention; in-depth digital forensics analysis for IT incidents; implementation of project initiatives aimed at ensuring improvement of security levels and supervision of activities designed to prevent, mitigate and combat fraud; activities for detecting, monitoring and combatting fraudulent attacks on digital service customers and on the physical channel; monitoring and blocking suspicious/fraudulent transactions; reporting aimed at monitoring performance levels and fraud trends; specialist anti-fraud support for the analysis and definition of security requirements for new products and services. In addition, it provides support to the Supervisory Board regarding investigations of reports of offences, as provided for by Legislative Decree 231/01.

In line with national and international best practices and the relevant legal and regulatory framework, in 2016 and 2017, during the risk assessment phase the Internal Auditing function analysed 100% of the processes, identifying 30 processes at risk of corruption, including the procurement process, corporate finance and human resources management. Moreover, by carrying out audits, the Internal Auditing function has guaranteed various coverage levels for processes at risk of corruption, which in 2017 amounted to 94%.

Percentage of coverage* of processes at risk of corruption by auditing initiatives [GRI 205-1]

	2016	2017
High coverage	67%	94%
Medium coverage	33%	3%
Low coverage	0%	3%

* The coverage represents the number of audits as a percentage of total corporate processes

Total number of employees involved in specific training activities regarding corruption prevention issues *

	2016	2017
Total staff	99,963	56,052
of which:		
Executives	179	261
Middle managers	12,441	6,726
Operational staff	87,343	49,065

*The content on this matter in the online course on "Legislative Decree 231/01" was considered to be anti-corruption training.

Whistleblowing

Whistleblowers are employees who decide to report illegal conduct or a danger that might damage their organisation of which they have become aware during the course of their work. Ensuring the necessary protection measures and, even more, encouraging workers to report, can be decisive in combating corruption.

Poste Italiane has adopted guidelines (available on the Company's website at www.posteitaliane.it) aimed at regulating the internal whistleblowing system, regarding reporting, including anonymously, of actions or events relating to:

- violations of the internal and external rules that govern Poste Italiane's business and/or of the principles and rules of conduct contained in the Code of Ethics;
- illicit or fraudulent conduct carried out by employees, members of corporate bodies, or third parties (suppliers, consultants, collaborators, etc.) that may directly or indirectly cause business or financial damage and/or damage to the Company's image.

The aim is to encourage the spread of ethical behaviour in the workplace, strengthen compliance with the rules and corporate governance, and protect investors and the various categories of users of the services offered. The guidelines adopted are intended to guarantee the confidentiality of the personal data of the person making the report and of the person allegedly responsible for the violation, without prejudice to the rules governing investigations or proceedings initiated by a judicial authority in relation to the facts reported. Reports may be sent, including anonymously, via traditional mail to this address: Comitato Valutazione Segnalazioni, Viale Europa no. 175 00144 Rome, or to this e-mail address: ComitatoValutazioneSegnalazioni@posteitaliane.it. The process of managing reports is overseen by the Whistleblowing Committee (the "Committee" or "WC"), coordinated by the Internal Auditing function, which carries out all investigative activities, assesses the checks to be made, and decides which corporate functions should be involved in assessment and recording, as well as ensuring the confidentiality of information and preparing periodic reports on the reports received. The complaints managed by the Committee in 2017 turned out to be unfounded, while, in one case, in 2016, they were confirmed. This was a report regarding fraud in the delivery quality monitoring process, which was the subject of a targeted audit by the Internal Auditing function. Some individuals were found to be responsible, which enabled the Company to take appropriate measures.

Reports managed by the Whistleblowing Committee [GRI 205-3]

	2016	2017
Reports handled (no.)	282	290
of which relating to corruption (no.)	23	23
of which confirmed (no.)	1	0

VALUING PEOPLE

Relations with social partners [GRI 102-41]

Establish relations with labour unions, based on the principles of fairness and respect for roles, with the aim of finding shared solutions aimed at achieving growth, competitiveness and business continuity.

Relations between Poste Italiane and the labour unions is based on a system involving negotiation, dialogue, consultation and periodic, preventive reporting, in compliance with the collective agreements that apply to Group companies and cover 100% of employees. Poste Italiane's National Collective Labour Agreement covers approximately 95% of employees, while SDA and Mistral Air have autonomous contractual regulations.

In line with sharing activities with the labour unions, on 8 February 2018 a draft agreement was signed regarding reorganisation of Delivery activities.

This restructuring will take place during 2018 and 2019. The Parties also defined procedures for managing the labour surplus resulting from this reorganisation process, excluding recourse to collective redundancy procedures pursuant to articles 4 and 24 of Law 223/91.

The agreement represents one of the key elements that enable achievement of the efficiencies envisaged in the Deliver 2022 Strategic Plan, thus guaranteeing growth, competitiveness and business continuity.

National Collective Labour Agreement for non-managerial Poste Italiane staff

As already mentioned, on 30 November 2017, the new National Collective Labour Agreement for non-managerial staff was signed for a three-year period (from 1 January 2016 to 31 December 2018). In terms of remuneration, the increase in minimum wage rates was defined and a one-off payment was agreed to cover

the period between agreements. On the regulatory front, the text of the agreement was revised to incorporate legislative changes and two important protocols on "procurement" and "harassment and violence in the workplace" were signed. With regard to relations, the national and corporate/regional bargaining structure was modified, with related clarification of the matters subject to bargaining, and the single text on representation signed by Confindustria and the labour unions on 10 January 2014 was adopted. Finally, the participation system was strengthened through the reconfiguration of the Poste Italiane Group's National Committee (formerly called the Joint National Observatory), and through the introduction of a new supplementary health care committee.

[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 (2017–2019) and, compared with 2016, has reduced the total number of hours of leave available over the three-year period by approximately 66,000.

[Labour union protection pursuant to art. 14 of the National Collective Labour Agreement](#)

On 30 November 2017, at the same time as the renewal of the National Collective Labour Agreement, an agreement was signed which regulates the percentage limits regarding the protection and availability of joint and Company labour union representatives and union executives engaged in negotiating the National Collective Labour Agreement. The agreement, which has the same duration as the National Collective Labour Agreement, stipulates that protection of so-called "non-transferability" also applies to union executives, up to a maximum of 3.3% of the members in each production unit.

[Bilateral Agencies](#)

In 2017, the activities of the *Ente Bilaterale per la Formazione e Riqualificazione del Personale* (the Bilateral Agency for Staff Training and Retraining) continued. This contributed towards the discussion and presentation of various projects, and several agreements were signed that enabled the Company to obtain finance from Fondimpresa.

The Joint National Body for workplace health and safety also continued its activities regarding the uniform and correct application of the guidelines on workers' health and safety, with a special focus on issues relating to the new criteria for assessing the risk of work-related stress.

[European Social Dialogue \[GRI 102-13\]](#)

The Training, Health and Safety working group of the Social Dialogue Committee of the European postal sector, chaired by Poste Italiane, continued with implementation of the project entitled *Promoting Social Dialogue in the postal sector in an enlarged Europe*. The initiative, which is funded by the European Commission, aims to raise awareness of European social dialogue among European postal service providers and labour unions, and to analyse the impact of digitalisation in the postal sector, with particular reference to training and retraining programmes.

[Strengthening of sorting and delivery processes](#)

With regard to the Amazon contract, and in particular management of the increased volumes of the Promopacco Plus product, on 4 August 2017 an agreement was signed regarding steps to strengthen the sorting and delivery processes. The agreement introduced new shift arrangements to be agreed upon in subsequent regional-level agreements.

Health and safety

Ensure high standards of health, safety and security for workers and customers at all the Group's premises; on all the means of transport used, including by suppliers, for delivery services; when staff are travelling.

Poste Italiane considers workplace health and safety to be a fundamental value, to be considered by everyone in the performance of their everyday duties. Poste Italiane has identified organisational responsibilities and adopted specific policies to ensure appropriate management of this issue.

The Group has also adopted all the necessary measures to reduce accidents, workplace injuries and occupational diseases, and promotes people's psycho-physical wellbeing via prevention policies and programmes and information and awareness-raising campaigns. SDA, Poste Italiane and Postel have received OHSAS 18001 certification for their workplace health and safety management system, which involves central and regional facilities and identifies roles and responsibilities in the implementation of obligations. In 2017, the employer model was redefined by dividing the Company into 7 production units (instead of the previous 5), with identification of acting managers among Employers as defined by Legislative Decree 81/2008, as amended.

The Group's health and safety policy defines the key elements of the management system, including:

- continuous assessment of risks and the definition/update of related rules and procedures;
- ensuring that innovations and changes in work processes are always accompanied by workers' health and safety objectives;
- timely adaptation to all regulatory changes and updates;
- identification of roles and responsibilities within the organisation and allocation of the necessary resources for planning and implementing the programmes aimed at achieving the objectives;
- effective and transparent communication that ensures dissemination of any information that might be useful for prevention purposes, including cooperation and coordination measures with contractors;
- periodic review of the management system by senior management to assess its correctness and effectiveness with a view to achieving continuous improvements.

In accordance with the Group's policy, each employer has approved the policy for its production unit, and made it available to all workers.

In 2017, an important framework agreement was signed with the Ministry of the Interior, aimed at consolidating collaboration with the Postal and Communications Police on security matters to prevent and combat illegal activities, such as fraud and cyberattacks perpetrated against users of the financial, postal, logistics and insurance services offered by the Group.

Vehicle safety

As part of the process of modernising its corporate fleet, Poste Italiane is gradually introducing vehicles equipped with the Black Box system, consisting of technological equipment aimed at collecting data regarding identification of a vehicle's geographical position, detection of accidents and reconstruction of their dynamics, refuelling stops, and reading the badge of an employee who is picking up a vehicle or when a vehicle enters and leaves a workshop. This device also enables monitoring of the expiry of vehicle maintenance operations, and the drawing up of a precise schedule. The Black Box system is also a useful deterrent against vehicle theft and the resulting damage or inconvenience caused to customers.

As regards the Air Safety regulatory requirements applied to Mistral Air's fleet, in 2017 renewal of the Airport Handling Agent Certification was requested, which enables mail ground handling services to be carried out at

sites inside and outside an airport. This certification, together with the Agent Regulations certification, enables security checks to be carried out on cargo and mail, in order to guarantee the safety of persons and prevent unlawful acts from being committed on aircraft.

Post office security

The physical safety strategies, procedures and measures put in place to protect employees and corporate assets are designed to limit exposure to criminal attacks and have positive effects on the safety conditions of workplaces and areas open to the public. During 2017, initiatives were continued to ensure standardised management of security and caretaking services, with extension of the scope of responsibility to the entire Group with regard to the specific needs of individual companies. In particular, activities continued to strengthen the security of post offices, with integration of and replacement by high-tech alarm and video surveillance systems, as well as implementation of anti-theft protection systems and building improvements to raise the level of physical safety and prepare them for the installation of new ATM equipment.

Poste Italiane's Technology Campus includes the Business Control Centre (BCC), where business processes are monitored to prevent damage and malfunctions, and to guarantee the quality of services and the protection of transactions, products, customers and staff. Fraud attempts are detected and blocked online and at post offices in the Security Room, in order to guarantee customers' virtual and physical security. In addition, the Company's sites are monitored via a network of remote and video surveillance. The system enables the filtering of reports received, and the identification of those for which police intervention is requested.

National security

Poste Italiane receives alert messages issued by the Italy Situations Room run by the National Civil Protection Department and is included in the main emergency planning tools, such as the national seismic risk rescue programme and the emergency plan for the Mount Vesuvius-Phlegraean Fields area. The Group also receives weather alert messages from the Central Operations Centre regarding hydrogeological and hydraulic risk, enabling it to ensure information and prevention initiatives are arranged at regional level.

With the Prime Ministerial Directive of 17 February 2017, Poste Italiane was also included in the national alert system for tsunamis generated by earthquakes (*SIAM* - published in the Official Gazette on 6 June 2017), which, within its area of responsibility, has assigned the Company the task of implementing and managing alerts issued by the Civil Protection Department.

Security training for staff

Poste Italiane has brought the Company into line with all the rules and regulations, thus guaranteeing the continuity of existing training programmes and implementing new teaching methods to improve the quality of service provided, with particular reference to managers and supervisors who hold key roles in the organisation of security. Training initiatives based on innovative classroom management techniques were addressed to this particular target group in order to develop further awareness of the role. Training programmes aimed at emergency teams were also strengthened. In 2017, a total of approximately 400,000 hours of training in workplace safety were provided.

Finally, the Company has drawn up an information plan (art. 36 of Consolidated Law 81/08) focused on disseminating knowledge of the protection measures set out in the Risk Assessment Document, which is sent to all personnel who work in Poste Italiane's main Communications and Logistics and Private Customer production units (the information handbooks have been sent to over 100,000 staff).

Occupational injuries

The most accident-prone process is delivery, where the most hazardous activity is the use of motorcycles. In 2017, the second OHS Operational Audit/Awareness Raising activity provided for in the OHS Verification and Monitoring Plan continued, involving 18 key post offices in terms of size and number of delivery staff, as well as 50 Distribution Centres among those with the highest injury rates. This awareness-raising activity was supported by OHS technical audits (plant and structural aspects) carried out at 122 operating and management sites throughout Italy, and 59 audits on the management systems adopted in accordance with OHSAS 18001.

Injury data* [GRI 403-2]

	2016		2017	
	Men	Women	Men	Women
Number of injuries	3,515	3,631	3,455	3,488
Number of workplace fatalities	1	0	1	2
Cases of occupational disease	9	12	14	10

* Accidents occurring on the move are not included. The number of accidents and accident rates do not include data for Mistral Air Srl, which is only included in the figures for occupational disease.

	2016	2017
Injury rate**	35.07	34.96
Lost day rate***	1.20	1.18
Occupational disease rate ****	0.10	0.12

**no. of injuries/hours worked x 1,000,000.

*** no. of days lost due to accidents/hours worked x 1,000

**** no. of cases of occupational disease/hours worked x 1,000,000

Number of injuries by type [GRI 403-2]

	2016	2017
Falls from a motorcycle	1,705	1,760
Accidents involving a Company vehicle	844	733
Hit by a car	28	30
Accident with a private vehicle	47	63
Fall and/or awkward movement	2,117	2,182
Physical attacks	539	544
Manual load handling	376	320
Robbery	337	216
Crushing/bruising	953	867
Other causes	200	228
Total	7,146	6,943

Human capital

Identify the best talents, promote training courses and strategies for professional enhancement and development. Protect the Group's intellectual assets, skills, know-how, experience and organisational knowledge.

Poste Italiane provides citizens, businesses and the Public Administration with the wealth of skills and experience of its people, which it monitors through guidelines designed to develop talent and provide professional training. Therefore, the Company has identified organisational responsibilities and adopted specific policies to ensure adequate management of the topic.

The objective is to build an organisation in which everyone may access a career development path, in which individuals participate personally with responsibility and involvement in the Group's development, by behaving ethically and guaranteeing the centrality of customers and service quality.

The Code of Ethics, which has been in use for several years, sets out a commitment to guarantee a working environment based on values of respect for people's rights and freedom, and equal social dignity without discrimination on grounds of nationality, language, gender, race, religious belief, political and labour union membership, or physical or mental conditions. The Group also encourages participation in corporate volunteering initiatives in collaboration with the PosteInsieme not-for-profit foundation.

Compliance with the Code of Ethics is also verified through analysis and assessment of reports of its violation. These activities are carried out with the support of the functions concerned (Internal Auditing and Corporate Affairs /GRM-Fraud Management and Security Intelligence). The Code of Ethics is also an integral and substantial part of the Organisational Model adopted in compliance with the provisions of Legislative Decree 231/2001. [GRI 102-16].

Poste Italiane's workforce in numbers

Information regarding employees [GRI 102-8]

Poste Italiane Group

	Number of employees ⁽¹⁾			
	Average for the year ended 31 December		At 31 December	
	2016	2017	2016	2017
Permanent workforce				
Executives	773	732	748	699
Middle managers	16,113	15,859	15,807	15,481
Operational staff	119,772	114,767	115,947	111,251
Total workforce on permanent contracts	136,658	131,358	132,502	127,431
Apprenticeships	32	12	23	4
Total permanent workforce	136,690	131,370	132,525	127,435
Flexible workforce				
Agency staff	11	27	3	50
Fixed-term contracts	4,545	6,643	4,211	9,070
Total flexible workforce	4,556	6,670	4,214	9,120
Total permanent and flexible workforce	141,246	138,040	136,739	136,555

⁽¹⁾ Expressed in full-time equivalent terms.

With 136,555 FTE employees working nationwide, Poste Italiane is Italy's largest employer. The Group's workforce comprises 72,307 women and 64,248 men, 93% of whom are on permanent contracts. As can be seen from the table below, fixed-term contracts were used more extensively in 2017 than in 2016. This reflects specific organisational efficiency requirements in the postal sector linked to seasonal peaks and the need for specific offices and zones.

Part-time contracts are widely used for organisational efficiency and work-life balance reasons, particularly by women. The percentage of female staff among middle managers and executives is 45%.

Information regarding employees [GRI 102-8]

Contract type	2016			2017		
	Men	Women	Total	Men	Women	Total
Permanent *	61,916	70,609	132,525	58,812	68,623	127,435
Flexible	2,539	1,675	4,214	5,436	3,684	9,120
Total **	64,455	72,284	136,739	64,248	72,307	136,555
Full time	62,686	68,102	130,788	62,557	68,256	130,813
Part time	3,280	7,084	10,364	3,133	6,828	9,961
Total ***	65,966	75,186	141,152	65,690	75,084	140,774

* Includes permanent staff and apprenticeships.

** Expressed in full-time equivalent terms.

*** Includes staff on fixed-term contracts and on temporary contracts. Data refers to the headcount at 31 December.

Classification of staff* by category, gender and age group*

	2016			2017		
	Men	Women	Total	Men	Women	Total
Executives	565	189	754	527	182	709
< 30 years of age	-	-	-	-	-	-
30 - 50 years of age	38.6%	40.2%	39.0%	35.3%	37.4%	35.8%
> 50 years of age	61.4%	59.8%	61.0%	64.7%	62.6%	64.2%
Middle managers	8,608	7,210	15,819	8,381	7,109	15,490
< 30 years of age	0.2%	0.2%	0.2%	0.3%	0.2%	0.3%
30 - 50 years of age	36.4%	37.9%	37.1%	37.0%	38.8%	37.9%
> 50 years of age	63.4%	61.9%	62.7%	62.7%	61.0%	61.9%
Operational staff	55,282	64,884	120,166	55,340	65,016	120,356
< 30 years of age	5.9%	3.6%	4.7%	7.9%	4.5%	6.1%
30 - 50 years of age	40.3%	48.0%	44.4%	41.2%	47.2%	44.4%
> 50 years of age	53.8%	48.4%	50.9%	50.9%	48.3%	49.5%

* Expressed in full-time equivalent terms.

The percentage of female staff among middle managers and executives is 45%.

Distribution of staff by educational qualification

	2016	2017
Degree	11.7%	12.2%
High school diploma	70.6%	70.8%
Middle school diploma	17.5%	16.8%
Elementary school certificate	0.2%	0.2%
TOTAL	100%	100%

Development activities

As part of the Human Resources Plan strategy, it is a priority to ensure that the recruitment processes for critical business roles are governed by systems that identify, assess and cultivate the best talent within the Company's workforce. In this context and in line with the Group's Personnel Development Guidelines, the Professional Guidance Programme (PGP) and the Managerial Lab (MLAB) continued, involving a total of 459 people in assessment, a skills workshop, feedback to managers and coaching. The aim is to monitor and develop the managerial and professional potential of young staff members and the managerial potential of the best performing managers. Assessment of managers' potential continued through the Leadership Assessment programme, which involved 18 staff and supplemented the first session held in 2016. Two pilot editions of the Poste Italiane Innovation Storm hackathon project were launched, involving around 100 talented people engaged in the design of innovative projects to support change. A campaign was also carried out to map the technical and specialist skills (Skill Up) of Distribution Centre managers, involving 468 employees in 33 Individual Business Coaching courses dedicated to managers under development. Management Review meetings were held with all department heads to identify the best resources for the definition of succession plans for level 2 positions, and for planning individual growth and development initiatives.

The 2016 performance appraisal process, which was carried out in 2017, involved Poste Italiane's entire workforce (approximately 135,000 appraisals in total) and 8,300 appraisers. In the period July-September 2017, interim feedback was introduced as an innovative phase of the process. For the first time, all the appraisees were able to access their appraisal form via the Company notice board. A pilot project was also launched which, in addition to appraising direct managers, introduced an appraisal by colleagues with whom they have significant organisational relations.

Employees who receive performance appraisals [GRI 404-2]

	2016	2017
Executives	84%	98%
Middle managers	93%	100%
Operational staff	90%	99%
Total	90%	99%

Number of participants in development programmes

	2016	2017
Development of talented young people (PGP)	356	299
Enhancement of middle managers under development (MLAB)	132	160
Assessment of executives' potential (leadership assessment)	43	18
Skills assessment*	n/a	468

* A programme introduced in 2017.

Professional training programmes

In 2017, more than 3.8 million hours of training were provided, including:

- Mandatory courses on Workplace Health and Safety, Privacy, Legislative Decree 231/01 Organisational Model, anti-money laundering and the financing of terrorism.
- Specialist technical training regarding business support, aimed at front-end staff and in general at sales channels and customer relations, with particular reference to the world of financial and insurance specialists; training regarding regulatory compliance requirements (including on matters relating to IVASS, the insurance regulator, and MIFID II, the Markets in Financial Instruments Directive, and the ESMA Guidelines); training for postmen and women whose role, given their proximity to the general public, carries great social responsibility; behavioural/cross-cutting training aimed at enhancing professional effectiveness and increasing skills that serve the business.
- Management training: aimed at strengthening leadership and management effectiveness, with a focus on marketing, performance assessment for lead appraisers, and digital and innovation topics. Poste Italiane also participated in the European "INNOV'AGE in the Postal Sector" project, aimed at promoting an understanding of age management in the postal sector at European level.

New hires will be able to participate in the InPoste System training programme, which is aimed at promoting awareness and understanding of the Group, its businesses and organisational culture, and facilitating their integration.

Average hours of training for employees by gender and category GRI 404-1

	2016			2017		
	Men	Women	Total	Men	Women	Total
Executives	30	36	32	27	29	28
Middle managers	40	45	42	52	64	57
Operational staff	17	21	19	21	27	24

Commitment to wellbeing

In 2017, Poste Italiane continued actions aimed at consolidating the welfare system, through ongoing initiatives on behalf of the most vulnerable and paying attention to vital social issues. The National Collective Labour Agreement for non-managerial staff of Poste Italiane SpA and of the Group companies to which it applies, which was signed with all the labour unions on 30 November 2017, introduced some important innovations regarding health and welfare. All staff on permanent contracts (including apprentices and new hires who have completed a trial period, if required) may subscribe - at the Company's expense - to the basic package of the PosteVitaFondosalute Supplementary Health Care Fund, which covers several essential

services such as hospitalisation in a treatment centre, compensation for loss of salary in the event of major surgery, highly specialised diagnostics and specialist outpatient visits. The new National Collective Labour Agreement also provides for an increase (from December 2018) in the Company's contribution to the supplementary pension fund (Fondoposte), which will play an increasingly important role in the working life of future generations and with regard to the delicate matter of protection in the event of illness.

In 2017, actions to support the special needs of personnel and family members continued, in application of corporate guidelines, including through the payment of allowances. The "PosteOrienta" project also continued, with the creation of educational and professional guidance seminars for employees' children, and activation of an interactive portal that gave guidance to 800 young people in making their study and employment choices. The Company has launched the "Work experience champions" project by signing a memorandum of understanding with the Ministry of Education, Universities and Research to promote work experience schemes. Regarding personal services, thematic campaigns were carried out and around 120 agreements signed regarding the application of special product and service offerings, with a specific focus on health services and summer camps for children and young people. Prevention initiatives have been implemented, providing 270 employees in 9 cities with access to free specialist medical examinations. The organisation of summer holidays continued, organised by a team of specialist operators, in which 40 disabled children of employees participated.

Responsible supply chain management [GRI 102-9; GRI 102-16]

Guarantee ethical behaviour within the supply chain, with particular reference to: legislative compliance; measures to combat fraud and corruption; working conditions and health and safety; and environmental aspects.

Commercial relations based on transparency and ethical negotiations can help to increase the effectiveness of business processes and competitiveness. In this context, a Code of Conduct has been in place for several years, aimed at guiding relations with suppliers and partners and promoting the spread of ethical principles and social responsibility in the supply chain, and also encouraging the achievement of quality (ISO 9001), environmental (e.g. ISO 14001), social (SA 8000) and occupational health and safety (OHSAS 18001) certification. The development of transparent and lasting relations with suppliers is a goal to be pursued, with a view to improving the service offered and more generally in the interests of Italy's economic system. The Code of Conduct for suppliers and partners is also one of the corporate monitoring tools used to prevent the offences set out in Legislative Decree 231/01.

As a "public enterprise" operating in special sectors, Poste Italiane applies the rules of public procurement pursuant to the new Public Procurement Code (Legislative Decree 50/2016, as amended by Legislative Decree 56/2017, the so-called "Corrective Decree"), for the award of contracts to postal services, as per art. 120 of the above Code.

The entry into force of the new rules, via the Corrective Decree of 20 May 2017, required an update of procurement and regulatory procedures, as well as of the documentation for tenders and contractual standards.

In November 2017, the Board of Directors of Poste Italiane approved the Internal Regulations regarding the procedures for awarding works, service and supply contracts, and completed the update of its internal procedures, which govern the procurement process regarding contracts subject to the Public Procurement Code, pursuant to the Code, as well as contracts excluded from the Code's scope of application.

Together with the Code when applicable, these procedures constitute the principal means of ensuring the statutory and regulatory compliance of Poste Italiane's procurement contracts.

The procedures for awarding contracts are usually carried out via the Procurement Portal ("Poste-procurement"), the web platform used for all procurement activities as well as for management of the Supplier Register. For the purposes of conducting award procedures, the Supplier Register is normally called upon if the related product or service is available from a registered supplier in accordance with the detailed rules for each category of good or service. These rules take into account the specific technical and organisational capabilities of potential suppliers in order to ensure equal access opportunities to the award procedures.

Furthermore, with reference to the organisational risk safeguards associated with procurement activities, the Fraud Management and Security Intelligence function carries out checks, assessment and monitoring of parties and counterparties (checks of a corporate and financial nature and on the assets of companies and their representatives, and an assessment of existing relations with Poste Italiane). The purpose of this activity is to limit the risks deriving from transactions with third parties; to guarantee adequate rotation of suppliers, and to minimise losses deriving from the non-payment of receivables.

[The supplier qualification system](#) [GRI 308-1] [GRI 414-1]

In 2006, in line with current legislation (art. 134 of the Public Procurement Code), the Group established its own Supplier Register in order to have a pool of suppliers with the capacity to meet the necessary requirements and to adopt definite and transparent selection criteria in the procedures used in the procurement of goods, services and works. Adoption of the Register has enabled simplification of contract award procedures, thus ensuring consistency among the parties selected in each product area and transparency towards the market.

Parties from EU member countries or third-party countries that are signatories of the General Agreement on Tariffs and Trade (GATT) may qualify as suppliers. The Supplier Register is organised into product categories, which are divided into subcategories and classes according to complexity. The categories have a duration of three years. Management of the Register is regulated by the Supplier Register Regulations which govern the qualification system, as well as by the Regulations that govern the qualification process for each product category. In terms of environmental sustainability, the system provides for access to the "Cleaning and Sanitation" and "Multiservice" categories, for holders of environmental management system certification in accordance with the UNI EN ISO 14001 standard. For the IT sector, a score is awarded to suppliers who have implemented one or more initiatives aimed at greater corporate sustainability or a Green IT strategy. 160 qualified suppliers have environmental sustainability requirements (20% of the pool of qualified suppliers, which includes around 800 companies). For enrolment in the "Cleaning and Sanitation" and "Multiservice" Register and in the Register for Class IV-*bis* Works and above, with regard to Social Responsibility and in compliance with Health and Safety regulations, operators must have SA8000 and OHSAS 18001 certification. The total number of qualified suppliers who meet the social requirements is 150.

In 2018, the Supplier Qualification System Guidelines were approved with the aim of setting out the criteria and methods to be applied in the qualification process for the business operators to be called upon for the award of works, supply and service contracts relating to strategic Group sectors, in line with the provisions of the Supplier Qualification System. In addition, the Supplier Register function was separated from the Procurement function and merged with the Group Risk Governance function.

[Social and environmental provisions in contracts](#) GRI 414-1

In its relations with the suppliers of works, services and goods, Poste Italiane operates on the basis of standard contractual provisions which may be revised in the light of regulatory provisions or adapted to meet specific internal requirements. Special attention is paid to social and environmental aspects: provisions regarding the regularity of social security contributions and remuneration; compliance with labour laws (Legislative Decree 276/03, Public Procurement Code); the applicability of Collective Labour Agreements; the absence of violations of occupational safety laws (Legislative Decree 81/2008); and the absence of environmental offences (Legislative Decree 152 of 3 April 2006).

Additional specific health and safety measures have been introduced into works contracts. The assessments and related measures are contained in the Safety and Coordination Plans (SCP) and in the specific Safety Operational Plans (SOP), with provisions for contract termination in the event of violations of the safety documentation.

Following the signing of the Transparency Protocol with the tax authorities, the contractual standards were supplemented with a specific provision.

[Green procurement](#) [GRI 308-1]

Green Public Procurement is a strategic choice for Poste Italiane as it combines sustainability in terms of reducing environmental impacts with cost savings. Article. 34 of the "Public Procurement Code" ("Energy and environmental sustainability criteria") – with regard to the award of public contracts of any nature and value – has made it compulsory to include in the project and tender documentation at least the technical specifications and contractual provisions contained in the "Minimum Environmental Criteria", or "MEC", listed in the documents approved for each product or service category by specific Ministerial Decree.

[Memorandum of Understanding with the tax authorities](#)

In December 2017, Poste Italiane and the tax authorities signed a Memorandum of Understanding with the aim of combating tax evasion, tax avoidance and fraud. The Company has undertaken to make data and information available to the tax authorities, which may be useful in pursuing these objectives, also via access to its own systems, including the web-based "Identity Check" system for reporting relevant information and news relating to the prevention and suppression of economic and financial offences.

Following the signing of the Memorandum with the tax authorities, the contractual standards were supplemented with a specific provision.

[Transparency](#)

At the end of 2017, Poste Italiane launched the new "Open and Transparent Contracts" portal, with a view to providing ever greater clarity for citizens, and to make public and accessible all information regarding contracts signed by the Company arising from competitive procedures relating to provision of goods and services, of EU relevance, and works subject to the Public Procurement Code, as well as contracts regarding the provision of goods, services and works that are excluded from the Public Procurement Code.

By consulting the portal, it is possible to find information about the number and details of individual contracts signed during a month, including the relative amount, duration, product area, award procedure, type, geographical location and the name of the successful bidder, as well as the names of subcontractors. By setting filters for each search field, specific information may be obtained about contracts published each month. The new website also provides access to the total number of contracts signed by Poste Italiane during the year, broken down by product area and economic value.

TAKING CARE OF THE WORLD AROUND US

Inclusion

Contribute to the process of integration of the most vulnerable groups and promote access to new information technologies and digital literacy (e.g. Education 2.0 in schools).

The Group has always been committed to offering simple insurance and financial products that can be readily understood by the general public and respond to current social needs.

Although Poste Italiane does not have a specific policy at Group level, it has launched a series of initiatives to promote social, financial and insurance inclusion. The Group also complies with the regulations on equal opportunities and has subscribed to the Equal Opportunities Charter, a declaration of intent voluntarily signed by companies of all sizes regarding the dissemination of a corporate culture and inclusive human resources policies, free of any discrimination and prejudice, and capable of valuing talents in all their diversity. The Group's 2017 Integrated Marketing Plan was drawn up with particular attention paid to the young, elderly and new Italian citizen targets, all customers for whom Poste Italiane wishes to be a qualified partner that is capable of responding to social needs and challenges with specific, simple and user-friendly postal, insurance, financial and telephone products.

Equal opportunity access to services

The attention Poste Italiane pays to customers with disabilities is an important value that has led to the creation of a new generation post offices without architectural barriers. Examples include ATMs with a headset attachment to provide a complete voice guidance system, which helps visually impaired and blind customers; and the navigation guidance system, which uses a series of high-contrast graphic maps that can be activated using a numerical touchpad. All of Poste Italiane's 7,257 ATMs enable visually impaired people to make withdrawals, and since December 2017 the list of movements has also been available.

Inclusive ATMs

	2016	2017
Total number of ATMs	7,249	7,257
of which:		
ATMs with touchpads for the visually impaired and the blind	7,249	7,257
ATMs with voice guidance	5,269	5,847

Cultural integration

The attention Poste Italiane pays to developments in the social environment, in which its approach to foreign citizens in Italy has become an important element in overcoming the language barrier, has resulted in the creation of 2 types of multi-ethnic post office, which offer postal services to Italian customers as well as to customers from various ethnic groups:

- mono-ethnic post offices, as a reference point in centres and/or neighbourhoods with a high concentration of specific communities. Examples include the post offices in Prato, where there is a large Chinese population, and the central post office in Foggia, which has a high concentration of African customers.
- multi-ethnic post offices, as a meeting point for the predominant ethnic groups in larger cities such as Rome, Milan and Turin.

To support the staff, the ethnic post offices are equipped with all communication and advertising material translated into the various languages of the identified target customers. At the end of 2017, 27 ethnic post offices were in operation, and also included the offering campaign for Italians of Chinese ethnicity who need to send parcels or remittances, or make calls to China.

Cultural integration post offices

	2016	2017
Mono-ethnic (no.)	2	2
Multi-ethnic (no.)	21	25
Number of customers served	2,751,153	3,311,214
Total transactions carried out	5,379,679	5,503,076

Financial inclusion of citizens in difficulty

In 2017, provision of the service to issue the Carta Acquisti (Social Card), which was launched in 2008, continued.

Following the award of a contract, Poste Italiane, acting as the agent for a temporary consortium set up by Poste - Postel, has entered into an agreement (6 September 2017 - 5 September 2020) with the Ministry of the Economy and Finance regarding integrated management of the Social Card (*Carta Acquisti*) and the Support for Active Inclusion (*SIA*) Card. In October 2017, a combined initiative to combat poverty at national level, involving the issue of the *REI* (Inclusion Income) card, was launched. This enabled applications for the Inclusion Income Card from 1 December 2017 (from 1 November 2017, it was no longer possible to submit an application for the SIA card). With the issue of an Inclusion Income Card, the related benefits became available from 1 January 2018. The integrated management service provides for the issue of an electronic payment card (prepaid) on which a financial contribution is loaded to support categories of citizens in financial difficulty, who have demonstrated that they meet the requirements set out in the relevant regulations for the type of card concerned.

The main services offered are:

- collection and digitalisation of applications for the Social Card only;
- the issue and distribution of cards;
- periodic top-ups of active/issued cards;
- the issue of cards through the network of enabled post offices;
- the replacement of cards in the event of theft, loss, etc.;
- reporting services;
- the printing of forms (Social Card only) and information material;
- telephone assistance services (Interactive Voice Response);
- services regarding automated text messages for each transaction carried out, and the balance and credit remaining on the card;
- a website providing information.

At 31 December 2017, approximately 1 million cards had been activated.

Inclusion of minors

In the financial sector, new types of products and services have been progressively introduced over the years, to meet the different needs of customers. For example, the Saving Book for minors is a simple solution designed to introduce young people to the world of savings. The types of Savings Book vary according to a minor's age: *lo cresco* (I grow up) from 0-12 years old; *lo conosco* (I know) from 12-14 years old; and *lo capisco* (I understand) from 14-18 years old. Each product offers three different levels of autonomy for

savers. Similarly, the Interest-bearing Postal Certificate for minors and the “*Piccoli e buoni*” savings plan are specific products for this category of customer.

[Il Risparmio che fa Scuola \(savings education project\)](#)

The Risparmio che fa Scuola project arose from an earlier memorandum of understanding signed on 28 October 2014 by Poste Italiane, Cassa Depositi e Prestiti SpA and the Ministry of Education, Universities and Research, in which the parties committed to promoting the culture and values of savings at Italian schools of all levels. At the end of 2017, the memorandum of understanding was renewed, for a five-year period, in order to relaunch the project through the creation of a training programme aimed at giving young people the necessary economic, financial and citizenship skills to use savings as a development tool for Italy.

Teachers who participate in the project will be able to obtain training credits that will contribute to their school's self-assessment report. The programme will be proposed to all schools throughout Italy.

[Inclusion of senior citizen customers](#)

In Italy, more than 21% of the population is over 65 years of age, and around 70% of this age group are customers of the Group. The level of digitalisation of senior citizens falls as they grow older, and in particular internet use halves if the 55-59 age group is compared to the 65-74 age group (falling from 60% to 26%). With the aim of facilitating access to new digital services and facilitating the inclusion of citizens, the digital literacy programme, "Grandparents online. Everyone's young at Poste Italiane", was introduced. Likewise, the "Poste Italiane is here" initiative was launched, which assigns postmen and women the task of loaning a tablet computer to the over-65s and teaching them how to use it.

In October 2017, the "Senior Programme" campaign was also launched for the over-60s, involving approximately 2,000 post offices (15%), with the aim of promoting a package of dedicated services, with special benefits ranging from fixed and mobile telephone solutions, to the *PostaProtezione Infortuni Senior* insurance policy and the *Quinto BancoPosta Pensionati* loan product.

In 2017, a substantial portion of customers opening a retail current account or a prepaid card (Standard or Evolution) were in the categories most at risk of financial exclusion (young people, senior citizens and “new Italians”), obviously taking into account the specific nature of the products under consideration (e.g. Postepay is very common among young people due to its simplicity and online payment function).

[New customers in the categories most at risk of financial exclusion as a percentage of total new acquisitions*](#)

	2016	2017
New retail current account openings		
Percentage of young current account holders (under 35)	24.6	25.4
Percentage of senior current account holders (over 65)	24.0	24.4
Percentage of current account holders who are "new Italians"	16.5	17.6
New Postepay standard cards**		
Percentage of young Postepay standard card holders (under 35)	39.1	38.0
Percentage of senior Postepay standard card holders (over 65)	6.4	7.0
Percentage of Postepay standard card holders who are "new Italians"	12.4	12.6
New Postepay Evolution cards**		
Percentage of young Postepay Evolution card holders (under 35)	44.4	45.9
Percentage of senior Postepay Evolution card holders (over 65)	5.3	5.5
Percentage of Postepay Evolution card holders who are "new Italians"	19.6	20.6

* The young and senior categories include new accounts or cards for both Italians and immigrants, while the figures for new Italians (“immigrants”) also include a portion of young people and senior citizens.

** For Postepay Standard and Evolution cards, renewals during the year are excluded.

[Insurance inclusion](#)

The Poste Vita Group is constantly committed to promoting insurance inclusion, by developing specific products such as "Posta protezione Dal Mondo", which offers foreign citizens legally residing in Italy accident

insurance and certain assistance services that guarantee their loved ones compensation in the event of death due to an accident, or a predefined sum in the event of permanent disability of 60% or more following accidents at work or during their free time.

In 2017, Poste Assicura launched the "It's always a good day to protect yourself" competition, dedicated to all Italian citizens who have decided to purchase personal and property protection products. The competition provided for the award of 54 premiums per month, with a total of 324 premiums.

[Gender inclusion](#)

Due to its size and the significant presence of women, over the years Poste Italiane has responsibly promoted a broader protection of gender equality and maternity in particular, through a series of dedicated initiatives. In this regard, various benefits have been activated, including women-only parking spaces, a telecommuting option and registration of children for summer camps and crèches. In addition, training courses, events, testimonies and inter-company working groups have been held on the topics of diversity management, conciliation and welfare. Poste Italiane also participates in inter-company mentorship projects to promote the professional development of women for managerial roles, management training, skill building and role model training initiatives to promote topics connected with gender balance, and inter-company Welfare Lab programmes to develop and share best practices regarding conciliation and flexibility issues.

The Maam U "maternity as master" project continued, with around 370 registrations with the maam platform. This training course, dedicated to women on maternity leave, may be accessed via a computer tool that enables discovery and practice of soft skills acquired during motherhood (relational, organisational, creative, etc.) to be used in the social and working context. The plan was associated with a new service, called "engage", aimed at facilitating dialogue, via a dedicated app, between managers and staff on maternity leave to promote an effective return to work. The service saw 100 activations in 2017. An online community was also set up for women who participate in the programme.

Poste Italiane also participates in the "Diversity and Inclusion" network, aimed at identifying and sharing best practices and possible synergies, and also joined the "Women in Motion" initiative, designed to promote the study of technical subjects among the younger generation, via inter-company counselling and community initiatives. Regarding parental leave, the Company guarantees better treatment than that provided by law. Indeed, the female staff who benefit from it are entitled to 100% of their salary for all 5 months of absence from work, compared with the payment of 80% of salary provided by law. In addition, 80% of salary is guaranteed for the first two months (instead of the 30% provided for by law) for a parent who opts to benefit from it, limited to the first six years of the child's life.

When new legislation is introduced on maternity and paternity protection, specific information campaigns are carried out to update staff on the arrangements provided to protect this right, in order to encourage and support active parenthood for both parents.

[Equal Opportunities Committee](#)

The Equal Opportunities Committee was renamed the "Committee for implementation of the principles of equal treatment and equal opportunities" on the occasion of renewal of the National Collective Labour Agreement and is made up, at national level, of six members appointed by Poste Italiane and one representative from each national labour union signing the National Collective Labour Agreement appointed by the labour unions themselves. The Committee, which is aimed at strengthening a culture of diversity in order to eliminate obstacles to the achievement of equal opportunities, meets quarterly at national level and every six months at regional level.

Inclusion of disabled people

Regarding the inclusion of people with disabilities, the Company implements concrete measures to contribute to the elimination of physical, sensory and cultural barriers. The related training initiatives are:

- "School ship" - a project aimed at improving professional inclusion through computer literacy and behavioural courses for deaf people. The method used involves setting up field trials of diversified training actions, to be systematised and replicated in various areas at national level.
- "Culture and Disability" - modules for Postal, Communications and Logistics function trainers (activated in 2016) to raise awareness of disability issues among the people involved, provide information and define strategies to overcome barriers of various kinds, and to make training courses accessible to everyone. The classroom trainer awareness-raising plan also led to a complete review of the teaching material.

Sustainable logistics

Provide logistics solutions that reduce atmospheric emissions and the use of non-renewable natural resources, with particular reference to the mail and parcel delivery sector.

Although Poste Italiane has no specific policy at Group level, it has always paid attention to the continuous renewal of its fleet with more environmentally-friendly vehicles, such as hybrid cars and electric vehicles, by optimising logistics routes thanks to the latest generation technologies, and by requesting minimum environmental requirements from outsourced transport suppliers, who are required to use vehicles that are at least in the Euro 4 class.

Mail and parcels logistics

Poste Italiane plans and manages the mail and parcels commercial offering and distribution throughout the entire process of acceptance, collection, sorting, transport, delivery and management of returns, also using the services of the subsidiaries, Postel and SDA.

To make its logistics even more sustainable, Poste Italiane has adopted PTV Smartour, a software application for planning and optimising transport and distribution that manages delivery and collection of orders using an algorithm that enables route optimisation.

The integrated logistics chain at regional level is divided into two supervisory levels, one for coordination and one for operations. The first is guaranteed by Area Logistics Offices, each of which has regional or multi-regional coverage, that are responsible for ensuring the smooth running of the logistics process, through coordination of operating structures and planning of resources in line with traffic flows, as well as ensuring management and accurate recording of administrative and accounting events. At operating level, each Area Logistics Office consists of:

- Sorting Centres, broken down into Postal Sorting Centres, which are highly automated industrial sites that serve a specific area comprising several provinces, and Priority Centres, which are smaller sites where only "fast" products are manually sorted.
- Distribution Centres, which are regional centres that provide distribution, delivery and logistics support for the areas under their respective responsibility. They provide specialised deliveries, value-added services and, where available, notification messenger activities, delivery of undelivered mail and large account acceptance; in some cases they coordinate Secondary Distribution Centres and Decentralised Distribution Centres.

In addition to the Sorting and Distribution Centres, Service Centres that carry out value-added activities (for example, dematerialisation, electronic document management, address standardisation, etc.) in relation to specific services may also be present at Area Logistics Offices.

The Group's integrated logistics chain is organised into 9 Area Logistics Offices, 23 Sorting Centres (including 16 Postal Sorting Centres and 7 Priority Centres) and 2,051 Delivery Offices. The physical sites in the supply chain are connected via a primary network of motorway and air routes, which are integrated within an organisation of independent SDA couriers and external road, rail and air carriers as needed.

The "Regulations regarding the use and maintenance of company vehicles" provide operating and behavioural instructions to staff using the vehicles, set out the responsibilities and tasks of the central and local vehicle management organisational structures, and define the activities and responsibilities relating to routine and special vehicle maintenance processes.

Vehicle fleet numbers

The corporate fleet, which is used for the delivery of mail and parcels, comprises over 38,000 vehicles at 31 December 2017 and breaks down into the following types: motorcycles and quadricycles, delivery vehicles, vans and light trucks, and saloon cars for service use.

The Group's commitment is reflected in the growing use of vehicles with a lower environmental impact, including 4,369 alternative fuel vehicles, of which 1,064 electric-powered vehicles, 119 hybrid vehicles and approximately 3,192 petrol/natural gas and petrol/ LPG powered vehicles. CO₂ emissions per km travelled decreased in 2017 from 215 grams per km to 210 grams per km, thanks to the introduction of LPG vehicles, vehicles with lower engine capacities and measures to optimise transport loads.

Corporate fleet data

	2016	2017
Total km travelled	328,223,769	336,360,628
Total vehicles	50,528	38,690
of which:		
traditional vehicles (no.)	45,176	34,321
alternative vehicles (no.)	5,676	4,693
of which:		
Bicycles (no.)	324	324
Electric vehicles (no.)	1,091	1,064
Hybrid cars (no.)	32	113
Petrol-natural gas fuelled vehicles	2,963	2,210
Petrol-LPG fuelled vehicles	-	982
Diesel-natural gas fuelled vehicles	339	-
LPG fuelled vehicles	927	-
Percentage of alternative vehicles	11.2%	12.1%
grams of CO ₂ /Km	215	210

Energy consumption and CO₂ emissions within the corporate road fleet [GRI- 302-1; GRI- 305-1 GRI- 305-2]

	2016	2017
Diesel (GJ)	422,061	739,837
Petrol (GJ)	553,678	173,279
Natural gas (GJ)	55,890	60,553
LPG (GJ)	1,693	23,351
Certified guarantee of origin electricity (GJ)	1,540	1,682
Total energy (GJ)	1,034,862	998,702
Direct emissions - Scope 1 (t)	72,873	71,676
Indirect emissions - Scope 2 (t)*	0	0

* Electricity used to fuel vehicles entirely from renewable sources.

Logistics under contract

A part of the Group's logistics services, equal to approximately two-thirds in terms of energy consumption and a significant portion of dedicated human resources, are managed by Poste Italiane and SDA Express Courier (the Group company that provides express courier services to business customers) with the help of a network of suppliers.

Energy consumption and CO2 emissions of logistics road vehicles under contract [GRI- 302-2; GRI- 305-3]

	2016	2017
Energy from outside the Group (GJ)	1,861,003	1,675,733
Other types of emissions from outside the Group - Scope 3 (t)	137,488	123,753

Mistral Air aircraft fleet

Mistral Air is the Group company that provides air mail transport services for Poste Italiane.

The Company is included in the list of airlines operating in the 31 EEA (European Economic Area) member states and is subject to EU Directive 2008/101/EC (EU ETS). In line with these commitments, special attention is paid to environmental protection through monitoring emissions and optimising the fleet's fuel consumption.

Table 30 - Air transport fleet data

	2016	2017
Number of aircraft	28	25
Mail	2,648	3,247
Charter	4,985	9,512

Energy consumption and emissions * of postal and air transport [GRI 302-1; GRI 305-1]

	2016	2017
Energy within the Group (GJ)	919,688	1,104,614
Direct emissions - Scope 1 (t) **	65,692	78,901

* Includes flights made by Alitalia on behalf of Poste Italiane.

** Conversion factor: 1 tonne of jet fuel * 3.15.

Mobility management

In 2017, the Group continued to promote mobility management, with the aim of proposing sustainable mobility solutions in urban areas. Agreements for the benefit of staff continued, including the purchase of annual local public transport season tickets at reduced rates and in instalments in various Italian cities (in some cases extended to employees' children), and initiatives to raise awareness of the importance of adopting sustainable lifestyles in order to help reduce CO₂ emissions into the atmosphere. In this context, in 2017 the Company car-sharing service for continued in Milan, accessible via the "PosteMobilityOffice" platform, which enables use of only one private vehicle by a group of employees for their daily commuting. In addition, 900 car-sharing driving time vouchers were allocated in the cities of Milan, Turin, Florence and Rome to promote new collective forms of urban transport. Two campaigns dedicated to cycling were also promoted during the year: #IoVadoInBici, for employees who have opted to commute to and from work by bicycle; #MyPostoBiciVerona, for Sorting Centre staff in Verona who systematically use bicycles as a means of transport, and who have been provided with free bicycle parking spaces under a special agreement.

The overall impact of Mobility Management actions in 2017 has enabled a reduction of over 9,000 tonnes of CO₂, both in terms of reduced atmospheric emissions and the monetary value of the external economic costs avoided, thus generating a reduction in emissions equal to 38% of the total amount produced.

Green building

Minimise the environmental impact of the Group's offices and buildings, in terms of energy use, water consumption, waste, and raw material consumption. Promote green procurement by incorporating "minimum environmental criteria" in all phases of the goods and services procurement process.

Poste Italiane has identified organisational responsibilities and adopted specific policies to ensure adequate management of this issue.

The commitment to adopt measures aimed at reducing the environmental impact of its activities and raising awareness of people's respect for the environment is set out in the Group's Code of Ethics. Moreover, for several years Poste Italiane has been producing the "Environmental Values Charter", aimed at everyone who works permanently or temporarily at Group companies, in order to raise awareness of the impact that everyday actions have on the environment. Specifically, organisational oversight of the environmental impacts connected with real estate assets is implemented via the areas of responsibility set up within the organisation, which assigns one central function the task of ensuring compliance with current energy use regulations, monitoring and measuring consumption, identifying areas where savings can be made, and drawing up efficiency drives.

SDA Express Courier and Postel have obtained ISO14001 certification for their environmental management systems.

Energy consumption and emissions

Real estate assets, comprising approximately 15,000 sites, are responsible for more than 60% the Group's internal energy consumption. This derives from the use of electricity (72%), natural gas (23%), LPG, diesel and district heating (5%). In 2017, over 95% of electricity was supplied from renewable sources via Guarantee of Origin certificates and a small share of it (7,057 GJ, equal to 0.4%) was self-produced by Company-owned photovoltaic plants. The reduction in the use of non-renewable electricity and the consequent reduction in indirect emissions (Scope 2) is due to the increased self-production from photovoltaic plants and the process of internalising data storage and management activities at Group-owned data centres that use renewable electricity.

Poste Italiane allocates annual targets for reducing energy consumption and CO₂ emissions relating to electricity and gas consumption and promotes technical and infrastructural energy efficiency measures.

In order to ensure oversight of consumption and reduce environmental impacts and costs, a single supplier was contracted for electricity and one for gas, so as to have an organisational basis for the individual utility consumption for each month of supply.

In 2017, the energy use optimisation plan continued, including introduction of initiatives aimed at reducing waste by installing and activating energy consumption meters that enable monitoring of trends, analysis of consumption, taking measurements at the most energy-intensive sites, and correctly setting temperatures and operating times for cooling and heating systems. In particular, a project was launched to improve efficiency, through replacement of fluorescent lamps with LED lighting.

Internal energy consumption relating to real estate facilities by source [GRI 302-1]

	2016	2017
Renewable energy (GJ)	1,790,247	1,810,741
Self-produced photovoltaic electricity (GJ)	4,779	7,057
Certified guarantee of origin electricity* (GJ)	1,785,468	1,803,684
Non-renewable energy	848,114	836,190
of which:		
Electricity supplied by the National Grid**	94,811	83,377
Natural gas (GJ)	615,172	597,321
LPG (GJ)	8,304	11,705
Diesel (GJ)	112,296	120,827
District heating (GJ)	17,531	22,960
Total energy (GJ)	2,638,361	2,646,932

* Includes the energy consumption of SDA agencies, amounting to 10,719 GJ.

**Includes the energy of external data centres without where the supply contract is in a third party's name.

Percentages of energy consumption relating to real estate facilities by type of business

	2016	2017
Post offices	55%	55%
Head offices	14%	14%
Industrial facilities (sorting centres)	14%	14%
Delivery Logistics Centres	13%	13%
Data Centres	4%	4%

Direct and indirect CO₂ emissions relating to real estate facilities [GRI- 305-1; GRI- 305-2]

	2016	2017
Direct emissions - Scope 1 (t)	43,512	43,197
Indirect emissions - Scope 2* (t)	10,771	9,901
Total emissions	54,283	53,098

* Includes CO₂ emissions from external data centres without where the supply contract is in a third party's name.

Regarding natural gas consumption, new systems to optimise thermal energy were installed on 2,800 devices (timers, human presence sensors) and low-performance boilers were replaced with high-performance condensing boilers.

In 2017, these initiatives led to savings in natural gas consumption of approximately 20,000 GJ, which corresponds to around 3% of the annual gas consumption of the Group's real estate facilities.

Partnerships at international level [GRI 102-12; GRI 102-13]

The Group participates in the EMMS (Environmental Monitoring and Measurement System) project, which is promoted by the International Post Corporation, an association comprising 24 of the world's leading postal operators that handle around 80% of global traffic volumes. The initiative was launched in 2008 with the aim of monitoring CO₂ emissions and assessing the sustainability of the participants' activities, in order to reduce the impact of postal activities on the environment. The programme now has 20 participating operators (in addition to 18 of the 24 members of IPC, including operators from Brazil and South Africa) which manage a total area of approximately 51,700 square kilometres of buildings they own, a fleet of 576,000 vehicles, and approximately 1,700,000 people.

In 2017, the group of participants reported a 26% reduction in CO₂ emissions compared to the 2008 baseline, falling from 8,360 tonnes to 6,458 tonnes of CO₂, thus resulting in overall savings of more than 12.7 million tonnes of CO₂ over the eight years since the programme was established. The excellent results achieved confirm postal operators' commitment to reducing environmental impact and bear witness to their growing professionalism and expertise in this area, making EMMS the sector's first sustainability programme to be based on sharing best practices and a concrete sustainable development model. In 2017, the Group continued its participation the OSCAR (Online Solution for Carbon Analysis and Reporting) project, which was launched by the Universal Postal Union (UPU, a United Nations agency specialising in the postal sector). The

project involves a simplified procedure for reporting polluting emissions produced by operators in the 192 UPU member countries, including application of the principles set out in the Greenhouse Gas Inventory Standard for the Postal Sector. The Poste Italiane Group contributes to this monitoring and reports its emissions on an annual basis. In 2017, the Group was ranked in the medium-to-high performance range in terms of environmental sustainability, contributing to the target of reducing direct emissions by approximately 18,000 tonnes of CO₂ compared to the previous year.

Waste management

Waste management is governed by Legislative Decree 152/2006, which regulates the entire process from collection and transport to recovery or disposal. The waste produced by Poste Italiane is similar to municipal waste (allocated to public collection services in accordance with the procedures laid down by the specific local regulations), which includes special, hazardous and non-hazardous waste. A portion of the waste that is similar to urban waste, for example paper and plastic, does not come under municipal management and is sent directly for recovery via operators authorised to manage special waste. It is then managed in accordance with the same requirements as those for special waste, and the Company benefits from reductions in the tax or tariff established by municipal regulations.

A large portion of special waste consists of non-hazardous waste (paper, cardboard, plastic and wood packaging), while special hazardous waste (mainly electronic waste and scrapped vehicles) derives from certain postal centres and the Group's data centres.

In the interests of efficient and sustainable waste management and therefore a consequent reduction in waste, Poste Italiane promotes the "virtuous" reuse of assets and equipment the Company deems obsolete but which may still have a "second life". In 2017, assets such as obsolete electronic equipment (around 2,500 items) and some types of vehicle (around 250) were removed from the waste management cycle and "transferred" to third parties for reuse.

Over the years, communication campaigns have been launched to raise staff awareness of the right behaviour to adopt when disposing waste, in the workplace as well as in the private sphere.

Waste produced by type and disposal method [GRI 306-2]

	2016	2017
Total hazardous waste (t)	142.5	346.0
- recovery	17.0	277.7
- landfill	0.7	2.5
- incineration	0.0	0.4
- other types of disposal	124.8	65.4
Total non-hazardous waste (t)	21,821.6	25,790.6
- recovery	21,205.3	25,190.1
- landfill	218.3	182.5
- incineration	353.5	0.0
- other types of disposal	44.5	418.00
Total (t)	21,964.1	26,136.6

Water

The use of water resources is mainly linked to office sanitary facilities. The significance of water consumption derives from the Group's large number of real estate facilities.

Water abstraction by source [GRI 303-1]

	2016	2017
Water supplied by public water mains or other water service management companies (m3)	91,307	94,023

Postel and the materials used

In addition to providing digital storage services that enable dematerialisation and electronic document processing, Postel also provides printing services at the centres in Milan, Rome and Genoa, which are equipped with systems for bulk printing (bills, invoices, account statements) and enveloping, with a production capacity of more than 4 billion printed sheets per year. To minimise the impact of paper use, lightweight paper solutions have been adopted as well as envelopes with windows made of biodegradable material that comply with the FSC® (Forest Stewardship Council) Chain of Custody management system, which guarantees the traceability of materials such as wood and its derivatives (pulp and paper) from responsibly managed forests.

Paper and cardboard consumption for printing services

	2016	2017
Paper and cardboard (t)	19,726	18,743

Appendix - GRI table of contents

GRI Standard	Indicator number and title	References	Omissions		
			Parts omitted	Reason	Explanation
ORGANISATIONAL PROFILE INDICATORS					
GRI 101: Foundation 2016					
GENERAL DISCLOSURES - GRI 102: General Disclosures - Organisational profile, Strategy, Ethics and integrity					
Strategy and analysis					
GRI 102-14	Statement from senior decision-makers on the importance of sustainability for the organisation and its strategy	Directors' Report on Operations: 1. Statement from the Chairwoman and the Chief Executive Officer			
GRI 102-15	Principal impacts, risks and opportunities	Explanatory notes			
Organisational profile					
GRI 102-1	Name of the organisation	Directors' Report on Operations: 1. Statement from the Chairwoman and the Chief Executive Officer			
GRI 102-2	Activities, brands, products and services	Directors' Report on Operations: 2. Organisational structure and operating segments			
GRI 102-3	Location of headquarters	Directors' Report on Operations: Back cover			
GRI 102-4	Number of countries where the organisation operates, and the names of countries where it has significant operations	Directors' Report on Operations: 2. Distribution channels and multichannel strategy			
GRI 102-5	Ownership and legal form	Directors' Report on Operations: 2. Corporate Governance			
GRI 102-6	Markets served (including geographic locations where products and services are offered; sectors served; types of customers and beneficiaries)	Directors' Report on Operations: 2. Organisational structure and operating segments; Distribution channels and multichannel strategy			
GRI 102-7	Scale of the organisation (total number of employees; net sales or net revenues; total capitalisation; quantity of products or services provided).	Human Capital Directors' Report on Operations: 8. Financial review for Poste Italiane SpA. Report on Corporate Governance and the Ownership Structure: Section I Governance structure and ownership structure			
GRI 102-8	Information on employees and other workers (including significant changes) broken down by type of employment and contract, region and gender.	Human capital			
GRI 102-9	Description of the organisation's supply chain	Supply chain			
GRI 102-10	Significant changes during the reporting period (size, structure, ownership, or supply chain)	Directors' Report on Operations: 2. Corporate actions during the year; Organisational structure of Poste Italiane SpA; Report on Corporate Governance and the Ownership Structure: Section I Governance structure and ownership structure			
GRI 102-11	Application methods for the precautionary principle or approach	Poste Italiane applies the precautionary approach referred to in Principle 15 of the United Nations Rio Declaration to environmental protection in the development and introduction of new products and services and in the planning of new operational activities.			
GRI 102-12	Subscription to or adoption of codes of conduct, principles and charters regarding sustainability	Green building			
GRI 102-13	Membership of associations and national and international organisations	Relations with social partners			
GRI 102-41	Percentage of total employees covered by collective bargaining agreements	Relations with social partners			
Corporate Governance					
GRI 102-18	Governance structure of the organisation, including committees of the highest governance body, and those responsible for decision-making on economic, environmental, and social topics	Report on Corporate Governance and the Ownership Structure: 7.2 Audit, Risk and Sustainability Committee (formerly Audit and Risk Committee)			
GRI 102-19	Process for delegating authority for economic, environmental, and social topics from the highest governance body to senior executives and other employees	Within the organisation, the Corporate Social Responsibility function established within the Group Risk Management structure (which does not report directly to the Board of Directors) promotes the Company's objectives in the social, environmental, ethical and sustainability governance fields, and the related implementation and reporting of results. The function also monitors the risks associated with the most significant sustainability aspects which may negatively affect the Company's reputation and identity. The Chief Executive Officer has direct relations with various categories of stakeholder and delegates specific tasks via internal service orders to Company departments in relations with stakeholders.			
GRI 102-20	Responsibility of the highest governance body for social, economic and environmental topics				
GRI 102-21	Processes for consultation between stakeholders and the highest governance body on economic, environmental, and social topics. If consultation is delegated, describe to whom it is delegated and how the resulting feedback is provided to the highest governance body				

GRI 102-22	Composition of the highest governance body and its committees, including: independent members; executive and non-executive members; men and women with competencies relating to economic, environmental, and social topics; members of under-represented social groups; stakeholder representatives	Report on Corporate Governance and the Ownership Structure: 7.2 Audit, Risk and Sustainability Committee (formerly Audit and Risk Committee)	
GRI 102-23	President of the highest governance body	Report on Corporate Governance and the Ownership Structure: 6.6 Chief Executive Officer	
GRI 102-24	Criteria used for nominating and selecting highest governance body and committee members, taking into account independence, expertise and experience (including on social and environmental topics), and also considering gender issues and other diversity indicators	Report on Corporate Governance and the Ownership Structure: 6 Board of Directors; 6.1 Current membership and period of office (ex art. 123-bis, paragraph 2 d), Consolidated Law on Finance); 6.8 Independent directors; 6.10 Assessment of the operation of the Board of Directors and Committees; 6.11 Diversity policies (ex art. 123-bis, paragraph 2 d), Consolidated Law on Finance)	
GRI 102-25	Processes for the highest governance body to ensure conflicts of interest are avoided and managed	Report on Corporate Governance and the Ownership Structure: 14. Other corporate governance procedures (ex art. 123-bis, paragraph 2 d), Consolidated Law on Finance)	
GRI 102-26	Role of highest governance body in the development of strategies, policies, and goals related to economic, environmental, and social topics	Report on Corporate Governance and the Ownership Structure: 6.6 Chief Executive Officer; 7.2 Audit, Risk and Sustainability Committee (formerly Audit and Risk Committee)	
GRI 102-27	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental, and social topics	Report on Corporate Governance and the Ownership Structure: 6.3 Role and functions (ex art. 123-bis, paragraph 2 d), Consolidated Law on Finance); 6.8 Independent directors; 6.10 Assessment of the operation of the Board of Directors and Committees	
GRI 102-28	Processes for evaluating the highest governance body's performance with respect to governance of economic, environmental, and social topics	Report on Corporate Governance and the Ownership Structure: 6.10 Assessment of the operation of the Board of Directors and Committees	
GRI 102-29	Highest governance body's role in identifying and managing economic, environmental, and social topics and their impacts, risks, and opportunities – including its role in the implementation of due diligence processes	Report on Corporate Governance and the Ownership Structure: 6.3 Role and functions (ex art. 123-bis, paragraph 2 d), Consolidated Law on Finance)	
GRI 102-30	Highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental, and social topics	Report on Corporate Governance and the Ownership Structure: 7.2 Audit, Risk and Sustainability Committee (formerly Audit and Risk Committee)	
GRI 102-31	Frequency of the highest governance body's review of economic, environmental, and social topics and their impacts, risks, and opportunities	Report on Corporate Governance and the Ownership Structure: 5.5 Equity participation by employees: voting rights mechanisms (ex art. 123-bis, paragraph 1 e), Consolidated Law on Finance); 7.2 Audit, Risk and Sustainability Committee (formerly Audit and Risk Committee)	
GRI 102-33	Process for communicating critical concerns to the highest governance body	Report on Corporate Governance and the Ownership Structure: 6.12 Compensation	
GRI 102-36	Process for determining remuneration of the highest governance body		
Material aspects identified and scope of the Non-Financial Statement			
GRI 102-45	A list of all entities included in the organisation's consolidated financial statement that are not included in the Non-Financial Statement	Explanatory notes	
GRI 102-46	An explanation of the process for defining the report content and the topic boundaries in the Non-Financial Statement.	The topics relevant to us	
GRI 102-47	A list of the material topics identified in the process for defining the content of the Non-Financial Statement	The topics relevant to us	
GRI 102-48	The effect of any restatements of information given in the Non-Financial Statement, and the reasons for such restatements	Not applicable. The 2017 NFS is the first edition.	
GRI 102-49	Significant changes in the scope and topic boundaries compared with the previous Non-Financial Statement	Not applicable. The 2017 NFS is the first edition.	

Stakeholder engagement																																							
GRI 102-40	A list of stakeholder groups engaged by the organisation	The topics relevant to us																																					
GRI 102-42	The basis for identifying and selecting stakeholders with whom to engage	The topics relevant to us																																					
GRI 102-43	Approach to and description of stakeholder engagement activities	The topics relevant to us																																					
GRI 102-44	Key topics and concerns that have been raised through stakeholder engagement	The topics relevant to us																																					
Profile of the Non-Financial Statement																																							
GRI 102-50	Reporting period for the information provided (for example, tax year, calendar year)	Explanatory notes																																					
GRI 102-51	Publication date of the most recent Non-Financial Statement	Explanatory notes																																					
GRI 102-52	Reporting cycle (annual, every two months, etc.)	Annual reporting cycle																																					
GRI 102-53	Contact point for questions regarding the Non-Financial Statement and its contents	For clarification or further details on the topics presented, write to: INVESTOR.RELATIONS@posteitaliane.it																																					
GRI 102-54	"Core" or "comprehensive" application of the GRI Standards	Explanatory notes																																					
GRI 102-56	The organisation's policy and current practice with regard to seeking external assurance for the Non-Financial Statement	Explanatory notes																																					
Ethics and integrity																																							
GRI 102-16	Values, principles, standards, and norms of behaviour of the organisation	Human capital Supply chain																																					
ECONOMIC PERFORMANCE INDICATORS																																							
Anti-corruption																																							
GRI 103-1	Explanation of the material topic and the scope of its impacts	The topics relevant to us																																					
GRI 103-2	Description of the managerial approach and its components																																						
GRI 103-3	Appraisal of the managerial approach																																						
GRI 205-1	Assessment of operations at risk of corruption																																						
ENVIRONMENTAL PERFORMANCE INDICATORS																																							
GRI 103-1	Explanation of the material topic and the scope of its impacts	The topics relevant to us																																					
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Energy																																							
GRI 302-1	Energy consumption within the organisation	Green building Sustainable logistics	<table border="1"> <thead> <tr> <th>Total internal Group energy consumption*</th> <th>2016</th> <th>2017</th> </tr> </thead> <tbody> <tr> <td>Renewable electricity (GJ)</td> <td>1,791,787</td> <td>1,812,424</td> </tr> <tr> <td>Non-renewable energy (GJ)</td> <td>2,783,864</td> <td>2,937,824</td> </tr> <tr> <td>of which:</td> <td></td> <td></td> </tr> <tr> <td>Electricity supplied by the National Grid</td> <td>94,811</td> <td>83,377</td> </tr> <tr> <td>Natural gas (GJ)</td> <td>671,061</td> <td>657,874</td> </tr> <tr> <td>LPG (GJ)</td> <td>9,997</td> <td>35,057</td> </tr> <tr> <td>Diesel (GJ)</td> <td>517,351</td> <td>860,664</td> </tr> <tr> <td>Petrol (GJ)</td> <td>553,425</td> <td>173,278</td> </tr> <tr> <td>Jet fuel (GJ)</td> <td>919,688</td> <td>1,104,614</td> </tr> <tr> <td>District heating (GJ)</td> <td>17,531</td> <td>22,960</td> </tr> <tr> <td>Total energy (GJ)</td> <td>4,575,651</td> <td>4,750,248</td> </tr> </tbody> </table> <p>* Includes energy relating to real estate facilities, and the energy connected with the road logistics business, passenger transport and air mail.</p>	Total internal Group energy consumption*	2016	2017	Renewable electricity (GJ)	1,791,787	1,812,424	Non-renewable energy (GJ)	2,783,864	2,937,824	of which:			Electricity supplied by the National Grid	94,811	83,377	Natural gas (GJ)	671,061	657,874	LPG (GJ)	9,997	35,057	Diesel (GJ)	517,351	860,664	Petrol (GJ)	553,425	173,278	Jet fuel (GJ)	919,688	1,104,614	District heating (GJ)	17,531	22,960	Total energy (GJ)	4,575,651	4,750,248
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Water																																							
GRI 303-1	Total abstraction of water by source	Green building																																					
Emissions																																							
GRI 305-1	Total direct greenhouse gas (GHG) emissions Scope 1	Sustainable logistics Green building	<table border="1"> <thead> <tr> <th>Total Group CO2 emissions *</th> <th>2016</th> <th>2017</th> </tr> </thead> <tbody> <tr> <td>Direct emissions - Scope 1 (t)*</td> <td>180,797</td> <td>193,774</td> </tr> <tr> <td>Indirect emissions - Scope 2 (t)**</td> <td>10,804</td> <td>9,901</td> </tr> <tr> <td>Other types of emissions from outside the Group - Scope 3 (t)</td> <td>170,675</td> <td>157,916</td> </tr> </tbody> </table> <p>* The factors used to convert fuels into CO2: LPG (1.5704 kgCO2/litre) Natural gas (2.6928 kgCO2/kg) Petrol (kg CO2/litre 2.3839), Diesel (2.74790 kg CO2/litre), Jet fuel (2.4910 kg CO2/litre). Source: Methodology paper Emission Factors 2017 published by the UK Department for Environment Food & Rural Affairs (Defra) and Regulation 601/2012 on the EU ETS system (for calculating CO2 emissions from air transport).</p> <p>** Poste Italiane acquires renewable energy guarantee of origin certificates for approximately 95% of its electricity consumption. The GRI Sustainability Reporting Standards envisage two calculation methods for Scope 2 emissions – the location-based method and the market-based method. The market-based method (the method used by Poste Italiane) is based on CO2 emissions emitted by the energy suppliers from which, via a contract, the organisation purchases electricity (in this case renewable energy guarantee of origin certificates), and for the remaining 5%, emission factors from the national electricity grid (emission factor: 375 grams of CO2/kWh, source Terna 2015). The location-based method, on the other hand, is based on average emission factors for regional, sub-national or national power generation. Applying the location-based method, the Group's total Scope 2 emissions in 2016 amount to 199,871 tonnes of CO2, and in 2017 to 198,347 tonnes (emission factor: 375 grams of CO2/kWh. Source: Terna 2015).</p>	Total Group CO2 emissions *	2016	2017	Direct emissions - Scope 1 (t)*	180,797	193,774	Indirect emissions - Scope 2 (t)**	10,804	9,901	Other types of emissions from outside the Group - Scope 3 (t)	170,675	157,916																								
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GRI 305-2	Total indirect greenhouse gas (GHG) emissions Scope 2																																						
GRI 305-3	Other types of greenhouse gas (GHG) emissions Scope 3																																						
Waste disposal																																							
GRI 306-2	Total weight of waste by type and disposal method	Green building																																					

Environmental assessment of suppliers					
GRI 103-1	Explanation of the material topic and the scope of its impacts	The topics relevant to us			
GRI 103-2	Description of the managerial approach and its components				
GRI 103-3	Appraisal of the managerial approach				
SOCIAL PERFORMANCE INDICATORS					
GRI 103-1	Explanation of the material topic and the scope of its impacts	The topics relevant to us			
GRI 103-2	Description of the managerial approach and its components				
GRI 103-3	Appraisal of the managerial approach				
Industrial relations					
GRI 402-1	Minimum notice periods in the event of corporate reorganisation/restructuring by site, and whether they are included in collective bargaining agreements	Relations with social partners			
Workplace health and safety					
GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities, by region and gender	Health and Safety	Absenteeism rate Disclosure regarding contractors	Information unavailable	It is planned to report this information in future reporting cycles
Training and education					
GRI 404-1	Average hours of training per year per employee by professional category and gender	Human capital			
GRI 404-3	Percentage of employees receiving regular performance and career development reviews	Human capital	Breakdown by gender	Information unavailable	It is planned to report this information in future reporting cycles
Diversity and equal opportunities					
GRI 405-1	Diversity in the company's governance bodies and among staff	In 2017, the boards of directors of Group companies were chaired by 56 persons, 59% of whom were over 50 and 41% between 30 and 50 years of age. The percentage of women is 32% of the total, including 35% in the 30-50 age group and 30% in the over-50 age group. Staff diversity is shown in the section on Human Capital			
CUSTOMER PRIVACY					
GRI 103-1	Explanation of the material topic and the scope of its impacts	The topics relevant to us			
GRI 103-2	Description of the managerial approach and its components				
GRI 103-3	Appraisal of the managerial approach				
GRI 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data				

Principles regarding reporting content and quality

The 2016 GRI Sustainability Reporting Standards ****findings**** and the approach taken by Poste Italiane are shown below.

Analysis of the sustainability context	The information was based on the social and environmental aspects of the context.
Stakeholder inclusiveness	Identification of the material topics took stakeholders' expectations into account.
Materiality	The choice of topics was based on assessment of economic, social and environmental impacts and their ability to influence stakeholders' decisions and assessments.
Completeness of information	Unless otherwise indicated, all the indicators presented in the document are representative of all Group companies.
Balance	The document provides information that enables an assessment of overall performance and impacts.
Comparability	Performance data are presented for 2016 and 2017 to enable analysis of the performances.
Accuracy	The information has been provided with notes and comments to enable the performance and results to be correctly assessed.
Promptness	The timing of the release of the document is close to the events described.
Clarity	The contents have been written in simple and practical language, including for lay people.
Reliability	The document requires a separate attestation of conformity from the independent auditors PricewaterhouseCoopers SpA.

7. RISK MANAGEMENT

The Group has adopted a Group Risk Management model, based on the Enterprise Risk Management (ERM) framework, 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 national and international best practices.

With the aim of improving the governance of risk management processes and making them more efficient, a single department was created in 2017 to oversee and manage all the risks to which the Group is exposed. The new Group Risk Management function (“GRM”) is supported by specialist units that report directly to the function (direct support), and by other risk managers (indirect support) present within Poste Italiane (including BancoPosta RFC) and in other Group companies. With particular reference to financial risk, the GRM function provides a single point of reference for coordinating the Risk Management functions of the companies subject to supervisory standards.

The GRM function has the following responsibilities:

- to ensure, through a structured and integrated process, the identification, assessment and monitoring of strategic, reputational, operational, regulatory and compliance, financial and insurance risks;
- to ensure the standardisation and integration of the models used and the information flows between the various specialist second level units, Group companies and the oversight bodies, including through the implementation of an integrated, cross-cutting platform for the different areas of risk;
- to promote the dissemination of a risk management culture at all levels within the Group.

The specialist risk management units, in turn, operate in line with Group standards defined by the GRM function, ensuring that information is shared at consolidated level, without affecting compliance with the specific statutory requirements applicable to the various areas of responsibility.

With regard to ensuring use of a structured and integrated process for risk management, the GRM function has drawn up a Group Risk Management process, divided into the following stages:

- Risk management guidelines: Poste Italiane SpA’s Board of Directors, in consultation with the Audit, Risk and Sustainability Committee (“ARSC”), defines the Group’s risk management guidelines, ensuring that the principal risks are correctly identified, measured, managed and monitored. In addition, the Board, within the scope of its responsibilities and management role, determines, in consultation with the ARSC, the degree of compatibility of the risks with management of the Group in line with strategic objectives;
- Definition and revision of the Group Risk Management framework: the GRM function, normally on an annual basis, reviews and updates the risk assessment tools and methods used, in keeping with developments in the business, in the relevant regulatory environment and in leading practices;
- Goal Analysis & Risk Briefing: at least once a year and with the support of the specialist units, the GRM function analyses the goals and related corporate processes and arrives at a preliminary identification of the risks that could threaten achievement of key objectives;
- Integrated Risk Assessment (Identification, Valuation, Aggregation & Prioritization): the GRM function, based on a preliminary mapping of the risks identified during the previous stage, integrates

and extends the analysis together with Risk Owners and through the specialist units, the Group's principal areas of risk, with the aim of identifying, describing, evaluating and presenting the risks in an aggregate, prioritised form;

- Risk Treatment: the risks identified and evaluated during the Risk Assessment stage are then used, at least once a year, to draw up the best risk management strategies, in keeping with the risk appetite. In particular, Risk Owners identify the most appropriate management strategies for the risks falling within their area of responsibility, based on the earlier prioritisation of the risks and a cost-benefit analysis carried out in collaboration with the GRM function;
- Risk Monitoring & Reporting: periodic monitoring, by the GRM function, of shifts in the Group's risk profile takes place throughout the year, with the assistance of the various specialist units, using specific indicators, defined during the previous Risk Treatment stage. This process may also take place alongside ad hoc studies and analyses deemed necessary in order to fully comprehend the risks being monitored and identify any emerging risks.

The principal risks resulting from the Group's activities are described in the Consolidated Non-financial Statement. Information on financial and insurance risks is provided in Poste Italiane Financial Statements for the year ended 31 December 2017 – Risk Management.

8. FINANCIAL REVIEW FOR POSTE ITALIANE SPA

OPERATING RESULTS OF POSTE ITALIANE SPA

for the year ended 31 December (€m)	2017	2016	Increase/(decrease)	
Revenue from sales and services	8,060	8,218	(158)	-1.9%
Other income from financial activities	646	599	47	7.8%
Other operating income	584	478	106	22.2%
Total revenue	9,290	9,295	(5)	-0.1%
Personnel expenses	5,865	5,988	(123)	-2.1%
of which personnel expenses ^(*)	5,374	5,481	(107)	-2.0%
of which early retirement incentives	491	507	(16)	-3.2%
Cost of goods and services	1,666	1,704	(38)	-2.2%
Other expenses from financial activities	40	44	(4)	-9.1%
Other operating costs	459	255	204	80.0%
Total costs	8,030	7,991	39	0.5%
EBITDA	1,260	1,304	(44)	-3.4%
Depreciation, amortisation and impairments	480	504	(24)	-4.8%
EBIT	780	800	(20)	-2.5%
Finance income/(costs)	(107)	(21)	(86)	n/s
Profit/(Loss) before tax	673	779	(106)	-13.6%
Income tax expense	56	154	(98)	-63.6%
Profit for the year	617	625	(8)	-1.3%

(*) Includes the item, "Capitalised costs and expenses"

n/s: not significant

Revenue from sales and services amounts to €8,060 million, a reduction of 1.9%, essentially due to lower revenue generated by the Mail, Parcels and Distribution segment.

Other income from financial activities is up from €599 million in 2016 to €646 million in 2017, primarily due to increased income from the sale of BancoPosta RFC's available-for-sale financial assets, which is up from the €473 million of 2016 to €547 million. This figure includes €91 million in non-recurring income from the sale of the investment in *Mastercard Incorporated* (in 2016, non-recurring income included €121 million from the sale of the share in Visa Europe).

Other operating income is up from €478 million in 2016 to €584 million in 2017, including €508 million in dividends from subsidiaries.

Despite a reduction in personnel expenses and the cost of goods and services, total costs are up €39 million from €7,991 million in 2016 to €8,030 million in 2017. This reflects increased provisions for risks and charges, amounting to €178 million, due to a revised estimate of probable liabilities linked to third-party financial products sold in the early 2000s, including €35 million relating to the voluntary action taken to protect customers who had invested in the Europa Immobiliare 1 fund, and the revision of other liabilities due to adjustments and revised estimates of income for previous years.

Income tax expense is down from €154 million for 2016 to €56 million for 2017. The total effective tax rate for 2017 is 8.31%, reflecting an IRES tax rate of 4.98% and an IRAP tax rate of 3.33%. The difference in the effective IRES tax rate compared with the statutory rate (down from 27.5% in 2016 to 24% from 1 January 2017, in accordance with the 2016 Stability Law) primarily regards the fact that 95% of the dividends received from a number of subsidiaries and the realised gain on investments was exempt from taxation, under the participation exemption. Poste Italiane SpA's profit for the year ended 31 December 2017 is €617 million (€625 million for 2016).

Personnel expenses are down 2.1% from €5,988 million in 2016 to €5,865 million in 2017, reflecting a reduction in the ordinary component (down €107 million), reflecting a decrease in the average workforce

during the year (approximately 2,700 fewer FTEs compared with the previous year) and early retirement incentives.

Fixed-term contracts

With regard to fixed-term contracts, the Company employed 14,358 people on fixed-term contracts in 2017 (7,036 in 2016), equal to 14,166 FTEs (6,953 FTEs in 2016), all employed pursuant to art. 19, paragraph 1 of Legislative Decree 81/2015. As a result of specific measures establishing quotas limiting the use of such contracts²⁰, the permanent workforce at 1 January 2017²¹ totalled 132,716 (138,236 at 1 January 2016), corresponding to 128,437 FTEs (133,392 at 1 January 2016).

The National Collective Labour Agreement for the non-managerial staff of Poste Italiane of 30 November 2017 establishes limits on the usage that differ from those provided for by law and previously adopted by the Company. In this specific regard, in 2017, the annual average number of fixed-term contracts was 6,540²².

The following table shows a breakdown of the permanent workforce, broken down by region, at 1 January 2018 and shown in FTE terms.

Permanent workforce at 1 January 2018 ⁽¹⁾			
Region	Number	Region	Number
Abruzzo	3,370	Molise	814
Basilicata	1,153	Piedmont	8,880
Calabria	4,386	Puglia	7,835
Campania	10,403	Sardinia	3,209
Emilia Romagna	8,295	Sicily	9,148
Friuli Venezia Giulia	2,481	Tuscany	8,529
Lazio	18,125	Trentino Alto Adige	1,824
Liguria	3,888	Umbria	1,881
Lombardy	17,312	Valle d'Aosta	260
Marche	3,377	Veneto	8,861
Total			124,031

⁽¹⁾ Shown in full-time equivalent terms. Poste Italiane SpA's permanent workforce including seconded staff.

²⁰ Art. 23, paragraph 1 of Legislative Decree 81/2015 establishes, among other things, that employees recruited on fixed-term contracts cannot exceed 20% of a company's permanent workforce at 1 January of the year in which they are recruited, after rounding up to the nearest whole number should the figure be equal to or above 0.5.

²¹ The workforce at 1 January of each year is identical to the workforce at 31 December of the previous year.

²² Art. 22, paragraph IV of the National Collective Labour Agreement for Poste Italiane's non-managerial staff allows the use of fixed-term contracts "up to an annual average of 8% of the permanent workforce at 1 January of the year of recruitment"; for 2017, 8% is equal to 10,617 and 10,275 FTEs.

FINANCIAL POSITION AND CASH FLOW OF POSTE ITALIANE SPA

NET INVESTED CAPITAL AND RELATED FUNDING

at 31 December (€m)	2017	2016	Increase/(decrease)	
Non-current assets:				
Property, plant and equipment	1,912	1,999	(87)	-4.4%
Investment property	52	56	(4)	-7.1%
Intangible assets	385	365	20	5.5%
Non-current financial assets	2,081	1,815	266	14.7%
Total non-current assets (a)	4,430	4,235	195	4.6%
Net working capital:				
Trade receivables and other receivables and assets	4,061	4,027	34	0.8%
Trade payables and other liabilities	(3,988)	(3,942)	(46)	1.2%
Current tax assets and liabilities	71	(67)	138	n/s
Total working capital: (b)	144	18	126	n/s
Gross invested capital (a+b)	4,574	4,253	321	7.5%
Provisions for risks and charges	(1,538)	(1,408)	(130)	9.2%
Provisions for employee termination benefits	(1,244)	(1,315)	71	-5.4%
Deferred tax assets/(liabilities)	447	136	311	n/s
Non-current assets held for sale and discontinued operations	-	384	(384)	n/s
Net invested capital	2,239	2,050	189	9.2%
Equity	5,512	6,160	(648)	-10.5%
Net (funds)/debt	(3,273)	(4,110)	837	-20.4%

n/s: not significant

Poste Italiane SpA's net invested capital amounts to €2,239 million at 31 December 2017 (€2,050 million at 31 December 2016).

Non-current assets of €4,430 million are up €195 million compared with the end of 2016, essentially following acquisition of the investment in FSIA Investimenti Srl for €278 million. Other movements in non-current assets reflect depreciation, amortisation and impairments (including the reversal of impairments) of €480 million and capital expenditure of €402 million, as described in the description of the Group's non-current assets.

Net working capital at 31 December 2017 amounts to €144 million, an increase of €126 million compared with the end of 2016 and primarily due to a decline in net current tax liabilities, reflecting the reduction in the IRES rate from 1 January 2017.

The increase of €130 million in provisions for risks and charges, marking the balance of new provisions and uses/releases, primarily regards the liabilities that Poste Italiane will incur for staff taking voluntary early retirement by 31 December 2019 and an updated estimate of the liabilities deriving from BancoPosta's operational risk.

The increase in net deferred tax assets, amounting to €311 million, largely reflects the net positive effect on taxation of fair value losses on investments in available-for-sale financial assets (a reduction in deferred tax liabilities).

Non-current assets held for sale and discontinued operations are down €384 million following completion of the sale to Invitalia of the 100% interest in Banca del Mezzogiorno – MedioCredito Centrale on 7 August 2017. The reduction also reflects the reclassification to non-current assets of the carrying amount of the investment in BancoPosta Fondi SpA SGR.

Equity amounts to €5,512 million at 31 December 2017, marking a reduction of €648 million, due primarily to movements in the fair value reserves net of tax (€713 million), as a result of positive and/or negative movements in the value of investments in securities held by BancoPosta RFC, and the payment of dividends totalling €509 million, as approved by the Annual General Meeting of 27 April 2017 (€0.39 per share, paid to

shareholders on 21 June 2017). The above reductions in equity were partially offset by profit for the year of €617 million.

ANALYSIS OF POSTE ITALIANE SPA'S NET (FUNDS)/DEBT

at 31 December (€m)	2017	2016	Increase/(decrease)	
Financial liabilities	63,208	60,495	2,713	4.5%
Financial assets	(61,246)	(59,396)	(1,850)	3.1%
Net debt/(net funds)	1,962	1,099	863	78.5%
Cash and deposits attributable to BancoPosta	(3,196)	(2,494)	(702)	28.1%
Cash and cash equivalents	(2,039)	(2,715)	676	-24.9%
Net (funds)/debt	(3,273)	(4,110)	837	-20.4%

n/s: not significant

Poste Italiane SpA's net funds at 31 December 2017 amount to €3,273 million, down on the figure for 31 December 2016 (€4,110 million). This primarily reflects the component linked to fair value measurement of BancoPosta RFC's available-for-sale financial assets, totalling approximately €979 million, before tax.

POSTE ITALIANE SPA'S NET (FUNDS)/DEBT IN ACCORDANCE WITH ESMA GUIDELINES

At 31 December (€m)	2017	2016
A. Cash	(1)	(1)
B. Other cash equivalents	(1,884)	(1,460)
C. Securities held for trading	-	-
D. Liquidity (A+B+C)	(1,885)	(1,461)
E. Current loans and receivables	(363)	(243)
F. Current bank borrowings	200	-
G. Current portion of non-current debt	763	14
H. Other current financial liabilities	106	42
I. Current financial liabilities (F+G+H)	1,069	56
J. Current net (funds)/debt (I+E+D)	(1,179)	(1,648)
K. Non-current bank borrowings	200	400
L. Bond issues	50	798
M. Other non-current liabilities	36	48
N. Non-current net (funds)/debt (K+L+M)	286	1,246
O. Net debt (ESMA guidelines) (J+N)	(893)	(402)
Non-current financial assets	(835)	(1,101)
Industrial net (funds)/debt outside the ring-fence	(1,728)	(1,503)
Intersegment financial receivables	(14)	(14)
Intersegment financial payables	732	630
Industrial net (funds)/debt outside the ring-fence after adjusting for intersegment transactions	(1,010)	(887)

BANCOPOSTA RFC MANAGEMENT REVIEW

CORPORATE GOVERNANCE AT BANCOPOSTA RFC

With regard to BancoPosta RFC's governance, the rules governing the organisation, management and control of BancoPosta's operations are contained in the specific BancoPosta RFC Regulation approved by the Extraordinary General Meeting of 14 April 2011 and recently amended by the Extraordinary General Meeting of 31 July 2015. Following the issue by the Bank of Italy on 27 May 2014 of an update to the prudential supervisory regulations for banks, the corporate governance regulations for banks are applied to BancoPosta (Part One, Title IV, Chapter I "Corporate governance" of Circular no. 285). Further information regarding the corporate governance structure is provided in Poste Italiane's "Report on Corporate Governance and the Ownership Structure", approved by the Board of Directors and published in the "Governance" section of the Company's website.

On 25 January 2018, Poste Italiane SpA's Board of Directors approved the separation and transfer of certain assets, contractual rights and authorisations from BancoPosta RFC to a new e-money and payment services unit to be set up within PosteMobile SpA, as well as the separation of the contractual rights and authorisations relating to back-office and anti-money laundering activities. These corporate actions were subject to approval by Extraordinary General Meeting, following prior receipt of all the consents needed to comply with existing statutory and regulatory requirements. Submission to the Bank of Italy of a request for authorisation to remove the ring-fence from the assets, contractual rights and authorisations that make up the e-money and payment services unit was also approved.

BANCOPOSTA RFC'S INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT

INTERNAL CONTROL SYSTEM

The system of internal controls consists of a body of rules, procedures and organisational structures, which aim to prevent or limit the consequences of unexpected events, enable the achievement of strategic and operating objectives and compliance with the relevant laws and regulations, and ensure the fairness and transparency of internal and external reporting.

Under the guiding principles adopted at Group level, one of the most important aspects of the system is the control environment in which employees carry out their activities and exercise their responsibilities. This environment is based on integrity and other ethical values, the organisational structure, the allocation and exercise of authorities and responsibilities, the separation of duties, staff management and incentive policies, staff expertise and, more in general, the corporate culture. BancoPosta's control environment is evidenced by:

- the Group Code of Ethics;
- implementation of the Organisational Model required by Legislative Decree 231/2001 and the related corporate procedures;
- the organisational structure of BancoPosta, as reflected in organisational charts, service orders, organisational notices and procedures determining the roles and responsibilities of the various functions;
- the "General Guidelines governing the process of contracting out BancoPosta's corporate functions to Poste Italiane" which, in implementation of the BancoPosta RFC Regulation, establish the procedures to be used in contracting out BancoPosta RFC's functions to Poste Italiane in terms of decision-making processes, the minimum content of operating guidelines, levels of services, information flows and control procedures;

- the “Outsourcing Guidelines for BancoPosta RFC”, governing and formalising the process of outsourcing BancoPosta corporate functions to entities external to Poste Italiane’s organisation, identifying the related operational phases and the roles and responsibilities of the various bodies and functions involved in the process;
- the guidelines in the Internal Control and Risk Management System (also “SCIGR”), describing the roles and duties of BancoPosta RFC’s control functions, and the procedures for coordinating and ensuring the exchange of information between these functions and Poste Italiane’s control functions and the flow of information to corporate bodies;
- the system for delegating powers to function heads in accordance with their responsibilities.

In terms of BancoPosta RFC’s organisational structure, the existing organisational model envisages autonomous and independent control functions in compliance with the Bank of Italy’s supervisory requirements: Risk Management, Compliance, Anti-Money Laundering and Internal Auditing .

The risk assessment techniques, methods, controls and periodic audit findings are shared amongst the above control functions to promote synergies and take advantage of the specific expertise available.

In compliance with the regulatory requirements contained in the Bank of Italy’s Supervisory Standards and the CONSOB regulation governing the controls to which BancoPosta is subject, in early 2018 BancoPosta’s Internal Auditing function prepared its Annual Report for 2017, the purpose of which is to provide information to the various corporate bodies on the completeness, adequacy, functionality and reliability of the overall system of controls, with specific regard to processes, procedures, information systems and mechanisms applied in the oversight of BancoPosta’s activities. The Report was prepared on the basis of the findings of the audit activities carried out by the function and set out in the Audit Plan for 2017. The report contains information on the outcomes of the audit of the services contracted out by BancoPosta to Poste Italiane function under operating guidelines and the activities outsourced to providers external to the Company.

The Annual Report, presented to the Board of Statutory Auditors and the Board of Directors, was subsequently submitted to the Bank of Italy. The specific section regarding investment services was, on the other hand, submitted to the CONSOB.

The audits were in part performed with reference to the findings of Poste Italiane’s Internal Auditing function, which is responsible, in accordance with the specific operating guidelines for the IT audit and the audit of the local units and distribution channels within Poste Italiane’s network, which are responsible for BancoPosta’s processes and products.

Internal Auditing has also drawn up the Annual (2018) and Multi-year (2018 - 2020) Audit Plan, based on a risk assessment process designed to ensure adequate coverage of BancoPosta’s Business Process Model, including operational and financial risks, changing aspects of the business, regulatory issues and BancoPosta RFC’s organisational structures. This Plan has been presented to the Board of Statutory Auditors and submitted for the attention of the Board of Directors.

RISK MANAGEMENT SYSTEM

BancoPosta RFC has an independent Risk Management unit, responsible for ensuring, in collaboration with the Group Risk Management function, an integrated, retrospective and prospective view of the risk environment and of BancoPosta RFC’s capital and organisational adequacy. Among other things, the function provides a detailed evaluation of the risk profile of the financial products sold to customers and provides the operational and business functions involved in product development and placement with advice and support.

It is also responsible for periodic reporting.

During 2017, the Risk Appetite Framework was revised in accordance with the budget. The annual report for 2016 and the programme of activities for 2017 were submitted to the Board of Statutory Auditors, the Audit and Risk Committee and the Board of Directors, as were the ICAAP (Internal Capital Adequacy Assessment Process) report and the Public Risk Report for 2016. These bodies also received quarterly reports on the performance of the effective risk profile versus the determined risk appetite. The principal types of risk to which BancoPosta RFC is exposed in the course of its ordinary activities are described below:

- credit risk (including counterparty risk);
- market risk (including banking book rate risk);
- liquidity risk;
- operational risk.

In terms of the evolution of significant risks, the first quarter of 2017 witnessed an increase in the yields on Italian government securities, resulting in a significant reduction in fair value gains. From the second quarter, the trend was reversed and the yields on 10-year Treasury Notes (BTPs) once again began to fall. This was reflected in unrealised gains, which returned to higher levels, even if still below those of the beginning of the year as a result of sales. The spread between BTPs and German Bunds ended the year at levels similar to those seen at the end of 2016 (around 160 basis points), but with a yield on 10-year BTPs of 2%, reflecting the increase in market rates.

In terms of Bancoposta's capital structure, the CET 1 ratio for 2017 is 17%, compared with 16% in 2016, confirming the strength of the entity's balance sheet, which was further boosted by Poste Italiane SpA's contribution of fresh capital of €210 million in 2018.

Following the positive performance of current account deposits in 2017, from June onwards, the process of monitoring the risk profile indicated that there had been a decline in the leverage ratio to below the threshold set in the Risk Appetite Framework (RAF). The leverage ratio at 31 December 2017 stands at approximately 3.11% (3% being the minimum level required by the regulations). In order to restore the leverage ratio to the target level set out in the RAF (3.15%), on 25 January 2018, Poste Italiane SpA's Board of Directors approved the recapitalisation of BancoPosta by transferring free reserves of €210 million. The relevant functions will continue to keep a close eye on the leverage ratio throughout 2018 to ensure, over time, that it continues to meet the related targets, thresholds and limits established in the RAF.

As in the previous year, in 2017, in terms of economic value, BancoPosta RFC was exposed to falling rates. The entity of the exposure, measured using an internal model, remained below 10% of supervisory capital, thus well within the risk appetite framework for the year.

In terms of operational risk, with regard to real estate funds sold in the period 2002-2005, which have given rise to a number of complaints and disputes, Poste Italiane SpA is closely monitoring market developments and the related initiatives put in place in order to protect its customers, in order to assess any impact on provisions for risks and charges in the financial statements. In this regard, with a view to protecting and maintaining its positive image among customers and the Group's reputation for operational credibility, based on trust and transparency, on 19 February 2018, Poste Italiane SpA's Board of Directors approved an initiative designed to protect customers who, in 2004, against a different economic and regulatory backdrop compared with today's, purchased units issued by the Europa Immobiliare 1 fund and who have held the units through to the date of the fund's maturity on 31 December 2017 .

Details of the various areas of risk and the methods used for their measurement and prevention are provided in Poste Italiane SpA's financial statements for the year ended 31 December 2017.

BANCOPOSTA RFC FINANCIAL REVIEW

Key performance indicators ^(*)

for the year ended 31 December

	2017	2016
ROA ⁽¹⁾	0.87%	0.87%
ROE ⁽²⁾	28%	29%
Net interest income / Net interest and other banking income ⁽³⁾	26%	26%
Operating expenses / Net interest and other banking income ⁽⁴⁾	83%	84%

^(*) The key income ratios normally used reflect the unique nature of BancoPosta RFC and the fact that payments to Poste Italiane functions in reimbursement of costs are classified as "administrative expenses". The absolute amounts of the ratios are, consequently, irrelevant and should not be used for market comparisons but for analyses over time.

⁽¹⁾ Return On Assets. Represents the ratio of profit for the period and total assets.

⁽²⁾ Return On Equity. Represents the ratio of profit for the period and equity after deducting profit for the period and the valuation reserves.

⁽³⁾ Represents the contribution from net interest income as a ratio of net interest and other banking income.

⁽⁴⁾ Cost/income ratio.

OPERATING RESULTS

Reclassified income statement

for the year ended 31 December (€m)	2017	2016	Increase/(decrease)	
Interest and similar income	1,526	1,543	(17)	-1.1%
Interest and similar expense	(78)	(74)	(4)	5.4%
Net interest income	1,448	1,469	(21)	-1.4%
Fee and commission income	3,629	3,603	26	0.7%
Fee and commission expense	(65)	(66)	1	-1.5%
Net fee and commission income	3,564	3,537	27	0.8%
Dividends and similar income	1	1	-	n/s
Profits/(Losses) on trading	2	3	(1)	-33.3%
Fair value adjustments in hedge accounting	2	(1)	3	n/s
Profit/(Loss) from sale of financial assets/liabilities	624	587	37	6.3%
Net interest and other banking income	5,641	5,596	45	0.8%
Net operating income	5,641	5,596	45	0.8%
Administrative expenses	(4,616)	(4,653)	37	-0.8%
Other operating income/(expenses)	(58)	(39)	(19)	48.7%
Net operating expenses	(4,674)	(4,692)	18	-0.4%
Operating profit/(loss)	967	904	63	7.0%
Net provisions for risks and charges	(182)	(95)	(87)	91.6%
Net losses /recoveries on impairment of loans and advances	(15)	(6)	(9)	n/s
Income/(Loss) before tax from continuing operations	770	803	(33)	-4.1%
Taxes on income from continuing operations	(185)	(235)	50	-21.3%
Profit/(Loss) for the year	585	568	17	3.0%

n/s: not significant

BancoPosta RFC's performance during the year resulted in profit for the year of €585 million, up €17 million compared with 2016. The positive performance, despite being influenced by an increase in net provisions, which are up from €95 million in 2016 to €182 million in order to cover certain types of risk, including the voluntary initiative relating to the closed-end Europa Immobiliare fund, primarily reflects an improvement in net interest and other banking income (up 0.8% on 2016) and decline in administrative expenses (down 0.8% compared with 2016). Profit for 2017 also benefitted from a decline in tax expense, reflecting the reduction in

the IRES rate from 27.50% to 24% in accordance with the 2016 Stability Law (Law 208 of 28 December 2015).

The interest margin amounts to €1,448 million (€1,469 million in 2016) and is the difference between:

- interest earned primarily on investments in government securities and interest-bearing deposits at the MEF, amounting to €1,526 million (€1,543 million in 2016);
- interest expense of €78 million (€74 million in 2016), including €49 million in accrued differentials on Asset Swaps (€33 million in 2016) entered into as part of the wider strategy for actively managing BancoPosta's portfolio. The increase in differentials paid on derivatives primarily reflects the greater volume of forward start contracts entered into in previous years, with the effects on profit or loss seen in 2017. The overall balance of interest expense includes interest paid to current account holders, totalling €15 million (€20 million in 2016), interest on repurchase agreements of €10 million (€16 million in 2016) and €4 million (in line with the previous year) in interest on deposits used as security for derivative transactions (cash collateral).

Net fee and commission income amounts to €3,564 million (€3,537 million in 2016), reflecting:

- fee and commission income of €3,629 million (€3,603 million in 2016), including €1,566 million linked to the collection of postal savings deposits (€1,577 million in 2016), €1,046 million from transaction banking (€1,082 million in 2016), €743 million (€707 million in 2016) from other services offered to customers (per e.g. insurance broking and the distribution of loan products) and €274 million (€237 million in 2016) relating to e-money services;
- fees and commissions paid, amounting to €65 million (€66 million in 2016), primarily relating to debit/credit card clearing services.

Net interest and other banking income amounts to €5,641 million (€5,596 million in 2016) and, in addition to the interest margin and net fee and commission income, includes the net profit from the sale of financial assets, totalling €624 million (€587 million in 2016). This benefitted from €91 million in non-recurring income generated by the sale of 756,280 Class B Mastercard Incorporated shares (in 2016, non-recurring income included €121 million resulting from the sale of the share in Visa Europe).

Net operating expenses of 4,674 million are down on the previous year (€4,692 million in 2016), primarily due to a reduction in in "Other administrative expenses", which are down from €4,653 million in 2016 to €4,616 million. These include €4,418 million (€4,457 million in 2016) in transfer payments to other Poste Italiane functions in accordance with the "General Guidelines governing the process of contracting out BancoPosta's corporate functions to Poste Italiane" and the related operating guidelines for 2017. Personnel expenses of €93 million (€98 million in 2016) regard BancoPosta employees shown in the following table. In carrying out its activities, BancoPosta RFC is, however, the recipient of services provided by other Poste Italiane functions, particularly post office and Contact Centre personnel, paid for in accordance with the operating guidelines governing relations with Poste Italiane.

Net other operating expenses of €58 million (€39 million in 2016) primarily relate to operating losses resulting from withdrawals that customers claim not to have made .

Finally, it should be noted that, in carrying out its activities, BancoPosta RFC makes use of real estate assets (e.g., use and management of office space for BancoPosta's operations) and technology assets (e.g., the design and implementation of new services, the development and maintenance of operations and business software) owned by Poste Italiane SpA. The provision of these services is regulated by operating guidelines and remunerated through the payment by BancoPosta RFC of transfer prices to Poste Italiane.

Average workforce at BancoPosta RFC

for the year ended 31 December	Average number of employees ⁽¹⁾			
Permanent workforce	2017	2016	Increase/(decrease)	
Executives	55	54	1	1.9%
Middle managers	479	460	19	4.1%
Operational staff	1,194	1,310	(116)	-8.9%
Total	1,728	1,824	(96)	-5.3%
Flexible workforce	2017	2016		
Fixed-term contracts	2	3	(1)	-33.3%
Total	2	3	(1)	-33.3%
Total permanent and flexible workforce	1,730	1,827	(97)	-5.3%

⁽¹⁾ Shown in full-time equivalent terms.

FINANCIAL POSITION AND CASH FLOW

Reclassified statement of financial position

(€m)	2017	2016
Assets		
at 31 December		
Available-for-sale financial assets	39,140	37,263
<i>of which government securities/securities guaranteed by the government</i>	39,099	37,159
<i>of which equity instruments</i>	41	104
Held-to-maturity financial assets	12,912	12,683
Due from banks	1,151	1,314
Due from customers	7,951	9,004
<i>of which postal current account deposits held at the MEF</i>	6,390	7,499
Other assets	6,081	4,789
Total assets	67,235	65,053

(€m)	2017	2016
Liabilities and equity		
at 31 December		
Due to banks	5,950	5,799
<i>of which repurchase agreements</i>	4,482	5,381
Due to customers	53,686	50,374
<i>of which amounts due to current account holders</i>	46,468	45,098
Other liabilities	4,840	5,494
Total liabilities	64,476	61,667
Equity	2,759	3,386
<i>of which:</i>		
Initial reserve	1,000	1,000
Retained earnings	1,059	949
Valuation reserves	115	869
Profit for the year	585	568
Total liabilities and equity	67,235	65,053

Available-for-sale financial assets amount to €39.1 billion (€37.3 billion at 31 December 2016) and consist of investments in Italian government securities, securities guaranteed by the Italian government and equity instruments (Visa Incorporated). The increase in debt securities, which are up 5%, is linked to the purchase of new securities in which to invest the increased volume of current account deposits in 2017, which has offset fair value losses. In addition, in view of the macroeconomic environment, the strategy aimed at managing the duration of the portfolio, so as to protect against the exposure of securities to changes in fair value resulting from potential rises in interest rates, continued during the year.

Equity instruments of €41 million are down €63 million following the above sale of the Mastercard Incorporated shares.

Held-to-maturity financial assets, consisting of fixed payment or fixed maturity debt securities, amount to €12.9 billion, up €229 million on 31 December 2016. This is primarily due to the redemption of matured securities, totalling €1.3 billion, and the purchase of new securities with a nominal value of approximately €1.6 billion.

Amounts due from customers are down from the €9,004 million at 31 December 2016 to €7,951 million at 31 December 2017. They include €6,390 million (€7,499 million at 31 December 2016) in amounts deposited by private and Public Administration customers and held at the MEF.

Other asset items primarily include cash and cash equivalents of €3,217 million (€2,511 million at 31 December 2016), represented by cash at post office counters and companies that provide cash transportation services, consisting of cash deposits on postal current accounts and postal savings products. Other assets amount to €2,063 million (€1,766 million at 31 December 2016) and almost entirely relate to the payment of tax withholdings and items in progress that will be settled after the end of the reporting period .

The amount due to banks, totalling €5,950 million (€5,799 million at 31 December 2016) primarily regards repurchase agreements amounting to €4,482 million (€5,381 million at 31 December 2016), relating to:

- €3,903 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;
- €939 million relating to BancoPosta's ordinary borrowing operations with primary financial institutions as funding for incremental deposits used as collateral for transactions.

The amount due to customers is up from €50.4 billion at the end of December 2016 to 53.7 billion. This regards current account deposits of €46.5 billion (€45.1 billion at 31 December 2016), other forms of deposit of €3.7 billion (€2.8 billion at 31 December 2016), primarily including Postepay and Postepay Evolution accounts, totalling €2.8 billion (€2.1 billion in 2016) and amounts due to the MEF in relation to advances from the State Treasury, totalling €3.5 billion (€2.4 billion at the end of 2016).

Other liability items amount to €4.8 billion (€5.5 billion at the end of 2016) and include other liabilities of €2.3 billion (€2.2 billion at 31 December 2016), primarily regard tax liabilities in the form of tax withholdings, items in progress that will be settled after the end of the reporting period and amounts payable to other Poste Italiane functions.

This item also includes hedging derivatives of €1,637 million, down compared with the figure of €2,304 million at 31 December 2016, following an improvement in the fair value of outstanding derivatives and the early unwinding of contracts with a nominal value of almost €2 billion.

BancoPosta RFC's equity at 31 December 2016 amounts to €2,759 million (€3,386 million in 2016) and, in addition to the initial reserve of €1 billion and retained earnings (€1,059 million), includes the fair value reserve of €115 million, after reflecting fair value losses on investments in available-for-sale financial assets, and profit for the year of €585 million.

BANCOPOSTA RFC EVENTS AFTER 31 DECEMBER 2017

On 25 January 2018, Poste Italiane SpA's Board of Directors approved the Company's transfer of free reserves of €210 million to BancoPosta RFC in order to restore the leverage ratio to the target level set out in the Risk Appetite Framework²³. For this purpose, at the same time, the Chief Executive Officer of Poste Italiane SpA was given the authority to carry out any activities and to negotiate and sign any deeds or documents necessary or appropriate. It was also decided to submit the proposal to strengthen BancoPosta RFC's capital for approval by an Extraordinary General Meeting of Poste Italiane SpA's shareholders.

Events after the end of the reporting period are described in other sections of the Annual Report for 2017 and there are no further material events occurring after 31 December 2017 to report.

OUTLOOK FOR BANCOPOSTA RFC

In 2018, BancoPosta RFC will continue to implement the strategic objectives forming the basis for the Business Plan, with particular attention to:

- developing the customer base, through targeted offerings of products and services capable of consolidating customer relations and boosting both deposits and the related investments in financial instruments;
- implementing the strategy aimed at expanding the range of Post Savings products, with the objective of improving its ability to meet the different needs of savers in a changing market environment;
- expanding the distribution of consumer credit products.

In addition, as in previous years, the strategy of actively managing the securities portfolio, with the aim of stabilising the overall return, will continue.

OTHER INFORMATION ON BANCOPOSTA RFC

Related party transactions

Information on transactions between BancoPosta and its related parties is provided in Poste Italiane Financial Statements for the year ended 31 December 2017 (BancoPosta RFC's Separate Report, Part H of the notes).

Separate financial statements

Poste Italiane SpA's financial statements include separate BancoPosta financial statements in compliance with art. 2, paragraph 17-undecies of Law 10 converting Legislative Decree 225 of 29 December 2010, requiring separate disclosure of BancoPosta's ring-fenced assets and liabilities.

Intersegment transactions

Intersegment transactions between BancoPosta and Poste Italiane functions outside the ring-fence are set out in Poste Italiane Financial Statements for the year ended 31 December 2017 (BancoPosta RFC's Separate Report, Part A of the notes).

Information on proceedings and BancoPosta RFC's relations with the authorities are provided in the section, "Principal relations with the authorities".

²³ The RAF consists of a framework that defines, in keeping with the maximum acceptable risk, the business model and strategic plan, the risk appetite, risk tolerance thresholds, risk limits, and risk management policies, together with the processes needed to define and implement them.

9. OUTLOOK

In 2018, the Poste Italiane Group will be engaged in implementing the objectives outlined in the five-year Deliver 2022 Plan, approved by the Board of Directors on 26 February 2018.

The strategic objective of the Group's Strategic Plan is to achieve physical and digital transformation, taking advantage of market trends and the recovering Italian economy.

In the [Mail, Parcels and Distribution](#) segment, the Group aims to improve its competitive position in the parcels market, taking advantage of the opportunities arising from the growth of e-commerce and the trend towards digitalisation of the Public Sector, with opportunities to develop new integrated services for citizens.

The Group will be engaged in a process of redefining the segment, which has been underway for some years, through the use of new automation technologies to support production processes, and the introduction of an innovative delivery operating model, the Joint Delivery Model. This model, based on the expected evolution of customer volumes and requirements, provides for a basic alternate day structure for all standard mail deliveries, and daily deferred delivery rounds for express mail deliveries for business customers. Priority will be given to increasing the efficiency and quality of postal services, maximising synergies in the logistics and operations network, and enhancing all available Group assets.

In the [Financial Services](#) segment, the Plan aims to take advantage of the opportunities arising from recent regulatory innovations (MiFID 2 and IDD), taking advantage of current strengths: customer base, distribution network and brand. At the same time, Postal Savings will benefit from the new agreement with Cassa Depositi e Prestiti signed in December 2017. In addition, the active management strategy for the financial instruments portfolio is aimed at stabilising the overall return from interest income and realised capital gains.

During 2018, the Group will also continue to enhance the value of its investment in Anima Holding SpA.

On the bond market front, in early 2018, despite the political uncertainty in Italy, the yield on 10-year BTPs remained between 1.90% and 2.10%, and the spread with the Bund fell below 140 bps.

As in previous years, the Group will continue its strategy of actively managing its portfolio of financial instruments, with a view to stabilising the overall return.

With the creation of the new [Payments, Mobile and Digital](#) business unit, the Poste Italiane Group aims to become Italy's leading payments ecosystem, ensuring convergence between payments and mobile technology, and between physical and digital channels, by using existing assets in terms of expertise, customer base and physical and digital networks.

The objective is to contribute to the planned evolution of the payments offering, in order to develop the electronic money and payment services market.

In this competitive environment, and in view of the digital payment opportunities (in Italy cash is used in 85% of transactions, compared with an EU average of 68%), on 25 January 2018, Poste Italiane SpA's Board of Directors decided to submit the proposed separation and transfer of certain assets, contractual rights and authorisations from BancoPosta RFC to a new e-money and payment services unit to be set up within PosteMobile SpA, for approval by shareholders. This will enable the latter to operate as an e-money institution.

The entry into force of the new EU Payment Services Directive (PSD2), from January 2018, will entail the adoption of new rules and business models for financial intermediaries operating in the payments sector, thereby increasing competition at national and international level. The lawmakers' intention is to open up the European payments market to new operators who will go beyond the existing "current account - payment services" combination, thus helping to increase competition, so as to guarantee consumers, businesses and Public Administration entities innovative services, wider choice, lower prices and more secure transactions. In this scenario, the Poste Italiane Group will have to protect its market – especially the market for payment services linked to current accounts – from the arrival of new operators and the evolution of existing ones, whilst also benefitting – especially through the development of the Postepay platform and innovative and digital payment services – from the development of its offering to current account customers of other banks, both in Italy and overseas.

In the [Insurance Services](#) segment, the Group expects to consolidate its leadership in the life insurance sector, as well as driving growth in the private pensions and property and casualty sectors.

The Group intends to maintain its leadership in the life insurance business, by providing customers with the best products in the current economic and market environment, strengthening its pension fund offering, and continuing to develop private pension plans, an area in which the Group is already the market leader. In the non-life sector, the objective will be to pursue rapid growth in the accident, welfare and non-vehicle non-life sectors, taking advantage of strong untapped potential in these markets.

Implementation of the above-mentioned Strategic Plan objectives will be supported by an Investment Plan, amounting to €2.8 billion in the period 2018-2022, equal to 5% of sales revenue (4% in the previous 2015-2017 period). 61% of the investment will be allocated to information technology, 23% to the real estate sector and 16% to other projects, primarily relating to reorganisation of processes in the Mail, Parcels and Distribution segment.

The additional element enabling achievement of the Plan's objectives regards the forecast trend for overall personnel expenses, which are expected to fall over the life of the Plan. It is estimated that the workforce will be reduced by around 15,000, also taking into account the recruitment of around 10,000 new staff. Indeed, the reduction in the workforce is due to the initiative launched by the Company in recent years, aimed at bringing forward generational turnover through voluntary early retirement schemes.

10. PRINCIPAL RELATIONS WITH THE AUTHORITIES

Autorità per le Garanzie nelle Comunicazioni (AGCOM - the Italian Communications Authority)

With regard to quantification of the cost of the Universal Service, in September 2017, the regulator published Resolution [298/17/CONS](#) relating to its assessment of the net cost of the universal postal service incurred by the Company for 2013 and 2014 and the applicability of the mechanism for allocating such cost. In detail, the regulator has assessed the cost of providing the universal service for 2013 and 2014 to be €393 million and €409 million, respectively, compared with revenue of €343 million and €277 million recognised in Poste Italiane SpA's statement of profit or loss in previous years. The regulator has also determined that the cost of providing the universal service for 2013 and 2014 is unjustified and that the compensation fund to cover the cost for these years, provided for in art. 10 of Legislative Decree 261/1999, has not been established. With regard to the method used to calculate the net cost, on 6 November 2017 the Company appealed against this resolution to the Lazio Regional Administrative Court, before which Poste Italiane's appeal against Resolution [412/14/CONS](#), which verified the net cost for 2011 and 2012, is still pending²⁴.

On 27 October 2017, the Authority announced that it had initiated the net cost verification procedure for 2015 and 2016.

As part of the initiatives aimed at redefining the universal postal service, with Resolution [395/15/CONS](#) AGCom authorised the gradual implementation, in three phases, of an alternate day delivery model for mail within the scope of the universal service.

Following the implementation of the first two phases of the model, involving approximately 2,600 municipalities and 16 Italian regions, the third and final phase was launched on 20 November 2017, which will involve a further 2,500 municipalities in 18 regions.

In addition, in accordance with the above Resolution, the Company 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.

Appeals against this resolution were lodged with the Lazio Regional Administrative Court, but these were later withdrawn, resulting in cancellation of the related proceedings, except in the case of the Municipality of Tarzo, where formal withdrawal is pending.

Regarding licence obligations in the postal sector, AICAI (the Italian Association of International Air Couriers) and Confetra (the General Italian Confederation of Transport and Logistics Companies) have challenged AGCom Resolution [129/15/CONS](#) ("Regulations regarding the requirements to be met in order to offer postal services to the public", by which AGCom has established the conditions applicable to the issue of individual licences and general authorisation by the Ministry for Economic Development, before the Regional Administrative Court, claiming that application of the obligations provided for in these regulations to their members is unlawful. In the challenge, AICAI argues, among other things, in favour of the exclusion of express couriers from any obligation to contribute to the universal service compensation fund.

²⁴ On 29 July 2014, the board of AGCom issued Resolution [412/14/CONS](#), approving the measure defining the methods for calculating and quantifying the net cost of the universal postal service for 2011 and 2012. In confirming that the cost of the universal service for 2011 and 2012 was, in certain respects, unfair and thus merits compensation, the Resolution quantified the cost for 2011 and 2012 as €381 million and €327 million, respectively, compared with compensation originally recognised by Poste Italiane of approximately €357 million and €350 million, respectively. On 13 November 2014, Poste Italiane lodged an appeal against this Resolution before the Regional Administrative Court.

In January 2016, Lazio Regional Administrative Court referred the matter to the European Court of Justice, requesting a ruling on the compatibility of Italian legislation with the European postal directive, including express couriers' contribution to the universal service compensation fund. On 28 November 2017, the Advocate General's conclusions were presented to the Court, which support the legality of the obligations laid down by the legislation in question regarding couriers and road hauliers insofar as they provide postal services. A ruling is awaited. Regarding the right to direct access to the universal postal network, on 18 October 2017 the regulator published Resolution [384/17/CONS](#) containing "Changes to the provisions governing access to Poste Italiane's postal network and infrastructure", establishing a new regime for access to the universal postal network based on the following points:

- i) retention of the obligation to provide equal and reasonably free access throughout the country²⁵, in addition to – in postcodes without the presence of an alternative operator – an obligation to provide access in accordance with conditions based on the effective pertinent costs incurred, after appropriate efficiencies;
- ii) obligations to give third-party operators access to PO boxes²⁶ located at post offices and to ensure market transparency in the event of changes to postcodes;
- iii) definition of the volume threshold beyond which it is assumed that the service for returning other operators' mail that has finished up in the Poste Italiane network is an "access mail collection" service;
- iv) definition, with a subsequent ruling, of a test of the replicability of Poste Italiane's offerings regarding multi-items deliveries to large private customers or formulated within the scope of public tenders.

On each of the points highlighted, the Company has formulated its own proposals, as requested by the regulator.

On 18 December 2017, three appeals were lodged before the Lazio Regional Administrative Court, respectively, by the Fulmine Group Srl (AREL - Delivery Licensees Agency consortium company), Nexive SpA and Assopostale/GPS/MailExpress/CityPost, in which the alternative operator claimants requested its cancellation, with prior injunctive relief, in those parts where it determines the amount of coverage by alternative networks, redefines the access points and the related obligations for Poste Italiane, provides for the replicability test tool, and does not regulate the obligations regarding access to infrastructure. The appeal is pending. At a hearing on 7 February 2018, injunctive relief was not granted and a hearing on the merits of the case was not scheduled for the near future.

With reference to Resolution [621/15/CONS](#) regarding 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", 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. In September 2016, the Court published its judgment, upholding the appeal insofar as it relates to the principle under which the additional costs alone may be recovered and establishing Poste Italiane's right to recover the full cost of the service through the prices charged. Subsequently, AGCom, Nexive and GPS appealed to the Council of State which, in September 2017, upheld the appeal and the legality of the Resolution.

²⁵ Other postal operators may access the collection network at Sorting Centre level for outbound sorting, or as an alternative to the delivery network at Sorting Centre level for inbound sorting.

²⁶ Third-party operators may deliver items entrusted to them to post offices for delivery to post boxes, if they are correctly addressed and the post office where the post box is located is specified.

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). AGCom also initiated a penalty procedure against GPS regarding this matter, which was subsequently dismissed by the regulator in Resolution [456/17/CONS](#) due to absence of the obligation to agree. On 5 May 2018, Poste Italiane lodged an appeal against this dismissal.

With another appeal before the Lazio Regional Administrative Court, for which Poste Italiane entered an appearance before the court, GPS has also contested AGCom's prohibition against use of the term "stamp" to indicate the "stickers" used by GPS. This appeal was rejected by the Regional Administrative Court on 26 July 2017, and the deadline for appealing to the Council of State has expired.

Poste Italiane introduced a number of changes to the prices charged for certain postal services falling within the scope of the universal services (signed-for products) from 10 January 2017, in keeping with the limits and requirements established by AGCom in Resolution 728/13/CONS. The new price list and the related acts are the subject of a legal challenge brought by the consumers' association, CODACONS. A date for the hearing on the merits of the case is awaited.

In addition, on 7 July 2017, the Company applied to AGCom for permission to reformulate the rates charged for the ordinary international parcel service for various destination areas. The application was accepted by the regulator and the new rates came into effect from 11 September 2017.

[Autorità Garante della Concorrenza e del Mercato \(AGCM - the Antitrust Authority\)](#)

On 4 June 2015, the AGCM launched an investigation ([SP/157](#)) pursuant to art.8, paragraph 2-*quater* of Law 287/90, aimed at ascertaining whether actions taken by Poste Italiane were designed to prevent H3G SpA (now WindTre 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 failed, when requested, to offer a competitor of its subsidiary, PosteMobile, equal access to goods and services that are exclusively available from Poste Italiane, as they form part of the activities carried out within the scope of the Universal Postal Service. The Authority issued a warning to Poste Italiane that it should desist from such conduct in the future, but did not impose any fine.

Poste Italiane and PosteMobile lodged an appeal against this ruling before the Lazio Regional Administrative Court, which rejected the appeals lodged by Poste Italiane 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 Mobile²⁷.

Following the decision taken by the Antitrust Authority, H3G filed a civil action before the Court of Rome, requesting that Poste Italiane and PosteMobile be ordered to pay damages of €375.8 million for the violations that were the subject of the aforementioned proceedings. At a hearing on 29 March 2017, the investigating judge ordered a court-appointed expert's report.

²⁷ 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.

Finally, on 28 March 2018, Poste Italiane, PosteMobile and WindTre SpA reached an agreement whereby, without any recognition and in order to restore peaceful business relations, the parties abandoned the dispute in question. By signing the agreement, Poste Italiane undertook to pay WindTre SpA a total of €1.5 million to cover the operating, general and staff costs incurred, also in relation to disputes, including but not limited to the collection and processing of information and corporate data by WindTre's offices, legal fees and legal aid expenses, charges relating to technical consultancy services, etc..

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

On 13 December 2017, the Authority handed down the final ruling of the investigation, notified on 15 January 2018, by which an infringement regarding abuse of dominant position was ascertained, with a warning to the Company to refrain from similar conduct in the future. The same ruling imposed an administrative fine which was limited – compared with the Authority's previous fines – to 2% of turnover and discounted in relation to the compliance obligations undertaken in advance by Poste Italiane and positively assessed by Nexive, amounting to €23 million. The AGCM set a 60-day deadline for submitting the compliance report.

Poste Italiane lodged an appeal against the above ruling before the Lazio Regional Administrative Court with a request for suspension, which was not granted, and a hearing on the merits was set for 5 December 2018. In the meantime, the Company has entered into dialogue with the Antitrust Authority to define the compliance proposals.

The AGCM has lodged a challenge with the Lazio Regional Administrative Court against INPS and Poste Italiane, seeking cancellation of the tender process awarding the contract for non-automated mail delivery services for INPS's head office and regional offices. In a ruling in May 2016, the Regional Administrative Court rejected the challenge, thus confirming the legitimacy of the INPS tender. Subsequently, the AGCM notified the appeal against the above-mentioned ruling and the Council of State, with a ruling of 5 September 2017, rejected the appeal.

[Italian National Anti-Corruption Authority \(ANAC\)](#)

On 28 September 2015, the Italian National Anti-Corruption Authority (ANAC) notified Poste Italiane that it was launching an investigation to verify the administrative procedures carried out regarding upgrade and restyling work at the Sesto Fiorentino sorting centre (FI). The Authority asked Poste Italiane to submit an explanatory report on the contract, together with the related documentation. On 17 November 2015, the person responsible for the procedure sent the documented report to ANAC and asked to testify before the Authority. The hearing was held on 27 January 2016, when the Company provided clarification and details regarding the contract in question. A further hearing was held on 8 February 2017 and the Authority's conclusions are awaited.

[Bank of Italy](#)

In 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 ended on 5 May 2017. The related

Inspection Report was issued on 20 July 2017. Poste Italiane responded within the required deadline by submitting its views in September 2017 and launching the related compliance initiatives.

In addition, on 28 September 2017, the Bank of Italy began an inspection pursuant to art. 53 of Legislative Decree 231/2007, again with regard to BancoPosta's operations. The inspection related to money laundering prevention at a sample of post offices. The process, having the nature of a follow-up to the inspection conducted in 2015, aimed to assess the progress made in implementing the compliance initiatives communicated to the Bank.

CONSOB

In 2017, in line with the roll-out plan launched in December 2016, IT releases were completed for the new guided consultancy platform, which was gradually extended to the entire Poste Italiane network during the year. In parallel, during the second half of 2017, the segment was subject to further compliance initiatives aimed at implementing the MiFID 2 Directive, which came into force on 3 January 2018. The innovations made to procedural and IT structures, and the further initiatives planned in 2018 to consolidate the Company's oversight of them, were the subject of specific reporting to the CONSOB.

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

On 27 September 2017, IVASS sent *Poste Vita* the results of the inspection conducted at its premises pursuant to art. 189 of the Private Insurance Code (Legislative Decree 209 of 7 September 2005) in 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". Finding that the degree of implementation of the Solvency II framework was satisfactory overall, the regulator did not identify any specific shortcomings, and issued a partially favourable opinion, making a number of points and observations. Therefore, on 25 October 2017 the company submitted its considerations regarding the investigations and corrective measures required by the inspection report to IVASS, and planned a series of activities aimed at implementing the improvement initiatives recommended by the Authority. To date, *Poste Vita*'s implementation of the planned actions is on schedule.

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

With notification on 17 February 2017, the Data Protection Authority initiated proceedings against Poste Italiane requesting it to provide all useful information to enable it to assess reports submitted by certain local labour unions, which complained about the unlawful processing of the personal data of Poste Italiane staff using the queue management system, by displaying operators' first names above their workstations at post office counters.

At the end of the investigation, the Data Protection Authority found that the arrangements regarding the queue management system "*were, for certain roles, not in compliance with personal data protection rules*", and therefore ordered the prohibition of such an arrangement, requesting Poste Italiane *to report the initiatives it has undertaken to implement the Authority's prohibitions and requirements*. The Company has reported the changes made to the system in compliance with the requirements and prohibitions, supplemented the information pursuant to art. 13 of Legislative Decree 196/2003 for employees, and suspended the relevant arrangement.

At the same time, the Data Protection Authority, on completing the investigation into the reports, initiated an independent procedure before the Inspections and Sanctions Department aimed at assessing "the existence of administrative violations by the data controller". At the end of the sanctions procedure, the Data Protection Authority, via a ruling notified on 19 January 2018, found that Poste Italiane had "*violated art. 13 of the Italian Civil Code, sanctioned by art. 161 of the same Code, for having processed personal data without having provided the persons concerned with adequate information*", and imposed a reduced fine of €24,000, which was paid on 19 February 2018.

European Commission

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

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

On 6 March 2018, the Supreme Court of Cassation, in a dispute between Poste Italiane and Equitalia Centro SpA regarding fees for the collection of local property taxes, ruled that certain areas of interpretation of European law were prejudicial and ordered suspension of the proceedings and transmission of the documents to the Court of Justice.

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. With a ruling of 9 July 2015, the Court of Auditors for the Lazio region, ordered the Company at first instance to pay the sum of €8 million plus an adjustment for inflation and statutory interest. Poste Italiane appealed against this decision, which was upheld by the Court of Auditors on 15 November 2017, limiting the initial sentence to the amount already recognised as due by Poste Italiane, namely €4 million.

11. OTHER INFORMATION

EVENTS AFTER 31 DECEMBER 2017

Events after the end of the reporting period to which the Annual Report for 2017 refers are described in other sections of this document. Further information is provided in Poste Italiane Financial Statements for the year ended 31 December 2017.

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. 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 <https://www.posteitaliane.it/it/documenti-societari.html>. The document is also available in the section dedicated to BancoPosta at <https://www.posteitaliane.it/it/documenti-bancoposta.html>.

SIGNIFICANT TRANSACTIONS COMPLETED IN 2017

At a meeting on 20 September 2017, Poste Italiane's Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised the spot and forward purchase and sale of securities issued and/or guaranteed by the Italian government and the execution of repurchase agreements and reverse repos and of hedging derivatives by BancoPosta RFC, with Monte Paschi Capital Services Banca per le Imprese SpA acting as counterparty. This company qualifies as a related party of Poste Italiane as it is also

controlled by the Ministry of the Economy and Finance through Banca Monte dei Paschi di Siena SpA²⁸. The operations regard a range of transactions, with the amount and duration of each transaction not known in advance, but defined over time.

Given the size of BancoPosta RFC's portfolio of financial instruments in which it invests the funds deposited by private account holders and in view of the average amount involved in this type of transaction, which are carried out under standard terms and conditions and form part of BancoPosta's ordinary financial management, the transaction has been prudently classified as an ordinary transaction of greater significance, in accordance with CONSOB Resolution 17221 of 2010, as amended.

From October 2017, five repurchase agreements and 23 buy & sell back transactions, which expired during the period, have been entered into, in addition to two Interest rate Swaps for hedging purposes and two forward sales of securities.

At a meeting on 13 December 2017, the Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised signature of the agreement with Cassa Depositi e Prestiti governing the collection and distribution of Postal Savings products, by BancoPosta on behalf of CDP, for the three-year period 2018-2020. Given the value of the agreement, which over the related term (3 years) will range from €4.65 to €5.55 billion, and the fact that both Poste Italiane and CDP are controlled by the Ministry of the Economy and Finance, the transactions is classed as a "related party transaction of greater significance" pursuant to CONSOB regulations and the Bank of Italy regulations applicable to BancoPosta RFC.

The agreement was signed on 14 December 2017 and the related information document was made available for inspection at the Company's registered office, at Borsa Italiana SpA, on the Company's website and on the authorised "eMarket Storage" system.

Details of the impact of related party transactions on the financial position and profit or loss are provided in Poste Italiane Financial Statements for the year ended 31 December 2017 (Notes to the Poste Italiane Group's financial statements – Additional information; Notes to Poste Italiane SpA's financial statements – Related party transactions).

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 transactions²⁹ in 2017.

²⁸ MPS Capital Services is 99.97% owned by Banca Monte dei Paschi di Siena SpA, which is in turn controlled by the Ministry of the Economy and Finance through its 52% interest in the bank.

²⁹ 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.

12. PROPOSED SHAREHOLDER RESOLUTIONS

The Board of Directors proposes that the Annual General Meeting approve Poste Italiane SpA's financial statements for the year ended 31 December 2017 (including BancoPosta RFC's Separate Report), accompanied by the Directors' Report on Operations.

Based on the fact that the Poste Italiane Group's consolidated profit for 2017 amounts to approximately €689,394 thousand (entirely attributable to owners of the Parent), in line with the announced dividend policy, the Board of Directors proposes that the Annual General Meeting:

- appropriate BancoPosta RFC's profit for the year of €584,979,647 to be put at the Company's disposal.
- appropriate Poste Italiane SpA's profit for 2017, amounting to €616,965,039, as follows:
 - €548,566,200 to pay shareholders a dividend of €0.42 per share, payable to the holders of each of the 1,306,110,000 ordinary shares in issue at the ex dividend date of 18 June 2018;
 - €68,398,839 to "Retained earnings".
- to pay the above dividend of €0.42 per ordinary share for 2017 – before any applicable taxation – from 20 June 2018, with an ex dividend date of 18 June 2018 for coupon number 3 and a record date (defined in accordance with art. 83-*terdecies* of Legislative Decree 58 of 24 February 1998 and art. 2.6.6, paragraph 2 of the Regulations for the Markets organised and managed by Borsa Italiana SpA), of 19 June 2018.

13. APPENDIX

ALTERNATIVE PERFORMANCE INDICATORS

In keeping with the guidelines published by the European Securities and Markets Authority on 5 October 2015 (ESMA/2015/1415), in addition to the financial disclosures required by IFRS and used in preparing the financial statements for the year ended 31 December 2017, Poste Italiane has included a number of indicators in this report that have been derived from them. These provide management with a further tool for measuring the Group's performance. As a result of the organisational changes introduced in 2017, and the new strategic guidelines set out in the "Deliver 2022" Strategic Plan presented to the financial community on 27 February 2018, the Group has revised the way it assesses and reports on the performance of its business in 2017. As a result of this revision, the operating segments identified for the purposes of this Annual Report for 2017 are: Mail, Parcels and Distribution; Payments, Mobile and Digital; Financial Services; Insurance Services.

In addition, the method of presenting the revenue and cost components relating to the insurance business in the statement of profit or loss has been revised, with the inclusion of a new item: *Revenue from insurance services after movements in technical provisions and other claims expenses*, providing a synthetic indication of the Insurance Services segment's contribution to the Group's result. This item is defined as the sum of premium revenue net of outward reinsurance premiums, income and losses from financial instruments attributable to insurance activities and movements in technical provisions and other claims expenses.

The above changes are reflected in the reclassification of the statements of profit and loss of the operating segments which, in addition to the disclosures required by IFRS 8, have been prepared by management solely in order to provide additional, more extensive analysis of the operating performances of the Group's specific areas of business.

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.

EBIT margin – this is an indicator of the operating performance and is calculated as the ratio of operating profit (EBIT) to total revenue before non-operating financial expenses and taxation. This indicator is also presented separately for each operating segment.

Net ROE (Return On Equity) – from this Report, this is calculated as the ratio of net profit to the average value of equity (net of the fair value reserves) at the beginning and end of the reporting period. In previous years, the indicator was calculated as the ratio of pre-tax profit to the average value of equity (including the fair value reserves).

Management has decided to strip out the fair value reserves from equity in order to facilitate comparison of earnings in the comparative periods and to use, for the same reason, the net after-tax result, as this indicator is used solely to present the earnings of the Group as a whole.

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

NET 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 net working capital, deferred tax assets, deferred tax liabilities, provisions for risks and charges and provisions for employee termination benefits and pension plans and non-current assets and disposal groups held for sale and liabilities related to assets held for sale.

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

NET (DEBT)/FUNDS OF THE MAIL, PARCELS AND DISTRIBUTION SEGMENT (ESMA) – this is 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.

KEY PERFORMANCE INDICATORS FOR PRINCIPAL POSTE ITALIANE GROUP 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 ⁽¹⁾				
for the year ended 31 December (€000)	2017	2016	Increase/(decrease)	
Revenue from sales and services	213,230	215,593	(2,363)	-1.1%
Operating profit/(loss)	1,672	(7,721)	9,393	n/s
Profit/(loss) for the period	118	(7,968)	8,086	n/s
Investment	7,607	12,120	(4,513)	-37.2%
Equity	101,459	96,081	5,378	5.6%
Permanent workforce - average	1,069	1,162	(93)	-8.0%
Flexible workforce - average	20	29	(9)	-31.0%

⁽¹⁾ From 1 April 2017, the spin-off of the consortium unit from Postecom SpA to Postel SpA is effective for legal, tax and accounting purposes.

n/s: not significant

SDA EXPRESS COURIER SPA				
for the year ended 31 December (€000)	2017	2016	Increase/(decrease)	
Revenue from sales and services	549,173	568,165	(18,992)	-3.3%
Operating profit/(loss)	(42,114)	(35,612)	(6,502)	-18.3%
Profit/(loss) for the period	(31,990)	(28,904)	(3,086)	-10.7%
Investment	8,288	4,858	3,430	70.6%
Equity	(22,876)	9,125	(32,001)	n/s
Permanent workforce - average	1,347	1,376	(29)	-2.1%
Flexible workforce - average	85	66	19	28.8%

n/s: not significant

POSTE TUTELA SPA				
for the year ended 31 December (€000)	2017	2016	Increase/(decrease)	
Revenue from sales and services	85,805	87,138	(1,333)	-1.5%
Operating profit/(loss)	390	694	(304)	-43.8%
Profit/(loss) for the period	298	503	(205)	-40.8%
Investment	90	59	31	52.5%
Equity	13,441	13,153	288	2.2%
Permanent workforce - average	17	15	2	13.3%
Flexible workforce - average	1	0	1	n/s

n/s: not significant

EUROPA GESTIONI IMMOBILIARI SPA				
for the year ended 31 December (€000)	2017	2016	Increase/(decrease)	
Revenue from sales and services	94,240	94,948	(708)	-0.7%
Operating profit/(loss)	4,639	4,671	(32)	-0.7%
Profit/(loss) for the period	1,843	1,585	258	16.3%
Investment	681	380	301	79.2%
Equity	237,263	235,402	1,861	0.8%
Permanent workforce - average	28	26	2	7.7%

MISTRAL AIR SRL

for the year ended 31 December (€000)	2017	2016	Increase/(decrease)	
Revenue from sales and services	100,472	84,919	15,553	18.3%
Operating profit/(loss)	(8,950)	(3,979)	(4,971)	n/s
Profit/(loss) for the period	(7,611)	(2,942)	(4,669)	n/s
Investment	172	611	(439)	-71.8%
Equity ^(*)	(1,895)	1,687	(3,582)	n/s
Permanent workforce - average	129	143	(14)	-9.8%
Flexible workforce - average	56	43	13	30.2%

(*) The company's equity includes the recapitalisation of €4 million carried out in 2017.

n/s: not significant

POSTEMOBILE SPA

for the year ended 31 December (€000)	2017	2016	Increase/(decrease)	
Revenue from sales and services	234,543	267,685	(33,142)	-12.4%
Operating profit/(loss)	26,837	28,345	(1,508)	-5.3%
Profit/(loss) for the period	18,659	17,903	756	4.2%
Investment	26,583	20,549	6,034	29.4%
Equity ^(*)	57,905	56,043	1,862	3.3%
Permanent workforce - average	213	211	2	0.9%
Flexible workforce - average	4	7	(3)	-42.9%

(*) During the year, the company paid dividends totalling €17 million.

BANCOPOSTA FONDI SPA SGR

for the year ended 31 December (€000)	2017	2016	Increase/(decrease)	
Fee income	101,954	75,493	26,461	35.1%
Net fee income	54,501	42,571	11,930	28.0%
Profit/(loss) for the period	29,134	21,751	7,383	33.9%
Financial assets (liquidity and securities)	71,372	62,242	9,130	14.7%
Equity ^(*)	53,886	46,013	7,873	17.1%
Permanent workforce - average	58	55	3	5.5%
Flexible workforce - average	0	1	(1)	n/s

(*) During the year, the company paid dividends totalling €21 million.

n/s: not significant

POSTE VITA SPA^(*)

for the year ended 31 December (€000)	2017	2016	Increase/(decrease)	
Insurance premium revenue ^(**)	20,263,356	19,820,265	443,091	2.2%
Profit/(loss) for the period	510,172	377,511	132,661	35.1%
Financial assets	125,626,314	115,417,452	10,208,862	8.8%
Technical provisions for insurance business	123,489,910	113,534,750	9,955,160	8.8%
Equity ^(***)	3,323,728	3,292,074	31,654	1.0%
Permanent workforce - average	388	361	27	7.5%
Flexible workforce - average	5	4	1	25.0%

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

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

(***) During the year, the company paid dividends totalling €470 million.

POSTE ASSICURA SPA ⁽¹⁾				
for the year ended 31 December (€000)	2017	2016	Increase/(decrease)	
Insurance premium revenue ^(**)	131,099	108,415	22,684	20.9%
Profit/(loss) for the period	28,609	12,607	16,002	n/s
Financial assets	233,498	178,146	55,352	31.1%
Technical provisions for insurance business	160,005	143,164	16,841	11.8%
Equity	104,359	76,057	28,302	37.2%
Permanent workforce - average	57	48	9	18.8%

⁽¹⁾ The figures shown have been prepared in accordance with IFRS and therefore may not coincide with those in the financial statements prepared in accordance with the Italian Civil Code and under Italian GAAP.

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

n/s: not significant

**POSTE ITALIANE FINANCIAL
STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2017**

Posteitaliane

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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. At 31 December 2017, the Company is 35% owned by CDP and 29.3% owned by the MEF, with the remaining shares held by institutional and retail investors. Poste Italiane SpA continues to be under the control of the MEF.

The **Poste Italiane Group** (the “Group”) provides a universal postal service in Italy as well as integrated communication, logistics, financial and insurance products and services throughout the country via its national network of approximately 13,000 post offices.

The financial statements for the year ended 31 December 2017 mark a change in the presentation of the Group’s businesses. Four new operating segments have been identified: (i) Mail, Parcels and Distribution, (ii) Payments, Mobile and Digital, (iii) Financial Services and (iv) Insurance Services. The change was rendered necessary in order to bring presentation of the operating segments into line with the Group’s new strategic guidelines, as set out in the Strategic Plan for the period 2018-2022 approved by Poste Italiane SpA’s Board of Directors on 26 February 2017, and, in particular, with management’s new approach to assessing performance and making decisions. In particular, following the creation of the Payments, Mobile and Digital function during 2017, on 25 January 2018, Poste Italiane SpA’s Board of Directors decided to submit the proposed separation and transfer of certain assets, contractual rights and authorisations from BancoPosta RFC to a new e-money and payment services unit to be set up within PosteMobile SpA, for approval by shareholders. The transaction is subject to authorisation from the Bank of Italy.

The above changes are reflected in the consolidated financial statements for the year ended 31 December 2017, both in the statement of profit or loss, in which the Group’s revenue from ordinary activities is presented in a different manner, and in the note on operating segments, including the allocation of the Group’s activities and companies to the various segments.

The Mail, Parcels and Distribution segment includes letter post, express delivery, logistics, parcels and philately, in addition to the activities conducted by various units of Poste Italiane SpA for other segments in which the Group operates. The newly formed Payments, Mobile and Digital segment includes revenue from payment services (as an outsourcing partner), e-money products and the services provided by PosteMobile SpA. Financial Services regard the activities of Bancoposta, which include the collection of all forms of savings deposits from the public, the provision of payment services (of which some outsourced to the Payments, Mobile and Digital segment), foreign currency exchange, the promotion and arrangement of loans issued by banks and other authorised financial institutions, the provision of investment services and the activities of BancoPosta Fondi SpA SGR. Insurance Services regard the activities of Poste Vita SpA, which operates in ministerial life assurance Classes I, III and V, and of its direct subsidiaries, Poste Assicura SpA, which operates in non-life insurance, and Poste Welfare Servizi Srl, which provides services to the segment in question.

Further details are provided in *Material events during the year* (note 3) and *Operating segments* (note 4.4).

This section of the Annual Report for the year ended 31 December 2017 includes the consolidated financial statements of the Poste Italiane Group, the separate financial statements of Poste Italiane SpA and BancoPosta RFC's Separate Report (also, the annual accounts). The Report has prepared in euros, the currency of the economy in which the Group operates.

The Group's consolidated financial statements 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 to the financial statements. All amounts in the consolidated financial statements and the notes are shown in millions of euros, unless otherwise stated.

The separate financial statements of Poste Italiane SpA consist of the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes. Amounts in the financial statements are shown in euros (except for the statement of cash flows, which is shown in thousands of euros), whilst those in the notes are shown in millions of euros, unless otherwise stated.

BancoPosta RFC's Separate Report, which forms an integral part of Poste Italiane SpA's financial statements, is prepared in accordance with the specific financial reporting rules laid down by the applicable banking regulations, is dealt with separately in this Section.

During 2017, an internal review of the disclosures provided in Poste Italiane's financial statements was completed, followed by a revision of both the structure and form of presentation of the content, and the degree of detail provide for the various items. The revision of the content of the disclosures was carried out in full compliance with the accounting standards in force, and in line with recent international guidance regarding application of the materiality concept in financial reporting in relation to providing stakeholders with an understanding of the Group's results of operations and financial position.

To help in reading the financial statements and render them comparable with the past, a brief summary of the changes made is provided below:

- A new section on *Material events during the year* (note 3) has been added. This provides information on events within the Group and in the external environment that have had a material impact on the results of operations and financial position at the end of the reporting period.
- The consolidated and separate financial statements form part of a single, integrated document, containing sections and notes applicable to both sets of financial statements, which provide information on matters common to both the Group and Poste Italiane SpA. Unless otherwise indicated, the information provided in these sections is, therefore, to be considered as applicable to both the consolidated and separate financial statements. The relevant matters specifically regard:
 - the basis of presentation used and accounting standards adopted;
 - disclosure of the sources and the procedures used in determining fair value;
 - financial risk disclosures;
 - a summary of the principal proceedings pending and relations with the authorities at 31 December 2017;
 - and, in general, certain additional disclosures required by accounting standards, whose presentation in a single section is designed to provide the reader with better information (e.g. the analysis of net debt, key performance indicators for investee companies, etc.).

- The method of presenting the revenue and cost components relating to the life and non-life insurance businesses in the consolidated statement of profit or loss for the year has been revised, in line with the new management view. Specifically, and in compliance with IAS 1, the consolidated statement of profit or loss for the year ended 31 December 2017 includes a new item, *Revenue from insurance services after movements in technical provisions and other claims expenses*, providing a synthetic indication (in just one line of the statement) of the Insurance Services segment's contribution to the Group's operating result³⁰. This item is defined as the sum of premium revenue net of outward reinsurance premiums, income and losses from financial instruments attributable to insurance activities and movements in technical provisions and other claims expenses³¹. In order to ensure comparability with prior year financial statements, the item is accompanied by disclosure of each individual revenue and cost component contributing to the result.
- As stated above, presentation of the notes for each item and the degree of disclosure provided result from a preliminary analysis of the materiality of the information, to be repeated at the end of each reporting period in compliance with international accounting standards. The general approach adopted envisages a specific note for certain items deemed to be of qualitative significance, regardless of the materiality of the amounts at the reporting date and/or movements during the period (as an example, financial assets, personnel expenses, relations with the Public Administration, etc.). In all other cases, the materiality of the amount and movements during the period are taken into account and, therefore, disclosure is only provided to the extent that it will provide the reader with information that is useful or necessary in understanding the results of operations and financial position of Poste Italiane SpA and of the Group.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 COMPLIANCE WITH IAS/IFRSs

The annual accounts 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 introduced regulations governing the adoption of IFRS in Italian law.

The term 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 29 March 2018, the date on which the Board of Directors of Poste Italiane SpA approved the annual accounts.

³⁰ Net of intra-group fees paid to Poste Italiane's distribution network.

³¹ The individual components that contribute to the net result from insurance activities will continue, in the statement of profit or loss for the year, to influence movements in the same items presented until 2016 and to be shown separately under the new revenue item. The new form of presentation is easily reconstructed and traced starting from historical data, as it has not led to any change in key performance indicators, such as operating profit or profit for the year.

2.2 BASIS OF PREPARATION

The accounting policies described below reflect the fact that the Group and Poste Italiane SpA will remain **fully operational** in the foreseeable future, in accordance with the **going concern assumption**, and are consistent with those applied in the preparation of the annuals accounts for the previous year. Amendments to accounting standards applicable from the accounting period under review have not had an impact on these financial statements (note 2.7 – *New accounting standards and interpretations and those soon to be effective*).

The statement of financial position has been prepared on the basis of the “**current/non-current distinction**”³². In the statement of profit or loss, **expenses are classified according to their nature**. The **indirect method**³³ has been applied in preparation of the statement of cash flows.

In preparing the annual accounts, the CONSOB regulations contained in Resolution 15519 of 27 July 2006 and in Ruling DEM/6064293 of 28 July 2006 have been taken into account.

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

In order to allow comparison on a like-for-like basis with amounts for the year ended 31 December 2017, the allocation of the Group’s activities and companies to operating segments has changed and certain amounts and notes for the comparative period have been reclassified.

Pursuant to article 2447-*septies* of the Italian Civil Code, following the creation of BancoPosta’s ring-fenced capital in 2011, the assets and contractual rights included therein (hereafter: “BancoPosta RFC”) are shown separately in Poste Italiane SpA’s statement of financial position, in a specific supplementary statement, and in the notes to the financial statements.

With regard to the interpretation and application of newly published, or revised, international accounting standards, and to certain aspects of taxation³⁴, where the related interpretations are based on examples of best practice or case-law that cannot yet be regarded as exhaustive, the financial statements been

³² Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period (IAS 1 (Revised), paragraph 68).

³³ Under the indirect method, net cash from operating activities is determined by adjusting profit/(loss) for the year to reflect the impact of non-cash items, any deferment or provisions for previous or future operating inflows or outflows, and revenue or cost items linked to cash flows from investing or financing activities.

³⁴ 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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND MEASUREMENT CRITERIA

The Poste Italiane Group's financial statements have been prepared on a **historical cost basis**, with the exception of certain items for which **fair value measurement** is obligatory.

The principal accounting policies adopted by the Poste Italiane Group are described below.

Property, plant and equipment

Property, plant and equipment is stated at acquisition or construction cost, less accumulated depreciation and any accumulated impairment losses. Cost includes any directly attributable costs incurred to prepare the asset for its intended use, and the cost of dismantling and removing the asset to be incurred as a result of legal obligations requiring the asset to be restored to its original condition. Borrowing costs incurred for the acquisition or construction of property, plant and equipment are recognised as an expense in the period in which they are incurred (with the exception of borrowing costs directly attributable to the acquisition or construction of a qualifying asset, which are capitalised as part of the cost of the asset in question). Costs incurred for routine and/or cyclical maintenance and repairs are recognised directly in profit or loss in the year in which they are incurred. The capitalisation of costs attributable to the extension, modernisation or improvement of assets owned by Group companies or held under lease is carried out to the extent that they qualify for separate recognition as an asset or as a component of an asset, applying the component approach, which requires each component with a different useful life and value to be recognised separately. The original cost is depreciated on a straight-line basis from the date the asset is available and ready for use, based on the asset's expected useful life.

The useful life and residual value of property, plant and equipment are reviewed annually and adjusted, where necessary, at the end of each year. Land is not depreciated. When a depreciable asset consists of separately identifiable components, with useful lives that are significantly different from those of the other components of the asset, each component is depreciated separately, in accordance with the component approach, over a period that does not exceed the life of the principal asset.

The Poste Italiane Group has estimated the following useful lives for the various categories of property, plant and equipment:

Category	Years
Buildings	25-33
Structural improvements to own assets	20
Plant	4-10
Light constructions	10
Equipment	5-10
Furniture and fittings	8
Electrical and electronic office equipment	3-10
Motor vehicles, automobiles, motorcycles	4-10
Leasehold improvements	estimated lease term*
Other assets	3-5

(*) Or the useful life of the improvement if shorter than the estimated lease term.

Property and any related fixed plant and machinery located on land held under concession or sub-concession, which is to be returned free of charge to the grantor at the end of the concession term, are accounted for, based on the nature of the asset, within property, plant and equipment and depreciated on a straight-line basis over the shorter of the useful life of the asset and the residual concession term.

Gains and losses deriving from the disposal or retirement of an asset are calculated as the difference between the disposal proceeds and the net carrying amount of the asset retired or sold, and are recognised in profit or loss in the period in which the transaction occurs.

Investment property

Investment property relates to land or buildings held with a view to earn rental or lease income or for capital appreciation or both; in both cases such property generates cash flows that are largely independent of other assets. The same accounting treatment is applied to investment property as to property, plant and equipment.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance, which is controllable and capable of generating future economic benefits. Intangible assets are recognised at cost, including any directly attributable costs required to prepare the asset for its intended use, less accumulated amortisation and any accumulated impairment losses. Borrowings costs are capitalised as part of the cost of the asset only if directly attributable to its purchase or development; otherwise, they are recognised as an expense in the period in which they are incurred. Amortisation is applied from the date the asset is ready for use, systematically over the remaining useful life of the asset, or its estimated useful life.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets and liabilities of the company or business acquired, at the date of acquisition. Goodwill attributable to investments accounted for using the equity method is included in the carrying amount of the

equity investment. Goodwill is not amortised on a systematic basis, but is tested periodically for impairment in accordance with IAS 36. This test is performed with reference to the cash generating unit (“CGU”) to which the goodwill is attributable. The method applied in conducting impairment tests and the impact on the accounts of any impairment losses are described in the paragraph, “Impairment of assets”.

Industrial patents, intellectual property rights, licences and similar rights

The costs of acquiring industrial patents, intellectual property rights, licences and similar rights are capitalised. Amortisation is applied on a straight-line basis, in order to allocate the purchase cost over the shorter of the expected useful life of the asset and any related contract terms, from the date the entity has the right to use the asset.

Costs associated with developing or maintaining software programmes are recognised in profit or loss in the period in which they are incurred. Costs that are directly associated with the production of identifiable and unique software products, and that generate economic benefits beyond one year, are recognised as intangible assets. Directly attributable costs, to the extent separately identifiable and measurable, include the cost of staff involved in software development and an appropriate portion of the relevant overheads. Amortisation is calculated on the basis of the estimated useful life of the software, which is usually three years. Research costs are not capitalised.

Leased assets

Assets held under finance leases, where the risks and rewards of ownership are substantially transferred to the lessee, are recognised at fair value or, if lower, at the present value of the minimum lease payments. The corresponding obligation toward the lessor, which is equal to the principal amount of future lease payments, is recognised as a financial liability. Depreciation is calculated on a straight-line basis, based on the useful lives of the various categories of asset previously described for property, plant and equipment and intangible assets.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the lease term.

Impairment of assets

At the end of each reporting period, property, plant, equipment and intangible assets with finite lives are analysed to assess whether there is any indication that an asset may be impaired (as defined by IAS 36). If any such indication exists, the recoverable amount of the asset is estimated in order to determine the impairment loss to be recognised in profit or loss. The recoverable amount is the higher of an asset’s fair value less costs to sell, and its value in use, represented by the present value of the future cash flows expected to be derived from the asset. In calculating value in use, future cash flow estimates are discounted using a rate that reflects current market assessments of the time value of money, the period of the investment and the risks specific to the asset. The realisable value of assets that do not generate separate cash flows is determined with reference to the cash generating unit (CGU) to which the asset belongs.

Regardless of any impairment indicator, the assets listed below are tested for impairment every year:

- intangible assets with an indefinite useful life or that are not yet available; the impairment test can take place at any time during the year, provided that it is performed at the same time in each of the following years;
- goodwill acquired in a business combination.

An impairment loss is recognised in profit or loss for the amount by which the net carrying amount of the asset, or the CGU to which it belongs, exceeds its recoverable amount. In particular, if the impairment loss regards goodwill and is higher than the related carrying amount, the remaining amount is allocated to the assets included in the CGU to which the goodwill has been allocated, in proportion to their carrying amount³⁵. Except in the case of goodwill, if the impairment indicators no longer exist, the carrying amount of the asset or CGU is reinstated and the reversal recognised in profit or loss. The reversal must not exceed the carrying amount that would have been determined had no impairment loss been recognised and depreciation or amortisation been charged.

Investments

In the Poste Italiane Group's consolidated financial statements, investments in subsidiaries that are not significant (individually or in the aggregate) and are not consolidated, and those in companies over which the Group exerts significant influence ("associates") and in joint ventures, are accounted for using the equity method. See the note 2.4 – *Basis of consolidation*

In Poste Italiane SpA's separate financial statements, investments in subsidiaries and associates are accounted for at cost (including any directly attributable incidental expenses), after adjustment for any impairments. Investments in subsidiaries and associates are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any impairment losses (or subsequent reversals of impairment losses) are recognised in the same way and to the same extent described with regard to property, plant and equipment and intangible assets in the paragraph, "Impairment of assets".

Financial instruments

Financial instruments include financial assets and liabilities that are classified on initial recognition at fair value based on the business purpose for which they were acquired. The purchase and sale of financial instruments are recognised by category, either on the date on which the Group commits to purchase or sell the asset (trade date or transaction date), or, in the case of the insurance transactions and BancoPosta's operations, at the settlement date³⁶. For BancoPosta operations, the settlement date almost always coincides with the transaction date. Any changes in fair value between the transaction date and the settlement date are recognised in the financial statements.

³⁵ If the amount of the impairment loss is greater than the carrying amount of the asset or CGU, in accordance with IAS 36, no liability is recognised, unless recognition of a liability is required by an international accounting standard other than IAS36.

³⁶ This is possible for transactions carried out on organised markets (the "regular way").

Financial assets

On initial recognition, financial assets are classified in one of the following categories and valued as follows:

- Financial assets at fair value through profit or loss

This category includes: (a) financial assets held for trading, (b) those that qualify for designation at fair value through profit or loss on initial recognition, or for which the option to measure at fair value can be exercised, and (c) derivative instruments, with the exception of the effective portion of those designated as cash flow hedges. Financial assets in this category are accounted for at fair value and changes during the period of ownership are recognised in profit or loss. Financial instruments in this category are classified as short-term if they are held for trading or if they are expected to be realised within twelve months of the end of the reporting period. Derivative instruments at fair value through profit or loss are recognised as assets or liabilities depending on whether the fair value is positive or negative. Fair value gains and losses on outstanding transactions with the same counterparty are offset, where contractually permitted.

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and primarily regard amounts due from customers, including trade receivables. They are included in current assets, except for those with maturities greater than twelve months after the end of the reporting period, which are classified as non-current assets. These assets are carried at amortised cost³⁷ using the effective interest rate method. If there is objective evidence of impairment, the asset is written down to the present value of the estimated future cash flows, with such impairment loss being recognised in profit or loss. If in subsequent periods the conditions which led to the impairment no longer exist, the carrying amount of the asset is reinstated on the basis of the value that would have resulted from application of the amortised cost method. The estimation procedure adopted in determining provisions for doubtful debts, or operating revenue to be so allocated, primarily reflects the identification and measurement of elements resulting in specific reductions in the value of individually significant assets. Financial assets with similar risk profiles are subsequently measured collectively, taking account, among other things, of the age of the receivable, the nature of the counterparty, past experience of losses and collections on similar positions and information on the related markets.

- Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and maturities that the Group has a positive intention and ability to hold to maturity. These

³⁷ The amortised cost of a financial asset or liability means the amount recognised initially, less principal repayments and plus or minus accumulated amortisation, using the effective interest method, of the difference between the initial amount and the maturity amount, after reductions for impairment and insolvency. The effective interest rate is the rate that exactly discounts contractual (or expected) future cash payments or receipts over the expected life of the asset or liability to its initial carrying amount. Calculation of amortised cost must also include external costs and income directly attributable to the asset or liability on initial recognition.

assets are carried at amortised cost using the effective interest method, adjusted to reflect any impairment loss. The same policies as described in relation to loans and receivables are applied if there is impairment.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial instruments that are either designated in this category or not attributable to any of the other categories described above. These financial instruments are recognised at fair value and any resulting fair value gains or losses are recognised in an equity reserve, with movements in such reserve being accounted for in “Other comprehensive income” (the “Fair value reserve”). This reserve is only recycled to profit or loss when the financial asset is effectively disposed of (or settled) or, in the event of accumulated losses, when there is evidence that the impairment recognised in equity cannot be recovered. Solely in the case of debt securities, if the fair value subsequently increases as the objective result of an event that took place after an impairment loss was recognised in profit or loss, the value of the financial instrument is reinstated and the reversal recognised in profit or loss. The recognition of returns on debt securities under the amortised cost method takes place through profit or loss, as do the effects of movements in exchange rates, whilst movements in exchange rates relating to available-for-sale equity instruments are recognised in a specific equity reserve, with movements in the reserve accounted for in “Other comprehensive income”. The classification of an asset as current or non-current depends on the term to maturity of the financial instrument. Financial instruments expected to be realised within twelve months of the end of the reporting period are, in any event, classified as current assets.

Financial assets are derecognised when there is no longer a contractual right to receive cash flows from the investment or when all the related risks and rewards and control have been substantially transferred.

Financial liabilities

Financial liabilities, including borrowings, trade payables and other payment obligations, are carried at amortised cost using the effective interest method. If there is a change in the expected cash flows and they can be reliably estimated, the value of borrowings is recalculated to reflect the change on the basis of the present value of estimated future cash flows and the internal rate of return initially applied.

Financial liabilities are classified as current liabilities, unless there is an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

Financial liabilities are derecognised when settled or when all the related risks and rewards have been substantially transferred.

Derivative instruments

Derivatives are initially recognised at fair value on the date the derivative contract is executed and if they do not qualify for hedge accounting treatment, gains and losses arising from changes in fair value are accounted for in profit or loss for the period.

If, on the other hand, derivative financial instruments qualify for hedge accounting, gains and losses arising from changes in fair value after initial recognition are accounted for in accordance with the specific policies described below.

The relationship between each hedging instrument and the hedged item is documented, as well as the risk management objective, the strategy for undertaking the hedge transaction and the methods used to assess effectiveness. Assessment of whether the hedging derivative is effective takes place both at inception of the hedge and throughout the term of the hedge.

- Fair value hedges³⁸

When the hedge is related to recognised assets or liabilities, or an unrecognised firm commitment, the changes in fair value of both the hedging instrument and the hedged item are recognised in profit or loss. When the hedging transaction is not fully effective, resulting in differences between the above changes, the ineffective portion represents a loss or gain recognised separately in profit or loss for the period.

IAS 39 allows, in addition to individual assets and liabilities, the designation of a cash amount, representing a group of financial assets and liabilities (or portions thereof) as the hedged item in such a way that a group of derivative instruments may be used to reduce exposure to fair value interest rate risk (a so-called macro hedge). Macro hedges cannot be used for net amounts deriving from differences between assets and liabilities. Like micro hedges, macro hedges are deemed highly effective if, at their inception and throughout the term of the hedge, changes in the fair value of the cash amount are offset by changes in the fair value of the hedges, and if the effective results fall within the interval required by IAS 39.

- Cash flow hedges³⁹

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges after initial recognition is recognised in a specific equity reserve, with movements in the reserve accounted for in “Other comprehensive income” (the “Cash flow hedge reserve”). A hedging transaction is generally considered highly effective if, both at inception of the hedge and on an ongoing basis, changes in the expected future cash flows of the hedged item are substantially offset by changes in the fair value of the hedging instrument. If the hedging transaction is not fully effective, the gain or loss arising from a change in fair value relating to the ineffective portion is recognised in profit or loss for the period.

Amounts accumulated in equity are recycled to profit or loss in the period in which the hedged item affects profit or loss. In particular, in the case of hedges associated with a highly probable forecast transaction (such as the purchase of fixed income debt securities), the reserve is reclassified to profit or loss in the period or in the periods in which the asset or liability, subsequently accounted for and connected to the aforementioned transaction, will affect profit or loss (for example, an adjustment to the return on the security).

If, during the life of the derivative, the forecast hedged transaction is no longer expected to occur, the related gains and losses accumulated in the cash flow hedge reserve are immediately reclassified to profit or loss for the period. When a hedging instrument expires or is sold, or when a hedge no longer

³⁸ A hedge of the exposure to a change in fair value of a recognised asset or liability or of an unrecognised firm commitment attributable to a particular risk, and that could have an impact on profit or loss.

³⁹ A hedge of the exposure to the variability of cash flows attributable to a particular risk associated with an asset or liability or with a highly probable forecast transaction, and that could have an impact on profit or loss.

meets the criteria for hedge accounting, the related gains and losses accumulated in the cash flow hedge reserve at that time remain in equity and are recognised in profit or loss at the same time as the original underlying.

Classification of receivables and payables attributable to BancoPosta RFC

Receivables and payables attributable to BancoPosta RFC are treated as financial assets and liabilities if related to BancoPosta's typical deposit-taking and lending activities, or services provided under authority from customers. The related operating expenses and income, if not settled or classifiable in accordance with Bank of Italy Circular 272 of 30 July 2008 – The Account Matrix, are accounted for in trade receivables and payables.

Own use exemption

The standards establishing the principles for the recognition and measurement of financial instruments are also applied to derivative contracts to buy or sell non-financial items that are settled net in cash or in another financial instrument, with the exception of contracts entered into, and that continue to be held, for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements (the own use exemption).

This exemption applies to the recognition and measurement of forward electricity contracts entered into by the subsidiary EGI SpA if the following conditions have been met:

- the contract involves the physical supply of a commodity;
- the entity has not entered into an offsetting contract;
- the transaction must be entered into in accordance with expected purchase and/or sale or usage requirements.

In the event of application of the own use exemption, the commitments assumed are reported in note 11 *Additional information - Commitments*.

Income tax expense

Current income tax expense (IRES and IRAP) is based on the best estimate of taxable profit for the period and the related regulations, applying the rates in force. Deferred tax assets and liabilities are calculated on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts, using tax rates that are expected to apply when the related deferred tax assets are realised or the deferred tax liabilities are settled. Deferred tax assets and liabilities are not recognised if the temporary differences derive from investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary difference is controlled by the Group or it is probable that the temporary difference will not reverse in the foreseeable future (IAS 12.39 and 12.40). In accordance with IAS 12, deferred tax liabilities are not recognised on goodwill deriving from a business combination.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred taxes are recognised in profit or loss, with the exception of taxes charged or credited directly to equity, in which case the tax effect is recognised directly in equity. Current and deferred tax assets and liabilities are offset when they are applied by the same tax authority to the same taxpaying entity, which has the legally exercisable right to offset the amounts recognised, and the entity has the intention of exercising this right. As a result, tax liabilities accruing in interim periods that are shorter than the tax year are not offset against related assets deriving from withholding tax or advances paid.

The Group's tax expense and related accounting treatment reflect the effects of the election to adopt a tax consolidation arrangement, in accordance with relevant legislation, by Poste Italiane SpA, together with the subsidiaries, Poste Vita SpA, SDA Express Courier SpA, Mistral Air Srl, Postel SpA and, from 1 January 2017, Risparmio Holding SpA. The tax consolidation arrangement is governed by Group regulations based on the principles of neutrality and equality of treatment, which are intended to ensure that the companies included in the tax consolidation are in no way penalised as a result. Following adoption of the tax consolidation arrangement, the Parent Company's tax expense is determined at consolidated level on the basis of the tax expense or tax losses for the period for each company included in the consolidation, taking account of any withholding tax or advances paid. Poste Italiane SpA posts its IRES tax expense to income taxes for the period, after adjustments to take account of the positive or negative impact of tax consolidation adjustments. Should the reductions or increases in tax expense deriving from such adjustments be attributable to the companies included in the tax consolidation, Poste Italiane SpA attributes such reductions or increases in tax expense to the companies in question. The economic benefits deriving from the offset of tax losses transferred to the consolidating entity by the companies participating in the tax consolidation arrangement are recognised in full by Poste Italiane SpA. Other taxes not related to income are included in "Other operating costs".

Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of interchangeable items and goods for resale is calculated using the weighted average cost method. In the case of non-interchangeable items, cost is measured on the basis of the specific cost of the item at the time of purchase. The value of the inventories is adjusted, if necessary, by provisions for obsolete or slow moving stock. When the circumstances that previously led to recognition of the above provisions no longer exist, or when there is a clear indication of an increase in the net realisable value, the provisions are fully or partly reversed, so that the new carrying amount is the lower of cost and net realisable value at the end of the reporting period. Assets are not, however, recognised in the statement of financial position when the Group has incurred an expense that, based on the best information available at the date of preparation of the financial statements, is deemed unlikely to generate economic benefits for the Group after the end of the reporting period.

In the case of properties held for sale⁴⁰, cost is represented by the fair value of each asset at the date of acquisition, plus any directly attributable transaction costs, whilst the net realisable value is based on the estimated sale price under normal market conditions, less direct costs to sell.

⁴⁰ These are properties held by EGI SpA and not accounted for in "Investment property" as they were purchased for sale or subsequently reclassified as held for sale.

Long-term contract work is measured using the percentage of completion method, using cost to cost accounting⁴¹.

Green Certificates (Emission Allowances)

With reference to Group companies subject to these rules⁴², Green Certificates (or Emission Allowances) are a means of reducing greenhouse gas emissions, introduced into Italian and European legislation by the Kyoto Protocol with the aim of improving the technologies used in the production of energy and in industrial processes.

The European Emissions Trading System, which works on the basis of the cap and trade principle, has capped annual greenhouse gas emissions at European level. This corresponds to the issue, free of charge, of a set number of emission allowances by the competent national authorities. During the year, depending on the effective volume of greenhouse gas emissions produced with respect to the above cap, each company has the option of selling or purchasing emission allowances on the market.

In compliance with the requirements of the *OIC* (the Italian accounting standards setter) regarding “Greenhouse gas emissions allowances”, in addition to being best practice for the principal IAS adopters, the accounting treatment is as follows.

The issue, free of charge, of emission allowances involves a commitment to produce, in the relevant year, a quantity of greenhouse gas emissions in proportion to the emission allowances received: this commitment is accounted for in the memorandum accounts based on the fair value of the emission allowances at the time of allocation. At the end of the year, the commitment is reduced or derecognised in proportion to the greenhouse gas emissions effectively produced and any residual value is reported in the section, “Additional information”, in the Annual Report. The purchase and sale of emission allowances are accounted for in profit or loss in the year in which the transaction occurs. At the end of the year, any surplus emission allowances deriving from purchases are accounted for in closing inventory at the lower of cost and net realisable value. Any surplus emission allowances allocated free of charge are not accounted for in closing inventory. In the event of a shortfall in emission allowances the resulting charge and related liability are accounted for at the end of the year at fair value.

BancoPosta cash and deposits

Cash and securities held at post offices, and bank deposits attributable to the operations of BancoPosta RFC, are accounted for separately from cash and cash equivalents as they derive from deposits subject to investment restrictions, or from advances from the Italian Treasury to ensure that post offices can operate. This cash cannot be used for purposes other than those relating to the aforementioned operations.

Cash and cash equivalents

⁴¹ This method is based on the ratio of costs incurred as of a given date divided by the estimated total project cost. The resulting percentage is then applied to estimated total revenue, obtaining the value to be attributed to the contract work completed and accrued revenue at the given date.

⁴² The subsidiary, Mistral Air Srl.

Cash and cash equivalents refer to cash in hand, deposits held at call with banks, amounts that at 31 December 2017 the Parent Company has temporarily deposited with the MEF and other highly liquid short-term investments with original maturities of ninety days or less. Current account overdrafts are accounted for in current liabilities.

Non-current assets (or disposal groups) classified as held for sale and discontinued operations

In compliance with IFRS 5, non-current assets, disposal groups and discontinued operations are measured at the lower of their carrying amount and fair value, less costs to sell.

When it is highly probable that the carrying amount of a non-current asset, or a disposal group, will be recovered, in its present condition, principally through a sale transaction or other form of disposal, rather than through continuing use, and the transaction likely to take place in the short term, the asset or disposal group is classified as held for sale or as a discontinuing operation in the statement of financial position. The transaction is deemed to be highly probable, when the Parent Company's Board of Directors, or, when so authorised, the board of directors of a subsidiary, has committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan has been initiated. Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance.

Non-current assets and net assets in a disposal group held for sale are recognised as discontinued operations if one of the following conditions is met: i) they represent a major line of business or geographical area of operation, ii) they are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operation, or, iii) they are subsidiaries acquired exclusively with a view to resale. The profit or loss from discontinued operations, and any gains or losses following the sale, are presented separately in a specific item in profit or loss, after the related taxation, with comparatives.

If the commitment to a plan to sell is assumed after the end of the reporting period, and/or the asset or disposal group can only be included in the transaction under conditions that are different from the current conditions, the Group does not proceed with reclassification and discloses the necessary information.

If, after the date of preparation of the financial statements, an asset (or disposal group) no longer meets the conditions for classification as held for sale, it must be reclassified following measurement at the lower of:

- the carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation, impairments or reversals of impairments that would have been recognised if the asset (or disposal group) had not been classified as held for sale;
- the recoverable amount, calculated at the date on which the decision not to sell was made.

Any adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale is included in "Profit/(Loss) for the year from continuing operations" in the period in which it no longer meets the conditions for classification as held for sale. If an individual asset or liability is removed from the disposal group classified as held for sale, the remaining assets and liabilities in the disposal group continue

to be measured as a single group only if they continue to meet the conditions for classification as held for sale.

Equity

Share capital

Share capital is represented by Poste Italiane SpA's subscribed and paid-up capital. Incremental costs directly attributable to the issue of new shares are recognised as a reduction of the share capital, net of any deferred tax effect.

Reserves

Reserves include capital and revenue reserves. They include, the BancoPosta ring fenced capital reserve (hereafter "BancoPosta RFC"), representing the dedicated assets attributed to Bancoposta RFC, the Parent Company's legal reserve, the fair value reserve, relating to items recognised at fair value through equity, and the cash flow hedge reserve, reflecting the effective portion of hedging instruments outstanding at the end of the reporting period.

Retained earnings

This relates to the portion of profit for the period and for previous periods which has not been distributed or taken to reserves or used to cover losses and actuarial gains and losses deriving from the calculation of the liability for employee termination benefits. This item also includes transfers from other equity reserves, when they have been released from the restrictions to which they were subjected.

Insurance contracts

The following policies and classification and measurement criteria refer specifically to the operations of the Poste Italiane Group's insurance companies.

Insurance contracts are classified and measured as insurance contracts or finance contracts, based on their prevalent features. Contracts issued by Poste Vita SpA primarily relate to life assurance. In 2010 Poste Assicura SpA began operating in the non-life sector.

The Group applies the following bases for classification and measurement of these contracts.

Insurance contracts

Contracts classified as insurance contracts in accordance with IFRS 4 include Class I and Class V life insurance policies, Class III policies that qualify as insurance contracts and non-life insurance contracts. These products are accounted for as follows:

- insurance premiums are accounted for when the policies are written, recognised as income and classified in revenue (shown net of outward reinsurance premiums); they include annual or single premiums accruing during the period and deriving from insurance contracts outstanding at the end of the reporting period, net of cancellations;
- technical provisions are made in respect of earned premiums to cover obligations to policyholders; such provisions are calculated on an analytical basis for each contract using the prospective method,

based on actuarial assumptions appropriate to cover all outstanding obligations. An increase in technical provisions and the cost of claims are recognised as expenses in profit or loss, whilst a reduction in technical provisions, compared with the previous period, is recognised in income.

Contracts for separately managed accounts with discretionary participation features

In the case of contracts for separately managed accounts with discretionary participation features⁴³ (as defined in Appendix A of IFRS 4), IFRS 4 makes reference to national GAAP. The contracts are classified as “financial”, but accounted for as “insurance” as follows:

- premiums, movements in technical provisions and other claims expenses are recognised in the same way as the insurance contracts described above;
- unrealised gains and losses attributable to policyholders are assigned to them and recognised in technical provisions (deferred liabilities payable to policyholders) under the shadow accounting method (IFRS 4.30).

The calculation technique used in applying the shadow accounting method is based on the prospective yield on each separately managed account, considering a hypothetical realisation of unrealised gains and losses over a period which is consistent with the characteristics of the assets and liabilities held in the portfolio. The amount to be recognised as a deferred liability also takes account, for each separately managed account, of the contractual obligations, the level of guaranteed minimum returns and any financial guarantees provided.

Provisions for risks and charges

Provisions for risks and charges are recorded to cover losses that are either probable or certain to be incurred, for which, however, there is an uncertainty as to the amount or as to the date on which they will occur.

Provisions for risks and charges are made when the Group has a present (legal or constructive) obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation. Provisions are measured on the basis of management’s best estimate of the use of resources required to settle the obligation. The value of the liability is discounted at a rate that reflects current market values and takes into account the risks specific to the liability. In those rare cases, in which disclosure of some or all of the information regarding the risks in question could seriously prejudice the Group’s position in a dispute or in ongoing negotiations with third parties, the Group exercises the option granted by the relevant accounting standards to provide limited disclosure.

⁴³ A contractual right of investors to receive returns on the separately managed account.

Employee benefits

Short-term benefits

Short-term employee benefits are those that will be fully paid within twelve months of the end of the year in which the employee provided his or her services. Such benefits include wages, salaries, social security contributions, holiday pay and sick pay.

The undiscounted value of short-term employee benefits to be paid to employees in consideration of employment services provided over the relevant period is accrued as personnel expenses.

Post-employment benefits

Post-employment benefits are of two types:

- Defined benefit plans

Defined benefit plans include employee termination benefits payable to employees in accordance with article 2120 of the Italian Civil Code.

For all companies with at least 50 employees, covered by the reform of supplementary pension provision, from 1 January 2007 vesting employee termination benefits must be paid into a supplementary pension fund or into a Treasury Fund set up by INPS. Accordingly the company's defined benefit liability is applicable only to the provisions made up to 31 December 2006⁴⁴.

In the case of companies with less than 50 employees, to which the reform of supplementary pension provision does not apply, vested employee termination benefits continue to represent a defined benefit liability for the company.

Under these plans, given that the amount of the benefit to be paid is only quantifiable following the termination of employment, the related effects on profit or loss or the financial position are recognised on the basis of actuarial calculations in compliance with IAS 19. In particular, the liability to be paid on cessation of employment is calculated using the projected unit credit method and then discounted to recognise the time value of money prior to the liability being settled. The liability recognised in the financial statements is based on calculations performed by independent actuaries.

The calculation takes account of termination benefits accrued for the period of service to date and is based on actuarial assumptions. These primarily regard: demographic assumptions (such as employee turnover and mortality) and financial assumptions (such as rate of inflation and a discount rate consistent with that of the liability). In the case of companies with at least 50 employees, as the company is not liable for employee termination benefits accruing after 31 December 2006, the actuarial calculation of employee termination benefits no longer takes account of future salary increases. Actuarial gains and losses are recognised directly in other comprehensive income at the end of each reporting period, based on the difference between the carrying amount of the liability and

⁴⁴ Where, following entry into effect of the new legislation, the employee has not exercised any option regarding the investment of vested employee termination benefits, the Group has remained liable to pay the benefits until 30 June 2007, or until the date, between 1 January 2007 and 30 June 2007, on which the employee exercised a specific option. Where no option was exercised, from 1 July 2007 vested employee termination benefits have been paid into a supplementary pension fund.

the present value of the Group's obligations at the end of the period, due to changes in the actuarial assumptions, are recognised directly in *Other comprehensive income*.

- Defined contribution plans

TFR falls within the scope of defined contribution plans provided the benefits vested subsequent to 1 January 2007 and were paid into a Supplementary Pension Fund or a Treasury Fund at INPS. Contributions to defined contribution plans are recognised in profit or loss when incurred, based on their nominal value.

Termination benefits

Termination benefits payable to employees are recognised as a liability when the entity gives a binding commitment, also on the basis of consolidated relationships and mutual undertakings with union representatives, to terminate the employment of an employee, or group of employees, prior to the normal retirement date or, alternatively, an employee or group of employees accepts an offer of benefits in consideration of a termination of employment. Termination benefits payable to employees are immediately recognised as personnel expenses.

Other long-term employee benefits

Other long-term employment benefits consist of benefits not payable within twelve months of the end of the reporting period during which the employees provided their services. The net change in the value of any of the components of the liability during the reporting period is recognised in full in profit or loss. Measurement of the other long-term employee benefits liability is recognised in the financial statements also on the basis of calculations performed by independent actuaries.

Share-based payment

Goods or services received or acquired and the liability assumed in a share-based payment transaction – settled in cash, equity instruments or in other financial instruments – are recognised at fair value. In the case of a cash-settled transaction, the fair value of the liability is remeasured at the end of each reporting period, with any changes in fair value recognised in profit or loss, until the liability is settled. In the case of employee benefits, the expense is recognised in personnel expenses over the period in which the employee renders the relevant service.

Translation of items denominated in currencies other than the euro

Transactions in currencies other than the euro are translated to euro using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at closing exchange rates of monetary assets and liabilities denominated in currencies other than the euro are recognised in profit or loss.

Revenue recognition

Revenue is recognised at the fair value of the consideration received, net of rebates and discounts, and in accordance with the accruals basis of accounting. Revenue from the rendering of services is recognised when it can be reliably measured on the basis of the stage of completion of the service provided. Revenue

from activities carried out in favour of or on behalf of the state and Public Administration entities is recognised on the basis of the amount effectively accrued, with reference to the laws and agreements in force, taking account, in any event, of the instructions contained in legislation regarding the public finances. The return on the current account deposits held by the MEF is determined using the effective interest method and is recognised as revenue from financial services. The same classification is applied to income from euro area government securities, in which deposits paid into accounts by private customers are invested. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer.

Government grants

Government grants are recognised once they have been formally allocated to the Group by the public entity concerned and only if, based on the information available at the end of the year, there is reasonable assurance that the project to which the grant relates will be effectively carried out and completed in accordance with the conditions attached to the grant. Government grants are recognised in profit or loss as other operating income as follows: grants related to income are recognised in proportion to the costs actually incurred for the project and accounted for to the public entity; grants related to property, plant and equipment are recognised in proportion to the depreciation charged on the assets acquired and used to carry out the projects and whose cost have been accounted for to the public entity.

Finance income and costs

Finance income and costs are recognised on an accruals basis based on the effective interest method, i.e. using an interest rate that discounts all cash flows relating to a given transaction in the same way.

Dividends

Dividends are recognised as finance income when the right to receive payment is established, which generally corresponds with approval of the distribution by the Shareholders Meeting of the investee company. Dividends from subsidiaries are accounted for as “Other operating income”.

Earnings per share

In the Poste Italiane Group’s consolidated financial statements, earnings per share is determined as follows:

Basic: basic earnings per share is calculated by dividing the Group’s profit for the year by the weighted average number of Poste Italiane SpA’s ordinary shares in issue during the period.

Diluted: At the date of preparation of these financial statements no financial instruments have been issued which have potentially dilutive characteristics⁴⁵.

⁴⁵ Diluted earnings per share are calculated by taking into account the potentially dilutive effect of all instruments

Related parties

Related parties within the Group refer to Poste Italiane SpA's direct and indirect subsidiaries and associates. Related parties external to the Group include the MEF and its direct or indirect subsidiaries and associates. The Group's key management personnel are also classified as related parties, as are funds providing post-employment benefits to the Group's employees and the related entities. The state and Public Administration entities other than the MEF are not classified as related parties. Related party transactions do not include those deriving from financial assets and liabilities represented by instruments traded on organised markets.

2.4 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 Group controls an entity when it simultaneously:

- has power over the investee;
- is exposed, or has rights to, variable returns from its involvement with the investee;
- has the ability to influence those returns through its power over the investee.

Control is exercised both via direct or indirect ownership of voting shares, and via the exercise of dominant influence, defined as the power to govern the financial and operating policies of the entity, including indirectly based on legal agreements, obtaining the related benefits, regardless of the nature of the equity interest. In determining control, potential voting rights exercisable at the end of the reporting period are taken into account.

The consolidated financial statements have been specifically prepared at 31 December 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 used for line-by-line consolidation are as follows:

- the assets, liabilities, costs and revenue of consolidated entities are accounted for on a line-by-line basis, separating where applicable the equity and profit/(loss) amounts attributable to non-controlling interests in consolidated equity and consolidated profit or loss;
- business combinations, in which control over an entity is acquired, are accounting for using the acquisition method. The cost of acquisition is based on the fair values of the assets given, the liabilities incurred and the equity instruments issued by the acquirer, plus any directly attributable acquisition costs incurred. Any difference between the cost of acquisition and the fair values of the assets and liabilities acquired, following review of their fair value, is recognised as goodwill arising from

which can be converted into ordinary shares issued by the Parent Company. The calculation is based on the ratio of profit attributable to the Parent Company, adjusted to take account of any costs or income deriving from the conversion, net of any tax effect, and the weighted average number of shares outstanding, assuming conversion of all convertible securities.

consolidation (if positive), or recognised in profit or loss (if negative);

- acquisitions of non-controlling interests in entities already controlled by the Group are not accounted for as acquisitions, but as equity transactions; in the absence of a relevant accounting standard, the Group recognises any difference between the cost of acquisition and the related share of net assets of the subsidiary in equity;
- any significant gains and losses (and the related tax effects) on transactions between companies consolidated on a line-by-line basis, to the extent not yet realised with respect to third parties, are eliminated, as are intercompany payables and receivables, costs and revenue, and finance costs and income;
- gains and losses deriving from the disposal of investments in consolidated companies are recognised in profit or loss based on the difference between the sale price and the corresponding share of consolidated equity disposed of.

Investments in subsidiaries that are not significant and are not consolidated, and those in companies over which the Group exerts significant influence (assumed when the Group holds an interest of between 20% and 50%), hereinafter “associates”, and joint ventures are accounted for using the equity method.

At the time of acquisition, the investment is accounted for using the equity method. Any difference between the cost of acquisition of the investment and the net fair value of the investee’s identifiable assets and liabilities is accounted for as follows:

- a) goodwill related to an associate or a joint venture is included in the carrying amount of the investment. Amortisation of such goodwill is not permitted;
- b) in determining the initial value of the entity’s investment, any excess of the entity’s interest in the net fair value of investee’s identifiable assets and liabilities over cost is recognised as income in determining the acquirer’s interest in the profit (loss) for the period of the associate or joint venture in the period in which the interest is acquired.

After acquisition, appropriate adjustments are made to the entity’s share of the profits or losses of the associate or joint venture to account, for example, for additional depreciation or amortisation of the investee’s depreciable or amortisable assets, based on the excess of their fair values over their carrying amounts at the time the investment was acquired, and of any impairment losses on goodwill or property, plant and equipment.

The equity method is as follows:

- the Group’s share of an entity’s post-acquisition profits or losses is recognised in profit or loss from the date on which significant influence or control is obtained until the date on which significant influence or control is no longer exerted by the Group; provisions are made to cover a company’s losses that exceed the carrying amount of the investment, to the extent that the Group has legal or constructive obligations to cover such losses; changes in the equity of companies accounted for using the equity method not related to the profit/(loss) for the year are recognised directly in equity;
- unrealised gains and losses on transactions between the Parent Company/subsidiaries and the company accounted for using the equity method are eliminated to the extent of the Group’s interest in the associate; unrealised losses, unless relating to impairment, are eliminated.

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

Subsidiaries and joint ventures	At 31 December 2017	At 31 December 2016
Consolidated on a line-by-line basis	15	17
Accounted for using the equity method	6	6
Total companies	21	23

A list of companies consolidated on a line-by-line basis and using the equity method is provided in note 11 *Additional information – Information on investments*.

2.5 USE OF ESTIMATES

Preparation of the annual accounts requires the application of accounting standards and methods that are at times based on complex subjective judgments and estimates based on historical experience, and assumptions that are considered reasonable and realistic under the circumstances. Use of such estimates and assumptions affects the amounts reported in the financial statements and related disclosures. The actual amounts of items for which the above estimates and assumptions have been applied may differ from those reported in previous financial statements, due to uncertainties regarding the assumptions themselves and the conditions on which estimates are based. Estimates and assumptions are periodically reviewed and the impact of any changes is reflected in the financial statements for the period in which the estimate is revised if the revision only influences the current period, or also in future periods if the revision influences both current and future periods.

This section provides a description of accounting treatments that require the use of subjective estimates and for which a change in the conditions underlying the assumptions used could have a material impact on the Group's financial statements.

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 relations 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 the years after that ended 31 December 2017 to reflect variations in estimates, due to future regulatory enactments or following the finalisation of expired agreements to be renewed.

At 31 December 2017, Poste Italiane Group's receivables outstanding with central and local authorities amounted to €969 million (€1,010 million at 31 December 2016), gross of provisions for doubtful debts. The significant decrease in the amounts outstanding at 31 December 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 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:

		(€m)
Receivables	at 31 December 2017	at 31 December 2016
Universal Service compensation	(i) 31	139
Electoral subsidies	(ii) 83	83
Remuneration of current account deposits	(iii) 25	8
Delegated services	(iii) 56	28
Distribution of Euroconvertors	(iii) -	6
Other	2	3
Trade receivables due from the MEF	197	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	(iv) 39	45
Total amounts due from the MEF	236	313
Receivables due from Ministries and Public Administration entities: Cabinet Office for publisher tariff subsidies	(v) 43	1
Receivables due from Ministries and Public Administration entities: Ministry for Econ. Dev.	(vi) 77	75
Other trade receivables due from Public Administration entities	(vii) 538	557
Trade receivables due from Public Administration entities	658	633
Other receivables and assets:		
Sundry receivables due from Public Administration entities	(viii) 8	8
Amounts receivable for IRES refund	55	56
Amounts receivable for IRAP refund	12	-
Current tax assets and related interest	(ix) 67	56
Total amounts due from the MEF and Public Administration entities	969	1,010

Specifically, at 31 December 2017, the total exposure to the State includes the following items.

- i. Receivables related to Universal Service compensation, totalling €31 million and relating to compensation for previous years not funded in the state budget. In 2017, the Group received €262 million in accrued compensation for the period and €108 million related to compensation for 2015 and 2014 (see note 5.3 - A7 Trade receivables).
- 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. These receivables are shown gross of collection of the amount of €55 million deposited in an escrow account with the MEF in December 2017. For this reason, the account, which is non-interest bearing and held with the Treasury, is accounted for in “Prepayments received”. The release of the amount deposited with the MEF and derecognition of the receivables in question will occur once the European Commission has given the related consent.
- iii. Sums due from the MEF in the amount of €81 million, accruing during the period and not giving rise to any particular concerns. Receivables deriving from the distribution of Euroconvertors, accruing in previous year and acknowledged in the MEF letter, were collected in full during 2017.
- iv. Receivables of €39 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. A total of €6 million, acknowledged in the MEF letter, was collected in 2017.
- v. A sum due from the Cabinet Office, including €43 million accruing during the period⁴⁶ included in the state budget for 2017 and awaiting approval by the European Commission. The sum of €1 million, acknowledged in the MEF Letter, was collected in 2017.

⁴⁶ Publisher tariff subsidies were reinstated by Law Decree 244/2016 (the so-called “Mille Proroghe” decree), in effect

- vi. Receivables due from the Ministry for 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 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.
- vii. Regarding receivables outstanding with central and local government entities, totalling €538 million, certain items are still overdue, mainly because no provision was made in the relevant budgets or in connection with contracts or agreements. To this end, steps continue to be taken to renew the expired agreements and to make the necessary provisions⁴⁷.
- viii. Other receivables of €8 million, for which provisions for doubtful debts for the full amount have been made.
- ix. 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 of 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 both rulings before the Regional Tax Tribunal and, on 23 March 2018, the Tribunal upheld the tax authorities' appeal against one of the rulings. Poste Italiane intends to appeal this ruling before the Supreme Court of Cassation. The recent ruling, in contrast with other previous favourable rulings, introduces new elements of uncertainty as regards the final outcome. The progress of the dispute is being closely monitored and should further developments lead the Company to reach a new and revised assessment of the situation, this will be reflected in future financial statements.
 - €12 million in IRAP to be recovered on the unreported deduction of expenses for disabled personnel in 2003. This receivable, including accrued interest of approximately €3 million at 31 December 2017, was assessed during the year under review, following the ruling handed down by the Regional Tax Tribunal for Lazio, which 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 31 December 2017, provisions for doubtful debts reflect receivables for which no provision had been made in the state budget and other past due sums.

Provisions for risks and charges

The Group makes provisions for probable liabilities deriving from 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

from 1 January 2017 and converted with amendments into Law 19 of 27 February 2017.

⁴⁷ The principal agreements that have expired regard those governing relations with INPS in relation to the payment of vouchers on the institution's behalf (see note 5.3 – A7 *Trade receivables*) and with the tax authorities in relation to the collection and reporting of road tax, the payment of tax refunds and the notification of fines.

not yet definitively assigned, and amounts expected to be refundable to customers where the final amount payable has yet to be determined.

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.

Impairment tests of cash generating units and equity investments

Goodwill and other non-current assets are tested for impairment in accordance with the applicable accounting standards.

Impairment testing involves the use of estimates based on factors that may change over time, potentially resulting in effects that may be significantly different from prior year estimates.

In the Parent Company's case, the Mail, Parcels and Distribution segment, to which goodwill has been allocated, was tested for impairment. Each of the other Group companies is considered a separate CGU. Details of goodwill are provided in table A3.2.

The impairment tests at 31 December 2017 were performed on the basis of the five-year business plans of the units concerned or the latest available projections. Data from the last year of the plan have 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)⁴⁸.

With regard to Poste Italiane SpA alone, impairment tests were carried out on investments. The methods and criteria used to carry out the tests are in line with those described in relation to goodwill and other intangible assets. The results of the tests are described in note 5.3 – A4 Investments.

Goodwill

Goodwill is tested at least annually to assess whether or not it has suffered any impairment to be recognised in profit or loss.

The test involves the allocation of goodwill to the various cash generating units and the subsequent measurement of the related recoverable amount. If the resulting recoverable amount is lower than the carrying amount of the cash generating unit, it is necessary to reduce the value of goodwill allocated to the unit. The allocation of goodwill to cash generating units and the measurement of their fair value involves the use of estimates based on factors that may change over time, affecting the analyses performed.

⁴⁸ In the test carried out at 31 December 2017, use was made of an assumed 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 5.71% to 6.74%.
The cost of equity (Ke) is 6.74% for banking activities and 7.24% for asset management activities .

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, as at 31 December 2017, in part in view of the content of the Group's Strategic Plan for 2018-2022, approved by the Parent Company's Board of Directors on 26 February 2018, and the ongoing crisis in the postal and real estate sectors, the Parent Company's Mail, Parcels and Distribution segment was tested for impairment in order to determine a value in use to compare with the total carrying amount of net invested capital. In estimating the value in use of the segment, in accordance with generally accepted valuation techniques, reference was made to revenue and cost projections in the Strategic Plan for 2018-2022, whilst the terminal value, calculated on the basis of data for the latest explicit projection period, was based on normalised earnings, taking into account the existence of potential positive elements whose value was not reflected in the explicit projections over the life of the plan. Reference was also made to the transfer prices that BancoPosta RFC is expected to pay for the services provided by Poste Italiane's distribution network, as determined in the new Strategic Plan. A WACC of 6.12% was used. The impairment test determined that the related carrying amounts are fair.

In addition, in assessing the value of non-current assets of the Mail, Parcels and Distribution 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 31 December 2017. The fair value of the Parent Company's properties used in operations continued to be significantly higher than their carrying amount, as confirmed by the progressive updates of the property valuations carried out by a leading independent expert. 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 Mail, Parcels and Distribution segment.

Depreciation and amortisation of property, plant and equipment and intangible assets

The cost of these assets is depreciated or amortised on a straight-line basis over the estimated useful life of the asset. The useful life is determined at the time of acquisition and is based on historical experience of similar investments, market conditions and expectations regarding future events that may have an impact, such as technological developments. The actual useful life may, therefore, differ from the estimated useful life. Each year, changes in technology and within the industry and the costs of dismantling tangible assets and their recoverable amounts are reviewed in order to update the residual useful lives of such

assets. This periodic update may lead to changes in the depreciation or amortisation period and thus in charges for depreciation or amortisation in the current and in future years.

In the case of assets to be handed over, located on land held under concession or sub-concession, on expiry of the concession term, or whilst awaiting confirmation of renewal, any additional depreciation of assets takes into account the probable residual duration of the right to use the assets to provide public services, to be estimated on the basis of the framework agreements entered into with the Public Administration entity, the status of negotiations with the grantors and past experience.

Deferred tax assets

The recognition of deferred tax assets is based on the expectation of taxable income in future years. Assessments of expected taxable income depend on factors which may change over time, impacting on the valuation of the deferred tax assets in the statement of financial position.

Provisions for doubtful debts

The provision for doubtful debts reflects the estimated losses on receivables, which, in the case of receivables due from Public Administration entities, considers the legislation restricting public spending. Provisions for expected losses reflect the estimated credit risk associated with historical experience of similar receivables, an analysis of past-due items (current and historical), losses and collections and the monitoring of the current and future economic conditions in the related markets. Net provisions for doubtful debts are accounted for in profit or loss under other operating costs, or, if relating to receivables accrued during the year, by deferring the related revenue.

Fair value of unquoted financial instruments

The fair value of financial instruments that are not traded on an active market is based on prices quoted by external dealers or on internal valuation techniques which estimate the transaction price on the measurement date in an arm's length exchange motivated by normal business considerations. The valuation models are primarily based on market variables, considering where possible, the prices in recent transactions and quoted market prices for substantially similar instruments, and of any related credit risk.

Technical provisions for insurance business

The measurement of technical provisions for the insurance business is based on the calculations performed by actuaries employed by Poste Vita SpA, based on a series of material assumptions, including technical, actuarial, demographic and financial assumptions, as well as on projections of future cash flows from the insurance contracts entered into by Poste Vita and Poste Assicura and effective at the end of the year. In order to verify the adequacy of the provisions, liability adequacy tests (LATs), (which measure the ability of future cash flows from the insurance contracts to cover liabilities towards the policyholders), are periodically performed. The LAT is conducted on the basis of the present value of future cash flows, obtained by projecting expected future cash flows from the existing portfolio to the end of the reporting

period, based on appropriate assumptions regarding the cause of termination (death, surrender, redemption, reduction) and the performance of claims expenses. If necessary, technical provisions are topped up and the related cost charged to profit or loss.

Employee termination benefits

The calculation of employee termination benefits is conducted also by independent actuaries, considering vested termination benefits for the period of service to date and actuarial assumptions of a demographic, economic and financial nature. These assumptions, which are based on the Group's experience and relevant best practices, are subject to periodic reviews.

Share-based payment

As more fully described in note 11 *Additional information – Share-based payment arrangements*, measurement of the fair value of the “Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan”, the “Long-term Incentive Plan for 2017-2019 (LTIP) –Phantom Stock Plan” (both approved by Poste Italiane SpA's shareholders on 24 May 2016) and the short-term incentive plan (MBO) for BancoPosta RFC's material risk takers (approved by Poste Italiane SpA's shareholders on 27 April 2017), with the related impact following the termination of employment, was based on the conclusions of independent actuaries. 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.

2.6 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, and the guidelines for the Group's financial management reviewed and approved by Poste Italiane SpA's Board of Directors in December 2017.

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 (Composite Bloomberg Bond Trader)⁴⁹ 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

⁴⁹ For technical reasons, at 31 December 2017, the measurement of bonds issued by EU governments was based on this latter source.

companies with similar characteristics to the issuer. Yield curves may be slightly adjusted to reflect liquidity risk relating to the absence of an active market.

- **Structured bonds:** measurement is based on a building blocks approach, where the structured bond is broken down into its basic components: the bond component and the option component. The bond component is measured by discounting cash flows to present value in line with the approach applicable to straight bonds, as defined above. The option component - which considering the features of the bonds included in the portfolio of the Poste Italiane Group relates to interest rate risk - is measured in accordance with a standard closed form expression as with classical option valuation models with underlyings exposed to such risks. In the case of structured bonds used to hedge index-linked policies (before ISVAP regulation no. 32), measurement is based on the bid price provided by the financial counterparties with which buyback agreements have been struck.

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

Unquoted 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 measured using the discounted cash flow techniques described for plain vanilla interest rate swaps above. Using the derivatives held in Poste Italiane's portfolio as an example, the option component is derived from interest rate or inflation rate risks and is valued using a closed form expression, as with classical option valuation models with underlyings exposed to such risks.

- **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 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.

- **Currency forwards:** valuation is based on the differential between the reciprocal currency registered at the measurement date and the reciprocal currency fixed at the trade date.

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 do 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's 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.

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

Accounting standards and interpretations applicable from 1 January 2017

- **Amendments to IAS 12 – Income taxes - Recognition of Deferred Tax Assets for Unrealised Losses,** adopted with Regulation (EU) no. 1989/2017. The amendments to this standard have clarified how to account for deferred tax assets on debt instruments measured at fair value.
- **Amendments to IAS 7 - Statement of Cash Flows – Disclosure initiative,** adopted with Regulation (EU) no. 1990/2017. The amendments have introduced a requirement to provide additional disclosures on changes in liabilities arising from financing activities, enabling the users of financial statements to distinguish between those of a monetary nature and other changes.

- **Annual Improvements Cycle to IFRSs 2014 - 2016**, adopted with Regulation (EU) no. 182/2018 in connection with the annual projects to improve and revise international accounting standards. The accounting standard affected by the amendments introduced by this Regulation, applicable from 1 January 2017, is **IFRS 12 - Disclosure of Interests in Other Entities**.

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 an innovative, single framework that substantially changes the definitions, criteria and methods used for measuring and recognising revenue in the financial statements. Very briefly, the principal changes introduced by the standard are described below:

a) **Recognition of variable consideration**

A more detailed definition of revenue is provided, with the addition of “elements of variable consideration”, compared with the pre-existing accounting treatment.

Among these elements, special emphasis is placed on penalties (other than damages) which, based on IAS 18, fell within the scope of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*. The new standard requires that penalties be deducted from revenue, instead of making provisions as per the pre-existing standard.

The variable elements must be identified at contract inception and estimated at the end of every accounting period (annual or interim) throughout the term of the contract, to take into account any new circumstances and any changes in circumstances already considered in previous measurements.

b) **Separate revenue recognition for every single performance obligation**

Every single performance obligation of the supplier with the customer must be estimated, measured and recognised separately.

This approach assumes an accurate preliminary analysis of the contract, to identify every “single good/service”, or every “single component” of a good/service that the supplier undertakes to provide⁵⁰, allocating to each the relevant transaction price, and to monitor it throughout its duration (in terms manner and timing of fulfilment and customer satisfaction).

c) **Recognition based on satisfaction of performance obligation**

⁵⁰ By “single good/service” or “single components” of a good/service, reference is made to the minimum unit provided to the customer, identifiable and individually/potentially saleable in the market.

Revenue recognition is no longer related to the characteristics of the asset underlying the transaction with the customer (goods, services, interest, royalties) but is based on the distinction between an obligation “fulfilled at a point in time” and obligation “fulfilled over time”.

In the case of obligation fulfilled at a point in time, revenue is recognised only when the total “control” over the underlying goods or services is transferred to the customer. In this respect, attention is paid not only to the significant exposure to the risks and benefits related to the good or service but also to physical possession, customer acceptance, the existence of legal rights, etc.

If the performance obligation is fulfilled over time, revenue measurement and recognition reflect, virtually, the progress of the customer’s level of satisfaction. The standard provides specific guidance to help the entity to select the most appropriate accounting treatment.

d) **Specific disclosure**

The quantitative and qualitative disclosures related to revenue are broader and more analytical than before.

- **IFRS 9 - *Financial Instruments***, adopted with Regulation (EU) no. 2067/2016.

The purpose of the new accounting standard, which replaces a large part of IAS 39 – *Financial Instruments: Recognition and Measurement*, 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 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, in which the financial asset is held and the related purposes, and on the expected contractual cash flow characteristics. The new standard envisages three different categories of financial asset (in place of the four envisaged by the existing IAS 39):

Amortised cost; financial assets held to collect the contractual cash flows, represented exclusively by repayments of principal and interest;

Fair value through other comprehensive income (FVTOCI); financial assets held to collect the contractual cash flows, represented exclusively by repayments 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, 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 regard: 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.

- **Amendments to IFRS 15 – Revenue from Contracts with Customers – Clarifications to IFRS 15**, adopted with Regulation (EU) no. 1987/2017. Certain clarifications are introduced regarding the new treatment of revenue and further application relief is provided to entities that adopt the standard on the basis of the modified retrospective method.
- **Amendments to IFRS 4 – Applying IFRS 9 – Financial Instruments with IFRS 4 - Insurance Contracts**, adopted with Regulation (EU) no. 1988/2017. These amendments aim to address the temporary accounting consequences of the different effective dates of IFRS 9 and the new standard for insurance contracts (IFRS 17), replacing IFRS 4 presumably starting from 1 January 2021.

In particular, the amendments permit insurance companies:

- a) to defer the effective date of IFRS 9, and continue to apply IAS 39 until 1 January 2021. This option is available only to entities that predominantly undertake insurance activities; or
 - b) to apply the overlay approach, whereby the difference between the profit/(loss) for the “Financial assets designated at fair value through profit or loss” applying IFRS 9 and the profit/(loss) for the same financial assets applying IFRS 39 is reclassified to other comprehensive income. This reclassification would ensure the consistency of the effect on profit or loss of the financial assets in question, regardless of the accounting treatment.
- **Annual improvements cycle to IFRSs 2014 - 2016**, adopted with Regulation (EU) no. 182/2018 within the framework of the annual project to improve and review the International Financial Reporting Standards. The accounting standards affected by the amendments introduced by this Regulation, applicable as of 1 January 2018, are IAS 28 – *Investments in Associates and Joint Ventures* and IFRS 1 – *First-time Adoption of International Financial Reporting Standards*.
 - **Amendments to IFRS 2 – Share-based Payment** adopted with Regulation (EU) no. 289/2018. The Regulation introduces certain formal amendments and examples, to facilitate an understanding of the situations covered by the standard; it also provides specific indications on the accounting treatment of vesting and non-vesting conditions in case of cash-settled share-based payment transactions. In addition, the Regulation again illustrates the rules on *Share-based Payment Transactions with a Net Settlement Feature for Withholding Tax Obligations*.
 - **Amendments to IAS 40 – Investment Property** adopted with Regulation (EU) no. 400/2018. The amendments introduced clarify when an entity is authorised to change the designation of a property that was not an “investment property” as such and vice versa.

The following amendments apply as of 1 January 2019:

- **IFRS 16 - Leases**, adopted with Regulation (EU) no. 1986/2017. The new standard intends to improve the accounting treatment of lease contracts, giving a basis for users of financial statements to assess the effect that leases have on the financial position, operating performance and cash flows of an entity. These provisions entail a substantial revision of the current accounting treatment of lease contracts by lessees, introducing for lessors a unified model for the different types of lease (finance and operating).

The main provisions for the lessee's financial statements include:

- a) for the contracts in scope, the lessee recognises a right-of-use asset in its statement of financial position (in the same way as an owned asset) and a financial liability;
- b) at the commencement date, the lessee will recognise the asset for an amount equal to the present value of all future lease payments;
- c) at the end of the reporting periods after the commencement date, and throughout the term of the lease contract, the asset is amortised systematically, while the financial liability increases by the amount of interest accrued, as calculated on the basis of the internal rate indicated in the lease contract;
- d) when a lease payment is made, the liability is reduced by the amount of the payment.

The scope of the standard does not include short-term contracts (for up to 12 months) and low-value contracts (where the underlying asset does not exceed US\$5,000). For these contracts, the lessor may elect not to apply IFRS 16, and to continue with the current accounting treatment.

- **Amendments to IFRS 9 – Financial Instruments – Prepayment Features with Negative Compensation** adopted with Regulation (EU) no. 498/2018. The amendments to this standard aim to clarify the classification of certain financial assets with prepayment features when IFRS 9 applies.

Lastly, as of the reporting date, the IASB has issued certain financial reporting standards, amendments and interpretations not yet endorsed by the European Commission:

- IFRS 17 - *Insurance Contracts*;
- Interpretation IFRIC 22 - *Foreign Currency Transactions and Advance Consideration*;
- Interpretation IFRIC 23 - *Uncertainty over Income Tax Treatments*;
- Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures*;
- Annual improvements cycle in relation to IFRS 2015 - 2017;
- Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*.

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.

[New International Financial Reporting Standards: Transitional provisions and ESMA disclosures](#)

On 27 October 2017, the European Securities and Markets Authority (hereinafter **ESMA**) published a Public Statement⁵¹ to identify certain disclosures that listed companies are required or encouraged to

⁵¹ ESMA32-63-340, Public Statement "European common enforcement priorities for 2017 IFRS financial statements"

provide in their 2017 Annual Financial Reports.

Specifically, such disclosures refer to:

1. The expected impact of the upcoming implementation of **IFRS 9 – Financial Instruments**, **IFRS 15 – Revenue from Contracts with Customers**, and **IFRS 16 - Leases**;
2. Specific issues on application of **IFRS 3 – Business Combinations**;
3. Specific issue on application of **IAS 7 – Statement of Cash Flows**.

This note provides the disclosure under item 1 above, for a preliminary overview of the effects of the implementation of IFRSs 9, 15 and 16 on the Poste Italiane Group's financial statements. For the other issues mentioned by the Public Statement, reference is made to the specific explanatory notes (B8 – *Financial liabilities*).

IFRS 9 – Financial Instruments

The Poste Italiane Group's project to implement IFRS 9 – *Financial Instruments* (hereinafter the "IFRS 9 Project" or just the "Project") has been led by the Parent Company, with the involvement of all the direct and indirect subsidiaries, and support from a consultant with proven expertise and qualifications. The Project's objectives were: i) identification of the main areas impacted by the standard (classification and measurement of financial instruments, impairment procedures and hedge accounting on the basis of the new provisions); ii) determination of the quantitative and qualitative effects of the transition; iii) identification and implementation of the application and organisational solutions, following full adoption, for comprehensive, effective and consistent management within the Group. Accordingly, the Project, which delved into the areas identified by the standard (Classification & Measurement, Impairment and Hedge Accounting), unfolded along three successive stages: Assessment (which was completed on 30 June 2017); ii) Design (completed on 30 September 2017) and iii) Implementation (completed, for the main aspects, on 31 December 2017 with the adoption of IFRS 9 Guidelines). The activities to upgrade the information systems were carried out in accordance with the processes and procedures implemented by Poste Italiane's IT function.

It is a well-known fact that implementation of IFRS 9 requires the application of new accounting criteria and methods, which are often based on subjective assessments and estimates related to an entity's specific history and experience, as well as on assumptions that, from time to time, are considered reasonable and realistic, depending on the circumstances. The application of these estimates and assumptions affects the amounts reported in the financial statements and the relevant disclosures. As such, the amounts for which the above estimates and assumptions were used may differ from those that will be indicated in future financial reports, due to the uncertainty that marks certain assumptions and conditions on which the estimates are based. Estimates and assumptions are revised regularly and the effects of each change are reflected in the accounts of the year in which the estimate is revised, if the estimate only affects the current year, or also in the following periods, if the revision affects both the current and future periods.

IFRS 9 Guidelines

In the final part of the Project's third stage, on 13 December 2017, Poste Italiane's Board of Directors approved specific IFRS 9 Guidelines, which set out to define the following "high-level" policies:

- the Business Model choices to be adopted at Group level;
- the methodological approach to estimate the impairment of financial instruments, in relation to the trading book and the banking book (thus, the way expected losses are assessed);
- stage allocation criteria, to allocate financial instruments to the applicable stages on the basis of their downgrading;
- hedge accounting choices.

At the same meeting of 13 December 2017, the Parent Company's Board of Directors also approved an updated version of Poste Italiane's Financial Management Guidelines, which, in accordance with specific prudential provisions issued by the Bank of Italy, also apply to BancoPosta RFC. The update was necessary in view of changes to the organisational and business structure of the Group, which operates under a unified and integrated strategic management, on the one hand, and financial market conditions, on the other, as well as to make the approach, operations and formal aspects consistent with the provisions of IFRS 9.

In the following notes, a description is provided of the most significant aspects addressed by the IFRS 9 Guidelines for *Classification and Measurement, Impairment and Hedge Accounting*.

Classification and Measurement

IFRS 9 requires Business Models to reflect the manner in which given sets of financial instruments are managed in a coherent manner, so as to achieve pre-established business objectives. The Business Models identified must be consistent with the provisions of IFRS 9, thus:

- Hold to Collect ("HTC"): where the financial asset is held to collect contractual cash flows, in the form of principal and interest, with rare sales and/or limited volumes;
- Hold to Collect & Sell ("HTC&S"): where the financial asset is held to collect contractual cash flows, in the form of principal and interest, and well as proceeds from its sale;
- Other: this is a residual category which includes financial assets with a business model other than the previous ones, including held-for-trading financial assets.

Equity instruments account for a residual portfolio share, compared with the debt instruments and shares/units of collective investment schemes held by the Poste Italiane Group. Nearly all the shares held by the Group are reported at fair value through profit or loss.

Impairment and Stage Allocation

The Group companies apply the general impairment approach on the basis of models to estimate risk according to the type of counterparty:

- Instruments issued by sovereigns and banks: internal models to estimate risk;
- Other corporate instruments: risk ratings are supplied by an external provider.

For trade receivables the simplified approach was applied, on the basis of the matrix generated for the historical losses observed.

The Group implemented a stage allocation application model to evaluate the downgrade of financial instruments on the basis of the issuer's rating and other technical and statistical standards of reference, as well as all the other forward-looking qualitative and quantitative information⁵² available at the measurement date. The model is defined in keeping with the risk parameters adopted to determine impairment criteria.

A financial instrument is transferred to stage 2 only if the downgrade of its credit rating exceeds a pre-established threshold, taking into account the initial rating and the vintage of the position.

Given the current asset conditions, and according to the staging model adopted by the Group, financial instruments are allocated nearly entirely to stage 1. In accordance with IFRS 9, the impairment of instruments classified in this stage is measured as the expected loss over a maximum time horizon of 12 months.

Moreover, regarding the definition of default, the following approach was adopted for the issuers of debt securities:

- 90-day overdue payments for corporates and banks;
- overdue payments, even by just one day, or renegotiation of debt for sovereigns.

For trade payables, on the basis of past collection experience, the peculiar nature of the Group's activities and customers, and also considering the age of receivables, it has been deemed appropriate to set a period longer than the 90 days provided for by IFRS 9.

The Group did not avail itself of the low credit risk exemption.

Hedge accounting

For hedge accounting transactions, the Poste Italiane Group used the option made available by IFRS 9 and maintained the accounting treatments provided for by IAS 39. Accordingly, no effects of any type are expected.

Other decisions made

The Poste Italiane Group chose to apply IFRS 9 as of its effective date, that is 1 January 2018, without early adoption, and opted for the "simplified" transition method, whereby the cumulative effect of the change in accounting standard is recognised as of 1 January 2018, without restating the comparative year-earlier accounts.

In the assessment phase of the project for the adoption of IFRS 9, the Poste Italiane Group - considering the prevailing nature of Poste Vita SpA's business and the stabilising effect of the shadow accounting

⁵² Forward-looking information is included directly in the probability-of-default estimates. To safeguard the objectivity of the model's estimates, forward-looking factors were introduced only in the cases where information is available which might have an impact on counterparties' actual risk. This takes place through constant monitoring of market indicators (CDS spreads, bond spreads, etc.), ECAI ratings, macroeconomic forecasts. In the presence of significant phenomena that might undermine the proper measurement of PD, the amount is changed by using, where necessary, correlation matrices for the model variables.

mechanism – considered that the adoption of IFRS 9 by its insurance subsidiaries would not give rise to significant volatility effects on the income statements, or any mismatches. Also considering the need for consistency in the application of accounting rules, and in the preparation of any type of internal and external reporting, given that insurance companies are permitted to postpone the adoption of IFRS 9, the Poste Italiane Group, in agreement with its Poste Vita SpA and Poste Assicura SpA subsidiaries, has decided that the Group's consolidated financial statements and the Poste Vita Group's consolidated financial statements would be fully compliant with IFRS 9 as of 1 January 2018.

Preliminary effects as of 1 January 2018

As noted above, the Poste Italiane Group will apply the new accounting standard IFRS 9 from 1 January 2018, without any restatement of the comparative year-earlier accounts. Information on the preliminary effects of application of IFRS 9 from 1 January 2018 are shown below. Checks on the data presented below are still in progress. All the effects are shown before the related taxation.

Reclassification of the Poste Italiane Group's securities portfolio

The Poste Italiane Group's securities portfolio (with the exclusion of trade receivables, other receivables and hedging derivatives) at 31 December 2017 consists of:

- Held-to-maturity: €12.9 billion
- Available-for-sale: €135.8 billion
- Fair Value through Profit and Loss: €29.5 billion
- Loans & Receivables: €8.1 billion

Following application of IFRS 9 in the manner described above, and assuming a positive outcome to the checks being conducted, the Group's securities portfolio at 1 January 2018 will consist of the following:

- Hold to Collect: €28.4 billion
- Hold to Collect and Sell: €132.5 billion
- Fair Value through Profit and Loss: €27.1 billion

Expected Credit Loss ("ECL")

As a result of the new rules introduced by IFRS 9 and the business models adopted by the Poste Italiane Group, the ECL at 1 January 2018 amounts to a total of €81 million and regards:

- €11 million on financial instruments classified as HTC.
- €57 million on financial instruments classified as HTCS; of this amount, €42 million is attributable to policyholders under the shadow accounting method.
- €13 million on trade and other receivables.

The impact on retained earnings will amount to €39 million.

Equity attributable to owners of the Parent

As a result of the above, the expected effects on equity attributable to owners of the Parent at 1 January 2018 are as follows (before the related taxation):

- An increase of approximately €1.7 billion in the fair value reserve
- A reduction of approximately €23 million in retained earnings:
 - a reduction of €39 million resulting from the new method of determining ECLs;
 - an increase of €16 million, resulting primarily from the reclassification of non-qualifying investments to FVPL.

IFRS 15 - Revenue from Contracts with Customers

The Poste Italiane Group has opted to apply IFRS 15 from its effective date (1 January 2018). The Group has not opted for early application and adopted the simplified transition method (the cumulative effect of the change of accounting standard is recognised as of 1 January 2018 in retained earnings, without any restatement of the comparative year-earlier accounts). It also opted not to take into account the so-called “completed contracts” at the transition date, which continue to be recognised in accordance with IAS 18 and related interpretations.

The assessment, design and implementation of the project to adopt the new standard were completed in the last quarter of 2017.

For the assessment phase, the only one where an external consultant with proven expertise and qualifications was retained, the Group adopted a methodology that follows in the logical footsteps in which the revenue measurement and identification process unfolds under IFRS 15. In this context, use was made of an IT tool developed internally, which made it possible to assess sales contracts, grouped by type of activity, to identify the individual performance obligations in place, and to spot any difference between the previous and the new accounting standard. In this phase, the administrative and accounting systems, the available IT systems and the procedures in place to evaluate compliance with the new standard were analysed.

Below, the main preliminary conclusions of the assessments made are outlined:

- it was necessary to change the initial equity amount, pursuant to IFRS 15, only for PosteMobile SpA, in the presence of contracts that were not completed at the transition date and contracts made up of several performance obligations, for which revenue recognition policies were revised (involving, in particular, the consequences of the different allocation of revenues for certain services, such as fees for changes in price plans, bundled offers, etc.);
- penalties in favour of customers were found (in case of failure to achieve pre-established service levels) and clauses involving the return of fees collected for the placement of mortgages and loans repaid early (which to date have been treated as provisions), with such fees to be deducted directly from revenue as of 1 January 2018;
- as of the transition date, the effects of the above resulted in a decrease in revenue reserves of approximately €1.5 million, before the related effects on taxation. A review is still under way for the reported amounts.

Regarding administrative management of the elements of variable consideration (including the above-mentioned penalties), the underlying processes, the responsibilities and the activities, including control activities, to perform the calculations underlying the accounting entries have been revised.

IFRS 16 - Leases

In 2017, the Group started a preliminary assessment of the effects of IFRS 16, via a survey of the lease contracts Poste Italiane SpA has entered into as lessee. Based on the available evidence (in terms of nature of assets, minimum payments, reasonably predictable payment dates and other contractual terms and conditions of relevance for the application of IFRS 16) and certain simplifying assumptions, an initial simulation was conducted to determine the impact of the transition on the Parent Company's financial condition, operating performance and key performance indicators.

In early 2018, work is continuing on:

- a full map of lease contracts within the Poste Italiane Group and the identification of those in scope;
- identification of the relevant procedures and policies, which are likely to be changed to accommodate the adoption of the new accounting standard;
- a survey of the IT systems currently available for the database, administrative and accounting management of the contracts, with the indication of any application limits and identification of the optimal IT strategy.

In the second half of 2018, all analyses and assessments should be finalised and an IFRS 16 compliant accounting system should be finally put in place, with the redesign of the administrative and accounting processes and the relevant control system, and implementation of the most appropriate IT strategy.

At the date of preparation of these financial statements, there is no exhaustive or reliable, general qualitative and quantitative overview of the impacts determined by IFRS 16. However, early evidence suggests that it is reasonable to suppose that the impacts will be significant in terms of the accounts and the management and control of lease contracts, considering also the substantial number of operating leases entered into as lessee by Post Italiane SpA alone, on the strength of its more than 10,000 capital leases.

3. MATERIAL EVENTS DURING THE YEAR

3.1 PRINCIPAL CORPORATE ACTIONS

- *Poste Italiane and FSI Investimenti SpA sign an agreement for the Company's acquisition of an investment in FSIA Investimenti Srl*

Having obtained the consent of the Related and Connected Parties Committee and 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 SpA and FSI Investimenti SpA (a company 77.1% owned by CDP Equity SpA) entered into an agreement for the purchase of an interest in FSIA Investimenti Srl, a wholly owned subsidiary of FSI Investimenti. In particular, Poste Italiane SpA has acquired a 30% interest in FSIA Investimenti Srl and, as a result, holds an indirect interest of 14.85% in SIA SpA, which is 49.5% owned by FSIA Investimenti Srl.

At the same time as completing the acquisition of an interest in FSIA Investimenti Srl, Poste Italiane SpA also signed a “deed of pledge”, in which it declared that it was bound by, to the extent and in the exercise of its investment in the acquired company, the obligations provided for in a loan agreement entered into by FSIA Investimenti Srl with a number of banks on 28 May 2014.

The transaction consideration amounted to €278.3 million, 80% of which was paid on completion. This amount was then subject to payment of an upward adjustment of €0.55 million based on the value of SIA’s net debt at 31 December 2016.

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 Investimenti Srl and SIA SpA, over which the parties will exercise joint control, became effective.

The following table shows a comparison of the consideration paid and the net assets of the acquired company at 1 January 2017.

	(€m)
FSIA Investimenti Srl	
Equity (pro rata)	83.5
Previously allocated goodwill /intangible assets	(144.1)
Net assets acquired before the acquisition (pro rata)	(60.6)
Fair value adjustments:	
- Property, plant and equipment	-
- Intangible assets	115.8
- Deferred tax liabilities	(30.4)
Net assets acquired after the allocation (pro rata)	24.8
Transaction consideration	278.9
Goodwill	254.1

The difference between the transaction consideration and the net assets acquired, totalling €339.5 million has been allocated, partly on the basis of an appraisal conducted by an external expert, as follows: €115.8 million to the fair value of certain intangible assets; and the remaining €254.1 million to goodwill included in the carrying amount of the investment at 31 December 2017.

- *Poste Italiane and Anima Holding: new binding agreement to strengthen partnership in asset management*

On 21 December 2017, Poste Italiane SpA and Anima Holding SpA signed a Memorandum of Understanding with the aim of strengthening their partnership in the asset management sector.

The transaction envisages the following.

- (i) The partial spin-off of management of the assets underlying Poste Vita SpA’s Class I insurance products (totalling over €70 billion), previously attributed to BancoPosta Fondi SpA SGR, to Anima SpA SGR. As a result of the spin-off, Poste Italiane SpA will receive newly issued shares in Anima SpA SGR that will at the same time be acquired by Anima Holding SpA in return for a cash payment of €120 million.
- (ii) Amendment and expansion of the partnership agreements between the Poste Italiane Group and Anima Holding SpA, dating back to July 2015, by virtue of which Anima Holding SpA has been delegated to manage the retail funds established by BancoPosta Fondi SpA SGR and the assets underlying Poste Vita SpA’s Class III insurance products; this amendment extends the partnership, which will have a duration of 15 years.

On 6 March 2018, Poste Italiane SpA and Anima Holding SpA, together with Poste Vita SpA, BancoPosta Fondi SpA SGR and Anima SpA SGR, to the extent of their respective responsibilities, signed implementing agreements designed to strengthen their partnership in the asset management sector, in accordance with the terms and conditions announced on 21 December 2017. In particular, with regard to the spin-off and sale, determination of the final price will be subject to an earnout in Poste Italiane's favour, in the event of an increase in income from the management mandates/delegations assigned to Anima SGR, in addition to certain thresholds and a price adjustment mechanism in Anima Holding's favour, which is of marginal importance. The consideration will be paid in full on completion of the transaction by 31 December 2018, subject to suspensive conditions relating to receipt of the necessary consents from the competent authorities and following the subscription for and redemption of one or more share issues by Anima Holding SpA, with a value of at least €250 million.

The fact that Poste Italiane SpA has retained control of BancoPosta Fondi SpA SGR has modified the original plan for the subsidiary's ownership structure, as reflected, moreover, in the Poste Italiane Group's consolidated financial statements from the year ended 31 December 2016 until 30 September 2017⁵³.

In the light of the above agreements, in the Poste Italiane Group's consolidated financial statements for the year ended 31 December 2017, the assets and liabilities of BancoPosta Fondi SpA SGR have been reclassified. As a result, they are no longer recognised in "Non-current assets and disposal groups held for sale" and "Liabilities related to assets held for sale", and have been reallocated to the respective items under assets and liabilities, with the exception of items closely related to the activities included in the spin-off, which will continue to be classified in the items provided for in IFRS 5.

The following corporate actions also took place in 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 26 October 2017, the extraordinary general meeting of Poste Tributi SCpA's shareholders voted to reduce the share capital by €258,300 following the exclusion of the shareholder, AIPA SpA.
- On 30 January 2017, the deed governing the partial demerger of assets belonging 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 included 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.
- On 28 April 2017, the ordinary general meeting of Programma Dinamico SpA's shareholders approved the company's financial statements and the summary schedules showing the securitised assets and the securities issued (in accordance with the Bank of Italy's Order of 29 March 2000) at 31 December

⁵³ Specifically, on 10 November 2016, Poste Italiane SpA, Cassa Depositi e Prestiti and Anima Holding SpA signed a Framework Agreement for a joint project involving the creation of a leading asset management company. Under the agreement, Poste Italiane and Anima Holding have committed, at the earliest opportunity, to complete the transfer of Poste Italiane's 100% interest in the subsidiary, BancoPosta Fondi SpA SGR, to Anima Holding. On the above terms, for the purposes of the Poste Italiane Group's consolidated financial statements, the transaction qualified for application of IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations. This resulted in recognition of the subsidiary's assets and liabilities in "Non-current assets and disposal groups held for sale" and "Liabilities related to assets held for sale".

2016. The meeting also approved the final liquidation financial statements, at the level of both individual items and as a whole, and the plan for distribution, at the same time authorising the liquidator to request that the company struck off the register held at the relevant Chamber of Commerce, without waiting for the end of the term of ninety days provided for in art. 2493 of the Italian Civil Code. On 18 May 2017, Programma Dinamico SpA was struck off the Companies Register.

- On 8 May 2017, Anima Holding SpA 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, Poste Italiane SpA's interest in Anima Holding SpA was 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. On 29 September 2017, a general meeting of the company's shareholders approved the final liquidation financial statements, the liquidator's report and the plan for distribution. The company was struck off the Companies Register on 2 October 2017.
- Following issue of the relevant consents by the Ministry for Economic Development, the European Central Bank and the Bank of Italy, on 7 August 2017, Poste Italiane SpA and Invitalia SpA, Agenzia nazionale per l'attrazione degli investimenti e lo sviluppo d'impresa, completed the sale to the latter of Poste Italiane SpA's 100% interest in Banca del Mezzogiorno-Medio Credito Centrale⁵⁴. The transaction, between related parties (given that Poste Italiane SpA and Invitalia SpA are under the common control of the Ministry of the Economy and Finance), in accordance with the law and the related regulations, was approved by Poste Italiane SpA's Board of Directors, with the prior consent of the Board's Related and Connected Parties Committee. Under the related contract of sale, €158 million of the total consideration of €387 million⁵⁵ was collected during the year under review, with the balance accounted for in "Other financial receivables", after the effect of discounting to present value. €159 million was collected in early 2018, with the remainder to be collected in tranches, the last of which after five years (€30 million).
- On 20 September 2017, Poste Italiane SpA's Board of Directors authorised SDA Express Courier SpA to subscribe for new shares in Uptime SpA, amounting to the minimum required by law of €50 thousand. As a result of this transaction, Uptime SpA is 100% owned by SDA Express Courier.
- On 9 November 2017, the respective boards of directors approved the merger of Poste Tutela SpA (a wholly owned subsidiary of Poste Italiane SpA) with and into Poste Italiane. On 13 February 2018, the merger deed for PosteTutela SpA's merger with and into Poste Italiane SpA was executed. The transaction will be effective for legal purposes from 1 March 2018, and for accounting and tax purposes from 1 January 2018.

Finally, the following corporate actions are in progress at 31 December 2017.

- Launch of the process of establishing an e-money institution within the Group

⁵⁴ At 31 December 2016, the sale of BdM-MCC SpA met the requirements for application of IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*. This resulted in the reclassification of the subsidiary's assets and liabilities to "Non-current assets and disposal groups held for sale" and "Liabilities related to assets held for sale".

⁵⁵ The transaction consideration of €390 million was adjusted by approximately €3 million to take into account certain adjustments provided for in the contract on the occurrence of certain conditions.

On 25 January 2018, Poste Italiane SpA's Board of Directors approved the separation and transfer of certain assets, contractual rights and authorisations from BancoPosta RFC to a new ring-fenced e-money and payment services unit to be set up within PosteMobile SpA, as well as the separation of the contractual rights and authorisations relating to back-office and anti-money laundering activities. These corporate actions are subject to approval by Extraordinary General Meeting, following prior receipt of all the consents needed to comply with existing statutory and regulatory requirements.

Following submission to the Bank of Italy of a request for authorisation and receipt of the necessary consents, the Board of Directors approved: a) submission of a proposal to an Extraordinary General Meeting of shareholders for removal of the ring-fence that applies to BancoPosta RFC from the assets, contractual rights and authorisations that make up the e-money and payment services unit, which will form part of a contribution in kind to PosteMobile SpA; b) PosteMobile SpA's establishment of a separate entity – to include the above unit – to specialise in e-money and payment services, and through which PosteMobile SpA will be able to operate as an electronic money institution, whilst also continuing to operate as a mobile virtual network operator.

The above transaction aims to create a single provider of e-money and payment services to retail, business and Public Administration customers, combining in one entity the Poste Italiane Group's distinctive competencies in the field of mobile and digital payments.

The restructuring taking place within Poste Italiane SpA since 2017 shares the same goal. Specifically, in July 2017, the Company set up the Payments, Mobile and Digital function with the aim of carefully assessing future growth scenarios, including from the viewpoint of compliance with the related statutory requirements.

The Parent Company's new organisational structure is reflected in the disclosures provided in Poste Italiane's financial statements for the year ended 31 December 2017, with particular regard to the financial statements and the note on *Operating segments* (note 4.4).

3.2 OTHER MATERIAL EVENTS

The following material events also occurred in 2017:

- Allocation of the price paid by Poste Italiane SpA in order to acquire Indabox SpA for a consideration of €650 thousand, on 7 November 2016, was completed. The resulting difference between the transaction consideration and the net assets acquired amounts to €610 thousand, which has been allocated to goodwill and included in the carrying amount of the investment, which was valued using the equity method at 31 December 2017.
- As regards Poste Italiane SpA's investment in the Contingent Convertible Notes issued by Midco SpA, subscribed for in December 2014 and having an original value of €75 million, on 2 May 2017, following a general meeting of the shareholders of Alitalia SAI SpA (51% owned by Midco SpA), 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, a non-recurring loss equal to the total value of the Notes, amounting to €82 million at 31 December 2016, including interest recognised, has been recognised in finance costs for 2017.

- During the last quarter of 2017, Poste Italiane SpA sold its holding of 756,280 Class B Mastercard Incorporated shares in a series of transactions, following their conversion into Class A shares. The consideration received was €91 million, more or less equal to the non-recurring gain recognised in consolidated profit or loss.
- On 30 November 2017, agreement was reached with the labour unions over the renewed National Collective Labour Agreement for Poste Italiane's non-managerial personnel for the three-year period 2016-2018, the effects of which will be taken into account when preparing the financial statements for the year ended 31 December 2017.
- On 14 December 2017, following the resolutions approved by their respective boards of directors, Cassa depositi e prestiti SpA and Poste Italiane SpA signed a new agreement covering the collection of postal savings in the three-year period 2018-2020.

4. Poste Italiane Group for the year ended 31 December 2017

Posteitaliane

4.1 CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December

(€m)					
ASSETS	Note	2017	<i>of which, related party transactions</i>	2016	<i>of which, related party transactions</i>
Non-current assets					
Property, plant and equipment	[A1]	2,001	-	2,080	-
Investment property	[A2]	52	-	56	-
Intangible assets	[A3]	516	-	513	-
Investments accounted for using the equity method	[A4]	508	508	218	218
Financial assets	[A5]	171,004	3,059	155,819	2,059
Trade receivables	[A7]	9	-	4	-
Deferred tax assets	[C12]	869	-	799	-
Other receivables and assets	[A8]	3,043	1	2,682	1
Technical provisions attributable to reinsurers		71	-	66	-
Total		178,073	-	162,237	-
Current assets					
Inventories	[A6]	138	-	137	-
Trade receivables	[A7]	2,026	688	2,168	789
Current tax assets	[C12]	93	-	15	-
Other receivables and assets	[A8]	954	5	989	10
Financial assets	[A5]	15,762	6,211	18,543	6,191
Cash and deposits attributable to BancoPosta	[A9]	3,196	-	2,494	-
Cash and cash equivalents	[A10]	2,428	385	3,902	1,310
Total		24,597	385	28,248	1,310
Non-current assets and disposal groups held for sale	[A11]	-	-	2,720	49
TOTAL ASSETS		202,670	-	193,205	-
LIABILITIES AND EQUITY					
Equity					
Share capital	[B1]	1,306	-	1,306	-
Reserves	[B4]	1,611	-	2,374	-
Retained earnings		4,633	-	4,454	-
Equity attributable to owners of the Parent		7,550	-	8,134	-
Equity attributable to non-controlling interests		-	-	-	-
Total		7,550	-	8,134	-
Non-current liabilities					
Technical provisions for insurance business	[B5]	123,650	-	113,678	-
Provisions for risks and charges	[B6]	692	58	658	50
Employee termination benefits	[B7]	1,274	-	1,347	-
Financial liabilities	[B8]	5,044	-	8,404	-
Deferred tax liabilities	[C12]	546	-	746	-
Other liabilities	[B10]	1,207	-	1,071	-
Total		132,413	-	125,904	-
Current liabilities					
Provisions for risks and charges	[B6]	903	13	849	10
Trade payables	[B9]	1,332	194	1,506	205
Current tax liabilities	[C12]	23	-	88	-
Other liabilities	[B10]	2,249	70	2,147	89
Financial liabilities	[B8]	58,200	3,541	52,517	2,430
Total		62,707	3,718	57,107	2,734
Liabilities related to assets held for sale	[A11]	-	-	2,060	130
TOTAL EQUITY AND LIABILITIES		202,670	-	193,205	-

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December

				(€m)	
	Note	2017	<i>of which, related party transactions</i>	2016	<i>of which, related party transactions</i>
Revenue from Mail, Parcel & other	[C1]	3,631	513	3,822	549
Revenue from Payments, Mobile & Digital	[C2]	586	64	570	84
Revenue from Financial Services	[C3]	4,956	1,663	5,009	1,684
<i>of which, non-recurring income</i>		91		121	
Revenue from Insurance Services after movements in technical provisions and other claims expenses	[C4]	1,456	15	1,242	15
Insurance premium revenues		20,343	-	19,884	-
Income from insurance activities		3,925	15	3,827	15
Net change in technical provisions for insurance business and other claim expenses		(22,335)	-	(21,958)	-
Expenses from insurance activities		(477)	-	(511)	-
Net operating revenue		10,629		10,643	
Cost of goods and services	[C5]	2,370	195	2,442	192
Expenses from financial activities	[C6]	57	3	62	1
Personnel expenses	[C7]	6,093	40	6,241	43
Depreciation, amortisation and impairments	[C8]	545	-	581	-
Capitalised costs and expenses	[C9]	(24)	-	(25)	-
Other operating costs	[C10]	465	15	301	3
<i>of which, non-recurring costs</i>		-		37	
Operating profit/(loss)		1,123		1,041	
Finance costs	[C11]	188	1	100	1
<i>of which, non-recurring costs</i>		82		-	
Finance income	[C11]	115	-	109	-
<i>of which, non-recurring income</i>		3		-	
Profit/(Loss) on investments accounted for using the equity method	[A4]	17	-	6	-
Profit/(Loss) before tax		1,067		1,056	
Income tax for the year	[C12]	378	-	434	-
<i>of which, non-recurring expense/(income)</i>		(9)		14	
PROFIT FOR THE YEAR		689		622	
of which, attributable to owners of the Parent		689		622	
of which, attributable to non-controlling interests		-		-	
Earnings per share	[B3]	0.528		0.476	
Diluted earnings per share	[B3]	0.528		0.476	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December

	(€m)		
		Note	2017 2016
Profit/(Loss) for the year			689 622
Items to be reclassified in the Statement of profit or loss for the year			
Available-for-sale financial assets			
	Increase/(decrease) in fair value during the year	[tab. B4]	(315) (1,673)
	Transfers to profit or loss	[tab. B4]	(676) (592)
Cash flow hedges			
	Increase/(decrease) in fair value during the year	[tab. B4]	(57) (15)
	Transfers to profit or loss	[tab. B4]	(4) (22)
	Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the year		287 627
	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 liabilities held for sale	[tab. B4]	2 -
Items not to be reclassified in the Statement of profit or loss for the year			
	Actuarial gains/(losses) on provisions for employee termination benefits	[tab. B7]	(1) (51)
	Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year		- 18
	Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		- -
Total other comprehensive income			(764) (1,708)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			(75) (1,086)
	of which, attributable to owners of the Parent		(75) (1,086)
	of which, attributable to non-controlling interests		- -

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity										
	Share capital	Reserves					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
		Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Reserves related to disposal groups and liabilities held for sale					
Balance at 1 January 2016	1,306	299	1,000	2,739	9	-	-	4,305	9,658	-	9,658
Total comprehensive income for the year	-	-	-	(1,648)	(27)	-	-	589	(1,086)	-	(1,086)
Dividends paid	-	-	-	-	-	-	-	(444)	(444)	-	(444)
Reclassifications to/from reserves related to disposal groups and liabilities held for sale	-	-	-	1	-	(1)	-	-	-	-	-
Other changes	-	-	-	-	-	-	2	-	2	-	2
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 year	-	-	-	(722)	(43)	2	-	688 ^(*)	(75)	-	(75)
Dividends paid	-	-	-	-	-	-	-	(509)	(509)	-	(509)
Reclassifications to/from reserves related to disposal groups and liabilities held for sale	-	-	-	1	-	(1)	-	-	-	-	-
Balance at 31 December 2017	1,306	299	1,000	371	(61)	-	2	4,633	7,550	-	7,550

* This item includes profit for the year of €689 million and actuarial losses on provisions for employee termination benefits of €1 million after the related current and deferred taxation.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December

		(€m)	
	Note	2017	2016
Cash and cash equivalents at beginning of year		3,902	3,142
Profit/(Loss) before tax		1,067	1,056
Depreciation, amortisation and impairments	[tab. C8]	545	581
Net provisions for risks and charges	[tab. B6]	707	563
Use of provisions for risks and charges	[tab. B6]	(617)	(448)
Provisions for employee termination benefits	[tab. B7]	1	1
Employee termination benefits	[tab. B7]	(96)	(82)
Impairment of disposal groups	[tab. A11.1]	3	37
(Gains)/Losses on disposals		(2)	3
Impairment on available-for-sale financial assets	[tab. C11.2]	12	12
Impairment loss on Contingent Convertible Notes	[tab. C11.2]	82	-
(Dividends)	[tab. C11.1]	-	-
Dividends received		-	-
(Finance income realised)	[tab. C11.1]	(9)	(7)
(Finance income in form of interest)	[tab. C11.1]	(94)	(99)
Interest received		102	94
Interest expense and other finance costs	[tab. C11.2]	80	85
Interest paid		(57)	(60)
Losses and impairments/(Recoveries) on receivables	[tab. C10]	55	22
Income tax paid	[tab. C12.3]	(472)	(317)
Other changes		(1)	(2)
Cash flow generated by operating activities before movements in working capital	[a]	1,306	1,439
<i>Movements in working capital:</i>			
(Increase)/decrease in inventories	[tab. A6]	(1)	(3)
(Increase)/decrease in Trade receivables		80	86
(Increase)/decrease in Other receivables and assets		(202)	(357)
Increase/(decrease) in Trade payables		(176)	62
Increase/(decrease) in Other liabilities		97	129
Movement in group of assets and liabilities held for sale		(12)	-
Cash flow generated by/(used in) movements in working capital	[b]	(214)	(83)
Increase/(decrease) in liabilities attributable to financial activities		2,911	5,225
Net cash generated by/(used for) financial assets attributable to financial activities held for trading		-	-
Net cash generated by/(used for) available-for-sale financial assets attributable to financial activities		(2,497)	(5,114)
Net cash generated by/(used for) held-to-maturity financial assets attributable to financial activities		(108)	370
(Increase)/decrease in cash and deposits attributable to BancoPosta	[tab. A9]	(702)	667
(Increase)/decrease in other assets attributable to financial activities		315	773
(Income)/Expenses and other non-cash components from financial activities		(1,405)	(1,044)
Cash generated by/(used for) assets and liabilities attributable to financial activities	[c]	(1,486)	877
Net cash generated by/(used for) financial assets at fair value through profit or loss attributable to insurance activities		(3,911)	(6,100)
Increase/(decrease) in net technical provisions for insurance business		11,185	14,266
Net cash generated by/(used for) available-for-sale financial assets attributable to insurance activities	[tab. A5.4]	(5,825)	(6,466)
(Increase)/decrease in other assets attributable to insurance activities		(204)	12
(Gains)/Losses on financial assets/liabilities measured at fair value		(349)	(624)
(Income)/Expenses and other non-cash components from insurance activities		(1,211)	(1,063)
Cash generated by/(used for) assets and liabilities attributable to insurance activities	[d]	(315)	25
Net cash flow from/(for) operating activities	[e]=[a+b+c+d]	(709)	2,258
- of which related party transactions		241	3,648
<i>Investing activities:</i>			
Property, plant and equipment	[tab. A1]	(241)	(221)
Investment property	[tab. A2]	(1)	-
Intangible assets	[tab. A3]	(225)	(230)
Investments		(228)	(1)
Other financial assets		-	(100)
<i>Disposals:</i>			
Property, plant and equipment, investment property, intangible assets and assets held for sale		5	5
Investments		-	-
Other financial assets		296	103
Disposal groups		131	-
Net cash flow from/(for) investing activities	[f]	(263)	(444)
- of which related party transactions		(65)	(22)
Proceeds from/(Repayments of) long-term borrowings		4	-
(Increase)/decrease in loans and receivables		1	1
Increase/(decrease) in short-term borrowings		1	(521)
Dividends paid	[B2]	(509)	(444)
Net cash flow from/(for) financing activities and shareholder transactions	[g]	(503)	(964)
- of which related party transactions		(327)	(286)
Cash and cash equivalents reclassified from non-current assets and disposal groups held for sale	[h] [tab. A11]	1	(90)
Net increase/(decrease) in cash	[i]=[e+f+g+h]	(1,474)	760
Cash and cash equivalents at end of year	[tab. A10]	2,428	3,902
Cash and cash equivalents at end of year	[tab. A10]	2,428	3,902
Cash subject to investment restrictions		-	(780)
Escrow account with the Italian Treasury		(55)	-
Cash attributable to technical provisions for insurance business		(358)	(799)
Amounts that cannot be drawn on due to court rulings		(15)	(12)
Current account overdrafts		(1)	(2)
Cash received on delivery (restricted) and other restrictions		(21)	(17)
Unrestricted net cash and cash equivalents at end of year		1,978	2,292

4.2 NOTES TO STATEMENT OF FINANCIAL POSITION

ASSETS

A1 - PROPERTY, PLANT AND EQUIPMENT (€2,001 million)

The following table shows movements in property, plant and equipment in 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
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)
Balance at 1 January 2017	76	1,193	301	28	183	245	54	2,080
Movements during the year								
Additions	-	32	66	9	33	70	31	241
Adjustments	-	-	-	-	-	-	-	-
Reclassifications	-	9	24	-	5	4	(42)	-
Disposals	-	-	-	-	-	-	-	-
Depreciation	-	(112)	(77)	(8)	(30)	(102)	-	(329)
(Impairments)/Reversal of impairments	-	12	3	-	(5)	(1)	-	9
Total movements	-	(59)	16	1	3	(29)	(11)	(79)
Cost	76	2,956	2,168	325	482	1,875	43	7,925
Accumulated depreciation	-	(1,756)	(1,837)	(295)	(286)	(1,658)	-	(5,832)
Accumulated impairment	-	(66)	(14)	(1)	(10)	(1)	-	(92)
Balance at 31 December 2017	76	1,134	317	29	186	216	43	2,001

At 31 December 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 €55 million.

Capital expenditure of €241 million in 2017, including €7 million in capitalised costs for self-constructed assets, consists of:

- €32 million relating to extraordinary maintenance of post offices and local head offices around the country (€23 million) and mail sorting offices (€5 million);
- €66 million relating to plant, with the most significant expenditure made by the Parent Company, of which €26 million for plant and equipment related to buildings, €12 million for the installation of ATMs, €10 million for the purchase of equipment for use in sorting letters and processing parcels and €7 million for the purchase of telecommunications infrastructure;
- €33 million to upgrade plant and the structure of properties held under lease;
- €70 million relating to "Other assets", of which €45 million for the purchase of new computer hardware for post offices and head offices and the consolidation of storage systems;
- €31 million relating to assets under construction, of which €26 million incurred by the Parent Company and including €17 million regards the restyling of post offices and €5 million 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 2.5 – *Use of estimates*).

Reclassifications from assets under construction, totalling €42 million, relate primarily to the acquisition cost of assets that became available and ready for use during the year. In particular, these assets regard the completion of the process of restyling leased and owned properties.

All of the properties formerly held under finance lease arrangements, totalling €9 million, were purchased at the end of the leases in 2017.

A2 - INVESTMENT PROPERTY (€52 million)

Investment property primarily relates to residential accommodation previously used by post office directors and former service accommodation owned by Poste Italiane SpA in accordance with Law 560 of 24 December 1993. The following movements in Investment property took place in 2017:

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

	Year ended 31 December 2017
Cost	142
Accumulated depreciation	(85)
Accumulated impairment	(1)
Balance at 1 January	56
Movements during the year	
Additions	1
Disposals	(1)
Depreciation	(4)
(Impairments)/Reversal of impairments	-
Total movements	(4)
Cost	141
Accumulated depreciation	(88)
Accumulated impairment	(1)
Balance at 31 December	52
Fair value at 31 December	102

The fair value of investment property at 31 December 2017 includes €67 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 remaining balance reflects price estimates computed internally by the Company⁵⁶. Most of the properties included in this category are subject to lease agreements classifiable as operating leases, given that the Group retains substantially all the risks and rewards of ownership of the properties. Under the relevant agreements, tenants usually have the right to break off the lease with six months' notice. Given the resulting lack of certainty, the expected revenue flows from these leases are not referred to in these notes.

⁵⁶ In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, service accommodation qualifies for level 3, while the other investment property qualifies for level 2.

A3 - INTANGIBLE ASSETS (€516 million)

The following table shows movements in intangible assets in 2017:

tab. A3 - Movements in intangible assets

(€m)

	Industrial patents, intellectual property rights, concessions, licences, trademarks and	Assets under construction and advances	Goodwill	Other	Total
Cost	2,662	94	120	109	2,985
Accumulated amortisation and impairments	(2,307)	-	(69)	(96)	(2,472)
Balance at 1 January 2017	355	94	51	13	513
Movements during the year					
Additions	119	103	-	3	225
Reclassifications	81	(79)	-	(2)	-
Transfers and disposals	-	(1)	-	-	(1)
Amortisation and impairments	(215)	-	-	(6)	(221)
Total movements	(15)	23	-	(5)	3
Cost	2,871	117	120	100	3,208
Accumulated amortisation and impairments	(2,531)	-	(69)	(92)	(2,692)
Balance at 31 December 2017	340	117	51	8	516

Investment in “Intangible assets” during 2017 amounts to €225 million, of which €17 million relates to internally developed software. Development costs, other than those incurred directly to produce identifiable software used, or intended for use, within the Group, are not capitalised.

The increase in **industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights** total €119 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. The balance includes €10 million representing the carrying amount of 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.

The balance of **intangible assets under construction** includes activities conducted by the Parent Company, primarily regarding the development for software relating to the infrastructure platform (€44 million), for BancoPosta services (€30 million), for use in providing support to the sales network (€18 million), for the postal products platform (€12 million).

During the year the Group effected reclassifications from intangible assets under construction to industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights, amounting to €79 million, reflecting the completion and commissioning of software and the upgrade of existing software.

Goodwill regards the following:

tab. A3.1 - Goodwill

(€m)

Item	Balance at 31 December 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, there has been no need to recognise impairment losses on the goodwill accounted for at 31 December 2017.

A4 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (€508 million)

tab. A4 - Investments

(€m)

Item	Balance at 31 December 2017	Balance at 31 December 2016
Investments in associates	219	217
Investments in subsidiaries	2	1
Investments in joint ventures	287	-
Total	508	218

The movement in **investments** primarily regards:

- the net increase in the carrying amount of the investment in Anima Holding SpA (an associate), amounting to approximately €2.3 million, reflecting the combined effect of a reduction of €7.7 million, following the payment of dividends for 2016, and an increase of €10 million, including €9.5 million representing the share of profit booked by the investee between 30 September 2016 and 30 September 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 note 3 – *Material events during the year*). The carrying amount of this investment was subsequently increased by over €7 million, primarily due to the investee's result for the first nine months of 2017.

At 31 December 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 *Additional information – Information on investments* (note 11), together with key data.

A5 - FINANCIAL ASSETS (€186,766 million)

tab. A5 - Financial assets

Financial assets (€m)						
Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Loans and receivables	41	8,091	8,132	98	8,011	8,109
Held-to-maturity financial assets	11,667	1,245	12,912	11,213	1,470	12,683
Available-for-sale financial assets	130,969	4,836	135,805	123,175	5,068	128,243
Financial assets at fair value through profit or loss	27,857	1,481	29,338	20,996	3,907	24,903
Derivative financial instruments	470	109	579	337	87	424
Total	171,004	15,762	186,766	155,819	18,543	174,362

Financial assets by operating segment (€m)

Financial assets by operating segment (€m)						
Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
FINANCIAL SERVICES	49,415	10,663	60,078	47,299	10,753	58,052
Loans and receivables	8	7,592	7,600	8	7,907	7,915
Held-to-maturity financial assets	11,667	1,245	12,912	11,213	1,470	12,683
Available-for-sale financial assets	37,346	1,825	39,171	35,893	1,370	37,263
Derivative financial instruments	394	1	395	185	6	191
INSURANCE SERVICES	121,005	4,853	125,858	107,868	7,728	115,596
Loans and receivables	-	258	258	-	54	54
Available-for-sale financial assets	93,072	3,006	96,078	86,720	3,686	90,406
Financial assets at fair value through profit or loss	27,857	1,481	29,338	20,996	3,907	24,903
Derivative financial instruments	76	108	184	152	81	233
POSTAL AND BUSINESS SERVICES	584	246	830	652	62	714
Loans and receivables	33	241	274	90	50	140
Available-for-sale financial assets	551	5	556	562	12	574
Derivative financial instruments	-	-	-	-	-	-
Total	171,004	15,762	186,766	155,819	18,543	174,362

Financial assets by operating segment break down as follows:

- Financial Services, relate primarily to the financial assets of BancoPosta RFC and the company, BancoPosta Fondi SpA SGR;
- Insurance Services, includes the financial assets of Poste Vita SpA and its subsidiary, Poste Assicura SpA;
- Postal and Business Services, representing all the other financial assets held by the Parent Company (different from those held by BancoPosta) and the other financial assets held by companies that provide postal and business services.

FINANCIAL SERVICES

Loans and receivables

tab. A5.1 - Receivables

Receivables (€m)						
Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Amounts deposited with MEF	-	6,011	6,011	-	6,189	6,189
Other financial receivables	8	1,581	1,589	8	1,718	1,726
Total	8	7,592	7,600	8	7,907	7,915

Receivables include:

- **Amounts deposited with the MEF**, including public customers' current account deposits of BancoPosta RFC, which earn a variable rate of return, calculated on a basket of government bonds and money market indices⁵⁷.
- **Other financial receivables**, relating to guarantee deposits of €1,179 million, including €1,110 million provided to counterparties in asset swap transactions (with collateral provided by specific Credit Support Annexes) and €69 million provided to counterparties in repurchase agreements on fixed income securities (with collateral contemplated by specific Global Master Repurchase Agreements).

There are no loans at 31 December 2017.

Investments in securities and equity instruments

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

Item	Note	Balance at 31 December 2017			Balance at 31 December 2016		
		Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Held-to-maturity financial assets		11,667	1,245	12,912	11,213	1,470	12,683
Fixed income instruments	[tab. A5.2.1]	11,667	1,245	12,912	11,213	1,470	12,683
Available-for-sale financial assets		37,346	1,825	39,171	35,893	1,370	37,263
Fixed income instruments	[tab. A5.2.1]	37,305	1,825	39,130	35,789	1,370	37,159
Equity instruments		41	-	41	104	-	104
Total		49,013	3,070	52,083	47,106	2,840	49,946

Investments in securities relate to investments in Italian government securities with a nominal value of €48,460 million held primarily by BancoPosta RFC, with the remaining balance held by BancoPosta Fondi SpA SGR.

⁵⁷ 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.

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 2017	12,392	12,683	32,178	37,159	-	-	44,570	49,842
Purchases		1,582		8,997				10,579
Transfers to equity		-		(590)				(590)
Change in amortised cost		(9)		(77)				(86)
Changes in fair value through equity		-		(323)				(323)
Changes in fair value through profit or loss		-		(496)				(496)
Changes in cash flow hedge transactions (*)		(22)		-				(22)
Effect of sales on profit or loss		-		505				505
Accrued income		152		332				484
Recl. to non-current assets and disposal groups held for sale		-		31				31
Sales, redemptions and settlement of accrued income		(1,474)		(6,408)				(7,882)
Balance at 31 December 2017	12,692	12,912	35,768	39,130	-	-	48,460	52,042

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

At 31 December 2017, the fair value⁵⁸ of the held-to-maturity portfolio, accounted for at amortised cost, is €14,384 million (including €152 million in accrued interest).

The overall fair value loss of the available-for-sale portfolio during the period is €819 million, recognised in the relevant equity reserve, recording a negative amount of €323 million in relation to the portion of the portfolio not hedged by fair value hedges, and through profit and loss, in relation to the loss of €496 million on the hedged portion.

The available-for-sale portfolio includes fixed rate instruments amounting to €2,500 million (including €1,000 million acquired in 2017), issued by Cassa Depositi e Prestiti SpA and guaranteed by the Italian government (at 31 December 2017, their fair value totalled €2,485 million).

Certain securities are encumbered as they have been delivered to counterparties for use as collateral in connection with loans and hedging transactions, as described in note 11 – *Additional information*.

Investments in equity instruments include:

- €37 million, reflecting the fair value of 32,059 Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock) received for the sale of the Visa Europe Ltd. share to Visa Incorporated on 21 June 2016. These shares are convertible at the rate of 13,893⁵⁹ 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, reflecting the fair value of 11,144 class C shares of Visa Incorporated. These shares are not traded on an organised exchange, but are convertible into Class A shares (at the rate of four ordinary shares for each C share), which are listed on the New York Stock Exchange, if disposal is desired.

Fair value gains in the year under review, amounting to €11 million, have been recognised in the relevant equity reserve.

Finally, during the last quarter of 2017, Poste Italiane SpA sold its holding of 756,280 Class B Mastercard Incorporated shares in a series of transactions, following their conversion into Class A shares. The transaction

⁵⁸ In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.

⁵⁹ 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.

generated a gain of €91 million, recognised as a non-recurring realised gain and accounted for in “Revenue from financial activities.

Derivative financial instruments

The following table shows movements in derivative instruments during the year:

tab. A5.3 - Movements in derivative financial instruments

(€m)

	Cash flow hedges				Fair value hedges				FVPL				Total	
	Forward purchases		Vendite a termine		Asset swaps		Asset swaps		Forward purchases		Forward sales		notional	fair value
	notional	fair value	notionale	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value		
Balance at 1 January 2017	400	3	-	-	1,390	(65)	16,150	(2,052)	-	-	-	-	17,940	(2,114)
Increases/(decreases) *	-	(25)	1,408	(23)	50	(9)	5,205	446	-	-	92	-	6,755	389
Gains/(Losses) through profit or loss **	-	-	-	-	-	-	-	2	-	-	-	-	-	2
Transactions settled ***	(400)	22	-	-	(330)	15	(1,600)	444	-	-	(92)	-	(2,422)	481
Balance at 31 December 2017	-	-	1,408	(23)	1,110	(59)	19,755	(1,160)	-	-	-	-	22,273	(1,242)
Of which:														
Derivative assets	-	-	-	-	175	31	9,370	364	-	-	-	-	9,545	395
Derivative liabilities	-	-	1,408	(23)	935	(90)	10,385	(1,524)	-	-	-	-	12,728	(1,637)

* 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 year under review, the effective portion of interest rate hedges recorded an overall fair value loss of €57 million reflected in the cash flow hedge reserve.

Fair value hedges recorded an increase in the fair value of the effective portion of €446 million, whilst the hedged securities (tab. A5.2.1) recorded a fair value loss of €496 million, with the difference of €50 million due to paid differentials.

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

- the settlement of forward purchases, totalling €400 million;
- the conclusion of forward sales with a nominal value of €1,408 million;
- new asset swaps used as cash flow hedges with a nominal value of €50 million euro;
- the unwinding of asset swaps, used as cash flow hedges for securities sold, with a nominal value of €330 million;
- new asset swaps used as fair value hedges with a nominal value of €5,205 million;
- the unwinding of asset swaps, used as fair value hedges for securities sold, with a nominal value of €1,600 million.

INSURANCE SERVICES

Loans and receivables

Receivables of €258 million relate primarily to contributions in the form of subscriptions and payment for unissued units of mutual investment funds.

There are no loans at 31 December 2017.

Available-for-sale financial assets

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

	Fixed income instruments		Other investments	Equity instruments	Total
	Nominal value	Fair value	Fair value	Fair value	Fair value
Balance at 1 January 2017	80,524	88,377	2,013	16	90,406
Purchases		20,016	631	27	20,674
Transfers to equity		(279)	38	-	(241)
Changes in amortised cost		270	-	-	270
Fair value gains and losses through equity		(1,030)	38	2	(990)
Impairments		-	(105)	-	(105)
Effects of sales on profit or loss		209	(16)	1	194
Accrued income		719	-	-	719
Recl. to non-current assets and disposal groups held for sale		-	-	-	-
Sales, redemptions and settlement of accrued income		(13,573)	(1,247)	(29)	(14,849)
Balance at 31 December 2017	87,893	94,709	1,352	17	96,078

These financial instruments recorded net fair value losses of €990 million deriving from the measurement of securities held by Poste Vita SpA, of which €988 million was transferred to policyholders, with a contra-entry made in technical provisions in accordance with the shadow accounting method and a portion of €2 million reflected in a matching negative movement in the related equity reserve.

Fixed income instruments relate primarily to investments held by Poste Vita SpA, totalling €94,475 million (nominal value of €87,670 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. These fixed income instruments comprise bonds issued by CDP SpA, with a fair value of €1,244 million (a nominal value of €1,123 million).

Other investments relate to units of mutual investment funds, totalling €1,352 million, of which €834 million relates to equity funds, €356 million to mutual property funds and the remaining €162 million primarily to bond funds. These units are subscribed for entirely by Poste Vita SpA and allocated to the insurance company's separately managed accounts.

In 2016, Poste Vita decided to invest approximately €260 million in an alternative investment fund called "Atlante", and, in July 2016, invested approximately a further €200 million in the alternative investment fund named "Atlante 2" (now called the "Italian Recovery Fund"). 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 31 December 2017, the Atlante fund has called up €239.6 million, including €211.9 million allocated to the separately managed account, *PostaValorePiù*, and €27.7 million allocated to the company's free capital, whilst the Atlante 2 fund (now called the "Italian Recovery Fund") has called up a total of €101.9 million, allocated in full to the separately managed account, *PostaValorePiù*.

With particular regard to the Atlante fund, the Group, when preparing the financial statements for the year ended 31 December 2016, had already recognised an impairment loss on the investment of equal to approximately 50% (€106 million, including approximately €94 million recognised in deferred liabilities due to policyholders).

In view of recent events regarding the assets in which the 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, during the year the Group recognised a further impairment loss equal to 50% of its investment, with the sole exception of the amount invested in the Atlante II fund (now called the "Italian Recovery Fund"). Impairment losses recognised in 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 31 December 2017 thus amounts to €211 million, with the total finance costs recognised on the investment of Poste Vita's free capital in 2016 and 2017 totalling a cumulative amount of €24 million.

Financial instruments at fair value through profit or loss

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

							(€m)
	Fixed income instruments		Structured bonds		Other investments	Azioni	Total
	Nominal value	Fair value	Nominal value	Fair value	Fair value	Fair value	Fair value
Balance at 1 January 2017	9,379	9,566	857	992	14,345	-	24,903
Purchases		1,133		4	14,466	62	15,665
Fair value gains and losses through profit or loss		143		(4)	289	2	430
Accrued income		47		-	-	-	47
Effects of sales on profit or loss		(75)		4	(11)	1	(81)
Sales/Settlement of accrued income		(4,594)		(450)	(6,575)	(7)	(11,626)
Balance at 31 December 2017	5,979	6,220	500	546	22,514	58	29,338

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

- **Fixed income securities**, amounting to €6,220 million and consisting of €2,152 million in coupon stripped BTPs e Zero Coupon primarily acquired to cover the contractual obligations arising on Class III insurance policies, while the balance of €4,068 million is primarily made up of corporate bonds issued by blue-chip companies, including €3,886 million linked to separately managed accounts, €114 million covering contractual obligations arising on Class III insurance policies and the remaining €68 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 III insurance policies. The overall reduction is primarily due to redemption of an index-linked policy, totalling €446 million.
- **Other investments**, amounting to €22,514 million and relating to units of mutual investment funds, which include €21,484 million to cover Class I products and €1,030 million to cover Class III products. Details of the funds in question are provided in note 11 – *Additional information - Unconsolidated structured entities*.
- **Equity instruments**, totalling €58 million. These are investments to cover the contractual obligations arising on Class III products following establishment of the new unit-linked product linked to the individual savings plan, *PosteVita Soluzione Italia*.

Derivative financial instruments

At 31 December 2017, outstanding instruments primarily regard warrants executed by Poste Vita SpA to cover contractual obligations deriving from Class III policies with a fair value of €184 million and a notional amount of €2,149 million. The reduction in value in 2017 reflects an increase in fair value of €39 million, gains on sales of €40 million and redemptions of €128 million. Details of the Group's warrants are as follows.

tab. A5.6 - Warrants

(€m)

Policy	At 31 December 2017		At 31 December 2016	
	Nominal value	Fair value	Nominal value	Fair value
Alba	-	-	712	17
Terra	-	-	1,355	27
Quarzo	-	-	1,254	35
Titanium	621	45	656	34
Arco	165	34	174	30
Prisma	166	29	175	25
6Speciale	200	-	200	-
6Avanti	200	-	200	-
6Serenio	173	18	181	15
Primula	176	17	184	15
Top5	223	18	233	16
Top5 edizione II	225	23	234	19
Total	2,149	184	5,558	233

POSTAL AND BUSINESS SERVICES

Loans and receivables

tab. A5.7 - Receivables

(€m)

	Balance at 31 December 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	-	40	40	-	50	50
Due from the purchasers of service accommodation	5	2	7	7	-	7
Due from others	28	199	227	-	-	-
Provisions for doubtful debts	-	-	-	-	-	-
Total	33	241	274	7	51	58

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

Other receivables regard the remaining amount due from Invitalia SpA as a result of the sale of Banca del Mezzogiorno-MedioCreditoCentrale SpA on 7 August 2017.

There are no loans at 31 December 2017

Available-for-sale financial assets

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 2017	500	562	5	7	5	574
Purchases	-	-	-	-	-	-
Redemptions	-	-	-	-	-	-
Transfers to equity reserves	-	-	-	(4)	-	(4)
Changes in amortised cost	-	-	-	-	-	-
Impairments	-	-	-	-	-	-
Fair value gains and losses through equity	-	(1)	-	-	-	(1)
Fair value gains and losses through profit or loss	-	(10)	-	-	-	(10)
Effects of sales on profit or loss	-	-	-	4	-	4
Accrued income	-	5	-	-	-	5
Sales and settlement of accrued income	-	(5)	-	(7)	-	(12)
Balance at 31 December 2017	500	551	-	-	5	556

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

Other investments consist of equity instruments (as defined by art. 2346, paragraph 6 of the Italian Civil Code) resulting from the conversion of Contingent Convertible Notes⁶⁰ held by Poste Italiane SpA, whose value at 31 December 2017 is zero. As described in greater detail in note 3.2 – *Other material events*, during the year under review, the Company recognised a non-recurring impairment loss equal to the value of the Notes, amounting to €82 million, including interest recognised at 31 December 2016. The loss was accounted for in finance costs.

During the year under review, Poste Italiane SpA sold its holdings in equity mutual investment funds. This generated a gain of €4 million recognised in finance income.

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.

Derivative financial instruments

⁶⁰ These are 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 SpA. The Notes were subscribed for 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 (as defined by art. 2346, paragraph 6 of the Italian Civil Code), carrying the same rights associated with the Notes. From 1 January 2015 to 31 December 2016, the Notes paid a nominal rate of interest of 7% per annum.

tab. A5.9 - Movements in derivative financial instruments

(€m)

	Year ended 31 December 2017			
	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total
Balance at 1 January 2017	(7)	(44)	-	(51)
Transactions settled (*)	2	10	-	12
Balance at 31 December 2017	(5)	(34)	-	(39)
Of which:				
Derivative assets	-	-	-	-
Derivative liabilities	(5)	(34)	-	(39)

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

At 31 December 2017, derivative financial instruments include:

- nine asset swaps used as fair value hedges in 2010 to protect the value of BTPs with a nominal value of €375 million against movements in interest rates. These instruments have enabled the Parent Company to sell the fixed rate on the BTPs of 3.75% and purchase a variable rate;
- a swap contract entered into in 2013 to hedge the cash flows of a €50 million bond issued on 25 October 2013 (note B.8 – *Financial liabilities*). 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 31 December 2017, is 1.843%.

FAIR VALUE HIERARCHY

Fair value hierarchy

(€m)

Item	at 31 December 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	129,465	5,418	922	135,805	122,497	4,958	788	128,243
Equity instruments	17	4	42	63	16	77	32	125
Fixed income instruments	129,448	4,942	-	134,390	122,474	3,624	-	126,098
Other investments	-	472	880	1,352	7	1,257	756	2,020
Financial assets at fair value through profit or loss	6,796	21,788	754	29,338	10,094	14,635	174	24,903
Equity instruments	58	-	-	58	-	-	-	-
Fixed income instruments	6,212	8	-	6,220	9,535	31	-	9,566
Structured bonds	-	546	-	546	-	992	-	992
Other investments	526	21,234	754	22,514	559	13,612	174	14,345
Derivative financial instruments	-	579	-	579	-	424	-	424
Non-current assets and disposal groups held for sale	-	-	-	-	793	123	-	916
Total	136,261	27,785	1,676	165,722	133,384	20,140	962	154,486

At 31 December 2016, non-current assets and disposal groups held for sale included financial instruments at fair value held by BdM-MCC SpA and BancoPosta Fondi SGR SpA.

Transfers between levels 1 and 2, relating entirely to the Poste Vita insurance group, are shown below:

Net transfers between Level 1 and 2 at 31 december 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	(687)	687	352	(352)	
Available-for-sale financial assets					
Equity instruments	-	-	-	-	
Fixed income instruments	(674)	674	273	(273)	
Other investments	-	-	-	-	
Financial assets at fair value through profit or loss					
Fixed income instruments	-	-	24	(24)	
Structured bonds	-	-	-	-	
Other investments	(13)	13	55	(55)	
(Net transfers between Level 1 and 2)	(687)	687	352	(352)	

Reclassifications from level 1 to level 2 regard financial instruments whose value, at 31 December 2017, is not observable in a liquid and active market, as defined in the Group's Fair Value Policy. Reclassifications from level 2 to level 1, on the other hand, regard financial instruments whose value, at 31 December 2017, is observable in a liquid and active market.

Movements in level 3 during the year are shown below:

Movements in financial instruments at fair value (level 3)					(€m)
Item	Financial assets			Total	
	Available-for-sale financial assets	Financial asset at fair value through profit or loss	Derivative financial instruments		
Balance at 31 December 2016	788	174	-	962	
Purchases/Issues	401	570	-	971	
Sales/Extinguishment of initial accruals	(199)	-	-	(199)	
Redemptions	-	-	-	-	
Movements in fair value through profit or loss	-	10	-	10	
Movements in fair value through equity	37	-	-	37	
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 end of period)	-	-	-	-	
Balance at 31 December 2017	922	754	-	1,676	

Financial instruments classified in level 3 are held primarily by Poste Vita SpA and, to a residual extent, by 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 adjusted according to the capital calls and reimbursements announced by the managers which occurred between the latest NAV date and the measurement date. These financial instruments primarily consist of investments in private equity funds and, to a lesser extent, real estate funds associated entirely with Class I products related to separately managed accounts. Movements during the year regard the purchase of new investments, redemptions of units of unquoted close-end funds, changes in fair value (including gains of €11 million on the "Series C Visa Inc.

convertible preferred stock” held by the Parent Company), and the impairment loss on the alternative investment fund, “Atlante”, as described above.

A6 - INVENTORIES (€138 million)

tab. A6 - Inventories

(€m)

Item	Balance at 31 December 2016	Increase / (decrease)	Balance at 31 December 2017
Properties held for sale	118	1	119
Work in progress, semi-finished and finished goods and goods for resale	12	(2)	10
Raw , ancillary and consumable materials	7	2	9
Total	137	1	138

This item refers entirely to properties held for sale, which include the portion of EGI SpA's real estate portfolio to be sold, whose fair value⁶¹ at 31 December 2017 amounts to approximately €285 million.

A7 – TRADE RECEIVABLES (€2,035 million)

tab. A7 - Trade receivables

(€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Customers	9	1,860	1,869	4	1,929	1,933
MEF	-	166	166	-	236	236
Subsidiaries, associates and joint ventures	-	-	-	-	3	3
Prepayments to suppliers	-	-	-	-	-	-
Total	9	2,026	2,035	4	2,168	2,172

Receivables due from customers

tab. A7.1 - Receivables due from customers

(€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Ministries and Public Administration entities	-	658	658	-	633	633
Cassa Depositi e Prestiti	-	374	374	-	364	364
Unfranked mail delivered and other value added services	20	254	274	24	274	298
Parcel express courier and express parcel services	-	259	259	-	238	238
Overseas counterparties	-	229	229	-	285	285
Overdraw n current accounts	-	148	148	-	142	142
Amounts due for other BancoPosta services	-	87	87	-	113	113
Property management	-	7	7	-	7	7
Other trade receivables	4	412	416	-	376	376
Provisions for doubtful debts	(15)	(568)	(583)	(20)	(503)	(523)
Total	9	1,860	1,869	4	1,929	1,933

Specifically:

- Amounts due from **ministries and Public Administration entities** refer mainly to the following services:
 - Integrated Notification and mailroom services, amounting to €253 million rendered to central government entities as well as local government authorities.
 - Unfranked mail services provided on credit, totalling €88 million, to central government entities as well as local government authorities.

⁶¹ In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

- Reimbursement of the costs associated with the management of property, vehicles and security incurred on behalf of the Ministry for Economic Development, totalling €75 million, of which €2 million relates to the amount accrued during the year (see note 2.5⁶² for information on this item);
- Compensation for the discounts applied to publishers during the year under review, due from the *Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria* (Cabinet Office – Publishing department), amounting to €43 million;
- The payment of pensions and vouchers on behalf of INPS (the National Institute of Social Security), totalling €66 million.

In order to settle the amount due, 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.

- Amounts due from **Cassa Depositi e Prestiti** refer to fees and commissions for BancoPosta's deposit-taking activities during 2017.
- Receivables arising from **unfranked mail delivered and other value added services** refer to bulk mail services and other added value services.
- Receivables for **parcel, express courier and express parcel services** refer to services provided by SDA Express Courier SpA, and to the mailing of parcels by the Parent Company.
- Receivables from **overseas counterparties** relate to postal services carried out by the Parent Company for overseas postal operators.
- Receivables for **overdrawn current accounts** are amounts due to BancoPosta for temporarily overdrawn current accounts largely due to recurring BancoPosta bank charges, including accumulated sums, which have largely been written down, that BancoPosta is in the process of recovering.
- **Other trade receivables** include mainly: €48 million related to PosteMobile Spa for sales of terminals, services rendered to other operators and for the sale of top-ups through other channels, €45 million for Posta Time services, €26 million for Posta Target services, €22 million relating to air transport provided by Mistral Air Srl, €20 million related to Notification of Legal Process service, €14 million for Advice and Billing Mail services and €14 million for telegraphic services.

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

tab. A7.2 - Movements in provisions for doubtful debts

(€m)

Item	Balance at 1 January 2017	Net provisions	Deferred revenue	Uses	Balance at 31 December 2017
Private customers	348	37	-	(3)	382
Public Administration entities	132	1	11	-	144
Overseas postal operators	5	2	-	-	7
	485	40	11	(3)	533
Interest on late payments	38	15	-	(3)	50
Total	523	55	11	(6)	583

⁶² See "Revenue and receivables due from the State", item (vi), showing overall amounts due from the Ministry for Economic Development (€77 million), including amounts due for postal and other residual services, amounting to €2 million.

Provisions for doubtful debts relating to private customers include the amount set aside attributable to BancoPosta's operations, mainly to cover numerous individually immaterial amounts due from overdrawn current account holders.

Provisions for doubtful debts relating to Public Administration entities regard amounts that may be partially unrecoverable as a result of legislation restricting government spending, delays in payment and problems at debtor entities.

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 31 December 2017	Balance at 31 December 2016
Universal Service compensation	31	139
Publisher tariff and electoral subsidies	83	83
Remuneration of current account deposits	25	8
Payment for delegated services	56	28
Distribution of Euroconverters	-	6
Other	2	3
Provision for doubtful debts due from the MEF	(31)	(31)
Total	166	236

Specifically:

- **Universal Service compensation** includes:

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

Item	Balance at 31 December 2017	Balance at 31 December 2016
Remaining balance for 2015	-	67
Remaining balance for 2014	-	41
Remaining balance for 2012	23	23
Remaining balance for 2005	8	8
Total	31	139

A total of €370 million was collected in 2017, including €262 million relating to compensation for 2017 and €108 million in residual compensation for 2015 and 2014.

With reference to the amount receivable for 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. The Company appealed AGCom's decision on 13 November 2014 before the Regional Administrative Court (TAR).

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 Poste Italiane SpA. On 24 July 2015, the regulator notified the Company that it would extend the assessment to include the 2014 financial year. At the end of the public consultation, launched by

AGCom in 2016, the regulator published Resolution 298/17/CONS, in which it assessed the cost of providing the universal service for 2013 and 2014 to be €393 million and €409 million, respectively, compared with revenue of €343 million and €277 million recognised in the Company's statement of profit or loss for services rendered in the relevant years. The regulator also announced that the compensation fund to cover the cost of providing the universal service has not been set up. The Company filed a legal challenge to AGCom's resolution before the Regional Administrative Court on 6 November 2017.

On 27 October 2017, AGCom announced the launch of the process of verifying the net cost of the universal postal service for 2015 and 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. These receivables are shown gross of collection of the amount of €55 million deposited in an escrow account with the MEF in December 2017. For this reason, the account, which is non-interest bearing and held with the Treasury, is accounted for in "Prepayments received". The release of the amount deposited with the MEF and derecognition of the receivables in question will occur once the European Commission has given the related consent.
- The **remuneration of current account deposits** refers entirely to amounts accruing in 2017 and almost entirely relates to the deposit of funds deriving from accounts opened by Public Administration entities and attributable to BancoPosta RFC.
- Payments for **delegated services** relate to fees accrued solely in the year under review for treasury services performed by Bancoposta on behalf of the state in accordance with a special agreement with the MEF, renewed on 16 November 2017 for the three-year period 2017-2019.

Provisions for doubtful debts due from the MEF 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. The provisions are unchanged over the year.

A8 - OTHER RECEIVABLES AND ASSETS (€3,997 million)

tab. A8 - Other receivables and assets

Item	Note	Balance at 31 December 2017			Balance at 31 December 2016		
		Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Substitute tax paid		2,926	541	3,467	2,546	564	3,110
Receivables relating to fixed-term contract settlements		101	87	188	121	89	210
Amounts due from social security agencies and pension funds (excl. fixed-term contract settlements)		-	98	98	-	89	89
Amounts restricted by court rulings		-	75	75	-	71	71
Accrued income and prepaid expenses from trading transactions		-	11	11	-	16	16
Tax assets		-	5	5	-	4	4
Sundry receivables		16	159	175	15	163	178
Provisions for doubtful debts due from others		-	(72)	(72)	-	(60)	(60)
Other receivables and assets		3,043	904	3,947	2,682	936	3,618
Amount due from MEF following cancellation of EC Decision of 16 July 2008	[B2]	-	-	-	-	6	6
Interest accrued on IRES refund	[C12.1]	-	47	47	-	47	47
Interest accrued on IRAP refund	[C12.1]	-	3	3	-	-	-
Total		3,043	954	3,997	2,682	989	3,671

Specifically:

- **substitute tax paid** refers mainly to:

- €1,858 million on non-current receivables 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 policies⁶³;
 - €1,064 million charged to holders of Interest-bearing Postal Certificates and Class III and V insurance policies for stamp duty at 31 December 2017⁶⁴. This amount is balanced by a matching entry in “Other taxes payable” until expiration or early settlement of the Interest-bearing Postal Certificates or the insurance policies, i.e. the date on which the tax is payable to the tax authorities (tab. B10.3);
 - €325 million relating to advances paid in relation to stamp duty to be paid in virtual form in 2018 and charged to customers and to be recovered from customers by Poste Italiane;
 - €143 million relating to stamp duty charged to Postal Savings Books, which Poste Italiane SpA pays in virtual form as required by law.
- 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 €188 million from staff, from INPS and pension funds recoverable in the form of variable instalments, the last of which is due in 2040. With regard to amounts receivable from INPS (formerly IPOST), of which approximately €42 million is due, the same considerations described in the above note A7 apply.
 - Amounts that **cannot be drawn on due to court rulings** include €62 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. The risks associated with collection of these items are taken into account in the provisions for doubtful debts due from others.
 - **Accrued interest on IRES refund**, amounting to €47 million, refers to interest accruing up to 31 December 2017 in relation to the tax credit determined by an unreported deduction of IRAP paid on labour costs from IRES and almost entirely attributable to the Parent Company. Recovery of the amount in question has resulted in a dispute, the outcome of which is subject to uncertainty. With regard to the remaining overall tax credit, amounting to €55 million (i.e. including current tax assets and related interest), information is provided in note 2.5– *Use of estimates*.

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

⁶³ Of the total amount, €489 million, assessed on the basis of provisions at 31 December 2016, has yet to be paid and is accounted for in “Other taxes payable” (tab. B10.3).

⁶⁴ 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).

tab. A8.1 - Movements in Provisions for doubtful debts due from others

(€m)

Item	Balance at 1 January 2017	Net provisions	Uses	Balance at 31 December 2017
Public Administration entities for sundry services	13	1	-	14
Receivables relating to fixed-term contract settlements	7	2	-	9
Other receivables	40	9	-	49
Total	60	12	-	72

A9 - CASH AND DEPOSITS ATTRIBUTABLE TO BANCOPOSTA (€3,196 million)

tab. A9 - Cash and deposits attributable to BancoPosta

(€m)

Item	Balance at 31 December 2017	Balance at 31 December 2016
Cash and cash equivalents in hand	2,799	2,269
Bank deposits	397	225
Total	3,196	2,494

Cash at post offices, relating exclusively to BancoPosta RFC, regards 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 (€813 million) and companies that provide cash transportation services whilst awaiting transfer to the Italian Treasury (€1,986 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 €396 million.

A10 - CASH AND CASH EQUIVALENTS (€2,428 million)

tab. A10 - Cash and cash equivalents

(€m)

Item	Balance at 31 December 2017	Balance at 31 December 2016
Bank deposits and amounts held at the Italian Treasury	2,034	2,581
Deposits with the MEF	379	1,310
Cash and cash equivalents in hand	15	11
Total	2,428	3,902

The balance of cash at 31 December 2017 includes approximately €450 million the use of which is restricted, including €358 million in liquidity covering technical provisions for the insurance business, €55 million deposited in a non-interest bearing escrow account with the MEF in December 2017, as prepayment of electoral subsidies to cover discounts granted by the Parent Company, €15 million whose use is restricted by court orders related to different disputes and €21 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 (-€0.3 million)

Net liabilities held for sale at 31 December 2017 amount to €0.3 million. Following completion of the sale of BdM-MCC SpA on 7 August 2017, all the related items at that date were derecognised in 2017, whilst, given that the requirements of IFRS 5 were no longer met, almost all the assets and liabilities of BancoPosta Fondi SpA SGR were reclassified to the relevant items in the statement of financial position. The balance of the item in question regards remaining assets and liabilities attributable to BancoPosta Fondi SpA SGR, relating to the business unit (represented by management of the assets underlying Class I insurance products) due to be spun off as part of the agreement with Anima Holding, described in note 3.1, which continues to be classified in the items provided for in IFRS 5.

Further information is provided in *Material events during the year* (note 3).

Movements in the related assets are as follows:

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

Item	Balance at 31 December 2016	Other movements	Impairments	Disposal	Recl. from non-current assets and disposal groups held for sale	Balance at 31 December 2017
Property, plant and equipment	2	-	-	(1)	(1)	-
Intangible assets	7	-	-	(7)	-	-
Non-current financial assets	2,154	(157)	-	(1,970)	(27)	-
Non-current trade receivables	56	25	-	(81)	-	-
Deferred tax assets	12	(1)	-	(11)	-	-
Other non-current assets	-	-	-	-	-	-
Current trade receivables	9	2	-	(4)	(7)	-
Current financial assets	375	18	-	(389)	(4)	-
Current tax assets	9	(2)	-	(7)	-	-
Other current assets	43	(10)	-	(31)	(2)	-
Cash and cash equivalents	90	(25)	-	(64)	(1)	-
Impairments of disposal groups held for sale	(37)	-	(3)	40	-	-
Total	2,720	(150)	(3)	(2,525)	(42)	-

Movements in the related liabilities are as follows:

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

Item	Balance at 31 December 2016	Other movements	Impairment	Disposal	Recl. from liabilities related to assets held for sale	Balance at 31 December 2017
Non-current provisions for risks and charges	1	-	-	-	(1)	-
Employee termination benefits and pension plans	8	-	-	(8)	-	-
Non-current financial liabilities	880	148	-	(1,028)	-	-
Deferred tax liabilities	1	-	-	(1)	-	-
Other non-current liabilities	-	-	-	-	-	-
Trade payables	9	(2)	-	(4)	(3)	-
Current financial liabilities	1,144	(126)	-	(1,018)	-	-
Current provisions for risks and charges	5	(2)	-	(3)	-	-
Current tax liabilities	3	(1)	-	-	(2)	-
Other current liabilities	9	2	-	(9)	(2)	-
Total	2,060	19	-	(2,071)	(8)	-

EQUITY

B1 – SHARE CAPITAL (€7,550 million)

The share capital of Poste Italiane SpA 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 31 December 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 year with the consolidated amounts:

tab. B1 - Reconciliation of equity

	Equity at 31 December 2017	Changes in equity during 2017	Profit/(loss) for 2017	Equity at 31 December 2016	Changes in equity during 2016	Profit/(loss) for full year 2016	Equity at 1 January 2016
(€m)							
Financial statements of Poste Italiane SpA	5,512	(1,265)	617	6,160	(2,111)	625	7,646
- Undistributed profit (loss) of consolidated companies	3,293	-	557	2,736	-	425	2,311
- Investments accounted for using the equity method	27	-	17	10	1	6	3
- Balance of FV and CFH reserves of investee companies	156	(7)	-	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	(40)	-	(1)	(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)	(1,586)	(2)	(516)	(1,068)	-	(430)	(638)
- Elimination of adjustments to value of consolidated companies	428	-	28	400	-	37	363
- Amortisation until 1 January 2004/impairment of goodwill	(139)	-	-	(139)	-	-	(139)
- Impairments of disposal groups held for sale	(40)	-	(3)	(37)	-	(37)	-
- Other consolidation adjustments	(6)	-	(10) (*)	4	-	(4)	8
Equity attributable to owners of the Parent	7,550	(1,273)	689	8,134	(2,146)	622	9,658
- Non-controlling interests (excluding profit/(loss))	-	-	-	-	-	-	-
- Profit/(loss) attributable to non-controlling interests	-	-	-	-	-	-	-
Equity attributable to non-controlling interests	-	-	-	-	-	-	-
TOTAL CONSOLIDATED EQUITY	7,550	(1,273)	689	8,134	(2,146)	622	9,658

(*) This includes the reversal of non-recurring income of €14 million from Poste Italiane SpA's sale of its 100% interest in Banca del Mezzogiorno–MedioCreditoCentrale SpA to Invitalia SpA.

B2 – SHAREHOLDERS TRANSACTIONS

As resolved at the 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.

B3 – 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 have been issued at 31 December 2017 or at 31 December 2016. As a result, at 31 December 2017, earnings per share is €0.528 (€0.476 at 31 December 2016).

B4 – RESERVES (€1,611 million)

tab. B4 - Reserves

(€m)

	Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Reserves related to groups of assets and liabilities held for sale	Reserve for investees accounted for using equity method	Total
Balance at 1 January 2017	299	1,000	1,092	(18)	(1)	2	2,374
Increases/(decreases) in fair value during the period	-	-	(315)	(57)	-	-	(372)
Tax effect of changes in fair value	-	-	93	16	-	-	109
Transfers to profit or loss	-	-	(676)	(4)	-	-	(680)
Tax effect of transfers to profit or loss	-	-	176	2	-	-	178
Investees accounted for using equity method - share of OCI (net of tax)	-	-	-	-	-	-	-
After-tax increase/(decrease) in reserves related to groups of assets and liabilities held for sale	-	-	-	-	2	-	2
Gains/(losses) recognised in equity	-	-	(722)	(43)	2	-	(763)
Reserves related to disposal groups and liabilities held for sale	-	-	1	-	(1)	-	-
Other	-	-	-	-	-	-	-
Attribution of profit for 2016	-	-	-	-	-	-	-
Balance at 31 December 2017	299	1,000	371	(61)	-	2	1,611

Details are as follows:

- the **fair value reserve** regards changes in the fair value of available-for-sale financial assets which, during 2017, resulted in fair value losses totalling €315 million, reflecting:
 - a net decrease of €312 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 €323 million and a gain on equity instruments of €11 million;
 - a net decrease of €2 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, reflects changes in the fair value of the effective portion of cash flow hedges. In 2017, fair value losses of €57 million were attributable to the value of BancoPosta RFC's derivative financial instruments.

LIABILITIES

B5 - TECHNICAL PROVISIONS FOR INSURANCE BUSINESS (€123,650 million)

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 31 December 2017	Balance at 31 December 2016
Mathematical provisions	111,014	96,333
Outstanding claims provisions	631	942
Technical provisions where investment risk is transferred to policyholders	3,530	6,900
Other provisions	8,315	9,360
for operating costs	90	79
for deferred liabilities to policyholders	8,225	9,281
Technical provisions for claims	160	143
Total	123,650	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 (to which reference is made for more details), of unrealised profits and losses on available-for-sale financial assets at 31 December 2017 and, to a lesser extent, on financial instruments at fair value through profit or loss.

B6 - PROVISIONS FOR RISKS AND CHARGES (€1,595 million)

Movements in provisions for risks and charges are as follows:

tab. B6 - Movements in provisions for risks and charges for the year ended 31 December 2017 (€m)

Item	Balance at 1 January 2017	Provisions	Finance costs	Released to profit or loss	Uses	Recl. to liabilities related to assets held for sale	Balance at 31 December 2017
Provisions for operational risk	364	180	-	(10)	(95)	-	439
Provisions for disputes with third parties	349	102	-	(65)	(17)	-	369
Provisions for disputes with staff (1)	120	14	-	(34)	(23)	-	77
Provisions for personnel expenses	196	87	-	(28)	(122)	-	133
Provisions for early retirement incentives	342	446	-	-	(342)	-	446
Provisions for expired and statute barred postal savings certificates	14	-	1	-	-	-	15
Provisions for taxation/social security contributions	28	4	-	(10)	(8)	-	14
Other provisions for risks and charges	94	23	-	(3)	(13)	1	102
Total	1,507	856	1	(150)	(620)	1	1,595
Overall analysis of provisions:							
- non-current portion	658						692
- current portion	849						903
	<u>1,507</u>						<u>1,595</u>

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

Specifically:

- **Provisions for non-recurring charges** relate to operational risks arising from BancoPosta's operations. They primarily regard the liabilities arising from the reconstruction of operating ledger entries at the time of the Company's incorporation, liabilities deriving from the provision of delegated services for social security agencies, fraud, violations of administrative regulations, compensation and adjustments and outstanding income for previous years, risks linked to disputes with customers regarding certain investment products whose performance is not in line expectations, risks linked to customer complaints relating to the erroneous application of statute barring and estimated risks for charges and expenses to be incurred in connection with seizures effected by BancoPosta as garnishee-defendant. Provisions for the year, totalling €180 million, primarily reflect a revised estimate of probable liabilities linked to third-party financial products sold in the early 2000s, including €35 million relating to the voluntary action taken to protect customers, approved by Poste Italiane's Board of Directors on 19 February 2018, in relation to customers who had invested in the Europa Immobiliare 1 fund (which reached maturity on 31 December 2017⁶⁵), and the revision of other liabilities due to adjustments and revised estimates of income for previous years. Uses, amounting to €95 million include €48 million relating to the settlement of amounts due to customers who had invested in the IRS real estate fund, following the decision to take extraordinary measures by Poste Italiane's Board of Directors on 16 January 2017.
- **Provisions for disputes with third parties** regard the present value of expected liabilities deriving from different types of legal and out-of-court disputes with suppliers and third parties, the related legal expenses, and penalties and indemnities payable to customers. Provisions for the year of €102 million reflect the estimated value of new liabilities measured on the basis of expected outcomes. The reduction of €65 million relates to the reversal of liabilities recognised in the past, whilst a reduction of €17 million regards the value of disputes settled.
- **Provisions for disputes with staff** regard liabilities that may arise following labour litigation and disputes of various types. Net releases of €20 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.
- **Provisions for personnel expenses** are made to cover expected liabilities arising in relation to the cost of labour, with are certain or likely to occur but whose estimated amount is subject to change. They have increased by the estimated amount of new liabilities (€87 million) and decreased as a result of past liabilities that failed to materialise (€28 million) and settled disputes (€122 million).
- **Provisions for early retirement incentives** reflect the estimated costs to be incurred as a result of the Company's binding commitment to pay early retirement incentives on a voluntary basis, under the current redundancy scheme agreed with the labour unions for a determinate number of employees who will leave the Company by 31 December 2019.
- **Provisions for expired and statute barred Postal Certificates** have been made to cover the cost of redeeming certificates relating to specific issues, even if expired⁶⁶.

⁶⁵ This initiative is described in "Risk management – Reputational risk".

⁶⁶ Provisions for expired and statute barred Postal Certificates were made in 1998 to cover the cost of redeeming certificates relating to specific issues, the value of which was recognised in revenue in profit or loss in the years in which the certificates became invalid. The provisions were made in response to the Parent Company's decision to redeem such certificates even if expired and statute barred. At 31 December 2017, the provisions represent the present value of total liabilities, based on a nominal value of €21 million, expected to be progressively settled by 2043.

- **Provisions for taxation/social security contributions** have been made to cover potential future tax and social security liabilities.
- **Other provisions** cover probable liabilities of various type, including: estimated liabilities deriving from the risk that specific legal actions undertaken in order to reverse seizures of the Parent Company's assets may be unable to recover the related amounts, claims for rent arrears on properties used free of charge by the Parent Company, claims for payment of accrued interest expense due to certain suppliers and frauds.

B7 - EMPLOYEE TERMINATION BENEFITS (€1,274 million)

The following movements in employee termination benefits took place in 2017:

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

	2017
Balance at 1 January	1,347
Current service cost	1
Interest component	21
Effect of actuarial (gains)/losses	1
Uses for the period	(96)
Balance at 31 December	1,274

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**, are as follows:

tab. B7.1 - Economic and financial assumptions

	At 31 December 2017
Discount rate	1.25%
Inflation rate	1.50%
Annual rate of increase of employee termination benefits	2.625%

tab. B7.2 - Demographic assumptions

	At 31 December 2017
Mortality	RG48 differentiated by gender
Disability	INPS 1998 table differentiated by gender
Rate of employee turnover	Specific table with rates differentiated by length of service.
Advance rate	Specific table with rates differentiated by length of service.
Pensionable age	In accordance with rules set by INPS

Actuarial gains and losses are generated by the following factors:

tab. B7.3 - Actuarial gains and losses

	At 31 December 2017
	TFR
Change in demographic assumptions	-
Change in financial assumptions	7
Other experience-related adjustments	(6)
Total	1

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

tab. B7.4 - Sensitivity analysis

At 31 December 2017	
TFR	
Inflation rate +0.25%	1,293
Inflation rate -0.25%	1,256
Discount rate +0.25%	1,244
Discount rate -0.25%	1,305
Turnover rate +0.25%	1,272
Turnover rate -0.25%	1,275

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

tab. B7.5 - Other information

At 31 December 2017	
Expected service cost	1
Average duration of defined benefit plan	10.2
Average employee turnover	0.20%

B8 – FINANCIAL LIABILITIES (€63,244 million)

tab. B8 - Financial liabilities

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Payables deriving from postal current accounts	-	46,575	46,575	-	45,125	45,125
Borrowings	3,398	3,419	6,817	6,097	1,265	7,362
Bonds	798	775	1,573	1,545	26	1,571
Borrowings from financial institutions	2,600	2,643	5,243	4,551	1,232	5,783
Other borrowings	-	-	-	-	-	-
Finance leases	-	1	1	1	7	8
MEF account, held at the Treasury	-	3,483	3,483	-	2,429	2,429
Derivative financial instruments	1,645	31	1,676	2,306	50	2,356
Cash flow hedges	101	17	118	87	21	108
Fair value hedges	1,544	14	1,558	2,219	29	2,248
Fair value through profit or loss	-	-	-	-	-	-
Other financial liabilities	1	4,692	4,693	1	3,648	3,649
Total	5,044	58,200	63,244	8,404	52,517	60,921

Payables deriving from postal current accounts

Payables deriving from postal current accounts represent BancoPosta's direct deposits, and include interest accrued at 31 December 2017, which was settled with customers in January 2018.

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 €813 million under the EMTN – Euro Medium Term Note programme of €2 billion listed by the Company in 2013 on the Luxembourg Stock Exchange. In particular:
 - bonds with a nominal value of €750 million, placed through a public offering for institutional investors at a below par price of 99.66 on 18 June 2013. The bonds have a term to maturity of five years and pay annual coupon interest at a fixed rate of 3.25%. The fair value⁶⁷ of this borrowing at 31 December 2017 is €775 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 note A5; the fair value⁶⁸ of this borrowing at 31 December 2017 is €53 million.
- Subordinated bonds⁶⁹ with a nominal value of €750 million and accounted for at their amortised cost of €760million, 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 value⁷⁰ of this liability at 31 December 2017 is €782 million.

Borrowings from financial institutions

This item breaks down as follows:

tab. B8.1 - Borrowings from financial institutions

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Repurchase agreements	2,400	2,442	4,842	4,151	1,230	5,381
EIB fixed rate loan maturing 11 April 2018	-	200	200	200	-	200
EIB fixed rate loan maturing 23 March 2019	200	-	200	200	-	200
Current account overdrafts	-	1	1	-	2	2
Total	2,600	2,643	5,243	4,551	1,232	5,783

Borrowings from financial institutions are subject to standard negative pledge⁷¹.

Outstanding liabilities for repurchase agreements at 31 December 2017 amount to €4,842 million and relate to contracts with a total nominal value of €4,407 million, entered into by the Parent Company with major financial institutions. These liabilities consist of:

- €3,903 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;

⁶⁷ In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.

⁶⁸ In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

⁶⁹ The bondholders rank below customers holding the company's insurance policies.

⁷⁰ In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.

⁷¹ 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.

- €939 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 31 December 2017, the fair value⁷² of the above repurchase agreements amounts to €4,853 million.

The fair value⁷³ of the two fixed rate EIB loans of €400 million obtained by the Parent Company amounts to €402 million.

At 31 December 2017, the following credit facilities are available:

- committed lines of €1,173 million (including lines with a value of €1 billion extinguished on 2 February 2018);
- uncommitted lines of credit of €1,059 million, of which €9 thousand has been used in the form of medium/long-term borrowings;
- overdraft facilities of €166.8 million, of which €0.8 million has been used;
- unsecured guarantee facilities with a value of €639.2 million (with €505.2 million available to the Parent Company), of which guarantees with a value of €281.9 million have been used in favour of third parties.

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

Finally, 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 €490 million, and the facility is unused at 31 December 2017.

MEF account held at the Treasury

tab. B8.2 - MEF account, held at the Treasury

(€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Balance of cash flows for advances	-	3,375	3,375	-	2,239	2,239
Balance of cash flows from management of postal savings	-	(84)	(84)	-	(4)	(4)
Amounts payable due to theft	-	157	157	-	159	159
Amounts payable for operational risks	-	35	35	-	35	35
Total	-	3,483	3,483	-	2,429	2,429

The **balance of cash flows for advances**, represents the net amount payable as a result of advances from the MEF to meet the cash requirements of BancoPosta. These break down as follows:

tab. B8.2.1 - Balance of cash flows for advances

(€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Net advances	-	3,375	3,375	-	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	-	3,375	3,375	-	2,239	2,239

⁷² In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

⁷³ In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

The **balance of cash flows from the management of postal savings**, amounting to a positive €84 million, represents the balance of withdrawals less deposits during the last two days of the year and cleared early in the following year. The balance at 31 December consists of €43 million payable to Cassa Depositi e Prestiti, less €127 million receivable from the MEF for Interest-bearing Postal Certificates issued on its behalf.

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. 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.

Amounts payable for operational risks regard the portion of advances obtained to fund the operations of BancoPosta, in relation to which asset under recovery is certain or probable.

Derivative financial instruments

Movements in derivative financial instruments during 2017 are described in note A5 – *Financial assets*.

Other financial liabilities

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

tab. B8.3 - Other financial liabilities

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Prepaid cards	-	2,853	2,853	-	2,161	2,161
Domestic and international money transfers	-	734	734	-	599	599
Cashed cheques	-	243	243	-	284	284
Tax collection and road tax	-	145	145	-	153	153
Endorsed cheques	-	188	188	-	148	148
Amounts to be credited to customers	-	88	88	-	75	75
Guarantee deposits	-	100	100	-	32	32
Other amounts payable to third parties	-	68	68	-	66	66
Payables for items in process	-	190	190	-	117	117
Other	1	83	84	1	13	14
Total	1	4,692	4,693	1	3,648	3,649

Amounts payable for guarantee deposits regard amounts received by the Parent Company in relation to asset swaps (collateral provided by specific Credit Support Annexes)

Other includes €56 million relating to the outstanding amount payable to FSI Investimenti SpA for the acquisition of the investment in FSIA Investimenti Srl on 15 February 2017.

Changes in liabilities arising from financing activities

The following reconciliation of financial liabilities is provided in accordance with IAS 7, following the amendments introduced by EU Regulation 1990/2017 of 6 November 2017.

tab. B8.4- Changes in liabilities arising from financing activities

(€m)

Item	Balance at 31 December 2016	Net cash flow from/(for) financing activities	Net cash flow from/(for) operating activities (*)	Non-cash flows	Balance at 31 December 2017
Borrowings	7,362	(8)	(543)	6	6,817
Bonds	1,571	-	-	2	1,573
Borrowings from financial institutions	5,783	(9)	(543)	4	5,243
Other borrowings	-	-	-	-	-
Finance lease liabilities	8	(7)	-	-	1
Other financial liabilities	3,649	13	975	56	4,693
Total	11,011	5	432	62	11,510

(*) The total amount of €432 million is included in the cash flow from/(for) operating activities, the balance of which in the statement of cash flows amounts to an outflow of €709 million and regards borrowings and other financial liabilities not attributable to financing activities.

Fair value hierarchy

In terms of the fair value hierarchy, derivative financial instruments held at 31 December 2017 (€1,676 million) are classified in level 2.

B9 – TRADE PAYABLES (€1,332 million)

tab. B9 - Trade payables

(€m)

Item	Balance at 31 December 2017	Balance at 31 December 2016
Amounts due to suppliers	1,064	1,283
Prepayments and advances from customers	246	209
Other trade payables	7	12
Amounts due to subsidiaries	1	2
Amounts due to associates	2	-
Amounts due to joint ventures	12	-
Total	1,332	1,506

Amounts due to suppliers

tab. B9.1 - Amounts due to suppliers

(€m)

Item	Balance at 31 December 2017	Balance at 31 December 2016
Italian suppliers	926	1,131
Overseas suppliers	30	24
Overseas counterparties (1)	108	128
Total	1,064	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

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

tab. B9.2 -Prepayments and advances from customers

(€m)

Item	Note	Balance at 31 December 2017	Balance at 31 December 2016
Prepayments from overseas suppliers		107	123
Advances from MEF	[tab. A7.3]	55	-
Automated franking		47	53
Unfranked mail		13	14
Postage-paid mailing services		7	7
Other services		17	12
Total		246	209

B10 – OTHER LIABILITIES (€3,456 million)

tab. B10 - Other liabilities

(€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Amounts due to staff	4	932	936	1	913	914
Social security payables	35	482	517	38	451	489
Other taxes payable	1,065	687	1,752	927	624	1,551
Amounts due to the MEF	-	-	-	-	21	21
Other amounts due to joint ventures	-	1	1	-	-	-
Sundry payables	92	68	160	91	70	161
Accrued liabilities and deferred income	11	79	90	14	68	82
Total	1,207	2,249	3,456	1,071	2,147	3,218

Amounts due to staff

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

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Thirteenth and fourteenth month salaries	-	231	231	-	236	236
Incentives	4	448	452	1	533	534
Accrued vacation pay	-	56	56	-	55	55
Other amounts due to staff	-	197	197	-	89	89
Total	4	932	936	1	913	914

At 31 December 2017, certain liabilities, which at 31 December 2016 were included in provisions for personnel expenses, were determinable with reasonable certainty and, as such, were recognised as payables.

Social security payables

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

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
INPS	1	385	386	-	358	358
Pension funds	-	82	82	-	83	83
INAIL	34	3	37	38	3	41
Other agencies	-	12	12	-	7	7
Total	35	482	517	38	451	489

Other tax liabilities

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

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Stamp duty payable	1,065	31	1,096	927	-	927
Tax due on insurance provisions	-	489	489	-	443	443
Withholding tax on employees' and consultants' salaries	-	98	98	-	113	113
VAT payable	-	21	21	-	18	18
Substitute tax	-	24	24	-	24	24
Withholding tax on postal current accounts	-	1	1	-	3	3
Other taxes due	-	23	23	-	23	23
Total	1,065	687	1,752	927	624	1,551

In particular:

- **Stamp duty** relates mainly to the amount accrued at 31 December 2017 on Interest-bearing Postal Certificates outstanding and on Class III and V insurance policies pursuant to the new law referred to in note A8 – *Other receivables and assets*.
- **Tax due on insurance provisions** relates to Poste Vita SpA and is described in note A8.
- **Withholding tax on employees' and consultants' salaries** relates to amounts paid to the tax authorities by Group companies in January and February 2018 as withholding agents.

Amounts due to the MEF

Amounts due to the MEF, which at 31 December 2016 amounted to €21 million, were settled during 2017.

Sundry payables

tab. B10.4 - Sundry payables

(€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Sundry payables attributable to BancoPosta	75	8	83	75	7	82
Guarantee deposits	10	4	14	9	2	11
Other payables	7	56	63	7	61	68
Total	92	68	160	91	70	161

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

Accrued expenses and deferred income from trading transactions

tab. B10.5 - Accrued liabilities and deferred income

(€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Accrued liabilities	-	5	5	-	6	6
Deferred income	11	74	85	14	62	76
Total	11	79	90	14	68	82

Deferred income comprises:

- €27 million in fees on Postemat and Postepay Evolution cards collected in advance by the Parent Company;
- €22 million in prepaid telephone traffic sold as of 31 December 2017 sold by PosteMobile SpA and not yet used by customers;
- €7 million in grants approved by the competent public authorities in favour of the Parent Company, where the matching costs have yet to be incurred.

4.3 NOTES TO THE STATEMENT OF PROFIT OR LOSS

C1 – REVENUE FROM MAIL, PARCELS AND OTHER REVENUE (€3,631million)

This item breaks down as follows:

[tab. C1 - Revenue from mail, parcel & other revenue](#)

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Mail and parcel revenue	3,373	3,584
Other revenue	258	238
Total	3,631	3,822

Mail and parcel revenue breaks down as follows:

[tab. C1.1 - Mail and parcel revenue](#)

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Unfranked mail	1,089	1,109
Automated franking by third parties and at post offices	731	789
Express parcel and express courier services	406	440
Integrated services	157	206
Stamps	152	190
Overseas mail and parcels	172	150
Postage-paid mailing services	95	102
Electronic document management and e-procurement services	28	39
Telegrams	41	40
Innovative services	12	15
Logistics services	6	12
Other postal services	179	121
Total market revenue	3,068	3,213
Universal Service compensation	262	371
Publisher tariff subsidies	43	-
Total	3,373	3,584

Universal Service compensation relates to amounts paid by the MEF to cover the costs of fulfilling the USO. Compensation for services rendered during the year, amounting to €262 million, was recognised on the basis of the new *Contratto di Programma* (Service Contract) for 2015-2019, which took effect on 1 January 2016. Approximately €108 million in further compensation for previous years was recognised in 2016⁷⁴.

Publisher tariff subsidies⁷⁵ relate to the amount receivable by Poste Italiane 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

⁷⁴ This amount was previously accounted for in "Provisions for doubtful debts due from the MEF" and recognised following new provision made in the State Budget to cover prior contractual obligations.

⁷⁵ 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.

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 Company in the period under review, but the subsidies are subject to the approval of the European Commission.

Other revenue breaks down as follows:

[tab. C1.2 - Other revenue](#)

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Air transport	62	57
Income from applications for residence permits	23	27
Rentals	15	16
Other business services	92	84
Other operating income	66	54
Total	258	238

C2 – REVENUE FROM PAYMENT SERVICES, MOBILE AND DIGITAL (€586 million)

This item breaks down as follows:

[tab. C2 - Revenue from payments, mobile & digital](#)

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Mobile	211	224
E-money	212	166
Cards	194	151
Acquiring	5	4
Other fees	13	11
Payment services	163	180
Payment Slips	77	79
Fees for the processing of tax returns	61	76
Bank and money transfers	23	24
Other products and services	2	1
Total	586	570

This item primarily regards revenue from the mobile telecommunications services provided by Poste Mobile SpA and revenue generated by the Parent Company from e-money products and payments services.

C3 – REVENUE FROM FINANCIAL SERVICES (€4,956 million)

This item breaks down as follows:

tab. C3 - Revenue from financial services

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Financial services	4,307	4,397
Income from financial activities	646	604
Other operating income	3	8
Total	4,956	5,009

This revenue primarily regards revenue generated by the Parent Company's BancoPosta RFC.

Revenue from Financial Services breaks down as follows:

tab. C3.1 - Revenue from financial services

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Fees for collection of postal savings deposits	1,566	1,577
Income from investment of postal current account deposits	1,475	1,509
Commissions on payment of bills by payment slip	434	463
Other revenues from current account services	359	351
Distribution of loan products	197	189
Income from delegated services	103	106
Fees for the management of public funds	27	50
Interest on loans and other income	22	48
Money transfers	17	19
Mutual fund management fees	85	60
Securities custody	5	6
Commissions from securities trading	4	4
Other products and services	13	15
Total	4,307	4,397

In particular:

- **Fees for the collection of postal savings deposits** relate to remuneration for the provision and redemption of Interest-bearing Postal Certificates and payments into and withdrawals from Postal Savings Books. This service is provided by Poste Italiane SpA on behalf of Cassa Depositi e Prestiti under the Agreement of 4 December 2014, originally intended to cover the five-year period 2014-2018. On 14 December 2017, the new Agreement for the three-year period 2018-2020 was signed.

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

[tab. C3.1.1 - Income from investment of postal current account deposits](#)

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Income from investments in securities	1,448	1,489
Interest income on held-to-maturity financial assets	499	541
Interest income on available-for-sale financial assets	992	974
Interest expense on asset swaps of available-for-sale financial assets	(49)	(33)
Interest income on repurchase agreements	6	7
Income from deposits held with the MEF	27	20
Remuneration of current account deposits (deposited with the MEF)	27	20
Total	1,475	1,509

Income from investments in securities relates to interest earned on investment of deposits paid into postal current accounts by private customers. The total includes the impact of the interest rate hedge described in note A5 – *Financial assets*.

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

- **Revenue from current account services** primarily relates to charges on current accounts, fees on amounts collected and on statements of account sent to customers, annual fees on debit cards and related transactions.
- **Revenue from the distribution of loan products** relate to commissions received by the Parent Company on the placement of personal loans and mortgages on behalf of third parties.

[tab. C3.2 - Income from financial activities](#)

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Income from available-for-sale financial assets	639	599
Realised gains	547	477
Realised gains on other equity instruments	91	121
Dividends received from other equity instruments	1	1
Income from fair value hedges	2	-
Fair value gains	2	-
Foreign exchange gains	5	4
Fair value gains	-	-
Realised gains	5	4
Other income	-	1
Total	646	604

Realised gains on other investments in 2017 regard the gain generated by the sale of shares in Mastercard Incorporated, as described in note A5 – *Financial assets*.

C4 – REVENUE FROM INSURANCE SERVICES AFTER MOVEMENTS IN TECHNICAL PROVISIONS AND OTHER CLAIMS EXPENSES (€1,456 million)

Details of this item are as follows:

tab. C4 - Revenue from Insurance Services after movements in technical provisions and other claims expenses

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Insurance premium revenue	20,343	19,884
Income from insurance activities	3,925	3,827
Movement in technical provisions for insurance business and other claim expenses	(22,335)	(21,958)
Expenses from insurance activities	(477)	(511)
Total	1,456	1,242

A breakdown of premium revenue, showing outward reinsurance premiums, is as follows:

tab. C4.1 - Insurance premium revenue

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Class I	19,634	19,265
Class III	537	475
Class IV	17	11
Class V	75	69
Gross life Premiums	20,263	19,820
Outward reinsurance premiums	(19)	(16)
Net life premiums	20,244	19,804
Non-life premiums	131	108
Outward reinsurance premiums	(32)	(28)
Net non-life premiums	99	80
Total	20,343	19,884

Income from insurance activities is as follows:

tab. C4.2 - Income from insurance activities

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Income from financial assets at fair value through profit or loss	1,246	1,256
Interest	586	328
Fair value gains	585	913
Realised gains	75	15
Income from available-for-sale financial assets	2,638	2,540
Interest	2,360	2,221
Realised gains	278	319
Other income	41	31
Total	3,925	3,827

A breakdown of the movement in technical provisions and other claims expenses, showing the portion ceded to reinsurers, is as follows:

tab. C4.3 - Movement in technical provisions for insurance business and other claims expenses

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Claims paid	11,141	7,689
Movement in mathematical provisions	14,694	14,327
Movement in outstanding claims provisions	(311)	(237)
Movement in Other technical provisions	172	478
Movement in technical provisions where investment risk is transferred to policyholders	(3,370)	(319)
Total movement in technical provisions for insurance business and other claims expenses: life	22,326	21,938
Portion ceded to reinsurers: life	(13)	(10)
Total movement in technical provisions for insurance business and other claims expenses: non-life	29	40
Portion ceded to reinsurers: non-life	(7)	(10)
Total	22,335	21,958

The movement in technical provisions for the insurance business and other claims expenses primarily reflect:

- claims paid, policies redeemed and the related expenses incurred by Poste Vita SpA during the period;
- the change in mathematical provisions reflecting increased obligations to policyholders;
- the decrease in technical provisions where investment risk is transferred to policyholders (so-called class D), totalling €3,370 million, primarily following the expiration of certain Class III products.

Expenses from insurance activities break down as follows:

tab. C4.4 - Expenses from insurance activities

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Expenses from financial instruments through profit or loss	245	314
Fair value losses	119	290
Realised losses	126	24
Expenses from available-for-sale financial instruments	189	179
Impairment	93	94
Realised losses	96	85
Change in fair value of financial liabilities	-	-
Other expenses	43	18
Total	477	511

C5 - COSTS OF GOODS AND SERVICES (€2,370 million)

tab. C5 - Cost of goods and services

(€m)

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Services	1,894	1,960
Lease expense	335	336
Raw, ancillary and consumable materials and goods for resale	141	146
Total	2,370	2,442

Cost of services

tab. C5.1 - Services

Item	(€m)	
	For the year ended 31 December 2017	For the year ended 31 December 2016
Transport of mail, parcels and forms	538	534
Routine maintenance and technical assistance	240	256
Outsourcing fees and external service charges	187	194
Personnel services	142	155
Energy and water	124	129
Mobile telecommunication services for customers	89	100
Transport of cash	99	101
Credit and debit card fees and charges	84	83
Cleaning, waste disposal and security	62	64
Telecommunications and data transmission	63	62
Mail, telegraph and telex	54	67
Advertising and promotions	72	75
Consultants' fees and legal expenses	27	35
Airport costs	32	24
Electronic document management, printing and enveloping services	28	27
Asset management fees	19	18
Insurance premiums	15	15
Agent commissions and other	13	14
Securities custody and management fees	2	2
Remuneration of Statutory Auditors	1	2
Other	3	3
Total	1,894	1,960

Lease expense

tab. C5.2 - Lease expense

Item	(€m)	
	For the year ended 31 December 2017	For the year ended 31 December 2016
Real estate leases and ancillary costs	183	189
Vehicle leases	69	64
Equipment hire and software licences	47	50
Other lease expense	36	33
Total	335	336

Real estate leases relate almost entirely to the buildings from which the Group operates (post offices, Delivery Logistics Centres and Sorting Centres). Under the relevant lease agreements, rents are increased annually on the basis of the price index published by the *Istituto Nazionale di Statistica (ISTAT)*, the Italian Office for National Statistics). Lease terms are generally six years, renewable for a further six. Renewal is assured from the clause stating that the lessor "waives the option of refusing renewal on expiry of the first term", by which the lessor, once the agreement has been signed, cannot refuse to renew the lease, except in cases of force majeure. The Parent Company has the right to withdraw from the contract at any time, giving six months' notice, in accordance with the standard lease contract.

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 year ended 31 December 2017	For the year ended 31 December 2016
Consumables, advertising materials and goods for resale		78	86
Fuels and lubricants		55	55
Printing of postage and revenue stamps		5	6
SIM cards and scratch cards		3	2
Change in inventories of work in progress, semi-finished and finished goods and goods for resale	[tab. A6]	2	-
Change in inventories of raw, ancillary and consumable materials	[tab. A6]	(2)	1
Change in property held for sale	[tab. A6]	(1)	(4)
Other		1	-
Total		141	146

C6 – EXPENSES FROM FINANCIAL ACTIVITIES (€57 million)

The table below provides a breakdown of this item:

tab. C6 - Expenses from financial activities

(€m)

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Expenses from available-for-sale financial instruments	17	-
Realised losses	17	-
Expenses from fair value hedges	-	1
Fair value losses	-	1
Foreign exchange losses	2	1
Fair value losses	1	1
Realised losses	1	-
Expenses incurred on repurchase agreements	-	6
Interest expense	21	34
Interest on customers' deposits	5	12
Interest expense on repurchase agreements	11	17
Interest due to MEF	4	2
Other interest expense and similar charges	2	4
Portion of interest expense on own liquidity (finance costs)	(1)	(1)
Other expenses	17	20
Total	57	62

C7 – PERSONNEL EXPENSES (€6,093 million)

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

tab. C7 - Personnel expenses

(€m)

Item	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Wages and salaries		4,208	4,296
Social security contributions		1,196	1,218
Provisions for employee termination benefits: current service cost	[tab. B7]	1	1
Provisions for employee termination benefits: supplementary pension funds and INPS		258	265
Agency staff		2	1
Remuneration and expenses paid to Directors		2	2
Early retirement incentives		52	167
Net provisions (reversals) for disputes with staff	[tab. B6]	(25)	3
Provisions for early retirement incentives	[tab. B6]	446	342
Amounts recovered from staff due to disputes		(6)	(9)
Share-based payment		3	1
Other personnel expenses/(cost recoveries)		(44)	(46)
Total		6,093	6,241

Net provisions for disputes with staff and provisions for restructuring charges are described in note B6 – *Provisions for risks and charges*.

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

The following table shows the Group's average and year-end headcount for 2017:

tab. C7.1 - Number of employees

Category	Average		Year end	
	For the year ended 31 December 2017	For the year ended 31 December 2016	At 31 December 2017	At 31 December 2016
Executives	732	773	699	748
Middle managers	15,859	16,113	15,481	15,807
Operational staff	114,007	118,720	110,607	115,035
Back-office staff	760	1,052	644	912
Total employees on permanent contracts(*)	131,358	136,658	127,431	132,502

(*) Figures expressed in Full Time Equivalent terms

Taking account of staff on flexible contracts, the total average number of full-time equivalent staff in 2017 is 138,040 (141,246 in 2016).

C8 - DEPRECIATION, AMORTISATION AND IMPAIRMENTS (€545 million)

Depreciation, amortisation and impairments break down as follows:

tab. C8 - Depreciation, amortisation and impairments (€m)

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Property, plant and equipment	329	349
Properties used in operations	112	110
Plant and machinery	77	87
Industrial and commercial equipment	8	9
Leasehold improvements	30	33
Other assets	102	110
Impairments/recoveries/adjustments of property, plant and equipment	(9)	(14)
Depreciation of investment property	4	4
Amortisation and impairments of intangible assets	221	242
Industrial patents and intellectual property rights, concessions, licenses, trademarks and similar rights	215	232
Other	6	10
Total	545	581

C9 - CAPITALISED COSTS AND EXPENSES (€24 million)

Capitalised costs and expenses break down as follows:

tab. C9 - Increases relating to assets under construction (€m)

Item	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Property, plant and machinery	[A1]	7	5
Intangible assets	[A3]	17	20
Total		24	25

C10 - OTHER OPERATING COSTS (€465 million)

Other operating costs break down as follows:

tab. C10 - Other operating costs		(€m)	
Item	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Net provisions and losses on doubtful debts (uses of provisions)		55	22
Provisions for receivables due from customers	[tab. A7.2]	40	24
Provisions (reversal of provisions) for receivables due from MEF		-	(7)
Provisions (reversal of provisions) for sundry receivables	[tab. A8.1]	12	4
Losses on receivables		3	1
Operational risk events		60	42
Thefts		5	8
Loss of BancoPosta assets, net of recoveries		1	1
Other operating losses of BancoPosta		54	33
Net provisions for risks and charges made/(released)		227	80
for disputes with third parties	[tab. B6]	37	(28)
for non-recurring charges	[tab. B6]	170	86
for other risks and charges	[tab. B6]	20	22
Losses		1	4
Municipal property tax, urban waste tax and other taxes and duties		69	75
Impairments of disposal groups held for sale	[tab. A 11.1]	3	37
Other recurring expenses		50	41
Total		465	301

C11 – FINANCE INCOME (€115 million) AND COSTS (€188 million)

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

Finance income

tab. C11.1 - Finance income		(€m)	
Item		For the year ended 31 December 2017	For the year ended 31 December 2016
Income from available-for-sale financial assets		91	95
Interest		93	98
Accrued differentials on fair value hedges		(11)	(10)
Realised gains		9	7
Income from financial assets at fair value through profit or loss		3	-
Other finance income		9	11
Finance income on discounted receivables		6	7
Late payment interest		16	10
Impairment of amounts due as late payment interest		(16)	(10)
Interest on IRAP refund		3	-
Interest on Contingent Convertible Notes		-	4
Foreign exchange gains		12	3
Total		115	109

For the purposes of reconciliation with the statement of cash flows, in 2017 finance income after realised gains, dividends received and foreign exchange gains amounts to €94 million (€99 million in 2016).

Finance costs

tab. C11.2 - Finance costs

(€m)

Item	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Finance costs on financial liabilities		51	52
on bonds		49	49
on borrowings from financial institutions		1	2
on derivative financial instruments		1	1
Finance costs on sundry financial assets		13	12
Impairment loss on available-for-sale investments		12	12
Realised losses on available-for-sale financial assets		1	-
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]	21	24
Finance costs on provisions for risks	[tab. B6]	1	1
Impairment loss on Convertible Contingent Notes	[tab. A5]	82	-
Remuneration of Poste Italiane liquidity		1	1
Other finance costs		5	7
Foreign exchange losses		14	3
Total		188	100

For the purposes of reconciliation with the statement of cash flows, in 2017 financial costs after foreign exchange losses and impairment losses on available-for-sale financial assets amount to €80 million (€85 million in 2016).

C12 - INCOME TAX EXPENSE (€378 million)

This item breaks down as follows:

tab. C12 - Income tax expense

(€m)

Item	For the year ended 31 December 2017			For the year ended 31 December 2016		
	IRES	IRAP	Total	IRES	IRAP	Total
Current tax expense	285	75	360	358	73	431
Deferred tax income	(11)	1	(10)	(10)	(8)	(18)
Deferred tax expense	25	3	28	16	5	21
Total	299	79	378	364	70	434

The tax rate for 2017 is 35.17% and consists of:

tab. C12.1 - Reconciliation between theoretical and effective IRES rate

(milioni di euro)

Item	For the year ended 31 December 2017		For the year ended 31 December 2016	
	IRES	Tax Rate	IRES	Tax Rate
<i>Profit before tax</i>	<u>1,067</u>		<u>1,056</u>	
Theoretical tax charge	256	24.0%	290	27.5%
Effect of changes with respect to theoretical rate				
Realised gains on other investments	(21)	-1.95%	(32)	-3.01%
Non-deductible out-of-period losses	6	0.54%	8	0.71%
Net provisions for risks and charges and bad debts	15	1.42%	19	1.79%
Non-deductible taxes	6	0.56%	8	0.72%
Realignment of tax bases and carrying amounts and taxation for previous years	(17)	-1.64%	11	1.09%
Technical provisions for insurance business	49	4.59%	55	5.20%
Adjustments for change in IRES tax rate introduced by 2016 Stability Law	-	0.00%	14	1.35%
Other	5	0.34%	(9)	-0.88%
Effective tax charge	299	27.85%	364	34.48%

tab. C12.2 - Reconciliation between theoretical and effective IRAP rate

(milioni di euro)

Item	For the year ended 31 December 2017		For the year ended 31 December 2016	
	IRAP	Tax Rate	IRAP	Tax Rate
<i>Profit before tax</i>	<u>1,067</u>		<u>1,056</u>	
Theoretical tax charge	68	6.33%	63	5.96%
Effect of changes with respect to theoretical rate				
Non-deductible personnel expenses	13	1.18%	7	0.67%
Non-deductible out-of-period losses	1	0.09%	1	0.08%
Net provisions for risks and charges and bad debts	5	0.48%	2	0.22%
Non-deductible taxes	1	0.13%	1	0.13%
Finance income and costs	5	0.45%	-	-0.02%
Realignment of tax bases and carrying amounts and taxation for previous years	-	-0.01%	(3)	-0.33%
Claim for IRAP refund	(9)	-0.81%	-	0.00%
Other	(5)	-0.51%	(1)	-0.10%
Effective tax charge	79	7.32%	70	6.61%

In the movements in current and deferred tax assets and liabilities shown below and the provisions to profit or loss do not take into account provisions for current tax expense (€14 million) and deferred tax expense (€2 million) for the period made by BdM-MCC SpA and BancoPosta Fondi SGR SpA, which are included in movements in "Non-current assets and disposal groups held for sale" and in "Liabilities related to assets held for sale".

Current tax assets and liabilities

tab. C12.3 - Movements in current tax assets /(liabilities)

(€m)

Item	Current taxes for the year ended 31 December 2017		
	IRES	IRAP	Total
	Assets/ (Liabilities)	Assets/ (Liabilities)	
Balance at 1 January	(63)	(10)	(73)
Payment of			
prepayments for the current year	391	81	472
balance payable for the previous year	323	68	391
	68	13	81
Collection of IRES refund claimed	(1)	-	(1)
IRAP refund claimed	-	9	9
Provisions to profit or loss	(274)	(81)	(355)
Provisions to equity	1	-	1
Other	17	-	17
Balance at 31 December	71	(1)	70
of which:			
Current tax assets	81	12	93
Current tax liabilities	(10)	(13)	(23)

Under IAS 12 – Income Taxes, IRES and IRAP credits are offset against the corresponding current tax liabilities, when applied by the same tax authority to the same taxable entity, which has a legally enforceable right to offset and intends to exercise this right.

Current tax assets/(liabilities) include:

- the tax asset of €53 million reflects payments of IRES and IRAP on account, refundable IRAP from the previous year and IRES withholding tax incurred, after provisions for IRES and IRAP for the year;
- the assets described in note 2.5 – *Use of estimates*, amounting to €17 million.

Deferred tax assets and liabilities

tab. C12.4 - Deferred taxes

(€m)

Item	Balance at 31 December 2017	Balance at 31 December 2016
Deferred tax assets	869	799
Deferred tax liabilities	(546)	(746)
Total	323	53

The nominal tax rate for IRES is 24% from 1 January 2017, whilst the Group's average statutory rate for IRAP is 6.33%⁷⁶. Movements in deferred tax assets and liabilities are shown below:

⁷⁶ 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 showed a healthcare deficit).

tab. C12.5 - Movements in deferred tax assets and liabilities

(€m)

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Balance at 1 January	53	(554)
Net income/(expenses) recognised in profit or loss	(16)	11
Net non-recurring income/(expenses) recognised in profit or loss due to adjustment to IRES rate	-	(14)
Net income/(expenses) recognised in equity	286	621
Recl. to disposal groups and liabilities held for sale	-	(11)
Balance at 31 December	323	53

The following table shows movements in deferred tax assets and liabilities, broken down according to the events that generated such movements:

tab. C12.6 - Movements in deferred tax assets

Item	PPE and intangible assets	Depreciation and amortisation	Financial assets and liabilities	Provisions for impairment and value adjustments	Provisions for risks and charges	Actuarial gains and losses on employee termination benefits	Other	Total
Balance at 1 January 2017	49	18	205	89	333	27	78	799
Income/(expenses) recognised in profit or loss	(1)	-	-	5	21	-	(14)	11
Income/(expenses) recognised in equity	-	-	60	-	-	(1)	-	59
Change in scope of consolidation	-	-	-	3	(3)	-	-	-
Balance at 31 December 2017	48	18	265	97	351	26	64	869

tab. C12.7 - Movements in deferred tax liabilities

Item	Financial assets and liabilities	Other	Total
Balance at 1 January 2017	725	21	746
Income/(expenses) recognised in profit or loss	16	11	27
Income/(expenses) recognised in equity	(227)	-	(227)
Balance at 31 December 2017	514	32	546

The decrease in deferred tax liabilities related to financial assets and liabilities is due mainly to movements in the fair value reserve, as described in note B4 - Reserves.

Movements in deferred tax assets and liabilities recognised directly in equity during the year are as follows:

tab. C12.8 - Income/(expense) recognised in equity

(€m)

Increases/(decreases) in equity

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Fair value reserve for available-for-sale financial instruments	269	617
Cash flow hedge reserve for hedging instruments	18	10
Actuarial gains/(losses) on employee termination benefits	(1)	(4)
Retained earnings from shareholder transactions	-	(2)
Total	286	621

Income tax expense calculated on actuarial losses on employee termination benefits recognised in equity decreased by €1 million. Therefore, the decrease in equity in the year under review due to income tax expense amounts to €287 million.

4.4 – OPERATING SEGMENTS

As described in the previous notes, during 2017, the Group has revised the way it assesses and reports on the performance of its business, so as to reflect the Group's new strategic guidelines and the internal reorganisation that took place during the year (further details are provided in note 1, "Introduction", to these financial statements).

As a result of this revision, the segment disclosures provided in this note have undergone significant changes compared with the past, in keeping with the new management view reflected in the Strategic Plan for the period 2018-2022. A brief summary of events and the resulting changes is provided below:

- The Payments, Mobile and Digital (PMD) function was created in 2017, with the aim of establishing a single provider services to retail, business and Public Administration customers, combining in one entity the Poste Italiane Group's distinctive competencies in the field of mobile and digital payments. This function, which forms a new operating segment, primarily includes (as explained in more detail in note 3.1 "Material events during the year – Launch of the process of establishing an e-money institution within the Group") the payment and e-money services provided by BancoPosta and the activities of PosteMobile SpA. For this purpose, on 25 January 2018, Poste Italiane SpA's Board of Directors approved the separation and transfer of certain assets, contractual rights and authorisations from BancoPosta RFC to a separate new e-money and payment services unit to be set up within PosteMobile SpA, following prior receipt of all the consents needed to comply with existing statutory and regulatory requirements. The PMD segment also includes the investment in SIA SpA.
- The recent renegotiation of the agreements between Poste Italiane SpA and Anima Holding SpA, with the aim of strengthening their partnership in the asset management sector, has altered the scenario on which the agreements were based through to the end of the reporting period. In particular, the new agreement envisages the partial spin-off of management of the assets underlying Poste Vita SpA's Class I insurance products (totalling over €70 billion), previously attributed to BancoPosta Fondi SpA SGR, in place of the transfer of the entire investment in the asset management company.
As a result, in the Poste Italiane Group's consolidated financial statements for the year ended 31 December 2017, BancoPosta Fondi SpA SGR's assets and liabilities, previously presented in assets and liabilities held for sale, in accordance with IFRS 5, have been reclassified to the respective items under assets and liabilities (with the exception of items closely related to the activities included in the spin-off). At the same time, the assets and results of operations of the company, previously allocated to the Insurance Services segment, have been reallocated to the Financial Services segment. This last segment also includes the investment in Anima Holding SpA, previously allocated to the Insurance Services segment.
- Finally, the names of operating segments have been revised so as to make the nature of the segments more readily identifiable.

The identified operating segments at the date of preparation of these financial statements are, therefore, the following:

- Mail, Parcels and Distribution
- Payments, Mobile and Digital
- Financial Services
- Insurance Services

In addition to managing the mail and parcel service, the Mail, Parcels and Distribution segment also includes the activities of the distribution network and the activities of Poste Italiane SpA corporate functions that provide services to BancoPosta RFC and the other segments in which the Group operates. In this regard, separate General Operating Guidelines have been 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 Payments, Mobile and Digital segment includes the activities of the new function created by the Parent Company and the mobile telecommunications services provided by PosteMobile SpA and Consorzio per i servizi di telefonia Mobile ScpA. The Financial Services segment includes the activities of BancoPosta RFC, BancoPosta Fondi SpA SGR and Poste Tributi ScpA in liquidation. Insurance Services segment includes the activities carried out by the Poste Vita group.

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 the management view and with applicable accounting standards, should be read in light of the integration of the services offered by the distribution network within the businesses allocated to all four identified operating segments, also considering the obligation to carry out the Universal Postal Service.

						(€m)
Year ended 31 December 2017	Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Net external revenue from ordinary activities	3,631	586	4,956	1,456	-	10,629
Net intersegment revenue from ordinary activities	4,497	328	1,014	1	(5,840)	-
Net revenue from ordinary activities	8,128	914	5,970	1,457	(5,840)	10,629
Depreciation, amortisation and impairments	(505)	(22)	(1)	(17)	-	(545)
Non-cash expenses	(56)	(8)	(198)	(11,188)	-	(11,450)
Total non-cash expenses	(561)	(30)	(199)	(11,205)	-	(11,995)
Operating profit/(loss)	(517)	195	646	799	-	1,123
Profit/(Loss) on investments accounted for using the equity method	(2)	7	12	-	-	17
Finance income/(costs)	(119)	(1)	(2)	49	-	(73)
Income tax expense	127	(55)	(153)	(297)	-	(378)
Profit/(loss) for the year	(502)	146	499	546	-	689
Assets	10,199	3,490	67,149	129,059	(7,227)	202,670
Non-current assets	5,769	72	50,869	123,202	(1,839)	178,073
Current assets	4,430	3,418	16,280	5,857	(5,388)	24,597
Non-current assets and disposal groups held for sale	-	-	-	-	-	-
Liabilities	7,465	3,165	64,447	125,681	(5,638)	195,120
Non-current liabilities	1,868	19	5,888	124,888	(250)	132,413
Current liabilities	5,597	3,146	58,559	793	(5,388)	62,707
Liabilities related to assets held for sale	-	-	-	-	-	-
Other information						
Capital expenditure	425	27	-	15	-	467
Investments accounted for using equity method	490	7	11	-	-	508

(€m)

Year ended 31 December 2016	Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Net external revenue from ordinary activities	3,822	570	5,009	1,242	-	10,643
Net intersegment revenue from ordinary activities	4,540	359	982	-	(5,881)	-
Net revenue from ordinary activities	8,362	929	5,991	1,242	(5,881)	10,643
Depreciation, amortisation and impairments	(536)	(30)	(1)	(14)	-	(581)
Non-cash expenses	2	(8)	(135)	(14,263)	-	(14,404)
Total non-cash expenses	(534)	(38)	(136)	(14,277)	-	(14,985)
Operating profit/(loss)	(436)	213	660	604	-	1,041
Profit/(Loss) on investments accounted for using the equity method	(4)	-	10	-	-	6
Finance income/(costs)	(41)	(1)	(1)	52	-	9
Income tax expense	83	(68)	(198)	(251)	-	(434)
Profit/(loss) for the year	(379)	144	465	392	-	622
Assets	10,313	2,808	67,628	119,027	(6,571)	193,205
Non-current assets	6,232	57	48,483	109,877	(2,412)	162,237
Current assets	4,081	2,751	16,418	9,150	(4,152)	28,248
Non-current assets and disposal groups held for sale	-	-	2,727	-	(7)	2,720
Liabilities	7,555	2,485	63,925	115,717	(4,611)	185,071
Non-current liabilities	2,916	20	8,272	115,002	(306)	125,904
Current liabilities	4,639	2,465	53,340	715	(4,052)	57,107
Liabilities related to assets held for sale	-	-	2,313	-	(253)	2,060
Other information						
Capital expenditure	408	21	2	20	-	451
Investments accounted for using equity method	212	-	6	-	-	218

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 31 December 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.

Assets include those deployed by the segment in the course of ordinary business activities and those that could be allocated to it for the performance of such activities.

4.5 – 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 31 December 2017 (€m)

Name	Balance at 31 December 2017						
	Financial assets	Trade receivables	Other assets Other receivables	Cash and cash equivalents	Financial liabilities	Trade payables	Other liabilities
Subsidiaries							
Address Software Srl	-	-	-	-	-	1	-
Kipoint SpA	-	-	-	-	-	1	-
Risparmio Holding SpA	-	-	-	-	-	-	1
Joint ventures							
FSIA Group	-	-	-	-	-	12	-
Associates							
Anima Holding Group	-	-	-	-	-	2	-
Telma-Sapienza Scarl	-	-	-	-	-	-	-
Other SDA group associates	-	-	-	-	-	-	-
Related parties external to the Group							
MEF	6,011	316	17	379	3,485	96	8
Cassa Depositi e Prestiti Group	3,032	375	-	-	56	2	-
Enel Group	-	30	-	-	-	11	-
Eni Group	-	1	-	-	-	18	-
Equitalia Group	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	33	-
Montepaschi Group	-	2	-	6	-	-	-
Other related parties external to the Group	227	6	-	-	-	18	61
Provision for doubtful debts owing from external related parties	-	(42)	(11)	-	-	-	-
Total	9,270	688	6	385	3,541	194	70

At 31 December 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 €71 million (€60 million at 31 December 2016).

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 year ended 31 December 2017

(€m)

Name	Year ended 31 December 2017											
	Revenue				Finance income	Capital expenditure		Costs				Finance costs
	Revenue from Mail, Parcel & other	Revenue from Payments, Mobile & Digital	Revenue from Financial Services	Revenue from Insurance Services after movements in technical provisions and other claims		Property, plant and equipment	Intangible assets	Goods and services	Personnel expenses	Other operating costs	Expenses from financial activities	
Subsidiaries												
Address Software Srl	-	-	-	-	-	-	-	1	-	-	-	-
Kipoint SpA	-	-	-	-	-	-	-	1	-	-	-	-
Joint ventures												
FSIA Group	-	-	-	-	-	-	3	29	-	-	-	-
Associates												
Anima Holding Group	2	-	-	-	-	-	-	5	-	-	-	-
Other SDA group associates	1	-	-	-	-	-	-	-	-	-	-	-
Related parties external to the Group												
MEF	380	59	86	-	-	-	-	5	-	1	3	1
Cassa Depositi e Prestiti Group	2	-	1,577	15	-	-	-	8	-	-	-	-
Enel Group	75	2	-	-	-	-	-	33	-	2	-	-
Eni Group	7	3	-	-	-	-	-	38	-	-	-	-
Equitalia Group	1	-	-	-	-	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	-	12	34	-	-	-	-
Montepaschi Group	17	-	-	-	-	-	-	-	-	-	-	-
Other related parties external to the Group	28	-	-	-	-	-	-	41	40	1	-	-
Total	513	64	1,663	15	-	-	15	195	40	4	3	1

At 31 December 2017, net provisions for risks and charges used to cover probable liabilities arising from transactions with related parties external to the Group attributable to trading relations amount to €11 million (€6 million at 31 December 2016).

Impact of related party transactions on profit or loss for the year ended 31 December 2016

(€m)

Name	Year ended 31 December 2016											
	Revenue				Finance income	Capital expenditure		Costs				Finance costs
	Revenue from Mail, Parcel & other	Revenue from Payments, Mobile & Digital	Revenue from Financial Services	Revenue from Insurance Services after movements in technical provisions and other claims		Property, plant and equipment	Intangible assets	Goods and services	Personnel expenses	Other operating costs	Expenses from financial activities	
Subsidiaries												
Address Software Srl	-	-	-	-	-	-	-	1	-	-	-	-
Kipoint SpA	-	-	-	-	-	-	-	1	-	-	-	-
Associates												
Gruppo Anima Holding	-	-	-	-	-	-	-	3	-	-	-	-
Altre collegate del gruppo SDA	4	-	-	-	-	-	-	4	-	-	-	-
Related parties external to the Group												
Ministero Economia e Finanze	373	73	96	-	-	-	-	2	-	(6)	1	1
Gruppo Cassa Depositi e Prestiti	2	-	1,587	15	-	-	4	24	-	1	-	-
Gruppo Enel	82	7	-	-	-	-	-	35	-	-	-	-
Gruppo Eni	19	3	-	-	-	-	-	40	-	-	-	-
Gruppo Equitalia	59	-	-	-	-	-	-	3	-	-	-	-
Gruppo Leonardo	-	-	-	-	-	-	10	33	-	-	-	-
Altre correlate esterne	10	1	1	-	-	-	-	46	43	2	-	-
Totale	549	84	1,684	15	-	-	14	192	43	(3)	1	1

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

- Amounts received from the MEF relate primarily to payment for carrying out the USO, the management of postal current accounts, as payment for delegated services, integrated e-mail services, the franking of mail on credit, collection services, and for the integrated notification and reporting service for processing tax returns. The costs incurred primarily regard the transmission of data relating to the payment of tax returns. Following the creation of the *Agenzia delle Entrate e delle riscossioni*, a publicly owned entity subject to management and oversight by the MEF, and the consequent winding up of the principal companies in the Equitalia group, certain fees received for provision of the integrated notification and reporting service and for the franking of mail on credit, as well as the cost incurred for the transmission of data relating to the payment of tax returns, which were attributable to relations with the Equitalia group at 31 December 2016, are now shown as attributable to relations with the MEF.

- 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, franking of mail on credit and postage paid mailing services, as well as collection and accounting for electric utility payments. The costs incurred primarily relate to the supply of gas and electricity.
- 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, 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.
- Amounts received from the Monte dei Paschi di Siena group primarily regard payment for mail shipments.

Impact of related party transactions and positions

The impact of related party transactions on the financial position, profit or loss and cash flows is shown in the following table:

Impact of related party transactions							(€m)
Item	Total in financial statements	Total related parties	Impact (%)	Total in financial statements	Total related parties	Impact (%)	
	31 December 2017			31 December 2016			
Assets and liabilities							
Financial assets	186,766	9,270	5.0	174,362	8,250	4.7	
Trade receivables	2,035	688	33.8	2,172	789	36.3	
Other receivables and assets	3,997	6	0.2	3,671	11	0.3	
Cash and cash equivalents	2,428	385	15.9	3,902	1,310	33.6	
Non-current assets and disposal groups held for sale	-	-	n.a.	2,720	49	2	
Provisions for risks and charges	1,595	71	4.5	1,507	60	4.0	
Financial liabilities	63,244	3,541	5.6	60,921	2,430	4.0	
Trade payables	1,332	194	14.6	1,506	205	13.6	
Other liabilities	3,456	70	2.0	3,218	89	2.8	
Liabilities related to assets held for sale	-	-	n.a.	2,060	130	6	
Profit or loss							
Revenue from Mail, Parcel & other	3,631	513	14.1	3,822	549	14.4	
Revenue from Payments, Mobile & Digital	586	64	10.9	570	84	14.7	
Revenue from Financial Services	4,956	1,663	33.6	5,009	1,684	33.6	
Revenue from Insurance Services after movements in technical provisions and other claims expenses	1,456	15	1.0	1,242	15	1.2	
Cost of goods and services	2,370	195	8.2	2,442	192	7.9	
Expenses from financial activities	57	3	5.3	62	1	1.6	
Personnel expenses	6,093	40	0.7	6,241	43	0.7	
Other operating costs	465	15	3.2	301	3	1.0	
Finance costs	188	1	0.5	100	1	1.0	
Finance income	115	-	n.a.	109	-	n.a.	
Cash flows							
Cash flow from/(for) operating activities	(709)	241	n.a.	2,258	3,648	161.6	
Cash flow from/(for) investing activities	(263)	(65)	24.7	(444)	(22)	n.a.	
Cash flow from/(for) financing activities and shareholder transactions	(503)	(327)	65.0	(964)	(286)	29.7	

Key management personnel

Key management personnel consist of Directors, members of the Board of Statutory Auditors, 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	Year ended 31 December 2017	Year ended 31 December 2016
Remuneration to be paid in short/medium term	11,577	13,503
Post-employment benefits	463	552
Other benefits to be paid in longer term	7	452
Termination benefits	6,979	3,845
Share-based payments	2,034	812
Total	21,060	19,164

Remuneration of Statutory Auditors (€000)		
Name	Year ended 31 December 2017	Year ended 31 December 2016
Remuneration	1,350	1,436
Expenses	44	66
Total	1,394	1,502

The remuneration paid to members of the Parent Company's Supervisory Board amounts to approximately €76 thousand in 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 year and, at 31 December 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 the subsidiaries that apply the National Collective Labour Agreement are members of the Fondoposte Pension Fund, the national supplementary pension fund for Poste Italiane personnel, established on 31 July 2002 as a non-profit entity. The Fund's officers and boards are the General Meeting of delegates, the Board of Directors, the Chairman and Deputy Chairman of the Board of Directors and Board of Statutory Auditors. Representation of members on the above boards is shared equally between the companies and the workers that are members of the Fund. The participation of members in the running of the Fund is guaranteed by the fact that they directly elect the delegates to send to the General Meeting.

Other related party disclosures

At a meeting on 20 September 2017, Poste Italiane's Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised the spot and forward purchase and sale of securities issued and/or guaranteed by the Italian government and the execution of repurchase agreements and reverse repos and of hedging derivatives by BancoPosta RFC, with Monte Paschi Capital Services Banca per le

Imprese SpA acting as counterparty. This company qualifies as a related party of Poste Italiane as it is also controlled by the Ministry of the Economy and Finance through Banca Monte dei Paschi di Siena SpA. Following conclusion of the agreement, from October 2017, five repurchase agreements and 23 buy & sell back transactions, which expired during the period, have been entered into, in addition to two Interest rate Swaps for hedging purposes and two forward sales of securities.

At a meeting on 13 December 2017, the Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised signature of the agreement with Cassa Depositi e Prestiti governing the collection and distribution of Postal Savings products, by BancoPosta on behalf of Cassa Depositi e Prestiti, for the three-year period 2018-2020.

5. Poste Italiane SpA for the year ended 31 December 2017

Posteitaliane

5.1 FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

at 31 December

(€)

ASSETS	Note	2017	<i>of which, related party transactions</i>	2016	<i>of which, related party transactions</i>
Non-current assets					
Property, plant and equipment	[A1]	1,911,937,903	-	1,999,184,993	-
Investment property	[A2]	52,173,862	-	56,069,941	-
Intangible assets	[A3]	384,738,633	-	365,485,226	-
Investments	[A4]	2,080,824,271	2,080,824,271	1,815,097,205	1,815,097,205
Financial assets attributable to BancoPosta	[A5]	49,388,349,082	2,484,460,998	47,299,107,112	1,508,858,153
Financial assets	[A6]	834,206,663	278,545,033	1,101,079,196	450,000,000
Trade receivables	[A7]	4,819,596	-	4,215,000	-
Deferred tax assets	[C10]	762,428,461	-	671,921,335	-
Other receivables and assets	[A8]	1,147,810,617	1,465,574	989,780,655	1,465,574
Total		56,567,289,088		54,301,940,663	
Current assets					
Trade receivables	[A7]	2,014,316,006	969,785,580	2,094,957,975	1,071,299,709
Current tax assets	[C10]	76,514,929	-	5,914,922	-
Other receivables and assets	[A8]	893,895,395	8,206,579	937,064,274	68,990,476
Financial assets attributable to BancoPosta	[A5]	10,659,169,756	6,011,557,495	10,752,544,243	6,189,333,872
Financial assets	[A6]	362,812,795	316,214,465	243,411,037	181,548,490
Cash and deposits attributable to BancoPosta	[A9]	3,196,090,710	-	2,494,150,897	-
Cash and cash equivalents	[A10]	2,038,504,143	385,342,934	2,715,198,980	1,309,580,485
Total		19,241,303,734		19,243,242,328	
Non-current assets held for sale	[A11]	-		384,308,792	383,978,080
TOTAL ASSETS		75,808,592,822		73,929,491,783	
LIABILITIES AND EQUITY					
Equity					
Share capital	[B1]	1,306,110,000	-	1,306,110,000	-
Reserves	[B2]	1,431,627,440	-	2,186,144,274	-
Retained earnings		2,774,352,906	-	2,667,930,819	-
Total		5,512,090,346		6,160,185,093	
Non-current liabilities					
Provisions for risks and charges	[B4]	668,025,648	58,061,136	589,611,766	49,962,342
Employee termination benefits	[B5]	1,244,371,225	-	1,315,043,763	-
Financial liabilities attributable to BancoPosta	[B6]	4,010,248,264	-	6,409,893,597	-
Financial liabilities	[B7]	285,458,970	-	1,245,813,299	-
Deferred tax liabilities	[C10]	315,083,329	-	536,290,271	-
Other liabilities	[B9]	1,182,435,445	6,839,319	1,002,066,304	6,039,926
Total		7,705,622,881		11,098,719,000	
Current liabilities					
Provisions for risks and charges	[B4]	870,369,401	12,872,791	818,399,423	10,488,457
Trade payables	[B8]	1,210,582,606	396,805,756	1,384,577,042	464,278,724
Current tax liabilities	[C10]	4,646,411	-	72,924,479	-
Other liabilities	[B9]	1,593,498,699	98,743,272	1,556,324,717	106,595,007
Financial liabilities attributable to BancoPosta	[B6]	57,842,702,028	4,191,469,190	52,782,494,828	2,747,319,692
Financial liabilities	[B7]	1,069,080,450	101,772,823	55,867,201	38,262,982
Total		62,590,879,595		56,670,587,690	
TOTAL LIABILITIES AND EQUITY		75,808,592,822		73,929,491,783	

STATEMENT OF FINANCIAL POSITION (continued)

SUPPLEMENTARY STATEMENT SHOWING BANCOPOSTA RFC AT 31 DECEMBER 2017

(€)					
ASSETS	Note	Capital outside the ring-fence	BancoPosta RFC	Adjustments	Total
Non-current assets					
Property, plant and equipment		1,911,937,903	-	-	1,911,937,903
Investment property		52,173,862	-	-	52,173,862
Intangible assets		384,738,633	-	-	384,738,633
Investments		2,080,824,271	-	-	2,080,824,271
Financial assets attributable to BancoPosta	[A5]	-	49,388,349,082	-	49,388,349,082
Financial assets		834,206,663	-	-	834,206,663
Trade receivables		4,819,596	-	-	4,819,596
Deferred tax assets	[C10]	356,756,674	405,671,787	-	762,428,461
Other receivables and assets	[A8]	107,821,075	1,039,989,542	-	1,147,810,617
Total		5,733,278,677	50,834,010,411	-	56,567,289,088
Current assets					
Trade receivables	[A7]	1,225,248,317	789,067,689	-	2,014,316,006
Current tax assets	[C10]	76,514,929	-	-	76,514,929
Other receivables and assets	[A8]	286,712,412	607,182,983	-	893,895,395
Financial assets attributable to BancoPosta	[A5]	-	10,659,169,756	-	10,659,169,756
Financial assets		362,812,795	-	-	362,812,795
Cash and deposits attributable to BancoPosta	[A9]	-	3,196,090,710	-	3,196,090,710
Cash and cash equivalents	[A10]	1,647,069,987	391,434,156	-	2,038,504,143
Total		3,598,358,440	15,642,945,294	-	19,241,303,734
Non-current assets held for sale		-	-	-	-
Intersegment relations net amount		(246,597,739)	-	246,597,739	-
TOTAL ASSETS		9,085,039,378	66,476,955,705	246,597,739	75,808,592,822
LIABILITIES AND EQUITY					
	Note	Capital outside the ring-fence	BancoPosta RFC	Adjustments	Total
Equity					
Share capital		1,306,110,000	-	-	1,306,110,000
Reserves	[B2]	314,288,161	1,117,339,279	-	1,431,627,440
Retained earnings		1,132,771,446	1,641,581,460	-	2,774,352,906
Total		2,753,169,607	2,758,920,739	-	5,512,090,346
Non-current liabilities					
Provisions for risks and charges	[B4]	217,857,055	450,168,593	-	668,025,648
Employee termination benefits	[B5]	1,227,833,121	16,538,104	-	1,244,371,225
Financial liabilities attributable to BancoPosta	[B6]	-	4,010,248,264	-	4,010,248,264
Financial liabilities		285,458,970	-	-	285,458,970
Deferred tax liabilities	[C10]	7,138,359	307,944,970	-	315,083,329
Other liabilities	[B9]	67,086,975	1,115,348,470	-	1,182,435,445
Total		1,805,374,480	5,900,248,401	-	7,705,622,881
Current liabilities					
Provisions for risks and charges	[B4]	777,162,208	93,207,193	-	870,369,401
Trade payables	[B8]	1,147,321,447	63,261,159	-	1,210,582,606
Current tax liabilities	[C10]	4,646,411	-	-	4,646,411
Other liabilities	[B9]	1,528,284,775	65,213,924	-	1,593,498,699
Financial liabilities attributable to BancoPosta	[B6]	-	57,842,702,028	-	57,842,702,028
Financial liabilities		1,069,080,450	-	-	1,069,080,450
Total		4,526,495,291	58,064,384,304	-	62,590,879,595
Intersegment relations net amount		-	(246,597,739)	246,597,739	-
TOTAL LIABILITIES AND EQUITY		9,085,039,378	66,476,955,705	246,597,739	75,808,592,822

STATEMENT OF FINANCIAL POSITION (continued)

SUPPLEMENTARY STATEMENT SHOWING BANCOPOSTA RFC AT 31 DECEMBER 2016

(€)					
ASSETS	Note	Capital outside the ring-fence	BancoPosta RFC	Adjustments	Total
Non-current assets					
Property, plant and equipment		1,999,184,993	-	-	1,999,184,993
Investment property		56,069,941	-	-	56,069,941
Intangible assets		365,485,226	-	-	365,485,226
Investments		1,815,097,205	-	-	1,815,097,205
Financial assets attributable to BancoPosta	[A5]	-	47,299,107,112	-	47,299,107,112
Financial assets		1,101,079,196	-	-	1,101,079,196
Trade receivables		4,215,000	-	-	4,215,000
Deferred tax assets	[C10]	351,050,427	320,870,908	-	671,921,335
Other receivables and assets	[A8]	128,503,354	861,277,301	-	989,780,655
Total		5,820,685,342	48,481,255,321	-	54,301,940,663
Current assets					
Trade receivables	[A7]	1,352,319,776	742,638,199	-	2,094,957,975
Current tax assets	[C10]	5,914,922	-	-	5,914,922
Other receivables and assets	[A8]	335,863,124	601,201,150	-	937,064,274
Financial assets attributable to BancoPosta	[A5]	-	10,752,544,243	-	10,752,544,243
Financial assets		243,411,037	-	-	243,411,037
Cash and deposits attributable to BancoPosta	[A9]	-	2,494,150,897	-	2,494,150,897
Cash and cash equivalents	[A10]	1,394,587,838	1,320,611,142	-	2,715,198,980
Total		3,332,096,697	15,911,145,631	-	19,243,242,328
Non-current assets held for sale		384,308,792	-	-	384,308,792
Intersegment relations net amount		(281,643,966)	-	281,643,966	-
TOTAL ASSETS		9,255,446,865	64,392,400,952	281,643,966	73,929,491,783
LIABILITIES AND EQUITY					
	Note	Capital outside the ring-fence	BancoPosta RFC	Adjustments	Total
Equity					
Share capital		1,306,110,000	-	-	1,306,110,000
Reserves	[B2]	314,572,060	1,871,572,214	-	2,186,144,274
Retained earnings		1,153,335,288	1,514,595,531	-	2,667,930,819
Total		2,774,017,348	3,386,167,745	-	6,160,185,093
Non-current liabilities					
Provisions for risks and charges	[B4]	196,842,893	392,768,873	-	589,611,766
Employee termination benefits	[B5]	1,296,486,957	18,556,806	-	1,315,043,763
Financial liabilities attributable to BancoPosta	[B6]	-	6,409,893,597	-	6,409,893,597
Financial liabilities		1,245,813,299	-	-	1,245,813,299
Deferred tax liabilities	[C10]	6,000,151	530,290,120	-	536,290,271
Other liabilities	[B9]	65,453,709	936,612,595	-	1,002,066,304
Total		2,810,597,009	8,288,121,991	-	11,098,719,000
Current liabilities					
Provisions for risks and charges	[B4]	748,771,523	69,627,900	-	818,399,423
Trade payables	[B8]	1,297,439,901	87,137,141	-	1,384,577,042
Current tax liabilities	[C10]	72,924,479	-	-	72,924,479
Other liabilities	[B9]	1,495,829,404	60,495,313	-	1,556,324,717
Financial liabilities attributable to BancoPosta	[B6]	-	52,782,494,828	-	52,782,494,828
Financial liabilities		55,867,201	-	-	55,867,201
Total		3,670,832,508	52,999,755,182	-	56,670,587,690
Intersegment relations net amount		-	(281,643,966)	281,643,966	-
TOTAL LIABILITIES AND EQUITY		9,255,446,865	64,392,400,952	281,643,966	73,929,491,783

STATEMENT OF PROFIT OR LOSS

for the year ended 31 December

					(€)
	Note	2017	<i>of which, related party transactions</i>	2016	<i>of which, related party transactions</i>
Revenue from sales and services	[C1]	8,060,292,717	2,844,220,110	8,218,552,595	2,909,610,935
Other income from financial activities	[C2]	645,722,411	-	598,784,197	-
<i>of which non-recurring income</i>		91,265,681	-	120,776,622	-
Other operating income	[C3]	584,162,127	535,510,396	477,863,220	439,544,987
<i>of which non-recurring income</i>		13,724,680			
Total revenue		9,290,177,255		9,295,200,012	
Cost of goods and services	[C4]	1,665,585,335	614,207,444	1,703,796,187	655,288,346
Expenses from financial activities	[C5]	40,429,235	3,241,443	44,350,227	1,307,839
Personnel expenses	[C6]	5,877,139,431	40,386,709	5,992,141,750	44,045,010
Depreciation, amortisation and impairments	[C7]	480,482,332	-	504,354,712	-
Capitalised costs and expenses		(12,220,140)	-	(3,805,665)	-
Other operating costs	[C8]	459,125,763	14,861,209	254,803,828	6,672,306
Operating profit/(loss)		779,635,299		799,558,973	
Finance costs	[C9]	149,743,097	793,778	65,166,194	825,985
<i>of which non-recurring costs</i>		82,067,306	-	-	-
Finance income	[C9]	42,999,301	14,006,202	44,594,487	24,399,725
<i>of which non-recurring income</i>		2,570,648	-	-	-
Profit/(Loss) before tax		672,891,503		778,987,266	
Income tax for the year	[C10]	55,926,464	-	153,645,906	-
<i>of which, non-recurring expense/(income)</i>		(8,634,273)	-	14,225,182	-
PROFIT FOR THE YEAR		616,965,039		625,341,360	

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

	(€)		
		Note	2017
			2016
Profit/(Loss) for the year			616,965,039
Items to be reclassified in the Statement of profit or loss for the year			
Available-for-sale financial assets			
Increase/(decrease) in fair value during the year [tab. B3]			(313,350,744)
Transfers to profit or loss			(665,615,256)
Cash flow hedges			
Increase/(decrease) in fair value during the year [tab. B3]			(56,619,724)
Transfers to profit or loss			(4,419,347)
Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the year			283,203,836
Items not to be reclassified in the Statement of profit or loss for the year			
Actuarial gains/(losses) on provisions for employee termination benefits	[tab. B5]		(1,605,572)
Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year			445,520
Total other components of comprehensive income			(757,961,287)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			(140,996,248)

STATEMENT OF CHANGES IN EQUITY

	Equity							Total
	Share capital	Reserves				Retained earnings/ (Accumulated losses)		
		Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve			
Balance at 1 January 2016	1,306,110,000	299,234,320	1,000,000,000	2,517,822,132	8,981,643	-	2,514,289,615	7,646,437,710
Total comprehensive income for the year	-	-	-	(1,613,166,625)	(26,727,196)	-	593,110,121	(1,046,783,700)
Dividends paid	-	-	-	-	-	-	(444,077,400)	(444,077,400)
Changes due to share-based payments	-	-	-	-	-	-	260,714	260,714
Other shareholder transactions	-	-	-	-	-	-	4,347,769	4,347,769
Amount due from MEF following cancellation of EC Decision of 16 July 2008	-	-	-	-	-	-	5,720,748	5,720,748
Taxation	-	-	-	-	-	-	(1,372,979)	(1,372,979)
Balance at 31 December 2016	1,306,110,000	299,234,320	1,000,000,000	904,655,507	(17,745,553)	-	2,667,930,819	6,160,185,093
of which attributable to BancoPosta RFC	-	-	1,000,000,000	888,943,631	(17,371,417)	-	1,514,595,531	3,386,167,745
Total comprehensive income for the year	-	-	-	(713,275,172)	(43,526,063)	-	615,804,987 (*)	(140,996,248)
Dividends paid	-	-	-	-	-	-	(509,382,900)	(509,382,900)
Postecom SpA merger	-	-	-	-	-	2,284,401	-	2,284,401
Balance at 31 December 2017	1,306,110,000	299,234,320	1,000,000,000	191,380,335	(61,271,616)	2,284,401	2,774,352,906	5,512,090,346
of which attributable to BancoPosta RFC	-	-	1,000,000,000	179,388,940	(62,049,661)	-	1,641,581,460	2,758,920,739

(*) This item includes profit for the year of €617 million and actuarial losses on provisions for employee termination benefits of €2 million after the related taxation of €1 million.

STATEMENT OF CASH FLOWS

for the year ended 31 December

(€000)

	Note	2017	2016
Cash and cash equivalents at beginning of year		2,715,199	1,519,733
Profit/(Loss) before tax		672,891	778,987
Depreciation, amortisation and impairments	[tab. C7]	480,483	504,355
Impairments/(Reversals of impairments) of investments	[tab. A4.1]	21,821	33,284
Net provisions for risks and charges	[tab. B4]	736,659	541,169
Use of provisions for risks and charges	[tab. B4]	(607,140)	(435,652)
Employee termination benefits paid	[tab. B5]	(94,256)	(78,138)
(Gains)/losses on disposals	[tab. C3.2]	(15,476)	840
(Dividends)		(7,748)	(7,738)
Dividends received		7,748	7,738
(Finance income on disposals)	[tab. C9.1]	(3,816)	-
(Finance income in form of interest)	[tab. C9.1]	(20,338)	(34,523)
Interest received		26,072	31,679
Interest expense and other finance costs	[tab. C9.2]	55,235	62,817
Impairment loss on Contingent Convertible Notes	[tab. C9.2]	82,132	-
Interest paid		(33,708)	(36,096)
Losses and impairments/(Recoveries) on receivables	[tab. C8]	29,487	9,772
Income tax paid	[tab. C10.3]	(400,524)	(189,546)
Other changes		-	-
Cash generated by operating activities before movements in working capital	[a]	929,522	1,188,948
<i>Movements in working capital:</i>			
(Increase)/decrease in Trade receivables		68,571	52,179
(Increase)/decrease in Other receivables and assets		252,794	54,006
Increase/(decrease) in Trade payables		(208,179)	111,079
Increase/(decrease) in Other liabilities		34,427	68,927
Cash generated by/(used in) movements in working capital	[b]	147,613	286,191
Increase/(decrease) in financial liabilities attributable to BancoPosta		3,324,390	5,195,749
Net cash generated by/(used for) financial assets held for trading		-	(89)
Net cash generated by/(used for) available-for-sale financial assets		(2,497,177)	(5,140,342)
Net cash generated by/(used for) held-to-maturity financial assets		(107,948)	370,245
(Increase)/decrease in other financial assets attributable to BancoPosta		314,441	896,512
(Increase)/decrease in cash and deposits attributable to BancoPosta		(701,940)	666,503
(Income)/Expenses and other non-cash components attributable to financial activities		(1,404,203)	(1,041,371)
Cash generated by/(used for) financial assets and liabilities attributable to BancoPosta	[c]	(1,072,437)	947,207
Net cash flow from/(for) operating activities	[d]=[a+b+c]	4,698	2,422,346
- of which related party transactions		723,071	3,598,562
<i>Investing activities:</i>			
Property, plant and equipment	[tab. A1]	(208,088)	(200,278)
Investment property	[tab. A2]	(586)	(528)
Intangible assets	[tab. A3]	(192,681)	(180,782)
Investments		(227,780)	(38,790)
Other financial assets		(2,133)	(357,261)
Postecom merger		5,851	-
<i>Disposals:</i>			
Property, plant and equipment, investment property and assets held for sale		135,315	2,493
Other financial assets		309,995	535,559
Net cash flow from/(for) investing activities	[e]	(180,107)	(239,587)
- of which related party transactions		183,287	112,483
(Increase)/decrease in loans and receivables		1,031	2,351
Increase/(decrease) in short-term borrowings		7,066	(545,571)
Dividends paid	[B1]	(509,383)	(444,073)
Net cash flow from/(for) financing activities and shareholder transactions	[f]	(501,286)	(987,293)
- of which related party transactions		(327,533)	(476,590)
Net increase/(decrease) in cash	[g]=[d+e+f]	(676,695)	1,195,466
Cash and cash equivalents at end of year	[tab. A10]	2,038,504	2,715,199
Cash and cash equivalents at end of year	[tab. A10]	2,038,504	2,715,199
Cash subject to investment restrictions		-	(1,070,530)
Restricted deposits with the Italian Treasury		(55,506)	-
Amounts that cannot be drawn on due to court rulings		(14,782)	(12,457)
Unrestricted net cash and cash equivalents at end of year		1,968,216	1,632,212

5.2 INFORMATION ON BANCOPOSTA RFC

As required by art. 2, paragraphs 17-*octies et seq.* of Law 10 of 26 February 2011, converting Law Decree 225 of 29 December 2010, in order to identify ring-fenced capital for the purposes of applying the Bank of Italy's prudential requirements to BancoPosta's operations and for the protection of creditors, at the General Meeting held on 14 April 2011 Poste Italiane SpA's shareholder approved the creation of ring-fenced capital to be used exclusively in relation to BancoPosta's operations (BancoPosta Ring-fenced Capital or BancoPosta RFC), as governed by Presidential Decree 144 of 14 March 2001, and established the assets and contractual rights to be included in the ring-fence as well as By-laws governing its organisation, management and control. BancoPosta RFC was provided originally with an initial reserve of €1 billion through the attribution of Poste Italiane SpA's retained earnings. The resolution of 14 April 2011 became effective on 2 May 2011, the date on which it was filed with the Companies' Register.

The separation of BancoPosta from Poste Italiane SpA is only partly comparable to other ring-fenced capital solutions. Indeed, BancoPosta is not expected to meet the requirements of articles 2447 *bis et seq.* of the Italian Civil Code or for other special purpose entities, in that it has not been established for a single specific business but rather, pursuant to Presidential Decree 144 of 14 March 2001, for several types of financial activities to be regularly carried out for an unlimited period of time. For this reason, the above legislation does not impose the 10% limit on BancoPosta's equity, waiving the provisions of the Italian Civil Code unless expressly cited as applicable.

Nature of assets and contractual rights and authorisation

BancoPosta's assets, contractual rights and authorisations pursuant to notarial deed were conferred on BancoPosta RFC exclusively by Poste Italiane SpA without third-party contributions. BancoPosta's operations consist of those listed in Presidential Decree 144 of 14 March 2001, as amended⁷⁷, namely:

- the collection of all forms of savings deposit from the public in accordance with art. 11, para. 1 of Legislative Decree 385/1993 of 1 September 1993 - Consolidated Banking Law (*Testo Unico Bancario*, or *TUB*) - and all related and consequent activities;
- the collection of savings through postal securities and deposits;
- payment services, including the issuance, administration and sale of prepaid cards and other payment instruments pursuant to art. 1, para. 2, letter f) numbers 4) and 5), TUB;
- foreign currency exchange services;
- promotion and arrangement of loans issued by approved banks and financial brokers;
- investment and related services pursuant to art. 12, Presidential Decree 144/2001;
- debt collection services;
- professional gold trading, on own behalf or on behalf of third parties, in accordance with the requirements of Law 7 of 17 January 2000.

⁷⁷ As revised on the issuance of Law Decree 179 of 18 October 2012 converted into law with amendments by Law 221 of 17 December 2012.

All of the assets and rights arising out of various contracts, agreements and legal transactions related to the above activities have also been conferred on BancoPosta RFC⁷⁸.

BancoPosta RFC's operations

BancoPosta RFC's operations consist of the investment of cash held in postal current accounts, in the name of BancoPosta but subject to statutory restrictions, and the management of third parties' collections and remittances. This latter activity includes the collection of postal savings (Postal Savings Books and Interest-bearing Postal Certificates), carried out on behalf of Cassa Depositi e Prestiti and the MEF, and services delegated by Public Administration entities. These transactions involve the use of cash advances from the Italian Treasury and the recognition of financial items awaiting settlement. The specific agreement with the MEF requires BancoPosta to provide daily statements of all cash flows, with a delay of two bank working days with respect to the transaction date. In compliance with the 2007 Budget Law, from 2007 the Company is required to invest the funds raised from deposits paid into postal current accounts by private customers in euro area

⁷⁸ All assets, contractual rights and authorisations were conferred on BancoPosta as required to engage in the following types of operation:

- a. Contracts for the collection of savings from the public, both in the form of deposits (e.g., postal current accounts) and the related services (e.g., issuance of postal cheques, payment of bills by payment slip and direct debits) and in other forms;
- b. Contracts for the provision of payment services including the issuance, management and sale of payment cards, including prepaid cards (e.g., "postamat", "postepay"), acquiring services and money transfers (e.g., post office money orders);
- c. Investment services contracts (e.g., brokerage, distribution and investment advisory services) and related services (e.g., securities custody);
- d. Agreements with Cassa Depositi e Prestiti SpA in connection with collection of savings through postal securities and deposits;
- e. Agreements with approved banks and brokers for the promotion and lending to the public (e.g. mortgages, personal loans);
- f. Agreements with approved banks and brokers for acquiring and payment services;
- g. Agreements with approved brokers to promote and place financial instruments, bankassurance and insurance products (e.g., share, bond and mutual fund subscriptions, life and non-life insurance);
- h. Other agreements relating to Bancoposta services;
- i. Contracts and related legal arrangements with Bancoposta employees belonging to a separate cost centre;
- j. Contracts with suppliers to the Bancoposta costs centre and related legal arrangements;
- k. Shares and investments in companies, consortia, payment/credit card issuers or money transfer service companies;
- l. Euro area government securities and securities guaranteed by the Italian government, held pursuant to art. 1, paragraph 1097 of Law 296 of 27 December 2006, as amended, and the related valuation reserves, including hedging derivatives;
- m. Accounts payable (e.g., postal current accounts) and receivable in connection with the above points;
- n. Intersegment accounts payable and receivable respectively to and from Poste Italiane;
- o. Deferred tax assets and liabilities relating to Bancoposta;
- p. Post office and bank account cash balances associated with Bancoposta operations;
- q. "Buffer" account at the Treasury, Ministry of the Economy and Finance;
- r. Cash deposits at the Treasury, Ministry of the Economy and Finance relating to Public Administration balances held in post offices;
- s. Cash and cash equivalent in connection with Bancoposta operations;
- t. Litigation relating to Bancoposta and associated settlements;
- u. Provisions in connection with BancoPosta RFC's contractual and legal obligations.

government securities⁷⁹. Funds deposited by Public Administration entities are, instead, deposited with the Ministry of the Economy and Finance and earn a variable rate of return linked to a basket of government securities and money market indices, in accordance with a specific agreement with the MEF regarding treasury services, renewed on 2 October 2017 and covering the two-year period 2017-2018. In addition, under the agreement with the MEF, renewed on 16 November 2017 for the three-year period 2017-2019, a percentage of the funds deriving from private customer deposits may be placed in a special "Buffer" account at the MEF, with the objective of ensuring flexibility with regard to investments in view of daily movements in amounts payable to current account holders. These deposits are remunerated at a variable rate calculated on the basis of the Euro OverNight Index Average (EONIA)⁸⁰ rate.

Cost and revenue allocation

Given the fact that Poste Italiane is a single legal entity, the Company's general accounting system maintains its uniform characteristics and capabilities. In this context, the general principles governing administrative and accounting aspects of BancoPosta RFC are as follows:

- identification of transactions in Poste Italiane SpA's general ledgers relating to BancoPosta's ring-fenced operations which are then extracted for recording in BancoPosta's separate ledgers;
- allocation to BancoPosta of all relevant revenues and costs. In particular the services rendered by the different functions of Poste Italiane SpA to BancoPosta RFC, are exclusively recorded as payables in BancoPosta's separate books, in special intersegment accounts only, and subsequently settled;
- settlement of all incoming and outgoing third party payments by Poste Italiane SpA's Chief Financial Office;
- allocation of income taxes based on BancoPosta's separate income statement after adjusting for deferred taxation;
- reconciliation of BancoPosta's separate books to Poste Italiane's general ledger;
- the activities – or services – carried out by the various departments within Poste Italiane SpA on behalf of BancoPosta RFC are indicated in specific *General Guidelines governing the process of contracting out BancoPosta's corporate functions to Poste Italiane* (the "General Guidelines") approved by Poste Italiane SpA's Board of Directors on 28 February 2017. In implementation of *BancoPosta RFC's Regulation*, these General Guidelines identify the services in question and determine the manner in which they are remunerated.

The services provided by Poste Italiane to BancoPosta are subdivided into three macro areas in accordance with their nature:

- Commercial activities, represented by the sale of BancoPosta products and services to all customer segments.

⁷⁹ In addition, 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.

⁸⁰ The rate applied in overnight lending and calculated as the weighted average of overnight rates for transactions on the interbank market reported to ECB by a panel of banks operating in the euro zone (the biggest banks in all the euro zone countries).

- Support services, meaning the coordination and management of investments, IT systems, customer care and postal services.
- Staff services, represented by the provision of support for the coordination and management of BancoPosta RFC across all areas of business.

In compliance with Bank of Italy Circular 285//2013⁸¹, these services are in turn classified in the General Guidelines as essential and non-essential control and operating functions.

The general policies and instructions contained in the General Guidelines in relation to transfer pricing are detailed in separate Operating Guidelines, jointly developed by BancoPosta and the Issuer's other functions. The Operating Guidelines establish, among other things, levels of service and the related transfer prices, and become effective, in accordance with the General Guidelines, following an authorisation process involving the relevant functions, the Chief Executive Officer and, when provided for, the Issuer's Board of Directors.

In line with 2016, the transfer prices set out in the Operating Guidelines are determined according to objective criteria that reflect the real contribution of the various functions to BancoPosta RFC's results. In this regard, the transfer prices paid, inclusive of commissions and any other form of remuneration due, are determined on the basis of market prices and tariffs for the same or similar services, identified, where possible, following a benchmarking process. When the specifics and/or the particular nature of a service provided by one of the Issuer's functions do not allow the use of a comparable market price, a cost-based method is used, again with the support of benchmarking to ensure that the price charged is adequate for the service provided. In this case, an appropriate mark-up, determined with reference to those used by comparable peers, is applied. From 2017, the resulting transfer prices are reviewed every two years.

The following table includes a summary of the services provided to BancoPosta RFC by the Issuer's functions, with a brief indication of how the transfer prices are determined.

Function	Allocation key
Post Office Network and Customer Services	Percentage of revenue generated Priced on the basis of the type of contract + recharge of external costs Penalties for failure to meet predetermined quality standards
Information Technology	Fixed component: recharge of costs based on direct and indirect drivers Variable component: determined with reference to the maintenance of operating performance
Investment Governance	Fees by professional role based on market benchmarks + recharge of external costs
Real Estate	Market prices with reference to floor space and maintenance costs
Mail and Logistics Services	Prices for mail sent to customers and internal mail
Customer Care	Priced on the basis of type of contact
Chief Financial Office	
Human Resources, Organisation and Services	
Security and Safety	Fees by professional role based on market benchmarks
Legal Affairs	Recharge of external costs, where applicable
External Relations	
Purchasing	

⁸¹ Bank of Italy Circular 285 of 17 December 2013, part four, chapter 1 – BancoPosta.

Function	Allocation key
Internal Auditing	Control functions
Compliance	
	Essential operating functions

In this regard, the Operating Guidelines drawn up for the two-year period 2017-2018, relating to key operating functions and control functions, have been submitted to the Bank of Italy, as required by the Supervisory Standards, and the 60-day term for the Bank to notify its prohibition on implementation has expired.

The interest paid on the intersegment accounts between BancoPosta RFC and the Poste Italiane functions outside the ring-fence, used for settlements between the two entities, is the same rate paid by the MEF on the relevant Buffer account, at the Euro OverNight Index Average (EONIA) rate.

The cost of the services rendered by Poste Italiane functions outside the ring-fence, and the revenue earned from the latter by BancoPosta, contribute to BancoPosta's results. The relevant transactions, profit and loss and balance sheet amounts, generated by these relationships are only recorded in BancoPosta RFC's Separate Report. In Poste Italiane SpA's comprehensive accounts intersegment transactions are on the other hand eliminated, and are not presented. The accounting treatment adopted is similar to that provided for by the accounting standards regulating the preparation of the Group's consolidated financial statements.

Obligations

Poste Italiane SpA's liability, pursuant to art. 2, paragraph 17-*nonies* of Law Decree 225 of 29 December 2010 converted into Law 10, to creditors of Bancoposta RFC is limited to the ring-fenced capital, represented by the assets and contractual rights originally allocated or arisen after the separation. Poste Italiane's liability is, however, unlimited with respect to claims arising from actions in tort relating to the management of BancoPosta or for transactions for which no indication was made that the obligation was taken specifically by BancoPosta RFC. The Regulation approved at the Extraordinary General Meeting of Poste Italiane SpA's shareholder on 14 April 2011 SpA, and subsequently amended on 31 July 2015, provides that BancoPosta RFC's equity shall be sufficient to ensure that it is able to comply with supervisory capital requirements and is aligned with the risk profile of its operations.

Separate Report

BancoPosta RFC's Separate Report is prepared in application of Bank of Italy Circular 262 of 22 December 2005 - *Banks' Financial Statements: Layouts and Preparation*, as amended. The application of these regulations, whilst in compliance with the same accounting standards adopted by Poste Italiane SpA, requires the use of a different basis of presentation for certain components of profit or loss and the statement of financial position compared with the basis of presentation adopted for the statutory financial statements.

In this regard, the following table shows a reconciliation of the components of BancoPosta RFC's equity, as shown in the Company's statement of financial position and in the Separate Report⁸².

⁸² Actuarial gains and losses on defined benefit plans, which in the Company's financial statements are accounted for in retained earnings, are accounted for in the valuation reserves in the Separate Report (Item 130 of Liabilities).

Reconciliation of separate equity		(€m)		
	Item in Separate Report	130	160	200
Item in supplementary statement		Valuation reserves	Reserves	Net profit for period
Reserves	1,117	117	1,000	-
BancoPosta RFC reserve	1,000	-	1,000	-
Fair value reserve	179	179	-	-
Cash flow hedge reserve	(62)	(62)	-	-
Retained earnings	1,642	(2)	1,059	585
Net profit for period	1,644	-	1,059	585
Cumulative actuarial gains/(losses) on defined benefit plans	(2)	(2)	-	-
Total	2,759	115	2,059	585

Intersegment relations between BancoPosta RFC and the Poste Italiane functions outside the ring-fence are disclosed exclusively in BancoPosta RFC's Separate Report, where they are shown in detail and in full, together with the income and expenses that generated them.

Further regulatory aspects

Pursuant to art. 2, paragraph 17-*undecies* of Law Decree 225 of 29 December 2010⁸³, which states that “the assets and contractual rights included in BancoPosta's ring-fenced capital shall be shown separately in the Company's statement of financial position”, Poste Italiane SpA's statement of financial position includes a “Supplementary statement showing BancoPosta RFC”.

On 27 May 2014, the Bank of Italy issued specific Supervisory Standards for BancoPosta RFC, which, in taking into account the entity's specific organisational and operational aspects, has established prudential requirements that are substantially in line with those applicable to banks. These include regulations covering the organisational structure and governance, the system of internal controls and the requirements regarding capital adequacy and risk containment.

Furthermore, BancoPosta RFC's Regulation states that “In view of the absence of non-controlling interests in BancoPosta RFC, on approval of Poste Italiane SpA's financial statements, the General Meeting shall – on the recommendation of the Board of Directors – vote on the appropriation of the Company's profit for the year, and in particular: the share attributable to BancoPosta RFC, as indicated in the Separate Report, taking account of specific regulatory aspects and, above all, the need to comply with prudential capital adequacy requirements (...)”.

On 25 January 2018, Poste Italiane SpA's Board of Directors approved the separation and transfer of certain assets, contractual rights and authorisations from BancoPosta RFC to a new ring-fenced e-money and payment services unit to be set up within PosteMobile SpA, as well as the separation of the contractual rights and authorisations relating to back-office and anti-money laundering activities. These corporate actions were subject to approval by Extraordinary General Meeting, following prior receipt of all the consents needed to comply with existing statutory and regulatory requirements. Submission to the Bank of Italy of a request for authorisation to remove the ring-fence from the assets, contractual rights and authorisations that make up the e-money and payment services unit was also approved. Further details on this corporate action are provided in note 3.1 – *Principal corporate actions*.

⁸³ Converted into Law 10 of 26 February 2011.

5.3 NOTES TO THE FINANCIAL STATEMENTS

ASSETS

A1 – PROPERTY, PLANT AND EQUIPMENT (€1,912 million)

Movements in property, plant and equipment are as follows:

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	Total
Cost	75	2,774	1,956	330	440	1,642	51	7,268
Accumulated depreciation	-	(1,535)	(1,659)	(301)	(253)	(1,431)	-	(5,179)
Accumulated impairment	-	(77)	(7)	(1)	(5)	-	-	(90)
Balance at 1 January 2017	75	1,162	290	28	182	211	51	1,999
Movements during the year								
Additions	-	30	60	9	33	51	26	209
Merger contribution	-	-	2	-	-	-	-	2
Reclassifications	-	9	22	-	5	3	(39)	-
Disposals	-	1	(1)	-	(1)	-	-	(1)
Depreciation	-	(110)	(72)	(9)	(30)	(86)	-	(307)
(Impairments)/Reversal of impairments	-	12	3	-	(5)	-	-	10
Total movements	-	(58)	14	-	2	(32)	(13)	(87)
Cost	75	2,814	1,963	322	475	1,700	38	7,387
Accumulated depreciation	-	(1,645)	(1,656)	(293)	(281)	(1,521)	-	(5,396)
Accumulated impairment	-	(65)	(3)	(1)	(10)	-	-	(79)
Balance at 31 December 2017	75	1,104	304	28	184	179	38	1,912

None of the above items is attributable to BancoPosta RFC.

At 31 December 2017, property, plant and equipment includes assets 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, with a carrying amount of €55 million.

The main movements during 2017 are described below.

Purchases of €209 million primarily relate to:

- €30 million relating to extraordinary maintenance of post offices and local head offices around the country (€23 million) and mail sorting offices (€5 million)
- €60 million relating to plant, of which €26 million for plant and equipment related to buildings, €12 million for the installation of ATMs, €10 million for the purchase of equipment for use in sorting letters and processing parcels, €7 million for the purchase of telecommunications infrastructure and €5 million for the installation and extraordinary maintenance of video surveillance systems;
- €33 million invested in the upgrade of plant (€20 million) and the structure (€13 million) of properties held under lease;
- €51 million relating to "Other assets", including €45 million for the purchase of new computer hardware for post offices and head offices and the consolidation of storage systems;
- €26 million relating to assets under construction, of which €17 million regards the restyling of post offices and €5 million the renovation of primary distribution centres.

The merger contribution of €2 million regards the acquisition of plant and technology assets already in use, following the merger of the subsidiary, Postecom SpA, with and into the Company.

Reclassifications from assets under construction, totalling €39 million, relate primarily to the acquisition cost of assets that became available and ready for use during the year. In particular, these assets regard the rollout of hardware held in storage and completion of the process of restyling leased and owned properties.

Reversals of impairment losses are due to revised estimates relating to buildings (property used in operations) and sorting centres, 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 2.5 – *Use of estimates*).

A2 – INVESTMENT PROPERTY (€52 million)

Investment property primarily regards former service accommodation owned by Poste Italiane SpA pursuant to Law 560 of 24 December 1993, and residential accommodation previously used by post office directors. None of the property included in this item is attributable to BancoPosta RFC. Movements in investment property are as follows:

tab. A2 - Movements in investment property	(€m)
	Year ended 31 December 2017
Cost	142
Accumulated depreciation	(85)
Accumulated impairment	(1)
Balance at 1 January	56
Movements during the year	
Additions	1
Disposals	(1)
Depreciation	(4)
Total movements	(4)
Cost	141
Accumulated depreciation	(88)
Accumulated impairment	(1)
Carrying amount	52
<i>Fair value at 31 December</i>	<i>102</i>

The fair value of investment property at 31 December includes approximately €67 million representing the sale price applicable to the Company's former service accommodation in accordance with Law 560 of 24 December 1993, while the remaining balance reflects price estimates computed internally by the Company⁸⁴.

⁸⁴ 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.

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

A3 – INTANGIBLE ASSETS (€385 million)

The following table shows movements in intangible assets:

tab. A3 - Movements in intangible assets

(€m)

	Industrial patents, intellectual property rights, concessions, licences, trademarks and similar rights	Concessions, licences, trademarks and similar rights	Assets under construction and advances	Total
Cost	2,309	2	82	2,393
Accumulated amortisation and impairments	(2,025)	(2)	-	(2,027)
Balance at 1 January 2017	284	-	82	366
Movements during the year				
Additions	95	-	98	193
Merger contribution	6	-	1	7
Reclassifications	70	-	(70)	-
Disposals	-	-	(1)	(1)
Amortisation and impairments	(180)	-	-	(180)
Total movements	(9)	-	28	19
Cost	2,536	2	110	2,648
Accumulated amortisation and impairments	(2,261)	(2)	-	(2,263)
Balance at 31 December 2017	275	-	110	385

None of the above items is attributable to BancoPosta RFC.

Investment in Intangible assets during 2017 amounts to €193 million, including €12 million in internal software development costs and the related expenses. Research and development costs, other than those incurred directly to produce identifiable software used, or intended for use, within the Company, are not capitalised.

The increase in **industrial patents and intellectual property rights**, totalling €95 million, before amortisation for the year, relates primarily to the purchase and entry into service of new software programmes following the purchase of software licences.

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

The balance of **intangible assets under construction** includes activities primarily regarding the development of software relating to the infrastructure platform (€44 million), BancoPosta services (€30 million), the provision of support to the sales network (€18 million) and the postal products platform (€12 million).

During the year the Company effected reclassifications from “Intangible assets under construction” to “Industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights”, amounting to €70 million, reflecting the completion and commissioning of software and the upgrade of existing software.

The **merger contribution**, totalling €7 million, regards the acquisition of applications and software licences already in use, and applications yet to enter service, following the merger of the subsidiary, Postecom SpA, with and into the Company.

A4 – INVESTMENTS (€2,081 million)

This item includes the following:

tab. A4 - Investments

(€m)

Item	Balance at 31 December 2017	Balance at 31 December 2016
Investments in subsidiaries	1,591	1,604
Investments in joint ventures	279	-
Investments in associates	211	211
Total	2,081	1,815

No investments are attributable to BancoPosta RFC.

Movements in investments in subsidiaries and associates are as follows:

Tab. A4.1 - Movements in investments in the year ended 31 December 2017

(€m)

Investments	Balance at 1 January 2017	Additions		Reductions		Adjustments		Balance at 31 December 2017
		Subscriptions /Capital contributions	Acquisitions	Reclass. to non- current assets held for sale	Sales, liquidations, mergers	Reclass. to non- current assets held for sale	Revaluations	
in subsidiaries								
BancoPosta Fondi SpA SGR	-	-	-	12	-	-	-	12
CLP ScpA	-	-	-	-	-	-	-	-
Consorzio PosteMotori	-	-	-	-	-	-	-	-
Cons. per i Servizi di Telefonia Mobile ScpA	-	-	-	-	-	-	-	-
EGI SpA	178	-	-	-	-	-	(6)	172
Indabox Srl	1	1	-	-	-	-	-	2
Mistral Air Srl	-	4	-	-	-	-	(4)	-
PatentiViaPoste ScpA	-	-	-	-	-	-	-	-
Poste Tributi ScpA (in liquidation)	2	-	-	-	-	-	(2)	-
PosteTutela SpA	1	-	-	-	-	-	-	1
Poste Vita SpA	1,219	-	-	-	-	-	-	1,219
Postecom SpA	13	-	-	-	(13)	-	-	-
Postel SpA	121	-	4	-	-	-	-	125
PosteMobile SpA	60	-	-	-	-	-	-	60
Risparmio Holding SpA	-	-	-	-	-	-	-	-
SDA Express Courier SpA	9	-	-	-	-	-	(9)	-
Total subsidiaries	1,604	5	4	12	(13)	-	(21)	1,591
in joint ventures								
FSIA Investimenti Srl	-	-	279	-	-	-	-	279
Total joint ventures	-	-	279	-	-	-	-	279
in associates								
ItaliaCamp Srl	-	-	-	-	-	-	-	-
Arima Holding SpA	211	-	-	-	-	-	-	211
Conio Inc.	-	-	-	-	-	-	-	-
Total associates	211	-	-	-	-	-	-	211
Total	1,815	5	283	12	(13)	-	(21)	2,081

The following movements occurred in 2017:

- Subscription for new shares issued by Indabox Srl and establishment of an extraordinary reserve of €0.8 million, as approved by the extraordinary general meeting of the investee company's shareholders on 2 February 2017.
- The injection of capital amounting to €4 million into Mistral Air Srl to cover the losses incurred by the subsidiary through to 31 March 2017, and to establish an extraordinary reserve, as approved by the extraordinary general meeting of the investee company's shareholders on 28 June 2017.
- The acquisition, on 15 February 2017, from FSI Investimenti SpA (a company 77.1% owned by CDP Equity SpA) of a 30% interest in FSIA Investimenti Srl, a company with a 49.5% interest in SIA SpA, a leading provider of e-money, payment and network services⁸⁵. 80% of the transaction consideration of €278.3 million was paid on completion, before receipt of an upward adjustment of €0.55 million based on the value of SIA's net debt at 31 December 2016.
- On 30 January 2017, the partial demerger of assets belonging to Postecom SpA to Postel SpA, including the investments in PatentiViaPoste ScpA and Consorzio Poste Motori, and the ensuing merger of Postecom SpA with and into Poste Italiane SpA, was completed. The transaction, accounted for on a predecessor basis and effective for legal, accounting and tax purposes from 1 April 2017, has generated a merger surplus of €2 million, recognised in a specific equity reserve.
- The payment of non-refundable contributions of €4.2 million to Risparmio Holding SpA to enable the company to meet the commitments assumed in 2016, as approved by the investee company's Board of Directors on 13 January 2017, partly via use of the provisions for risks and charges made in 2016 (€3.9 million).

Finally, on 6 March 2018, agreements between Poste Italiane SpA, Anima Holding SpA and BancoPosta Fondi SGR SpA were finalised with the aim of strengthening their partnership in the asset management sector, in accordance with the terms and conditions announced on 21 December 2017. As a result of the agreements, as described in greater detail in note 3.1 – *Principal corporate actions*, Poste Italiane SpA will continue to hold a 100% interest in the subsidiary, BancoPosta Fondi SpA SGR, the carrying amount of which, at the date of preparation of these financial statements, has thus been reclassified to “Non-current assets held for sale and discontinued operations” (note A11).

Corporate actions during 2017 and in early 2018 are described in notes 3.1 – *Principal corporate actions* and 10 – *Events after the end of the reporting period*.

The impairment tests required by the related accounting standards have been conducted in order to identify any evidence of impairment. Based on the available projections and the results of the impairment tests carried out⁸⁶, impairment losses totalling €21 million (tab. C8) have been recognised on the following investments. In particular:

- in the case of EGI SpA, an impairment loss of €6 million was recognised, based on the value of equity adjusted for unrealised after-tax gains on the property it owns as the best approximation of value in use, prudently deemed to be a valid indicator of the company's recoverable value;

⁸⁵ As a result of the transaction, Poste Italiane indirectly holds a 14.85% interest in SIA SpA.

⁸⁶ The method applied and the criteria used in conducting impairment tests at 31 December 2017 are described in note 2.5 – *Use of estimates*, with regard to the impairment testing of cash generating units and investments.

- the investments in Mistral Air Srl and SDA Express Courier SpA have been written off (€13 million), in addition to provisions being made for risks and charges (€25 million) to reflect the losses incurred by the companies at 31 December 2017, which Poste Italiane intends to cover;
- the investment in Poste Tributi ScpA, whose liquidation was approved by the extraordinary general meeting of the company's shareholders held on 30 December 2016 and published in the Companies' Register on 24 January 2017, has been written off (€2 million) and provisions for risks and charges have been made (€2 million) to take account of the estimated net costs and charges of the liquidation.

Poste Italiane SpA has committed to providing financial support to the subsidiaries, SDA Express Courier SpA and Mistral Air Srl, for 2018 and Poste Tributi ScpA throughout its liquidation.

The following table shows a list of investments in subsidiaries, joint ventures and associates at 31 December 2017.

tab. A4.2 - List of investments

(€000)

Name	% interest	Share capital ⁽¹⁾	Profit/(loss) for the year	Carrying amount of equity	Share of equity	Carrying amount at 31 December 2017	Difference between equity and carrying amount
subsidiaries							
BancoPosta Fondi SpA SGR	100.00	12,000	29,134	53,886	53,886	12,000	41,886
CLP ScpA	51.00	516	-	516	263	263	-
Consorzio PosteMotori	58.12	120	171	291	169	70	99
Consorzio per i Servizi di Telefonia Mobile ScpA ⁽²⁾	51.00	120	-	120	61	61	-
EGi SpA	55.00	103,200	1,843	237,263	130,495	171,721	(41,226)
Indabox Srl ⁽²⁾	100.00	50	(289)	604	604	1,550	(946)
Mistral Air Srl	100.00	1,000	(7,611)	(1,895)	(1,895)	-	(1,895)
PatentiViaPoste ScpA ⁽²⁾	69.65	120	(2)	125	87	84	3
Poste Tributi ScpA (in liquidation) ⁽²⁾	80.00	2,583	(1,053)	(1,590)	(1,272)	-	(1,272)
Poste Tutela SpA	100.00	153	298	13,441	13,441	818	12,623
Poste Vita SpA ⁽²⁾	100.00	1,216,608	510,172	3,323,728	3,323,728	1,218,481	2,105,247
Postel SpA	100.00	20,400	118	101,459	101,459	125,511	(24,052)
PosteMobile SpA	100.00	32,561	18,659	57,905	57,905	60,580	(2,675)
Risparmio Holding SpA ⁽²⁾	80.00	50	737	1,091	873	323	550
SDA Express Courier SpA	100.00	10,000	(31,990)	(22,876)	(22,876)	-	(22,876)
joint ventures							
FSIA Investimenti Srl ⁽⁴⁾	30.00	20	24,816	951,930	285,579	278,870	6,709
associates							
ItaliaCamp Srl ⁽⁵⁾	20.00	10	161	271	54	2	52
Anima Holding SpA ⁽⁵⁾	10.04	5,926	78,347	839,693	84,305	210,468	(126,163)
Conio Inc. ⁽²⁾⁽⁶⁾	20.00	22	(38)	(51)	(10)	22	(32)

(1) Consortium fund in the case of consortia. The registered offices of all the companies are located in Rome, with the exception of Anima Holding SpA and FSIA Investimenti Srl, whose registered offices are in Milan, and Conio Inc., whose registered office is in California (USA).

(2) These amounts have been calculated under IFRS and, therefore, may not be consistent with those included in the investee company's annual financial statements prepared in accordance with the Civil Code and Italian GAAP and, in the case of Conio Inc., in accordance with US GAAP.

(3) Figures taken from the company's latest approved financial statements at 31 December 2016.

(4) Figures taken from the company's interim financial statements at 30 September 2017, as approved by its board of directors, and including measurement of the SIA group using the equity method and recognition of the related effects with regard to Purchase Price Allocation.

(5) Figures taken from the company's interim financial statements at 30 September 2017, as approved by its board of directors.

(6) Investment acquired following the merger of Postecom SpA with and into the Company.

A5 - FINANCIAL ASSETS ATTRIBUTABLE TO BANCOPOSTA (€60,048 million)

tab. A5 - Financial assets attributable to BancoPosta

(€m)

Item	Note	Balance at 31 December 2017			Balance at 31 December 2016		
		Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Receivables		8	7,593	7,601	8	7,907	7,915
Held-to-maturity financial assets		11,667	1,245	12,912	11,213	1,470	12,683
Fixed-income instruments	[tab. A 5.2]	11,667	1,245	12,912	11,213	1,470	12,683
Available-for-sale financial assets		37,319	1,821	39,140	35,893	1,370	37,263
Fixed-income instruments	[tab. A 5.2]	37,278	1,821	39,099	35,789	1,370	37,159
Equity instruments		41	-	41	104	-	104
Derivative financial instruments		394	1	395	185	6	191
Cash flow hedges		30	1	31	33	6	39
Fair value hedges		364	-	364	152	-	152
Total		49,388	10,660	60,048	47,299	10,753	58,052

The operations in question regard the financial services provided by the Company pursuant to Presidential Decree 144/2001, which from 2 May 2011 are attributable to the ring-fenced capital, and which relate to the management of postal current accounts deposits, carried out in the name of BancoPosta but subject to statutory restrictions on the investment of the liquidity in compliance with the applicable legislation, and the management of collections and payments on behalf of third parties (see note 5.2 - *Information on BancoPosta RFC*).

Loans and receivables

tab. A5.1 - Loans and receivables

(€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Loans	-	-	-	-	-	-
Receivables	8	7,593	7,601	8	7,907	7,915
Amounts deposited with the MEF	-	6,011	6,011	-	6,189	6,189
Other financial receivables	8	1,582	1,590	8	1,718	1,726
Total	8	7,593	7,601	8	7,907	7,915

Receivables

Receivables include:

- **Amounts deposited with the MEF**, including public customers' current account deposits, which earn a variable rate of return calculated on a basket of government bonds and money market indices⁸⁷.
- **Other financial receivables** of €1,179 million, including €1,110 million provided to counterparties in asset swap transactions (with collateral provided by specific Credit Support Annexes) and €69 million provided to counterparties in repurchase agreements on fixed income securities (with collateral contemplated by specific Global Master Repurchase Agreements).

⁸⁷ 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 maturities greater than 1 year, approximating the return on 7-year BTPs.

Investments in securities

These regard investments in fixed income euro area government securities, consisting of bonds issued by the Italian government and securities guaranteed by the Italian government, having a nominal value of €48,430 million. Movements are as follows:

tab. A5.2 - Movements in investment 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 2017	12,392	12,683	32,178	37,159	-	-	44,570	49,842
Purchases	1,600	1,582	8,640	8,997	-	-	10,240	10,579
Redemptions	(1,300)	(1,300)	(990)	(1,020)	-	-	(2,290)	(2,320)
Transfers to equity	-	-	-	(590)	-	-	-	(590)
Change in amortised cost	-	(9)	-	(77)	-	-	-	(86)
Changes in fair value through equity	-	-	-	(323)	-	-	-	(323)
Changes in fair value through profit or loss	-	-	-	(496)	-	-	-	(496)
Changes in cash flow hedge transactions ^(*)	-	(22)	-	-	-	-	-	(22)
Effect of sales on profit or loss	-	-	-	506	-	-	-	506
Accrued income for current year	-	152	-	331	-	-	-	483
Sales and settlement of accrued income	-	(174)	(4,090)	(5,388)	-	-	(4,090)	(5,562)
Balance at 31 December 2017	12,692	12,912	35,738	39,099	-	-	48,430	52,011

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

At 31 December 2017, the fair value⁸⁸ of the held-to-maturity portfolio, accounted for at amortised cost, is €14,384 million (including €152 million in accrued interest).

The fair value of the available-for-sale portfolio is €39,099 million (including €331 million in accrued interest). The overall fair value loss for the period of €819 million has been recognised in the relevant equity reserve, recording a negative amount of €323 million in relation to the portion of the portfolio not hedged by fair value hedges, and through profit and loss, in relation to the loss of €496 million on the hedged portion.

The available-for-sale portfolio includes fixed rate instruments amounting to €2,500 million (including €1,000 million acquired in 2017), issued by Cassa Depositi e Prestiti SpA and guaranteed by the Italian government (at 31 December 2017, their fair value totalled €2,485 million).

Certain securities are encumbered as they have been delivered to counterparties for use as collateral in connection with loans and hedging transactions, as described in note 11 – *Additional information*.

Investments in equity instruments

Equity instruments include:

- €37 million, reflecting the fair value of 32,059 Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock) received for the sale of the Visa Europe Ltd. share to Visa Incorporated on 21 June 2016; these shares are convertible at the rate of 13.893⁸⁹ 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, reflecting the fair value of 11,144 Class C shares of Visa Incorporated. These shares are not traded on an organised exchange, but are convertible into Class A shares (at the rate of four ordinary

⁸⁸ In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.

⁸⁹ 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.

shares for each Class C share), which are listed on the New York Stock Exchange, if disposal is desired.

Fair value gains in the year under review, amounting to €11 million, have been recognised in the relevant equity reserve (see note B3).

Finally, during the last quarter of 2017, Poste Italiane SpA sold its holding of 756,280 Class B Mastercard Incorporated shares in a series of transactions, following their conversion into Class A shares. The transaction generated a gain of €91 million, recognised as a non-recurring realised gain and accounted for in "Other income from financial activities".

Derivative financial instruments

Movements in derivative financial instruments are as follows:

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

	Cash flow hedges				Fair value hedges				FVPL				Total	
	Forward purchases		Forward sales		Asset swap		Asset swap		Forward purchases		Forward sales		notional	fair value
	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value		
Balance at 1 January 2017	400	3	-	-	1,390	(65)	16,150	(2,052)	-	-	-	-	17,940	(2,114)
Increases/(decreases) (*)	-	(25)	1,408	(23)	50	(9)	5,205	446	-	-	92	-	6,755	389
Gains/(Losses) through profit or loss (**)	-	-	-	-	-	-	-	2	-	-	-	-	-	2
Transactions settled (***)	(400)	22	-	-	(330)	15	(1,600)	444	-	-	(92)	-	(2,422)	481
Balance at 31 December 2017	-	-	1,408	(23)	1,110	(59)	19,755	(1,160)	-	-	-	-	22,273	(1,242)
of which														
Derivative assets	-	-	-	-	175	31	9,370	364	-	-	-	-	9,545	395
Derivative liabilities	-	-	1,408	(23)	935	(90)	10,385	(1,524)	-	-	-	-	12,728	(1,637)

(*) 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 year under review, the effective portion of interest rate hedges recorded an overall fair value loss of €57 million reflected in the cash flow hedge reserve.

Fair value hedges recorded an increase in the fair value of the effective portion of €446 million, whilst the hedged securities (tab. A5.2) recorded a fair value loss of €496 million, with the difference of €50 million due to paid differentials.

In the year under review, the Company carried out the following transactions:

- the settlement of forward purchases outstanding at 31 December 2016, totalling €400 million;
- the conclusion of forward sales with a nominal value of €1,408 million;
- new asset swaps used as cash flow hedges with a nominal value of €50 million euro;
- the unwinding of asset swaps, used as cash flow hedges for securities sold, with a nominal value of €330 million;
- new asset swaps used as fair value hedges with a nominal value of €5,205 million;
- the unwinding of asset swaps, used as fair value hedges for securities sold, with a nominal value of €1,600 million.

Fair value hierarchy of BancoPosta's financial assets

The following table shows the classification of BancoPosta's financial assets measured at fair value by level in the fair value hierarchy:

tab. A5.4 - Fair value hierarchy

(€m)

Item	Balance at 31 December 2017				Balance at 31 December 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	36,244	2,859	37	39,140	35,280	1,956	27	37,263
Fixed-income instruments	36,244	2,855	-	39,099	35,280	1,879	-	37,159
Equity instruments	-	4	37	41	-	77	27	104
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	-	-
Derivative financial instruments	-	395	-	395	-	191	-	191
Total financial assets at fair value	36,244	3,254	37	39,535	35,280	2,147	27	37,454

There were no transfers of the related financial instruments measured at fair value on a recurring basis between level 1 and level 2 in 2017.

Changes in level 3 primarily regard changes in the fair value of the Visa Incorporated preference shares.

A6 – FINANCIAL ASSETS (€1,198 million)

tab. A6 - Financial assets

(€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Loans and receivables	284	358	642	539	231	770
Loans	250	117	367	532	180	712
Receivables	34	241	275	7	51	58
Available-for-sale financial assets	551	5	556	562	12	574
Equity instruments	5	-	5	5	-	5
Fixed income instruments	546	5	551	557	5	562
Other investments	-	-	-	-	7	7
Total	835	363	1,198	1,101	243	1,344

Loans and receivables

Loans

The non-current portion relates to an irredeemable subordinated loan, issued to Poste Vita SpA in order to bring the subsidiary's capitalisation into line with expected growth in earned premiums, in compliance with the specific regulations governing the insurance sector.

The current portion regards overdrafts on intercompany current accounts granted to subsidiaries, paying interest on an arm's length basis.

These loans break down as follows:

tab. A6.1 - Current portion of loans

(€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Loans	Intercompany accounts	Total	Loans	Intercompany accounts	Total
Direct subsidiaries						
Banca del Mezzogiorno-MedioCredito Centrale SpA	-	-	-	50	-	50
Mistral Air Srl	-	13	13	-	10	10
PatentiViaPoste ScpA	-	-	-	-	1	1
Poste Tributi ScpA	-	2	2	-	6	6
Postel SpA	-	8	8	-	18	18
SDA Express Courier SpA	-	93	93	-	94	94
	-	116	116	50	129	179
Accrued interest on non-current loans	1	-	1	1	-	1
Total	1	116	117	51	129	180

Receivables

tab. A6.2 - Receivables

(€m)

Item	Balance at 31 December 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	-	40	40	-	50	50
Due from the purchasers of service accommodation	5	2	7	7	-	7
Others	29	199	228	-	-	-
Total	34	241	275	7	51	58

Guarantee deposits relate to collateral provided to counterparties with whom the Company has entered into asset swaps (note D2).

Other receivables regard the remaining amount due from Invitalia SpA as a result of the sale of Banca del Mezzogiorno-MedioCreditoCentrale SpA on 7 August 2017 (note A11).

Available-for-sale financial assets

tab. A6.3 - Movements in available-for-sale financial assets

(€m)

	Equity	Fixed-income instruments		Other investments		Total
	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount	Carrying amount
Balance at 1 January 2017	5	500	562	5	7	574
Purchases	-	-	-	-	-	-
Redemptions	-	-	-	-	-	-
Transfers to equity reserves	-	-	-	-	(4)	(4)
Changes in amortised cost	-	-	-	-	-	-
Changes in fair value through equity	-	-	(1)	-	-	(1)
Changes in fair value through profit or loss	-	-	(10)	-	-	(10)
Effects of sales on profit or loss	-	-	-	-	4	4
Impairments	-	-	-	-	-	-
Accrued income for current year	-	-	5	-	-	5
Sales and settlement of accrued income	-	-	(5)	(5)	(7)	(12)
Balance at 31 December 2017	5	500	551	-	-	556

Equity instruments, which are unchanged with respect to the previous year, include 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 €4.5 million for a 15% equity interest in Innovazione e Progetti ScpA, which is in liquidation.

Fixed income instruments entirely regard BTPs. Of these, instruments with a value of €375 million have been hedged using asset swaps designated as fair value hedges.

Other investments consist of equity instruments (as defined by art. 2346, paragraph 6 of the Italian Civil Code) resulting from the conversion of Contingent Convertible Notes⁹⁰ held by Poste Italiane SpA, whose value at 31 December 2017 is zero. As described in greater detail in note 3.2 – *Other material events*, during the year under review, the Company recognised a non-recurring impairment loss equal to the value of the Notes, amounting to €82 million, including interest recognised at 31 December 2016. The loss was accounted for in finance costs.

During the year under review, Poste Italiane SpA sold its holdings in equity mutual investment funds. This generated a gain of €4 million recognised in finance income.

Derivative financial instruments

tab. A 6.4 - Movements in derivative financial instruments (€m)

	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total
Balance at 1 January 2017	(7)	(44)	-	(51)
Transactions settled ^(*)	2	10	-	12
Balance at 31 December 2017	(5)	(34)	-	(39)
of which:				
Derivative assets	-	-	-	-
Derivative liabilities	(5)	(34)	-	(39)

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

At 31 December 2017, outstanding derivative financial instruments include:

- nine asset swaps used as fair value hedges in 2010 to protect the value of BTPs with a nominal value of €375 million against movements in interest rates. These instruments have enabled the 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 (note B7). 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 31 December 2017, is 1.843%.

⁹⁰ These are 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 SpA. The Notes were subscribed for 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 (as defined by art. 2346, paragraph 6 of the Italian Civil Code), carrying the same rights associated with the Notes. From 1 January 2015 to 31 December 2016, the Notes paid a nominal rate of interest of 7% per annum.

Fair value hierarchy of financial assets

The following table shows the classification of financial assets measured at fair value by level in the fair value hierarchy:

tab. A6.5 - Fair value hierarchy (€m)

Item	At 31 December 2017				At 31 December 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	551	-	5	556	569	-	5	574
Fixed income instruments	551	-	-	551	562	-	-	562
Equity instruments	-	-	5	5	-	-	5	5
Other investments	-	-	-	-	7	-	-	7
Derivative financial instruments	-	-	-	-	-	-	-	-
Total financial assets at fair value	551	-	5	556	569	-	5	574

There were no transfers of the related financial instruments measured at fair value on a recurring basis between level 1 and level 2 in 2017.

A7 – TRADE RECEIVABLES (€2,019 million)

tab. A7 - Trade receivables (€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Customers	5	1,560	1,565	4	1,569	1,573
Subsidiaries	-	288	288	-	290	290
MEF	-	166	166	-	236	236
Total	5	2,014	2,019	4	2,095	2,099
of which attributable to BancoPosta RFC	-	789	789	-	743	743

Receivables due from customers

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

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Ministries and Public Administration entities	-	642	642	-	619	619
Cassa Depositi e Prestiti	-	374	374	-	364	364
Overseas counterparties	-	229	229	-	285	285
Unfranked mail delivered	20	140	160	24	133	157
Overdraw n current accounts	-	148	148	-	142	142
Amounts due for other BancoPosta services	-	87	87	-	113	113
Other trade receivables	-	411	411	-	321	321
Provisions for doubtful debts	(15)	(471)	(486)	(20)	(408)	(428)
Total	5	1,560	1,565	4	1,569	1,573
of which attributable to BancoPosta RFC	-	536	536	-	545	545

Specifically:

- Amounts due from **Ministries and Public Administration entities** refer mainly to the following services:
 - Integrated Notification and mailroom services rendered to central and local government bodies, amounting to €253 million;

- Unfranked mail services provided on credit to central and local government bodies, totalling €88 million;
- Reimbursement of the costs associated with the management of property, vehicles and security incurred on behalf of the Ministry for Economic Development, totalling €75 million, of which €2 million relates to the amount accrued during the year (see note 2.5⁹¹ for information on this item);
- Compensation for the discounts applied to publishers during the year under review, due from the *Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria* (Cabinet Office – Publishing department), amounting to €43 million;
- The payment of pensions and vouchers on behalf of INPS (the National Institute of Social Security), totalling €66 million. In order to settle the amount due, 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 Company has instructed its legal counsel to take the necessary steps to recover the amount due, reserving the right to take action to enforce its claims once it has exhausted all the possible options to resolve the dispute.

Receivables due from **Cassa Depositi e Prestiti** refer to fees for BancoPosta's deposit-taking activities during 2017.

Receivables from **overseas counterparties** primarily relates to postal services carried out by the Company for overseas postal operators.

Receivables arising from **Unfranked mail delivered** include €74 million in amounts due from customers who use the service on their own behalf and €86 million for amounts due from agents who provide the service for third parties, primarily regarding bulk mail. Collection of these receivables is delegated to the authorised agents who provide the service. €20 million of the total is classified in "Non-current assets".

Receivables for **overdrawn current accounts** are amounts due for temporarily overdrawn current accounts largely due to recurring BancoPosta bank charges, including accumulated sums in the process of being recovered, which have largely been written down.

Other trade receivables primarily include €82 million generated by parcel post operations, €45 million for Posta Time services, €26 million related to Posta Target services, €20 million related to the Notification of Legal Process service, €14 million for Advice and Billing Mail services and €14 million for telegraphic services.

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

⁹¹ See "Revenue and receivables due from the State", item (vi), showing overall amounts due from the Ministry for Economic Development (€77 million), including amounts due for postal and other residual services, amounting to €2 million.

tab. A7.2 - Movements in provisions for doubtful debts

(€m)

	Balance at 1 January 2017	Merger contribution	Net provisions	Deferred revenue	Uses	Balance at 31 December 2017
Overseas postal operators	5	-	2	-	-	7
Public Administration entities	129	-	-	11	-	140
Private customers	261	15	20	-	(1)	295
	395	15	22	11	(1)	442
Interest on late payments	33	-	14	-	(3)	44
Total	428	15	36	11	(4)	486
of which attributable to BancoPosta RFC	141	-	9	-	-	150

Provisions for doubtful debts relating to Public Administration entities regard amounts that may be partially unrecoverable as a result of legislation restricting government spending, delays in payment and problems at debtor entities.

Provisions for doubtful debts relating to private customers include the amount set aside attributable to BancoPosta's operations, mainly to cover numerous individually immaterial amounts due from overdrawn current account holders.

Receivables due from subsidiaries and joint ventures

tab. A7.3 - Trade Receivables due from subsidiaries

(€m)

Name	Balance at 31 December 2017	Balance at 31 December 2016
Direct subsidiaries		
Banca del Mezzogiorno-MedioCredito Centrale SpA	-	1
BancoPosta Fondi SpA SGR	22	16
CLP ScpA	14	15
Consorzio PosteMotori	6	6
EGI SpA	1	1
Mistral Air Srl	2	2
PatentiViaPoste ScpA	6	5
Poste Tributi ScpA	5	6
Poste Vita SpA	139	130
Postecom SpA	-	10
Postel SpA	41	52
PosteMobile SpA	18	22
SDA Express Courier SpA	28	17
Indirect subsidiaries		
Poste Assicura SpA	6	7
Total	288	290
of which attributable to BancoPosta RFC	172	162

These trade receivables include:

- Poste Vita SpA: largely regarding fees deriving from the sale of insurance policies through post offices and attributable to BancoPosta RFC (€136 million);

- Postel SpA: mainly relating to receivables deriving from the delivery of Bulk Mail by Poste Italiane SpA and collected by the subsidiary (€24 million).

Receivables due from the MEF

This item relates to trade receivables due from the Ministry of the Economy and Finance:

tab. A7.4 - Receivables due from the MEF (€m)

Item	Balance at 31 December 2017	Balance at 31 December 2016
Universal Service compensation	31	139
Publisher tariff and electoral subsidies	83	83
Remuneration of current account deposits	25	8
Payment for delegated services	56	28
Distribution of euro converters	-	6
Other	2	3
Provision for doubtful debts due from the MEF	(31)	(31)
Total	166	236
of which attributable to BancoPosta RFC	81	36

Specifically:

- **Universal Service compensation** includes the following:

tab. A7.4.1 - Universal Service compensation receivable (€m)

Item	Balance at 31 December 2017	Balance at 31 December 2016
Remaining balance for 2015	-	67
Remaining balance for 2014	-	41
Remaining balance for 2012	23	23
Remaining balance for 2005	8	8
Total	31	139

A total of €370 million was collected in 2017, including €262 million relating to compensation for 2017 and €108 million in residual compensation for 2015 and 2014.

With reference to the amount receivable for 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. The Company appealed AGCom's decision on 13 November 2014 before the Regional Administrative Court (TAR).

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 would extend the assessment to include the 2014 financial year. At the end of the public consultation, launched by AGCom in 2016, the regulator published Resolution 298/17/CONS, in which it assessed the cost of providing the universal service for 2013 and 2014 to be €393 million and €409 million, respectively, compared with revenue of €343 million and €277 million recognised in the Company's statement of profit or loss for services rendered in the relevant years. The regulator also announced that the compensation

fund to cover the cost of providing the universal service has not been set up. The Company filed a legal challenge to AGCom's resolution before the Regional Administrative Court on 6 November 2017.

On 27 October 2017, AGCom announced the launch of the process of verifying the net cost of the universal postal service for 2015 and 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. These receivables are shown gross of collection of the amount of €55 million deposited in an escrow account with the MEF in December 2017. For this reason, the account, which is non-interest bearing and held with the Treasury, is accounted for in "Prepayments received". The release of the amount deposited with the MEF and derecognition of the receivables in question will occur once the European Commission has given the related consent.
- The **remuneration of current account deposits** refers entirely to amounts accruing in 2017 and almost entirely relates to the deposit of funds deriving from accounts opened by Public Administration entities and attributable to BancoPosta RFC.
- Payments for **delegated services** relate to fees accrued solely in the year under review for treasury services performed by Bancoposta on behalf of the state in accordance with a special agreement with the MEF, renewed on 16 November 2017 for the three-year period 2017-2019.

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

tab. A7.5 - Movements in provisions for doubtful debts due from the MEF (€m)

	Balance at 1 January 2017	Net provisions	Deferred revenue	Uses	Balance at 31 December 2017
Provisions for doubtful debts	31	-	-	-	31
Total	31	-	-	-	31
of which attributable to BancoPosta RFC	-	-	-	-	-

These provisions, which are unchanged with respect to the beginning of the period, reflect the lack of funding of the state budget, a situation that does not permit the collection of certain receivables recognised on the basis of laws, contracts and agreements in force at the time of recognition.

A8 – OTHER RECEIVABLES AND ASSETS (€2,042 million)

This item breaks down as follows:

tab. A8 - Other receivables and assets

(€m)

Item	Note	Balance at 31 December 2017			Balance at 31 December 2016		
		Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Substitute tax paid		1,040	536	1,576	861	527	1,388
Receivables relating to fixed-term contract settlements		101	87	188	121	89	210
Amounts due from social security agencies and pension funds (excl. fixed-term contract settlements)		-	98	98	-	88	88
Amounts restricted by court rulings		-	75	75	-	71	71
Accrued income and prepaid expenses from trading transactions and other assets		-	6	6	-	6	6
Tax assets		-	-	-	-	-	-
Other amounts due from subsidiaries		-	4	4	-	60	60
Sundry receivables		7	106	113	8	103	111
Provisions for doubtful debts due from others		-	(67)	(67)	-	(59)	(59)
Other receivables and assets		1,148	845	1,993	990	885	1,875
Amount due from MEF following cancellation of EC Decision of 16 July		-	-	-	-	6	6
Interest accrued on IRES refund	[C10]	-	46	46	-	46	46
Interest accrued on IRAP refund	[C10]	-	3	3	-	-	-
Total		1,148	894	2,042	990	937	1,927
of which attributable to BancoPosta RFC		1,040	607	1,647	861	601	1,462

Specifically:

- **Substitute tax paid**, attributable to BancoPosta RFC, primarily regards:
 - €1,040 million charged to holder of Interest bearing Postal Certificates for stamp duty at 31 December 2017⁹². This amount is balanced by a matching entry in “Other taxes payable” until expiration or early extinguishment of the Interest bearing Postal Certificates, i.e. the date on which the tax is payable to the tax authorities (tab. B9.3);
 - €325 million relating to stamp duty to be paid in virtual form in 2018 and to be recovered from customers;
 - €143 million relating to stamp duty to be charged to Postal Savings Book holders, which the Company pays in virtual form as required by law;
 - €23 million due from the tax authorities in the form of refundable stamp duty paid in virtual form in 2017;
 - €11 million in withholding tax on interest paid to current account holders for 2017, which is to be recovered from customers;
- Amounts due from staff under **fixed-term contract settlements** consist of salaries to be recovered following the agreements of 13 January 2006, 10 July 2008, 27 July 2010, 18 May 2012, 21 March 2013 and 30 July 2015 between Poste Italiane SpA and the trade unions, regarding the re-employment by court order of staff previously employed on fixed-term contracts. This item refers to receivables with a present value of €188 million from staff, from INPS and pension funds recoverable in the form of variable instalments, the last of which is due in 2040. With regard to amounts receivable from INPS (formerly IPOST), of which approximately €42 million is due, the same considerations described in the above note A7 apply. A breakdown of the receivables by individual agreement is provided below:

⁹² 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).

tab. A8.1 - Receivables from fixed-term contract settlements

(€m)

Item	Balance at 31 December 2017				Balance at 31 December 2016			
	Non-current assets	Current assets	Total	Nominal value	Non-current assets	Current assets	Total	Nominal value
Receivables								
due from staff under agreement of 2006	3	1	4	4	4	2	6	6
due from staff under agreement of 2008	29	13	42	45	38	13	51	56
due from staff under agreement of 2010	32	7	39	48	35	7	42	54
due from staff under agreement of 2012	25	7	32	40	30	7	37	46
due from staff under agreement of 2013	3	1	4	5	4	1	5	6
due from staff under agreement of 2015	4	1	5	5	5	1	6	7
due from INPS (former IPOST)	-	42	42	42	-	42	42	42
due from INPS	5	10	15	16	5	11	16	18
due from pension funds	-	5	5	5	-	5	5	5
Total	101	87	188		121	89	210	

- Amounts that **cannot be drawn on due to court rulings** include €62 million in amounts seized and not assigned to creditors in the process of recovery, and €13 million in amounts stolen from the 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. The risks associated with collection of these items are taken into account in the provisions for doubtful debts due from others.
- The **amount due from the MEF following cancellation of EC Decision 16/07/08**, recognised in the MEF's letter of 7 August 2015, was collected on 30 November 2017.
- **Accrued interest on IRES refund**, amounting to €46 million, refers to interest accruing up to 31 December 2017 in relation to the tax credit determined by an unreported deduction of IRAP paid on labour costs from IRES. Recovery of the amount in question has resulted in a dispute, the outcome of which is subject to uncertainty. With regard to the remaining overall tax credit, amounting to €50 million (i.e. including current tax assets and related interest), information is provided in note 2.5 – *Use of estimates*.
- **Accrued interest on IRAP refund**, amounting to €3 million, regards interest accruing up to 31 December 2017 on IRAP to be recovered on the unreported deduction of expenses for disabled personnel in 2003, described in note C10.
- Movements in the related **provisions for doubtful debts** are as follows:

tab. A8.2 - Movements in provisions for doubtful debts due from others

(€m)

	Balance at 1 January 2017	Net provisions	Uses	Balance at 31 December 2017
Public Administration entities for sundry services	12	1	-	13
Receivables from fixed-term contract settlements	7	2	-	9
Other receivables	40	5	-	45
Total	59	8	-	67
of which attributable to BancoPosta RFC	22	5	-	27

A9 – CASH AND DEPOSITS ATTRIBUTABLE TO BANCOPOSTA (€3,196 million)

Details of this item are as follows:

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

Item	Balance at 31 December 2017	Balance at 31 December 2016
Cash and cash equivalents in hand	2,799	2,269
Bank deposits	397	225
Total	3,196	2,494

Cash at post offices, relating exclusively to BancoPosta RFC, regards 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 (€813 million) and companies that provide cash transportation services whilst awaiting transfer to the Italian Treasury (€1,986 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 €396 million.

A10 – CASH AND CASH EQUIVALENTS (€2,039 million)

Details of this item are as follows:

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

Item	Balance at 31 December 2017	Balance at 31 December 2016
Deposits with the MEF	379	1,310
Bank deposits and amounts held at the Italian Treasury	1,648	1,395
Cash and cash equivalents in hand	12	10
Total	2,039	2,715
of which attributable to BancoPosta RFC	391	1,321

Bank deposits and amounts held at the Italian Treasury include €55 million deposited in a non-interest bearing escrow account with the MEF in December 2017, as prepayment of subsidies to cover discounts granted by the Company. In addition, **bank deposits and amounts held at the Italian Treasury** include €15 million whose use is restricted by court orders related to different disputes.

A11 – NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The reduction of this amount to zero (€384 million at 31 December 2016) reflects:

- completion, on 7 August 2017, following issue of the relevant consents by the Ministry for Economic Development, the European Central Bank and the Bank of Italy, of the sale of the 100% interest in Banca del Mezzogiorno–MedioCreditoCentrale SpA to Invitalia SpA, Agenzia Nazionale per l'Attrazione degli Investimenti e lo Sviluppo d'Impresa. This transaction generated a net gain of €14 million, recognised as

non-recurring income and accounting for in “Other operating income”. Under the related contract of sale, €158 million of the total consideration of €387 million⁹³ was collected during the year under review, with the balance accounted for in “Other financial receivables”, after the effect of discounting to present value. €159 million was collected in early 2018, with the remainder to be collected in tranches, the last of which after five years (€30 million);

- reclassification to the relevant item in assets (note A4) of the carrying amount of the investment in BancoPosta Fondi SpA SGR, as this asset no longer meets the requirements of IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations*.

⁹³ The transaction consideration of €390 million was adjusted by approximately €3 million to take into account certain adjustments provided for in the contract on the occurrence of certain conditions.

EQUITY

B1 – SHARE CAPITAL (€1,306 million)

Poste Italiane SpA's share capital consists of 1,306,110,000 no-par value ordinary shares, of which Cassa Depositi e Prestiti SpA (CDP) holds 35% and the Ministry of the Economy and Finance holds 29.3%, while the remaining shares are held by institutional and retail investors.

At 31 December 2017, all the shares in issue are fully subscribed and paid up. No preference shares have been issued and the Company does not hold treasury shares.

In accordance with the resolution adopted by shareholders at the Annual General Meeting held on 27 April 2017, on 21 June 2017, the Company paid dividends of €509 million (a dividend of €0.39 per share).

B2 – RESERVES (€1,431 million)

tab. B2 - Reserves

	Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Merger surplus	Total
						(€m)
Balance at 1 January 2017	299	1,000	905	(18)	-	2,186
of which attributable to BancoPosta RFC	-	1,000	889	(17)	-	1,872
Increases/(decreases) in fair value during the year	-	-	(313)	(57)	-	(370)
Tax effect of changes in fair value	-	-	92	16	-	108
Transfers to profit or loss	-	-	(666)	(4)	-	(670)
Tax effect of transfers to profit or loss	-	-	173	2	-	175
Gains/(Losses) recognised in equity	-	-	(714)	(43)	-	(757)
Merger contribution	-	-	-	-	2	2
Attribution of profit for 2016	-	-	-	-	-	-
Balance at 31 December 2017	299	1,000	191	(61)	2	1,431
of which attributable to BancoPosta RFC	-	1,000	179	(62)	-	1,117

Details are as follows:

- the **fair value reserve** regards changes in the fair value of available-for-sale financial assets. The decrease of €313 million during 2017 reflects:
 - a net decrease of €312 million in available-for-sale financial assets attributable to BancoPosta RFC, due to the combined effect of a loss on securities of €323 million and a gain on equity instruments of €11 million;
 - €1 million regarding the net fair value loss on available-for-sale financial assets outside the ring-fence.
- the **cash flow hedge reserve** represents changes in the fair value of the effective portion of cash flow hedges outstanding. In 2017, total fair value losses of €57 million are attributable to the value of BancoPosta RFC's derivative financial instruments.

Information on the **BancoPosta RFC reserve** is provided in note 5.2 – *Information on BancoPosta RFC*.

B3 – AVAILABILITY AND DISTRIBUTABILITY OF RESERVES

The following table shows the availability and distributability of Poste Italiane SpA's reserves. Retained earnings include the profit for 2017 of €617 million.

tab. B3 - Availability and distributability of reserves

(€m)

	Amount at 31 December 2017	Potential use
Share capital	1,306	
Revenue reserves:		
<i>legal reserve</i>	261	B
<i>legal reserve</i>	38	A B D
- legal reserve	299	
- BancoPosta RFC reserve	1,000	--
- fair value reserve	191	--
- cash flow hedge reserve	(61)	--
- merger surplus	2	A B D
<i>retained earnings</i>	106	--
<i>retained earnings</i>	1,059	C
<i>retained earnings</i>	1,747	A B D
<i>after-tax actuarial gains/(losses)</i>	(137)	--
- retained earnings	2,775	
Total	5,512	
of which distributable	1,787	

A: for capital increases

B: to cover losses

C: to cover BancoPosta losses

D: for shareholder distributions

LIABILITIES

B4 - PROVISIONS FOR RISKS AND CHARGES (€1,538 million)

Movements in provisions for risks and charges are as follows:

tab. B4 - Movements in provisions for risks and charges

(€m)

Item	Balance at 31 December 2016	Provisions	Finance costs	Released to profit or loss	Uses	Balance at 31 December 2017
Provisions for non-recurring charges	354	178	-	(8)	(95)	429
Provisions for disputes with third parties	309	90	-	(40)	(18)	341
Provisions for disputes with staff ⁽¹⁾	118	13	-	(33)	(23)	75
Provisions for personnel expenses	194	85	-	(28)	(119)	132
Provisions for early retirement incentives	342	440	-	-	(342)	440
Provisions for expired and statute barred postal savings certificates	14	-	1	-	-	15
Provisions for taxation	4	-	-	-	(1)	3
Other provisions	73	39	-	-	(9)	103
Total	1,408	845	1	(109)	(607)	1,538
of which attributable to BancoPosta RFC	462	208	1	(19)	(108)	544
Overall analysis of provisions:						
- non-current portion	590					668
- current portion	818					870
	1,408					1,538

⁽¹⁾ Net provisions for personnel expenses total €25million. Service costs (legal assistance) total €5 million.

Specifically:

- Provisions for non-recurring charges** relate to operational risks arising from BancoPosta's operations. They primarily regard the liabilities arising from the reconstruction of operating ledger entries at the time of the Company's incorporation, liabilities deriving from the provision of delegated services for social security agencies, fraud, violations of administrative regulations, adjustments and outstanding income for previous years, risks linked to disputes with customers regarding certain investment products whose performance is not in line with expectations, or to the erroneous application of statute barring and estimated risks for charges and expenses to be incurred in connection with seizures effected by BancoPosta as garnishee-defendant. Provisions for the year, totalling €178 million, primarily reflect a revised estimate of probable liabilities linked to third-party financial products sold in the early 2000s, including €35 million relating to the voluntary action taken to protect customers, approved by Poste Italiane's Board of Directors on 19 February 2018, in relation to customers who had invested in the Europa Immobiliare 1 fund (which reached maturity on 31 December 2017⁹⁴), and the revision of other liabilities due to adjustments and revised estimates of income for previous years. Uses, amounting to €95 million include €48 million relating to the settlement of amounts due to customers who had invested in the IRS real estate fund, following the decision to take extraordinary measures by Poste Italiane's Board of Directors on 16 January 2017.
- Provisions for disputes with third parties** regard the present value of expected liabilities deriving from different types of legal and out-of-court disputes with suppliers and third parties, the related legal expenses, and penalties and indemnities payable to customers. Provisions for the year of €90 million reflect the estimated value of new liabilities measured on the basis of expected outcomes. The reduction

⁹⁴ This initiative is described in "Risk management – Reputational risk".

of €40 million relates to the reversal of liabilities recognised in the past, whilst a reduction of €18 million regards the value of disputes settled.

- **Provisions for disputes with staff** regard liabilities that may arise following labour litigation and disputes of various types. Net provisions of €20 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 introduced a cap on current and future compensation payable to an employee in the event of "court-imposed conversion" of a fixed-term contract to a permanent one.
- **Provisions for personnel expenses** are made to cover expected liabilities arising in relation to the cost of labour, with are certain or likely to occur but whose estimated amount is subject to change. They have increased by €85 million to reflect the estimated value of new liabilities and decreased as a result of past contingent liabilities that failed to materialise (€28 million) and settled disputes (€119 million).
- **Provisions for early retirement incentives** reflect the estimated costs to be incurred as a result of the Company's bonding commitment to pay early retirement incentives on a voluntary basis, under the current redundancy scheme agreed with the labour unions for a determinate number of employees who will leave the Company by 31 December 2019.
- **Provisions for expired and statute barred Postal Certificates** have been made to cover the cost of redeeming certificates relating to specific issues, even after the certificates have become invalid⁹⁵.
- **Provisions for taxation** have been made to cover estimated tax liabilities.
- **Other provisions** cover probable liabilities of various type, including: estimated liabilities deriving from the risk that specific legal actions undertaken in order to reverse seizures of the Company's assets may be unable to recover the related amounts; losses incurred by subsidiaries that the Company intends to cover; claims for rent arrears on properties used free of charge by the Company; and claims for payment of accrued interest expense due to certain suppliers. Provisions of €39 million for the year primarily regard the first two types of liability.

⁹⁵ Provisions for expired and statute barred Postal Certificates were made in 1998 to cover the cost of redeeming certificates relating to specific issues, the value of which was recognised in revenue in profit or loss in the years in which the certificates became invalid. The provisions were made in response to the Company's decision to redeem such certificates even if expired and statute barred. At 31 December 2017, the provisions represent the present value of total liabilities, based on a nominal value of €21 million, expected to be progressively settled by 2043.

B5 – EMPLOYEE TERMINATION BENEFITS (€1,244 million)

Movements in employee termination benefits are as follows:

tab. B5 - Movements in provisions for employee termination benefits

(€m)

	2017	
Balance at 1 January		1,315
interest component	20	
effect of actuarial gains/(losses)	2	
Provisions for the year		22
Uses for the year ⁽¹⁾		(93)
Balance at 31 December		1,244
of which attributable to BancoPosta RFC		17

(1) For the purposes of reconciliation with the statement of cash flows, uses of the provisions in 2017, after the transfer of provisions as a result of the merger of the subsidiary, Postecom SpA, with and into the Company, amount to €94 million.

The interest component is recognised in finance costs. The current service cost, which from 2007 is paid to pension funds or third-party social security agencies and is no longer included in the employee termination benefits managed by the Company, is recognised in personnel expenses. Net uses of provisions for employee termination benefits amount to €91 million, €4 million to substitute tax and €2 million to transfers from a number of Group companies.

The main actuarial assumptions applied in calculating provisions for employee termination benefits are as follows:

tab. B5.1 - Economic and financial assumptions

	At 31 December 2017	At 30 June 2017	At 31 December 2016
Discount rate	1.25%	1.67%	1.31%
Inflation rate	1.50%	1.50%	1.50%
Annual rate of increase of employee termination benefits	2.625%	2.625%	2.625%

tab. B5.2 - Demographic assumptions

At 31 December 2017	
Mortality	RG48 differentiated by gender
Disability	INPS 1998 differentiated by gender Specific table with rates differentiated by length of service.
Rate of employee turnover	The average length of service for participants corresponds to an annual rate of 0.14%
Advance rate	1.25% for lengths of service of at least 8 years
Pensionable age	In accordance with rules set by INPS

Actuarial gains and losses are generated by the following factors:

tab. B5.3 - Actuarial gains and losses

(€m)

	At 31 December 2017	At 31 December 2016
Change in demographic assumptions	-	-
Change in financial assumptions	7	65
Other experience-related adjustments	(5)	(16)
Total	2	49

The sensitivity of employee termination benefits to changes in the principal actuarial assumptions is analysed below:

tab. B5.4 - Sensitivity analysis

(€m)

	Employee termination benefits at 31 December 2017	Employee termination benefits at 31 December 2016
Inflation rate +0.25%	1,263	1,336
Inflation rate -0.25%	1,226	1,295
Discount rate +0.25%	1,215	1,283
Discount rate -0.25%	1,275	1,349
Turnover rate +0.25%	1,243	1,313
Turnover rate -0.25%	1,245	1,317

tab. B5.5 - Other information

	At 31 December 2017
Expected service cost	-
Average duration of defined benefit plan	9.60
Average employee turnover	0.14%

B6 - FINANCIAL LIABILITIES ATTRIBUTABLE TO BANCOPOSTA (€61,853 million)

tab. B6 - Financial liabilities attributable to BancoPosta

(€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Payables deriving from postal current accounts	-	47,252	47,252	-	45,416	45,416
Borrowings	2,400	2,442	4,842	4,151	1,230	5,381
Borrowings from financial institutions	2,400	2,442	4,842	4,151	1,230	5,381
MEF account, held at the Treasury	-	3,483	3,483	-	2,429	2,429
Derivative financial instruments ⁽¹⁾	1,610	28	1,638	2,259	46	2,305
Cash flow hedges	96	17	113	80	21	101
Fair value hedges	1514	11	1,525	2,179	25	2,204
Other financial liabilities	-	4,638	4,638	-	3,662	3,662
Total	4,010	57,843	61,853	6,410	52,783	59,193

⁽¹⁾ In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

Payables deriving from postal current accounts

These payables include net amounts accrued at 31 December 2017 and settled with customers in January 2018. The balance includes amounts due to Poste Italiane Group companies, totalling €677 million, with €539 million deposited in postal current accounts by Poste Vita SpA.

Borrowings

Borrowings from financial institutions

At 31 December 2017, borrowings from financial institutions amount to €4,842 million and regard repurchase agreements having a total nominal value of €4,407 million, entered into with major financial institutions. These liabilities consist of:

- €3,903 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;
- €939 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 31 December 2017, the fair value⁹⁶ of the above borrowings amounts to €4,853 million.

MEF account held at the Treasury

tab. B6.1 - MEF account held at the Treasury

(€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Balance of cash flows for advances	-	3,375	3,375	-	2,239	2,239
Balance of cash flows from management of postal savings	-	(84)	(84)	-	(4)	(4)
Amounts payable due to theft	-	157	157	-	159	159
Amounts payable for operational risks	-	35	35	-	35	35
Total	-	3,483	3,483	-	2,429	2,429

The **balance of cash flows for advances** represents the net amount payable as a result of advances from the MEF to meet the cash requirements of BancoPosta. These break down as follows:

tab. B6.1.1 - Balance of cash flows for advances

(€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Net advances	-	3,375	3,375	-	2,239	2,239
MEF postal current accounts and other payables	-	671	671	-	671	671
MEF - State pensions	-	(671)	(671)	-	(671)	(671)
Total	-	3,375	3,375	-	2,239	2,239

The **balance of cash flows from the management of postal savings**, amounting to a positive €84 million represents the balance of withdrawals less deposits during the last two days of the year and cleared early in the following year. The balance at 31 December 2017 consists of €43 million payable to Cassa Depositi e Prestiti, less €127 million receivable from the MEF for Interest-bearing Postal Certificates issued on its behalf.

Amounts payable due to thefts from post offices regard the Company's liability to the MEF on behalf of the Italian Treasury for losses resulting from theft and fraud. 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.

Amounts payable for operational risks regard the portion of advances obtained to fund the operations of BancoPosta, in relation to which asset under recovery is certain or probable.

Derivative financial instruments

Movements in derivative financial instruments during 2017 are described in note A5.

⁹⁶ In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

Other financial liabilities

tab. B6.2 - Other financial liabilities

(€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Prepaid cards	-	2,853	2,853	-	2,161	2,161
Domestic and international money transfers	-	734	734	-	599	599
Cheques to be credited to postal savings books	-	243	243	-	284	284
Endorsed cheques	-	188	188	-	148	148
Tax collection and road tax	-	145	145	-	153	153
Amounts to be credited to customers	-	118	118	-	102	102
Guarantee deposits	-	100	100	-	32	32
Other amounts payable to third parties	-	67	67	-	66	66
Payables for items in process	-	190	190	-	117	117
Total	-	4,638	4,638	-	3,662	3,662

Amounts payable for guarantee deposits refer to amounts received from counterparties in relation to Asset Swaps (with collateral provided by specific Credit Support Annexes).

B7 – FINANCIAL LIABILITIES (€1,355 million)

tab. B7 - Financial liabilities

(€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Borrowings	250	963	1,213	1,198	14	1,212
Bonds	50	763	813	798	14	812
Borrowings from financial institutions	200	200	400	400	-	400
Derivative financial instruments ⁽¹⁾	35	4	39	47	4	51
Fair value hedges	30	4	34	40	4	44
Cash flow hedges	5	-	5	7	-	7
Financial liabilities due to subsidiaries	-	46	46	-	38	38
Other financial liabilities	1	56	57	1	-	1
Total	286	1,069	1,355	1,246	56	1,302

⁽¹⁾ In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

Borrowings

Other than the guarantees described in the following notes, borrowings are unsecured and are not subject to financial covenants, which would require the Company to comply with financial ratios or maintain a certain minimum rating. Financial institutions borrowings are subject to standard negative pledge clauses⁹⁷.

Bonds

As part of the Company's EMTN – Euro Medium Term Note programme, totalling €2 billion, the following bonds listed on the Luxembourg Stock Exchange were issued in 2013:

- bonds with a nominal value of €750 million, placed through a public offering for institutional investors at a price below par of €99.66 on 18 June 2013. The bonds have a term to maturity of five years and pay

⁹⁷ 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.

annual coupon interest at a fixed rate of 3.25%. The fair value⁹⁸ of this borrowing at al 31 December 2017 is €775 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, while the interest rate is 3.5% for the first two years and is variable thereafter (EUR Constant Maturity Swap rate plus 0.955%, with a cap of 6% and a floor of 0%). The cash flow interest rate risk exposure was hedged as described in note A6. The fair value⁹⁹ of this borrowing at 31 December 2017 is €53 million.

Borrowings from financial institutions

tab. B7.1 - Borrowings from financial institutions

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
EIB fixed rate loan maturing 11 April 2018	-	200	200	200	-	200
EIB fixed rate loan maturing 23 March 2019	200	-	200	200	-	200
Total	200	200	400	400	-	400

The fair value¹⁰⁰ of the two fixed rate EIB loans, totalling €400 million, is €402 million at 31 December 2017.

The carrying amount of the other financial liabilities in table B7 approximates to their fair value.

Credit facilities

At 31 December 2017, the following credit facilities are available:

- committed lines of €1,173 million (including lines with a value of €1 billion extinguished on 2 February 2018);
- uncommitted lines of credit of €1,059 million;
- overdraft facilities of €160 million;
- unsecured guarantee facilities with a value of €505 million.

At 31 December 2017, the committed and uncommitted lines have not been used. Unsecured guarantees with a value of €172 million have been used on behalf of Poste Italiane SpA and with a value €59 million, on behalf of Group companies. No collateral has been provided to secure the lines of credit obtained.

The uncommitted lines of credit and overdraft facilities are also available for overnight transactions entered into by BancoPosta RFC.

⁹⁸ In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.

⁹⁹ In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

¹⁰⁰ In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

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 €490 million, and the facility is unused at 31 December 2017.

The existing lines of credit and medium/long-term borrowings are adequate to meet expected financing requirements.

Derivative financial instruments

Movements in derivative financial instruments during 2017 are described in note A6.

Financial liabilities due to subsidiaries

These liabilities relate to intercompany current accounts paying interest at market rates and break down as follows:

tab. B7.2 - Financial liabilities due to subsidiaries		(€m)	
Name	Balance at 31 December 2017	Balance at 31 December 2016	
Direct subsidiaries			
BancoPosta Fondi SpA SGR	20	4	
EGI SpA	1	2	
PosteTutela SpA	-	1	
Poste Vita SpA	1	-	
Postecom SpA	-	2	
PosteMobile SpA	24	29	
Total	46	38	

Other financial liabilities

This item includes €56 million relating to the outstanding amount payable to FSI Investimenti SpA for the acquisition of the investment in FSIA Investimenti Srl on 15 February 2017 (note A4).

Changes in liabilities arising from financing activities

The following disclosures are provided in accordance with IAS 7, following the amendments introduced by EU Regulation 1990/2017 of 6 November 2017.

tab. B7.3 - Changes in liabilities arising from financing activities

(€m)

Item	Balance at 31 December 2016	Net cash flow from/(for) financing activities	Non-cash flows	Balance at 31 December 2017
Borrowings	1,211	-	2	1,213
Bonds	811	-	2	813
Borrowings from financial institutions	400	-	-	400
Financial liabilities due to subsidiaries	38	8	-	46
Other financial liabilities	1	-	56	57
Total	1,250	8	58	1,316

B8 – TRADE PAYABLES (€1,211 million)

tab. B8 - Trade payables

(€m)

Item	Balance at 31 December 2017	Balance at 31 December 2016
Amounts due to suppliers	727	895
Amounts due to subsidiaries	230	269
Prepayments and advances from customers	245	208
Other trade payables	9	12
Total	1,211	1,384
of which attributable to BancoPosta RFC	63	87

Amounts due to suppliers

tab. B8.1 - Amounts due to suppliers

(€m)

Item	Balance at 31 December 2017	Balance at 31 December 2016
Italian suppliers	594	749
Overseas suppliers	25	18
Overseas postal operators ^(*)	108	128
Total	727	895
of which attributable to BancoPosta RFC	29	40

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

Amounts due to subsidiaries and joint ventures

tab. B8.2 - Amounts due to subsidiaries

(€m)

Name	Balance at 31 December 2017	Balance at 31 December 2016
Direct subsidiaries		
CLP ScpA	84	111
Consorzio per i Servizi di Telefonia Mobile ScpA	9	9
EGI SpA	16	16
PatentiViaPoste ScpA	1	1
Poste Tributi ScpA	-	5
Poste Tutela SpA	47	47
Postecom SpA	-	20
Postel SpA	15	21
PosteMobile SpA	5	3
SDA Express Courier SpA	41	36
Joint ventures		
FSIA group	12	-
Total	230	269
of which attributable to BancoPosta RFC	25	35

Prepayments and advances from customers

This item refers to amounts received from customers as prepayment for the following services to be rendered:

tab. B8.3 - Prepayments and advances from customers

(€m)

Item	Balance at	
	31 December 2017	31 December 2016
Overseas counterparties	107	123
Advances from MEF	[tab.A7.4] 55	-
Automated franking	47	53
Unranked mail	13	14
Postage-paid mailing services	7	7
Other services	16	11
Total	245	208
of which attributable to BancoPosta RFC	-	-

B9 – OTHER LIABILITIES (€2,775 million)

tab. B9 - Other liabilities

(€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Amounts due to staff	4	914	918	1	895	896
Social security payables	35	469	504	38	437	475
Other tax liabilities	1,040	116	1,156	861	133	994
Amounts due to the MEF	-	-	-	-	21	21
Other amounts due to subsidiaries	7	30	37	6	17	23
Sundry payables	85	34	119	84	28	112
Accrued expenses and deferred income from trading transactions	11	30	41	12	25	37
Total	1,182	1,593	2,775	1,002	1,556	2,558
of which attributable to BancoPosta RFC	1,115	65	1,180	936	61	997

Amounts due to staff

These items primarily regard accrued amounts that have yet to be paid at 31 December 2017. The following table shows a breakdown:

tab. B9.1 - Amounts due to staff

(€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Fourteenth month salaries	-	222	222	-	227	227
Incentives	4	447	451	1	533	534
Accrued vacation pay	-	54	54	-	53	53
Other amounts due to staff	-	191	191	-	82	82
Total	4	914	918	1	895	896
of which attributable to BancoPosta RFC	-	14	14	-	14	14

At 31 December 2017, certain liabilities, which at 31 December 2016 were included in provisions for restructuring, were determinable with reasonable certainty and, as such, were recognised as payables.

Social security payables

tab. B9.2 - Social security payables

(€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
INPS	1	375	376	-	348	348
Pension funds	-	80	80	-	81	81
INAIL	34	3	37	38	3	41
Other agencies	-	11	11	-	5	5
Total	35	469	504	38	437	475
of which attributable to BancoPosta RFC	-	7	7	-	7	7

Other tax liabilities

Other tax liabilities break down as follows:

tab. B9.3 - Other tax liabilities

(€m)

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Withholding tax on employees' and consultants' salaries	-	93	93	-	108	108
Withholding tax on postal current accounts	-	1	1	-	3	3
Stamp duty payable	1,040	-	1,040	861	-	861
Substitute tax	-	1	1	-	1	1
Other taxes due	-	21	21	-	21	21
Total	1,040	116	1,156	861	133	994
of which attributable to BancoPosta RFC	1,040	9	1,049	861	11	872

Specifically:

- **Withholding tax on employees' and consultants' salaries** relates to amounts paid to the tax authorities by the Company in January and February 2018 as the withholding agent.
- **Stamp duty** represents the accrued amount payable to the tax authorities at 31 December 2017 on Interest-bearing Postal Certificates outstanding, in compliance with the legislation referred to in note A8 – *Other receivables and assets*.

Amounts due to the MEF

Amounts due to the MEF, which at 31 December 2016 amounted to €21 million, were settled during 2017.

Other amounts due to subsidiaries and joint ventures

tab. B9.4 - Other amounts due to subsidiaries

(€m)

Name	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Direct subsidiaries						
Mistral Air Srl	1	1	2	1	1	2
Poste Vita SpA	-	15	15	-	-	-
Postel SpA	1	3	4	1	6	7
Risparmio Holding SpA	-	1	1	-	-	-
SDA Express Courier SpA	5	10	15	4	10	14
Total	7	30	37	6	17	23
of which attributable to BancoPosta RFC	-	-	-	-	-	-

This item primarily regards the amount payable to subsidiaries by Poste Italiane SpA, as the consolidating entity in the tax consolidation arrangement (note 2.3 – *Summary of significant accounting standards and*

policies), to whom the subsidiaries have transferred tax assets in the form of payments on account, withholding taxes and taxes paid overseas, after deducting IRES payable to the Parent Company by the subsidiary, Poste Vita SpA, and the benefit connected with the tax losses contributed by Mistral Air Srl, Postel SpA, SDA Express Courier SpA and Risparmio Holding SpA in 2017.

Sundry payables

This item breaks down as follows:

tab. B9.5 - Sundry payables

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Sundry payables attributable to BancoPosta	75	8	83	75	7	82
Guarantee deposits	10	-	10	9	-	9
Other	-	26	26	-	21	21
Total	85	34	119	84	28	112
of which attributable to BancoPosta RFC	75	8	83	75	8	83

In particular:

- **sundry payables attributable to Bancoposta's** operations primarily relate to transactions effected in previous years in the process of settlement;
- **guarantee deposits** primarily relate to amounts collected from customers as a guarantee of payment for services (postage-paid mailing services, the use of post office boxes, lease contracts, telegraphic service contracts, etc.).

Accrued expenses and deferred income from trading transactions

This item breaks down as follows:

tab. B9.6 - Accrued expenses and deferred income

Item	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Accrued expenses	-	2	2	-	2	2
Deferred income	11	28	39	12	23	35
Total	11	30	41	12	25	37
of which attributable to BancoPosta RFC	-	27	27	-	21	21

Deferred income outside the ring-fence primarily regards:

- €7 million in grants approved by the competent public authorities in favour of the Company, whose matching costs have not been incurred yet;
- €4 million relating to advance collection of the rental on a thirty-year lease of a pneumatic postal structure in Rome.

Deferred income attributable to BancoPosta RFC (€27 million) regards fees on Postemat and Postepay Evolution cards collected in advance.

5.4 STATEMENT OF PROFIT OR LOSS

C1 - REVENUE FROM SALES AND SERVICES (€8,060 million)

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

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Postal Services	2,879	3,032
BancoPosta services	5,106	5,114
Other sales of goods and services	75	73
Total	8,060	8,219

Postal Services

Revenue from Postal Services breaks down as follows:

tab. C1.1 - Revenue from Postal Services (€m)

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Unfranked mail	1,053	1,068
Automated franking by third parties and at post offices	731	790
Overseas mail and parcels	173	150
Integrated services	157	207
Stamps	152	190
Postage-paid mailing services	95	102
Telegrams	41	40
Other postal services	172	114
Total market revenue	2,574	2,661
Universal Service compensation	262	371
Publisher tariff subsidies	43	-
Total	2,879	3,032

In particular:

- **Universal Service compensation** relates to amounts paid by the MEF to cover the costs of fulfilling the USO. Annual compensation, amounting to €262 million, is established in the *Contratto di Programma* (Service Contract) for 2015-2019, which took effect on 1 January 2016. Approximately €108 million in further compensation for previous years was recognised in 2016¹⁰¹.
- Publisher tariff subsidies¹⁰² relate to the amount receivable by the Company from the *Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria* (Cabinet Office - Publishing department) as

¹⁰¹ This amount was previously accounted for in "Provisions for doubtful debts due from the MEF" and recognised following new provision made in the State Budget to cover prior contractual obligations.

¹⁰² 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.

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 Company in the period under review, but the subsidies are subject to the approval of the European Commission.

BancoPosta Services

This revenue breaks down as follows:

tab. C1.2 - Revenue from BancoPosta services (€m)

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Fees for collection of postal savings deposits	1,566	1,577
Income from investment of postal current account deposits	1,475	1,509
Revenue from current account services	497	486
Insurance brokerage	468	455
Commissions on payment of bills by payment slip	434	463
Distribution of loan products	214	203
Fees for issue and use of prepaid cards	194	151
Income from delegated services	104	107
Distribution of investment funds	41	29
Money transfers	37	41
Securities custody	5	6
Commissions from securities placements and trading	4	4
Other products and services	67	83
Total	5,106	5,114

In particular:

- **Fees for the collection of postal savings deposits** relate to remuneration for the provision and redemption of Interest-bearing Postal Certificates and payments into and withdrawals from Postal Savings Books. This service is provided by Poste Italiane SpA on behalf of Cassa Depositi e Prestiti under the Agreement of 4 December 2014, originally intended to cover the five-year period 2014-2018. On 14 December 2017, the new Agreement for the three-year period 2018-2020 was signed.
- **Income from the investment of postal current account deposits** breaks down as follows:

tab. C1.2.1 - Income from investment of postal current accounts deposits

(€m)

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Income from investments in securities	1,448	1,489
Interest income on held-to-maturity financial assets	499	541
Interest income on available-for-sale financial assets	992	974
Interest income on asset swaps of available-for-sale financial assets	(49)	(33)
Interest on repurchase agreements	6	7
Income from deposits held with the MEF	27	20
Remuneration of current account deposits (deposited with the MEF)	27	20
Total	1,475	1,509

Income from investments in securities derives from the investment of deposits paid into postal current accounts held by private customers. The total includes the impact of the interest rate hedge described in note A5.

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

- **Other revenue from current account services** primarily relates to charges on current accounts (€210 million), fees on amounts collected and on statements of account sent to customers (€112 million), annual fees on debit cards (€28 million) and related transactions (€50 million).
- **Revenue from insurance brokerage** derives from fees receivable from the subsidiaries, Poste Vita and Poste Assicura, in return for the sale of insurance policies.
- **Revenue from the distribution of loan products** relate to commissions received by the Company on the placement of personal loans and mortgages on behalf of third parties.
- **Income from delegated services** primarily regards amounts received by the Company for the payment of pensions and vouchers issued by INPS (€42 million), and for the provision of treasury services on the basis of the agreement with the MEF (€57 million).
- **Other products and services** mainly reflect fees deriving from the processing of tax payment forms (F24) (€58 million).

Other sales of goods and services

This relates to income from ordinary activities that is not directly attributable to the specific Postal services and Bancoposta segments. The main components are: fees received for collecting applications for residence permits, totalling €23 million and income from call centre services, amounting to €7 million.

C2 - OTHER INCOME FROM FINANCIAL ACTIVITIES (€646 million)

tab. C2 - Other income from financial activities

(€m)

Item	For the year	For the year
	ended 31	ended 31
	December 2017	December 2016
Income from available-for-sale financial assets	639	595
Realised gains	547	473
Realised gains on other investments	91	121
Dividends from other investments	1	1
Income from fair value hedges	2	-
Fair value gains	2	-
Foreign exchange gains	5	4
Realised gains	5	4
Total	646	599

Realised gains on other investments in 2017 regard the gain generated by the sale of shares in Mastercard Incorporated, as described in note A5 – *Financial assets attributable to BancoPosta*.

C3 – OTHER OPERATING INCOME (€584 million)

tab. C3 - Other operating income

(€m)

Item	For the year	For the year
	ended 31	ended 31
	December 2017	December 2016
Dividends from subsidiaries	508	423
Gains on disposals	17	1
Lease rentals	14	16
Recoveries of contract expenses and other recoveries	13	19
Government grants	9	11
Recovery of cost of seconded staff	5	4
Other income	18	4
Total	584	478

Dividends from subsidiaries

tab. C3.1 - Dividends from subsidiaries

(€m)

Name	For the year	For the year
	ended 31	ended 31
	December 2017	December 2016
Poste Vita SpA	470	340
BancoPosta Fondi SpA SGR	21	32
PosteMobile SpA	17	18
Banca del Mezzogiorno-MedioCredito Centrale SpA	-	26
Postecom SpA	-	7
Total	508	423

Gains on disposals

tab. C3.2 - Gains on disposals

(€m)

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Gains on disposal of investments	14	-
Gains on disposal of investment property	2	1
Gains on disposal of property and plant	1	-
Total	17	1

(1) For the purposes of reconciliation with the statement of cash flows, in 2017 this item amounts to €16 million, after losses of €1 million. In 2016, this item, after losses of €2 million, amounted to a loss of €1 million.

Gains on the sale of investments are non-recurring and regard the sale of the 100% interest in Banca del Mezzogiorno–MedioCreditoCentrale SpA.

C4 – COST OF GOODS AND SERVICES (€1,666 million)

tab. C4 - Cost of goods and services (€m)

Item	For the year	For the year
	ended 31	ended 31
	December 2017	December 2016
Services	1,288	1,323
Lease expense	282	283
Raw , ancillary and consumable materials and goods for resale	96	98
Total	1,666	1,704

Cost of services

tab. C4.1 - Cost of services (€m)

Item	For the year	For the year
	ended 31	ended 31
	December 2017	December 2016
Transport of mail, parcels and forms	229	203
Routine maintenance and technical assistance	192	184
Outsourcing fees and external service charges	135	154
Personnel services	133	146
Energy and water	113	118
Transport of cash	88	92
Credit and debit card fees and charges	84	83
Cleaning, waste disposal and security	65	66
Advertising and promotions	62	65
Mail, telegraph and telex	54	67
Telecommunications and data transmission	53	59
Printing and enveloping services	43	45
Consultants' fees and legal expenses	19	23
Insurance premiums	9	9
Agent commissions and other	7	7
Securities custody and management fees	2	2
Total	1,288	1,323

Lease expense

tab. C4.2 - Lease expense (€m)

Item	For the year	For the year
	ended 31	ended 31
	December	December
Property rentals	159	163
Lease rentals	151	155
Ancillary costs	8	8
Vehicle leases	67	62
Equipment hire and software licenses	52	52
Other lease expense	4	6
Total	282	283

Real estate leases relate almost entirely to the buildings from which the Company operates (post offices, Delivery Logistics Centres and Sorting Centres). Under the relevant lease agreements, rents are increased annually on the basis of the price index published by the *Istituto Nazionale di Statistica (ISTAT)*, the Italian Office for National Statistics). Lease terms are generally six years, renewable for a further six. Renewal is assured from the clause stating that the lessor "waives the option of refusing renewal on expiry of the first

term", by which the lessor, once the agreement has been signed, cannot refuse to renew the lease, except in cases of force majeure. Poste Italiane SpA has the right to withdraw from the contract at any time, giving six months' notice, in accordance with the standard lease contract.

Raw, ancillary and consumable materials and goods for resale

tab. C4.3 - Raw, ancillary and consumable materials and goods for resale (€m)

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Fuels and lubricants	41	43
Stationery and printed matter	20	22
Printing of postage and revenue stamps	6	6
Consumables and goods for resale	29	27
Total	96	98

C5 – EXPENSES FROM FINANCIAL ACTIVITIES (€40 million)

tab. C5 - Expenses from financial activities (€m)

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Interest expense	19	30
Interest expense on repurchase agreements	11	17
Interest on customers' deposits	5	12
Interest paid to MEF	4	2
Portion of interest expense on own liquidity (finance costs)	(1)	(1)
Income from available-for-sale financial assets	15	-
Realised gains	15	-
Expenses from fair value hedges	-	1
Fair value losses	-	1
Foreign exchange losses	2	1
Fair value losses	1	1
Realised gains	1	-
Expenses incurred on repurchase agreements	-	7
Other expenses	4	6
Total	40	45

C6 – PERSONNEL EXPENSES (€5,877 million)

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

tab. C6 - Personnel expenses

(€m)

Item	Note	For the year	For the year
		ended 31 December 2017	ended 31 December 2016
Wages and salaries		4,050	4,116
Social security contributions		1,150	1,166
Provisions for employee termination benefits: supplementary pension funds and INPS		248	254
Agency staff		2	-
Remuneration and expenses paid to Directors		2	1
Share based payment		3	1
Redundancy payments		51	165
Net provisions (reversals) for disputes with staff	[tab. B4]	(25)	4
Provisions for restructuring charges	[tab. B4]	440	342
Amounts recovered from staff for disputes		(6)	(9)
Other staff costs/(cost recoveries)		(38)	(48)
Total		5,877	5,992

Net provisions for disputes with staff and provisions for early retirement incentives are described in note B4 - *Provisions for risks and charges*.

Cost recoveries primarily regard revised estimates for previous years.

The following table shows the Company's average and year-end headcounts by category:

tab. C6.1 - Workforce

Permanent workforce	Average workforce		Year-end workforce	
	2017	2016	At 31 December	At 31 December 2016
Executives	594	608	583	588
Middle managers (A1)	6,476	6,489	6,344	6,360
Middle managers (A2)	8,203	8,248	8,073	8,084
Grades B, C, D	111,695	116,200	108,409	112,532
Grades E, F	734	1,005	622	873
Total permanent workforce^(*)	127,702	132,550	124,031	128,437

(*) Figures expressed in full-time equivalent terms

Furthermore, taking account of staff on flexible contracts, the average number of full-time equivalent staff in 2017 is di 134,190 (in 2016: 136,928).

C7 – DEPRECIATION, AMORTISATION AND IMPAIRMENTS (€481 million)

tab. C7 - Depreciation, amortisation and impairments (€m)

Item	For the year ended 31 December 2017	For the year ended 31 December 2016
Property, plant and equipment	307	319
Properties used in operations	110	108
Plant and machinery	72	80
Industrial and commercial equipment	9	10
Leasehold improvements	30	32
Other assets	86	89
Impairments/recoveries/adjustments of property, plant and equipment ⁽¹⁾	(10)	(14)
Depreciation of investment property	4	4
Amortisation and impairments of intangible assets	180	195
Industrial patents and intellectual property rights	180	195
Total	481	504

(1) See note A1.

C8 – OTHER OPERATING COSTS (€459 million)

tab. C8 - Other operating costs (€m)

Item	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Net provisions and losses on doubtful debts (uses of provisions)		30	10
Provisions for receivables due from customers	[tab. A7.2]	22	13
Provisions (reversal of provisions) for receivables due from MEF	[tab. A7.5]	-	(7)
Provisions (reversal of provisions) for sundry receivables	[tab. A8.2]	8	4
Operational risk events		60	42
Thefts during the year		5	8
Reversal of BancoPosta assets, net of recoveries		1	1
Other operating losses of BancoPosta		54	33
Net provisions for risks and charges made/(released)		259	71
for disputes with third parties	[tab. B4]	50	(30)
for non-recurring charges incurred by BancoPosta	[tab. B4]	170	86
for other risks and charges	[tab. B4]	39	15
Losses		1	2
Other taxes and duties		62	67
Municipal property tax		26	27
Urban waste tax		22	20
Other		14	20
Impairments of investments	[tab. A4.1]	21	33
Other recurring expenses		26	30
Total		459	255

Impairment losses on investments in subsidiaries are described in note A4.

C9 – FINANCE INCOME (€43 million) AND COSTS (€150 million)

Finance income

tab C9.1 - Finance income

(€m)

Item	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Income from subsidiaries and associates		14	25
Interest on loans		5	16
Interest on intercompany current accounts		1	1
Dividends from associates (1)		8	8
Income from available-for-sale financial assets		9	7
Interest on fixed-income instruments		16	17
Accrued differentials on fair value hedges		(11)	(10)
Realised gains		4	-
Other finance income		9	11
Finance income on discounting receivables (2)		6	7
Overdue interest		14	9
Impairment of amounts due as overdue interest		(14)	(9)
Interest on IRAP refund	[tab. A8]	3	-
Interest income on Contingent Convertible Notes		-	3
Other		-	1
Foreign exchange gains (1)		11	2
Total		43	45

(1) For the purposes of reconciliation with the statement of cash flows, in 2017 finance income after foreign exchange gains and dividends from associates amounts to €24 million (€35 million in 2016).

(2) Finance income on discounted receivables regards interest on amounts due from staff and INPS under the fixed-term contract settlements of 2006, 2008, 2010, 2012, 2013 and 2015.

Finance costs

tab. C9.2 - Finance costs

(€m)

Item	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Finance costs on financial liabilities		29	30
on bonds		27	27
on financial institutions borrowings		1	2
on derivative financial instruments		1	1
Finance costs on provisions for employee termination benefits	[tab. B5]	20	23
Finance costs on provisions for risks	[tab. B4]	1	1
Remuneration of Poste Italiane's own liquidity	[tab. C5]	1	1
Loss on contingent convertible notes		82	-
Impairment of investments in joint ventures		-	4
Other finance costs		5	4
Foreign exchange losses (1)		12	2
Total		150	65

(1) For the purposes of reconciliation with the statement of cash flows, in 2017 financial costs after foreign exchange losses amount to €138 million (€63 million in 2016).

C10 – INCOME TAX EXPENSE (€56 million)

tab. C10 - Income tax expense

(€m)

Item	For the year ended 31 December			For the year ended 31 December		
	IRES	IRAP	Total	IRES	IRAP	Total
Current tax expense	56	26	82	129	29	158
Deferred tax income	(24)	(4)	(28)	3	(5)	(2)
Deferred tax expense	2	-	2	(3)	-	(3)
Total	34	22	56	129	24	153

The tax rate for 2017 is 8.31% and consists of:

tab. C10.1 - Reconciliation between the theoretical IRES tax rate and the effective IRES tax rate

(€m)

Item	For the year ended 31 December 2017		For the year ended 31 December 2016	
	IRES	Tax rate	IRES	Tax rate
<i>Profit before tax</i>	673		779	
Theoretical tax charge	162	24.0%	214	27.5%
Adjustments to investments	5	0.78%	9	1.17%
Dividends from investee companies	(117)	-17.48%	(113)	-14.45%
Realised gains on investments	(3)	-0.47%	-	-
Realised gains on other investments	(21)	-3.09%	(32)	-4.07%
Non-deductible out-of-period losses	5	0.70%	6	0.69%
Non-deductible taxes	5	0.76%	6	0.77%
Net provisions for risks and charges and bad debts	20	2.97%	26	3.36%
Taxation for previous years	(19)	-2.78%	(5)	-0.66%
Adjustments for change in IRES tax rate introduced by 2016 Stability Law	-	-	14	1.83%
Other	(3)	-0.42%	4	0.44%
Effective tax charge	34	4.98%	129	16.59%

tab. C10.2 - Reconciliation between the theoretical IRAP tax rate and the effective IRAP tax rate

(€m)

Item	For the year ended 31 December 2017		For the year ended 31 December 2016	
	IRAP	Tax rate	IRAP	Tax rate
<i>Profit before tax</i>	673		779	
Theoretical tax charge	31	4.57%	35	4.55%
Effect of increases/(decreases) on theoretical tax charge				
Non-deductible personnel expenses	12	1.70%	6	0.78%
Dividends from investee companies	(24)	-3.51%	(19)	-2.52%
Realised gains on investments	(1)	-0.09%	-	-
Net provisions for risks and charges and bad debts	5	0.80%	1	0.15%
Non-deductible out-of-period losses	1	0.13%	1	0.09%
Finance income and costs	5	0.70%	(1)	-0.05%
Non-deductible taxes	1	0.18%	1	0.16%
Claim for IRAP refund	(9)	-1.28%	-	-
Taxation for previous years	(1)	-0.09%	(4)	-0.49%
Other	2	0.23%	4	0.45%
Effective tax charge	22	3.33%	24	3.13%

Current tax expense

tab. C10.3 - Movements in current tax assets/(liabilities)

(€m)

Item	Current taxes for the year ended 31 December 2017		Total
	IRES	IRAP	
	Assets/ (Liabilities)	Assets/ (Liabilities)	
Balance at 1 January	(68)	1	(67)
Payments of	373	29	402
prepayments for the current year	305	29	334
balance payable for the previous year	68	-	68
Collection of IRES refund claimed	(1)	-	(1)
Adjustment of IRES refund claimed	-	9	9
Provisions to profit or loss	(56)	(35)	(91)
Provisions to equity	1	-	1
Tax consolidation	(188)	-	(188)
Other	7 (*)	-	7
Balance at 31 December	68	4	72
of which:			
Current tax assets	68	9	77
Current tax liabilities	-	(5)	(5)

(*) This item regards credits resulting from withholdings on fees.

Under IAS 12 – Income Taxes, IRES and IRAP credits are offset against the corresponding current tax liabilities, when applied by the same tax authority to the same taxable entity, which has a legally enforceable right to offset and intends to exercise this right.

Current tax assets/(liabilities) for the year ended 31 December 2017 primarily regard:

- the tax asset of €59 million reflects payments of IRES and IRAP on account, refundable IRAP from the previous year and IRES withholding tax incurred, after provisions for IRES and IRAP for the year;
- 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 Company (see the description provided in note 2.5 – *Use of estimates*). At 31 December 2017, accrued interest of €3 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. C9.1), with the related receivable recognised in “Other receivables and assets” (tab. A8);
- the remaining IRES credit of €4 million to be recovered on 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, which provided for a partial deductibility of IRAP from IRES (reference should be made to the information on accrued interest in note A8).

Deferred tax assets and liabilities

Details of this item at 31 December 2017 are shown in the following table:

tab. C10.4 - Deferred taxes (€m)

Item	Balance at 31 December 2017	Balance at 31 December 2016
Deferred tax assets	762	672
Deferred tax liabilities	(315)	(536)
Total	447	136
of which attributable to BancoPosta RFC		
Deferred tax assets	406	321
Deferred tax liabilities	(308)	(530)

The nominal tax rate for IRES is 24% from 1 January 2017, whilst the nominal tax rate for IRAP is 3.90% for entities as a whole and 4.20% for entities that hold concessions other than those relating to the construction and operation of motorways and tunnels (+/-0.92% resulting from regional surtaxes and/or relief and +0.15% as a result of additional surtaxes levied in regions with a health service deficit). The Company's average statutory rate for IRAP is 4.57%. Movements in deferred tax assets and liabilities are shown below:

tab. C10.5 - Movements in deferred tax assets and liabilities (€m)

Item	Note	2017
Balance at 1 January		136
Deferred tax income/(expense) recognised in profit or loss		26
Non-recurring income/(expense) recognised in profit or loss due to adjustment to IRES rate		-
Income/(expense) recognised in equity	[tab. C10.8]	282
Merger contribution		3
Balance at 31 December		447

The following table shows movements in deferred tax assets and liabilities, broken down according to the events that generated such movements:

tab. C10.6 - Movements in deferred tax assets (€m)

Item	Investment property	Financial assets and liabilities	Contra asset accounts	Provisions for risks and charges	Present value of employee termination benefits	Other	Total
Balance at 1 January 2017	16	206	75	308	25	42	672
Income/(Expenses) recognised in profit or loss	-	-	3	22	-	3	28
Income/(expenses) recognised in equity	-	60	-	-	(1)	-	59
Merger contribution	-	-	3	-	-	-	3
Balance at 31 December 2017	16	266	81	330	24	45	762

tab. C10.7 - Movements in deferred tax liabilities

(€m)

Item	Financial assets and liabilities	PPE	Other	Total
Balance at 1 January 2017	535	1	-	536
Income/(Expenses) recognised in profit or loss	-	-	2	2
Income/(expenses) recognised in equity	(223)	-	-	(223)
Merger contribution	-	-	-	-
Balance at 31 December 2017	312	1	2	315

The decrease in deferred tax liabilities related to financial assets and liabilities is due mainly to movements in the fair value reserve, as described in note B2.

At 31 December 2017, deferred tax assets and liabilities recognised directly in equity are as follows:

tab. C10.8 - Deferred tax assets and liabilities recognised in equity

(€m)

Increases/(decreases) in equity

Item	Year ended 31 December 2017	Year ended 31 December 2016
Fair value reserve for available-for-sale financial assets	265	602
Cash flow hedge reserve	18	11
Actuarial gains /(losses) on employee termination benefits	(1)	(5)
Retained earnings from shareholder transactions	-	(2)
Total	282	606

5.5 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 31 December 2017 (€m)									
Name	Balance at 31 December 2017								
	BancoPosta's financial assets	Financial assets	Trade receivables	Other receivables and assets	Cash and cash equivalents	BancoPosta's financial liabilities	Financial liabilities	Trade payables	Other liabilities
Direct subsidiaries									
BancoPosta Fondi SpA SGR	-	-	22	-	-	19	20	-	-
CLP ScpA	-	-	14	-	-	10	-	84	-
Consorzio PosteMotori	-	-	6	-	-	41	-	-	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	6	-	9	-
EGI SpA	-	-	1	-	-	12	1	16	-
Mistral Air Srl	-	13	2	-	-	-	-	-	2
PatentViaPoste ScpA	-	-	6	-	-	8	-	1	-
Poste Tributi ScpA (in liquidation)	-	2	5	1	-	7	-	-	-
Poste Tutela SpA	-	-	-	-	-	7	-	47	-
Poste Vita SpA	-	251	139	-	-	570	1	-	15
Postel SpA	-	8	41	1	-	5	-	15	4
PosteMobile SpA	-	-	18	1	-	15	24	5	-
Risparmio Holding SpA	-	-	-	-	-	-	-	-	1
SDA Express Courier SpA	-	93	28	1	-	3	-	41	15
Indirect subsidiaries									
Poste Assicura SpA	-	-	6	-	-	2	-	-	-
Poste Welfare Servizi Srl	-	-	-	-	-	3	-	-	-
Joint ventures									
SIA Group	-	-	-	-	-	-	-	12	-
Related parties external to the Group									
Ministry of the Economy and Finance	6,011	-	312	17	379	3,483	-	97	8
Cassa Depositi e Prestiti Group	2,485	-	374	-	-	-	56	-	-
Enel Group	-	-	29	-	-	-	-	5	-
Eni Group	-	-	1	-	-	-	-	19	-
Equitalia Group	-	-	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	-	-	32	-
Monte dei Paschi di Siena Group	-	-	2	-	6	-	-	-	-
Invitalia Group	-	228	2	-	-	-	-	-	-
Other related parties external to the Group	-	-	4	-	-	-	-	14	61
Provisions for doubtful debts from external related parties	-	-	(42)	(11)	-	-	-	-	-
Total	8,496	595	970	10	385	4,191	102	397	106

Impact of related party transactions on the financial position at 31 December 2016 (€m)									
Name	Balance at 31 December 2016								
	BancoPosta's financial assets	Financial assets	Trade receivables	Other receivables and assets	Cash and cash equivalents	BancoPosta's financial liabilities	Financial liabilities	Trade payables	Other liabilities
Direct subsidiaries									
Banca del Mezzogiorno-MedioCredito Centrale SpA	-	250	1	-	-	25	-	-	-
BancoPosta Fondi SpA SGR	-	-	16	-	-	12	4	-	-
CLP ScpA	-	-	15	-	-	1	-	111	-
Consorzio PosteMotori	-	-	6	-	-	27	-	-	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	-	-	9	-
EGI SpA	-	-	1	-	-	12	2	16	-
Mistral Air Srl	-	10	2	-	-	1	-	-	1
PatentViaPoste ScpA	-	1	5	-	-	4	-	1	-
Poste Tributi ScpA	-	6	6	-	-	2	-	5	-
Poste Tutela SpA	-	-	-	-	-	13	1	47	-
Poste Vita SpA	-	251	130	56	-	186	-	-	-
Postecom SpA	-	-	10	2	-	5	2	20	-
Postel SpA	-	18	52	-	-	2	-	21	7
PosteMobile SpA	-	-	22	1	-	21	29	3	-
SDA Express Courier SpA	-	94	17	1	-	4	-	36	14
Indirect subsidiaries									
Poste Assicura SpA	-	-	7	-	-	3	-	-	-
Related parties external to the Group									
Ministry of the Economy and Finance	6,189	1	327	21	1,310	2,429	-	108	21
Cassa Depositi e Prestiti Group	1,509	-	364	-	-	-	-	18	-
Enel Group	-	-	29	-	-	-	-	8	-
Eni Group	-	-	7	-	-	-	-	14	-
Equitalia Group	-	-	90	-	-	-	-	3	8
Leonardo Group	-	-	-	-	-	-	-	30	-
Other related parties external to the Group	-	-	4	-	-	-	-	14	62
Provisions for doubtful debts from external related parties	-	-	(40)	(10)	-	-	-	-	-
Total	7,698	631	1,071	71	1,310	2,747	38	464	113

At 31 December 2017, total provisions for risks and charges made to cover probable liabilities arising from transactions with related parties external to the Company and attributable primarily to trading relations amount to €71 million (€60 million at 31 December 2016).

Name	Year ended 31 December 2017									
	Revenue			Capital expenditure		Costs				
	Revenue from sales and services	Other operating income	Finance income	Property, plant and equipment	Intangible assets	Cost of goods and services	Expenses from financial activities	Personnel expenses	Other operating costs	Finance costs
Direct subsidiaries										
Banca del Mezzogiorno-MedioCredito Centrale SpA	1	-	-	-	-	-	-	-	-	-
BancoPosta Fondi SpA SGR	43	21	1	-	-	-	-	-	-	-
CLP ScpA	8	1	-	-	1	153	-	-	1	-
Consorzio PosteMotori	40	-	-	-	-	-	-	-	-	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	6	-	23	-	-	-	-
EGI SpA	-	1	-	-	-	99	-	-	-	-
PatentiViaPoste ScpA	25	-	-	-	-	-	-	-	1	-
Postecom SpA	-	-	-	-	5	9	-	-	-	-
Poste Tributi ScpA (in liquidation)	1	-	-	-	-	-	-	-	-	-
PosteTutela SpA	-	1	-	-	-	98	-	-	-	-
Poste Vita SpA	470	471	4	-	-	-	-	-	-	-
Postel SpA	4	1	-	-	-	43	-	1	-	-
PosteMobile SpA	16	18	-	-	-	2	-	-	-	-
SDA Express Courier SpA	7	4	1	-	-	80	-	-	-	-
Indirect subsidiaries										
Poste Assicurata SpA	23	-	-	-	-	-	-	-	-	-
Joint ventures										
Gruppo SIA	-	-	-	-	3	28	-	-	-	-
Associates										
Anima Group	2	-	8	-	-	-	-	-	-	-
Related parties external to the Group										
Ministry of the Economy and Finance	514	3	-	-	-	5	3	-	-	1
Cassa Depositi e Prestiti Group	1,578	-	-	-	-	-	-	-	-	-
Enel Group	70	-	-	-	-	-	-	-	2	-
Eni Group	9	-	-	-	-	31	-	-	-	-
Equitalia Group	1	-	-	-	-	-	-	-	-	-
Leonardo Group	1	-	-	-	12	29	-	-	-	-
Monte dei Paschi di Siena Group	17	-	-	-	-	-	-	-	-	-
Invitalia Group	3	14	-	-	-	-	-	-	-	-
Other related parties external to the Group	11	-	-	-	-	14	-	39	-	-
Total	2,844	535	14	6	21	614	3	40	4	1

Name	Year ended 31 December 2016									
	Revenue			Capital expenditure		Costs				
	Revenue from sales and services	Other operating income	Finance income	Property, plant and equipment	Intangible assets	Cost of goods and services	Expenses from financial activities	Personnel expenses	Other operating costs	Finance costs
Direct subsidiaries										
Banca del Mezzogiorno-MedioCredito Centrale SpA	2	26	2	-	-	-	-	-	-	-
BancoPosta Fondi SpA SGR	31	32	-	-	-	-	-	-	-	-
CLP ScpA	12	-	-	5	-	171	-	-	1	-
Consorzio PosteMotori	40	-	-	-	-	-	-	-	-	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	47	-	-	-	-
EGI SpA	-	1	-	-	-	102	-	-	-	-
Mistral Air Srl	-	1	-	-	-	-	-	-	-	-
PatentiViaPoste ScpA	25	-	-	-	-	-	-	-	1	-
Poste Tributi ScpA	5	-	-	-	-	-	-	-	5	-
PosteTutela SpA	-	1	-	-	-	100	-	-	-	-
Poste Vita SpA	456	341	13	-	-	-	-	-	-	-
Postecom SpA	-	9	-	-	15	40	-	-	-	-
Postel SpA	4	2	-	-	-	25	-	1	-	-
PosteMobile SpA	16	20	-	-	-	3	-	-	-	-
SDA Express Courier SpA	5	3	1	-	-	58	-	1	-	-
Indirect subsidiaries										
Poste Assicurata SpA	21	-	-	-	-	-	-	-	-	-
Associates										
Anima Group	-	-	8	-	-	-	-	-	-	-
Related parties external to the Group										
Ministry of the Economy and Finance	535	4	-	-	-	2	1	-	(6)	1
Cassa Depositi e Prestiti Group	1,588	-	-	-	5	23	-	-	-	-
Enel Group	81	-	-	-	-	-	-	-	-	-
Eni Group	23	-	-	-	-	30	-	-	-	-
Equitalia Group	59	-	-	-	-	3	-	-	-	-
Leonardo Group	-	-	-	-	10	30	-	-	-	-
Other related parties external to the Group	7	-	-	-	-	21	-	42	-	-
Total	2,910	440	24	5	30	655	1	44	1	1

At 31 December 2017, total provisions for risks and charges made to cover probable liabilities arising from transactions with related parties external to the Company and primarily attributable to trading relations amount to €11 million (€6 million at 31 December 2016).

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

- Amounts received from the MEF relate primarily to payment for carrying out the USO, the management of postal current accounts, as payment for delegated services, integrated e-mail services, the franking of mail on credit, collection services, and for the integrated notification and reporting service for processing tax returns. The costs incurred primarily regard the transmission of data relating to the payment of tax returns. Following the creation of the Agenzia delle Entrate e delle riscossioni, a publicly owned entity subject to management and oversight by the MEF, and the consequent winding up of the principal companies in the Equitalia group, certain fees received for provision of the integrated notification and reporting service and for the franking of mail on credit, as well as the cost incurred for the transmission of data relating to the payment of tax returns, which were attributable to relations with the Equitalia group at 31 December 2016, are now shown as attributable to relations with the MEF.
- 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, franking of mail on credit and postage paid mailing services, as well as collection and accounting for electric utility payments. The costs incurred primarily relate to the supply of gas and electricity.
- 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 fuel for motorcycles and vehicles and the supply of gas.
- 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.
- Amounts received from the Monte dei Paschi di Siena group primarily regard payment for mail shipments.
- Other income from the Invitalia group refers to the gain recognised following the sale of the investment in Banca del Mezzogiorno–MedioCreditoCentrale SpA (note A11).

Impact of related party transactions and positions

The impact of related party transactions on the financial position, profit or loss and cash flows is shown in the following table:

Impact of related party transactions (€m)						
Item	At 31 December 2017			At 31 December 2016		
	Total in financial statements	Total related parties	Impact (%)	Total in financial statements	Total related parties	Impact (%)
Financial position						
Financial assets attributable to BancoPosta	60,048	8,496	14.1	58,052	7,698	13.3
Financial assets	1,198	595	49.7	1,344	631	46.9
Trade receivables	2,019	970	48.0	2,099	1,071	51.0
Other receivables and assets	2,042	10	0.5	1,927	71	3.7
Cash and cash equivalents	2,039	385	18.9	2,715	1,310	48.3
Provisions for risks and charges	1,538	71	4.6	1,408	60	4.3
Financial liabilities attributable to BancoPosta	61,853	4,191	6.8	59,193	2,747	4.6
Financial liabilities	1,355	102	7.5	1,302	38	2.9
Trade payables	1,211	397	32.8	1,384	464	33.5
Other liabilities	2,775	106	3.8	2,558	113	4.4
Profit or loss						
Revenue from sales and services	8,060	2,844	35.3	8,219	2,910	35.4
Other operating income	584	535	91.6	478	440	92.1
Cost of goods and services	1,666	614	36.9	1,704	655	38.4
Expenses from financial activities	40	3	7.5	45	1	2.2
Personnel expenses	5,877	40	0.7	5,992	44	0.7
Other operating costs	459	15	3.3	255	7	2.7
Finance costs	150	1	0.7	65	1	1.5
Finance income	43	14	32.6	45	24	53.3
Cash flow						
Net cash flow from/(for) operating activities	5	723	n.a.	2,422	3,599	n.a.
Net cash flow from/(for) investing activities	(181)	183	n.a.	(240)	112	n.a.
Net cash flow from/(for) financing activities and shareholder transactions	(501)	(328)	65.5	(987)	(477)	48.3

Key management personnel

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

Remuneration of key management personnel (€000)

Item	Year ended 31 December 2017	Year ended 31 December 2016
Remuneration to be paid in short/medium term	11,577	13,503
Post-employment benefits	463	552
Other benefits to be paid in longer term	7	452
Termination benefits	6,979	3,845
Share-based payments	2,034	812
Total	21,060	19,164

Remuneration of Statutory Auditors (€000)

Item	Year ended 31 December 2017	Year ended 31 December 2016
Remuneration	271	228
Expenses	-	1
Total	271	229

The remuneration paid to members of the Company's Supervisory Board amounts to approximately €76 thousand in 2017. In determining the re, 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 year and, at 31 December 2017, the Company does not report receivables in respect of loans granted to key management personnel.

Transactions with staff pensions funds

Poste Italiane SpA and the subsidiaries that apply the National Collective Labour Contract are members of the Fondoposte Pension Fund, the national supplementary pension fund for Poste Italiane personnel, established on 31 July 2002 as a non-profit entity. The Fund's officers and boards are the General Meeting of delegates, the Board of Directors, the Chairman and Deputy Chairman of the Board of Directors and Board of Statutory Auditors. Representation of members on the above boards is shared equally between the companies and the workers that are members of the Fund. The participation of members in the running of the Fund is guaranteed by the fact that they directly elect the delegates to send to the General Meeting.

Other related party disclosures

At a meeting on 20 September 2017, Poste Italiane's Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised the spot and forward purchase and sale of securities issued and/or guaranteed by the Italian government and the execution of repurchase agreements and reverse repos and of hedging derivatives by BancoPosta RFC, with Monte Paschi Capital Services Banca per le Imprese SpA acting as counterparty. This company qualifies as a related party of Poste Italiane as it is also controlled by the Ministry of the Economy and Finance through Banca Monte dei Paschi di Siena SpA.

Following conclusion of the agreement, from October 2017, five repurchase agreements and 23 buy & sell back transactions, which expired during the period, have been entered into, in addition to two Interest rate Swaps for hedging purposes and two forward sales of securities.

At a meeting on 13 December 2017, Poste Italiane's Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised signature of the agreement with Cassa Depositi e Prestiti governing the collection and distribution of Postal Savings products, by BancoPosta on behalf of Cassa Depositi e Prestiti, for the three-year period 2018-2020.

6. RISK MANAGEMENT

INTRODUCTION

Compared with the version presented until the end of the last annual reporting period, this note has undergone a number of changes in terms of form and content.

To help in reading the note and enable comparison with the past, a brief summary of the changes made is provided below:

- The note on “Risk management” is included only once, in an area of the document providing information on matters common to both the Group and Poste Italiane SpA. It deals with both financial risk (as defined by IFRS 7) and other types of risk that the Group’s deems it appropriate or necessary to disclose in this note.
- With regard to finance risk, qualitative and quantitative disclosures are provided about the Group’s exposure, indicating aspects that specifically relate to Poste Italiane SpA. Where the risk exposure regards the Group, the qualitative disclosure is provided only once, distinguishing between aspects attributable to the Parent Company and those attributable to other Group companies, whilst quantitative data (balances at the reporting date and the outcomes of stress tests) is provided at both consolidated level and in relation to Poste Italiane SpA. In contrast, where the risk only regards the Parent Company’s operations, this fact is explained at the beginning of the section dealing with that risk.

FINANCIAL RISK

Information on financial risk management at 31 December 2017 is provided below, in accordance with the requirements of IFRS 7 – *Financial Instruments: Disclosures*.

Responsibility for coordinating and managing the investment strategy and the hedging of capital market risks has been assigned to the Parent Company’s Coordination of Investment Management function, which aims to ensure a uniform approach across the Poste Italiane Group’s various financial entities. Treasury management for the Company and on a centralised basis, definition of the capital structure for the Group, and the assessment of funding transactions and extraordinary and subsidised transactions is, on the other hand, the responsibility of Administration, Finance and Control.

Management of the Group’s financial transactions and of the associated risks relates mainly to the operations of Poste Italiane SpA and the Poste Vita insurance group.

- **Poste Italiane SpA’s** financial transactions primarily relate to BancoPosta’s operations, asset financing and liquidity investment.

BancoPosta RFC’s operations consist in the active 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 euro zone government securities¹⁰³, 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 a use of a leading market operator’s statistical/econometric model that

¹⁰³ 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.

As of 1 April 2015 the match between BancoPosta’s private customer deposits and related investments, which is verified on a quarterly basis, relates to the amortised cost calculated on the ex coupon value of the financial instruments held in portfolio. Before, the equivalence was measured based on the nominal value of the instruments.

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. The above mentioned model is thus the general reference for the investments, in order to limit exposure to interest rate risk and liquidity risks. The prudential requirements introduced by the third revision of the Bank of Italy Circular 285/2013 require Bancoposta to apply the same regulations applicable to banks in terms of its controls, establishing that its operations are to be conducted in accordance with the Consolidated Law on Banking (TUB) and the Consolidated Law on Finance (TUF). Bancoposta RFC is, therefore, required to establish a system of internal controls in line with the provisions of Circular 285¹⁰⁴, which, among other things, requires definition of a Risk Appetite Framework (RAF¹⁰⁵), the containment of risks within the limits set by the RAF, protection of the value of assets and against losses, and identification of material transactions to be subject to prior examination by the risk control function.

Following the positive performance of current account deposits in 2017, from June onwards, the process of monitoring the risk profile indicated that there had been a decline in the leverage ratio to below the threshold set in the Risk Appetite Framework (RAF). The **leverage ratio** at 31 December 2017 stands at approximately 3.11% (3% being the minimum level required by the regulations). In order to restore the leverage ratio to the target level set out in the RAF (3.15%), on 25 January 2018, Poste Italiane SpA's Board of Directors approved the recapitalisation of BancoPosta by transferring free reserves of €210 million. The relevant functions will continue to keep a close eye on the leverage ratio throughout 2018 to ensure, over time, that it continues to meet the related targets, thresholds and limits established in the RAF.

Operations not covered by BancoPosta RFC, primarily relating to management of the Parent Company's own liquidity, are carried out in accordance with investment guidelines approved by the Board of Directors, which require the Company to invest in instruments such as government securities, high-quality corporate or bank bonds and term bank deposits. Liquidity is also deposited in postal current accounts, subject to the same requirements applied to the investment of deposits by private current account holders.

- 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. Other investments in financial instruments regard investment of the insurance company's free capital.

Traditional life policies, classified under Class I and V, primarily include products whose benefits are revaluated based on the return generated through the management of pools of financial assets, which are separately identifiable in accounting terms only, within the company's assets (so-called separately managed accounts). Typically, the Company guarantees a minimum return payable at maturity on such products (31 December 2017, this return ranged between 0% and 1.5%). Gains and losses resulting from measurement are attributed in full to policyholders and accounted for in specific technical provisions under the shadow accounting method. The calculation technique used by the Group in applying this method is based on the prospective yield on each separately managed account, considering a hypothetical realisation

¹⁰⁴ See in particular the provisions laid down in Part I – Section IV – Chapter 3.

¹⁰⁵ The RAF consists of a framework that defines, in keeping with the maximum acceptable risk, the business model and strategic plan, the risk appetite, risk tolerance thresholds, risk limits, and risk management policies, together with the processes needed to define and implement them.

of unrealised gains and losses over a period of time that matches the assets and liabilities held in the portfolio (see note 2.3 in relation to “Insurance contracts”).

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.

Index-linked and unit-linked products, relating to Class III insurance products, regard policies where the premium is invested in Italian government securities, warrants and mutual investment funds. In the case of index-linked policies issued, the company assumes sole liability for solvency risk associated with the instruments in which premiums are invested, providing a guaranteed minimum return only when called for by contract. The company continuously monitors changes in the risk profile of individual products, focusing especially on the risk linked to the insolvency of issuers.

Poste Assicura SpA's investment policies are designed to preserve the Company's financial strength, as outlined in the framework resolution approved by the Board of Directors on 19 October 2017. Regular analyses of the macroeconomic context and market trends for the different asset classes, with the relevant effects on asset-liability management, are conducted. For the non-life business, such analyses do not consider guaranteed minimum returns but, rather, focus on the management of liquidity in order to meet claims.

Within the above context, balanced financial management and monitoring of the main risk/return profiles are carried out and ensured by dedicated organisational structures that operate separately and independently. In addition, specific processes are in place governing the assumption and management of and control over financial risks, including the progressive introduction of appropriate information systems.

In this regard, on 19 February 2018, Poste Italiane SpA's Board of Directors adopted a revised version of the Guidelines for Internal Control and Risk Management System (*SCIGR*), which contains integrated guidelines for Poste Italiane SpA's Internal Control and Risk Management System.

From an organisational viewpoint, the management of financial risk involves the following bodies and functions:

- the **Audit, Risk and Sustainability Committee**, established in 2015, whose role, based on adequate research activity, is to act in an advisory capacity and make recommendations to support the Board of Directors in assessing and making decisions regarding Poste Italiane SpA's internal control and risk management system and, from February 2018, issues relating to Poste Italiane SpA's sustainability.
- the **Financial and Insurance Services Committee**, established on 19 March 2018 to replace the previous Finance, Savings and Investment Committee, with the aim of overseeing the process of developing the products and services distributed by BancoPosta, in order to take a uniform, integrated view of the entire offering and to monitor the performance of the financial investments in which private customer deposits are invested.

- an **Investment Committee established at the Group's insurance company, Poste Vita SpA**, which, based on analyses by the relevant functions, provides advice to senior management on the development, implementation and oversight of investment strategy;
- appropriate functions established within the Parent Company and the subsidiaries providing financial and insurance services (BancoPosta Fondi SGR SpA and Poste Vita SpA) that perform **Risk Measurement and Control** activities, ensuring the organisational separation of risk assessment from risk management activities. The results of these activities are examined by the relevant advisory Committees, which are responsible for carrying out an integrated assessment of the main risk profiles;
- **BancoPosta RFC's Cross-functional Committee**, set up under the BancoPosta RFC Regulation, which provides advice, makes recommendations and coordinates BancoPosta's operations with those of other Poste Italiane functions. The Committee is chaired by the Parent Company's CEO. Other permanent members are the Head of BancoPosta and the heads of the functions within Poste Italiane SpA primarily involved with BancoPosta.

In constructing the Risk Model used by BancoPosta RFC, account was also taken of the existing prudential supervisory standards for banks and the specific instructions for BancoPosta, published by the Bank of Italy on 27 May 2014 with the third revision of Circular 285 of 17 December 2013.

Price risk

This is the risk that the value of a financial instrument fluctuates as a result of market price movements, deriving from factors specific to the individual instrument or the issuer, and factors that influence all instruments traded on the market.

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.

The sensitivity analysis conducted at 31 December 2017 relates to the principal positions potentially exposed to fluctuations in value. Financial statement balances have been subjected to a stress test, based on actual volatility during the year, considered to be representative of potential market movements. The results of the sensitivity analysis carried out as at 31 December 2017 for the Poste Italiane Group are shown in the following table.

Item	Position	Change in value		Effect on liability toward policyholders		Pre-tax profit		Equity reserves before taxation	
		+ Vol	- Vol	+ Vol	- Vol	+ Vol	- Vol	+ Vol	- Vol
2017 effects									
Financial assets									
Available-for-sale financial assets	1,248	117	(117)	111	(111)	-	-	6	(6)
Equity instruments	58	10	(10)	4	(4)	-	-	6	(6)
Other investments	1,190	107	(107)	107	(107)	-	-	-	-
Financial asset at fair value through profit or loss	22,452	804	(804)	804	(804)	-	-	-	-
Equity instruments	58	14	(14)	14	(14)	-	-	-	-
Structured bonds	-	-	-	-	-	-	-	-	-
Other investments	22,394	790	(790)	790	(790)	-	-	-	-
Derivative financial instruments	184	47	(47)	47	(47)	-	-	-	-
Fair value through profit or loss	184	47	(47)	47	(47)	-	-	-	-
Fair value through profit or loss (liabilities)	-	-	-	-	-	-	-	-	-
Variability at 31 December 2017	23,884	968	(968)	962	(962)	-	-	6	(6)
2016 effects									
Financial assets									
Available-for-sale financial assets	1,335	183	(183)	158	(158)	-	-	25	(25)
Equity instruments	120	26	(26)	4	(4)	-	-	22	(22)
Other investments	1,215	157	(157)	154	(154)	-	-	3	(3)
Financial asset at fair value through profit or loss	14,786	586	(586)	586	(586)	-	-	-	-
Structured bonds	441	15	(15)	15	(15)	-	-	-	-
Other investments	14,345	571	(571)	571	(571)	-	-	-	-
Derivative financial instruments	233	59	(59)	59	(59)	-	-	-	-
Fair value through profit or loss	233	59	(59)	59	(59)	-	-	-	-
Fair value through profit or loss (liabilities)	-	-	-	-	-	-	-	-	-
Variability at 31 December 2016	16,354	828	(828)	803	(803)	-	-	25	(25)

Available-for-sale financial assets refer to:

- Other investments in the form of units of mutual investment funds, amounting to €1,190 million, held by Poste Vita SpA to meet its obligations to policyholders under the separately managed portfolios;
- equities held by BancoPosta RFC, totalling €41 million, consisting of €37 million in Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock) and €4 million in Class C shares of Visa Incorporated. For the purposes of the sensitivity analysis, the equities are matched with the corresponding amount of the Class A shares, considering the volatility of the shares listed on the NYSE;
- equities held by Poste Vita SpA in Class I separately managed portfolios, totalling €17 million.

In relation to **financial assets recognised at fair value through profit or loss**, price risk concerns investments held by Poste Vita SpA, totalling €22,452 million, of which €21,364 million used to cover Class I policies and €1,088 million used to cover Class III policies.

Lastly, in relation to **derivative financial instruments**, the price risk relates to warrants held by Poste Vita SpA to cover the benefits associated with the Class III policies.

For the purposes of complete disclosure, Poste Italiane SpA's exposure to the risk in question is shown in the following table.

Item	Position	Change in value		Pre-tax profit		Equity reserves before taxation	
		+ Vol	- Vol	+ Vol	- Vol	+ Vol	- Vol
2017 effects							
Financial assets attributable to BancoPosta							
Available-for-sale financial assets	41	5	(5)	-	-	5	(5)
Equity instruments	41	5	(5)	-	-	5	(5)
Financial assets							
Available-for-sale financial assets	-	-	-	-	-	-	-
Other investments	-	-	-	-	-	-	-
Variability at 31 December 2017	41	5	(5)	-	-	5	(5)
2016 effects							
Financial assets attributable to BancoPosta							
Available-for-sale financial assets	104	22	(22)	-	-	22	(22)
Equity instruments	104	22	(22)	-	-	22	(22)
Financial assets							
Available-for-sale financial assets	7	1	(1)	-	-	1	(1)
Other investments	7	1	(1)	-	-	1	(1)
Variability at 31 December 2016	111	23	(23)	-	-	23	(23)

Foreign exchange risk

This is the risk that the value of a financial instrument fluctuates as a result of movements in exchange rates for currencies other than the functional currency.

Sensitivity analysis of the items subject to foreign exchange risk was based on the most significant positions, assuming a stress scenario determined by the levels of exchange rate volatility applicable to each foreign currency position. The test applies an exchange rate movement based on volatility during the year, which was considered to be representative of potential market movements.

The table below shows the sensitivity to foreign exchange risk of the Poste Italiane Group's most significant positions at 31 December 2017.

Poste Italiane Group - Foreign exchange risk

(m)

Item	Position in USD	Position in Euro	Change in value		Pre-tax profit		Equity reserves before taxation	
			+ Vol 260gg	- Vol 260gg	+ Vol 260gg	- Vol 260gg	+ Vol 260gg	- Vol 260gg
2017 effects								
Financial assets								
Available-for-sale financial assets	96	80	6	(6)	-	-	6	(6)
Equity instruments	49	41	3	(3)	-	-	3	(3)
Other investments	47	39	3	(3)	-	-	3	(3)
Variability at 31 December 2017	96	80	6	(6)	-	-	6	(6)
2016 effects								
Financial assets								
Available-for-sale financial assets	143	136	11	(11)	-	-	11	(11)
Equity instruments	110	104	9	(9)	-	-	9	(9)
Other investments	33	32	2	(2)	-	-	2	(2)
Variability at 31 December 2016	143	136	11	(11)	-	-	11	(11)

The risk in question regards equities held by the Parent Company and two private equity funds in which Poste Vita SpA has invested.

Description	Position in SDR	Position in Euro	Change in value		Pre-tax profit		Equity reserves before taxation	
			+ Vol 260gg	- Vol 260gg	+ Vol 260gg	- Vol 260gg	+ Vol 260gg	- Vol 260gg
2017 effects								
Current assets in SDRs	117	139	5	(5)	5	(5)	-	-
Current liabilities in SDRs	(101)	(120)	(4)	4	(4)	4	-	-
Variability at 31 December 2017	16	19	1	(1)	1	(1)	-	-
2016 effects								
Current assets in SDRs	119	151	7	(7)	7	(7)	-	-
Current liabilities in SDRs	(101)	(129)	(6)	6	(6)	6	-	-
Variability at 31 December 2016	18	22	1	(1)	1	(1)	-	-

Foreign exchange risk refers to the net receivable/(payable) position in SDRs, a synthetic currency resulting from the weighted average of the exchange rates of four major currencies (the euro, US dollar, British pound and Japanese yen) held by Poste Italiane SpA and used worldwide to settle debts and credits among postal operators.

Fair value interest rate risk

This is the risk that the value of a financial instrument fluctuates as a result of movements in market interest rates.

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 changes in interest rates on the fixed components 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.

The following interest rate sensitivity analysis was based on changes in fair value with a parallel shift in the forward yield curve of +/- 100 bps. The measures of sensitivity shown in the following analysis provide a reference point which is useful in assessing potential changes in fair value in the event of greater movements in interest rates.

The table below shows the sensitivity analysis for the fair value interest rate risk at 31 December 2017 for the Poste Italiane Group's positions.

Item	Position		Change in value		Effect on liability toward policyholders		Pre-tax profit		Equity reserves before taxation	
	Nominal	Fair value	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
2017 effects										
Financial assets										
Available-for-sale financial assets	124,162	134,552	(6,614)	6,536	(5,450)	5,450	-	-	(1,164)	1,086
Fixed income instruments	124,161	134,390	(6,611)	6,533	(5,447)	5,447	-	-	(1,164)	1,086
Other investments	1	162	(3)	3	(3)	3	-	-	-	-
Financial assets at FV through profit or loss	6,481	6,886	(251)	244	(248)	241	(3)	3	-	-
Fixed income instruments	5,979	6,220	(235)	235	(232)	232	(3)	3	-	-
Structured bonds	500	546	(13)	6	(13)	6	-	-	-	-
Other investments	2	120	(3)	3	(3)	3	-	-	-	-
Derivative financial instruments										
Cash flow hedges	-	-	-	-	-	-	-	-	-	-
Fair value hedges	-	-	-	-	-	-	-	-	-	-
Financial liabilities										
Derivative financial instruments	1,358	(28)	94	(100)	-	-	-	-	94	(100)
Fair value though profit or loss	-	-	-	-	-	-	-	-	-	-
Cash flow hedges	1,358	(28)	94	(100)	-	-	-	-	94	(100)
Variability at 31 December 2017	132,001	141,410	(6,771)	6,680	(5,698)	5,691	(3)	3	(1,070)	986
2016 effects										
Financial assets										
Available-for-sale financial assets	113,211	126,903	(6,386)	6,319	(5,144)	5,144	-	-	(1,242)	1,175
Fixed income instruments	113,202	126,098	(6,359)	6,292	(5,117)	5,117	-	-	(1,242)	1,175
Other investments	9	805	(27)	27	(27)	27	-	-	-	-
Financial assets at FV through profit or loss	9,879	10,117	(341)	329	(340)	328	(1)	1	-	-
Fixed income instruments	9,379	9,566	(326)	326	(325)	325	(1)	1	-	-
Structured bonds	500	551	(15)	3	(15)	3	-	-	-	-
Derivative financial instruments										
Cash flow hedges	200	6	(28)	33	-	-	-	-	(28)	33
Fair value hedges	200	6	(28)	33	-	-	-	-	(28)	33
Financial liabilities										
Derivative financial instruments	150	(10)	(23)	27	-	-	-	-	(23)	27
Fair value though profit or loss	-	-	-	-	-	-	-	-	-	-
Cash flow hedges	150	(10)	(23)	27	-	-	-	-	(23)	27
Variability at 31 December 2016	123,440	137,016	(6,778)	6,708	(5,484)	5,472	(1)	1	(1,293)	1,235

Available-for-sale financial assets exposed to the risk in question primarily regard:

- fixed income government bonds held by Poste Vita SpA, totalling €81,099 million; of this amount, €77,768 million is used to cover Class I and V policies linked to separately managed funds, €3,331 million relates to the company's free capital;
- €36,614 million in fixed income government bonds held by BancoPosta RFC, which consist of: fixed rate bonds amounting to €11,460 million; variable rate bonds converted into fixed rate bonds via cash flow swaps amounting to €1,400 million; variable rate bonds amounting to €2,594 million (of which €2,508 million in inflation-linked instruments) and fixed or variable rate bonds converted to variable rate positions via fair value hedges amounting to €21,160 million (of which €19,013 million in forward starts);
- €13,376 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;
- €2,485 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 €6,220 million (consisting of investments with a fair value of €2,152 million, relating to coupon stripped¹⁰⁶ BTPs primarily covering obligations associated with Class III insurance products, investments with a fair value of €4,068 million, relating to corporate bonds primarily covering Class I and V contractual obligations linked to separately managed accounts, and investment of the company's free capital), investments with a fair value of €546 million, relating to bonds issued by CDP SpA to cover Class III policies, and, to a lesser extent, Poste Vita SpA's investments in "Other investments", represented by mutual funds, totalling €120 million.

¹⁰⁶ 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.

Within the context of **derivative financial instruments**, the risk in question concerns forward purchase contracts for government bonds, classified as cash flow hedges, with a total nominal value of €1,408 million, entered into during the year by BancoPosta RFC and 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.

At 31 December 2017, with reference to the interest rate risk exposure determined by the average duration¹⁰⁷ of the portfolios, the duration of BancoPosta's overall investments went from 5.56 to 5.30. On the other hand, with respect to Class I and Class V policies sold by Poste Vita SpA, the duration of the matching assets went from 6.08 at 31 December 2016 at 6.13 at 31 December 2017, whilst the duration of the liabilities went from 7.26 to 7.84. The financial instruments intended to cover the technical provisions for Class III policies have maturities that match those of the liabilities.

For the purposes of complete disclosure, Poste Italiane SpA's exposure to the risk in question is shown in the following table.

Poste Italiane Spa - Fair value interest rate risk									(€m)
Item	Position		Change in value		Pre-tax profit		Equity reserves before taxation		
	Nominal	Fair Value	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps	
2017 effects									
Financial assets attributable to BancoPosta									
Available-for-sale financial assets	35,738	39,099	(1,009)	931	-	-	(1,009)	931	
Fixed income instruments	35,738	39,099	(1,009)	931	-	-	(1,009)	931	
Derivative financial instruments	-	-	-	-	-	-	-	-	
Cash flow hedges	-	-	-	-	-	-	-	-	
Financial assets									
Available-for-sale financial assets	500	551	(4)	4	-	-	(4)	4	
Fixed income instruments	500	551	(4)	4	-	-	(4)	4	
Financial liabilities attributable to BancoPosta									
Derivative financial instruments	1,408	(23)	91	(97)	-	-	91	(97)	
Cash flow hedges	1,408	(23)	91	(97)	-	-	91	(97)	
Financial liabilities									
Derivative financial instruments	(50)	(5)	3	(3)	-	-	3	(3)	
Cash flow hedges	(50)	(5)	3	(3)	-	-	3	(3)	
Variability at 31 December 2017	37,596	39,622	(919)	835	-	-	(919)	835	
2016 effects									
Financial assets attributable to BancoPosta									
Available-for-sale financial assets	32,178	37,159	(1,099)	1,031	-	-	(1,099)	1,031	
Fixed income instruments	32,178	37,159	(1,099)	1,031	-	-	(1,099)	1,031	
Derivative financial instruments	200	6	(28)	33	-	-	(28)	33	
Cash flow hedges	200	6	(28)	33	-	-	(28)	33	
Financial assets									
Available-for-sale financial assets	500	562	(5)	6	-	-	(5)	6	
Fixed income instruments	500	562	(5)	6	-	-	(5)	6	
Financial liabilities attributable to BancoPosta									
Derivative financial instruments	200	(3)	(26)	31	-	-	(26)	31	
Cash flow hedges	200	(3)	(26)	31	-	-	(26)	31	
Financial liabilities									
Derivative financial instruments	(50)	(7)	3	(4)	-	-	3	(4)	
Cash flow hedges	(50)	(7)	3	(4)	-	-	3	(4)	
Variability at 31 December 2016	33,028	37,717	(1,155)	1,097	-	-	(1,155)	1,097	

Spread risk

This is the risk of a potential fall in the value of bonds held, following deterioration in the creditworthiness of issuers. This is due to the importance that the impact of the spread of returns on government securities had on

¹⁰⁷ Duration is the indicator used to estimate the percentage change in price of in response to a shift in market returns.

the fair value of euro zone government and corporate securities, reflecting the market's perception of the credit rating of issuers.

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 regard 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.

On average, 2017 witnessed an increase in the yields on Italian government bonds, whilst, at 31 December 2017, the spread between ten-year Italian government bonds and German bunds is approximately 159 bps, demonstrating a trend in line with the previous year (161 bps at 31 December 2016). The related impact on the Group's portfolio in the period under review is as follows:

- (i) a net reduction in the fair value of BancoPosta RFC's available-for-sale portfolio (a nominal value of approximately €36 billion) of approximately €0.8 billion. The decrease in the fair value of instruments hedged against interest rate risk, amounting to approximately €0.5 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 €0.3 billion);
- (ii) a net reduction in the fair value of the Poste Vita insurance group's available-for-sale portfolio (a nominal value of approximately €88 billion) of approximately €1 billion, almost entirely passed on to policyholders and recognised in specific technical provisions under the shadow accounting mechanism (the impact on the specific fair value reserve amounts to approximately €2 million).

The sensitivity to the spread has been calculated by applying a shift of +/- 100 bps to the risk factor that affects the different types of bonds held represented by the yield curve of Italian government bonds.

The table below shows the results of the analysis of sensitivity to country risk of the most significant positions in the portfolios of both the Parent Company and the Poste Vita group at 31 December 2017.

Poste Italiane Spa - Effect of credit spread on fair value

(€m)

Item	Position		Change in value		Pre-tax profit		Equity reserves before taxation	
	Nominal	Fair Value	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
2017 effects								
Financial assets attributable to BancoPosta								
Available-for-sale financial assets	35,738	39,099	(3,877)	4,606	-	-	(3,877)	4,606
Fixed income instruments	35,738	39,099	(3,877)	4,606	-	-	(3,877)	4,606
Derivative financial instruments	-	-	-	-	-	-	-	-
Cash flow hedges	-	-	-	-	-	-	-	-
Financial assets								
Available-for-sale financial assets	500	551	(16)	17	-	-	(16)	17
Fixed income instruments	500	551	(16)	17	-	-	(16)	17
Financial liabilities attributable to BancoPosta								
Derivative financial instruments	1,408	(23)	92	(98)	-	-	92	(98)
Cash flow hedges	1,408	(23)	92	(98)	-	-	92	(98)
Variability at 31 December 2017	37,646	39,627	(3,801)	4,525	-	-	(3,801)	4,525
2016 effects								
Financial assets attributable to BancoPosta								
Available-for-sale financial assets	32,178	37,159	(3,615)	4,292	-	-	(3,615)	4,292
Fixed income instruments	32,178	37,159	(3,615)	4,292	-	-	(3,615)	4,292
Derivative financial instruments	200	6	(28)	33	-	-	(28)	33
Cash flow hedges	200	6	(28)	33	-	-	(28)	33
Financial assets								
Available-for-sale financial assets	500	562	(21)	22	-	-	(21)	22
Fixed income instruments	500	562	(21)	22	-	-	(21)	22
Financial liabilities attributable to BancoPosta								
Derivative financial instruments	200	(3)	(26)	31	-	-	(26)	31
Cash flow hedges	200	(3)	(26)	31	-	-	(26)	31
Variability at 31 December 2016	33,078	37,724	(3,690)	4,378	-	-	(3,690)	4,378

Poste Vita Group - Effect of credit spread on fair value

(€m)

Item	Position		Change in value		Effect on liability toward policyholders		Pre-tax profit		Equity reserves before taxation	
	Notional	Fair Value	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
2017 effects										
Financial assets										
Available-for-sale financial assets	87,894	94,871	(6,634)	6,634	(6,450)	6,450	-	-	(184)	184
Fixed income instruments	87,893	94,709	(6,526)	6,526	(6,342)	6,342	-	-	(184)	184
Other investments	1	162	(108)	108	(108)	108	-	-	-	-
Financial assets at FV through profit or loss	6,481	6,886	(290)	290	(287)	287	(3)	3	-	-
Fixed income instruments	5,979	6,220	(240)	240	(237)	237	(3)	3	-	-
Structured bonds	500	546	(30)	30	(30)	30	-	-	-	-
Other investments	2	120	(20)	20	(20)	20	-	-	-	-
Variability at 31 December 2017	94,375	101,757	(6,924)	6,924	(6,737)	6,737	(3)	3	(184)	184
2016 effects										
Financial assets										
Available-for-sale financial assets	80,533	89,182	(6,071)	6,071	(5,895)	5,895	-	-	(176)	176
Fixed income instruments	80,524	88,377	(6,009)	6,009	(5,833)	5,833	-	-	(176)	176
Other investments	9	805	(62)	62	(62)	62	-	-	-	-
Financial assets at FV through profit or loss	9,879	10,117	(364)	364	(363)	363	(1)	1	-	-
Fixed income instruments	9,379	9,566	(329)	329	(328)	328	(1)	1	-	-
Structured bonds	500	551	(35)	35	(35)	35	-	-	-	-
Variability at 31 December 2016	90,412	99,299	(6,435)	6,435	(6,258)	6,258	(1)	1	(176)	176

In addition to using the above sensitivity analysis, Poste Italiane SpA and the Poste Vita group monitor spread risk by calculating its maximum potential losses, through an estimate of Value at Risk (VaR) on statistical bases, over a 1-day time horizon and at a 99% confidence level. Risk analysis performed through VaR takes into account the historical variability of the risk (spread) in question, in addition to modelling parallel shifts of the yield curve.

The table below shows the VaR analysis performed on the portfolios of the Parent Company and the Poste Vita group at 31 December 2017, solely with reference to spread risk.

Item	Position		SpreadVaR
	Nominal	Fair Value	
2017 effects			
Financial assets attributable to BancoPosta			
Available-for-sale financial assets	35,738	39,099	345
Fixed income instruments	35,738	39,099	345
Derivative financial instruments	-	-	-
Cash flow hedges	-	-	-
Financial assets			
Available-for-sale financial assets	500	551	2
Fixed income instruments	500	551	2
Financial liabilities attributable to BancoPosta			
Derivative financial instruments	1,408	(23)	8
Cash flow hedges	1,408	(23)	8
Variability at 31 December 2017	37,646	39,627	336
2016 effects			
Financial assets attributable to BancoPosta			
Available-for-sale financial assets	32,178	37,159	460
Fixed income instruments	32,178	37,159	460
Derivative financial instruments	200	6	4
Cash flow hedges	200	6	4
Financial assets			
Available-for-sale financial assets	500	562	4
Fixed income instruments	500	562	4
Financial liabilities attributable to BancoPosta			
Derivative financial instruments	200	(3)	3
Cash flow hedges	200	(3)	3
Variability at 31 December 2016	33,078	37,724	469

Item	Position		SpreadVaR
	Nominal	Fair value	
2017 effects			
Financial assets			
Available-for-sale financial assets	87,894	94,871	564
Fixed income instruments	87,893	94,709	564
Other investments	1	162	-
Financial assets at FV through profit or loss	6,481	6,886	4
Fixed income instruments	5,979	6,220	4
Structured bonds	500	546	-
Other investments	2	120	-
Variability at 31 December 2017	94,375	101,757	565
2016 effects			
Financial assets			
Available-for-sale financial assets	80,533	89,182	622
Fixed income instruments	80,524	88,377	622
Other investments	9	805	1
Financial assets at FV through profit or loss	9,879	10,117	8
Fixed income instruments	9,379	9,566	8
Structured bonds	500	551	1
Variability at 31 December 2016	90,412	99,299	628

Credit risk

This is the risk of default of one of the counterparties to which there is an exposure.

This risk is managed through minimum rating requirements for issuers/counterparties, based on the type of instrument; concentration limits per issuer/counterparty; the monitoring of changes in the ratings of counterparties.

In 2017, the ratings revised by the main agencies did not result 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 31 December 2017, equivalent to the Group's average rating at the same date.

The Poste Italiane Group's **financial assets** exposed to credit risk at 31 December 2017 are shown in the table below. The ratings reported in the table have been assigned by Moody's.

Item	Balance at 31 December 2017				Balance at 31 December 2016			
	from Aaa to Aa3	from A1 to Baa3	from Ba1 to Not rated	Total	from Aaa to Aa3	from A1 to Baa3	from Ba1 to Not rated	Total
Financial assets								
Loans and receivables	184	7,248	700	8,132	161	7,436	512	8,109
Loans	-	-	-	-	-	-	82	82
Receivables	184	7,248	700	8,132	161	7,436	430	8,027
Held-to-maturity financial assets	-	12,912	-	12,912	-	12,683	-	12,683
Fixed income instruments	-	12,912	-	12,912	-	12,683	-	12,683
Available-for-sale financial assets	1,935	131,974	481	134,390	2,777	122,634	687	126,098
Fixed income instruments	1,935	131,974	481	134,390	2,777	122,634	687	126,098
Financial assets at FV through profit or loss	136	6,058	572	6,766	249	9,892	417	10,558
Fixed income instruments	136	5,512	572	6,220	249	8,900	417	9,566
Structured bonds	-	546	-	546	-	992	-	992
Derivative financial instruments	73	442	64	579	20	382	22	424
Cash flow hedges	18	13	-	31	-	39	-	39
Fair value hedges	55	245	64	364	20	110	22	152
Fair value through profit or loss	-	184	-	184	-	233	-	233
Total	2,328	158,634	1,817	162,779	3,207	153,027	1,638	157,872

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).

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 debt¹⁰⁸ at 31 December 2017 is shown in the table below.

Poste Italiane Group - Exposure to sovereign debt (€m)						
Item	at 31 December 2017			at 31 December 2016		
	Nominal value	Carrying amount	Fair Value	Nominal value	Carrying amount	Fair Value
Italy	121,811	130,961	132,433	114,065	125,851	127,615
Held-to-maturity financial assets	12,692	12,912	14,384	12,392	12,683	14,447
Available-for-sale financial assets	106,971	115,897	115,897	95,479	106,924	106,924
Financial assets at FV through profit or loss	2,148	2,152	2,152	5,445	5,451	5,451
Non-current assets and disposal groups held for sale	-	-	-	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	101	101	95	103	103
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	95	101	101	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	171	171	151	176	176
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	151	171	171	151	176	176
Financial assets at FV through profit or loss	-	-	-	-	-	-
Germany	58	67	67	13	22	22
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	58	67	67	13	22	22
Financial assets at FV through profit or loss	-	-	-	-	-	-
Ireland	10	11	11	-	-	-
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	10	11	11	-	-	-
Financial assets at FV through profit or loss	-	-	-	-	-	-
Spain	1,928	2,186	2,186	1,566	1,850	1,850
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	1,928	2,186	2,186	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	124,073	133,520	134,992	116,058	128,184	129,948

¹⁰⁸ "Sovereign debt" includes bonds issued by, and loans provided to, central and local governments and government bodies.

The Poste Italiane Group's **trade receivables** exposed to credit risk at 31 December 2017 are shown in the table below.

(€m)

Item	at 31 December 2017		at 31 December 2016	
	Carrying amount	Specific impairment	Carrying amount	Specific impairment
Trade receivables				
Due from customers	1,869	(480)	1,933	(430)
Cassa Depositi e Prestiti	374	-	364	-
Ministries and public entities	484	(130)	478	(115)
Overseas counterparties	222	-	280	-
Private customers	789	(350)	811	(314)
Due from MEF	166	(31)	236	(31)
Due from subsidiaries, associates and joint ventures	-	-	3	-
Prepayments	-	-	-	-
Total	2,035		2,172	
of which past due	467		433	

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 2.5, 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.

The Poste Italiane Group's **other receivables and assets** exposed to the risk in question at 31 December 2017 are shown in the table below.

(€m)

Item	at 31 December 2017		at 31 December 2016	
	Carrying amount	Specific impairment	Carrying amount	Specific impairment
Other receivables and assets				
Due from tax authorities - tax withholdings	3,467	-	3,110	-
Receivables due from staff under fixed-term contract settlements	179	(9)	203	(7)
Accrued income and prepaid expenses from trading transactions	11	-	16	-
Tax assets	5	-	4	-
Other receivables	285	(63)	285	(53)
Amount due from MEF following cancellation of EC Decision of 16 July 2008	-	-	6	-
Interest accrued on IRES refund	47	-	47	-
Interest accrued on IRAP refund	3	-	-	-
Total	3,997		3,671	
of which past due	58		46	

For the purposes of complete disclosure, Poste Italiane SpA's exposure to the risk in question is shown in the following tables.

Poste Italiane Spa - Credit risk on financial assets attributable to BancoPosta

(€m)

Item	Balance at 31 December 2017				Balance at 31 December 2016			
	from Aaa to Aa3	from A1 to Baa3	from Ba1 to Not rated	Total	from Aaa to Aa3	from A1 to Baa3	from Ba1 to Not rated	Total
Financial assets attributable to BancoPosta								
Loans and receivables	177	6,989	435	7,601	161	7,386	368	7,915
Loans	-	-	-	-	-	-	-	-
Receivables	177	6,989	435	7,601	161	7,386	368	7,915
Held-to-maturity financial assets	-	12,913	-	12,913	-	12,683	-	12,683
Fixed income instruments	-	12,913	-	12,913	-	12,683	-	12,683
Available-for-sale financial assets	-	39,099	-	39,099	-	37,159	-	37,159
Fixed income instruments	-	39,099	-	39,099	-	37,159	-	37,159
Derivative financial instruments	73	258	63	394	20	149	22	191
Cash flow hedges	18	13	-	31	-	39	-	39
Fair value hedges	55	245	63	363	20	110	22	152
Fair value through profit or loss	-	-	-	-	-	-	-	-
Totale	250	59,259	498	60,007	181	57,377	390	57,948

Poste Italiane Spa - Credit risk on financial assets

(€m)

Item	Balance at 31 December 2017				Balance at 31 December 2016			
	from Aaa to Aa3	from A1 to Baa3	from Ba1 to Not rated	Total	from Aaa to Aa3	from A1 to Baa3	from Ba1 to Not rated	Total
Financial assets								
Loans and receivables	7	261	374	642	-	51	719	770
Loans	-	-	367	367	-	-	712	712
Receivables	7	261	7	275	-	51	7	58
Held-to-maturity financial assets	-	-	-	-	-	-	-	-
Fixed income instruments	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	551	-	551	-	562	-	562
Fixed income instruments	-	551	-	551	-	562	-	562
Derivative financial instruments	-	-	-	-	-	-	-	-
Cash flow hedges	-	-	-	-	-	-	-	-
Fair value hedges	-	-	-	-	-	-	-	-
Fair value through profit or loss	-	-	-	-	-	-	-	-
Totale	7	812	374	1,193	-	613	719	1,332

Poste Italiane Spa - Credit risk on trade receivables

(€m)

Description	At 31 December 2017		At 31 December 2016	
	Carrying amount	Specific impairments	Carrying amount	Specific impairments
Trade receivables				
Due from customers	1,565	(388)	1,573	(342)
Cassa Depositi e Prestiti	374	-	364	-
Ministries and public entities	478	(130)	472	(115)
Overseas postal operators	222	-	280	-
Private customers	491	(258)	457	(227)
Due from MEF	166	(31)	236	(31)
Due from subsidiaries	288	-	290	-
Due from associates	-	-	-	-
Total	2,019		2,099	
of which past due	373		327	

Poste Italiane Spa - Credit risk on other receivables and assets

(€m)

Description	At 31 December 2017		At 31 December 2016	
	Carrying amount	Specific impairments	Carrying amount	Specific impairments
Other receivables and assets				
Due from tax authorities - tax withholdings	1,576	-	1,388	-
Receivables due from staff under fixed-term contract settlements	179	(9)	204	(7)
Accrued income and prepaid expenses from trading transactions	6	-	6	-
Tax assets	-	-	-	-
Due from subsidiaries	3	-	59	-
Other receivables	229	(58)	218	(52)
Amount due under 2015 Stability Law implementing EU Court sentence	-	-	6	-
Interest accrued on IRES refund	46	-	46	-
Interest accrued on IRAP refund	3	-	-	-
Total	2,042		1,927	
of which past due	46		46	

Poste Italiane Spa - Exposure to sovereign debt

(€m)

Item	At 31 December 2017			At 31 December 2016		
	Nominal value	Carrying amount	Fair value	Nominal value	Carrying amount	Fair value
Financial assets attributable to BancoPosta						
Italy	45,930	49,527	50,998	43,070	48,334	50,098
Held-to-maturity financial assets	12,692	12,913	14,384	12,392	12,683	14,447
Available-for-sale financial assets	33,238	36,614	36,614	30,678	35,651	35,651
Financial assets at FV through profit or loss	-	-	-	-	-	-
Financial assets						
Italy	500	551	551	500	562	562
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	500	551	551	500	562	562
Financial assets at FV through profit or loss	-	-	-	-	-	-
Total	46,430	50,078	51,549	43,570	48,896	50,660

Liquidity risk

This is the risk that an entity may have difficulties in raising sufficient funds, at market conditions, to meet its obligations deriving from financial instruments.

In order to minimise this risk, the 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.

The following tables compare the Poste Italiane Group's liabilities and assets at 31 December 2017, in terms of liquidity risk.

Poste Italiane Group - Liquidity risk - Liabilities

(€m)

Item	at 31 December 2017				at 31 December 2016			
	Within 12 months	Between 1 and 5 years	Over 5 years	Total	Within 12 months	Between 1 and 5 years	Over 5 years	Total
Flows from Poste Vita group's policies	12,913	37,877	110,200	160,990	13,174	39,603	84,851	137,628
Financial liabilities	24,513	14,184	22,910	61,607	21,860	15,414	21,377	58,651
Postal current accounts	14,904	9,966	21,717	46,587	15,991	8,683	20,479	45,153
Borrowings	3,430	3,359	52	6,841	1,267	6,085	54	7,406
Other financial liabilities	6,179	859	1,141	8,179	4,602	646	844	6,092
Trade payables	1,332	-	-	1,332	1,506	-	-	1,506
Other liabilities	2,249	1,185	26	3,460	2,149	1,077	30	3,256
Total	41,007	53,246	133,136	227,389	38,689	56,094	106,258	201,041

The above table shows expected cash outflows at the date of the financial statements, broken down by maturity, while the maturities of postal current account deposits are reported on the basis of the estimates made with a statistic/econometric model. Repayments of principal at nominal value are increased by interest payments

calculated, where applicable, on the basis of the yield curve applicable at 31 December 2017. The liabilities of Poste Vita SpA and Poste Assicura SpA are reflected in “Flows from Poste Vita group’s policies”.

Poste Italiane Group - Liquidity risk - Assets									(€m)
Item	at 31 December 2017				at 31 December 2016				
	Within 12 months	Between 1 and 5 years	Over 5 years	Total	Within 12 months	Between 1 and 5 years	Over 5 years	Total	
Financial assets	21,398	66,789	155,301	243,488	21,862	57,839	137,973	217,674	
Loans	-	-	-	-	-	-	-	-	
Receivables									
Deposits with the MEF	6,047	-	-	6,047	6,214	-	-	6,214	
Other financial receivables	1,822	38	4	1,864	1,769	8	7	1,784	
Held-to-maturity financial assets	1,594	6,702	7,327	15,623	1,399	6,389	7,837	15,625	
Available-for-sale financial assets	9,619	55,447	110,169	175,235	7,997	46,455	107,835	162,287	
Financial assets at FV through profit or loss	2,316	4,602	37,801	44,719	4,483	4,987	22,294	31,764	
Trade receivables	2,026	6	3	2,035	2,168	1	3	2,172	
Other receivables and assets	952	3,012	53	4,017	971	2,663	66	3,700	
Cash and deposits attributable to BancoPos	3,196	-	-	3,196	2,494	-	-	2,494	
Cash and cash equivalent	2,428	-	-	2,428	3,902	-	-	3,902	
Total	30,000	69,807	155,357	255,164	31,397	60,503	138,042	229,942	

In the case of assets, cash inflows are broken down by maturity, shown at nominal value and increased, where applicable, by interest receivable. Held-to-maturity and available-for-sale financial assets include financial instruments held by BancoPosta RFC and the Group’s insurance companies, shown on the basis of expected cash flows, consisting of principal and interest paid at the various payment dates.

The key point of note is the liquidity risk associated with the investment of customers’ current account balances and with the Class I and V policies issued by Poste Vita SpA.

In terms of BancoPosta RFC’s specific operations, the liquidity risk regards current account deposits and prepaid cards, the related investment of the deposits in Eurozone government securities and /or securities guaranteed by the Italian government, and the margins on derivative transactions. The potential risk derives from a mismatch between the maturities of investments in securities and those of liabilities, represented by current accounts where the funds are available on demand, thus compromising the Parent Company’s ability to meet its obligations to current account holders. This potential mismatch between assets and liabilities is monitored via comparison of the maturity schedule for assets with the statistical model of the performance of current account deposits, in accordance with the various likely maturity schedules and assuming the progressive total withdrawal of deposits over a period of twenty years for retail customers, ten years for business customers and PostePay cards and five years for Public Administration customers.

As to the policies sold by Poste Vita SpA, in order to analyse its liquidity risk profile, the company performs Asset/liability management (ALM) analysis to manage assets effectively in relation to its obligations to policyholders, and also develops projections of the effects deriving from financial market shocks (asset dynamics) and of the behaviour of policyholders (liability dynamics).

Lastly, for the proper evaluation of the liquidity risk attributable to BancoPosta RFC, it should be borne in mind that, unless they are restricted, investments in euro area 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.

For the purposes of complete disclosure, Poste Italiane SpA’s exposure to the risk in question is shown in the following tables.

Poste Italiane Spa - Liquidity risk - Liabilities

(€m)

Description	At 31 December 2017				At 31 December 2016			
	Within 12 months	Between 1 and 5 years	Over 5 years	Total	Within 12 months	Between 1 and 5 years	Over 5 years	Total
Financial liabilities attributable to BancoPosta	23,683	13,371	23,173	60,227	21,923	13,540	21,455	56,918
Postal current accounts	15,121	10,110	22,032	47,263	16,095	8,739	20,611	45,445
Borrowings	2,440	2,403	-	4,843	1,226	4,155	-	5,381
Other financial liabilities	6,122	858	1,141	8,121	4,602	646	844	6,092
Financial liabilities	1,079	209	52	1,340	66	1,184	54	1,304
Trade payables	1,211	-	-	1,211	1,384	-	-	1,384
Other liabilities	1,594	1,161	26	2,781	1,557	977	30	2,564
Total liabilities	27,567	14,741	23,251	65,559	24,930	15,701	21,539	62,170

Poste Italiane Spa - Liquidity risk - Assets

(€m)

Description	At 31 December 2017				At 31 December 2016			
	Within 12 months	Between 1 and 5 years	Over 5 years	Total	Within 12 months	Between 1 and 5 years	Over 5 years	Total
Financial assets attributable to BancoPosta								
Loans	-	-	-	-	-	-	-	-
Receivables	7,629	8	-	7,637	7,932	8	-	7,940
Deposits with the MEF	6,047	-	-	6,047	6,214	-	-	6,214
Other financial receivables	1,582	8	-	1,590	1,718	8	-	1,726
Held-to-maturity financial assets	1,594	6,702	7,327	15,623	1,399	6,389	7,837	15,625
Fixed income instruments	1,594	6,702	7,327	15,623	1,399	6,389	7,837	15,625
Available-for-sale financial assets	4,143	9,767	39,362	53,272	2,005	9,087	36,522	47,614
Fixed income instruments	4,143	9,767	39,362	53,272	2,005	9,087	36,522	47,614
Financial assets	366	570	301	1,237	-	740	482	1,222
Trade receivables	2,014	1	4	2,019	2,095	1	3	2,099
Other receivables and assets	894	1,118	52	2,064	937	952	66	1,955
Cash and deposits attributable to BancoPosta	3,196	-	-	3,196	2,494	-	-	2,494
Cash and cash equivalents	2,039	-	-	2,039	2,715	-	-	2,715
Total assets	21,875	18,166	47,046	87,087	19,577	17,177	44,910	81,664

Cash flow interest rate risk

This is defined as the uncertainty related to the generation of future cash flows, due to interest rate fluctuations. Such risk may arise from the mismatch – in terms of interest rate, interest rate resets and maturities – of financial assets and liabilities until their contractual maturity and/or expected maturity (banking book), with effects in terms of interest spreads and, as such, an impact on future results.

The following analysis 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.

Sensitivity to cash flow interest rate risk relating to these instruments is calculated by assuming a parallel shift in the yield curve +/- 100 bps.

Sensitivity to cash flow interest rate risk at 31 December 2017 on the Poste Italiane Group's positions is shown in the table below.

Item	Position	Change in value		Effect on liability toward policyholders		Pre-tax profit	
	Nominal	+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps
2017 effects							
Financial assets							
Loans	-	-	-	-	-	-	-
Receivables							
Deposits with the MEF	6,011	60	(60)	-	-	60	(60)
Other financial receivables	1,219	12	(12)	-	-	12	(12)
Available-for-sale financial assets							
Fixed income instruments	16,166	162	(162)	127	(127)	35	(35)
Financial assets at FV through profit or loss							
Fixed income instruments	162	2	(2)	2	(2)	-	-
Structured bonds	500	5	(5)	5	(5)	-	-
Cash and deposits attributable to BancoPosta							
Bank deposits	397	4	(4)	-	-	4	(4)
Cash and cash equivalent							
Bank deposits	1,916	20	(20)	3	(3)	17	(17)
Deposits with the MEF	379	4	(4)	-	-	4	(4)
Financial liabilities							
Borrowings							
Bonds	-	-	-	-	-	-	-
Borrowings from financial institutions	-	-	-	-	-	-	-
Other financial liabilities	(100)	(1)	1	-	-	(1)	1
Variability at 31 December 2017	26,650	268	(268)	137	(137)	131	(131)
2016 effects							
Financial assets							
Loans	-	-	-	-	-	-	-
Receivables							
Deposits with the MEF	6,189	62	(62)	-	-	62	(62)
Other financial receivables	1,485	15	(15)	-	-	15	(15)
Available-for-sale financial assets							
Fixed income instruments	15,249	152	(152)	117	(117)	35	(35)
Financial assets at FV through profit or loss							
Fixed income instruments	106	1	(1)	1	(1)	-	-
Structured bonds	500	5	(5)	5	(5)	-	-
Cash and deposits attributable to BancoPosta							
Bank deposits	225	2	(2)	-	-	2	(2)
Cash and cash equivalent							
Bank deposits	2,088	21	(21)	7	(7)	14	(14)
Deposits with the MEF	1,310	13	(13)	-	-	13	(13)
Financial liabilities							
Borrowings							
Bonds	-	-	-	-	-	-	-
Borrowings from financial institutions	-	-	-	-	-	-	-
Other financial liabilities	(32)	-	-	-	-	-	-
Variability at 31 December 2016	27,120	271	(271)	130	(130)	141	(141)

Specifically, with respect to **financial assets**, the cash flow interest rate risk primarily relates to:

- a portion of the securities portfolio held by the Poste Vita group, with a nominal value of €14,197 million;
- investment by the Parent Company of the funds deriving from the current account deposits of Public Administration entities in the following: deposits with the MEF, with a nominal value of €6,011 million;
- fixed rate government bonds held by the Parent Company and swapped into variable rate through fair value hedges, with a total nominal amount of €1,985 million (including €745 million in securities hedged against changes in fair value, where the hedges will begin to have an effect on profit or loss in the 12 months after the end of the period under review); in addition to a security issued by CDP with a nominal value of €500 million and an inflation-linked bond issued by the Italian Republic, with a nominal value of €100 million, both of which have been hedged against changes in its fair value;
- receivables of €1,219 million, reflecting collateral posted to secure liabilities arising in relation to derivative financial instruments held by BancoPosta RFC, amounting to €1,179 million.

In relation to **cash and cash equivalents**, cash flow interest rate risk primarily regards the bank deposits of Poste Italiane SpA and Poste Vita SpA, in addition to amounts deposited by the Parent Company with the MEF and held in the so-called buffer account.

For the purposes of complete disclosure, Poste Italiane SpA's exposure to the risk in question is shown in the following table.

Item	Position	Change in value		Pre-tax profit	
	Nominal	+100 bps	-100 bps	+100 bps	-100 bps
2017 effects					
Financial assets attributable to BancoPosta					
Receivables					
Amounts due from MEF	6,011	60	(60)	60	(60)
Other financial receivables	1,179	12	(12)	12	(12)
Available-for-sale financial assets					
Fixed income instruments	2,210	22	(22)	22	(22)
Financial assets					
Loans	367	4	(4)	4	(4)
Receivables					
Other financial receivables	40	-	-	-	-
Available-for-sale financial assets					
Fixed income instruments	375	4	(4)	4	(4)
Cash and deposits attributable to BancoPosta					
Bank deposits	397	4	(4)	4	(4)
Cash and cash equivalents					
Deposits with the MEF	379	4	(4)	4	(4)
Bank deposits	1,557	16	(16)	16	(16)
Financial liabilities attributable to BancoPosta					
Other financial liabilities	(100)	(1)	1	(1)	1
Financial liabilities					
Financial liabilities due to subsidiaries	(46)	-	-	-	-
Other financial liabilities	-	-	-	-	-
Variability at 31 December 2017	12,369	125	(125)	125	(125)
2016 effects					
Financial assets attributable to BancoPosta					
Receivables					
Amounts due from MEF	6,189	62	(62)	62	(62)
Other financial receivables	1,435	14	(14)	14	(14)
Available-for-sale financial assets					
Fixed income instruments	2,235	22	(22)	22	(22)
Financial assets					
Loans	630	6	(6)	6	(6)
Receivables					
Other financial receivables	50	-	-	-	-
Available-for-sale financial assets					
Fixed income instruments	375	4	(4)	4	(4)
Cash and deposits attributable to BancoPosta					
Bank deposits	226	2	(2)	2	(2)
Cash and cash equivalents					
Deposits with the MEF	1,310	13	(13)	13	(13)
Bank deposits	930	9	(9)	9	(9)
Financial liabilities attributable to BancoPosta					
Other financial liabilities	(32)	-	-	-	-
Financial liabilities					
Financial liabilities due to subsidiaries	(38)	-	-	-	-
Other financial liabilities	-	-	-	-	-
Variability at 31 December 2016	13,310	132	(132)	132	(132)

Cash flow inflation risk

This is defined as the uncertainty related to future cash flows due to changes in the rate of inflation observed in the market.

The table below analyses the sensitivity of future cash flows for the Poste Italiane Group's financial assets at 31 December 2017.

Poste Italiane Group - Cash flow inflation risk								(€m)	
Item	Position		Change in value		Effect on liability toward policyholders		Pre-tax profit		
	Nominal	Fair value	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps	
2017 effects									
Financial assets									
Available-for-sale financial assets	12,475	14,136	43	(43)	40	(40)	3	(3)	
Fixed income instruments	12,475	14,136	43	(43)	40	(40)	3	(3)	
Variability at 31 December 2017	12,475	14,136	43	(43)	40	(40)	3	(3)	
2016 effects									
Financial assets									
Available-for-sale financial assets	9,825	11,399	37	(37)	35	(35)	2	(2)	
Fixed income instruments	9,825	11,399	37	(37)	35	(35)	2	(2)	
Variability at 31 December 2016	9,825	11,399	37	(37)	35	(35)	2	(2)	

At 31 December 2017, cash flow inflation risk regards inflation-linked government securities not subject to cash flow hedges or fair value hedges. Of the total nominal value, securities totalling €10,320 million are held by the Poste Vita group and securities totalling €2,145 million by BancoPosta RFC.

OTHER RISKS

The other principal risks to which the Poste Italiane Group is exposed at 31 December 2017 are described below.

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.

To protect against this form of risk, BancoPosta RFC has formalised a methodological and organisational framework to identify, measure and manage the operating risk related to its products/processes.

The framework, which is based on an integrated (qualitative and quantitative) measurement model, makes it possible to monitor and manage risk on an increasingly informed basis.

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.

At 31 December 2017, the risk map prepared in accordance with the aforementioned framework shows the type of operational risks BancoPosta RFC's products are exposed to. In particular:

Event Type	Number of types
Internal fraud	35
External fraud	54
Employee practices and workplace safety	7
Customers, products and business practices	34
Damage to tangible assets	4
Business disruption and system failure	7
Process execution, management and delivery	140
Total at 31 December 2017	281

For each type of mapped risk, the Company has recorded and classified the related sources of risk (internal losses, external losses, scenario analysis and risk indicators) in order to construct complete inputs for the integrated measurement model. Systematic measurement of the mapped risks has enabled the Company to prioritise mitigation initiatives and attribute responsibilities to competent functions, in order to contain any future impact.

Poste Vita SpA and Poste Assicura SpA have also drawn up and finalised their own framework for identifying, assessing and managing operational risks. The adopted approach reflects the specific nature of the processes and operational risk events typical of an insurance company. The process of assessing operational risk exposure is carried out in keeping with the related solvency requirements, and involves both qualitative and quantitative analysis, conducted through a structured process for identifying internal losses and assessing potential risks in terms of frequency, impact and mitigation. The overall risk exposure is modest thanks to the adoption of organisational measures and mitigating risk controls.

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.).

In technical terms, mortality is one of the main risk factors for Poste Vita SpA, i.e. any risk associated with the uncertainty of a policyholder's life expectancy. Particular attention is paid in selling pure life insurance policies, an area where procedures set underwriting limits to the capital and the age of the policyholder. In terms of "pure life" insured amounts the Group's insurance companies transfer their risks to reinsurers in keeping with the nature of the products sold and conservation levels adequate to the companies' capital structure. The main reinsurers of the Group are characterised by substantial financial strength.

For products with the capital sum subject to positive risk, such as term life insurance, this risk has negative consequences if the actual frequency of death exceeds the death probabilities realistically calculated (second order technical bases).

For products with the capital sum subject to negative risk, such as annuities, there are negative consequences when actual death frequencies are lower than the death probabilities realistically calculated (longevity risk).

Nevertheless, at 31 December 2017, the mortality risk is limited for the Group, considering the features of the products offered. The only area where this risk is somewhat significant is term life insurance, for which actual death rates are compared from time to time with those projected on the basis of the demographics adopted for pricing purposes; to date, the former have always turned out to be much lower than the latter. Moreover, mortality risk is mitigated through reinsurance and by setting limits on both the capital and the age of the policyholder when policies are sold.

Longevity risk is also low. In fact, for most life insurance products the probability of annuitisation is very close to zero, as historical experience shows that policyholders never use the option to annuitise. Pension products, in particular, still account for a limited share of insurance liabilities (about 5%). In addition, for these products, the Group may, if certain conditions materialise, change the demographic base and the composition by sex used to calculate the annuity rates.

Pricing risk is the risk of incurring losses due to the inadequate premiums charged for the insurance products sold. It may arise due to:

- inappropriate selection of the technical basis;
- incorrect assessment of the options embedded in the product;
- incorrect evaluation of the factors used to calculate the expense loads.

As Poste Vita's mixed and whole-life policies have mostly cash value build-up features, accumulating in accordance with a technical rate of zero, the technical basis adopted does not affect premium calculation (and/or the insured capital). In fact, there is nearly no pricing risk associated with the choice between technical bases in Poste Vita's portfolio, except for the term life insurance products discussed above.

The options embedded in the policies held in the portfolio include:

- Surrender option;
- Guaranteed minimum return option;
- Annuity conversion option.

For nearly all the products in the portfolio there are no surrender penalties. The surrender risk only becomes significant, however, in the event of mass surrenders which, on the basis of historical evidence, have a low probability of occurrence.

Poste Assicura SpA is exposed to the following insurance risks:

- Underwriting risk: the risk deriving from the conclusion of insurance contracts associated with the events insured, the processes followed when pricing and selecting risks and unfavourable claims trends compared with previous estimates. This risk can be divided into the following categories:
 - Pricing risk: the risk linked to the company's pricing of its policies which depends on the assumptions used in order to calculate premiums. If prices are based on inadequate assumptions, the insurer may be exposed to the risk of being unable to meet its contractual obligations to policyholders. These risks include those related to disability-morbidity, or the risk associated with the payment of benefits or claims for illness and/or injury. Pricing risk also includes the risk that the premiums charged are not sufficient to cover the actual costs incurred in the management of the contract and the risk of excessive growth in operations associated with poor selection of risks or the absence of resources sufficient to keep up with the pace of growth.
 - Provisioning risk: referring to the risk that technical provisions are not sufficient to meet obligations to policyholders. This insufficiency may be due to incorrect estimates by the company and/or changes in the general environment.
- Catastrophe risk: the risk that extreme and exceptional events have a negative impact that has not been taken into account when pricing the policies.

- Anti-selection risk: this relates to the company's unwillingness to insure an event not classified as future, uncertain and damaging.

As regards Poste Assicura SpA's insurance business, which commenced operations in 2010, the expected growth of the portfolio and the different degrees of risk associated with the products distributed has required the company to adopt a highly prudent approach to reinsurance. In particular, it has entered into pro rata reinsurance treaties with major reinsurance providers, establishing the amounts to be ceded based on the specific type and size of the risk to be assumed, backed up by excess-loss or stop-loss treaties to cover risks of a certain size (such as accident policies or so-called catastrophic risks). In addition, when defining the guarantees offered, the assumption of specific types of risk has been mitigated by limiting the size of pay-outs in the event of certain specific types of claim.

With reference to non-life risks, the Group performs specific analyses including, among other things, stress tests to determine the Company's solvency also under adverse market conditions.

Reputational risk

In line with the related regulatory requirements and leading practices, Poste Italiane SpA is developing a specific, integrated framework for assessing, monitoring and reporting reputational risks at Group level, using a process-based approach. The model identifies the Group's key stakeholders (among them employees, customers, suppliers and regulators), topics of interest and the drivers of the related impacts (for example, integrity and transparency). It also identifies the departments within Poste Italiane SpA and Group companies involved in managing stakeholders, defining the related roles and responsibilities, assessment criteria, the tools and flows involved in reporting to senior management and corporate bodies. The project forms part of the steps being taken to put in place a formalised **stakeholder engagement** programme, with the aim of addressing sources of reputational risk, guiding sustainability initiatives and reporting on them, partly for the purposes of the disclosures of non-financial information.

The main element of reputational risk to which the Group is, by its nature, exposed is linked to market performance and primarily associated with the placement of postal savings products and 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 closely monitoring performance through to the respective maturities, assessing the potential impact on the provisions for risks and charges accounted for in the financial statements.

During the year ended 31 December 2017, the estimate of the liabilities deriving from risks linked to disputes with customers regarding certain financial instruments and investment products, sold in previous years and that have not yet reached maturity, whose performance is not in line with expectations, was prudently revised. On 16 January 2017, Poste Italiane SpA's Board of Directors passed a resolution aimed at protecting all the customers who, in 2003, purchased units issued by the Invest Real Security real estate fund, and who still held the units at 31 December 2016, the date of the fund's maturity. The estimated liabilities resulting from this initiative were recognised in provisions for risks and charges, with a total of €48 million used at 31 December 2017 following implementation. In addition, with a view to consolidating the Company's historical customer relationships, based on trust and transparency, on 19 February 2018, Poste Italiane SpA's Board of Directors approved an initiative designed to protect customers who, in 2004, against a different economic and regulatory backdrop compared with today's, purchased units issued by the Europa Immobiliare 1 fund and who still held the units at 31 December 2017, the date of the fund's maturity. With sole regard to this product, the aim is 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 "Final Liquidation Distribution". The estimated liabilities resulting from this initiative have been recognised in provisions for risks and charges at 31 December 2017 (note B6).

Information on categories of reputational risk other than those linked to the sale of financial products is provided below.

On 30 December 2015, SDA terminated contracts for the provision of call centre services previously entered into with Uptime SpA – a company in which it held a 28.57% interest – and Gepin Contact SpA - Uptime SpA's majority shareholder – with effect from 1 July 2016.

Gepin then filed a claim for damages from SDA, amounting to €15.5 million, relating 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. SDA challenged the claims in court.

In December 2016, Poste Italiane and SDA were served a writ of summons by Gepin and Uptime, containing claims for damages of approximately €66.4 million, in the case of Uptime (in liquidation), and approximately €16.2 million, in the case of Gepin. At the hearing in October 2017, Gepin Contact SpA's legal counsel announced the company's bankruptcy.

In September 2017, SDA subscribed for Uptime's entire share capital. The latter then filed for a voluntary early arrangement with creditors. The above claim for €66.4 million in damages from SDA and Poste Italiane has not been taken up by the liquidator overseeing Gepin's bankruptcy and has, therefore, been cancelled. Formal cancellation of the claim by the Civil Court of Rome is now awaited.

7. PROCEEDINGS PENDING AND PRINCIPAL RELATIONS WITH THE AUTHORITIES

The following information is provided in accordance with accounting standard IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*.

LITIGATION

In 2011, as part of a criminal investigation of third parties, the Tax Office in Rome, acting on behalf of local judicial authorities, seized accounting and administrative documents from **Postel SpA** related to e-procurement transactions carried out in 2010 and, to a lesser extent, in 2011; as a precautionary measure, e-procurement operations were suspended in 2011.

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 Company filed an appeal and, on 15 November 2017, the Court of Auditors issued judgement 542, upholding the appeal and limiting the initial fine to the sum already paid by the Company, amounting to €4 million.

TAX DISPUTES

In November 2011, the tax authorities notified **EGI SpA** of three notices of assessment for the years 2006, 2007 and 2008, resulting in the identification of the same irregularity in each of the three years. This concerned the application, for the purposes of IRES, of art. 11, paragraph 2 of Law 413/1991 to properties of historical and artistic interest owned by EGI and leased by it to third parties. Following the ruling in first instance of the Provincial Tax Tribunal of Rome, on 7 May 2014, the company proceeded to pay a total amount due of approximately €2.1 million. Furthermore, as a result of the ruling in second instance, handed down by the Regional Tax Tribunal of Rome in EGI SpA's favour, on 10 June 2015, the company obtained a refund of the amount paid. On 24 April 2015, the tax authorities notified EGI that they had filed an appeal with the Court of Cassation, requesting annulment of the judgement on appeal, and on 12 June 2015 EGI SpA presented a cross appeal. The litigation is currently pending before the Supreme Court of Cassation.

In 2009, the Regional Tax Office for Large Taxpayers (Agenzia delle Entrate - *Direzione Regionale del Lazio - Ufficio Grandi Contribuenti*) notified **Poste Vita SpA** of an alleged violation of the VAT regulations in the 2004 tax year, resulting in fines of approximately €2.3 million for the alleged failure to pay VAT on invoices for service commissions. Poste Vita SpA appealed the above findings before the Provincial Tax Tribunal of Rome. In December 2010 and September 2011, the tax authorities sent notices of two further small fines for the same violation in fiscal years 2005 and 2006. These fines have also been appealed. The Provincial Tax Tribunal of Rome found in the company's favour, ruling that the tax authorities' allegations are without grounds. The tax authorities have challenged such rulings, filing a series of appeals. The Regional Tax Tribunal of Rome rejected both appeals and confirmed the lack of grounds for the claims against Poste Vita. With regard to the disputes relating to 2004 and 2006, on 23 October 2015, the State Attorney's Office challenged these decisions and summoned the company to appear before the Court of Cassation. The counterclaims filed by Poste Vita before the Court of Cassation were served to the tax authorities on 3 December 2015 and subsequently entered in the

Cassation's registry on 17 December 2015. On the other hand, with regard to the dispute relating to 2005, the appeal before the Court of Cassation was notified to the company in November 2017. The counterclaim filed by Poste Vita was served to the tax authorities on 13 December 2017, and subsequently entered in the Cassation's registry on 29 December 2017. The likely outcome of this tax dispute continues to be taken into account in determining provisions for risks and charges.

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.

On 25 November 2014, a tax audit relating to **Postel SpA**, regarding direct taxes and VAT for the tax years from 2009 to 2012 and previously undertaken by the tax authorities, came to an end with delivery of a tax audit report in which the right to deduct VAT from purchases, applied by the company in 2010 and 2011, was contested. Then, on 8 October 2015, an audit regarding income tax and withholding tax, regarding **Postel SpA's** alleged

failure to pay social security contributions for employees and/or contractors used by a supplier between 2010 and 2014, came to an end with delivery of a tax audit report, contesting the right to deduct VAT and the deductibility of IRAP.

As a result of the above audits, the tax authorities have served the company with two separate tax assessment notices for 2010 and 2011. Specifically:

- In relation to 2010, on 21 December 2015, the company was requested to pay VAT of €5.6 million, in addition to penalties and interest, as well as VAT, IRES and IRAP totalling €0.2 million, plus penalties and interest. On 18 May 2016, the company appealed the assessment notice, at the same time paying a provisional amount of approximately €2.3 million of the VAT due.
- In relation to 2011, on 18 October 2016, the company received a tax assessment notice for VAT, IRES, IRAP and withholding tax, amounting to €1.2 million, plus penalties and interest. On 16 December 2016, the company appealed the assessment notice, at the same time paying a provisional amount of approximately €0.5 million.

In addition, based on the findings set out in the tax audit report of 8 October 2015, the tax authorities:

- with regard to the 2012 tax year, on 25 November 2016, notified Postel SpA of a tax assessment notice relating to IRES, IRAP, VAT and withholding tax of €0.1 million, plus penalties and interest. On 19 January 2017, the company appealed the assessment notice, at the same time paying a provisional amount equal to about half of the requested amount. At the hearing held on 13 February 2018, the appeal was upheld and the tax authorities were ordered to pay costs.
- with regard to the 2013 tax year, on 24 July 2017, notified Postel SpA of a tax assessment notice relating to VAT, IRES, IRAP and withholding tax of approximately €0.2 million, plus penalties and interest. The company appealed the assessment notice on 23 October 2017, at the same time paying a provisional amount equal to about half of the requested amount. A date for the appeal hearing has yet to be fixed.

With regard to the assessment notices for 2010 and 2011, the company has elected to take up the settlement concession introduced by art. 11 of Law Decree 50 of 24 April 2017, which involves payment of the outstanding tax and interest on the arrears accruing up to the 60th day after notification of the assessment, except for penalties and overdue interest. The amounts payable under the settlement are reduced by the amounts already paid as a result of the legislation in force regarding the collection of tax when judgement is pending. In this instance, the amount payable by the company is €8.4 million. Thus, having already paid the sum of €2.8 million, the company proceeded to pay the sum of €5.6 million. The provisions made in previous years, totalling €8.3 million, have been used up. At the hearings for the appeals against the notices of assessment for the 2010 tax year (17 October 2017) and the 2011 tax year (6 December 2017), the Tribunal noted the request for a halt to proceedings and the company's decision to opt for the settlement concession, adjourning the hearing to a later date to allow the tax authorities to verify the validity of the company's request and whether or not the requirements of art. 11 of Law Decree 50 of 24 April 2017 have been met.

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 €18.2 million at 31 December 2017. According to INPS, this amount represents social security contributions funding income support, extraordinary income support, unemployment benefit and family benefits not covered by the contributions paid to IPOST and which, according to INPS, the two companies have failed to pay. 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. In a memo issued 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. In relation to the three combined actions of the five pending before the Court of Genoa, on 11 July 2017, the court read out the judgement upholding INPS's claim, amounting to €9.16 million, only to the extent of the difference in contributions between the family benefits paid by Postel to employees and the amount assessed by INPS in the form of contributions for family benefits. The company was ordered to pay just €0.22 million. The contribution for income support, extraordinary income support, unemployment benefit (€8.94 million) is not payable, on the basis that, given that Postel is wholly owned by the State through the Parent Company (the requirement was met until Poste Italiane SpA's floatation), it is included among the state-owned enterprises which are exempted by law from the obligation to pay contributions for income support and unemployment benefit. On 20 October 2017, the company proceeded to pay the sum requested. On 9 March 2018, INPS filed an appeal, contesting the merits of the judgement at first instance and the sum arrived at. In the view of INPS, the rate applicable for contributions for family benefits, in line with recent guidance issued by INPS, should have been 4.40% in place of the 0.68% applied in the payment notices involved in the court action. The company will oppose INPS's claims, as they are inadmissible in court.

The other two cases are still pending and are still at the preliminary stage, relating to the appeals filed by Postel SpA against the payment orders for the periods from February 2011 to September 2017, amounting to outstanding contributions of €9 million, in addition to approximately €0.645 million in contributions for 2017, for which no payment orders or adjustment notices have been received.

Taking into account the favourable judgement at first instance on 11 July 2017 and the reasons given, the company has adjusted its provisions for risks and charges to reflect the relevant liability.

Finally, on 15 February 2018, as part of a judgement pending before the Court of Genoa against a payment order regarding management personnel, INPS has submitted to Postel a brief defending its claim, based on which the company should pay family benefit contributions at a rate, also in this case, of 4.40%, rather than the 0.68% requested in the various payments orders notified to Postel and regularly appealed by the company. The company will appeal the order and challenge INPS's claims.

PRINCIPAL PROCEEDINGS PENDING AND RELATIONS WITH THE AUTHORITIES

European Commission

On 13 September 2013, the Court of Justice of the European Union upheld **Poste Italiane SpA's** appeal, overturning the decision of the European Commission of 16 July 2008 on state aid, ordering the EC to pay legal costs. Acting on the European Commission's Decision, and in accordance with instructions from the Parent Company's shareholder, in November 2008 Poste Italiane SpA made available €443 million plus interest of €41 million to the MEF, which collected the sum in January 2009. In implementation of the European Court's (by then definitive) decision, in accordance with art.1 paragraph 281 of the 2015 Budget Law, (Law 190 of 23

December 2014), on 13 May 2015, the Company collected the amount of €535 million from its then sole shareholder, the MEF. Following the European Court's decision, however, the European Commission reopened its review and appointed an external expert to determine whether (in accordance with art. 1, paragraph 31 of the 2006 Budget Law - Law 266 of 23 December 2005) the rates of interest earned by the Company on deposits with the MEF during the period from 1 January 2005 to 31 December 2007 were in line with market rates. The external expert has provided the Commission, on a preliminary basis, with an updated version of the analysis originally performed by the Commission. Poste Italiane will collaborate with the relevant national authorities to demonstrate the appropriate nature of the returns earned during the period in question.

AGCM (the Antitrust Authority)

On 9 March 2015, the Authority notified **Poste Italiane SpA** of an investigation of BancoPosta RFC for alleged violation of articles 20, 21 and 22 of the Consumer Code, regarding the "Libretto Smart" product. On 21 December 2015, the AGCM notified Poste Italiane of its final ruling in which it deemed the Company's conduct unfair and imposed a fine of €0.54 million, limited to a tenth of the maximum applicable amount taking into account the mitigating circumstance that Poste Italiane had adopted initiatives aimed at allowing customers to benefit from the bonus rate. Poste Italiane lodged an appeal against this ruling before the Lazio Regional Administrative Court, which has adjourned the case until a hearing on the merits.

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 (now Wind tre 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 had 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 and PosteMobile lodged an appeal against the ruling before Lazio Regional Administrative Court which, whilst rejecting the appeals lodged by Poste and Poste Mobile, confirmed 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 Mobile¹⁰⁹.

Following the above ruling from the AGCM, H3G 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. At the hearing held on 29 March 2017, the investigating judge ordered the appointment of an independent expert.

Finally, on 28 March 2018, Poste Italiane, PosteMobile and WindTre SpA reached an agreement whereby, without any recognition and in order to restore peaceful business relations, the parties abandoned the dispute in question. By signing the agreement, Poste Italiane undertook to pay WindTre SpA a total of €1.5 million to cover the operating, general and staff costs incurred, also in relation to disputes, including but not limited to the

¹⁰⁹ 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.

collection and processing of information and corporate data by WindTre's offices, legal fees and legal aid expenses, charges relating to technical consultancy services, etc..

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

On 13 December 2017, the Authority handed down the final ruling of the investigation, notified on 15 January 2018, by which an infringement regarding abuse of dominant position was ascertained, with a warning to the Company to refrain from similar conduct in the future. The same ruling imposed an administrative fine which was limited – compared with the Authority's previous fines – to 2% of turnover and discounted in relation to the compliance obligations undertaken in advance by Poste Italiane and positively assessed by Nexive, amounting to €23 million. The Company has taken this fine into account when calculated provisions for disputes with third parties (note B6) at 31 December 2017. The AGCM set a 60-day deadline for submitting the compliance report. Poste Italiane lodged an appeal against the above ruling before the Lazio Regional Administrative Court with a request for suspension, which was not granted, and a hearing on the merits was set for 5 December 2018. In the meantime, the Company has entered into dialogue with the Antitrust Authority to define the compliance proposals.

Autorità per le Garanzie nelle Comunicazioni (AGCOM - the Italian Communications Authority)

Law Decree 201 of 6 December 2011, converted into Law 214 of 22 December 2011, transferred responsibility for regulation and supervision of the postal sector from the Ministry for Economic Development to the Italian Communications Authority (AGCom).

Following transposition into Italian law of the third European postal services directive (Directive 2008/6/CE), the so-called “net avoided cost” method has been applied in quantifying the cost of the universal service¹¹⁰. In this regard:

- (i) On 29 July 2014, the board of AGCom issued Resolution 412/14/CONS, approving the measure defining the method of calculating and quantifying the net cost of the universal postal service for 2011 and 2012. In confirming that the cost of the universal service for 2011 and 2012 is, in certain respects, unfair and thus merits compensation, the resolution quantified the cost for 2011 and 2012, respectively, as €381 million and €327 million, compared to sums recorded originally by Poste Italiane SpA for approximately €357 million and €350 million. On 13 November 2014, Poste Italiane SpA challenged this resolution by filing an appeal before the Regional Administrative Court (TAR). The case is still pending.
- (ii) In September 2017, the regulator published Resolution 298/17/CONS relating to its assessment of the net cost of the universal postal service incurred by the Company for 2013 and 2014 and the applicability of the mechanism for allocating such cost. In detail, the regulator has assessed the cost of providing the universal service for 2013 and 2014 to be €393 million and €409 million, respectively, compared with revenue of €343 million and €277 million recognised in Poste Italiane SpA's statement of profit or loss in previous years. The regulator has also announced that the compensation fund to cover the cost of providing the universal service, as provided for in art. 10 of Legislative Decree 261/1999, has not been set up. On 6 November 2017, the Company challenged this resolution by filing an appeal before the Regional Administrative Court (TAR).

¹¹⁰ This method defines the cost incurred as the difference between the net operating cost incurred by a designated universal service provider when subject to universal service obligations and the net operating cost without such obligations.

(iii) On 27 October 2017, AGCom announced the launch of the process for assessing the net cost of the universal postal service for 2015 and 2016.

Bank of Italy

In 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 ended on 5 May 2017. The related Inspection Report was issued on 20 July 2017. Poste Italiane responded within the required deadline by submitting its views in September 2017 and launching the related compliance initiatives.

In addition, on 28 September 2017, the Bank of Italy began an inspection pursuant to art. 53 of Legislative Decree 231/2007, again with regard to BancoPosta's operations. The inspection related to money laundering prevention at a sample of post offices. The process, ended on 11 December 2017, having the nature of a follow-up to the inspection conducted in 2015, aimed to assess the progress made in implementing the compliance initiatives communicated to the Bank.

The Bank of Italy's Financial Intelligence Unit (UIF) conducted a number of inspections of **Poste Vita SpA** conducted in 2015 and 2016, in relation to money laundering prevention as per art. 47 and art. 53, paragraph 4, of Legislative Decree 231 of 2007. On 8 July 2016, the UIF sent Poste Vita a notice of assessment and violation, alleging the company's failure to promptly report suspect transactions (regarding transactions relating to a single policy) pursuant to art. 41 of Legislative Decree 231/2007. The violation in question may result in a fine of up to €0.4 million. Poste Vita has sent the Ministry of the Economy and Finance a defence memorandum and is awaiting a final decision.

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

On 20 March 2017, IVASS began an inspection of **Poste Vita** pursuant to art. 189 of the Private Insurance Code (Legislative Decree 209 of 7 September 2005) ended 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". On 27 September 2017, Poste Vita provided the documentation requested. On 27 September 2017, IVASS sent Poste Vita the results of the inspection. Finding that the degree of implementation of the Solvency II framework was satisfactory overall, the regulator did not identify any specific shortcomings, and issued a partially favourable opinion, making a number of points and observations. Therefore, on 25 October 2017 the company submitted its considerations regarding the investigations and corrective measures required by the inspection report to IVASS, and planned a series of activities aimed at implementing the improvement initiatives recommended by the Authority. To date, Poste Vita's implementation of the planned actions is on schedule.

With regard to the violations notified by IVASS to **Poste Vita SpA**, three injunctions settling a total of seven proceedings have been notified. Two related to 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, and one to the failure to comply with article 16 of IVASS Regulation 35/2010, regarding the obligations regarding the deadline for responding to requests for information. Four further proceedings launched by IVASS, almost all regarding violations of art. 183, paragraph 1.a) of the CAP, are pending.

Commissione di Vigilanza sui Fondi Pensione (the pensions regulator)

On 4 October 2016, the pensions regulator launched an inspection focusing on the *Posta Previdenza 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. The company has yet to receive any feedback from the regulator regarding the inspectors' findings.

CONSOB

In 2017, in line with the roll-out plan launched in October 2016, IT releases were completed for the new guided consultancy platform, which was gradually extended to the entire Poste Italiane network during the year. In parallel, during the second half of 2017, the segment was subject to further compliance initiatives aimed at implementing the MiFID 2 Directive, which came into force on 3 January 2018. The innovations made to procedural and IT structures, and the further initiatives planned in 2018 to consolidate the Company's oversight of them, were the subject of specific reporting to the CONSOB.

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 down 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. The hearing is scheduled for 18 April 2018. In accordance with and for the purposes of the writ of seizure, INPS, as the garnishee defendant, has paid the sum of €0.386 million to Equitalia Servizi di Riscossione.

Italian National Anti-Corruption Authority (ANAC)

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 €0.4 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. On 9 August 2017, the Authority notified Postel and the commissioning body of its decision to close the proceedings, without imposing any sanctions.

8. MATERIAL NON-RECURRING EVENTS AND/OR TRANSACTIONS

A brief summary of the impact of material non-recurring events and transactions¹¹¹ involving the Poste Italiane Group in 2017, is provided below, as required by CONSOB ruling DEM/6064293 of 28 July 2006:

- income of €91 million from the sale of 756,280 Class B Mastercard Incorporated shares in a series of transactions, following their conversion into Class A shares (see note A5);
- a total loss of €82 million on the *Convertible Contingent Notes* issued by Midco SpA and recognised in finance costs (see note 3 *Material events during the year*);
- income of €9 million in IRAP to be recovered on the unreported deduction of expenses for disabled personnel in 2003. This amount was assessed following the ruling handed down by the Regional Tax Tribunal for Lazio, which upheld an earlier appeal brought by the Parent Company (see note 2.5 – *Use of estimates*). Accrued interest of €3 million on this sum was assessed and is also of a non-recurring nature. This amount has been classified in finance income;
- with regard to the Parent Company's separate financial statements, income of €14 million recognised in "Other operating income", following the sale of the 100% interest in Banca del Mezzogiorno–MedioCreditoCentrale SpA to Invitalia SpA (see note 5.2-A11 *Non-current assets held for sale and discontinued operations*).

9. 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 transactions¹¹² in 2017.

10. EVENTS AFTER THE END OF THE REPORTING PERIOD

The following events have taken place in early 2018:

- On 25 January 2018, Poste Italiane SpA's Board of Directors approved the Company's transfer of free reserves of €210 million to BancoPosta RFC in order to restore the leverage ratio to the target level set out in the Risk Appetite Framework¹¹³. For this purpose, at the same time, the Chief Executive Officer of Poste Italiane SpA was given the authority to carry out any activities and to negotiate and sign any deeds or documents necessary or appropriate. It was also decided to submit the proposal to strengthen BancoPosta RFC's capital for approval by an Extraordinary General Meeting of Poste Italiane SpA's shareholders.

¹¹¹ 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.

¹¹² 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.

¹¹³ The RAF consists of a framework that defines, in keeping with the maximum acceptable risk, the business model and strategic plan, the risk appetite, risk tolerance thresholds, risk limits, and risk management policies, together with the processes needed to define and implement them.

- On 25 January 2018, Poste Italiane SpA announced its intention to participate in the rights issue to be carried out by Anima Holding SpA. At the end of the previous year, Anima Holding SpA's board of directors was authorised by an extraordinary general meeting of the company's shareholders to proceed with a capital increase of up to €300 million. Poste Italiane SpA, which at the reporting date holds an interest of approximately 10.04% in Anima Holding SpA, will therefore subscribe for the new shares. The offer period is between 26 March 2018 and 12 April 2018 and the cost of the new shares to be subscribed by Poste Italiane SpA amounts to up to €32 million.
- On 25 January 2018, Poste Italiane SpA's Board of Directors authorised a capital injection of €40 million for SDA Express Courier SpA to cover losses incurred through to 31 December 2017, and to recapitalise the company and establish an extraordinary reserve.
- On 13 February 2018, the merger of PosteTutela SpA with and into Poste Italiane SpA was completed. The transaction will be effective for legal purposes from 1 March 2018, whilst it will be effective for accounting and tax purposes from 1 January 2018.
- On 19 February 2018, Poste Italiane SpA's Board of Directors approved an initiative designed to protect customers who invested in the "Europa Immobiliare n.1" fund, granting the Chief Executive Officer the authority and the powers to take all the preparatory and consequent steps to implement the initiative.
- On 26 February 2018, Poste Italiane SpA's Board of Directors approved "Deliver 2022", the five-year Strategic Plan that aims to maximise the potential value of Poste Italiane's distribution network, already acknowledged as being the country's most efficient and secure.

11. ADDITIONAL INFORMATION

This note provides information applicable to both the Poste Italiane Group's consolidated financial statements and Poste Italiane SpA's separate financial statements, including qualitative and quantitative disclosures on matters required by accounting standards, not specifically dealt with in the previous notes.

ANALYSIS OF NET DEBT/(FUNDS)

The net debt/(funds) of the Poste Italiane Group and Poste Italiane SpA at 31 December 2017 are analysed below.

Poste Italiane Group

Net funds/(debt) at 31 December 2017

(€m)

Balance at 31 December 2017	Mail, Parcel & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Eliminations	Consolidated amount	of which, related parties
Financial liabilities	2,249	2,970	62,063	1,017	(5,055)	63,244	
Postal current accounts	-	-	47,468	-	(893)	46,575	-
Bonds	812	-	-	761	-	1,573	-
Borrowings from financial institutions	401	-	4,842	-	-	5,243	-
Other borrowings	-	-	-	-	-	-	-
Finance leases	-	1	-	-	-	1	-
MEF account, held at the Treasury	-	-	3,483	-	-	3,483	3,483
Derivative financial instruments	39	-	1,637	-	-	1,676	-
Other financial liabilities	79	2,969	1,639	6	-	4,693	56
Intersegment financial liabilities	918	-	2,994	250	(4,162)	-	-
Technical provisions for insurance business	-	-	-	123,650	-	123,650	-
Financial assets	(1,097)	(3,283)	(60,688)	(125,860)	4,162	(186,766)	
Loans and receivables	(274)	-	(7,600)	(258)	-	(8,132)	(6,239)
Held-to-maturity financial assets	-	-	(12,912)	-	-	(12,912)	-
Available-for-sale financial assets	(556)	-	(39,171)	(96,078)	-	(135,805)	(2,485)
Financial assets at fair value through profit or loss	-	-	-	(29,338)	-	(29,338)	(555)
Derivative financial instruments	-	-	(395)	(184)	-	(579)	-
Intersegment financial assets	(267)	(3,283)	(610)	(2)	4,162	-	-
Technical provisions attributable to reinsurers	-	-	-	(71)	-	(71)	-
Net financial liabilities/(assets)	1,152	(313)	1,375	(1,264)	(893)	57	
Cash and deposits attributable to BancoPosta	-	-	(3,196)	-	-	(3,196)	-
Cash and cash equivalents	(1,997)	(21)	(396)	(907)	893	(2,428)	(385)
Net debt/(funds)	(845)	(334)	(2,217)	(2,171)	-	(5,567)	

Net funds/(debt) at 31 December 2016

(€m)

Balance at 31 December 2016	Mail, Parcel & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Eliminations	Consolidated amount	of which, related parties
Financial liabilities	2,087	2,284	59,219	1,012	(3,681)	60,921	
Postal current accounts	-	-	45,444	-	(319)	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	2,282	1,352	2	-	3,649	1
Intersegment financial liabilities	803	-	2,308	251	(3,362)	-	-
Technical provisions for insurance business	-	-	-	113,678	-	113,678	-
Financial assets	(1,236)	(2,609)	(58,529)	(115,596)	3,608	(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)	(557)
Derivative financial instruments	-	-	(191)	(233)	-	(424)	-
Intersegment financial assets	(522)	(2,609)	(477)	-	3,608	-	-
Technical provisions attributable to reinsurers	-	-	-	(66)	-	(66)	-
Net financial liabilities/(assets)	851	(325)	690	(972)	(73)	171	
Cash and deposits attributable to BancoPosta	-	-	(2,494)	-	-	(2,494)	-
Cash and cash equivalents	(1,556)	(21)	(1,320)	(1,324)	319	(3,902)	(1,310)
Net debt/(funds)	(705)	(346)	(3,124)	(2,296)	246	(6,225)	

At 31 December 2017, the Group has net funds of €5,567 million. The increase during the year reflects the reduction in the fair value of available-for-sale financial assets (€991 million). The fair value reserve for available-for-sale financial assets, before tax, amounts to €521 million (€1,512 million at 31 December 2016).

An analysis of the net funds of the Mail, Parcels and Distribution segment at 31 December 2017, in accordance with ESMA recommendation 319/2013, is provided below:

ESMA net financial indebtedness

(€n)

	at 31 December 2017	at 31 December 2016
A. Cash	(4)	(2)
B. Other cash equivalents	(1,993)	(1,554)
C. Securities held for trading	-	-
D. Liquidity (A+B+C)	(1,997)	(1,556)
E. Current loans and receivables	(245)	(63)
F. Current bank borrowings	201	2
G. Current portion of non-current debt	763	14
H. Other current financial liabilities	82	22
I. Current financial debt (F+G+H)	1,046	38
J. Current net debt/(funds) (I+E+D)	(1,196)	(1,581)
K. Non-current bank borrowings	200	400
L. Bond issues	49	798
M. Other non-current liabilities	36	48
N. Non-current financial debt (K+L+M)	285	1,246
O. Net debt/(funds) (ESMA guidelines) (J+N)	(911)	(335)
Non-current financial assets	(585)	(651)
Net debt/(funds)	(1,496)	(986)
Intersegment loans and receivables	(267)	(522)
Intersegment financial liabilities	918	803
Net debt/(funds) including intersegment transactions	(845)	(705)

Poste Italiane SpA

Net debt/(funds)

(€m)

Balance at 31 December 2017	Capital outside ring-fence	BancoPosta RFC	Eliminations	Poste Italiane SpA	of which related party
Financial liabilities	2,087	62,109	(988)	63,208	
Postal current accounts	-	47,494	(242)	47,252	677
Bonds	813	-	-	813	-
Borrowings from financial institutions	400	4,842	-	5,242	-
MEF account held at the Treasury	-	3,483	-	3,483	3,483
Derivative financial instruments	39	1,638	-	1,677	-
Other financial liabilities	103	4,638	-	4,741	133
Intersegment financial liabilities	732	14	(746)	-	-
Financial assets	(1,212)	(60,780)	746	(61,246)	
Loans and receivables	(642)	(7,601)	-	(8,243)	(6,923)
Held-to-maturity financial assets	-	(12,912)	-	(12,912)	-
Available-for-sale financial assets	(556)	(39,140)	-	(39,696)	(2,485)
Derivative financial instruments	-	(395)	-	(395)	-
Intersegment financial assets	(14)	(732)	746	-	-
Liabilities/(net financial assets)	875	1,329	(242)	1,962	
Cash and deposits attributable to BancoPosta	-	(3,196)	-	(3,196)	-
Cash and cash equivalents	(1,885)	(396)	242	(2,039)	(385)
Net (debt)/funds	(1,010)	(2,263)	-	(3,273)	

Net debt/(funds)	(€m)				
Balance at 31 December 2016	Capital outside ring-fence	BancoPosta RFC	Eliminations	Poste Italiane SpA	of which related party
Financial liabilities	1,932	59,274	(711)	60,495	
Postal current accounts	-	45,483	(67)	45,416	291
Bonds	812	-	-	812	-
Borrowings from financial institutions	400	5,381	-	5,781	-
Loans from Cassa Depositi e Prestiti	-	2,429	-	2,429	2,429
Derivative financial instruments	51	2,305	-	2,356	-
Other financial liabilities	39	3,662	-	3,701	65
Intersegment financial liabilities	630	14	(644)	-	-
Financial assets	(1,358)	(58,682)	644	(59,396)	
Loans and receivables	(770)	(7,915)	-	(8,685)	(6,820)
Held-to-maturity financial assets	-	(12,683)	-	(12,683)	-
Available-for-sale financial assets	(574)	(37,263)	-	(37,837)	(1,509)
Derivative financial instruments	-	(191)	-	(191)	-
Intersegment financial assets	(14)	(630)	644	-	-
Net financial liabilities/(assets)	574	592	(67)	1,099	
Cash and deposits attributable to BancoPosta	-	(2,494)	-	(2,494)	-
Cash and cash equivalents	(1,461)	(1,321)	67	(2,715)	(1,310)
Net (debt)/funds	(887)	(3,223)	-	(4,110)	

At 31 December 2017, the Company has net funds of €3,273 million. The increase during the year reflects the reduction in the fair value of available-for-sale financial assets (€979 million). The fair value reserve for available-for-sale financial assets, before tax, amounts to €262 million (€1,241 million at 31 December 2016).

An analysis of the net funds of the Parent Company outside the ring-fence at 31 December 2017, in accordance with ESMA recommendation 319/2013, is provided below:

ESMA net financial indebtedness for capital outside ring-fence	(€m)	
	At 31 December 2017	At 31 December 2016
A. Cash	(1)	(1)
B. Other cash equivalents	(1,884)	(1,460)
C. Securities held for trading	-	-
D. Liquidity (A+B+C)	(1,885)	(1,461)
E. Current loans and receivables	(363)	(243)
F. Current bank borrowings	200	-
G. Current portion of non-current debt	763	14
H. Other current financial liabilities	106	42
I. Current financial liabilities (F+G+H)	1,069	56
J. Current net debt (I+E+D)	(1,179)	(1,648)
K. Non-current bank borrowings	200	400
L. Bond issues	50	798
M. Other non-current liabilities	36	48
N. Non-current net debt (K+L+M)	286	1,246
O. Industrial net debt (ESMA guidelines) (J+N)	(893)	(402)
Non-current financial assets	(835)	(1,101)
Industrial net debt	(1,728)	(1,503)
Intersegment loans and receivables	(14)	(14)
Intersegment financial liabilities	732	630
Industrial net debt for capital outside ring-fence including intersegment transactions	(1,010)	(887)

OFFSETTING FINANCIAL ASSETS AND LIABILITIES

In accordance with IFRS 7 – *Financial Instruments: Disclosures*, this section provides details of financial assets and liabilities that are subject to master netting agreements or similar arrangements, regardless of whether the financial instruments have been offset in keeping with paragraph 42 of IAS 32¹¹⁴.

In particular, the disclosures in question concern the following positions relating to Poste Italiane SpA at 31 December 2017:

- derivative assets and liabilities and related collateral, represented by both cash and government securities;
- repurchase agreements and reverse repurchase agreements and the related collateral, represented by both cash and government securities.

Category	Gross amount of financial assets (*) (a)	Gross amount of financial liabilities (*) (b)	Amount of financial (liabilities)/assets that have been offset (c)	Financial assets/(liabilities), net (d=a+b+c)	Related amounts not offset			Financial assets/(liabilities), net (h=d+e+f+g)
					Financial instruments transferred or provided as collateral (e)	Collateral		
						Securities provided/(received) as collateral (f)	Cash deposits provided/(received) as collateral (g)	
Year ended 31 December 2017								
Financial assets/(liabilities) attributable to BancoPosta								
Derivatives	394	(1,637)	-	(1,243)	-	288	965	10
Repurchase agreements	-	(4,842)	-	(4,842)	4,816	-	22	(4)
Other	-	-	-	-	-	-	-	-
Financial assets/(liabilities)								
Derivatives	-	(39)	-	(39)	-	-	39	-
Repurchase agreements	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total at 31 December 2017	394	(6,518)	-	(6,124)	4,816	288	1,026	6
Year ended 31 December 2016								
Financial assets/(liabilities) attributable to								
Derivatives	191	(2,305)	-	(2,114)	-	714	1,363	(37)
Repurchase agreements	-	(5,381)	-	(5,381)	5,374	-	7	-
Other	-	-	-	-	-	-	-	-
Financial assets/(liabilities)								
Derivatives	-	(51)	-	(51)	-	-	50	(1)
Repurchase agreements	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total at 31 December 2016	191	(7,737)	-	(7,546)	5,374	714	1,420	(38)

* The gross amount of financial assets and liabilities includes the financial instruments subject to offsetting and those subject to master netting agreements or similar arrangements, regardless of whether the financial instruments have been offset.

TRANSFERS OF FINANCIAL ASSETS THAT ARE NOT DERECOGNISED

In accordance with IFRS 7 – *Financial Instruments: Disclosures*, this section provides additional information on the transfer of financial assets that are not derecognised (continuing involvement).

At 31 December 2017, these assets concern reverse repurchase agreements entered into with primary financial intermediaries and entirely attributable to the Parent Company.

¹¹⁴ Paragraph 42 of IAS 32 provides that “A financial asset and a financial liability can be offset and the net amount presented in the statement of financial position when, and only when, an entity:

- currently has a legally enforceable right to set off the recognised amounts; and
- intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.”

Transfer of financial assets that are not derecognised							(€m)
Item	Note	At 31 December 2017			At 31 December 2016		
		Nominal value	Carrying amount	Fair value	Nominal value	Carrying amount	Fair value
Financial assets attributable to BancoPosta	[A5]						
Held-to-maturity financial assets		4,407	4,486	4,890	4,596	4,688	5,276
Available-for-sale financial assets		-	-	-	165	206	206
Financial liabilities attributable to BancoPosta	[B6]						
Financial liabilities arising from repos		(4,840)	(4,842)	(4,853)	(5,379)	(5,381)	(5,419)
Financial assets	[A6]						
Available-for-sale financial assets		-	-	-	-	-	-
Financial liabilities	[B7]						
Financial liabilities arising from repos		-	-	-	-	-	-
Total		(433)	(356)	37	(618)	(487)	63

FINANCIAL ASSETS SUBJECT TO ENCUMBRANCES

This paragraph provides information on the nominal value and carrying amount of financial assets delivered to counterparties as collateral for repurchase agreements and asset swaps, and financial assets delivered to the Bank of Italy as collateral for intraday credit granted to the Parent Company and as collateral for SEPA Direct Debits.

Financial assets subject to encumbrances					(€m)
Item	At 31 December 2017		At 31 December 2016		
	Nominal value	Carrying amount	Nominal value	Carrying amount	
Financial assets attributable to BancoPosta					
Loans and receivables	1,179	1,179	1,435	1,435	
Receivables used as collateral provided by CSAs	1,110	1,110	1,391	1,391	
Receivables used as collateral provided by GMRA's	69	69	44	44	
Held-to-maturity financial assets	5,180	5,288	5,765	5,909	
Securities used for repurchase agreements	4,407	4,486	4,596	4,688	
Securities used as collateral provided by CSAs and GMRA's	253	269	676	716	
Securities used as collateral for intraday credit from the Bank of Italy and for Sepa Direct Debits	520	533	493	505	
Available-for-sale financial assets	-	-	165	206	
Securities used for repurchase agreements	-	-	165	206	
Financial assets					
Loans and receivables	40	40	50	50	
Receivables used as collateral provided by CSAs	40	40	50	50	
Available-for-sale financial assets	-	-	-	-	
Securities used for repurchase agreements	-	-	-	-	
Total financial assets subject to encumbrances	6,399	6,507	7,415	7,600	

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. Whilst maintaining a moderate risk appetite, in 2017, the gradual process of diversifying investments, begun in 2015 and 2016, continued by increasing investments in open-end harmonised multi-asset funds of the UCITS type, above all those belonging to the “MULTIFLEX” SICAV.

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.

ISIN	Name	Nature of entity	Activity of the Fund	% investment	NAV		€m
					At	Amount	
LU1379774190	Multiflex-Diversified Dis-Cm	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29 December 2017		5,804
LU1193254122	Mix - 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	29 December 2017		4,098
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	29 December 2017		3,602
LU1407711800	Multiflex - Dynamic Multi Asset Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29 December 2017		3,580
LU1407712287	Multiflex - Strategic Insurance Distribution	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29 December 2017		3,343
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	30 November 2017		437
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 December 2017		155
LU1500341752	Multiflex-Dynamic LI MA-Cm	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29 December 2017		152
LU1500341240	Multiflex-LI Optimal MA-Cm	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29 December 2017		151
IT0005174450	Fund 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 December 2017		129
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 December 2017		94
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	30 September 2017		89
LU1581282842	Indaco Sicav Sif - Indaco Ofc Us Loan	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds, loans and equities)	100	30 November 2017		81
QU0006738854	Prima Credit Opportunity Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30 September 2017		80
IT0005215113	Fund Core Diamond	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 in units of alternative real estate funds	100	31 December 2017		66
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 2017		58
IT0005247819	Fund Diamond Value Added Properties	Italian-registered, closed-end alternative real estate investment funds	Investment in real estate assets and real property rights, including those resulting from property lease-translational arrangements and concessions and in investments in unquoted property companies	100	31 December 2017		52
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 September 2017		39
IT0004597396	Advance Capital Energy Fund	Closed-end non-harmonised fund of funds	Investments in energy companies to achieve capital appreciation and realise relevant gains, after exit	86.21	30 September 2017		25

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 and, as such, any changes in fair value are passed on to the policyholder under the shadow accounting mechanism.

Details at 31 December 2017 are provided below.

ISIN	Name	Classification	Carrying amount	Maximum loss exposure*	Difference between carrying amount and maximum loss exposure	Method to determine maximum loss exposure
LU1379774190	Multiflex-Diversified Dis-Cm	Financial assets FVPL	5,804	1,701	4,103	Analytical VaR 99.5% annualised
LU1193254122	Mix - Global Fund - Asset Global Fund (Pimco Multi Asset)	Financial assets FVPL	4,098	318	3,780	Analytical VaR 99.5% over 1-year
LU1407712014	Multiflex - Global Optimal Multi Asset Fund	Financial assets FVPL	3,602	158	3,444	Analytical VaR 99.5% over 1-year
LU1407711800	Multiflex - Dynamic Multi Asset Fund	Financial assets FVPL	3,580	158	3,422	Analytical VaR 99.5% over 1-year
LU1407712287	Multiflex - Strategic Insurance Distribution	Financial assets FVPL	3,343	357	2,986	Historical VaR 99.5% over 1-year
IT0004937691	Tages Platinum Growth	Available-for-sale financial assets	437	32	405	VaR 99.5% over a 1-year time horizon
IT0005212193	Diamond Italian Properties	Financial assets FVPL	155	39	116	Analytical VaR 99.5% annualised
LU1500341752	Multiflex-Dynamic Lt M/A-Cm	Financial assets FVPL	152	7	145	Analytical VaR 99.5% over 1-year
LU1500341240	Multiflex-Lt Optimal MA-Cm	Financial assets FVPL	151	8	143	Analytical VaR 99.5% over 1-year
IT0005174450	Fund Diamond Eurozone Office Ubs	Financial assets FVPL	129	43	86	Analytical VaR 99.5% annualised
IT0005210387	Diamond Eurozone Retail Property Fund	Financial assets FVPL	94	23	71	Analytical VaR 99.5% annualised
LU1081427665	Shopping Property Fund 2	Available-for-sale financial assets	57	24	33	Analytical VaR 99.5% annualised
LU1581282842	Indaco Sicav Sif - Indaco Cfc Us Loan	Financial assets FVPL	81	31	50	VaR 99.5% over a 1-year time horizon
QU0006738854	Prime Credit Opportunity Fund	Financial assets FVPL	80	41	39	VaR 99.5% over a 1-year time horizon
IT0005215113	Fund Cbre Diamond	Financial assets FVPL	66	21	45	Analytical VaR 99.5% annualised
IT0005210593	Diamond Other Sector Italia	Financial assets FVPL	58	14	44	Analytical VaR 99.5% annualised
IT0005247819	Fund Diamond Value Added Properties	Financial assets FVPL	52	13	39	Analytical VaR 99.5% annualised
QU0006738052	Prime Eu Private Debt Opportunity Fund	Financial assets FVPL	39	5	34	VaR 99.5% over a 1-year time horizon
IT0004597396	Advance Capital Energy Fund	Available-for-sale financial assets	22	11	11	VaR 99.5% over a 1-year time horizon

*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.

Asset class	Fair value
(€m)	
Financial instruments	
Corporate bonds	7,718
Government bonds	9,350
Other investments net of liabilities	2,020
Equity instruments	2,182
Cash	762
Derivatives	
Swaps	4
Futures	-
Forwards	(1)
Total	22,035

Market traded on and UCITS	Fair value
New York	2,747
Germany (Frankfurt, Berlin, Munich)	2,845
London	783
Paris	1,020
Luxembourg	166
Dublin	1,573
Eurotlx	261
Euromtf	367
Tokyo	393
Euronext	542
Trace	1,933
Singapore	332
Hong Kong	108
Other	7,962
Funds	1,003
Total	22,035

SHARE-BASED PAYMENT ARRANGEMENTS

LONG-TERM INCENTIVE SCHEME: PHANTOM STOCK PLAN

Poste Italiane Group

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.

Description of the Plan

As described in the above information circular for the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan", prepared in accordance with art 84-bis of the Regulations for Issuers, the Phantom Stock Plan for the period 2016-2018 entails the award to Beneficiaries of phantom stocks granting them the right to receive

stock representing the value of Poste Italiane's shares and the related cash bonus at the end of a vesting period. The number of phantom stocks awarded to each Beneficiary is dependent on achieving the Performance Hurdle and meeting the Qualifying Conditions and the related Performance Targets over a three-year period. The Plan covers a medium- to long-term period. In particular, the plan includes three award cycles, corresponding to the financial years 2016, 2017 and 2018, each with a duration of three years.

The phantom stocks are awarded if the performance targets are achieved, and converted into a cash bonus based on the market value of the shares in the thirty stock exchange trading days prior to the grant date for the phantom stocks or at the end of a retention period (as specified below). The key characteristics of the Plan are described below.

Beneficiaries

The beneficiaries are: Poste Italiane's Chief Executive Officer, in his role as General Manager, certain managers within the Poste Italiane Group, including key management personnel, Material Risk Takers who work for BancoPosta RFC and personnel belonging to the Poste Vita insurance group.

Plan terms and conditions

The Performance Targets, to which receipt of the cash bonus is subject, are as follows:

- for the General Manager and other beneficiaries of the Plan employed by Poste Italiane, other than Bancoposta personnel, an indicator of earnings based on the Group's cumulative EBIT over a three-year period, used to account for the continuity and sustainability of earnings over the long term;
- for Beneficiaries included among BancoPosta RFC's Risk Takers, the three-year RORAC (Return On Risk Adjusted Capital), used for the LTIP with the aim of taking into account the continuity and sustainability of the long-term performance after appropriately adjusting for risk;
- for Beneficiaries included among personnel belonging to the Poste Vita insurance group, the RORAC registered by the Poste Vita insurance group over a three-year period, used for the LTIP with the aim of taking into account the continuity and sustainability of the long-term performance after appropriately adjusting for risk.

All Beneficiaries must be measured against an indicator of shareholder value creation, based on the Total Shareholder Return, used to measure performance based on the value created for Poste Italiane's shareholders compared with other FTSE MIB-listed companies.

Vesting of the Phantom Stocks is subject to achievement of the Performance Hurdle, designed to ensure sustainability of the Plan at Group level. The Performance Hurdle corresponds with achievement of a certain target for the Group's cumulative EBIT over a three-year period at the end of each Performance Period. In addition, in the case of the General Manager (and Chief Executive Officer) and BancoPosta RFC's Risk Takers, vesting of the Phantom Stocks is also subject to achievement of Qualifying Conditions, designed to ensure the stability of BancoPosta RFC's capital and liquidity position, as follows:

- Indicator of capital adequacy, based on CET 1 at the end of the period;
- Indicator of short-term liquidity, based on LCR at the end of the period;
- Indicator of risk-adjusted earnings, based on RORAC at the end of the period; this indicator has been introduced from the 2017-2019 cycle and only for the General Manager (and Chief Executive Officer).

For personnel belonging to the Poste Vita insurance group, vesting of the Phantom Stocks, in addition to achievement of the Performance Hurdle (Group's cumulative EBIT over a three-year period), is subject to achievement of the specific Qualifying Condition, namely the Solvency II ratio at the end of the period.

The Phantom Stocks will be awarded by the end of the year following the end of the Performance Period, and immediately converted into cash. In the case of the General Manager, BancoPostaRFC's Risk Takers and the Poste Vita group's personnel, they are subject to a one-year retention period, before they can be converted into cash, following confirmation that the Qualifying Conditions for each plan have been met.

Determination of fair value and effects on profit or loss

First Cycle 2016-2018

The total number of phantom stocks awarded to the 44 Beneficiaries of the First Cycle of the Plan amounted to 473,073. An independent expert, external to the Group, was appointed to measure the value of the stocks and this was done using Monte Carlo simulations. The cost recognised for 2017 is approximately €0.2 million, whilst the liability recognised in amounts due to staff is approximately €1.5 million.

Second Cycle 2017-2019

The total number of phantom stocks awarded to the 55 Beneficiaries of the Second Cycle of the Plan amounted to 609,491. The fair value of each stock at 31 December 2017 was estimated to be €3.98 with regard to the plan for the Chief Executive Officer and General Manager, BancoPosta RFC personnel and Poste Vita's personnel, and €4.17 relating to the plan for the remaining Poste Italiane personnel. An independent expert, external to the Group, was appointed to measure the value of the stocks and this was done using Monte Carlo simulations. The cost recognised for 2017 is approximately €0.8 million, equivalent to the liability recognised in amounts due to staff.

Poste Italiane SpA

The effects on profit or loss of the First and Second Cycles if the above Long-Term Incentive scheme at 31 December 2017 for Poste Italiane SpA are shown below.

Determination of fair value and effects on profit or loss

First Cycle 2016-2018

The total number of phantom stocks awarded to the 42 Beneficiaries of the First Cycle of the Plan outstanding at 31 December 2017 amounted to 447,800. An independent expert, external to the Group, was appointed to measure the value of the stocks and this was done using Monte Carlo simulations. The cost recognised for 2017 is approximately €0.2 million, whilst the liability recognised in amounts due to staff is approximately €1.4 million.

Second Cycle 2017-2019

The total number of phantom stocks awarded to the 52 Beneficiaries of the Second Cycle of the Plan amounted to 574,141. An independent expert, external to the Group, was appointed to measure the value of the stocks and this was done using Monte Carlo simulations. The cost recognised for 2017 is approximately €0.8 million, equivalent to the liability recognised in amounts due to staff.

SHORT-TERM INCENTIVE SCHEMES: MBO

On 27 May 2014, the Bank of Italy issued specific Supervisory Standards for BancoPosta (Part IV, Chapter I, "BancoPosta" including in Circular 285 of 17 December 2013 "Prudential supervisory standards for banks") which, in taking into account BancoPosta's specific organisational and operational aspects, has extended application of the prudential standards for banks to include BancoPosta. This includes the standards relating to remuneration and incentive policies (Part I, Title IV, Chapter 2 "Remuneration and incentive policies and practices" in

the above Circular 285/2013). These standards provide that a part of the bonuses paid to BancoPosta RFC's Material Risk Takers may be awarded in the form of financial instruments over a multi-year timeframe. As a result, with regard to the management incentive schemes adopted for BancoPosta RFC, where the incentive is above a certain materiality threshold, the MBO management incentive scheme envisages the award of 50% of the incentive in the form of phantom stocks, representing the value of Poste Italiane SpA's shares, and application of the following deferral mechanisms:

- 60% of the award to be deferred for a 5-year period on a pro-rata basis, in the case of Material Risk Takers who are beneficiaries of both the short- and long-term incentive schemes;
- 40% of the award to be deferred for a 3-year period on a pro-rata basis for the remaining Material Risk Takers.

The award of phantom stocks is subject to meeting the Performance Hurdle (Group earnings: EBIT) and certain Qualifying Conditions, as follows:

- Capital adequacy: CET 1, risk tolerance level approved in the Risk Appetite Framework (RAF);
- Short-term liquidity: LCR, risk tolerance level approved in the Risk Appetite Framework (RAF).

Payment of the deferred portion will take place each year, provided that BancoPosta RFC's minimum regulatory capital and liquidity requirements have been met. The effects on profit or loss and on equity are recognised in the period in which the instruments vest.

Determination of fair value and effects on profit or loss

At 31 December 2017, the number of phantom stocks has been estimated on the basis of the best available information, with the aim of recognising the related service cost. An independent expert, external to the Group, was appointed to measure the value of the stocks, based on best market practices. The cost recognised for 2017 amounts to approximately €0.6 million, equivalent to the liability recognised in amounts due to staff.

SEVERANCE PAYMENTS ON TERMINATION OF EMPLOYMENT

Severance payments to BancoPosta RFC's Material Risk Takers on early termination are paid in accordance with the same procedures applied to short-term variable remuneration as regards deferral, payment in financial instruments and verification of the minimum regulatory capital and liquidity requirements for BancoPosta RFC. The total number of phantom stocks awarded following early termination of employment in 2017 amounted to 276,744. The cost recognised in profit or loss amounts to approximately €1.5 million, equivalent to the liability recognised in amounts due to staff.

INFORMATION ON INVESTMENTS

Details of investments are as follows:

List of investments consolidated on a line-by-line basis (€000)

Name (Registered office)	% interest	Share capital	Profit / (loss) for the year	Equity
BancoPosta Fondi SpA SGR (Rome)	100.00%	12,000	29,134	53,886
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	171	291
Europa Gestioni Immobiliari SpA (Rome)	100.00%	103,200	1,843	237,263
Mistral Air Srl (Rome) (**)	100.00%	1,000	(7,611)	(1,895)
PatentiViaPoste ScpA (Rome) (*)	86.86%	120	(2)	125
PosteMobile SpA (Rome)	100.00%	32,561	18,659	57,905
Poste Tributi ScpA (Rome) (**)	90.00%	2,583	(1,053)	(1,590)
PosteTutela SpA (Rome)	100.00%	153	298	13,441
Poste Vita SpA (Rome) (*)	100.00%	1,216,608	510,172	3,323,728
Poste Assicura SpA (Rome) (*)	100.00%	25,000	28,609	104,359
Postel SpA (Rome)	100.00%	20,400	118	101,459
SDA Express Courier SpA (Rome) (**)	100.00%	10,000	(31,990)	(22,876)
Poste Welfare Servizi Srl (Rome)	100.00%	16	2,590	7,651

(*) 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 for 2018 and to Poste Tributi ScpA throughout its liquidation.

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 year
Address Software Srl (Rome)	Subsidiary	237	51.00%	931	466	465	1,087	38
Anima Holding SpA (Milan) (a)	Associate	218,911	10.04%	1,212,463	372,770	839,693	578,620 (*)	78,347
Conio Inc. (San Francisco) (b)	Associate	68	20.00%	346	136	210	-	220
FSIA Investimenti Srl (Milano) (c)	Joint venture	286,136	30.00%	1,011,722	59,792	951,930	-	24,816
Indabox Srl (Rome)	Subsidiary	1,222	100.00%	755	151	604	98	(289)
ItaliaCamp Srl (Rome) (d)	Associate	54	20.00%	941	670	271	879	161
Kipoint SpA (Rome)	Subsidiary	614	100.00%	2,589	1,975	614	4,678	57
Risparmio Holding SpA (Rome)	Subsidiary	873	80.00%	1,208	117	1,091	-	737
Uptime SpA - in liquidation (Rome) (e)	Subsidiary	-	100.00%	4,104	4,339	(235)	5,791	(413)
Other SDA Express Courier associates (f)	Associate	4						

- Data derived from the latest consolidated interim accounts for the period ended 30 September 2017 approved by the company's board of directors.
- Data for Conio Inc. and its subsidiary, Conio Srl at 30 June 2017.
- Data derived from the latest interim accounts for the period ended 30 September 2017 approved by the company's board of directors, including measurement of the SIA group at equity and the effects recognised at the time of Purchase Price Allocation.
- Data derived from the accounts for the period ended 31 December 2016, the latest approved by the company.
- Data derived from the accounts for the period ended 31 December 2015, the latest approved by the company.
- The other associates of the SDA Express Courier Group are: MDG Express Srl and Speedy Express Courier Srl.

(*) The amount includes commissions, interest income and other similar income.

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	At 31 December 2017	At 31 December 2016	
Post office savings books	108,564	118,938	
Interest-bearing Postal Certificates	214,347	203,962	
Cassa Depositi e Prestiti	146,104	134,121	
Ministry of the Economy and Finance	68,243	69,841	
Total	322,911	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 year, amount to €7,984 million at 31 December 2017 (€7,269 million at 31 December 2016).

COMMITMENTS

The Group's purchase commitments break down as follows.

Commitments		(€m)	
Item	Balance at 31 December 2017	Balance at 31 December 2016	
Purchase commitments			
Property leases	523	501	
Purchases of property, plant and equipment	42	41	
Purchases of intangible assets	32	27	
Vehicle leases	200	260	
Other leases	26	28	
Total	823	857	

At 31 December 2017, EGI SpA has given commitments to purchase electricity, with a total value of €10.7 million, on regulated forward markets in 2018. At 31 December 2017, the corresponding market value is €12.4 million.

Poste Italiane SpA's purchase commitments break down as follows.

Purchase commitments		(€m)			
Item	At 31 December 2017	related to subsidiaries	At 31 December 2016	related to subsidiaries	
Property leases	533	32	515	13	
Property, plant and equipment	42	-	43	2	
Intangible assets	33	-	30	3	
Vehicle leases	200	-	260	-	
Other contracts	31	16	18	4	
Total	839	48	866	22	

Future commitments attributable to the Group and Poste Italiane SpA related to property leases, which may generally be terminated with six months' notice, break down by due date as follows:

Commitments for property leases - Poste Italiane Group (€m)

Item	Balance at 31 December 2017	Balance at 31 December 2016
Instalments falling due:		
within 1 year of the reporting date	138	139
between 2 and 5 years after the reporting date	320	311
more than 5 years after the reporting date	65	52
Total	523	502

Commitments for property leases - Poste Italiane SpA (€m)

Item	At 31 December 2017	related to subsidiaries	At 31 December 2016	related to subsidiaries
Instalments falling due:				
within 1 year of the reporting date	145	7	146	7
between 2 and 5 years after the reporting date	333	20	316	5
more than 5 years after the reporting date	55	5	53	1
Total	533	32	515	13

GUARANTEES

Unsecured guarantees issued by the Group and Poste Italiane SpA are as follows:

Guarantees (€m)

Item	Balance at 31 December 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	283	321
by the Group in its own interests in favour of third parties	21	-
Total	304	321

Guarantees (€m)

Item	At 31 December 2017	At 31 December 2016
Sureties and other guarantees issued:		
by banks in the interests of Poste Italiane SpA in favour of third parties	172	212
by Poste Italiane SpA in the interests of subsidiaries in favour of third parties	59	59
letters of patronage issued by Poste Italiane SpA in the interests of subsidiaries	21	1
Total	252	272

THIRD-PARTY ASSETS

Third-party assets held by Group companies are shown below. This type of asset refers solely to the Parent Company, Poste Italiane SpA.

Third-party assets	(€m)	
Item	Balance at 31 December 2017	Balance at 31 December 2016
Bonds subscribed by customers held at third-party banks	3,562	5,262
Total	3,562	5,262

In addition to the above, at 31 December 2017, Poste Italiane SpA holds a further €3 million in assets belonging to Group companies.

ASSETS IN THE PROCESS OF ALLOCATION

At 31 December 2017, the Parent Company had paid a total of €107 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.

DISCLOSURE OF FEES PAID TO INDEPENDENT AUDITORS PURSUANT TO ART.149 DUODECIES OF THE CONSOB'S REGULATIONS FOR ISSUERS

The following table shows fees payable to the Parent Company's auditors, PricewaterhouseCoopers SpA, and companies within its network for 2017, presented in accordance with art. 149 *duodecies* of the CONSOB's Regulations for Issuers:

Disclosure of fees paid to Independent Auditors		(€000)
Type of service	Supplier of service	Fees (*)
Poste Italiane SpA		
Audit	PricewaterhouseCoopers SpA	1,166
	PricewaterhouseCoopers network	-
Attestation services	PricewaterhouseCoopers SpA	293
	PricewaterhouseCoopers network	-
Other services	PricewaterhouseCoopers SpA	55
	PricewaterhouseCoopers network	-
Subsidiaries of Poste Italiane SpA		
Audit (**)	PricewaterhouseCoopers SpA	1,058
	PricewaterhouseCoopers network	-
Attestation services	PricewaterhouseCoopers SpA	353
	PricewaterhouseCoopers network	-
Other services	PricewaterhouseCoopers SpA	95
	PricewaterhouseCoopers network	-
Total		3,020

(*) The above amounts do not include incidental expenses and charges.

(**) The amounts shown do not include fees for auditing services performed in respect of funds managed by BancoPosta Fondi SGR SpA and payable by investors, amounting to €119 thousand.

Auditing services are expensed as incurred and reported in the audited financial statements¹¹⁵. With regard to the Parent Company, the item "Audit" includes additional fees of €130 thousand subject to approval by the Annual General Meeting of shareholders on 29 May 2018.

¹¹⁵ Any audit or attestation services relating to accounts prior to the reporting date are recognised on an accruals basis, following engagement of the auditor, in the year in which the services are rendered, applying the percentage of completion method.

**12. BancoPosta RFC
Separate Report for the year
ended 31 December 2017**

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FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

at 31 December

	(€)	
Assets	2017	2016
10. Cash and cash equivalents	3,217,163,704	2,510,820,434
20. Financial assets held for trading	-	-
30. Financial assets designated at fair value	-	-
40. Available-for-sale financial assets	39,140,379,660	37,263,441,355
50. Held-to-maturity financial assets	12,912,363,033	12,682,587,907
60. Due from banks	1,150,646,309	1,314,337,052
70. Due from customers	7,951,158,686	9,004,203,937
80. Hedging derivatives	394,507,899	190,911,119
90. Adjustments for changes in hedged financial assets portfolio (+/-)	-	-
100. Investments	-	-
110. Property, plant and equipment	-	-
120. Intangible assets	-	-
<i>of which:</i>		
- goodwill	-	-
130. Tax assets:	405,671,786	320,870,907
a) current	-	-
b) deferred	405,671,786	320,870,907
<i>of which Law 214/2011</i>	-	-
140. Non-current assets held for sale and discontinued operations	-	-
150. Other assets	2,063,534,180	1,765,994,097
Total assets	67,235,425,257	65,053,166,808

STATEMENT OF FINANCIAL POSITION

at 31 December

(€)

Liabilities and equity	2017	2016
10. Due to banks	5,949,610,345	5,798,577,802
20. Due to customers	53,686,408,893	50,373,852,771
30. Debt securities in issue	-	-
40. Financial liabilities held for trading	-	-
50. Financial liabilities designated at fair value	-	-
60. Hedging derivatives	1,637,107,776	2,304,549,533
70. Adjustments for changes in hedged financial liabilities portfolio (+/-)	-	-
80. Tax liabilities:	307,944,970	530,290,120
<i>a) current</i>	-	-
<i>b) deferred</i>	307,944,970	530,290,120
90. Liabilities associated with non-current assets held for sale and discontinued operations	-	-
100. Other liabilities	2,335,518,644	2,178,775,258
110. Employee termination benefits	16,538,104	18,556,806
120. Provisions for risks and charges:	543,375,786	462,396,773
<i>a) post-employment benefits</i>	-	-
<i>b) other provisions</i>	543,375,786	462,396,773
130. Valuation reserves	114,941,270	868,891,183
140. Redeemable shares	-	-
150. Equity instruments	-	-
160. Reserves	2,058,999,822	1,948,999,822
170. Share premium reserve	-	-
180. Share capital	-	-
190. Treasury shares (-)	-	-
200. Profit/(Loss) for the year (+/-)	584,979,647	568,276,740
Total liabilities and equity	67,235,425,257	65,053,166,808

INCOME STATEMENT

for the year ended 31 December

(€)

Income/(Expense)	2017	2016
10. Interest and similar income	1,525,963,155	1,542,998,078
20. Interest and similar expense	(78,167,651)	(73,840,796)
30. Net interest income	1,447,795,504	1,469,157,282
40. Fee and commission income	3,628,959,602	3,602,704,357
50. Fee and commission expense	(64,607,340)	(66,084,130)
60. Net fee and commission income	3,564,352,262	3,536,620,227
70. Dividends and similar income	597,839	690,388
80. Profits/(Losses) on trading	2,342,123	3,133,641
90. Fair value adjustments in hedge accounting	1,897,984	(910,193)
100. Profits/(Losses) on disposal or repurchase of:	623,613,722	587,484,549
<i>a) loans and advances</i>	-	-
<i>b) available-for-sale financial assets</i>	623,613,722	593,952,484
<i>c) held-to-maturity financial assets</i>	-	-
<i>d) financial liabilities</i>	-	(6,467,935)
110. Profits/(Losses) on financial assets/liabilities designated at fair value	-	-
120. Net interest and other banking income	5,640,599,434	5,596,175,894
130. Net losses/recoveries on impairment of:	(14,583,719)	(6,363,522)
<i>a) loans and advances</i>	(14,583,719)	(6,363,522)
<i>b) available-for-sale financial assets</i>	-	-
<i>c) held-to-maturity financial assets</i>	-	-
<i>d) other financial transactions</i>	-	-
140. Net income from banking activities	5,626,015,715	5,589,812,372
150. Administrative expenses:	(4,615,783,659)	(4,653,115,006)
<i>a) personnel expenses</i>	(93,415,138)	(98,478,270)
<i>b) other administrative expenses</i>	(4,522,368,521)	(4,554,636,736)
160. Net provisions for risks and charges	(182,598,597)	(94,802,615)
170. Net losses/recoveries on property, plant and equipment	-	-
180. Net losses/recoveries on intangible assets	-	-
190. Other operating income/(expenses)	(57,613,621)	(39,373,904)
200. Operating expenses	(4,855,995,877)	(4,787,291,525)
210. Profits/(Losses) on investments	-	-
220. Profits/(Losses) on fair value measurement of property, plant and equipment and intangible assets	-	-
230. Impairment of goodwill	-	-
240. Profits/(Losses) on disposal of investments	-	-
250. Income/(Loss) before tax from continuing operations	770,019,838	802,520,847
260. Taxes on income from continuing operations	(185,040,191)	(234,244,107)
270. Income/(Loss) after tax from continuing operations	584,979,647	568,276,740
280. Income/(Loss) after tax from discontinued operations	-	-
290. Profit/(Loss) for the year	584,979,647	568,276,740

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

(€)

Income/(Expense)	2017	2016
10. Profit/(Loss) for the year	584,979,647	568,276,740
Other components of comprehensive income after taxes not reclassified to profit or loss		
20. Property, plant and equipment	-	-
30. Intangible assets	-	-
40. Defined benefit plans	283,022	(422,365)
50. Non-current assets held for sale	-	-
60. Share of valuation reserve attributable to equity-accounted investments	-	-
Other components of comprehensive income after taxes reclassified to profit or loss		
70. Hedges of foreign investments	-	-
80. Foreign exchange differences	-	-
90. Cash flow hedges	(44,678,244)	(25,835,153)
100. Available-for-sale financial assets	(709,554,691)	(1,611,038,479)
110. Non-current assets held for sale	-	-
120. Share of valuation reserve attributable to equity-accounted investments	-	-
130. Total other components of comprehensive income after taxes	(753,949,913)	(1,637,295,997)
140. Comprehensive income (Items 10+130)	(168,970,266)	(1,069,019,257)

STATEMENT OF CHANGES IN EQUITY

(€)

	at 31 December 2017									
	Share capital		Share premium reserve	Reserves		Valuation reserves	Equity instruments	Treasury shares	Profit/(Loss) for the year	Equity
	ordinary shares	other shares		retained earnings	other ⁽¹⁾					
Closing balances at 31 December 2016	-	-	-	948,999,822	1,000,000,000	868,891,183	-	-	568,276,740	3,386,167,745
Adjustments to opening balances	-	-	-	-	-	-	-	-	-	-
Opening balances at 1 January 2017	-	-	-	948,999,822	1,000,000,000	868,891,183	-	-	568,276,740	3,386,167,745
Attribution of retained earnings	-	-	-	110,000,000	-	-	-	-	(568,276,740)	(458,276,740)
Reserves	-	-	-	110,000,000	-	-	-	-	(110,000,000)	-
Dividends and other attributions	-	-	-	-	-	-	-	-	(458,276,740)	(458,276,740)
Movements during the year	-	-	-	-	-	(753,949,913)	-	-	584,979,647	(168,970,266)
Movements in reserves	-	-	-	-	-	-	-	-	-	-
Equity-related transactions	-	-	-	-	-	-	-	-	-	-
Issuance of new shares	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-
Payment of extraordinary dividends	-	-	-	-	-	-	-	-	-	-
Movements in equity instruments	-	-	-	-	-	-	-	-	-	-
Derivatives on own shares	-	-	-	-	-	-	-	-	-	-
Stock options	-	-	-	-	-	-	-	-	-	-
Comprehensive income for 2017	-	-	-	-	-	(753,949,913)	-	-	584,979,647	(168,970,266)
Equity at 31 December 2017	-	-	-	1,058,999,822	1,000,000,000	114,941,270	-	-	584,979,647	2,756,920,739

(€)

	at 31 December 2016									
	Share capital		Share premium reserve	Reserves		Valuation reserves	Equity instruments	Treasury shares	Profit/(Loss) for the year	Equity
	ordinary shares	other shares		retained earnings	other ⁽¹⁾					
Closing balances at 31 December 2015	-	-	-	948,996,672	1,000,000,000	2,506,187,180	-	-	586,969,571	5,042,153,423
Adjustments to opening balances	-	-	-	-	-	-	-	-	-	-
Opening balances at 1 January 2016	-	-	-	948,996,672	1,000,000,000	2,506,187,180	-	-	586,969,571	5,042,153,423
Attribution of retained earnings	-	-	-	-	-	-	-	-	(586,969,571)	(586,969,571)
Reserves	-	-	-	-	-	-	-	-	-	-
Dividends and other attributions	-	-	-	-	-	-	-	-	(586,969,571)	(586,969,571)
Movements during the year	-	-	-	3,150	-	(1,637,295,997)	-	-	568,276,740	(1,069,016,107)
Movements in reserves	-	-	-	3,150	-	-	-	-	-	3,150
Equity-related transactions	-	-	-	-	-	-	-	-	-	-
Issuance of new shares	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-
Payment of extraordinary dividends	-	-	-	-	-	-	-	-	-	-
Movements in equity instruments	-	-	-	-	-	-	-	-	-	-
Derivatives on own shares	-	-	-	-	-	-	-	-	-	-
Stock options	-	-	-	-	-	-	-	-	-	-
Comprehensive income for 2016	-	-	-	-	-	(1,637,295,997)	-	-	568,276,740	(1,069,019,257)
Equity at 31 December 2016	-	-	-	948,999,822	1,000,000,000	868,891,183	-	-	568,276,740	3,386,167,745

⁽¹⁾ This item corresponds to the BancoPosta RFC reserve.

STATEMENT OF CASH FLOWS

for the year ended 31 December

Indirect method

(€)

	2017	2016
A. OPERATING ACTIVITIES		
1. Cash flow from operations	669,944,592	650,037,706
- profit/(loss) for the year (+/-)	584,979,647	568,276,740
- gains/(losses) on financial assets held for trading and on assets and liabilities designated at fair value (-/+)	1,095,199	68,387
- gains/(losses) on hedging activities (-/+)	(1,897,984)	910,193
- net losses/recoveries on impairment (+/-)	14,583,719	6,363,522
- net losses/recoveries on property, plant and equipment (+/-)	-	-
- net provisions and other expenses/income (+/-)	444,520,215	398,219,073
- unpaid taxes and duties (+)	185,040,192	234,017,820
- net losses/recoveries on discontinued operations after tax (+/-)	-	-
- other adjustments (+/-)	(558,376,396)	(557,818,029)
2. Cash flow from/(used for) financial assets	(2,070,552,058)	(5,941,565,182)
- financial assets held for trading	-	-
- financial assets designated at fair value	-	-
- available-for-sale financial assets	(2,764,116,693)	(5,467,991,805)
- due from banks: on demand	(540,869)	(399,288)
- due from banks: other	163,136,413	(103,403,902)
- due from customers	1,038,461,533	20,821,972
- other assets	(507,492,442)	(390,592,159)
3. Cash flow from/(used for) financial liabilities	2,847,080,414	5,041,164,367
- due to banks: on demand	638,071,027	101,623,433
- due to banks: other	(487,038,484)	437,934,922
- due to customers	3,312,556,122	4,904,804,958
- debt securities in issue	-	-
- financial liabilities held for trading	-	-
- financial liabilities designated at fair value	-	-
- other liabilities	(616,508,251)	(403,198,946)
Net cash flow from/(used for) operating activities	1,446,472,948	(250,363,109)
B. INVESTING ACTIVITIES		
1. Cash flow from	1,300,000,002	1,300,000,002
- disposal of investments	-	-
- dividends received on investments	-	-
- disposal of held-to-maturity financial assets	1,300,000,002	1,300,000,002
- disposal of property, plant and equipment	-	-
- disposal of intangible assets	-	-
- disposal of business division	-	-
2. Cash flow used for	(1,581,852,940)	(1,120,543,164)
- acquisition of investments	-	-
- acquisition of held-to-maturity financial assets	(1,581,852,940)	(1,120,543,164)
- acquisition of property, plant and equipment	-	-
- acquisition of intangible assets	-	-
- acquisition of business division	-	-
Net cash flow from / (used for) investing activities	(281,852,938)	179,456,838
C. FINANCING ACTIVITIES		
- issuance/purchase of own shares	-	-
- issuance/purchase of equity instruments	-	-
- dividends and other payments	(458,276,740)	(586,969,571)
Net cash flow from / (used for) financing activities	(458,276,740)	(586,969,571)
NET CASH FLOW GENERATED / (USED) DURING THE YEAR	706,343,270	(657,875,842)

KEY:

(+) from

(-) used for

Reconciliation

for the year ended 31 December

(€)

Item	2017	2016
Cash and cash equivalents at beginning of the year	2,510,820,434	3,168,696,276
Net cash flow generated/(used) during the year	706,343,270	(657,875,842)
Cash and cash equivalents: foreign exchange effect	-	-
Cash and cash equivalents at end of the year	3,217,163,704	2,510,820,434

NOTES

PART A – ACCOUNTING POLICIES

A.1 – GENERAL

SECTION 1 – DECLARATION OF COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Separate Report has been prepared in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). These were endorsed for application in the European Union by European Regulation (EC) 1606/2002 of 19 July 2002, as transposed into Italian law by Legislative Decree 38 of 28 February 2005 governing the introduction of IFRS into Italian legislation. The term "IFRS" means all International Financial Reporting Standards, all International Accounting Standards ("IAS"), and all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") previously known as the Standing Interpretations Committee ("SIC") endorsed for application in the European Union by EU Regulations issued prior to 29 March 2018, the date on which the Board of Directors of Poste Italiane SpA approved the BancoPosta RFC Separate Report as part of Poste Italiane SpA's Annual Report.

Accounting standards and interpretations applicable from 1 January 2017 and those soon to be effective

The relevant information is provided in note 2.7 – *New Accounting standards and interpretations and those soon to be effective* – in the section – *Poste Italiane financial statements* – of this Annual Report.

In 2017, Poste Italiane SpA prepared for implementation of the new accounting standard, IFRS 9, which will come into effect from 1 January 2018 and will largely replace the current standard, IAS 39. The purpose of the process was: i) to identify the impact of the standard ("Classification & Measurement", "Impairment" and "Hedge accounting"), ii) to determine the quantitative and qualitative effects of transition, iii) to identify and implement the applications and organisational changes necessary in order to ensure consistent, organic and effective adoption within the Group.

Information on the assessment of the qualitative effects and the choices made is provided in the above note 2.7. Preliminary information about the main effects on BancoPosta RFC's assets and liabilities at 1 January 2018, resulting from adoption of the new accounting standard, is provided below. Checks on the data presented below are still in progress. All the effects are shown before the related taxation.

Classification and Measurement of financial instruments

BancoPosta RFC's securities portfolio at 31 December 2017 consists of the following:

- "Held-to-maturity financial assets": €12.9 billion
- "Available-for-sale financial assets": €39.1 billion

Following application of IFRS 9 as indicated in the above note 2.7, and assuming a positive outcome to the checks being carried out, BancoPosta RFC's securities portfolio at 1 January 2018 will consist of the following:

- “Financial assets measured at amortised cost” (business model: Hold to Collect): €19.1 billion
- “Financial assets measured at fair value through other comprehensive income” (business model: Hold to Collect and Sell): €34.8 billion

Impairment

As a result of the new rules introduced by IFRS 9 governing the approach to calculating impairments (Expected Credit Losses - ECLs) and the expected loss models adopted, the ECLs at 1 January 2018, recognised in revenue reserves, amount to €25 million and include:

- €8 million on securities classified as “Financial assets measured at amortised cost”;
- €14 million on securities classified as “Financial assets measured at fair value through other comprehensive income”;
- €3 million on other financial assets measured at amortised cost (other than securities).

Effects on equity

As a result of the above, the expected effects on BancoPosta RFC's equity at 1 January 2018 are as follows (before the related taxation):

- An increase of approximately €1.9 billion in the fair value reserve
- A reduction of approximately €8 million in revenue reserves, of which:
 - a reduction of €25 million resulting from the new method of determining ECLs;
 - an increase of €16 million, resulting from the reclassification to “Financial assets measured at fair value through profit or loss” of equity instruments classified in “Available-for-sale financial assets” at 31 December 2017.

In 2017, Poste Italiane SpA also prepared for implementation of the new accounting standard, IFRS 15 – Revenue from Contracts with Customers, which will come into effect from 1 January 2018 and which will replace IAS 18, IAS 11 and IFRIC 13. The purpose of the process was to assess contracts of sale, categorised by type of activity, and identify each existing performance obligation and any gaps between the accounting policies currently applied and those introduced by the new standard. This involved analysing administrative and accounting processes, the available IT systems, and existing procedures to assess their compliance with the new standard. A description of the assessment carried out is provided in the above note 2.7. Application of the new standard at the transition date will not have any impact on BancoPosta RFC's revenue reserves.

SECTION 2 – BASIS OF PREPARATION

The Separate Report has been prepared in application of Bank of Italy Circular 262 of 22 December 2005 – “Banks' Financial Statements: Layouts and Preparation”, as amended, applicable at the date of preparation of this Report, and of art. 2447 *septies*, paragraph 2, of the Italian Civil Code. On 27 May 2014, the Bank of Italy

issued specific Supervisory Standards for BancoPosta RFC (Circular 285/2013, Part Four, Section 1) which, in taking into account the entity's specific organisational and operational aspects, has established prudential requirements that are substantially in line with those applicable to banks. The Standards also govern the requirements regarding capital adequacy and risk containment. The Separate Report relates to the year ended 31 December 2017, has been prepared in euros and consists of the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the explanatory notes. The statement of financial position, income statement and statement of comprehensive income consists of numbered line items and lettered line sub-items. Nil balances have also been presented in the statement of financial position, income statement and statement of comprehensive income for the sake of completeness. The statement of cash flows has been prepared using the indirect method¹¹⁶. All figures in the notes are stated in millions of euros. Notes and account analysis have not been included for nil balances.

The Separate Report forms an integral part of Poste Italiane SpA's financial statements and has been prepared on a going concern basis in that BancoPosta's operations are certain to continue in the foreseeable future. BancoPosta's accounting policies, described in the Separate Report, are the same as those adopted by Poste Italiane SpA and are relevant to all of BancoPosta RFC's operations.

SECTION 3 – EVENTS AFTER THE END OF THE REPORTING PERIOD

- On 25 January 2018, Poste Italiane SpA's Board of Directors approved the Company's transfer of free reserves of €210 million to BancoPosta RFC in order to restore the leverage ratio to the target level set out in the Risk Appetite Framework¹¹⁷. At the same time, it was decided to submit the proposal to strengthen BancoPosta RFC's capital for approval by an Extraordinary General Meeting of Poste Italiane SpA's shareholders.
- On 25 January 2018, Poste Italiane SpA's Board of Directors approved the separation and transfer of certain assets, contractual rights and authorisations from BancoPosta RFC to a new ring-fenced e-money and payment services unit to be set up within PosteMobile SpA, as well as the separation of the contractual rights and authorisations relating to back-office and anti-money laundering activities. These corporate actions were subject to approval by Extraordinary General Meeting, following prior receipt of all the consents needed to comply with existing statutory and regulatory requirements. Submission to the Bank of Italy of a request for authorisation to remove the ring-fence from the assets, contractual rights and authorisations that make up the e-money and payment services unit was also approved.
- On 19 February 2018, Poste Italiane SpA's Board of Directors approved an initiative designed to protect customers who had invested in the Europa Immobiliare 1 fund, granting the Chief Executive Officer the authority and the powers to take all the preparatory and consequent steps to implement the initiative.

¹¹⁶ Under the indirect method, net cash from operating activities is determined by adjusting profit/(loss) for the year to reflect the impact of non-cash items, any deferment or provisions for previous or future operating inflows or outflows, and revenue or cost items linked to cash flows from investing or financing activities.

¹¹⁷ Further details are provided in Part E – Introduction.

SECTION 4 – OTHER INFORMATION

4.1 INTERSEGMENT RELATIONS

Balances relating to transactions between BancoPosta RFC and Poste Italiane SpA ("Intersegment transactions") are recognised in the statement of financial position at 31 December 2017 as shown below:

	At 31 December 2017	of which intersegment	At 31 December 2016	of which intersegment
(€m)				
Assets				
10. Cash and cash equivalents	3,217	-	2,511	-
40. Available-for-sale financial assets	39,140	-	37,263	-
50. Held-to-maturity financial assets	12,912	-	12,683	-
60. Due from banks	1,151	-	1,314	-
70. Due from customers	7,951	734	9,004	632
80. Hedging derivatives	395	-	191	-
130. Tax assets	406	-	321	-
150. Other assets	2,063	22	1,766	29
A Total assets	67,235	756	65,053	661
Liabilities and equity				
10. Due to banks	5,950	-	5,799	-
20. Due to customers	53,686	256	50,374	82
60. Hedging derivatives	1,637	-	2,305	-
80. Tax liabilities	308	-	530	-
100. Other liabilities	2,335	254	2,178	297
110. Employee termination benefits	17	-	19	-
120. Provisions for risks and charges	543	-	462	-
130. Valuation reserves	115	-	869	-
160. Reserves	2,059	-	1,949	-
200. Profit/(Loss) for the year (+/-)	585	-	568	-
B Total liabilities and equity	67,235	510	65,053	379
A-B Net intersegment balances		246		282

The provision of services to BancoPosta RFC by Poste Italiane SpA functions is governed by specific *General Guidelines governing the process of contracting out BancoPosta's corporate functions to Poste Italiane* (the "General Guidelines"), the latest version of which was approved by Poste Italiane SpA's Board of Directors. In implementation of *BancoPosta RFC's Regulation*, these General Guidelines identify the services in question and determine the manner in which they are remunerated. The general policies and instructions contained in the General Guidelines in relation to transfer pricing are detailed in specific Operating Guidelines, jointly developed by BancoPosta and other Poste Italiane SpA functions. The Operating Guidelines establish, among other things, levels of service and the related transfer prices, and become effective, in accordance with the General Guidelines, following an authorisation process involving the relevant functions, the Chief Executive Officer and, when provided for, Poste Italiane SpA's Board of Directors. When BancoPosta intends to contract out a major operating process or a control procedure, whether in its entirety or in part, to Poste Italiane SpA in accordance with specific Operating Guidelines, it must give prior notice to the Bank of Italy. In accordance with Bank of Italy Circular 285 issued on 17 December 2013, Part Four, Chapter 1 BancoPosta, Section II, paragraph 2, the Board of Statutory Auditors is required to verify, at least every six months, that the policies adopted are fit for purpose and are in compliance with the related statutory requirements and supervisory standards.

In line with 2016, the services are charged for in the form of transfer prices. The transfer prices paid, inclusive of commissions and any other form of remuneration due, are determined on the basis of market prices and tariffs for the same or similar services, identified, where possible, following a benchmarking process. When the specifics and/or the particular nature of a service provided by a Poste Italiane function do not allow the use of a comparable market price, a cost-based method is used, again with the support of benchmarking to ensure that the price charged is adequate for the service provided. In this case, an appropriate mark-up, determined

with reference to those used by comparable peers, is applied. From 2017, the resulting transfer prices are reviewed every two years.

For the purposes of oversight of the unbundled accounts, in 2017 the Board of Statutory Auditors conducted the relevant audit activities during 3 meetings, reporting its conclusions in its annual report to shareholders for the year ended 31 December 2017.

4.2 RELATIONS WITH THE AUTHORITIES

AGCM (The Antitrust Authority)

On 9 March 2015, the Authority notified Poste Italiane SpA of an investigation of BancoPosta RFC for alleged violation of articles 20, 21 and 22 of the Consumer Code, regarding the “Libretto Smart” product. On 21 December 2015, the AGCM notified Poste Italiane of its final ruling, in which it deemed the Company's conduct unfair and imposed a fine of €0.54 million, limited to a tenth of the maximum applicable amount, taking into account the mitigating circumstance that Poste Italiane had adopted initiatives aimed at allowing customers to benefit from the bonus rate. Poste Italiane lodged an appeal against this ruling before the Lazio Regional Administrative Court, which adjourned the case to a hearing on the merits.

Bank of Italy

In 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 ended on 5 May 2017. The related Inspection Report was issued on 20 July 2017. Poste Italiane responded within the required deadline by submitting its views in September 2017 and initiating the necessary remedial action.

In addition, on 28 September 2017, the Bank of Italy began an inspection pursuant to art. 53 of Legislative Decree 231/2007, again with regard to BancoPosta's operations. The inspection related to money laundering prevention at a sample of post offices. The inspection, which was concluded on 11 December 2017, had the nature of a follow-up to the inspection conducted in 2015, aimed to assess the progress made in implementing the compliance initiatives communicated to the Bank.

CONSOB

In accordance with the roll-out plan launched in October 2016, in 2017, Poste Italiane completed the process of releasing the software for the new “guided consultancy” service, which was gradually implemented throughout Poste Italiane's post office network during the year. In parallel, during the second half of 2017, further work was carried out in order to comply with the requirements of MiFID2, which came into effect from 3 January 2018. The changes made to procedures and IT systems, together with the further initiatives planned for 2018 with a view to consolidating the related processes, were the subject of a specific report to the CONSOB.

A.2 – PART RELATING TO PRINCIPAL FINANCIAL STATEMENT ITEMS

The following notes have been numbered in accordance with instructions contained in Bank of Italy Circular 262/2005. Omitted numbers denote information not relevant to the Separate Report.

1 – FINANCIAL ASSETS HELD FOR TRADING

a) recognition

Financial assets held for trading are initially recognised on the settlement date for debt and equity securities, whereas, for derivative contracts, on the subscription date. Financial assets are initially recognised at fair value which is generally the price paid. Any changes in fair value occurring between the trade and settlement dates are recognised in the Separate Report.

b) classification

This category includes debt and equity instruments acquired primarily to obtain a short-term profit as the result of changes in their prices and the positive value of derivative contracts unless designated as hedging instruments.

c) measurement and recognition of gains and losses

Financial assets held for trading are recognised at fair value with any changes in fair value recognised in profit or loss in line “Item 80 - Profits/(Losses) on trading”. Derivatives are accounted for either as assets or liabilities depending on whether their fair value is positive or negative.

d) derecognition

Financial assets are derecognised when the contractual rights to the cash flows of those financial assets lapse or when the financial asset is sold and all risks and rewards relating to the financial asset are substantially transferred.

2 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

a) recognition

Available-for-sale financial assets are initially recognised on the settlement date at fair value which is generally the price paid. Any changes in fair value occurring between the trade and settlement dates are recognised in the Separate Report. If, exceptionally, recognition is the result of the reclassification of Held-to-maturity assets, recognition is at fair value at the time of the reclassification. Any difference in the initial amount at which debt securities are recognised and the amount of repayments is amortised over the term of the security.

b) classification

Available-for-sale financial assets are non-derivative financial instruments that are either designated in this category or not attributable to any of the other categories described in paragraphs 1, 3 and 4.

c) measurement

Available-for-sale financial assets are recognised at fair value and any resulting fair value gains or losses are recognised in an equity reserve. This reserve is only recycled to profit or loss when the financial asset is effectively disposed of (or settled) or, in the event of accumulated losses, when there is evidence that the impairment recognised in equity cannot be recovered. Solely in the case of debt securities, if the fair value subsequently increases as the objective result of an event that took place after the impairment loss was recognised in profit or loss, the value of the financial instrument is reinstated and the reversal recognised in profit or loss. The recognition of returns on debt securities under the amortised cost method¹¹⁸ takes place through profit or loss, as do the effects of movements in exchange rates, whilst movements in exchange rates relating to available-for-sale equity instruments are recognised in a specific equity reserve.

d) derecognition

Available-for-sale financial assets are derecognised when the contractual rights to the cash flows of those financial assets cease or on the disposal of the financial asset and substantially all risks and rewards relating to the financial asset are transferred. Any securities received as part of a transaction entailing subsequent re-sale and the delivery of securities as part of a transaction entailing their subsequent repurchase are not either recognised or derecognised.

3 – HELD-TO-MATURITY FINANCIAL ASSETS

a) recognition

Held-to-maturity financial assets are initially recognised on settlement date. They are initially recognised at fair value which is generally the price paid. When recognition in this category arises in connection with the reclassification of available-for-sale financial assets, the fair value of the asset at the date of reclassification is deemed to be the asset's amortised cost.

b) classification

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and maturities that BancoPosta RFC has a positive intention and ability to hold to maturity.

c) measurement and recognition of gains and losses

Held-to-maturity financial assets are measured at amortised cost using the effective interest rate method adjusted for any impairments. Any gains or losses are recognised in profit or loss in line item 10 - Interest and similar income. In the event that there is objective evidence of an impairment, the impairment loss recognised as the amount that would equate the carrying amount to the present value of the projected cash flows. Any impairment loss is then recognised in profit or loss. If, subsequently, the reasons giving rise to the impairment

¹¹⁸ The amortised cost of a financial asset or liability is the amount at which the asset or liability is initially recognised less any repayments of principal, plus or minus accumulated amortisation, in application of the effective interest rate method, of all differences between the amount initially recognised and the amount repayable on maturity less any impairment due to insolvency or any other reason. The effective interest rate is the rate that exactly discounts contractual (or expected) future cash payments or receipts over the expected life of the asset or liability to its initial carrying amount. Calculation of amortised cost must also include external costs and income directly attributable to the asset or liability on initial recognition.

cease to exist, the impairments are reversed to reinstate the amortised cost that would have been the carrying amount if there had been no impairment.

d) derecognition

Held-to-maturity financial assets are derecognised when the contractual rights to the cash flows of those financial assets lapse or on the disposal of the financial asset and all risks and rewards relating to the financial asset are substantially transferred. Any securities received as part of a transaction entailing subsequent re-sale and the delivery of securities as part of a transaction entailing their subsequent repurchase are not either recognised or derecognised.

4 – LOANS AND RECEIVABLES

a) classification and recognition

Loans and advances are non-derivative, unlisted financial instruments largely consisting of deposits at the Ministry of the Economy and Finance (the MEF) which are expected to generate income of fixed amounts or which can be determined. Receivables relate to operations and are trade in nature. Loans and advances are recognised on settlement, whereas receivables relating to operations are recognised when the service is rendered.

b) measurement and recognition of gains and losses

Receivables, loans and advances are carried at amortised cost determined using the effective interest rate method adjusted for any impairment. Impairments are recognised as described in the note on held-to-maturity financial assets.

c) derecognition

Receivables, loans and advances are derecognised when the contractual rights to the cash flows of those financial assets lapse or on disposal of the financial asset and all risks and rewards relating to the financial asset are substantially transferred.

6 – HEDGES

a) recognition and classification

Derivative hedges are initially recognised on conclusion of the relevant contract. There are two types of hedge:

- Fair value hedges: A hedge of the exposure to a change in fair value of a recognised asset or liability or of an unrecognised firm commitment attributable to a particular risk, and that could have an impact on profit or loss.
- Cash flow hedges: A hedge of the exposure to the variability of cash flows attributable to a particular risk associated with an asset or liability or with a highly probable forecast transaction, and that could have an impact on profit or loss.

b) measurement and recognition of gains and losses

Derivatives are initially recognised at fair value on the date the derivative contract is executed. If derivative financial instruments qualify for hedge accounting, gains and losses arising from changes in fair value after initial recognition are accounted for in accordance with the specific policies described below. The relationship between each hedging instrument and the hedged item is documented, as well as the risk management objective, the strategy for undertaking the hedge transaction and the methods used to assess effectiveness. Assessment of whether the hedging derivative is effective takes place both at inception of the hedge and throughout the term of the hedge.

- Fair value hedges

When the hedge is related to recognised assets or liabilities, or an unrecognised firm commitment, changes in the fair values of both the hedging instrument and the hedged item are recognised in profit or loss. Any difference represents the ineffective portion of the hedge and is accounted for as a loss or gain, recognised separately in line “Item 90 - Fair value adjustments in hedge accounting”.

- Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges after initial recognition is recognised in a specific equity reserve (the “Cash flow hedge reserve”). A hedging transaction is generally considered highly effective if, both at inception of the hedge and on an ongoing basis, changes in the expected future cash flows of the hedged item are substantially offset by changes in the fair value of the hedging instrument. Amounts accumulated in equity are recycled to profit or loss in the period in which the hedged item affect profit or loss.

In the case of hedges associated with a highly probable forecast transaction (such as, forward purchases of fixed income debt securities), the reserve is reclassified to profit or loss in the period or in the periods in which the asset or liability, subsequently accounted for and connected to the aforementioned transaction, will affect profit or loss (for example, an adjustment to the return on the security).

If the hedging transaction is not fully effective, the gain or loss arising from a change in fair value relating to the ineffective portion is recognised in line “Item 90 - Fair value adjustments in hedge accounting”. If, during the life of the derivative, the forecast hedged transaction is no longer expected to occur, the related gains and losses accumulated in the cash flow hedge reserve are immediately reclassified in line “Item 80 – Profits/(Losses) on trading” for the relevant year. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the related gains and losses accumulated in the cash flow hedge reserve at that time remain in equity and are recognised in profit or loss at the same time as the original underlying.

11 – CURRENT AND DEFERRED TAXATION

Current income tax expense (IRES and IRAP) is based on the best estimate of taxable profit for the period and the related regulations, applying the rates in force. Deferred tax assets and liabilities are calculated on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts, using tax rates that are expected to apply when the related deferred tax assets are realised or the deferred tax liabilities are settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred taxes are recognised in profit or loss, with the exception of taxes charged or credited directly to equity, in which case the tax effect is recognised directly in equity.

BancoPosta RFC is not a separate legal person and is not either directly or indirectly assessable to taxes. BancoPosta's share of taxes on Poste Italiane SpA's overall income is charged to BancoPosta RFC based on the profit or loss presented in this Separate Report adjusted for deferred taxation. In the case of both IRES and IRAP, the computation takes all permanent and temporary changes in BancoPosta's operations into account. Any items not directly relating to BancoPosta are included in the Poste Italiane computation.

Current tax assets and liabilities form part of intersegment relations and are presented in the Separate Report in "Other assets" and "Other liabilities", as they are settled with the segment of Poste Italiane SpA outside the ring-fence, within the scope of internal relations with Poste Italiane SpA, which continues to be the sole taxable entity.

12 – PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are recorded to cover losses that are either probable or certain to be incurred, for which, however, there is an uncertainty as to the amount or as to the date on which they will occur. Provisions for risks and charges are made when the entity has a present (legal or constructive) obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation. Provisions are measured on the basis of management's best estimate of the use of resources required to settle the obligation. The value of the liability is discounted at a rate that reflects current market values and takes into account the risks specific to the liability. Under the option granted by the relevant accounting standards, limited disclosure is provided when, in rare cases, disclosure of some or all of the information regarding the risks in question could seriously prejudice BancoPosta RFC's position, reputation or operating capability in a dispute or in ongoing negotiations with third parties, or when it could prejudice the regular operation of markets.

13 – DUE TO BANKS, DUE TO CUSTOMERS AND DEBT SECURITIES IN ISSUE

a) recognition and classification

BancoPosta RFC has no outstanding debt securities and has not issued any such securities since its establishment. Due to banks and customers consist of funding provided by customers and obtained from the interbank market. These financial liabilities are recognised at fair value on the date of receipt of the funds. Fair value is normally the amount received.

b) measurement and recognition of gains and losses

Due to banks and customers are measured at amortised cost, employing the effective interest rate method. If there is a change in expected cash flows and they can be reliably estimated, the value of borrowings is recalculated to reflect the change in estimated future cash flows and the internal rate of return initially applied.

c) derecognition

Financial liabilities are derecognised when repaid or in the event that BancoPosta RFC transfers all liabilities and charges associated with the relevant instrument.

14 – FINANCIAL LIABILITIES HELD FOR TRADING

a) classification and recognition

Financial liabilities held for trading consist either of derivatives which do not qualify for classification as hedging instruments in accordance with accounting standards or originally obtained as a hedge which was subsequently discontinued. Financial liabilities held for trading are recognised on the derivative contract date.

b) measurement

Financial liabilities held for trading are carried at fair value through profit or loss.

c) derecognition

Financial liabilities held for trading are derecognised on the cessation of rights to the cash flows associated with the liability or when BancoPosta RFC has substantially transferred all the related risks and rewards.

d) recognition of gains and losses

Gains and losses arising from movements in the fair value of financial liabilities held for trading are recognised in profit or loss in line “Item 80– Profits/(Losses) on trading”.

16 – FOREIGN CURRENCY TRANSACTIONS

a) recognition

Foreign currency transactions are initially recognised in the functional currency by translating the foreign currency amount at the transaction date spot rate.

b) classification, measurement, derecognition and recognition of gains and losses

Foreign currency items are translated at each reporting date as shown below:

- monetary items at closing exchange rates;
- non-monetary items are recognised at their historical cost translated at the transaction date spot rate;
- non-monetary items designated at fair value at closing exchange rates.

Foreign exchange differences realised on the settlement of monetary items or on the translation of monetary and non-monetary items, using exchange rates other than the rate used to translate the item on initial recognition, are recognised in profit or loss in line “Item 80 - Profits/(Losses) on trading”.

17 – OTHER INFORMATION

Revenue recognition

Revenue is recognised at the fair value of the consideration received, net of rebates and discounts, and in accordance with the accruals basis of accounting. Specifically:

- interest is evenly accrued over time at the contractual rate of interest or, for items carried at amortised cost, the effective interest rate;
- dividends are recognised in profit or loss when the right to receive payment is established, which generally corresponds with approval of the distribution by the shareholders of the investee company;
- service fee income is recognised in accordance with the underlying contracts in the period in which the services are rendered. Fees, less associated costs, are recognised on a percentage of completion basis to the extent that there is reasonable certainty that they will be paid. Fees on activities carried out in favour of or on behalf of the state and Public Administration entities are recognised on the basis of the amount effectively accrued, with reference to the laws and agreements in force, taking account, in any event, of the instructions contained in legislation regarding the public finances;
- returns on the portion of current account deposits deposited with the MEF are determined on an accruals basis, using the effective interest rate method, and classified in “Item 10 – Interest and similar income”;
- the same classification is applied to income from euro area government securities, in which deposits paid into accounts by private customers are invested;
- revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer.

Related parties

Related parties within the Poste Italiane Group are Poste Italiane SpA’s functions outside the ring-fence and Poste Italiane SpA’s direct and indirect subsidiaries and associates.

Related parties external to the Group include the MEF and its direct and indirect subsidiaries and associates. Related parties also include Poste Italiane SpA’s key management personnel and the funds representing poste-employment benefit plans for the personnel of BancoPosta RFC and its related parties. The state and public sector entities other than the MEF are not classified as related parties. Related party transactions do not include those deriving from financial assets and liabilities represented by instruments traded on organised markets.

Employee benefits

Short-term benefits

Short-term employee benefits are those that will be fully paid within twelve months of the end of the year in which the employee provided his or her services. Such benefits include wages, salaries, social security contributions, holiday pay and sick pay.

The undiscounted value of short-term employee benefits, to be paid to employees in consideration of employment services provided over the relevant period, is accrued as personnel expenses.

Post-employment benefits

There are two types of post-employment benefit: defined contribution and defined benefit plans.

Since, for defined benefit plans, the amount of benefits payable can only be determined subsequent to the cessation of employment, the related cost and obligations can only be estimated by actuarial techniques in accordance with IAS 19.

Under defined contribution plans, contributions payable are recognised in profit or loss when incurred, based on the nominal value.

- **Defined benefit plans**

Defined benefit plans include employee termination benefits payable to employees in accordance with article 2120 of the Italian Civil Code. Benefits vesting up to 31 December 2006¹¹⁹, which are covered by the reform of supplementary pension provision, must, from 1 January 2007, be paid into a supplementary pension fund or into a Treasury Fund set up by INPS. Accordingly the BancoPosta RFC's defined benefit liability is applicable only to the provisions made up to 31 December 2006.

The termination of employment (TFR) liability is calculated using the projected unit credit method and then discounted to recognise the time value of money prior to the liability being settled. The liability recognised in the Separate Report is also based on calculations performed by independent actuaries. The calculation takes account of termination benefits accrued for the period of service to date and is based on actuarial assumptions. These primarily regard: demographic assumptions (such as employee turnover and mortality) and financial assumptions (such as rate of inflation and a discount rate consistent with that of the liability). As BancoPosta RFC is not liable for employee termination benefits accruing after 31 December 2006, the actuarial calculation of employee termination benefits no longer takes account of future salary increases. Actuarial gains and losses are recognised directly in equity at the end of each reporting period, based on the difference between the carrying amount of the liability and the present value of the BancoPosta RFC's obligations at the end of the period, due to changes in the actuarial assumptions.

- **Defined contribution plans**

Employee termination benefits payable pursuant to art. 2120, Italian Civil Code fall within the scope of defined contribution plans provided they vested subsequent to 1 January 2007 and were paid into a Supplementary Pension Fund or a Treasury Fund at INPS. Contributions to defined contribution plans are recognised in profit or loss when incurred, based on their nominal value.

Termination benefits

Termination benefits payable to employees are recognised as a liability when BancoPosta RFC gives a binding commitment, also on the basis of consolidated relationships and mutual undertakings with union representatives, to terminate the employment of an employee, or group of employees, prior to the normal retirement date or, alternatively, an employee or group of employees accepts an offer of benefits in consideration of a termination of employment. Termination benefits payable to employees are immediately recognised as personnel expenses.

¹¹⁹ Where, following entry into effect of the new legislation, the employee has not exercised any option regarding the investment of vested employee termination benefits, BancoPosta RFC has remained liable to pay the benefits until 30 June 2007, or until the date, between 1 January 2007 and 30 June 2007, on which the employee exercised a specific option. Where no option was exercised, from 1 July 2007 vested employee termination benefits have been paid into a supplementary pension fund.

Other long-term employment benefits

Other long-term employment benefits consist of benefits not payable within twelve months of the end of the reporting period during which the employees provided their services. The net change in the value of the liability during the reporting period is recognised in full in profit or loss. Measurement of the other long-term employee benefits liability is recognised in the financial statements also on the basis of calculations performed by independent actuaries.

Share-based payments

In the event of share-based payment transactions settled in cash, shares or other financial instruments, BancoPosta RFC is required to measure the goods or services acquired and the liability incurred at fair value. Until the liability is settled, the fair value of the liability must be remeasured at the end of each reporting period, recognising any changes in fair value in profit or loss for the period. In the event of benefits granted to employees, recognition should take place in the period in which the employees render service and the expense accounted for in personnel expenses.

Classification of the costs for services provided by Poste Italiane SpA

Service costs charged by Poste Italiane SpA's functions outside the ring-fence, which include a portion of the fees paid included in the transfer prices charged in accordance with the operating guidelines for Poste Italiane's commercial network, are normally recognised in "Item 150 b) - Other administrative expenses".

Use of estimates

Preparation of the Separate Report requires the application of accounting standards and methods that are at times based on complex subjective judgments and estimates based on historical experience, and assumptions that are considered reasonable and realistic under the circumstances. Use of such estimates and assumptions affects the amounts reported in the financial statements, with reference to the statement of financial position, the income statement, the statement of comprehensive income, the statement of cash flows and the notes. The actual amounts of items for which the above estimates and assumptions have been applied may differ from those reported in previous financial statements, due to uncertainties regarding the assumptions themselves and the conditions on which estimates are based. Estimates and assumptions are periodically reviewed and the impact of any changes is reflected in the financial statements for the period in which the estimate is revised if the revision only influences the current period, or also in future periods if the revision influences both current and future periods.

This section provides a description of accounting treatments that require the use of subjective estimates and for which a change in the conditions underlying the assumptions used could have a material impact on BancoPosta RFC's Separate Report.

- **Deferred tax assets**

The recognition of deferred tax assets is based on the expectation of taxable income in future years. Assessments of expected taxable income depend on factors which may change over time, impacting on the valuation of the deferred tax assets in the Separate Report.

- [Fair value of unquoted financial instruments](#)

The fair value of financial instruments that are not traded on an active market is based on prices quoted by external dealers or on internal valuation techniques which estimate the transaction price on the measurement date in an arm's length exchange motivated by normal business considerations. The valuation models are primarily based on market variables, considering where possible, the prices in recent transactions and quoted market prices for substantially similar instruments, and of any related credit risk. Further details on the techniques used to measure the fair value of unquoted financial instruments are contained in Section A.4.1 of Part A.

- [Impairments/recoveries of loans and receivables](#)

BancoPosta RFC is prohibited by Presidential Decree 144 of 14 March 2001 from making loans to customers. Impairments and recoveries of loans and receivables, consequently, relate exclusively to unpaid trade receivables. Impairments and reversals are made with reference to assessments of credit risk based on historical experience of similar receivables, an analysis of past due items (current and historical), losses and collections and the monitoring of the current and future economic conditions in the related markets.

- [Provisions for risks and charges](#)

Provisions for risks and charges represent probable liabilities in connection with personnel, customers, suppliers, third parties and, in general, liabilities deriving from present obligations. The amounts of the provisions are based, among other things, on the estimated cost of operating contingencies, such as disputes with customers regarding investment products of a nature and/or performance deemed by customers to be inconsistent with their expectations, seizures incurred and not yet definitively assigned, and the likelihood of paying compensation or refunds to clients in those cases where there is no definitive ascertainment.

Determination of the amounts to be provided 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 when preparing this Separate Report.

- [Share-based payments](#)

As more fully described in Part I – Share-based payment arrangements, measurement of the fair value of the “Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan”, the “Long-term Incentive Plan for 2017-2019 (LTIP) – Phantom Stock Plan” (both approved by Poste Italiane SpA's shareholders on 24 May 2016) and the short-term incentive plan (MBO) for BancoPosta RFC's material risk takers (approved by Poste Italiane SpA's shareholders on 27 April 2017), was based on the conclusions of independent actuaries. The Plan terms and conditions require the occurrence of certain future events, such as the achievement of performance targets, performance hurdles and of certain indicators of capital adequacy and short-term liquidity. For these reasons, measurement of the related liabilities requires the application of estimates based on current information about factors that may change over time, thereby resulting in outcomes that may be different from those taken into account during preparation of this Separate Report.

A.3 – INFORMATION ON TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

There have been no transfers between portfolios.

A.4 – INFORMATION ON FAIR VALUE

Qualitative information

A.4.1 FAIR VALUE LEVELS 2 AND 3: VALUATION TECHNIQUES AND INPUTS

BancoPosta RFC had adopted the Poste Italiane Group's fair value policy. This policy sets 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 general principles to be applied in measuring the fair value of financial instruments have not changed 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, and the guidelines for the Group's financial management reviewed and approved by Poste Italiane SpA's Board of Directors in December 2017.

In compliance with IFRS 13 - *Fair Value Measurement*, the valuation techniques used are described below.

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 BancoPosta RFC, the financial instruments included in this category consist of bonds issued by the Italian government, the valuation of which is based on the 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 (Composite Bloomberg Bond Trader) third¹²⁰. Level 1 bond price quotations incorporate a credit risk component.

Level 2: this level is comprised of fair values based on inputs other than Level 1 quoted market prices that are either directly or indirectly observable for the asset or liability. Given the nature of BancoPosta RFC'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 premia, asset swap spreads or credit default spreads which represent the creditworthiness of specific counterparties and any liquidity adjustments quoted by primary market counterparties.

¹²⁰ For technical reasons, at 31 December 2017, the measurement of bonds issued by EU governments was based on this latter source.

For BancoPosta RFC, these include the following types of financial instrument:

- Straight Italian and international government and non-government bonds, quoted on inactive markets or not at all: valuation is based on 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.
- Unquoted equities, for which it is to use the price of quoted equities of the same issuer as a benchmark. The price inferred in this manner is adjusted through the application of a discount, quoted by primary market counterparties, representing the cost implicit in the process to align the value of the unquoted shares to the quoted ones.
- Derivative financial instruments:
 - Plain vanilla interest rate swaps: valuation is based on 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 BancoPosta RFC'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.
 - Currency forwards: valuation is based on the differential between the reciprocal currency registered at the measurement date and the reciprocal currency fixed at the trade date.

The derivatives held in BancoPosta RFC'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 BancoPosta RFC.

- Buy and Sell Back agreements 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.
- Financial liabilities either quoted on inactive markets or not at all, consisting of repurchase agreements used to raise finance are valued using discounted cash flow techniques involving the computation of

future contractual cash flows. Repos may also be used for collateral and in such cases fair value need not be adjusted for the counterparty credit risk.

Level 3: this category includes the fair value measurement of assets and liabilities using both Level 2 inputs and inputs that cannot be observed. In BancoPosta RFC's case, this category includes equity instruments for which no price is observable directly or indirectly in the market. The measurement of these instruments is based on the quoted price of equity instruments issued by the same issuer, to which a discount is applied, calculated using internal valuation techniques, representing the cost implicit in the process of aligning the value of the unquoted shares to be measured with that of the quoted ones.

A.4.2 MEASUREMENT PROCESSES AND SENSITIVITIES

The processes used in recurring and non-recurring fair value measurements of instruments classified in Level 3 are described in paragraphs A.4.1 and A.4.5, respectively, of Part A.

Sensitivity analysis of recurring fair value measurements classified in Level 3 of the hierarchy is conducted for the Series C Visa Incorporated Convertible Participating Preferred Stock. Measurement of these financial instruments is in fact subject to change following alterations that may occur in the discount factor applied in determining fair value, in order to take into account the illiquid nature of the shares. This discount factor, estimated using an internal valuation technique, is above all influenced by the annual volatility of the underlying shares. Applying the maximum volatility according to the technique used, the potential reduction in fair value could reach approximately 31%.

A.4.3 FAIR VALUE HIERARCHY

There were no occurrences during the year resulting in a requirement to transfer financial assets and liabilities measured at fair value on a recurring basis between the various levels of the fair value hierarchy.

A.4.4 OTHER INFORMATION

There is no need to provide the additional disclosures required by IFRS 13, paragraphs 51, 93(i) and 96.

Quantitative information

A.4.5 FAIR VALUE HIERARCHY

A.4.5.1 Financial assets and liabilities measured at fair value on a recurring basis by fair value level

(€m)						
Financial assets/liabilities at fair value	At 31 December 2017			At 31 December 2016		
	Level 1	Level 2	Level 3*	Level 1	Level 2	Level 3*
1. Financial assets held for trading	-	-	-	-	-	-
2. Financial assets designated at fair value	-	-	-	-	-	-
3. Available-for-sale financial assets	36,244	2,859	37	35,280	1,956	27
4. Hedging derivatives	-	395	-	-	191	-
5. Property, plant and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	36,244	3,254	37	35,280	2,147	27
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	1,637	-	-	2,305	-
Total	-	1,637	-	-	2,305	-

(*)Notes on this position are provided in Part B, Assets, Table 4.1.

The derivatives held in BancoPosta RFC's portfolio may be pledged as collateral and the fair value, consequently, need not be adjusted for the counterparty's credit risk (Part A, Section A.4.1).

A.4.5.2 Movements during the year in assets measured at fair value on a recurring basis (Level 3)

(€m)						
	Financial assets held for trading	Financial assets designated at fair value	Available-for-sale financial assets	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balance	-	-	27	-	-	-
2. Increases	-	-	10	-	-	-
2.1. Purchases	-	-	-	-	-	-
2.2. Profit recognition:	-	-	10	-	-	-
2.2.1. Profit or loss	-	-	-	-	-	-
- of which gains	-	-	-	-	-	-
2.2.2. Equity	x	x	10	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-
3. Decreases	-	-	-	-	-	-
3.1. Disposals	-	-	-	-	-	-
3.2. Repayments	-	-	-	-	-	-
3.3. Impairment recognition:	-	-	-	-	-	-
3.3.1. Profit or loss	-	-	-	-	-	-
- of which loss	-	-	-	-	-	-
3.3.2. Equity	x	x	-	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	-	-
4. Closing balance	-	-	37	-	-	-

Movements during the period in question include the change in the fair value of the Series C Visa Incorporated Convertible Participating Preferred Stock.

A.4.5.3 Movements during the year in liabilities measured at fair value on a recurring basis (Level 3)

Nil.

A.4.5.4 Assets and liabilities not designated at fair value or not measured at fair value on a recurring basis by fair value level

(€m)

Assets/Liabilities not designated at fair value or not measured at fair value on a recurring basis by fair value level	Balance at 31 December 2017				Balance at 31 December 2016			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Held-to-maturity financial assets	12,912	14,384	-	-	12,683	14,447	-	-
2. Due from banks	1,151	-	-	1,151	1,314	-	-	1,314
3. Due from customers	7,951	-	-	7,951	9,004	-	-	9,004
4. Property, plant and equipment held for investment purposes	-	-	-	-	-	-	-	-
5. Non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	22,014	14,384	-	9,102	23,001	14,447	-	10,318
1. Due to banks	5,950	-	4,853	1,108	5,799	-	5,419	418
2. Due to customers	53,686	-	-	53,686	50,374	-	-	50,374
3. Debt securities in issue	-	-	-	-	-	-	-	-
4. Liabilities associated with non-current assets held for sale and	-	-	-	-	-	-	-	-
Total	59,636	-	4,853	54,794	56,173	-	5,419	50,792

In determining the fair values shown in the table, the following criteria were used:

- debt securities classified in the held-to-maturity category were measured applying the same rules as those used in the fair value measurement of available-for-sale investments; these instruments are shown in Level 1 of the fair value hierarchy;
- the fair value of repurchase agreements was measured using the discounted cash flow techniques described in paragraph A.4.1; these financial instruments are shown in Level 2 of the fair value hierarchy;
- the carrying amount of other financial assets and liabilities represents a reasonable approximation of fair value and is shown in the column corresponding to Level 3 in the fair value hierarchy.

A.5 – INFORMATION ON DAY ONE PROFIT/LOSS

This form of profit or loss is not applicable to BancoPosta RFC.

PART B – INFORMATION ON THE STATEMENT OF FINANCIAL POSITION

ASSETS

SECTION 1 – CASH AND CASH EQUIVALENTS – ITEM 10

1.1 Cash and cash equivalents: analysis

	Balance at 31 December 2017	Balance at 31 December 2016
a) Cash	2,821	2,288
b) Central bank deposits	396	223
Total	3,217	2,511

“Cash” is comprised of cash at post office counters and companies that provide cash transportation services, consisting of cash deposits on postal current accounts, postal savings products (Interest-bearing Postal Certificates and Postal Savings Books) or advances obtained from the Treasury to fund post office operations. This cash may only be used in settlement of these obligations. Cash includes banknotes totalling €11 million.

SECTION 2 – FINANCIAL ASSETS HELD FOR TRADING – ITEM 20

2.1 Financial assets held for trading: analysis

BancoPosta RFC had no financial instruments in the trading book either at 31 December 2017 or 31 December 2016.

BancoPosta RFC entered into transactions to acquire and immediately dispose of debt securities and equities on behalf of certain customers in 2017.

2.2 Financial assets held for trading: by borrower/issuer

Nil.

SECTION 3 – FINANCIAL ASSETS DESIGNATED AT FAIR VALUE – ITEM 30

No financial assets are held in portfolio designated at fair value through profit or loss (the “fair value option”).

SECTION 4 – AVAILABLE-FOR-SALE FINANCIAL ASSETS – ITEM 40

4.1 Available-for-sale financial assets: analysis

Transaction Type/Amounts	(€m)					
	Balance at 31 December 2017			Balance at 31 December 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	36,244	2,855	-	35,280	1,879	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	36,244	2,855	-	35,280	1,879	-
2. Equity instruments	-	4	37	-	77	27
2.1 At fair value	-	4	37	-	77	27
2.2 At cost	-	-	-	-	-	-
3. UCIs	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
Total	36,244	2,859	37	35,280	1,956	27

Debt securities carried at fair value total €39,099 million (€331 million of which being accrued interest).

Equity instruments comprise:

- €37 million, reflecting the fair value of 32,059 Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock) received for the sale of the Visa Europe Ltd. share to Visa Incorporated on 21 June 2016 convertible at the rate of 13,893¹²¹ 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, reflecting the fair value of 11,144 class C shares of Visa Incorporated. These shares are not traded on an organised exchange, but are immediately 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.

Finally, during the last quarter of 2017, BancoPosta RFC sold its holding of 756,280 Class B Mastercard Incorporated shares in a series of transactions, following their conversion into Class A shares. The transaction generated a gain of €91 million, recognised the income statement in "Item 100 - Profits/(Losses) on disposal or repurchase".

¹²¹ 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.

4.2 Available-for-sale financial assets: by borrower/issuer

	(€m)	
Transaction Type/Amounts	Balance at 31 December 2017	Balance at 31 December 2016
1. Debt securities	39,099	37,159
a) Governments and Central Banks	36,614	35,650
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	2,485	1,509
2. Equity instruments	41	104
a) Banks	-	-
b) Other issuers	41	104
- insurance companies	-	-
- finance companies	41	104
- non-finance companies	-	-
- other	-	-
3. UCIs	-	-
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	39,140	37,263

Securities issued by other issuers with a fair value of €2,485 million regard fixed rate securities with a nominal value of €2,500 million (including €1,000 million acquired in 2017), issued by Cassa Depositi e Prestiti SpA and guaranteed by the Italian government.

4.3 Micro-hedged available-for-sale financial assets

	(€m)	
Transaction Type/Amounts	Balance at 31 December 2017	Balance at 31 December 2016
1. Micro-fair value hedged financial assets	21,648	18,792
a) Rate risk	21,648	18,792
b) Price risk	-	-
c) Foreign exchange risk	-	-
d) Credit risk	-	-
e) Multiple risks	-	-
2. Micro-cash flow hedged financial assets	1,400	1,758
a) Rate risk	1,400	1,758
b) Foreign exchange risk	-	-
c) Other	-	-
Total	23,048	20,550

4.4 Available-for-sale financial assets: movements during the year

	(€m)				
	Debt securities	Equity instruments	UCIs	Loans	Total
A. Opening balance	37,159	104	-	-	37,263
B. Increases	9,197	11	-	-	9,208
B.1 Purchases	8,997	-	-	-	8,997
B.2 Increases in fair value	126	11	-	-	137
B.3 Recoveries	-	-	-	-	-
- through profit or loss	-	-	-	-	-
- through equity	-	-	-	-	-
B.4 Transfers from other portfolios	-	-	-	-	-
B.5 Other increases	74	-	-	-	74
C. Decreases	(7,257)	(74)	-	-	(7,331)
C.1 Disposals	(5,139)	(74)	-	-	(5,213)
C.2 Repayments	(1,020)	-	-	-	(1,020)
C.3 Decreases in fair value	(945)	-	-	-	(945)
C.4 Impairments	-	-	-	-	-
- through profit or loss	-	-	-	-	-
- through equity	-	-	-	-	-
C.5 Transfers to other portfolios	-	-	-	-	-
C.6 Other decreases	(153)	-	-	-	(153)
D. Closing balance	39,099	41	-	-	39,140

There was an overall reduction of €819 million in the fair value of debt securities in the period under review, with a net loss of €323 million, on securities for which fair value hedges had not been arranged, recognised in a separate equity reserve, and a net loss of €496 million on the hedged portion recognised in profit or loss (Part C, table 5.1).

Disposals of equity instruments completed during the year regard the sale of the Class B Mastercard Incorporated shares described below table 4.1 in this section.

SECTION 5 – HELD-TO-MATURITY FINANCIAL ASSETS – ITEM 50

5.1 Held-to-maturity financial assets: analysis

	Balance at 31 December 2017				Balance at 31 December 2016			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	12,912	14,384	-	-	12,683	14,447	-	-
- structured	-	-	-	-	-	-	-	-
- other	12,912	14,384	-	-	12,683	14,447	-	-
2. Loans	-	-	-	-	-	-	-	-

At 31 December 2017, €153 million of the aggregate fair value of the held-to-maturity portfolio was accrued interest.

Securities with a nominal value of €5,180 million are encumbered as follows:

- €4,407 million, carried at an amortised cost of €4,486 million (Part B, Other Information, Table 2), and delivered to counterparties in connection with repurchase agreements concluded prior to 31 December 2017;

- €253 million, carried at an amortised cost of €269 million (Part B, Other information, Table 2) and delivered to counterparties for use as collateral for asset swaps and repurchase agreements;
- €490 million, carried at an amortised cost of €502 million and delivered to the Bank of Italy as collateral for intraday credit granted;
- €30 million, carried at an amortised cost of €31 million and delivered to the Bank of Italy in relation to the clearing service offered by the central bank for the execution of Sepa Direct Debits.

5.2 Held-to-maturity financial assets: by borrower/issuer

Transaction Type/Amounts	(€m)	
	Balance at 31 December 2017	Balance at 31 December 2016
1. Debt securities	12,912	12,683
a) Governments and Central Banks	12,912	12,683
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	12,912	12,683
Total fair value	14,384	14,447

5.3 Micro-hedged held-to-maturity financial assets

Nil.

5.4 Held-to-maturity financial assets: movements during the year

	(€m)		
	Debt securities	Loans	Total
A. Opening balance	12,683	-	12,683
B. Increases	1,603	-	1,603
B.1 Purchases	1,582	-	1,582
B.2 Recoveries	-	-	-
B.3 Transfers from other portfolios	-	-	-
B.4 Other increases	21	-	21
C. Decreases	(1,374)	-	(1,374)
C.1 Disposals	-	-	-
C.2 Repayments	(1,300)	-	(1,300)
C.3 Impairment	-	-	-
C.4 Transfers to other portfolios	-	-	-
C.5 Other decreases	(74)	-	(74)
D. Closing balance	12,912	-	12,912

SECTION 6 – DUE FROM BANKS – ITEM 60

6.1 Due from banks: analysis

Transaction Type/Amounts	Balance at 31 December 2017					Balance at 31 December 2016				
	Carrying amount	Fair Value			Carrying amount	Fair Value				
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3		
A. Due from Central Banks	-				-					
1. Time deposits	-	x	x	x	-	x	x	x	x	x
2. Compulsory reserves	-	x	x	x	-	x	x	x	x	x
3. Reverse repurchase agreements	-	x	x	x	-	x	x	x	x	x
4. Other	-	x	x	x	-	x	x	x	x	x
B. Due from banks	1,151				1,314					
1. Loans	1,151				1,314					
1.1 Current accounts and demand deposits	3	x	x	x	4	x	x	x	x	x
1.2 Time deposits	-	x	x	x	-	x	x	x	x	x
1.3 Other loans:	1,148	x	x	x	1,310	x	x	x	x	x
- Reverse repurchase agreements	-	x	x	x	-	x	x	x	x	x
- Finance leases	-	x	x	x	-	x	x	x	x	x
- Other	1,148	x	x	x	1,310	x	x	x	x	x
2. Debt securities	-				-					
2.1 Structured securities	-	x	x	x	-	x	x	x	x	x
2.2 Other debt securities	-	x	x	x	-	x	x	x	x	x
Total	1,151	-	-	1,151	1,314	-	-	1,314	-	1,314

“Other loans, Other” includes cash collateral held by counterparties for asset swaps (€1,027 million as collateral pursuant to Credit Support Annexes), entered into for cash flow and fair value hedging purposes by BancoPosta RFC, and repurchase agreements (€69 million as collateral pursuant to specific Global Master Repurchase Agreements).

SECTION 7 – DUE FROM CUSTOMERS – ITEM 70

7.1 Due from customers: analysis

Transaction type/Amounts	Balance at 31 December 2017						Balance at 31 December 2016					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Performing	Non-performing		Level 1	Level 2	Level 3	Performing	Non-performing		Level 1	Level 2	Level 3
		Assets purchased	Other					Assets purchased	Other			
Loans	7,951	-	-				9,004	-	-			
1. Current accounts	9	-	-	x	x	x	9	-	-	x	x	x
2. Reverse repurchase agreements	-	-	-	x	x	x	-	-	-	x	x	x
3. Term loans	-	-	-	x	x	x	-	-	-	x	x	x
4. Credit cards, personal and salary loans	-	-	-	x	x	x	-	-	-	x	x	x
5. Finance leases	-	-	-	x	x	x	-	-	-	x	x	x
6. Factoring	-	-	-	x	x	x	-	-	-	x	x	x
7. Other transactions	7,942	-	-	x	x	x	8,995	-	-	x	x	x
Debt securities	-	-	-				-	-	-			
8. Structured securities	-	-	-	x	x	x	-	-	-	x	x	x
9. Other debt securities	-	-	-	x	x	x	-	-	-	x	x	x
Total	7,951	-	-	-	-	7,951	9,004	-	-	-	-	9,004

“Other transactions” primarily consist of:

- €6,038 million, €27 million of which being accrued interest, in public customers' current account deposits deposited with the MEF, which earn a variable rate of return, calculated on a basket of government securities and money market indexes¹²²;

¹²² 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 maturities greater than one year, which approximates the return on 7-year BTPs.

- €377 million, €2 million of which being accrued interest, in deposits at the MEF (the "Buffer account"), remunerated at the EONIA rate¹²³;
- €374 million in fees receivable from Cassa Depositi e Prestiti during the year in connection with postal savings;
- €84 million in guarantee deposits provided to counterparties in asset swap transactions (with collateral provided by specific Credit Support Annexes) entered into for cash flow and fair value hedging purposes by BancoPosta RFC;
- €66 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 the amount due, INPS has expressed a willingness to offset receivables due to BancoPosta RFC with liabilities that, in Poste Italiane SpA's opinion, are not subject to the same degree of certainty, liquidity or enforceability, and which BancoPosta RFC 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, Poste Italiane SpA has instructed its legal counsel to take the necessary steps to recover the amount due, reserving the right to take action to enforce its claims once it has exhausted all the possible options to resolve the dispute;
- €734 million in amounts receivable from Poste Italiane SpA's functions outside the ring-fence, €732 million of which relates to Poste Italiane SpA's Finance function's intersegment financial account, used for the processing of payments to and from third parties.

7.2 Due from customers: by borrower/issuer

Transaction type/Amounts	(€m)					
	Balance at 31 December 2017			Balance at 31 December 2016		
	Performing	Non-performing		Performing	Non-performing	
	Assets purchased	Other		Assets purchased	Other	
1. Debt securities	-	-	-	-	-	-
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
- non-finance companies	-	-	-	-	-	-
- finance companies	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	7,951	-	-	9,004	-	-
a) Governments	6,484	-	-	7,544	-	-
b) Other public entities	62	-	-	57	-	-
c) Other entities	1,405	-	-	1,403	-	-
- non-finance companies	756	-	-	652	-	-
- finance companies	496	-	-	609	-	-
- insurance companies	143	-	-	134	-	-
- other	10	-	-	8	-	-
Total	7,951	-	-	9,004	-	-

¹²³ The rate applied in overnight lending and calculated as the weighted average of overnight rates for transactions on the interbank market reported to the ECB by a panel of banks operating in the euro zone (the biggest banks in all the euro zone countries).

SECTION 8 – HEDGING DERIVATIVES – ITEM 80

8.1 Hedging derivatives by type of hedge and fair value level

								(€m)
	Fair value at 31 December 2017			Notional* amount at 31 December 2017	Fair value at 31 December 2016			Notional amount at 31 December 2016
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	-	395	-	9,545	-	191	-	3,980
1) Fair Value	-	364	-	9,370	-	152	-	3,585
2) Cash flow	-	31	-	175	-	39	-	395
3) Net foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair Value	-	-	-	-	-	-	-	-
2) Cash flow	-	-	-	-	-	-	-	-
Total	-	395	-	9,545	-	191	-	3,980

(*) The settlement price for derivatives involving the exchange of principal (securities or other assets) has been indicated, as required by Bank of Italy Circular 262/2005.

8.2 Hedging derivatives by hedged portfolio and type of hedge

Transaction type/Type of hedge	Fair value					Cash flow			Net foreign investment
	Micro					Macro	Micro	Macro	
	Interest rate risk	Foreign exchange risk	Credit risk	Price risk	Multiple risks				
1. Available-for-sale financial assets	364	-	-	-	-	x	31	x	x
2. Loans	-	-	-	x	-	x	-	x	x
3. Held-to-maturity financial assets	x	-	-	x	-	x	-	x	x
4. Portfolio	x	x	x	x	x	-	x	-	x
5. Other transactions	-	-	-	-	-	x	-	x	-
Total assets	364	-	-	-	-	-	31	-	-
1. Financial liabilities	-	-	-	x	-	x	-	x	x
2. Portfolio	x	x	x	x	x	-	x	-	x
Total liabilities	-	-	-	-	-	-	-	-	-
1. Expected transactions	x	x	x	x	x	x	-	x	x
2. Portfolio of financial assets and financial liability	x	x	x	x	x	-	x	-	-

SECTION 9 – ADJUSTMENTS FOR CHANGES IN HEDGED FINANCIAL ASSETS PORTFOLIO – ITEM 90

No macro-hedges have been arranged at the reporting date.

SECTION 10 – INVESTMENTS – ITEM 100

There are no investments in subsidiaries, joint arrangements or companies subject to significant influence.

SECTION 11 – PROPERTY, PLANT AND EQUIPMENT – ITEM 110

BancoPosta does not own property, plant and equipment either for operating or investment purposes.

SECTION 12 – INTANGIBLE ASSETS – ITEM 120

There are no intangible assets.

SECTION 13 – TAX ASSETS AND LIABILITIES – ASSETS ITEM 130 AND LIABILITIES ITEM 80

Current tax assets and liabilities form part of intersegment relations and are shown in “Other assets” (item 150 in Assets) and “Other liabilities” (item 100 in Liabilities), as they are settled with Poste Italiane SpA’s functions outside the ring-fence, within the scope of internal relations with Poste Italiane SpA, as the sole taxable entity.

Deferred tax assets and liabilities are analysed below:

13.1 Deferred tax assets: analysis

Description	(€m)								Total IRES	Total IRAP
	Financial assets and liabilities		Hedging derivatives		Provisions for doubtful debts		Provisions for risks and charges			
	IRES	IRAP	IRES	IRAP	IRES	IRAP	IRES	IRAP		
Deferred tax assets through profit or loss	-	-	-	-	24	-	97	19	121	19
Deferred tax assets through equity	196	37	28	5	-	-	-	-	224	42
2017 total	196	37	28	5	24	-	97	19	345	61
Deferred tax assets through profit or loss	-	-	-	-	21	-	78	15	99	15
Deferred tax assets through equity	148	28	26	5	-	-	-	-	174	33
2016 total	148	28	26	5	21	-	78	15	273	48

13.2 Deferred tax liabilities: analysis

Description	(€m)						Total IRES	Total IRAP
	Financial assets and liabilities		Hedging derivatives		Total IRES	Total IRAP		
	IRES	IRAP	IRES	IRAP				
Deferred tax liabilities through profit or loss	-	-	-	-	-	-	-	
Deferred tax liabilities through equity	246	48	12	2	258	50		
2017 total	246	48	12	2	258	50		
Deferred tax liabilities through profit or loss	-	-	-	-	-	-	-	
Deferred tax liabilities through equity	424	84	19	3	443	87		
2016 total	424	84	19	3	443	87		

13.3 Movements in deferred tax assets through profit or loss

	(€m)	
	Balance at 31 December 2017	Balance at 31 December 2016
1. Opening balance	114	98
2. Increases	26	29
2.1 Deferred tax assets recognised in the year	26	29
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) write-backs	-	-
d) other	26	29
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	-	(13)
3.1 Deferred tax assets derecognised in the year	-	(10)
a) reversals	-	(10)
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reduction of tax rate	-	(3)
3.3 Other decreases:	-	-
a) transformation into tax credit pursuant to Law 214/2011	-	-
b) other	-	-
4. Closing balance	140	114

13.4 Movements in deferred tax liabilities through profit or loss

Nil.

13.5 Movements in deferred tax assets through equity

	(€m)	
	Balance at 31 December 2017	Balance at 31 December 2016
1. Opening balance	207	32
2. Increases	92	185
2.1 Deferred tax assets derecognised in the year	92	185
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	92	185
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	(33)	(10)
3.1 Deferred tax assets derecognised in the year	(33)	(10)
a) reversals	(25)	(8)
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting policies	-	-
d) other	(8)	(2)
3.2 Reduction of tax rate	-	-
3.3 Other decreases	-	-
4. Closing balance	266	207

13.6 Movements in deferred tax liabilities through equity

	(€m)	
	Balance at 31 December 2017	Balance at 31 December 2016
1. Opening balance	(530)	(967)
2. Increases	(34)	(22)
2.1 Deferred tax liabilities recognised in the year	(34)	(19)
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	(34)	(19)
2.2 New taxes or tax rate increases	-	(3)
2.3 Other increases	-	-
3. Decreases	256	459
3.1 Deferred tax liabilities derecognised in the year	256	459
a) reversals	192	145
b) due to changes in accounting policies	-	-
c) other	64	314
3.2 Reduction of tax rate	-	-
3.3 Other decreases	-	-
4. Closing balance	(308)	(530)

The net charge or credit to profit or loss due to movements in deferred tax assets and liabilities through equity is the tax effect on reserves described in Part D.

13.7 Other information

Nil.

SECTION 14 – NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS AND ASSOCIATED LIABILITIES - ASSETS ITEM 140 AND LIABILITIES ITEM 90

There are no non-current assets held for sale or discontinued operations at the reporting date.

SECTION 15 – OTHER ASSETS – ITEM 150

15.1 Other assets: analysis

	(€m)	
Transaction type/Amounts	Balance at 31 December 2017	Balance at 31 December 2016
Tax assets other than those included in item 130	372	357
Items in process	298	203
- items in transit between local branches	8	8
- other	290	195
Current account cheques being settled, drawn on other banks	130	100
Current tax assets receivable from Poste Italiane SpA outside the ring-fence	22	29
Other items	1,242	1,077
Total	2,064	1,766

Tax assets primarily relate to payments on account, €325 million of which for virtual stamp duty payable in 2018, €23 million due from the tax authorities in virtual stamp duty paid in 2017 and €11 million for withholding tax on interest paid to current account holders for 2017.

“Items in process, other” includes:

- customer postal cheques of €29 million in collection from banks;
- uses of debit cards issued by BancoPosta to be debited to customer accounts, totalling €14 million;
- €67 million in withdrawals from BancoPosta ATMs yet to be debited to customer accounts or awaiting settlement;
- amounts due from commercial partners for providing PostePay top-ups, totalling €41million, and processing payments slips, totalling €40 million, to be credited to beneficiaries;
- unsettled debit card payments made at post offices, totalling €45 million;
- account maintenance and custody fees of €6 million to be debited to customers.

Movements in current tax assets and liabilities receivable from and payable to Poste Italiane SpA outside the ring-fence are shown below:

Descrizione	(€m)					
	Current taxes for the year ended 31 December 2017			Current taxes for the year ended 31 December 2016		
	IRES	IRAP	Total	IRES	IRAP	Total
Amounts due from/(to) Poste Italiane SpA outside the ring-fence	Amounts due from/(to) Poste Italiane SpA outside the ring-fence	Amounts due from/(to) Poste Italiane SpA outside the ring-fence		Amounts due from/(to) Poste Italiane SpA outside the ring-fence		
Opening balance	28	1	29	(73)	(11)	(84)
Payments of	158	39	197	303	52	355
prepayments for the current year	68	39	97	230	41	271
balance payable for previous year	-	-	-	73	11	84
Collection of IRES refund claimed	-	-	-	-	-	-
Provisions to profit or loss for current tax expense	(170)	(40)	(210)	(211)	(40)	(251)
adjustments to prior period taxes	(83)	(40)	(223)	(212)	(40)	(252)
adjustments to prior period taxes	8	-	8	1	-	1
Provisions to equity	-	-	-	-	-	-
Other (*)	6	-	6	9	-	9
Closing balance	22	-	22	28	1	29
of which:						
Current tax assets receivable from Poste Italiane SpA outside the ring-fence (item 150 Assets)	22	-	22	28	1	29
Current tax liabilities payable to Poste Italiane SpA outside the ring-fence (item 100 Liabilities)	-	-	-	-	-	-

(*) Primarily due to amounts receivable following the payment of withholding tax on fees received.

"Other items" include:

- €1,040 million in stamp duty accrued to 31 December 2017¹²⁴ payable by holders of outstanding Interest-bearing Postal Certificates. An equal amount has been recognised in "Other liabilities" as tax payables (Part B, Liabilities, Table 10.1) until expiration or early extinguishment of Interest-bearing Postal Certificates, which is the date on which the tax must be paid to the authorities;
- €143 million relating to stamp duty charged to Postal Savings Books, which BancoPosta RFC pays in virtual form as required by law;
- amounts in the process of recovery, totalling €19 million, which are not available since the related amounts have been seized and have not yet been assigned to creditors of Poste Italiane SpA's functions outside the ring-fence. Any losses on realisation of collateral are for the account of Poste Italiane SpA's functions outside the ring-fence.

¹²⁴ Introduced by article 19 of Law Decree 201/2011 converted with amendments by Law 214/2011 in the manner provided for by the MEF Decree of 24 May 2012: Manner of implementing paragraphs 1 to 3 of article 19 of Decree Law 201 of 6 December 2011 having regard to stamp duty on current accounts and financial products (Official Gazette 127 of 1 June 2012).

LIABILITIES

SECTION 1 – DUE TO BANKS – ITEM 10

1.1 Due to banks: analysis

	(€m)	
Transaction type/Amounts	Balance at 31 December 2017	Balance at 31 December 2016
1. Due to Central Banks	-	-
2. Due to banks	5,950	5,799
2.1 Current accounts and demand deposits	1,023	385
2.2 Time deposits	-	-
2.3 Loans	4,842	5,381
2.3.1 Repurchase agreements	4,842	5,381
2.3.2 Other	-	-
2.4 Obligations to repurchase equity instruments	-	-
2.5 Other payables	85	33
Total	5,950	5,799
Fair value - level 1	-	-
Fair value - level 2	4,853	5,419
Fair value - level 3	1,108	418
Total fair value	5,961	5,837

At 31 December 2017, €4,842 million is due to banks under the terms of repurchase agreements involving securities with a total nominal value of €4,407 million. These regard:

- €3,903 million (€2 million of which being accrued net interest) relating to Long Term Repos entered into with primary financial institutions, with the resulting resources invested in Italian fixed income government securities of a matching nominal amount;
- €939 million relating to ordinary borrowing operations via repurchase agreement transactions with primary financial institutions as funding for incremental deposits used as collateral.

Repurchase agreements are classified as fair value Level 2 transactions, whereas the fair value of other types of transaction included in this line item approximates to their carrying amounts and they are consequently classified as Level 3.

“Other payables” include €82 million in guarantee deposits received from counterparties in relation to asset swaps (with collateral provided by specific Credit Support Annexes), in relation to BancoPosta RFC’s cash flow hedges and fair value hedges.

BancoPosta RFC has uncommitted overnight lines of credit amounting to €1,059 million and overdraft arrangements of €160 million provided by Poste Italiane SpA, both undrawn at 31 December 2017. 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 €490 million and the facility is unused at 31 December 2017.

SECTION 2 – DUE TO CUSTOMERS – ITEM 20

2.1 Due to customers: analysis

Transaction type/Amounts	(€m)	
	Balance at 31 December 2017	Balance at 31 December 2016
1. Current accounts and demand deposits	46,468	45,097
2. Time deposits	-	-
3. Loans	3,497	2,443
3.1 Repurchase agreements	-	-
3.2 Other	3,497	2,443
4. Obligations to repurchase equity instruments	-	-
5. Other payables	3,721	2,834
Total	53,686	50,374
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	53,686	50,374
Total fair value	53,686	50,374

“Current accounts and demand deposits” include €242 million in postal current accounts held by Poste Italiane SpA outside the ring-fence.

“Loans, Other” refers to the following:

- the net amount of €3,483 million deposited in the MEF account held at the Treasury, which breaks down as follows:
 - the balance of cash flows for advances, amounting to €3,375 million, represents the net amount payable as a result of advances from the MEF to meet the cash requirements of BancoPosta;
 - the balance of cash flows from the management of postal savings, amounting to a positive €84 million, represents the balance of withdrawals less deposits during the last two days of the year and cleared early in the following year. The balance at 31 December 2017 consists of €43 million payable to Cassa Depositi e Prestiti, less €127 million receivable from the MEF for Interest-bearing Postal Certificates issued on its behalf;
 - amounts payable due to thefts from post offices regard the liability to the MEF on behalf of the Italian Treasury for losses resulting from theft and fraud, totalling €157 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;
 - amounts payable for operational risks (€35 million) regard the portion of advances obtained to fund operations, in relation to which asset under recovery is certain or probable;
- €14 million relating to an amount due to Poste Italiane SpA’s functions outside the ring-fence in connection with the creation of BancoPosta RFC.

“Other payables” primarily consist of €2,831 million in prepaid PostePay card balances payable to customers, domestic postal orders, amounting to €676 million, and guarantee deposits of €18 million received from counterparties in relation to asset swaps.

The fair value of this line item approximates to its carrying amount and it is consequently classified as Level 3.

SECTION 3 – DEBT SECURITIES IN ISSUE – ITEM 30

BancoPosta RFC has no debt securities in issue.

SECTION 4 – FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 40

BancoPosta RFC held no financial instruments in the trading book at either 31 December 2017 or 31 December 2016.

SECTION 5 – FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE – ITEM 50

No financial liabilities are held in portfolio designated at fair value through profit or loss (the "fair value option").

SECTION 6 – HEDGING DERIVATIVES – ITEM 60

6.1 Hedging derivatives by type and fair value level

								(€m)
	Fair Value at 31 December 2017			Notional* amount at 31 December 2017	Fair Value at 31 December 2016			Notional amount at 31 December 2016
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Derivati finanziari	-	1,637	-	13,025	-	2,305	-	13,976
1) <i>Fair value</i>	-	1,524	-	10,385	-	2,204	-	12,565
2) Flussi finanziari	-	113	-	2,640	-	101	-	1,411
3) Investimenti esteri	-	-	-	-	-	-	-	-
B. Derivati creditizi	-	-	-	-	-	-	-	-
1) <i>Fair value</i>	-	-	-	-	-	-	-	-
2) Flussi finanziari	-	-	-	-	-	-	-	-
Totale	-	1,637	-	13,025	-	2,305	-	13,976

(*) The settlement price for derivatives involving the exchange of principal (securities or other assets) has been indicated, as required by Bank of Italy Circular 262/2005.

Cash flow hedges include forward sales entered into by BancoPosta RFC during the period under review, having a settlement value of €1,705 million.

6.2 Hedging derivatives by hedged portfolio and type of hedge

Transaction type/Type of hedge	Fair Value					Cash flow			Net foreign investments
	Micro					Macro	Micro	Macro	
	Interest rate risk	Foreign exchange risk	Credit risk	Price risk	Multiple risks				
1. Available-for-sale financial assets	1,524	-	-	-	-	x	90	x	x
2. Loans	-	-	-	x	-	x	-	x	x
3. Held-to-maturity financial assets	x	-	-	x	-	x	-	x	x
4. Portfolio	x	x	x	x	x	-	x	-	x
5. Other transactions	-	-	-	-	-	x	-	x	-
Total assets	1,524	-	-	-	-	-	90	-	-
1. Financial liabilities	-	-	-	x	-	x	-	x	x
2. Portfolio	x	x	x	x	x	-	x	-	x
Total liabilities	-	-	-	-	-	-	-	-	-
1. Expected transactions	x	x	x	x	x	x	23	x	x
2. Portfolio of financial assets and liabilities	x	x	x	x	x	-	x	-	-

SECTION 7 – ADJUSTMENTS FOR CHANGES IN HEDGED FINANCIAL LIABILITIES PORTFOLIO – ITEM 70

No macro-hedges have been arranged at the reporting date.

SECTION 8 – TAX LIABILITIES – ITEM 80

Please refer to Assets, Section 13.

SECTION 9 – LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS– ITEM 90

There are no such liabilities at the reporting date.

SECTION 10 – OTHER LIABILITIES – ITEM 100

10.1 Other liabilities: analysis

Transaction type/Amounts	(€m)	
	Balance at 31 December 2017	Balance at 31 December 2016
Tax liabilities other than those included in item 80	1,194	1,026
Items in process:	637	555
- amounts to be credited to Postal Savings Books	243	284
- items in transit between local branches	5	4
- other	389	267
Amounts payable to Poste Italiane SpA outside the ring-fence for services rendered	255	294
Amounts due to customers	60	64
Trade payables	64	90
Due to employees	21	21
Accrued expenses and deferred income	27	21
Other items	78	107
Total	2,336	2,178

“Tax liabilities other than those included in Item 80” primarily include:

- €1,040 million in stamp duty accrued to 31 December 2017 on outstanding Interest-bearing Postal Certificates in accordance with the requirements referenced in Part B, Assets, Table 15.1;
- €145 million regarding taxes and road tax payable to collection agents, the tax authorities and regional authorities for payments made by customers;
- €1 million in tax withholdings on current account interest earned by customers.

“Items in process, other” includes, among other things, domestic and international bank transfers, totalling €58 million, and unpaid postal cheques of €47 million.

“Amounts due to suppliers” include approximately €1 million for services purchased from external suppliers and settled via Poste Italiane’s functions outside the ring-fence.

“Accrued expenses and deferred income not on own account”, totalling €27 million, refer to fees collected in advance on Postamat and “Postepay Evolution” cards.

“Other items” relate to prior year balances currently being verified.

SECTION 11 – EMPLOYEE TERMINATION BENEFITS – ITEM 110

Movements in employee termination benefits during the year under review are shown below:

11.1 Employee termination benefits: movements during the year

	(€m)	
	Balance at 31 December 2017	Balance at 31 December 2016
A. Opening balance	19	19
B. Increases	1	1
B.1 Provisions for year	-	-
B.2 Other increases	1	1
C. Decreases	(3)	(1)
C.1 Benefits paid	(1)	(1)
C.2 Other decreases	(2)	-
D. Closing balance	17	19

“Other increases” were the result of transfers from Poste Italiane SpA or other Group companies. The current service cost is not applicable to the employee termination benefits attributable to BancoPosta RFC, since this cost is recognised in personnel expenses, as the contributions are paid over to pension funds or other social security institutions.

Payments of termination benefits include the substitute tax withheld.

Other decreases were caused by transfers to certain Group companies and actuarial gains.

Measurement of the liability entails actuarial computations for which the following assumptions were used in 2017 and 2016:

Key economic and financial assumptions

	At 31 December 2017	At 30 June 2017	At 31 December 2016
Discount rate	1.25%	1.67%	1.31%
Inflation rate	1.50%	1.50%	1.50%
Annual rate of increase of employee termination benefits	2.625%	2.625%	2.625%

Demographic assumptions

	At 31 December 2017
Mortality	RG48 differentiated by gender
Disability	INPS 1998 differentiated by gender
Rate of employee turnover	Specific table with rates differentiated by length of service. The average length of service for participants corresponds to an annual rate of 0.14%
Advance rate	1.25% for lengths of service of at least 8 years
Pensionable age	In accordance with rules set by INPS

Actuarial gains/(losses)

	(€m)	
	At 31 December 2017	At 31 December 2016
Change in demographic assumptions	-	-
Change in financial assumptions	-	1
Other experience-related adjustments	-	-
Total	-	1

Sensitivity analysis

	(€m)	
	Employee termination benefits at 31 December 2017	Employee termination benefits at 31 December 2016
Inflation rate +0.25%	17	19
Inflation rate -0.25%	16	18
Discount rate +0.25%	16	18
Discount rate -0.25%	17	19
Turnover rate +0.25%	17	19
Turnover rate -0.25%	17	19

Other information

	At 31 December 2017	At 31 December 2016
Service Cost	-	-
Average duration of defined benefit plan	9.0	10.3
Average employee turnover	0.14%	0.41%

SECTION 12 – PROVISIONS FOR RISKS AND CHARGES – ITEM 120

12.1 Provisions for risks and charges: analysis

	(€m)	
Transaction type/Amounts	Balance at 31 December 2017	Balance at 31 December 2016
1. Provisions for retirement benefits	-	-
2. Other provisions	543	462
2.1 litigation	97	90
2.2 personnel expenses	2	3
2.3 other	444	369
Total	543	462

The composition of “Other provisions” is provided in Table 12.4, below.

12.2 Provisions for risks and charges: movements during the year

	(€m)		
	Provisions for retirement benefits	Other provisions	Total
A. Opening balance	-	462	462
B. Increases	-	208	208
B.1 Provisions for the year	-	208	208
B.2 Increases due to passage of time	-	-	-
B.3 Increases due to changed discount rates	-	-	-
B.4 Other increases	-	-	-
C. Decreases	-	(127)	(127)
C.1 Uses during the year	-	(108)	(108)
C.2 Decreases due to changed discount rates	-	-	-
C.3 Other decreases	-	(19)	(19)
D. Closing balance	-	543	543

“B.1 Provisions for the year” includes personnel expenses of €8 million. Other decreases relate to transfers to the income statement during the year as a result of the derecognition of prior year liabilities, including a part of the provisions for personnel expenses.

12.3 Company defined benefit pension plan

Nil.

12.4 Provisions for risks and charges - other provisions

	(€m)	
Description	Balance at 31 December 2017	Balance at 31 December 2016
Litigation	97	90
Provisions for disputes with third parties	97	90
Provisions for disputes with staff	-	-
Provisions for personnel expenses	2	3
Other provisions	444	369
Provision for non-recurring charges	430	355
Provisions for expired and statute barred Postal Certificates	14	14
Total	543	462

Provisions for disputes with third parties regard 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 compensation payable to customers.

Provisions for disputes with staff regard liabilities that may arise following labour litigation and disputes of various type.

Provisions for personnel expenses are made to cover expected liabilities arising in relation to the cost of labour.

Provisions for non-recurring charges relate to operational risks attributable to BancoPosta RFC. They regard, among other things, the liabilities arising from the reconstruction of operating ledger entries at the time of Poste Italiane SpA's incorporation, liabilities deriving from the provision of delegated services for social

security agencies, fraud, violations of administrative regulations, adjustments and outstanding income for previous years, risks linked to disputes with customers regarding certain investment products whose performance is not in line with expectations, or to the erroneous application of statute barring and estimated risks for charges and expenses to be incurred in connection with seizures effected by BancoPosta as garnishee-defendant. Uses, amounting to €95 million include €48 million relating to the settlement of amounts due to customers who had invested in the IRS (Invest Real Security) real estate fund, following the decision to take extraordinary measures by Poste Italiane's Board of Directors on 16 January 2017.

Provisions for expired and statute barred Postal Certificates have been made to cover the cost of redeeming certificates relating to specific issues, even after the certificates have become invalid¹²⁵.

SECTION 13 – REDEEMABLE SHARES – ITEM 140

Not applicable.

SECTION 14 – EQUITY – ITEMS 130, 150, 160, 170, 180, 190 AND 200

14.1 Capital and treasury shares: analysis

Nil.

14.2 Capital – Number of shares: movements during the year

Nil.

14.3 Capital – Other information

Nil.

14.4 Revenue reserves: other information

At 31 December 2017, undistributed earnings total €1,059 million. Other revenue reserves include the initial reserve of €1 billion provided to BancoPosta RFC on its creation.

¹²⁵ Provisions for expired and statute barred Postal Certificates were made in 1998 to cover the cost of redeeming certificates relating to specific issues, the value of which was recognised in revenue in profit or loss in the years in which the certificates became invalid. The provisions were made in response to Poste Italiane SpA's decision to redeem such certificates even if expired and statute barred. At 31 December 2017, the provisions represent the present value of total liabilities, based on a nominal value of €21 million, expected to be progressively settled by 2043.

OTHER INFORMATION

1. Guarantees and commitments

	(€m)	
Guarantees/Commitments	Balance at 31 December 2017	Balance at 31 December 2016
1) Financial guarantees issued	-	-
a) Banks	-	-
b) Customers	-	-
2) Trade guarantees issued	-	-
a) Banks	-	-
b) Customers	-	-
3) Irrevocable commitments to disburse funds	-	416
a) Banks	-	393
i) certain disbursement	-	393
ii) uncertain disbursement	-	-
b) Customers	-	23
i) certain disbursement	-	23
ii) uncertain disbursement	-	-
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets pledged as collateral for third party commitments	-	-
6) Other commitments	1,768	-
Total	1,768	416

“Other commitments” include €360 million relating to the nominal value of securities to be delivered under repurchase agreements, accounted for in “Held-to-maturity financial assets”, and €1,408 million relating to the nominal value of securities in the “Available-for-sale financial assets” to be delivered under forward sale agreements.

2. Assets pledged as collateral for liabilities and commitments

	(€m)	
Portfolio	Balance at 31 December 2017	Balance at 31 December 2016
1. Financial assets held for trading	-	-
2. Financial assets designated at fair value	-	-
3. Available-for-sale financial assets	-	206
4. Held-to-maturity financial assets	4,755	5,404
5. Due from banks	-	-
6. Due from customers	-	-
7. Property, plant and equipment	-	-

“Held-to-maturity financial assets”, carried at amortised cost, relate to securities used as collateral in repurchase agreements and securities provided as collateral to counterparties in asset swaps registering fair value losses and for repos.

3. Information on operating leases

Nil.

4. Brokerage and management on behalf of third parties

	(€m)
Service	Amount
1. Execution of orders on behalf of customers	-
a) purchase	-
1. settled	-
2. not settled	-
b) sale	-
1. settled	-
2. not settled	-
2. Portfolio management	-
a) individual	-
b) collective	-
3. Custody and administration of securities	51,992
a) third party securities in custody: related to depository bank operations (excluding portfolio management)	-
1. securities issued by the reporting bank	-
2. other securities	-
b) third party securities in custody (excluding portfolio management): other	3,562
1. securities issued by the reporting bank	-
2. other securities	3,562
c) third-party securities deposited with third parties	3,562
d) own securities deposited with third parties	48,430
4. Other transactions	237,212
a) Postal Savings Books	108,551
b) Interest-bearing Postal Certificates	128,661

The "Custody and administration of third-party securities deposited with third parties" relates to customers' securities held at primary market operators and presented at their nominal value. Orders received from customers are executed by qualified, designated credit institutions.

"Other transactions" include the principal of postal savings deposits accepted for and on behalf of Cassa Depositi e Prestiti and the MEF.

5. Financial assets offset in the financial statements or subject to master netting agreements or similar arrangements

(€m)

Technical form	Amount of gross financial assets (a)	Amount of financial liabilities offset in financial statements (b)	Amount of net financial assets reported in financial statements (c=a-b)	Related amounts not subject to offset in the financial statements		Net amount at 31 December 2017 (f=c-d-e)	Net amount at 31 December 2016
				Financial instruments (d)	Cash collateral received (e)		
1. Derivatives	395	-	395	282	100	13	-
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total at 31 December 2017	395	-	395	282	100	13	x
Total at 31 December 2016	191	-	191	163	28	x	-

6. Financial liabilities offset in the financial statements or subject to master netting agreements or similar arrangements

(€m)

Technical form	Amount of gross financial liabilities (a)	Amount of financial assets offset in financial statements (b)	Amount of net financial liabilities reported in financial statements (c=a-b)	Related amounts not subject to offset in the financial statements		Net amount at 31 December 2017 (f=c-d-e)	Net amount at 31 December 2016
				Financial instruments (d)	Cash collateral given (e)		
1. Derivatives	1,637	-	1,637	570	1,064	3	37
2. Repurchase agreements	4,842	-	4,842	4,816	22	4	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total at 31 December 2017	6,479	-	6,479	5,386	1,086	7	x
Total at 31 December 2016	7,686	-	7,686	6,251	1,398	x	37

BancoPosta RFC is not a party to enforceable master netting agreements or similar arrangements meeting the requirements of IAS 32, paragraph 42 for offsetting in the financial statements. The above tables have been compiled in accordance with IFRS 7 – *Financial Instruments: Disclosure*, which requires a specific disclosure regardless of whether or not the financial instruments have been offset.

7. Securities lending

Nil.

PART C – INFORMATION ON THE INCOME STATEMENT

SECTION 1 – INTEREST – ITEMS 10 AND 20

1.1 Interest and similar income: analysis

(€m)					
Asset/Technical form	Debt securities	Loans	Other transactions	For the year ended 31 December 2017	For the year ended 31 December 2016
1. Financial assets held for trading	-	-	-	-	-
2. Available-for-sale financial assets	992	-	-	992	974
3. Held-to-maturity financial assets	500	-	-	500	541
4. Due from banks	-	-	-	-	-
5. Due from customers	-	27	-	27	20
6. Financial assets designated at fair value	-	-	-	-	-
7. Hedging derivatives	x	x	-	-	-
8. Other assets	x	x	7	7	8
Total	1,492	27	7	1,526	1,543

The sub-item, “Other assets, Other transactions” includes €6 million in interest income accruing during the year on reverse repos and €1 million in interest for the year receivable from Poste Italiane SpA’s functions outside the ring-fence.

1.2 Interest and similar income: hedge differentials

Nil.

1.3 Interest and similar income: other information

Nil.

1.4 Interest and similar expense: analysis

(€m)					
Liability/Technical form	Debts	Securities	Other transactions	For the year ended 31 December 2017	For the year ended 31 December 2016
1. Due to Central Banks	-	x	-	-	-
2. Due to banks	(15)	x	-	(15)	(23)
3. Due to customers	(10)	x	-	(10)	(13)
4. Debt securities in issue	x	-	-	-	-
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities designated at fair value	-	-	-	-	-
7. Other liabilities and provisions	x	x	(4)	(4)	(5)
8. Hedging derivatives	x	x	(49)	(49)	(33)
Total	(25)	-	(53)	(78)	(74)

“Other liabilities and provisions – Other transactions” includes interest payable to Poste Italiane SpA’s functions outside the ring-fence, totalling €3 million.

1.5 Interest and similar expense: hedge differentials

	(€m)	
Item	For the year ended 31 December 2017	For the year ended 31 December 2016
A. Positive hedge differentials	15	25
B. Negative hedge differentials	(64)	(58)
C. Net (A-B)	(49)	(33)

SECTION 2 – FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 Fee and commission income: analysis

	(€m)	
Service/Amounts	For the year ended 31 December 2017	For the year ended 31 December 2016
a) Guarantees issued	-	-
b) Credit derivatives	-	-
c) Management, brokerage and advisory services:	2,309	2,285
1. Financial instrument trading	-	-
2. FX trading	1	1
3. Portfolio management:	-	-
3.1 Individual	-	-
3.2 Collective	-	-
4. Securities custody and administration	5	6
5. Depository banking	-	-
6. Securities placements	42	29
7. Order receipt and transmission	3	4
8. Advisory services:	-	-
8.1 Relating to investments	-	-
8.2 Relating to financial structuring	-	-
9. Arrangement of third-party services:	2,258	2,245
9.1 Portfolio management:	-	-
9.1.1 Individual	-	-
9.1.2 Collective	-	-
9.2 Insurance products	468	455
9.3 Other products	1,790	1,790
d) Collection and payment services	1,069	1,070
e) Securitisation servicing	-	-
f) Factoring services	-	-
g) Tax collection	-	-
h) Multilateral trading services	-	-
i) Current account maintenance and management	240	237
j) Other services	11	11
Total	3,629	3,603

“Management, brokerage and advisory services” include, within the context of the distribution of other products, fees receivable in return for the collection of postal savings deposits, totalling €1,566 million. This service relates to the provision and redemption of Interest-bearing Postal Certificates and payments into and withdrawals from Postal Savings Books, carried out on behalf of Cassa Depositi e Prestiti under the

Agreement of 4 December 2014, originally intended to cover the five-year period 2014-2018. On 14 December 2017, the new Agreement for the three-year period 2018-2020 was signed.

2.2 Fee and commission income by product and service distribution channel

	(€m)	
Channel/Amounts	For the year ended 31 December 2017	For the year ended 31 December 2016
A. Own counters:	2,300	2,274
1. Portfolio management	-	-
2. Securities placements	42	29
3. Third-party products and services	2,258	2,245
B. Door-to-door:	-	-
1. Portfolio management	-	-
2. Securities placements	-	-
3. Third-party products and services	-	-
C. Other distribution channels:	-	-
1. Portfolio management	-	-
2. Securities placements	-	-
3. Third-party products and services	-	-

"Own counters" means Poste Italiane SpA's post office network.

2.3 Fee and commission expense: analysis

	(€m)	
Service/Amounts	For the year ended 31 December 2017	For the year ended 31 December 2016
a) Guarantees received	-	-
b) Credit derivatives	-	-
c) Management and brokerage services:	(2)	(2)
1. Financial instrument trading	-	-
2. FX trading	-	-
3. Portfolio management:	-	-
3.1 Own	-	-
3.2 For third parties	-	-
4. Securities custody and administration	(1)	(1)
5. Financial instrument placements	(1)	(1)
6. Door-to-door marketing of financial instruments, products and services	-	-
d) Collection and payment services	(61)	(63)
e) Other services	(2)	(1)
Total	(65)	(66)

SECTION 3 – DIVIDENDS AND SIMILAR INCOME – ITEM 70

3.1 Dividends and similar income: analysis

During the year, BancoPosta RFC received dividends on its shares in Mastercard Incorporated and Visa Incorporated, accounted for in "Available-for-sale financial assets".

Asset/income	(€m)			
	For the year ended 31 December 2017		For the year ended 31 December 2016	
	Dividends	UCI distributions	Dividends	UCI distributions
A. Financial assets held for trading	-	-	-	-
B. Available-for-sale financial assets	1	-	1	-
C. Financial assets designated at fair value	-	-	-	-
D. Investments	-	x	-	x
Total	1	-	1	-

SECTION 4 – PROFITS/(LOSSES) ON TRADING – ITEM 80

4.1 Profits/(Losses) on trading: analysis

Asset-Liability/Profit component	(€m)				
	Gains	Trading income	Losses	Trading losses	Net income/(loss)
	(A)	(B)	(C)	(D)	[(A+B) – (C+D)]
1. Financial assets held for trading	-	4	-	(1)	3
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 UCIs	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	4	-	(1)	3
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Debts	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange	x	x	x	x	(1)
4. Derivative instruments	-	-	-	-	-
4.1 Financial derivatives:	-	-	-	-	-
- on debt securities and interest rates	-	-	-	-	-
- on equity instruments and share indices	-	-	-	-	-
- on foreign exchange and gold	x	x	x	x	-
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	-	4	-	(1)	2

SECTION 5 – FAIR VALUE ADJUSTMENTS IN HEDGE ACCOUNTING – ITEM 90

5.1 Fair value adjustments in hedge accounting: analysis

Profit component/Amounts	(€m)	
	For the year ended 31 December 2017	For the year ended 31 December 2016
A. Income on:		
A.1 Fair value hedge derivatives	525	84
A.2 Hedged financial assets (fair value)	27	940
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash flow hedge derivatives	-	-
A.5 Foreign currency assets and liabilities	-	-
Gross hedging income (A)	552	1,024
B. Cost of:		
B.1 Fair value hedge derivatives	(27)	(941)
B.2 Hedged financial assets (fair value)	(523)	(84)
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash flow hedge derivatives	-	-
B.5 Foreign currency assets and liabilities	-	-
Gross hedging cost (B)	(550)	(1,025)
C. Net hedging income (A – B)	2	(1)

SECTION 6 – PROFITS/(LOSSES) ON DISPOSAL OR REPURCHASE – ITEM 100

6.1 Profits/(Losses) on disposal or repurchase: analysis

Asset-Liability/Profit component	(€m)					
	For the year ended 31 December 2017			For the year ended 31 December 2016		
	Profit	Loss	Net profit	Profit	Loss	Net profit
Financial assets						
1. Due from banks	-	-	-	-	-	-
2. Due from customers	-	-	-	-	-	-
3. Available-for-sale financial assets	638	(14)	624	594	-	594
3.1 Debt securities	547	(14)	533	473	-	473
3.2 Equity instruments	91	-	91	121	-	121
3.3 UCIs	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Held-to-maturity financial assets	-	-	-	-	-	-
Total assets	638	(14)	624	594	-	594
Financial liabilities						
1. Due to banks	-	-	-	-	(7)	(7)
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	-	-	-	-	-	-
Total liabilities	-	-	-	-	(7)	(7)

SECTION 7 – PROFITS/(LOSSES) ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE – ITEM 110

Not applicable.

SECTION 8 – NET LOSSES/RECOVERIES ON IMPAIRMENT – ITEM 130

8.1 Net losses/recoveries on impairment of loans and advances: analysis

Asset-Liability/Profit component	Impairment losses			Recoveries				For the year ended 31 December 2017	For the year ended 31 December 2016
	Specific		Collective	Specific		Collective			
	Write-off	Other		Interest	Other	Interest	Other		
A. Due from banks	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Due from customers	-	-	(16)	-	-	-	1	(15)	(6)
Non-performing loans purchased	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
Other amounts owing	-	-	(16)	-	-	-	1	(15)	(6)
- Loans	-	-	(16)	-	-	-	1	(15)	(6)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	-	-	(16)	-	-	-	1	(15)	(6)

SECTION 9 – ADMINISTRATIVE EXPENSES – ITEM 150

9.1 Personnel expenses: analysis

Expense/Amounts	For the year ended 31 December 2017		For the year ended 31 December 2016	
	(€m)	(€m)	(€m)	(€m)
1) Employees	(93)	(98)	(93)	(98)
a) wages and salaries	(64)	(68)	(64)	(68)
b) social security	(18)	(18)	(18)	(18)
c) employee termination benefits	(4)	(4)	(4)	(4)
d) social security costs	-	-	-	-
e) provision for employee termination benefits	-	-	-	-
f) provisions for post-employment benefits	-	-	-	-
- defined contribution plans	-	-	-	-
- defined benefit plans	-	-	-	-
g) payments to external supplementary pension funds:	(1)	(1)	(1)	(1)
- defined contribution plans	(1)	(1)	(1)	(1)
- defined benefit plans	-	-	-	-
h) cost of share-based payments	-	-	-	-
i) other employee benefits	(6)	(7)	(6)	(7)
2) Other active personnel	-	-	-	-
3) Directors and Statutory Auditors	-	-	-	-
4) Retirees	-	-	-	-
5) Recovery of employment costs of staff seconded to other companies	-	-	-	-
6) Refund of costs of third party employees seconded to the company	-	-	-	-
Total	(93)	(98)	(93)	(98)

9.2 Average number of employees by category (*)

	For the year ended 31 December 2017	For the year ended 31 December 2016
Employees	1,730	1,827
a) executives	55	54
b) middle managers	479	460
c) other employees	1,196	1,313
Other employees	-	-
Total	1,730	1,827

(*) Figures expressed in full time equivalent terms.

9.3 Post-employment defined benefit plans: costs and revenues

Nil.

9.4 Other employee benefits

This primarily relates to redundancy payments.

9.5 Other administrative expenses: analysis

	(€m)	
Expense/Amounts	For the year ended 31 December 2017	For the year ended 31 December 2016
1) Cost of services provided by Poste Italiane SpA:	(4,418)	(4,457)
- commercial services	(4,032)	(4,092)
- support services	(300)	(302)
- staff services	(86)	(63)
2) Cost of goods and non-professional services:	(44)	(42)
- printing and postage	(35)	(33)
- credit and debit card supply services	(9)	(9)
3) Advisory and other professional services	(54)	(52)
4) Taxes, penalties and duties	(6)	(4)
5) Other expenses	-	-
Total	(4,522)	(4,555)

The cost of services provided by Poste Italiane functions outside the ring-fence relates to those services described in Part A - *Accounting policies*, A.1, Section 4 - *Other information*.

SECTION 10 – NET PROVISIONS FOR RISKS AND CHARGES – ITEM 160

10.1 Net provisions for risks and charges: analysis

	(€m)		
Asset-Liability/Profit component	Provisions	Reversals	Net provision
Provisions for litigation	(21)	9	(12)
Provisions for risks and charges	(179)	8	(171)
Total	(200)	17	(183)

Provisions for risks and charges for the year, totalling €179 million, primarily reflect a revised estimate of probable liabilities linked to third-party financial products placed in the early 2000s, including €35 million relating to the voluntary action taken to protect customers, approved by Poste Italiane's Board of Directors on 19 February 2018, in relation to customers who had invested in the Europa Immobiliare 1 fund (which reached maturity on 31 December 2017¹²⁶), and the revision of other liabilities due to adjustments and outstanding income for previous years. Reversals, amounting to €8 million, relate to liabilities recognised in the past that have failed to materialise.

SECTION 11 – NET LOSSES/RECOVERIES ON PROPERTY, PLANT AND EQUIPMENT – ITEM 170

Non applicable.

SECTION 12 – NET LOSSES/RECOVERIES ON INTANGIBLE ASSETS – ITEM 180

Not applicable.

SECTION 13 – OTHER OPERATING INCOME/(EXPENSES) – ITEM 190

13.1 Other operating expenses: analysis

	(€m)	
Profit component/Amounts	For the year ended 31 December 2017	For the year ended 31 December 2016
1. Burglaries and theft	(5)	(8)
2. Other charges	(57)	(34)
Total	(62)	(42)

“Other charges” relates primarily to post office operating losses.

¹²⁶ This initiative is described in section 6 - *Risk management – Reputational risk* – in the section – *Poste Italiane financial statements* – of this Annual Report.

13.2 Other operating income: analysis

Profit component/Amounts	(€m)	
	For the year ended 31 December 2017	For the year ended 31 December 2016
1. Statute barred money orders	-	-
2. Other operating income	4	3
Total	4	3

SECTION 14 – PROFITS/(LOSSES) ON INVESTMENTS – ITEM 210

Not applicable.

SECTION 15 – PROFITS/(LOSSES) ON FAIR VALUE MEASUREMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS – ITEM 220

Not applicable.

SECTION 16 – IMPAIRMENT OF GOODWILL – ITEM 230

Not applicable.

SECTION 17 – PROFITS/(LOSSES) ON DISPOSAL OF INVESTMENTS – ITEM 240

Not applicable.

SECTION 18 – TAXES ON INCOME FROM CONTINUING OPERATIONS – ITEM 260

18.1 Taxes on income from continuing operations: analysis

Profit component/Amounts	(€m)	
	For the year ended 31 December 2017	For the year ended 31 December 2016
1. Current taxes (-)	(223)	(252)
2. Increase/(decrease) in current taxes of prior period taxation (+/-)	13	1
3. Reduction in current taxes (+)	-	-
3. bis Reduction in current taxation due to tax credit pursuant to Law 214/2011 (+)	-	-
4. Increase/(decrease) in deferred tax assets (+/-)	25	17
5. Increase/(decrease) in deferred tax liabilities (+/-)	-	-
6. Taxation for year (-) (-1+/-2+3+/-4+/-5)	(185)	(234)

18.2 Reconciliation between theoretical tax charge at statutory rate and effective tax charge

(€m)

Description	For the year ended 31 December 2017		For the year ended 31 December 2016	
	IRES	% rate	IRES	% rate
<i>Income before tax</i>	<u>770</u>		<u>803</u>	
Theoretical tax charge	185	24.0%	221	27.5%
Effect of increases/(decreases) on theoretical tax charge				
Adjustments for change in IRES tax rate introduced by 2016 Stability Law	-	0.0%	3	0.4%
Non-recurring (income)/expense for taxes charged to profit or loss	-	0.0%	-	0.0%
Net provisions for risks and charges and impairments of receivables	2	0.3%	6	0.7%
Taxation for previous years	(13)	-1.7%	(1)	-0.1%
Capital gains and dividends	(21)	-2.7%	(32)	-4.0%
Other	(4)	-0.5%	-	0.0%
Effective tax charge	149	19.3%	197	24.5%

The IRES tax rate has fallen from the 24.5% of 2016 to 19.3% in 2017, primarily due to art. 1, paragraph 61 of Law 208/2015, which reduced the nominal IRES rate from 27.5%, in the previous tax year, to 24%. Another reason for the reduction in the tax rate is the realisation of a gain on the sale of the Mastercard Incorporated shares which, as a result of the "participation exemption", was almost totally exempted from tax (only 5% was taxable).

(€m)

Description	For the year ended 31 December 2017		For the year ended 31 December 2016	
	IRAP	% rate	IRAP	% rate
<i>Income before tax</i>	<u>770</u>		<u>803</u>	
Theoretical tax charge	35	4.6%	37	4.6%
Non-recurring (income)/expense for taxes charged to profit or loss	-	0.0%	-	0.0%
Provisions for risks and charges	-	0.0%	-	0.0%
Personnel expenses	1	0.1%	-	0.0%
Other	-	0.0%	-	0.0%
Effective tax charge	36	4.7%	37	4.6%

SECTION 19 – INCOME/(LOSS) AFTER TAX FROM DISCONTINUED OPERATIONS – ITEM 280

Not applicable.

SECTION 20 – OTHER INFORMATION

All information has been presented above.

SECTION 21 – EARNINGS PER SHARE

Not applicable.

PART D –COMPREHENSIVE INCOME

ANALYSIS OF COMPREHENSIVE INCOME

(€m)			
Items	Gross amount	Tax on income	Net amount
10. Profit/(Loss) for the year	X	X	585
Other components of comprehensive income not reclassified to profit or loss			
20. Property, plant and equipment	-	-	-
30. Intangible assets	-	-	-
40. Defined benefit plans	-	-	-
50. Non-current assets held for sale	-	-	-
60. Share of valuation reserve attributable to equity-accounted investments	-	-	-
Other components of comprehensive income reclassified to profit or loss			
70. Hedges of foreign investments:	-	-	-
a) changes in fair value	-	-	-
b) reversal to profit or loss	-	-	-
c) other movements	-	-	-
80. Foreign exchange differences:	-	-	-
a) changes in carrying amounts	-	-	-
b) reversal to profit or loss	-	-	-
c) other movements	-	-	-
90. Cash flow hedges:	(63)	18	(45)
a) changes in fair value	(57)	16	(41)
b) reversal to profit or loss	(6)	2	(4)
c) other movements	-	-	-
100. Available-for-sale financial assets:	(974)	264	(710)
a) changes in fair value	(312)	92	(220)
b) reversal to profit or loss	(662)	172	(490)
- impairments	-	-	-
- realised gains/(losses)	(662)	172	(490)
c) other movements	-	-	-
110. Non-current assets held for sale:	-	-	-
a) changes in fair value	-	-	-
b) reversal to profit or loss	-	-	-
c) other movements	-	-	-
120. Share of valuation reserve attributable to equity-accounted investments:	-	-	-
a) changes in fair value	-	-	-
b) reversal to profit or loss	-	-	-
- impairments	-	-	-
- realised gains/(losses)	-	-	-
c) other movements	-	-	-
130. Total other components of comprehensive	(1,037)	282	(755)
140. Comprehensive income (Items 10+130)	X	X	(170)

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Introduction

BancoPosta's operations, conducted in accordance with Presidential Decree 144/2001, consist in 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 euro zone government securities, with the option of investing up to 50% of the deposits in securities guaranteed by the Italian government¹²⁷, whilst deposits by Public Administration entities are deposited with the MEF. In 2017, BancoPosta RFC's operations focused on investment of the significantly increased volume of current account deposits, the reinvestment of funds deriving from maturing government securities and in the active management of financial instruments.

During 2017, the modest rise in both risk-free interest rates and the yields on Italian government bonds resulted in a slight reduction in unrealised gains on the securities accounted for in the financial statements, some of which were, in any event, recognised as realised gains in profit or loss.

Following the positive performance of current account deposits in 2017, from June onwards, the process of monitoring the risk profile indicated that there had been a decline in the leverage ratio to below the threshold set in the Risk Appetite Framework (RAF). The leverage ratio at 31 December 2017 stands at approximately 3.11% (3% being the minimum level required by the regulations). In order to restore the leverage ratio to the target level set out in the RAF (3.15%), on 25 January 2018, Poste Italiane SpA's Board of Directors approved the recapitalisation of BancoPosta by transferring free reserves of €210 million. The relevant functions will continue to keep a close eye on the leverage ratio throughout 2018 to ensure, over time, that it continues to meet the related targets, thresholds and limits established in the RAF.

The investment profile is based, among other things, on the constant monitoring of habits of current account holders and a use of a leading market operator's statistical/econometric model of typical postal current account interest rates and maturities, based on a prudent projection of the future volume of deposits. The above mentioned model is thus the general reference for the investments (the limits of which are determined by specific guidelines approved by the Board of Directors) in order to limit exposure to interest rate and liquidity risks.

FINANCIAL RISK MANAGEMENT

Balanced financial management and monitoring of the main risk/return profiles are carried out and ensured by dedicated organisational structures, both within and without the BancoPosta ring-fence, that operate separately and independently. In addition, specific processes are in place governing the assumption and management of and control over financial risks. In this regard, on 19 February 2018, Poste Italiane SpA's Board of Directors adopted a revised version of the Guidelines for Internal Control and Risk Management

¹²⁷ 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).

System (SCIGR), which contains integrated guidelines for Poste Italiane SpA's Internal Control and Risk Management System. From an organisational viewpoint, the model consists of:

- the **Audit and Risk Committee**, which, with regard to BancoPosta's operations, provides support to the Board of Directors in relation to risks and the internal control system, with particular reference to all the activities deemed instrumental and necessary to enable the Board of Directors to correctly and effectively determine the Risk Appetite Framework and risk management policies;
- the **Cross-functional Committee**, set up under the BancoPosta RFC Regulation and chaired by Poste Italiane SpA's CEO and General Manager. Other permanent members are the Head of BancoPosta and the heads of the functions within Poste Italiane SpA primarily involved with Bancoposta. The Committee provides advice, makes recommendations and coordinates BancoPosta's operations with those of other Poste Italiane functions;
- the **Financial and Insurance Services Committee**, established on 19 March 2018 to replace the previous Finance, Savings and Investment Committee, with the aim of overseeing the process of developing the products and services distributed by BancoPosta, in order to take a uniform, integrated view of the entire offering and to monitor the performance of the financial investments in which private customer deposits are invested;
- Poste Italiane SpA's **Coordination of Investment Management function**, the work of which is regulated by specific operating guidelines, and which oversees investment strategy and the hedging of capital market risks in respect of the liquidity deriving from BancoPosta current account deposits, in accordance with the guidelines established by the various corporate bodies.
- the BancoPosta's **Risk Management function**, responsible for measuring and controlling risk and duly observing the independence of control functions from management. The results of these activities are examined by Poste Italiane SpA's Financial Risk Committee.

In constructing the Risk Model used by BancoPosta RFC, account was also taken of the existing prudential supervisory standards for banks and the specific instructions for BancoPosta, published by the Bank of Italy on 27 May 2014 with the third revision of Circular 285 of 17 December 2013.

The above prudential standards have imposed the same obligations on Bancoposta as those applicable to banks in terms of corporate governance, internal controls and risk management, requiring, among other things, achievement of the following objectives:

- definition of a Risk Appetite Framework (RAF);
- oversight of implementation of Poste Italiane SpA's strategies and policies;
- the containment of risks within the limits set by the RAF;
- protection of the value of assets and against losses;
- identification of material transactions to be subject to prior examination by the risk control function.

The RAF consists of a framework that defines, in keeping with the maximum acceptable risk, the business model and strategic plan, the risk appetite, risk tolerance thresholds, risk limits and risk management policies, together with the processes needed to define and implement them.

SECTION 1 –CREDIT RISK

Credit risk regards the types of risk described below.

Credit risk relates to the possibility that a change in a borrower's credit rating could result in a loss, i.e., the risk that a debtor comes into full or partial breach of its repayment obligations for principal and interest.

Counterparty risk is the risk that a counterparty could default on obligations of a financial instrument during its term. This risk is inherent in certain types of transaction which, for BancoPosta RFC, would be derivatives and repurchase agreements.

Concentration risk is related to the overexposure to counterparties, groups of related counterparties and counterparties in the same business segment or that engage in the same business or operate in the same geographic region.

Qualitative information

1. Generalities

Presidential Decree 144/2001 prohibits BancoPosta RFC from making loans to members of the public. As a result, there are no credit policies.

The nature of BancoPosta RFC's operations, however, results in a considerable concentration of exposure to Republic of Italy risk as a result of its deposits at the MEF and its investments in Government securities. Credit risk models, explained below, show, however, that for capital requirements this type of investment does not determine capital absorption.

2. Credit risk management policies

2.1 Organisational aspects

The role of BancoPosta RFC's Risk Management function is the management and control of credit, counterparty and concentration risks.

Monitoring credit risk is particularly focused on the following exposures:

- euro area government securities (or those guaranteed by the government) in which private customer account deposits are invested;
- deposits at the MEF in which Public Administration account deposits are invested;
- any eventual amounts due from the Italian Treasury as a result of depositing funds gathered less payables for advances disbursed;
- items in process: cheque clearing, use of electronic cards, collections;
- temporarily overdrawn post office current accounts caused by debiting fees: limited to those which were not classified as impaired since the accounts were in funds in early 2018;
- cash collateral for outstanding transactions with banks and customers, in accordance with agreements intended to mitigate counterparty risk (CSA - Credit Support Annexes and GMRA – Global Master Repurchase Agreements);

- securities provided as collateral in accordance with agreements intended to mitigate counterparty risk (CSAs and GMRAs);
- trade receivables payable for financial/insurance product arrangement.

Monitoring counterparty risk particularly regards hedging derivatives and repurchase agreements.

BancoPosta RFC's concentration risk is monitored to limit the instability that could be caused by the default of one customer or a group of related customers to which BancoPosta has a significant credit and counterparty risk exposure.

2.2 Management, measurement and control systems

Credit risk is controlled through the following:

- minimum rating requirements for issuers/counterparties, based on the type of instrument;
- concentration limits per issuer/counterparty;
- monitoring of changes in the ratings of counterparties.

The above limits for BancoPosta RFC are set out in Poste Italiane SpA's "Guidelines for financial transactions"¹²⁸, which also contain rating limits that only permit dealings with investment grade counterparties, whilst concentration limits are applied as required by prudential standards¹²⁹.

The standard method¹³⁰, as defined by EU Regulation 575/2013, is used by BancoPosta to measure credit and counterparty risks. The method entails the use of Standard & Poor's, Moody's and Fitch for the computation of counterparty credit rating classes.

In terms of prudential oversight, the following methods are used to estimate the exposure to counterparty risk inherent in each of the following types of transaction:

- the "Market Value" method¹³¹ is used for asset swaps and forward purchases of government securities;
- Credit Risk Mitigation (CRM) techniques, the Full Method¹³², are used for repurchase transactions.

Concentration risk is measured using the method described in EU Regulation 575/2013 with regard to large exposures.

2.3 Credit risk mitigation techniques

In order to limit the counterparty risk exposure, partly for the purposes of prudential supervisory standards, BancoPosta RFC has concluded standard ISDA master agreements and special agreements for the mitigation of risk for repo transactions (GMRA) and OTC derivatives (CSA). More specifically, the agreements provide

¹²⁸ On 13 December 2017, Poste Italiane SpA's Board of Directors approved new "Guidelines for financial transactions" for Poste Italiane SpA, following the entry into effect of the new accounting standard, IFRS 9 – *Financial Instruments* from 1 January 2018.

¹²⁹ According to the prudential requirements, weighted risk exposure must at all times be below 25% of own funds. Exposures are normally equal to an asset's nominal value adjusting for any credit risk mitigation. Lower risk borrowers are assigned lower risk weightings.

¹³⁰ The standard method entails risk weightings in accordance with the nature of the exposure and the identity of the counterparty and the counterparty's external credit rating.

¹³¹ The "Market Value" method to measure the risk inherent in derivatives entails summing two components: the current replacement cost, represented by fair value, if positive, and an add-on equal to the product of the nominal value and the probability that the fair value, if positive, increases the value or, if negative, turns positive.

¹³² The full CRM method entails reducing risk exposure by the value of the guarantee. Specific rules are applied to take into account market price volatility of the guaranteed asset as well as the collateral received.

for the netting of asset and liability positions and the posting of cash and/or government securities as collateral.

In addition, in order to mitigate counterparty risk and gain readier access to the market, from December 2017, BancoPosta RFC has begun to enter into repurchase agreements with the Central Clearing House, the *Cassa Compensazione e Garanzia*.

2.4 Impaired financial assets

There were no impaired financial assets on BancoPosta RFC's books at 31 December 2017.

Quantitative information

A. Credit quality

A.1 Exposure to performing and non-performing loans: amounts, impairments, movements, economic and geographic segment

A.1.1 Distribution of credit exposure by portfolio and credit quality by carrying amount

(€m)						
Portfolio/Credit quality	Doubtful loans	Unlikely to pay	Non-performing past-due	Performing past-due	Other performing exposures	Total
1. Available-for-sale financial assets	-	-	-	-	39,099	39,099
2. Held-to-maturity financial assets	-	-	-	-	12,912	12,912
3. Due from banks	-	-	-	-	1,151	1,151
4. Due from customers	-	-	-	-	7,951	7,951
5. Financial assets designated at fair value	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-
Total at 31 December 2017	-	-	-	-	61,113	61,113
Total at 31 December 2016	-	-	-	-	60,160	60,160

A.1.2 Distribution of gross and net credit exposure by portfolio and credit quality

(€m)							
Portfolio/Credit quality	Non-performing			Performing			Total (net exposure)
	Gross exposure	Specific provisions	Net exposure	Gross exposure	Collective provisions	Net exposure	
1. Available-for-sale financial assets	-	-	-	39,099	-	39,099	39,099
2. Held-to-maturity financial assets	-	-	-	12,912	-	12,912	12,912
3. Due from banks	-	-	-	1,151	-	1,151	1,151
4. Due from customers	-	-	-	8,128	177	7,951	7,951
5. Financial assets designated at fair value	-	-	-	X	X	-	-
6. Financial assets held for sale	-	-	-	-	-	-	-
Total at 31 December 2017	-	-	-	61,290	177	61,113	61,113
Total at 31 December 2016	-	-	-	60,322	162	60,160	60,160

Portfolio/Credit quality	Assets of evidently low credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	-
2. Hedging derivatives	-	-	395
Total at 31 December 2017	-	-	395
Total at 31 December 2016	-	-	191

A.1.3 On and off-balance sheet credit exposure to banks: gross and net amounts and past-due categories

(€m)

Type of exposure/Amounts	Gross exposure				Performing	Specific provisions	Collective provisions	Net exposure
	Non-performing							
	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Over 1 year				
A. On-balance sheet exposures								
a) Doubtful loans	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
c) Non-performing past-due exposures	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
d) Performing past-due exposures	X	X	X	X	-	X	-	-
- of which: forborne exposures	X	X	X	X	-	X	-	-
e) Other performing exposures	X	X	X	X	1,151	X	-	1,151
- of which: forborne exposures	X	X	X	X	-	X	-	-
TOTAL A	-	-	-	-	1,151	-	-	1,151
B. Off-balance sheet exposures								
a) Non-performing	-	-	-	-	X	-	X	-
b) Performing	X	X	X	X	497	X	-	497
TOTAL B	-	-	-	-	497	-	-	497
TOTAL A+B	-	-	-	-	1,648	-	-	1,648

“Off-balance sheet exposures, Performing” relates to the counterparty risk associated with derivatives registering fair value gains after the effect of netting agreements, securities provided as collateral under counterparty risk mitigation agreements and for Repo financing with Securities Financing Transactions (SFT)¹³³ margins.

A.1.4/ A.1.5 On-balance sheet credit exposure to banks: changes in gross non-performing exposures and in total adjustments

Nil.

¹³³ As defined in the prudential requirements.

A.1.6 On and off-balance sheet credit exposure to customers: gross and net amounts and past-due categories

(€m)

Type of exposure/Amounts	Gross exposure					Specific provisions	Collective provisions	Net exposure
	Non-performing				Performing			
	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Over 1 year				
A. On-balance sheet exposures								
a) Doubtful loans	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
c) Non-performing past-due exposures	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
d) Performing past-due exposures	X	X	X	X	-	X	-	-
- of which: forborne exposures	X	X	X	X	-	X	-	-
e) Other performing exposures	X	X	X	X	60,139	X	177	59,962
- of which: forborne exposures	X	X	X	X	-	X	-	-
TOTAL A	-	-	-	-	60,139	-	177	59,962
B. Off-balance sheet exposures								
a) Non-performing	-	-	-	-	X	-	X	-
b) Performing	X	X	X	X	25	X	-	25
TOTAL B	-	-	-	-	25	-	-	25
TOTAL A+B	-	-	-	-	60,164	-	177	59,987

“Off-balance sheet exposures, Performing” relates to the counterparty risk associated with derivatives registering fair value gains after the effect of netting agreements and Repo financing with Securities Financing Transactions (SFT) margins.

A.1.7/ A.1.8 On-balance sheet credit exposure to customers: changes in gross non-performing exposures and in total adjustments

Nil.

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of on and off-balance sheet exposures by external rating classes

(€m)

Exposure	External rating classes						Not rated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. On-balance sheet credit exposure	-	1,041	59,916	-	1	-	155	61,113
B. Derivatives	19	49	-	-	-	-	45	113
B.1 Financial derivatives	19	49	-	-	-	-	45	113
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees issued	-	-	-	-	-	-	-	-
D. Commitments to disburse funds	-	-	-	-	-	-	-	-
E. Other	28	29	352	-	-	-	-	409
Total	47	1,119	60,268	-	1	-	200	61,635

The rating agency equivalents of credit rating classes are shown below:

Credit rating class	Fitch	Moody's	S&P
1	AAA to AA-	Aaa to Aa3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below

The nature of BancoPosta's operations exposes it to a substantial degree of concentration in respect of the Italian state. The concentration can be seen in Table A.2.1 under External Rating Class 3, which includes the Italian state.

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Guaranteed credit exposures to banks

Net exposure	Collateral (1)				Personal guarantees (2)								Total (1)+(2)
	Mortgages	Finance leases	Securities	Other collateral	Credit derivatives				Unsecured				
					CLN	Other derivatives			Government and central banks	Other public entities	Banks	Other counter-parties	
						Government and central banks	Other public entities	Banks					
1. Guaranteed on-balance sheet credit exposures:													
1.1 guaranteed in full	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:													
2.1 guaranteed in full	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially guaranteed	93	-	-	-	82	-	-	-	-	-	-	-	82
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Guaranteed credit exposures to customers

Net exposure	Collateral (1)				Personal guarantees (2)								Total (1)+(2)
	Mortgages	Finance leases	Securities	Other collateral	Credit derivatives				Unsecured				
					CLN	Other derivatives			Government and central banks	Other public entities	Banks	Other counter-parties	
						Government and central banks	Other public entities	Banks					
1. Guaranteed on-balance sheet credit exposures:													
1.1 guaranteed in full	975	-	-	-	-	-	-	-	-	975	-	-	975
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially guaranteed	1,510	-	-	-	-	-	-	-	-	1,500	-	-	1,500
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:													
2.1 guaranteed in full	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially guaranteed	20	-	-	-	18	-	-	-	-	-	-	-	18
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-

B. Distribution and concentration of credit exposures

B.1 Distribution of on and off-balance sheet credit exposures to customers by economic sector and carrying amount

(€m)

Exposures/Counterparty	Governments			Other public entities			Finance companies			Insurance companies			Non-finance companies			Other entities		
	Net expos.	Specif. prov.	Coll. prov.	Net expos.	Specif. prov.	Coll. prov.	Net expos.	Specif. prov.	Coll. prov.	Net expos.	Specif. prov.	Coll. prov.	Net expos.	Specif. prov.	Coll. prov.	Net expos.	Specif. prov.	Coll. prov.
A. On-balance sheet exposures																		
A.1 Doubtful loans	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
- of which: forborne exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
A.2 Unlikely to pay	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
- of which: forborne exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
A.3 Non-performing exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
- of which: forborne exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
A.4 Performing exposures	56,010	X	8	62	X	8	2,981	X	-	143	X	-	756	X	21	10	X	140
- of which: forborne exposures	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-
TOTAL A	56,010	-	8	62	-	8	2,981	-	-	143	-	-	756	-	21	10	-	140
B. Off-balance sheet exposures																		
B.1 Doubtful loans	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B.2 Unlikely to pay	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B.3 Other non-performing assets	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B.4 Performing exposures	-	X	-	-	X	-	20	X	-	-	X	-	-	X	-	-	X	-
TOTAL B	-	-	-	-	-	20	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL (A+B) at 31 December 2017	56,010	-	8	62	-	8	3,001	-	-	143	-	-	756	-	21	10	-	140
TOTAL (A+B) at 31 December 2016	56,293	-	7	57	-	5	2,118	-	-	134	-	-	652	-	19	8	-	131

B.2 Distribution of on and off-balance sheet credit exposures to customers by geographic area and carrying amount

(€m)

Exposures/ Geographic area	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.
A. On-balance sheet exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	59,868	177	86	-	8	-	-	-	-	-
TOTAL A	59,868	177	86	-	8	-	-	-	-	-
B. Off-balance sheet exposures										
B.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.4 Performing exposures	-	-	20	-	-	-	-	-	-	-
TOTAL B	-	-	20	-	-	-	-	-	-	-
TOTAL (A+B) at 31 December 2017	59,868	177	106	-	8	-	-	-	-	-
TOTAL (A+B) at 31 December 2016	59,044	162	210	-	8	-	-	-	-	-

B.2 Distribution of on and off-balance sheet credit exposures to customers by geographic area and carrying amount

Exposures/ Geographic area	(€m)							
	ITALY, NORTHWEST		ITALY, NORTHEAST		ITALY, CENTRE		ITALY, SOUTH AND ISLANDS	
	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.
A. On-balance sheet exposures								
A.1 Doubtful loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	7	5	-	16	59,857	145	4	11
TOTAL A	7	5	-	16	59,857	145	4	11
B. Off-balance sheet exposures								
B.1 Doubtful loans	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	-	-	-	-	-	-	-	-
B.4 Performing exposures	-	-	-	-	-	-	-	-
TOTAL B	-	-	-	-	-	-	-	-
TOTAL (A+B) at 31 December 2017	7	5	-	16	59,857	145	4	11
TOTAL (A+B) at 31 December 2016	4	4	1	15	59,035	135	4	8

The concentration in central Italy is due to the fact that nearly all exposures consist of Italian Government securities and deposits at the MEF.

B.3 Distribution of on and off-balance sheet credit exposures to banks by geographic area and carrying amount

Exposures/ Geographic area	(€m)									
	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.
A. On-balance sheet exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	134	-	1,017	-	-	-	-	-	-	-
TOTAL A	134	-	1,017	-	-	-	-	-	-	-
B. Off-balance sheet exposures										
B.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.4 Performing exposures	184	-	221	-	-	-	-	-	-	-
TOTAL B	184	-	221	-	-	-	-	-	-	-
TOTAL (A+B) at 31 December 2017	318	-	1,238	-	-	-	-	-	-	-
TOTAL (A+B) at 31 December 2016	564	-	1,632	-	-	-	-	-	-	-

B.3 Distribution of on and off-balance sheet credit exposures to banks by geographic area and carrying amount

Exposures/ Geographic area	(€m)							
	ITALY, NORTHWEST		ITALY, NORTHEAST		ITALY, CENTRE		ITALY, SOUTH AND ISLANDS	
	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.
A. On-balance sheet exposures								
A.1 Doubtful loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	64	-	-	-	67	-	3	-
TOTAL A	64	-	-	-	67	-	3	-
B. Off-balance sheet exposures								
B.1 Doubtful loans	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	-	-	-	-	-	-	-	-
B.4 Performing exposures	184	-	-	-	-	-	-	-
TOTAL B	184	-	-	-	-	-	-	-
TOTAL (A+B) at 31 December 2017	248	-	-	-	67	-	3	-
TOTAL (A+B) at 31 December 2016	436	-	-	-	128	-	-	-

B.4 Large exposures (in compliance with supervisory standards)

In compliance with the supervisory standards in force, the table for “Large exposures” shows information on exposures to customers or groups of connected customers that exceed 10% of total own funds. The exposures are determined with reference to total on-balance sheet risk assets and off-balance sheet transactions, without applying any risk weightings. Based on these criteria, the table includes entities that, despite having a risk weighting of 0%, represent an unweighted exposure in excess of 10% of own funds. Exposures to the Italian state shown in the table represent approximately 90% of the total carrying amount. The remaining exposures regard primary counterparties represented by European banks and other central counterparties in Italy. However, in view of the fact that it cannot lend to the public, the Bank of Italy has exempted BancoPosta RFC from application of the requirements regarding limits on large exposures. No further exemptions from the remaining obligations have been granted.

Large exposures	
a) Carrying amount (€m)	70,280
b) Weighted amount (€m)	1,782
c) Number	12

C. Securitisations

Nil.

D. Information on unconsolidated structured entities (other than securitisation vehicles)

Nil.

E. Disposal of assets

A. Financial assets sold but not fully derecognised

Qualitative information

In the case of BancoPosta RFC, this category only regards Italian government securities provided as collateral for repurchase agreements. BancoPosta uses these transactions to access the interbank market to raise funds, with the aim of funding the purchase of government securities and the deposits necessary for margin lending.

Quantitative information

E.1 Financial assets sold but not fully derecognised: carrying amount and gross amount

Asset/ Portfolio	(€m)																			
	Financial assets held for trading			Financial assets designated at fair value			Available-for-sale financial assets			Held-to-maturity financial assets			Due from banks			Due from customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	At 31 December 2017	At 31 December 2016
A. On balance sheet assets	-	-	-	-	-	-	-	-	-	4,486	-	-	-	-	-	-	-	-	4,486	4,894
1. Debt securities	-	-	-	-	-	-	-	-	-	4,486	-	-	-	-	-	-	-	-	4,486	4,894
2. Equity instruments	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. UCIs	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivative instruments	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
TOTAL AT 31 DECEMBER 2017	-	-	-	-	-	-	-	-	-	4,486	-	-	-	-	-	-	-	-	4,486	X
<i>of which non-performing:</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X
TOTAL AT 31 DECEMBER 2016	-	-	-	-	-	-	206	-	-	4,688	-	-	-	-	-	-	-	-	X	4,894
<i>of which non-performing:</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X	-

Key

- A** = Full recognition of financial assets sold to third parties (carrying amount)
B = Partial recognition of financial assets sold to third parties (carrying amount)
C = Partial recognition of financial assets sold to third parties (gross amount)

E.2 Financial liabilities matched with assets sold but not derecognised: carrying amount

Liability/ Asset portfolio	(€m)						
	Financial assets held for trading	Financial assets designated at fair value	Available-for-sale financial assets	Held-to-maturity financial assets	Due from banks	Due from customers	Total
1. Due to customers	-	-	-	-	-	-	-
a) asset fully recognised	-	-	-	-	-	-	-
b) asset partially recognised	-	-	-	-	-	-	-
2. Due to banks	-	-	-	-	4,842	-	4,842
a) asset fully recognised	-	-	-	-	4,842	-	4,842
b) asset partially recognised	-	-	-	-	-	-	-
TOTAL AT 31 DECEMBER 2017	-	-	-	-	4,842	-	4,842
TOTAL AT 31 DECEMBER 2016	-	-	206	-	5,175	-	5,381

SECTION 2 –MARKET RISK

Market risk relates to:

- price risk: the risk that the value of a financial instrument fluctuates as a result of market price movements, deriving from factors specific to the individual instrument or the issuer, and factors that influence all instruments traded on the market;
- foreign exchange risk: the risk that the value of a financial instrument fluctuates as a result of movements in exchange rates for currencies other than the functional currency;
- fair value interest rate risk: the risk that the value of a financial instrument fluctuates as a result of movements in market interest rates;
- spread risk: the risk relates to the potential fall in the value of bonds held, following a deterioration in the creditworthiness of issuers;
- cash flow interest rate risk: the risk that the cash flows from a financial instrument will fluctuate because of movements in market interest rates;
- cash flow inflation rate risk: the risk that the cash flows from a financial instrument will fluctuate because of movements in inflation rates.

2.1 Interest rate and price risks - supervisory trading book

There were no supervisory trading book assets or liabilities at 31 December 2017. Poste Italiane SpA's "Guidelines for financial transactions" for BancoPosta RFC prohibit the acquisition of assets and liabilities with the intention to trade, as defined by article 104 of EU Regulation 575/2013 in relation to classification of the "supervisory trading book".

2.2 Interest rate and price risks - banking book

Qualitative information

A. Generalities, operating procedures and interest rate and price risk measurement methods

• **Interest rate risk**

Interest rate risk is inherent in the operations of a financial institution and can affect income (cash flow interest rate risk) and the value of the firm (fair value interest rate risk). Movements in interest rate can affect the cash flows associated with variable rate assets and liabilities and the fair value of fixed rate instruments.

Cash flow interest rate risk arises from the mismatch – in terms of interest rate, interest rate resets and maturities – of financial assets and liabilities until their contractual maturity and/or expected maturity (banking book), with effects in terms of interest spreads and, as such, an impact on future results. This risk is of particular relevance to variable rate assets and liabilities or assets and liabilities which have been transformed into variable rate by fair value hedges.

Fair value interest rate risk primarily 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 changes in interest rates on the fixed components of floating rate financial instruments or fixed rate financial instruments converted to variable rate via fair value hedges.

BancoPosta RFC's portfolio is predominantly invested in fixed rate instruments, some of which, with a fair value of €19,013 million, have been hedged using fair value hedges of the forward start type or index-linked instruments amounting to approximately €1,400 million, converted to fixed rate via asset swaps used as cash flow hedges.

Interest rate risk is measured internally using the economic value method. This results in a need to develop an amortisation schedule for the funding consistent with its nature and to select a time horizon and confidence levels for the estimates. A maximum time horizon (cut-off point) of 20 years is used for retail customer deposits, 10 years for business customer deposits and PostePay cards, and 5 years for Public Administration deposits, based on a 99% confidence level. This approach entails the computation of an ALM rate risk through the determination of asset/liability maturity gaps.

The exposure to interest rate risk, as measured internally, is subject to stress tests of the principal risk factors – such as the duration of deposits, the value of investments and interest rate trends – that contribute to determining the measurement of exposure. In particular, the stress tests are based on an assumed reduction in the maximum time horizon (cut-off point) for retail and business customer deposits, revaluation of the asset portfolio in response to adverse market movements, and non-parallel shifts in the interest rate curve.

Interest rate risk management and mitigation is based on the conclusions of the measurement of risk exposure and compliance - in line with the risk appetite and thresholds and limits established in the RAF - with financial operations guidelines as approved from time to time by Poste Italiane SpA's Board of Directors.

Details on the risk management model are contained in the note on financial risks in Part E.

BancoPosta RFC monitors market risk, including fair value interest rate and spread risks, inherent in available-for-sale financial assets and derivative financial instruments through the computation of Value at Risk (VaR) over a time horizon of 1 day at a 99% confidence level.

- **Spread risk**

Spread risk regards bonds issued or guaranteed by the Italian government and classified as available-for-sale financial assets. On average, 2017 witnessed an increase in the yields on Italian government bonds, whilst, at 31 December 2017, the spread between ten-year Italian government bonds and German bunds is approximately 159 bps, demonstrating a trend in line with the previous year (161 bps at 31 December 2016).

Over the period under review, the above situation resulted in a net reduction in the fair value of BancoPosta RFC's available-for-sale portfolio (a nominal value of approximately €36 billion) of approximately €0.8 billion. The decrease in the fair value of instruments hedged against interest rate risk, amounting to approximately €0.5 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 €0.3 billion;

- **Price risk**

Price risk relates to available-for-sale financial assets.

This sensitivity analysis takes into account the main positions potentially exposed to the greatest risk of price movements.

BancoPosta RFC monitors the price risk to which its shareholdings are exposed by computing Value at Risk (VaR) over a time horizon of 1 day at a 99% confidence level.

B. Fair value hedges

BancoPosta RFC's fair value interest rate risk hedges include entering into OTC fair value hedge asset swaps primarily with banks for individual securities in portfolio. These derivatives cannot hedge spread risk since they hedge market interest rate fluctuations through rate swaps. BancoPosta RFC again made use of this type of transaction in 2017, in response to the low level of interest rates and in order to protect against the negative effects of rising interest rates.

C. Cash flow hedges

BancoPosta RFC's cash flow interest rate risk hedges include entering into OTC cash flow hedge asset swaps primarily with banks for individual securities in portfolio.

The pattern of portfolio maturities results in the need to invest funds in euro government securities resulting in an exposure to risk of an increase in prices as a consequence of decreasing yields. Where appropriate, BancoPosta RFC is a buyer of cash flow hedges of a forecast transaction to hedge this type of cash flow interest rate risk.

In order to stabilise revenue and limit exposure to interest rate and spread risk, BancoPosta RFC enters as a seller into cash flow hedges of a forecast transaction with the aim of crystallising gains when market movements are favourable.

Quantitative information

1. Banking book: distribution of residual terms to maturity of financial assets and liabilities by repricing date

Currency: Euro

(€m)

Asset - Liability / Residual term to maturity	Demand	3 months or less	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	Over 10 years	Unspecified maturity
1. On-balance sheet assets	7,912	5,540	163	2,081	11,181	9,577	24,658	-
1.1 Debt securities	-	4,360	163	2,081	11,173	9,577	24,658	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	4,360	163	2,081	11,173	9,577	24,658	-
1.2 Due from banks	53	1,096	-	-	-	-	-	-
1.3 Due from customers	7,859	84	-	-	8	-	-	-
- current accounts	9	-	-	-	-	-	-	-
- other loans	7,850	84	-	-	8	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	7,850	84	-	-	8	-	-	-
2. On-balance sheet liabilities	53,829	1,919	522	100	2,402	-	-	-
2.1 Due to customers	52,806	18	-	-	-	-	-	-
- current accounts	46,468	-	-	-	-	-	-	-
- other deposits	6,338	18	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	6,338	18	-	-	-	-	-	-
2.2 Due to banks	1,023	1,901	522	100	2,402	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other deposits	1,023	1,901	522	100	2,402	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying securities								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	1,705	-	-	-	-	-	-
+ short positions	-	-	-	-	300	1,408	-	-
3.2 Without underlying securities								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	1,265	-	445	18,040	940	175	-
+ short positions	-	1,175	-	200	-	200	19,290	-
4. Other off-balance sheet transaction:								
+ long positions	-	371	-	-	-	-	-	-
+ short positions	-	371	-	-	-	-	-	-

1. Banking book: distribution of residual terms to maturity of financial assets and liabilities by repricing date

Currency: US dollar

(€m)

Asset - Liability / Residual term to maturity	Demand	3 months or less	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	Over 10 years	Unspecified maturity
1. On-balance sheet assets	1	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Due from banks	1	-	-	-	-	-	-	-
1.3 Due from customers	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other loans	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Due to customers	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other deposits	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other deposits	-	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying securities								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transaction:								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

1. Banking book: distribution of residual terms to maturity of financial assets and liabilities by repricing date

Currency: Swiss franc

(€m)

Asset - Liability / Residual term to maturity	Demand	3 months or less	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	Over 10 years	Unspecified maturity
1. On-balance sheet assets	1	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Due from banks	1	-	-	-	-	-	-	-
1.3 Due from customers	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other loans	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Due to customers	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other deposits	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other deposits	-	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying securities								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transaction:								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

2. Banking book: internal models and other methods of sensitivity analysis

• **Fair value interest rate risk**

The sensitivity of exposures to fair value interest rate risk was tested by assuming a parallel shift of the market yield curve of +/- 100 bps.

BancoPosta's available-for-sale financial assets portfolio at 31 December 2017 had a duration of 5.34 (31 December 2016: 5.79). The sensitivity analysis is shown in the table.

Fair value interest rate risk

Analysis date	Nominal value	Fair Value	Changes in value		Net interest and other banking income		Equity reserves before taxes	
			+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
			(€m)					
2017 effect								
Available-for-sale financial assets								
Debt securities	35,738	39,099	(1,009)	931	-	-	(1,009)	931
Financial assets held for trading	-	-	-	-	-	-	-	-
Asset - Hedging derivatives	-	-	-	-	-	-	-	-
Financial liabilities held for trading	-	-	-	-	-	-	-	-
Liability - Hedging derivatives	1,705	(23)	91	(97)	-	-	91	(97)
31 December 2017 variability	37,443	39,076	(918)	834	-	-	(918)	834
2016 effect								
Available-for-sale financial assets								
Debt securities	32,178	37,159	(1,099)	1,031	-	-	(1,099)	1,031
Financial assets held for trading	-	-	-	-	-	-	-	-
Asset - Hedging derivatives	220	6	(28)	33	-	-	(28)	33
Financial liabilities held for trading	-	-	-	-	-	-	-	-
Liability - Hedging derivatives	196	(3)	(26)	31	-	-	(26)	31
31 December 2016 variability	32,594	37,162	(1,153)	1,095	-	-	(1,153)	1,095

All of BancoPosta RFC's investments are classified as held-to-maturity and available-for-sale financial assets. The sensitivity analysis shown above is for the last of these categories.

• **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, in part, to the fact that changes in credit spreads also affect the value of variable rate bonds and, especially, to the fact that, unlike pure interest rate risk, no hedging policy is in place to protect against credit spread risk. This means that, in the event of increases in interest rates attributable to pure rate component, unrealised losses on fixed rate bonds are offset by an increase in the value of hedging IRSs (a fair value hedge strategy). If, on the other hand, interest rates rise as a result of a wider credit spread for the Italian Republic, losses on bonds issued or guaranteed by the Italian government are not offset by movements in the opposite direction of other exposures.

The sensitivity to the spread has been calculated by applying a shift of +/- 100 bps to the risk factor that affects the different types of bonds held represented by the yield curve of Italian government bonds.

The sensitivity analyses are shown below.

Fair value spread risk

(€m)

Analysis date	Nominal value	Fair Value	Changes in value		Net interest and other banking income		Equity reserves before taxes	
			+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
			2017 effect					
Available-for-sale financial assets								
Debt securities	35,738	39,099	(3,877)	4,606	-	-	(3,877)	4,606
Financial assets held for trading	-	-	-	-	-	-	-	-
Asset - Hedging derivatives	-	-	-	-	-	-	-	-
Liability - Hedging derivatives	1,705	(23)	92	(98)	-	-	92	(98)
31 December 2017 variability	37,443	39,076	(3,785)	4,508	-	-	(3,785)	4,508
2016 effect								
Available-for-sale financial assets								
Debt securities	32,178	37,159	(3,615)	4,292	-	-	(3,615)	4,292
Financial assets held for trading	-	-	-	-	-	-	-	-
Asset - Hedging derivatives	220	6	(28)	33	-	-	(28)	33
Liability - Hedging derivatives	196	(3)	(26)	31	-	-	(26)	31
31 December 2016 variability	32,594	37,162	(3,669)	4,356	-	-	(3,669)	4,356

In addition to sensitivity analyses, BancoPosta RFC monitors fair value interest rate risk by computing maximum potential loss or VaR - Value at Risk. The results of the VaR analysis regarding the variability of spread risk are shown below.

Spread risk - VaR analyses

(€m)

Analysis date	Risk exposure		Spread VaR
	Nominal value	Fair value	
2017 effect			
Available-for-sale financial assets			
Debt securities	35,738	39,099	345
Asset - Hedging derivatives	-	-	-
Liability - Hedging derivatives	1,705	(23)	8
31 December 2017 variability	37,443	39,076	353
2016 effect			
Available-for-sale financial assets			
Debt securities	32,178	37,159	460
Asset - Hedging derivatives	220	6	4
Liability - Hedging derivatives	196	(3)	3
31 December 2016 variability	32,594	37,162	467

In addition, if considered as a whole, financial assets and liabilities are subject to maximum potential losses of €336 million.

Maximum potential loss (VaR - Value at Risk), a statistical estimation with a time horizon of 1 day and a confidence level of 99%, is also computed by BancoPosta RFC to monitor market risk. Risk analysis performed through VaR takes into account the historical variability of the risk (spread) in question, in addition to modelling parallel shifts of the yield curve.

In order to jointly monitor spread and fair value interest rate risks, the following table shows the results of the VaR analysis conducted with reference to available-for-sale financial assets and derivative financial instruments, taking into account the variability of both risk factors:

	(€m)	
	2017	2016
Closing VaR	(325)	(434)
Average VaR	(356)	(397)
Minimum VaR	(210)	(278)
Maximum VaR	(523)	(587)

The decrease in VaR at the end of the period, compared with 31 December 2016, primarily reflects the reduction in market volatility.

Taking into account both available-for-sale financial assets (including the related hedges outstanding) and forward sales, the combined analysis of spread risk and fair value interest rate risk at 31 December 2017 results in a potential loss of €318 million (VaR at the end of the period).

Cash flow interest rate risk

The sensitivity to cash flow interest rate risk at 31 December 2016 and 31 December 2017 is summarised in the table below and was computed assuming a +/- 100 bps parallel shift in the market forward interest rate curve.

Cash flow interest rate risk

	(€m)					
	2017			2016		
	Exposure	Net interest and other banking income		Exposure	Net interest and other banking income	
		+100 bps	-100 bps		+100 bps	-100 bps
Cash						
- Account held at Bank of Italy	396	4	(4)	223	2	(2)
Due from banks	1,099	11	(11)	1,230	12	(12)
Due from customers						
- Deposits at MEF (Treasury)	6,011	60	(60)	6,189	62	(62)
- Buffer deposit at MEF	379	4	(4)	1,310	13	(13)
- Due from customers (collateral)	83	1	(1)	209	2	(2)
- Due from customers (Poste Italiane SpA outside the ring-fenced entity)	732	7	(7)	629	6	(6)
Financial assets available-for-sale						
- Debt securities	2,210	22	(22)	2,235	22	(22)
Due to banks	(82)	(1)	1	(32)	-	-
Due to customers	(18)	-	-	-	-	-
Due to customers (Poste Italiane SpA outside the ring-fenced entity)	(14)	-	-	(14)	-	-
Total variability	10,796	108	(108)	11,979	119	(119)

Cash flow interest rate risk at 31 December 2017 was primarily inherent in the placement of Public Administration deposits with the MEF.

- **Cash flow inflation risk**

Cash flow inflation rate risk at 31 December 2017 relates to government inflation indexed bonds which were not hedged through the arrangement of cash flow hedges or fair value hedges entered into by BancoPosta RFC, having a nominal value of €2,145 million and a fair value of €2,594 million. The effects of sensitivity analysis are immaterial.

- **Price risk**

The sensitivity of financial instruments to price risk is analysed using a stress test based on one-year historical volatility, considered to be representative of potential market movements.

Price risk

Analysis date	Exposure	Changes in value		Net interest and other banking income		Equity reserves before taxes	
		+ Vol	- Vol	+ Vol	- Vol	+ Vol	- Vol
		(€m)					
2017 effect							
Available-for-sale financial assets							
Equity instruments	41	5	(5)	-	-	5	(5)
31 December 2017 variability	41	5	(5)	-	-	5	(5)
2016 effect							
Attività finanziarie disponibili per la vendita							
Titoli di capitale	104	22	(22)	-	-	22	(22)
31 December 2016 variability	104	22	(22)	-	-	22	(22)

Notes on the related equity instruments (shares) are contained in Part B, Assets, Table 4.1.

The Class C Visa Incorporated shares and the Series C Convertible Participating Preferred Stock issued by Visa Incorporated held in portfolio were sensitivity tested using similar listed shares, after adjusting for 2017 volatility. The shares' price risk is also monitored through the computation of VaR.

The VaR sensitivity analyses are shown below:

	(€m)	
	2017	2016
Closing VaR	-	(2)
Average VaR	(2)	(2)
Minimum VaR	-	(1)
Maximum VaR	(3)	(3)

2.3 Foreign exchange risk

Qualitative information

A. Generalities, management policies and foreign exchange risk measurement methods

Foreign exchange risk relates to losses that could be incurred on foreign currency positions, regardless of portfolio, through fluctuations in foreign exchange rates. BancoPosta RFC is exposed to this risk principally through foreign currency bank accounts, foreign currency cash and its VISA shares.

Foreign exchange risk is controlled by the Risk Management function using the measurement of exposure to the risk in accordance with financial operations guidelines which restrict currency trading to the foreign exchange service and international bank transfers.

Foreign exchange risk is measured using the Bank of Italy prudential methodology currently recommended for banks (see EU Regulation 575/2013). Furthermore, sensitivity stress tests are regularly conducted for the most important exposures with reference to hypothetical levels of exchange rate volatility for each currency position. Movements in exchange rates equal to the volatility for the period are assumed to emulate market fluctuations.

B. Foreign exchange hedges

Quantitative information

1. Distribution of assets, liabilities and derivatives by currency

Items	Currency					
	US Dollar	Swiss Franc	Sterling	Japanese Yen	Tunisian Dinar	Other currencies
A. Financial assets	42	1	-	-	-	-
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity instruments	41	-	-	-	-	-
A.3 Due from banks	1	1	-	-	-	-
A.4 Due from customers	-	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	6	3	2	-	-	-
C. Financial liabilities	-	-	-	-	-	-
C.1 Due to banks	-	-	-	-	-	-
C.2 Due to customers	-	-	-	-	-	-
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives						
- Options						
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives						
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
Total assets	48	4	2	-	-	-
Total liabilities	-	-	-	-	-	-
Position (+/-)	48	4	2	-	-	-

“Other assets” relate to foreign currencies held in post offices for the foreign exchange service.

2. Internal models and other methods of sensitivity analysis

Application of the foreign exchange rate volatility during the period to the most important equity instruments held by BancoPosta are shown in the following table.

Foreign exchange risk - US dollar

(€m)

Analysis date	US dollar position (\$000)	EUR position (€000)	Changes in value		Net interest and other banking income		Equity reserves before taxes	
			+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days
2017 Effect								
Available-for-sale Investments								
Equity instruments	49	41	3	(3)	-	-	3	(3)
31 December 2017 variability	49	41	3	(3)	-	-	3	(3)
2016 Effect								
Available-for-sale Investments								
Equity instruments	110	104	9	(9)	-	-	9	(9)
31 December 2016 variability	110	104	9	(9)	-	-	9	(9)

2.4 Derivatives

A. Financial derivatives

A.1 Supervisory trading book: closing and average notional amounts

Nil.

A.2 Banking book: closing and average notional amounts

A.2.1 Hedging

Underlyings / Type of derivative	(€m)			
	Balance at 31 December 2017		Balance at 31 December 2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	22,570	-	17,956	-
a) Options	-	-	-	-
b) Swaps	20,865	-	17,540	-
c) Forwards	1,705	-	416	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and stock indices	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlyings	-	-	-	-
Total	22,570	-	17,956	-
Averages	20,814	-	16,497	-

A.2.2 Other derivatives

Nil.

A.3 Financial derivatives: positive gross fair value by product

(€m)

Book/Type of derivative	Positive fair value			
	Balance at 31 December 2017		Balance at 31 December 2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading book	-	-	-	-
a) Options	-	-	-	-
b) Interest rate sw aps	-	-	-	-
c) Cross currency sw aps	-	-	-	-
d) Equity sw aps	-	-	-	-
e) Forw ards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Banking book - hedging	395	-	191	-
a) Options	-	-	-	-
b) Interest rate sw aps	395	-	185	-
c) Cross currency sw aps	-	-	-	-
d) Equity sw aps	-	-	-	-
e) Forw ards	-	-	6	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate sw aps	-	-	-	-
c) Cross currency sw aps	-	-	-	-
d) Equity sw aps	-	-	-	-
e) Forw ards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	395	-	191	-

A.4 Financial derivatives: negative gross fair value by product

Book/Type of derivative	(€m)			
	Negative fair value			
	Balance at 31 December 2017		Balance at 31 December 2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading book	-	-	-	-
a) Options	-	-	-	-
b) Interest rate sw aps	-	-	-	-
c) Cross currency sw aps	-	-	-	-
d) Equity sw aps	-	-	-	-
e) Forw ards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Banking book - hedging	1,637	-	2,305	-
a) Options	-	-	-	-
b) Interest rate sw aps	1,614	-	2,302	-
c) Cross currency sw aps	-	-	-	-
d) Equity sw aps	-	-	-	-
e) Forw ards	23	-	3	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate sw aps	-	-	-	-
c) Cross currency sw aps	-	-	-	-
d) Equity sw aps	-	-	-	-
e) Forw ards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	1,637	-	2,305	-

A.5 / A.6 OTC financial derivatives - supervisory trading book: notional amount, gross negative and positive fair value by counterparty - contracts falling and not falling within the scope of netting agreements

Nil.

A.7 OTC financial derivatives - banking book: notional amount, gross negative and positive fair value by counterparty - contracts not falling within the scope of netting agreements

Nil.

A.8 OTC financial derivatives - banking book: notional amount, gross negative and positive fair value by counterparty - contracts falling within the scope of netting agreements

(€m)

Contracts falling within the scope of netting agreements	Governments and Central Banks	Other public entities	Banks	Finance companies	Insurance companies	Non-finance companies	Other entities
1) Debt securities and interest rates							
- notional amount	-	-	19,030	3,540	-	-	-
- positive fair value	-	-	318	77	-	-	-
- negative fair value	-	-	(1,505)	(132)	-	-	-
2) Equity instruments and stock indices							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3) Currencies and gold							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
4) Other							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

A.9 Residual terms to maturity of OTC financial derivatives: notional amounts

(€m)

Underlyings/Residual term to maturity	1 year or less	1 - 5 years	over 5 years	Total
A. Supervisory trading book	-	-	-	-
A.1 Financial derivatives on debt securities and interest rates	-	-	-	-
A.2 Financial derivatives on equity instruments and stock indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	-	-	-	-
A.4 Financial derivatives on other underlyings	-	-	-	-
B. Banking book:	1,705	745	20,120	22,570
B.1 Financial derivatives on debt securities and interest rates	1,705	745	20,120	22,570
B.2 Financial derivatives on equity instruments and stock indices	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other underlyings	-	-	-	-
Total at 31 December 2017	1,705	745	20,120	22,570
Total at 31 December 2016	586	645	16,725	17,956

B. Credit derivatives

Not applicable.

C. Financial and credit derivatives

C.1 OTC financial and credit derivatives: net fair value and future exposures by counterparty

(€m)

	Governments and Central Banks	Other public entities	Banks	Finance companies	Insurance companies	Non-finance companies	Other entities
1) Bilateral agreements financial derivatives							
- positive fair value	-	-	93	20	-	-	-
- negative fair value	-	-	(1,280)	(75)	-	-	-
- future exposure	-	-	127	23	-	-	-
- net counterparty risk	-	-	58	10	-	-	-
2) Bilateral agreements credit derivatives							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
3) Cross product agreements							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-

SECTION 3 –LIQUIDITY RISK

Qualitative information

A. Generalities, management policies and liquidity risk measurement methods

Liquidity risk is the risk that an entity may have difficulties in raising sufficient funds, at market conditions, to meet its obligations deriving from financial instruments. Liquidity risk may derive from the inability to sell financial assets quickly at an amount close to fair value or the need to raise funds at off-market rates.

It is policy to minimise liquidity risk through:

- diversification of the various forms of short-term and long-term borrowings and counterparties;
- 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;
- the availability of the interbank markets as a source of repurchase agreement finance, with collateral in the form of securities held in portfolio, due to the fact that such assets consist of financial instruments deemed to be highly liquid assets by current standards.

In terms of BancoPosta RFC's specific operations, liquidity risk regards the investment of current account deposits in bonds issued or guaranteed by the Italian government, prepaid cards and the margins on derivative transactions. The potential risk derives from a mismatch between the maturities of investments in securities and those of liabilities, represented by current accounts where the funds are available on demand, thus compromising the ability to meet its obligations to current account holders. This potential mismatch between assets and liabilities is monitored via comparison of loan and deposit maturities, using the statistical model of the performance of current account deposits, in accordance with the various likely maturity schedules and assuming the progressive total withdrawal of deposits over a period of 20 years for retail customers, 10 years for business customers and PostePay cards and 5 years for Public Administration customers. BancoPosta RFC closely monitors the behaviour of deposits taken in order to assure the model's validity.

In addition to postal deposits, BancoPosta also funds itself through:

- LTROs, amounting to an outstanding €3.9 billion;
- short-term deposits created through repurchase agreements as funding for incremental deposits used as collateral for asset swaps and Repos (collateral provided, respectively, under CSAs and GMRA).

BancoPosta RFC's maturity mismatch approach entails an analysis of the mismatch between cash in and outflows for each time band of the maturity ladder.

BancoPosta RFC's cash is dynamically managed by treasury for the timely and continual monitoring of private customer postal current account cash flows and the efficient management of short-term cash shortfalls and excesses. In order to assure flexible investments in securities consistent with the dynamic nature of current accounts, BancoPosta RFC can also use the MEF buffer account within certain limits and subject to payment of a fee.

Details on the risk management model are contained in the note on financial risk at the beginning of this Part E.

The liquidity risk resulting from contract terms requiring the provision of additional collateral in the event of a downgrade of Poste Italiane SpA is negligible. Such contracts include those for margin lending of derivatives, which require the threshold amount¹³⁴ to be reduced to zero in the event that Poste Italiane SpA's rating is downgraded to below "BBB-". The threshold amounts relating to margin lending contracts included in repurchase agreements are equal to zero, meaning that these transactions are not subject to liquidity risk.

BancoPosta RFC's liquidity is assessed, in the form of stress tests, through risk indicators (the Liquidity Coverage Ratio and Net Stable Funding Ratio) defined by the Basle 3 prudential regulations. These indicators aim to assess whether or not the entity has sufficient high-quality liquid assets to overcome situations of acute stress lasting a month, and to verify that assets and liabilities have sustainable maturity profiles assuming a stress scenario lasting one year. Thanks to the nature of its balance sheet (significant holdings of EU government securities and a preponderance of retail deposits), in BancoPosta's case the indicators are well above the limits imposed by the prudential regulations.

Moreover, liquidity risk is monitored through the development of early warning indicators that, in addition to taking into account the level of deposit withdrawals under conditions of stress, aim to monitor funding outflows in line with the estimated performance of deposits at a 99% confidence level.

¹³⁴ The threshold amount is the amount of collateral that is not required to be provided under the contract; it therefore represents the residual counterparty risk to be borne by a counterparty.

Quantitative information

1. Distribution of residual terms to maturity of financial assets and liabilities

The time distribution of assets and liabilities is shown below, as established for banks' financial statements (Bank of Italy Circular 262/2005, third Revision and relevant clarifications provided by the Supervisory Body), using accounting data reported for the residual contractual term to maturity.

Management data, such as the modelling of demand deposits and the reporting of cash and cash equivalents taking account of their degree of liquidity, has, consequently, not been used.

Currency: Euro

(€m)

Asset - Liability/Residual terms to maturity	Demand	1 - 7 days	7 - 15 days	15 days - 1 month	1 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	> 5 years	Unspecified maturity
On-balance sheet assets	8,089	1,180	-	-	1,010	282	2,811	12,042	33,868	-
A.1 Government securities	-	-	-	-	1,010	272	2,791	10,534	32,868	-
A.2 Other debt securities	-	-	-	-	-	10	20	1,500	1,000	-
A.3 UCIs	-	-	-	-	-	-	-	-	-	-
A.4 Loans	8,089	1,180	-	-	-	-	-	8	-	-
- Banks	53	1,096	-	-	-	-	-	-	-	-
- Customers	8,036	84	-	-	-	-	-	8	-	-
On-balance sheet liabilities	54,693	267	101	251	1,303	521	102	2,401	-	-
B.1 Deposits and current accounts	47,491	-	-	-	-	-	-	-	-	-
- Banks	1,023	-	-	-	-	-	-	-	-	-
- Customers	46,468	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	7,202	267	101	251	1,303	521	102	2,401	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of principal										
- Long positions	-	-	1,705	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	245	1,163	-
C.2 Financial derivatives without exchange of principal										
- Long positions	-	-	-	2	31	-	39	-	-	-
- Short positions	-	-	-	-	33	-	44	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	371	-	-	-	-	-	-	-	-
- Short positions	-	371	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1. Distribution of residual terms to maturity of financial assets and liabilities

Currency: US dollar

(€m)

Asset - Liability/Residual terms to maturity	Demand	1 - 7 days	7 - 15 days	15 days - 1 month	1 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	> 5 years	Unspecified maturity
On-balance sheet assets	1	-	-	-	-	-	-	-	-	-
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCIs	-	-	-	-	-	-	-	-	-	-
A.4 Loans	1	-	-	-	-	-	-	-	-	-
- Banks	1	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
On-balance sheet liabilities	-	-	-	-	-	-	-	-	-	-
B.1 Deposits and current accounts	-	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1. Distribution of residual terms to maturity of financial assets and liabilities

Currency: Swiss franc

(€m)

Asset - Liability/Residual terms to maturity	Demand	1 - 7 days	7 - 15 days	15 days - 1 month	1 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	> 5 years	Unspecified maturity
On-balance sheet assets	1	-	-	-	-	-	-	-	-	-
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCIs	-	-	-	-	-	-	-	-	-	-
A.4 Loans	1	-	-	-	-	-	-	-	-	-
- Banks	1	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
On-balance sheet liabilities										
B.1 Deposits and current accounts										
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

SECTION 4 – OPERATIONAL RISK

Qualitative information

A. Generalities, management policies and operational risk measurement methods

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, but not strategic and reputational risks.

To protect against this form of risk, BancoPosta RFC has formalised a methodological and organisational framework to identify, measure and manage the operational risk related to its products/processes.

The framework, which is based on an integrated (qualitative and quantitative) measurement model, makes it possible to monitor and manage risk on an increasingly informed basis.

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.

Quantitative information

At 31 December 2017, the risk map prepared in accordance with the aforementioned framework shows the type of operational risks BancoPosta RFC's products are exposed to. These are as follows:

Operational risk

Event type	Number of types
Internal fraud	35
External fraud	54
Employee practices and workplace safety	7
Customers, products and business practices	34
Damage caused by external events	4
Business disruption and system failure	7
Execution, delivery and process management	140
Total at 31 December 2017	281

For each type of mapped risk, the related sources of risk (internal losses, external losses, scenario analysis and risk indicators) have been recorded and classified in order to construct complete inputs for the integrated measurement model.

Systematic measurement of the mapped risks has enabled the prioritization of mitigation initiatives and the attribution of responsibilities in order to contain any future impact.

PART F – INFORMATION ON EQUITY

SECTION 1 – BANCOPOSTA RFC'S EQUITY

A. Qualitative information

The prudential regulations applicable to banks and investment firms from 1 January 2014 are contained in Bank of Italy Circular 285/2013, the purpose of which was to implement EU Regulation 575/2013 (the so-called Capital Requirements Regulation, or “CRR”) and Directive 2013/36/EU (the so-called Capital Requirements Directive, or “CRD IV”), containing the reforms required in order to introduce the “Basel 3” regulations. In the third revision of the above Circular, the Bank of Italy has extended the prudential requirements applicable to banks to BancoPosta, taking into account the specific nature of the entity. As a result, BancoPosta RFC is required to comply with Pillar 1 capital requirements (credit, counterparty, market and operational risks) and those regarding Pillar 2 internal capital adequacy (Pillar 1 and interest rate risks), for the purposes of the ICAAP process. The relevant definition of capital in both cases is provided by the above supervisory standards.

In view of the extension of prudential standards to BancoPosta, BancoPosta RFC is now required to establish a system of internal controls in line with the provisions of Bank of Italy Circular 285/2013, which, among other things, requires the definition of a Risk Appetite Framework (RAF) and the containment of risks within the limits set by the RAF¹³⁵. Compliance with the metrics established by the RAF influences decisions regarding profit distributions as part of capital management.

¹³⁵ A definition of the RAF is provided in the “Introduction” to Part E.

B. Quantitative information

B.1 Equity: analysis

	(€m)	
Equity accounts/Amounts	Balance at 31 December 2017	Balance at 31 December 2016
1. Share capital	-	-
2. Share premium reserve	-	-
3. Reserves	2,059	1,949
- revenue reserves	1,059	949
a) legal	-	-
b) required by articles	-	-
c) treasury shares	-	-
d) other	1,059	949
- Other	1,000	1,000
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves	115	869
- Available-for-sale financial assets	179	889
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedges of net investments in foreign operations	-	-
- Cash flow hedges	(62)	(17)
- Translation differences	-	-
- Non-current assets held for sale	-	-
- Actuarial profits/(losses) on defined benefit plans	(2)	(3)
- Valuation reserves relating to equity accounted investments	-	-
- Special revaluations law s	-	-
7. Profit/(Loss) for the year	585	568
Total	2,759	3,386

“Reserves, other” consists of the initial reserve of €1 billion provided to BancoPosta RFC on its creation, through the attribution of Poste Italiane SpA's retained earnings.

B.2 Valuation reserve for available-for-sale financial assets: analysis

	(€m)			
Asset/Amounts	Balance at 31 December 2017		Balance at 31 December 2016	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	731	(567)	1,254	(439)
2. Equity instruments	15	-	74	-
3. UCIs	-	-	-	-
4. Loans	-	-	-	-
Total	746	(567)	1,328	(439)

B.3 Valuation reserve for available-for-sale financial assets: movements during the year

	(€m)			
	Debt securities	Equity instruments	UCIs	Loans
1. Opening balance	815	74	-	-
2. Increases	130	10	-	-
2.1 Increases in fair value	99	10	-	-
2.2 Reversal to income statement of negative reserve:	31	-	-	-
- impairments	-	-	-	-
- disposals	31	-	-	-
2.3 Other increases	-	-	-	-
3. Decreases	(781)	(69)	-	-
3.1 Decrease in fair value	(330)	-	-	-
3.2 Impairments	-	-	-	-
3.3 Reversal to income statement of positive reserve on	(451)	(69)	-	-
3.4 Other increases	-	-	-	-
4. Closing balance	164	15	-	-

B.4 Defined benefits plans valuation reserve: movements during the year

	(€m)	
	Balance at 31 December 2017	Balance at 31 December 2016
Opening actuarial gains/(losses)	(3)	(2)
Actuarial gains/(losses)	1	(1)
Taxation of actuarial gains/(losses)	-	-
Closing actuarial gains/(losses)	(2)	(3)

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS

2.1 Own funds

A. Qualitative information

According to the framework defined by the Bank of Italy, own funds consist of two levels:

- Tier 1 Capital, in turn consisting of:
 - Common Equity Tier 1 – CET1;
 - Additional Tier 1 - AT1;
- Tier 2 Capital - T2.

BancoPosta RFC's own funds are all Common Equity Tier 1.

1. Common Equity Tier 1 – CET1

CET1 consists of elements that enable the entity to absorb any losses and continue operating as a going concern, thanks to its particular nature, such as the level of subordination, unredeemability and the absence of any obligation to pay dividends.

BancoPosta's CET1 consists of:

- other reserves, being revenue reserves, amounting to €1 billion originating from the creation of the ring-fence, and any further amounts attributed by Poste Italiane SpA that meet the requirements for inclusion in own funds¹³⁶;
- undistributed earnings, being Bancoposta RFC's profits appropriated on approval of Poste Italiane SpA's financial statements.

2. Additional Tier 1 – AT1

BancoPosta does not hold any Additional Tier 1 capital.

3. Tier 2 Capital –T2

BancoPosta does not hold any Tier 2 capital.

B. Quantitative information

Items/Amounts	(€m)	
	Amount at 31 December 2017	Amount at 31 December 2016
A. Common Equity Tier 1 - CET1, before application of prudential filters	2,059	1,949
of which CET1 instruments subject to transitional requirements	-	-
B. Prudential CET1 filters (+/-)	-	-
C. CET1 before investments to be deducted and adjustments for the transitional regime (A +/- B)	2,059	1,949
D. Elements to be deducted from CET1	-	-
E. Transitional regime - Impact on CET1 (+/-)	-	-
F. Total Common Equity Tier 1 - CET1 (C - D +/- E)	2,059	1,949
G. Additional Tier 1 - AT1 before elements to be deducted and adjustments for the transitional regime	-	-
of which AT1 instruments subject to transitional requirements	-	-
H. Elements to be deducted from AT1	-	-
I. Transitional regime - Impact on AT1 (+/-)	-	-
L. Total Additional Tier 1 - AT1 (G - H +/- I)	-	-
M. Tier 2 - T2 before investments to be deducted and adjustments for the transitional regime	-	-
of which T2 instruments subject to transitional requirements	-	-
N. Elements to be deducted from T2	-	-
O. Transitional regime - Impact on T2 (+/-)	-	-
P. Total Tier2 - T2 (M - N +/- O)	-	-
Q. Total own funds (F + L + P)	2,059	1,949

CET1 consists of the initial equity reserve of €1,000 million provided to BancoPosta RFC on its creation and retained earnings of €1,059 million.

Profit for the year has not been computed in accordance with article 26 of EU Regulation 575/2013.

¹³⁶ Contributions from non-controlling shareholders to BancoPosta RFC are excluded, as they are not provided for in the special regulations governing the ring-fence.

2.2 Capital adequacy

A. Qualitative information

Based on prudential standards, BancoPosta is required to comply with the following minimum capital ratios:

- Total capital ratio (the ratio of total own funds to total risk weighted assets - RWA¹³⁷), equal to 10.5% (8% being the minimum requirement and 2.5% being the capital conservation buffer¹³⁸);
- Common Equity Tier 1 ratio (the ratio of CET1 to total RWA): equal to 7.0% (4.5% being the minimum requirement and 2.5% being the capital conservation buffer);
- Tier 1 ratio (the ratio of T1 and total RWA): equal to 8.5% (6.0% being the minimum requirement and 2.5% being the capital conservation buffer).

In calculating both the capital requirements regarding credit and counterparty risk and the Credit Valuation Adjustment (CVA), the standardised approach provided for by EU Regulation 575/2013 is used.

In the case of BancoPosta RFC, credit risk derives primarily from exposures in the form of cash deposits and securities pledged as collateral (under counterparty risk mitigation agreements, such as CSAs and GMRA), and trade receivables due from partners as a result of the distribution of financial and insurance products¹³⁹. Exposures resulting from the investment of funds raised from deposits paid into accounts by private and Public Administration customers (bonds issued or guaranteed by the Italian government and amounts deposited with the MEF) and any eventual amounts due from the Italian Treasury as a result of depositing funds gathered, less payables for advances disbursed, do not, for the purposes of credit risk, result in the absorption of capital, as these exposures have a zero weighting.

Counterparty risk derives from exposures resulting from cash flow and fair value hedges and repurchase agreements¹⁴⁰.

Market risks solely regard foreign exchange risk which, in BancoPosta RFC's case, principally derives from foreign currency bank accounts, foreign currency holdings and the VISA shareholding. In calculating the capital requirements regarding foreign exchange risk, the standardised approach provided for by EU Regulation 575/2013 is applied.

In calculating Pillar 1 capital requirements for operational risk, BancoPosta applied the simplified approach (BIA – Basic Indicator Approach) provided for by EU Regulation 575/2013. This consists of applying a percentage of 15% to the average of the relevant indicator for the last three years¹⁴¹ as at the end of the reporting period.

¹³⁷ Risk weighted assets, or RWAs, are calculated by applying a risk weighting to the assets exposed to credit, counterparty, market and operational risks.

¹³⁸ The capital conservation buffer is designed to ensure a minimum level of regulatory capital under adverse market conditions by enabling the build-up of high-quality capital outside periods of market stress. A transitional regime will reduce this buffer from 1 January 2017, with the aim of applying equal treatment to Italian banks with respect to other intermediaries operating in the euro zone. The new minimum ratios are: 1.250% from 1 January 2017 to 31 December 2017; 1.875% from 1 January 2018 to 31 December 2018; 2.500% from 1 January 2019.

¹³⁹ See the previous description in Part E – Section 1, Credit risk.

¹⁴⁰ The estimated risk exposure for derivative financial instruments is based on the "Market value" method, whilst the exposure deriving from repurchase agreements is estimated using the Credit Risk Mitigation (CRM) techniques, the "Full Method". Further information is provided in Part E – Section 1, Credit risk.

¹⁴¹ BancoPosta RFC calculates the relevant indicator as the sum of the following income statement items (in accordance with IAS): net interest income (items 10-20); net fee and commission income (items 40-50); the portion of "other operating income" not generated by extraordinary or non-recurring items (a portion of the positive component of item 190); net profits on the trading book (items 80, 90, 100b, 100c, 110); dividends (item 70).

B. Quantitative information

Categories / Amounts	(€m)			
	Unweighted		Weighted	
	amounts/Requirement		amounts/Requirements	
	at 31 December 2017	at 31 December 2016	at 31 December 2017	at 31 December 2016
A. RISK ASSETS				
A.1 Credit and counterparty risk	67,513	65,532	1,464	1,588
1. Standardised approach	67,513	65,532	1,464	1,588
2. Internal ratings based approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. SUPERVISORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			117	127
B.2 Risk of changes in credit ratings			23	14
B.3 Regulatory risk			-	-
B.4 Market risk			4	9
1. Standard approach			4	9
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			833	823
1. Basic approach			833	823
2. Standardised approach			-	-
3. Advanced approach			-	-
B.6 Other elements in the calculation			-	-
B.7 Total prudential requirements			977	973
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Weighted risk assets			12,215	12,162
C.2 CET1 capital ratio			16.9%	16.0%
C.3 Tier 1 capital ratio			16.9%	16.0%
C.4 Total capital ratio			16.9%	16.0%

The table shows BancoPosta's position regarding compliance with the Pillar 1 capital requirements governed by the CRR.

Unweighted risk exposures do not take into account risk mitigation techniques and the credit conversion factors used for off-balance sheet exposures.

The principal risk is operational, which absorbs approximately 85% of total prudential requirements. Credit risk amounts to €108 million, whilst the remaining amount absorbed regards counterparty risk (approximately €9 million). Market risk solely regards foreign exchange risk, which absorbs less than 1% of total capital requirements.

At 31 December 2017, BancoPosta RFC complies with the prudential requirements specified in the section on qualitative information.

PART G – BUSINESS COMBINATIONS

No business combinations took place either during or subsequent to the period under review.

PART H – RELATED PARTY TRANSACTIONS

1. Payments to key management personnel

Key management personnel consist of Directors of Poste Italiane SpA and first-line managers, whose compensation before social security and welfare charges and contributions are disclosed in table 4.4.5 in the notes on Poste Italiane SpA's financial statements and have been charged to BancoPosta RFC as part of the services provided by Poste Italiane functions outside the ring-fence (see Part C, Table 9.5). The charges are calculated in accordance with specific operating guidelines (Part A, paragraph A.1, Section 4).

2. Related party transactions

Impact of related party transactions on the financial position at 31 December 2017

(€m)							
Balance at 31 December 2017							
Name	Financial assets	Due from banks and customers	Hedging derivatives	Other assets	Financial liabilities	Due to banks and customers	Other liabilities
Poste Italiane SpA	-	734	-	22	-	256	254
Direct subsidiaries							
BancoPosta Fondi SpA SGR	-	21	-	-	-	19	-
CLP ScpA	-	-	-	-	-	10	1
Consorzio PosteMotori	-	5	-	-	-	41	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	6	-
EGI SpA	-	-	-	-	-	12	-
Mistral Air Srl	-	-	-	-	-	-	-
PatentiViaPoste ScpA	-	-	-	-	-	8	-
Poste Tributi ScpA	-	2	-	-	-	7	-
Poste Tutela SpA	-	-	-	-	-	7	-
Poste Vita SpA	-	137	-	-	-	570	-
Postecom SpA	-	-	-	-	-	-	-
Postel SpA	-	-	-	-	-	5	10
PosteMobile SpA	-	2	-	-	-	15	5
PosteShop SpA	-	-	-	-	-	-	-
SDA Express Courier SpA	-	-	-	-	-	3	-
Indirect subsidiaries							
Poste Assicura SpA	-	5	-	-	-	2	-
Poste Welfare Servizi Srl	-	-	-	-	-	3	-
Joint ventures							
Gruppo SIA	-	-	-	-	-	-	9
Associates							
Anima Holding SpA	-	-	-	-	-	-	-
Related parties external to the Group							
Ministry of the Economy and Finance	-	6,491	-	-	-	3,483	1
Cassa Depositi e Prestiti Group	2,485	374	-	-	-	-	-
Enel Group	-	-	-	-	-	-	5
Equitalia Group	-	-	-	-	-	-	-
Other related parties external to the Group	-	-	-	-	-	-	2
Provision for doubtful debts owing from external related parties	-	(8)	-	-	-	-	-
Total	2,485	7,763	-	22	-	4,447	287

Impact of related party transactions on the financial position at 31 December 2016

(€m)

Name	Balance at 31 December 2016						
	Financial assets	Due from banks and customers	Hedging derivatives	Other assets	Financial liabilities	Due to banks and customers	Other liabilities
Poste Italiane SpA	-	632	-	29	-	82	297
Direct subsidiaries							
Banca del Mezzogiorno MCC SpA	-	-	-	-	-	25	-
BancoPosta Fondi SpA SGR	-	16	-	-	-	12	-
CLP ScpA	-	-	-	-	-	1	14
Consorzio PosteMotori	-	5	-	-	-	27	-
EGI SpA	-	-	-	-	-	12	-
Mistral Air Srl	-	-	-	-	-	1	-
PatentiViaPoste ScpA	-	-	-	-	-	4	-
Poste Tributi ScpA	-	2	-	-	-	2	-
Poste Tutela SpA	-	-	-	-	-	13	-
Poste Vita SpA	-	128	-	-	-	186	-
Postecom SpA	-	-	-	-	-	5	2
Postel SpA	-	-	-	-	-	2	16
PosteMobile SpA	-	4	-	-	-	21	3
PosteShop SpA	-	-	-	-	-	-	-
SDA Express Courier SpA	-	-	-	-	-	4	-
Indirect subsidiaries							
Poste Assicura SpA	-	6	-	-	-	3	-
Related parties external to the Group							
Ministry of the Economy and Finance	-	7,550	-	-	-	2,429	-
Cassa Depositi e Prestiti Group	1,509	364	-	-	-	-	12
Enel Group	-	-	-	-	-	-	8
Equitalia Group	-	-	-	-	-	-	3
Other related parties external to the Group	-	-	-	-	-	-	2
Provision for doubtful debts owing from external related parties	-	(7)	-	-	-	-	-
Total	1,509	8,700	-	29	-	2,829	357

Impact of related party transactions on profit or loss for the year ended 31 December 2017

(milioni di euro)

For the year ended 31 December 2017								
Name	Interest and similar income	Interest and similar expense	Fee income	Fee expenses	Dividends and similar income	Net losses/recoveries on impairments	Administrative expenses	Other operating income/(expenses)
Poste Italiane SpA	1	(3)	-	-	-	-	(4,418)	-
Direct subsidiaries								
BancoPosta Fondi SpA SGR	-	-	41	-	-	-	-	-
CLP SpA	-	-	-	-	-	-	(2)	-
Consorzio PosteMotori	-	-	36	-	-	-	-	-
Poste Vita SpA	-	-	462	-	-	-	-	-
Postecom SpA	-	-	-	-	-	-	(1)	-
Postel SpA	-	-	-	-	-	-	(42)	-
PosteMobile SpA	-	-	2	-	-	-	(2)	-
Indirect subsidiaries								
Poste Assicura SpA	-	-	21	-	-	-	-	-
Joint ventures								
Gruppo SIA	-	-	-	-	-	-	(27)	-
Associates								
Anima Holding SpA	-	-	-	-	-	-	-	-
Related parties external to the Group								
Ministry of the Economy and Finance	27	(4)	118	-	-	(1)	(3)	-
Cassa Depositi e Prestiti Group	10	-	1,566	-	-	-	-	-
Enel Group	-	-	8	-	-	-	-	-
Eni Group	-	-	3	-	-	-	-	-
Equitalia Group	-	-	-	-	-	-	-	-
Other related parties external to the Group	-	-	-	-	-	-	-	-
Total	38	(7)	2,257	-	-	(1)	(4,495)	-

Impact of related party transactions on profit or loss for the year ended 31 December 2016

(€m)

For the year ended 31 December 2016								
Name	Interest and similar income	Interest and similar expense	Fee income	Fee expenses	Dividends and similar income	Net losses/recoveries on impairments	Administrative expenses	Other operating income/(expenses)
Poste Italiane SpA	1	(3)	-	-	-	-	(4,457)	-
Direct subsidiaries								
BancoPosta Fondi SpA SGR	-	-	29	-	-	-	-	-
CLP SpA	-	-	-	-	-	-	(16)	-
Consorzio PosteMotori	-	-	36	-	-	-	-	-
Poste Vita SpA	-	-	448	-	-	-	-	-
Postecom SpA	-	-	-	-	-	-	(4)	-
Postel SpA	-	-	-	-	-	-	(25)	-
PosteMobile SpA	-	-	2	-	-	-	(3)	-
Indirect subsidiaries								
Poste Assicura SpA	-	-	20	-	-	-	-	-
Related parties external to the Group								
Ministry of the Economy and Finance	40	(2)	130	-	-	2	-	-
Cassa Depositi e Prestiti Group	9	-	1,577	-	-	-	(8)	-
Enel Group	-	-	7	-	-	-	-	-
Eni Group	-	-	4	-	-	-	-	-
Equitalia Group	-	-	-	-	-	-	(3)	-
Other related parties external to the Group	-	-	-	-	-	-	(2)	-
Total	50	(5)	2,253	-	-	2	(4,518)	-

Other related party disclosures

At a meeting on 20 September 2017, Poste Italiane SpA's Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised the spot and forward purchase and sale of securities issued and/or guaranteed by the Italian government and the execution of repurchase agreements and reverse repos and of hedging derivatives by BancoPosta RFC, with Monte Paschi Capital Services Banca

per le Imprese SpA acting as counterparty. This company qualifies as a related party of Poste Italiane as it is also controlled by the Ministry of the Economy and Finance through Banca Monte dei Paschi di Siena SpA. Following conclusion of the agreement, from October 2017, 5 repurchase agreements and 23 buy & sell back transactions, which expired during the period, have been entered into, in addition to 2 Interest rate Swaps for hedging purposes and 2 forward sales of securities.

At a meeting on 13 December 2017, the Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised signature of the agreement with Cassa Depositi e Prestiti governing the collection and distribution of Postal Savings products, by BancoPosta on behalf of Cassa Depositi e Prestiti, for the three-year period 2018-2020.

PART I – SHARE-BASED PAYMENT ARRANGEMENTS

LONG-TERM INCENTIVE SCHEME: 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.

Description of the Plan

As described in the above information circular for the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan", prepared in accordance with art 84-bis of the Regulations for Issuers, the Phantom Stock Plan for the period 2016-2018 entails the award to Beneficiaries of phantom stocks granting them the right to receive stock representing the value of Poste Italiane's shares and the related cash bonus at the end of a vesting period. The number of phantom stocks awarded to each Beneficiary is dependent on achieving the Performance Hurdle and meeting the Qualifying Conditions and the related Performance Targets over a three-year period. The Plan covers a medium- to long-term period. In particular, the plan includes three award cycles, corresponding to the financial years 2016, 2017 and 2018, each with a duration of three years.

The phantom stocks are awarded if the performance targets are achieved, and converted into a cash bonus based on the market value of the shares in the thirty stock exchange trading days prior to the grant date for the phantom stocks or at the end of a retention period (as specified below). The key characteristics of the Plan are described below.

Beneficiaries

The beneficiaries of the Plan are BancoPosta RFC's Material Risk Takers.

Plan terms and conditions

The Performance Targets, to which receipt of the cash bonus is subject, are as follows:

- an indicator of earnings over a three-year period, based on the RORAC (Return On Risk Adjusted Capital), used for the LTIP with the aim of taking into account the continuity and sustainability of the long-term performance after appropriately adjusting for risk;
- an indicator of shareholder value creation, based on the Total Shareholder Return, used to measure performance based on the value created for Poste Italiane's shareholders compared with other FTSE MIB-listed companies.

Vesting of the phantom stocks is subject to achievement of the Performance Hurdle, designed to ensure sustainability of the Plan. The Performance Hurdle corresponds with achievement of a certain target for the Group's cumulative EBIT over a three-year period at the end of each Performance Period. In addition, vesting of the phantom stocks is also subject to achievement of Qualifying Conditions, designed to ensure the stability of BancoPosta RFC's capital and liquidity position, as follows:

- Indicator of capital adequacy, based on CET 1 at the end of the period;

- Indicator of short-term liquidity, based on LCR at the end of the period.

The phantom stocks will be awarded by the end of the year following the end of the Performance Period, and are subject to a one-year retention period before they can be converted into cash, following confirmation that the Qualifying Conditions have been met.

Determination of fair value and effects on profit or loss

First Cycle 2016-2018

The total number of phantom stocks awarded to the 3 Beneficiaries of the First Cycle of the Plan amounted to 22,278 units. An independent expert, external to the Group, was appointed to measure the value of the stocks and this was done using Monte Carlo simulations.

Second Cycle 2017-2019

The total number of phantom stocks awarded to the 5 Beneficiaries of the Second Cycle of the Plan amounted to 36,022 units. An independent expert, external to the Group, was appointed to measure the value of the stocks and this was done using Monte Carlo simulations.

SHORT-TERM INCENTIVE SCHEMES: MBO

On 27 May 2014, the Bank of Italy issued specific Supervisory Standards for BancoPosta (Part IV, Chapter I, "BancoPosta" including in Circular 285 of 17 December 2013 "Prudential supervisory standards for banks") which, in taking into account BancoPosta's specific organisational and operational aspects, has extended application of the prudential standards for banks to include BancoPosta. This includes the standards relating to remuneration and incentive policies (Part I, Title IV, Chapter 2 "Remuneration and incentive policies and practices" in the above Circular 285/2013). These standards provide that a part of the bonuses paid to BancoPosta RFC's Material Risk Takers may be awarded in the form of financial instruments over a multi-year timeframe. As a result, with regard to the management incentive schemes adopted for BancoPosta RFC, where the incentive is above a certain materiality threshold, the MBO management incentive scheme envisages the award of 50% of the incentive in the form of phantom stocks, representing the value of Poste Italiane's shares, and application of the following deferral mechanisms:

- 60% of the award to be deferred for a 5-year period on a pro-rata basis, in the case of Material Risk Takers who are beneficiaries of both the short- and long-term incentive schemes;
- 40% of the award to be deferred for a 3-year period on a pro-rata basis for the remaining Material Risk Takers.

The award of phantom stocks is subject to meeting the Performance Hurdle (Group earnings: EBIT) and certain Qualifying Conditions, as follows:

- Capital adequacy: CET 1, risk tolerance level approved in the Risk Appetite Framework (RAF);
- Short-term liquidity: LCR, risk tolerance level approved in the Risk Appetite Framework (RAF).

Payment of the deferred portion will take place each year, provided that BancoPosta RFC's minimum regulatory capital and liquidity requirements have been met. The effects on profit or loss and on equity are recognised in the period in which the instruments vest.

Determination of fair value and effects on profit or loss

At 31 December 2017, the number of phantom stocks has been estimated on the basis of the best available information, with the aim of recognising the related service cost. An independent expert, external to the Group, was appointed to measure the value of the stocks, based on best market practices. The cost recognised for 2017 amounts to approximately €0.2 million, equivalent to the liability recognised in amounts due to staff.

PART L – OPERATING SEGMENTS

The economic flows and performance of the operations are reported internally on a regular basis to executives without identifying segments. BancoPosta RFC's results are consequently evaluated by senior management as one business division.

Furthermore, in accordance with IFRS 8.4, when separate and consolidated financial statements are combined segment information is only required for the consolidated statements.

REPORTS AND ATTESTATIONS

Attestation of the Poste Italiane Group's consolidated financial statements for the year ended 31 December 2017 pursuant to art. 154-bis, paragraph 5 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 consolidated financial statements during the period from 1 January 2017 to 31 December 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 consolidated 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 consolidated financial statements for the year ended 31 December 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' Report on Operations includes a reliable analysis of the operating and financial performance and situation of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Rome, Italy
29 March 2018

Chief Executive Officer

Manager responsible for financial reporting

Matteo Del Fante

Luciano Loiodice

(original signed)

(original signed)

(This certification has been translated from the original which was issued in accordance with Italian legislation)

Attestation of the separate financial statements for the year ended 31 December 2017 pursuant to art. 154-bis, paragraph 5 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 Loidice, 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, attest to:

- the adequacy with regard to the nature of the Company and
- the effective application of the administrative and accounting procedures adopted in preparation of the separate financial statements during the period from 1 January 2017 to 31 December 2017.

2. In this regard, it should be noted that:

- the adequacy of the administrative and accounting procedures adopted in preparation of Poste Italiane SpA's separate 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 separate financial statements for the year ended 31 December 2017:

- d) 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;
- e) are consistent with the underlying accounting books and records;
- f) give a true and fair view of the financial position and results of operations of the issuer.

3.2 the Directors' Report on Operations includes a reliable analysis of the operating and financial performance and situation of the issuer, as well as a description of the main risks and uncertainties to which it is exposed.

Rome, Italy
29 March 2018

Chief Executive Officer

Manager responsible for financial reporting

Matteo Del Fante

Luciano Loidice

(original signed)

(original signed)

(This certification has been translated from the original which was issued in accordance with Italian legislation)

The following Board of Statutory Auditors' Report is the original Italian text. The English translation will be available shortly.

RELAZIONE DEL COLLEGIO SINDACALE di POSTE ITALIANE S.P.A.

AGLI AZIONISTI

ai sensi dell'art. 153 del D.Lgs n. 58/1998

Signori Azionisti,

nel corso dell'esercizio chiuso al 31 dicembre 2017 il Collegio Sindacale di Poste Italiane S.p.A. (di seguito anche la "Società" o la "Capogruppo") ha svolto i propri compiti istituzionali nel rispetto del Codice Civile e del D.Lgs n. 39/2010 come modificato dal D. Lgs n. 135/2016, del D.Lgs n. 58/1998 (Testo Unico della Finanza), nonché ai sensi del DPR n. 144/2001 "Regolamento recante norme sui servizi di bancoposta" e delle disposizioni applicate a BancoPosta dalle competenti Autorità. Nello svolgimento dei propri compiti istituzionali, il Collegio ha, inoltre, tenuto conto delle indicazioni contenute nel Codice di Autodisciplina delle Società Quotate, cui la Società ha formalmente aderito con delibera del Consiglio di Amministrazione del 31 luglio 2015. L'attività di vigilanza prevista dalla legge è stata altresì condotta secondo i principi di comportamento del Collegio Sindacale elaborati dal Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili alla data del 15 aprile 2015.

Nomina e attività del Collegio Sindacale

Lo scrivente Collegio Sindacale è stato nominato dall'Assemblea degli azionisti della Società in data 24 maggio 2016 ed è composto da Mauro Lonardo, Presidente, e dai sindaci effettivi Alessia Bastiani e Maurizio Bastoni.

Il Collegio Sindacale ha acquisito le informazioni strumentali allo svolgimento dei compiti ad esso attribuiti mediante la partecipazione a tutte le riunioni del Consiglio di Amministrazione e dei Comitati endoconsiliari, l'intervento alle *induction session* organizzate dalla Società, gli incontri con le principali funzioni aziendali - in particolare con quelle di controllo e con l'Organismo di Vigilanza - il management della Società, nonché attraverso il confronto costante con il Dirigente Preposto alla redazione dei documenti contabili e societari e con la Società di revisione incaricata della revisione legale dei conti annuali e dei conti consolidati, PricewaterhouseCoopers SpA.

Quanto sopra premesso, si forniscono di seguito le informazioni di cui alle disposizioni contenute nella Comunicazione Consob DEM 1025564/2001, secondo la numerazione prevista dalla stessa, così come modificata e integrata con comunicazione n. DEM/3021582 del 4 aprile 2003, e successivamente con comunicazione n. DEM/6031329 del 7 aprile 2006.

A) Vigilanza circa l'osservanza della legge e dello statuto, il rispetto dei principi di corretta amministrazione, l'adeguatezza dell'assetto organizzativo, amministrativo e contabile adottato dalla Società, nonché ex D.Lgs n. 39/2010 e successive modifiche ed integrazioni.

1. Operazioni di maggior rilievo economico, finanziario e patrimoniale e loro conformità alla legge e all'atto costitutivo.

Il Collegio Sindacale ha vigilato sulla osservanza della Legge e dello Statuto sociale, ricevendo dagli amministratori periodiche informazioni sul generale andamento della gestione, sulla sua prevedibile evoluzione, nonché sulle operazioni di maggior rilievo economico, finanziario e patrimoniale deliberate e poste in essere nell'esercizio, effettuate dalla Società e dalle società del Gruppo Poste Italiane S.p.A..

Tali operazioni sono esaurientemente rappresentate nella Relazione sulla gestione cui si rinvia.

Le adunanze si sono svolte nel rispetto delle norme statutarie, legislative e regolamentari che ne disciplinano il funzionamento e, per quanto di competenza, si può ragionevolmente assicurare che le azioni deliberate sono conformi alla Legge ed allo Statuto sociale, rispettano i principi di corretta amministrazione e non sono manifestamente imprudenti, azzardate ovvero in contrasto con le delibere assunte dall'Assemblea o tali da compromettere l'integrità del patrimonio sociale; dalle informazioni rese nel corso dei Consigli di Amministrazione non risulta che gli amministratori abbiano posto in essere operazioni in potenziale conflitto di interesse con la Società.

2. e 3. Operazioni atipiche ed inusuali, comprese quelle infragruppo o con parti correlate.

In proposito il Collegio precisa che:

- ✓ in base alle analisi effettuate non si riscontrano operazioni che si configurino come atipiche/inusuali con società del Gruppo, con terzi o con altre parti correlate;
- ✓ le procedure adottate dalla società in merito alle operazioni con parti correlate sono conformi ai principi indicati nel Regolamento Consob n. 17221 del 12 marzo 2010;

- ✓ le operazioni infra-gruppo o con parti correlate non hanno presentato profili di criticità;
- ✓ per quanto riguarda le operazioni poste in essere da soggetti rilevanti e da persone strettamente legate ad essi (disposizioni in materia di “*Internal Dealing*”), il Collegio ha accertato che la Società si è dotata di apposite norme e procedure interne per effettuare tali segnalazioni a seguito delle novità interpretative fornite da ESMA e dalle modifiche apportate dalla Delibera Consob n.19925 del 22 marzo 2017.

Il Collegio Sindacale ha vigilato sulla concreta attuazione della disciplina con parti correlate anche attraverso la partecipazione al Comitato per la gestione delle operazioni con parti correlate e soggetti collegati. Nella Relazione sulla gestione e nelle note al bilancio d’esercizio e consolidato, gli amministratori forniscono adeguata informativa sulle operazioni infragruppo e sui rapporti con parti correlate. Considerato il numero estremamente elevato di parti correlate il Collegio prende positivamente atto che:

- è stato realizzato il censimento delle Parti Correlate e Soggetti collegati (c.d. “DB Perimetro Unico”) su piattaforma informatica securizzata, comprendente all’incirca 2.600 soggetti;
- nel corso del 2017, sono state condotte attività d’integrazione del “DB Perimetro Unico” con altri database aziendali e, nello specifico, ne è stata fatta una integrazione con il ciclo passivo all’interno di SAP e, per il ciclo attivo, con il sistema informatico a disposizione della funzione mercato business e Pubblica Amministrazione;
- a partire dalla consuntivazione del primo trimestre 2018 i referenti indicati dalle funzioni aziendali accedono al DB Perimetro Unico direttamente dalla intranet aziendale; è stata avviata la migrazione del DB operazioni su piattaforma securizzata. Il sistema informatico consentirà – data di rilascio prevista per il 30 giugno 2018 - il caricamento diretto delle operazioni mediante un’interfaccia web guidata, inserendo i contratti di competenza della struttura e segnalando nel contempo, automaticamente alla competente funzione, gli elementi rilevanti ai fini delle parti correlate e della corretta rendicontazione e gestione dell’eventuale iter autorizzativo verso il relativo comitato.

Una volta completata la piattaforma informatica di tracciamento e segnalazione delle numerose operazioni, data anche la complessità ed eterogeneità delle stesse, il Collegio raccomanda un aggiornamento del processo conseguente al nuovo presidio informatico.

4. Attività di vigilanza sul processo di informativa finanziaria. Osservazioni e proposte su eventuali rilievi ed i richiami d'informativa contenuti nella relazione della società di revisione.

Il Collegio Sindacale, identificato dall'art. 19, co. 2, del Testo Unico sulla revisione legale quale "Comitato per il controllo interno e la revisione legale" ha vigilato sul processo di informativa finanziaria.

Il Collegio Sindacale ha verificato l'esistenza di adeguate norme e processi a presidio dell'iter di formazione delle informazioni finanziarie esaminando in particolare il processo che consente al Dirigente Preposto per la redazione dei documenti contabili e societari, nominato ai sensi della Legge 262/2005 ed all'Amministratore Delegato della Società e del Gruppo di rilasciare le attestazioni previste dall'art. 154-bis del TUF.

Le procedure amministrative e contabili per la formazione del bilancio individuale e consolidato e di ogni altra comunicazione finanziaria, sono state predisposte sotto la responsabilità del Dirigente Preposto che, congiuntamente all'Amministratore Delegato, ne attesta l'adeguatezza in relazione alle caratteristiche di Poste Italiane e l'effettiva applicazione.

Il Collegio Sindacale ha inoltre esaminato le relazioni redatte dal Revisore legale PricewaterhouseCoopers S.p.A., a cui l'Assemblea degli azionisti di Poste Italiane ha conferito l'incarico di revisione del bilancio di esercizio e consolidato per gli esercizi dal 2011 al 2019.

La Società di revisione legale ha rilasciato, in data 20 aprile 2018, le Relazioni redatte ai sensi dell'art. 14 del D.Lgs n. 39/2010 e dell'art. 10 del Regolamento (UE) n. 537/2014, rispettivamente per il bilancio di esercizio e per il bilancio consolidato al 31 dicembre 2017. Sia la struttura che il contenuto delle Relazioni di revisione sui Bilanci sono stati profondamente ridefiniti a seguito delle modifiche apportate dalla Riforma della revisione legale recepita nel nostro ordinamento attraverso il D.Lgs. n. 135/2016, che ha modificato le disposizioni del D.Lgs n. 39/2010.

Per quanto riguarda i giudizi e le dichiarazioni si rinvia alle Relazioni emesse dalla Società di Revisione. In particolare, si evidenzia che nelle Relazioni sui Bilanci la Società di revisione ha:

- ✓ rilasciato un giudizio dal quale risulta che i Bilanci d'esercizio e consolidato di Poste Italiane forniscono una rappresentazione veritiera e corretta della situazione patrimoniale

e finanziaria della Società e del Gruppo al 31 dicembre 2017, del risultato economico e dei flussi di cassa per l'esercizio chiuso a tale data in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'articolo 9 del DLgs n° 38/05;

- ✓ dichiarato che ai sensi dell'art. 14, comma 2, lettera e), del DLgs 39/10 e dell'articolo 123-bis, comma 4, del D.Lgs n. 58/98 di aver svolto le procedure indicate nel principio di revisione (SA Italia) n° 720B al fine di esprimere un giudizio sulla coerenza della relazione sulla gestione e di alcune specifiche informazioni contenute nella relazione sul governo societario e gli assetti proprietari indicate nell'articolo 123-bis, comma 4, del DLgs 58/98, con il bilancio d'esercizio e consolidato di Poste Italiane al 31 dicembre 2017 e sulla conformità delle stesse alle norme di legge, nonché di rilasciare una dichiarazione su eventuali errori significativi, altresì confermando che la relazione sulla gestione e alcune specifiche informazioni contenute nella relazione sul governo societario e gli assetti proprietari sopra richiamate sono coerenti con il bilancio d'esercizio e consolidato del Gruppo Poste Italiane al 31 dicembre 2017 e sono redatte in conformità alle norme di legge.

Il Revisore, nelle proprie relazioni non ha evidenziato rilievi o richiami d'informativa.

Le relazioni del Revisore sono state emesse nel nuovo formato, ai sensi dell'art. 10 del Regolamento UE 537/2014 ed in particolare, nell'ambito delle relazioni, a cui si rinvia, sono riportati gli aspetti chiave della revisione legale e le relative procedure di revisione applicate. Tali aspetti chiave, come indicati nelle relazioni sul bilancio d'esercizio e consolidato, (Valore recuperabile del segmento di business "Corrispondenza, Pacchi e Distribuzione", Valutazione delle riserve tecniche assicurative, Valutazione degli strumenti finanziari non quotati valutati al "valore equo" e Rilevazione contabile dell'acquisto della partecipazione in FSIA Investimenti Srl), così come i giudizi sul bilancio d'esercizio e consolidato, sono in linea con quanto indicato nella relazione aggiuntiva destinata al collegio sindacale, nella sua funzione di comitato per il controllo interno e la revisione contabile, predisposta ai sensi dell'articolo 11 del citato Regolamento.

Con riferimento ai suggerimenti avanzati dal Revisore con riferimento all'esercizio 2016, di cui si era data informativa nella precedente relazione del Collegio Sindacale, (consolidamento dell'adeguatezza del disegno e della effettiva operatività del sistema complessivo dei controlli interni, rafforzamento del livello di implementazione e sviluppo dei sistemi e dei supporti informatico-informativi a presidio dell'informativa

finanziaria della Società e del Gruppo), si precisa che il Revisore, a seguito delle attività svolte dalla Società nel corso dell'esercizio 2017 e degli specifici impegni assunti dal management da completare entro il 2018, non ritiene che gli stessi costituiscano per l'esercizio 2017 carenze significative di controllo interno anche a seguito degli interventi mirati di audit eseguiti dalla Funzione *Internal Audit* di Poste su specifica richiesta del Collegio Sindacale. Pertanto, dall'analisi dei suggerimenti avanzati dal Revisore con riferimento all'esercizio 2017, alla luce delle evidenze messe a disposizione dalla Società al Revisore e delle verifiche effettuate, non sono rilevate carenze significative per l'anno 2017 e le tre osservazioni di cui alla lettera di suggerimenti 2016, e per le quali viene riportato il *follow-up*, sono considerate dal Revisore come "carenze non significative".

Inoltre, non sono state segnalate dal Revisore informazioni su eventi o circostanze identificati nel corso della revisione che possano sollevare dubbi significativi sulla capacità dell'ente di continuare a operare come un'entità in funzionamento, né segnalazioni su eventuali carenze significative nel sistema di controllo interno per l'informativa finanziaria e/o nel sistema contabile o su eventuali questioni significative riguardanti casi di non conformità, effettiva o presunta, a leggi e regolamenti o disposizioni statutarie rilevati nel corso della revisione.

Il Revisore ha altresì rilasciato in data odierna, la relazione sulla dichiarazione consolidata di carattere non finanziario ai sensi dell'articolo 3, c. 10, D. Lgs. 254/2016 e dell'articolo 5 regolamento Consob n° 20267. Sulla base del lavoro svolto, il Revisore ha attestato che non sono pervenuti alla sua attenzione elementi che facciano ritenere che la Dichiarazione Non Finanziaria del Gruppo Poste Italiane relativa all'esercizio chiuso al 31 dicembre 2017 non sia stata redatta, in tutti gli aspetti significativi, in conformità a quanto richiesto dagli articoli 3 e 4 del Decreto e dai GRI *Standards*. Il Collegio sindacale, attraverso specifici incontri tenutisi sia con la funzione preposta alla predisposizione della Dichiarazione, sia con il Revisore Legale, ha vigilato sull'osservanza delle disposizioni previste nel D. Lgs. n. 254/2016, nell'ambito delle competenze ad esso attribuite istituzionalmente dall'ordinamento.

5. e 6. Indicazioni sulla eventuale presentazione di denunce ex art. 2408 ed esposti

Nel corso dell'esercizio e, fino alla data odierna, sono pervenute cinque denunce ai sensi dell'art. 2408 del Codice Civile, tutte presentate dal medesimo Azionista:

i. *Denuncia del 31 marzo 2017*, avente ad oggetto l'irregolare tenuta del libro soci, la mancanza di informatizzazione e la conseguente carenza di aggiornamento. Al riguardo, il Collegio aveva già svolto una preliminare attività istruttoria, mediante audizione del competente management della Società, conclusasi con il riscontro dell'effettiva osservanza della disciplina applicabile da parte della Società. Dagli ulteriori approfondimenti svolti, il Collegio ritiene di poter confermare la conformità dell'operato aziendale agli obblighi di legge. Si evince infatti che: l'originale del libro soci è custodito presso la sede della Società sita in Roma, Viale Europa n. 175; il libro soci è risulta consultabile in formato elettronico attraverso l'accesso ad una piattaforma dedicata; gli aggiornamenti del libro, in linea con le disposizioni in materia, avvengono in occasione delle Assemblee degli Azionisti e dei pagamenti dei dividendi, l'ultimo dei quali è avvenuto lo scorso mese di giugno 2017. Riguardo alla possibilità di consultare il libro in argomento da parte di un socio tramite piattaforma dedicata, il Collegio Sindacale ha raccomandato di individuare soluzioni a salvaguardia della privacy dei dati degli altri soci. Il Collegio ha altresì suggerito alla Società di valutare l'opportunità di regolamentare le modalità di accesso al libro soci nello Statuto Sociale in occasione di un suo prossimo aggiornamento.

ii. *Denuncia del 18 settembre 2017*, in cui, facendo riferimento alle notizie riportate da un articolo di stampa, si chiede di accertare se e quale cifra complessiva sia stata elargita da Poste Italiane S.p.A. alla controllata Mistral Air S.r.l., a ripianamento delle perdite d'esercizio di quest'ultima. Il Collegio ha in più occasioni approfondito la tematica della gestione e delle *performances* della controllata Mistral Air; con riferimento all'oggetto specifico della denuncia in argomento, dagli approfondimenti svolti con il competente management, è emerso che le ricapitalizzazioni ammontano complessivamente, negli ultimi 5 anni, a circa 42 milioni di euro. Il sostegno economico fornito nel tempo dalla Società con l'esclusivo obiettivo di garantire la continuità operativa della Compagnia aerea è risultato indispensabile per il rispetto degli standard di qualità regolatori inerenti alla tempistica di consegna di alcuni prodotti postali in tempi ristretti (J+1) nonché al fine di salvaguardare un *asset* strategico nell'ottica di evoluzione del commercio on line.

iii. *Denuncia del 18 settembre 2017*, con cui il denunciante richiama una interrogazione parlamentare del 14 settembre 2017 recante problematiche inerenti il

servizio di consegna della corrispondenza in alcune aree della Lombardia. All'esito dell'istruttoria svolta, il Collegio, che ha approfondito sia l'operato dell'azienda che le azioni identificate per il superamento delle problematiche denunciate, ritiene che i disservizi verificatisi e oggetto di denuncia, siano riconducibili a disfunzioni operative escludendo ipotesi di *mala gestio* caratterizzata da colpa grave o dolo.

iv. *Denuncia del 29 ottobre 2017*, avente ad oggetto il mancato riconoscimento, in Mistral Air S.r.l., di uno specifico sindacato dei piloti. Dagli approfondimenti svolti, il Collegio ritiene che l'oggetto della denuncia non trovi fondamento. E' stato infatti riscontrato dalla direzione risorse umane che l'associazione sindacale cui faceva riferimento il denunciante, non è un'organizzazione sindacale c.d. maggiormente rappresentativa e, per tale ragione, non è titolare dei diritti sindacali di cui al titolo III della Legge n. 300/1970 (cosiddetto Statuto dei Lavoratori).

v. Da ultimo, si segnala l'ulteriore *denuncia del 15 gennaio 2018*, avente ad oggetto la sanzione deliberata il 13 dicembre 2017 dall'AGCM, di oltre 20 milioni di euro, per abuso di posizione dominante contrario all'articolo 102 del TFUE, finalizzato ad ostacolare l'esplicitarsi di un'effettiva concorrenza nel mercato del recapito degli invii multipli di corrispondenza ordinaria. Il Collegio Sindacale aveva già effettuato una preliminare disamina della vicenda, a seguito della denuncia del 9 giugno 2016 del medesimo socio, nel periodo in cui era oggetto di istruttoria da parte dell'AGCM. Sulla base degli approfondimenti effettuati durante gli incontri avuti con il responsabile di Affari Legali e dall'esame della documentazione predisposta da quest'ultimo, nella propria relazione agli azionisti sull'esercizio 2016, il Collegio aveva riferito di non aver rilevato irregolarità gestionali, manifestando comunque l'intenzione di continuare a monitorare l'evoluzione del procedimento. Il Collegio, anche alla luce della evoluzione del contenzioso, ritiene che non vi siano elementi censurabili nell'operato del management dell'Azienda, che ha agito nell'interesse della medesima, a tutela, in particolare, del *business* del settore postale. Il Collegio Sindacale ha comunque suggerito la strutturazione di un processo che preveda, per il lancio di nuovi prodotti/servizi, la richiesta da parte delle funzioni marketing/commerciale di una consulenza/valutazione ex-ante del rischio antitrust da parte della funzione legale preposta. Inoltre la Società, nell'ambito del nuovo regolamento organizzativo di BancoPosta approvato dal Consiglio d'Amministrazione del 29 marzo 2018, ha già

confermato un presidio per il lancio di nuovi prodotti/servizi tramite il rafforzamento delle valutazioni e del parere vincolante ex ante delle funzioni di controllo di BancoPosta, ognuna per i rispettivi ambiti di competenza, ai fini della loro validazione del progetto di sviluppo prodotto e per recepire eventuali indicazioni di interventi o azioni integrative.

In sintesi, in merito alle denunce pervenute, il Collegio Sindacale ha svolto adeguati approfondimenti con il supporto delle competenti funzioni della Società, verificando l'eventuale fondatezza dei fatti denunciati, l'adeguatezza delle iniziative poste in essere, nonché vigilando sull'accertamento di eventuali responsabilità individuali. In esito agli accertamenti svolti, non sono state ravvisate irregolarità da segnalare all'Assemblea degli azionisti.

Inoltre, il Collegio Sindacale, nel corso dell'esercizio e fino alla data odierna, ha ricevuto sei segnalazioni/esposti da parte di terzi, a seguito delle quali si è attivato per le relative conseguenti azioni delle funzioni aziendali. In cinque di questi casi, in esito agli accertamenti svolti, non sono state ravvisate irregolarità da segnalare all'Assemblea degli azionisti. In un caso inerente una società controllata, a valle degli accertamenti svolti anche con il supporto della funzione internal audit, è stata segnalata dal Collegio l'esigenza di un rafforzamento del presidio della funzione acquisti di gruppo sulle attività di acquisto delle società controllate, anche in termini di procedure applicate. Tale attività di rafforzamento è stata avviata dalla società con un percorso di ridefinizione del modello di procurement, l'aggiornamento del regolamento interno degli acquisti e l'avvio progressivo delle attività di accentrimento degli acquisti di gruppo, in coerenza con le specificità merceologiche di processo delle singole attività del gruppo.

7. e 8. Attività di vigilanza sull'indipendenza della società di revisione. Indicazione dell'eventuale conferimento di ulteriori incarichi alla società di revisione o a soggetti legati alla società di revisione da rapporti continuativi e relativi costi.

Il Collegio Sindacale ha ricevuto la dichiarazione del Revisore legale di conferma annuale dell'indipendenza redatta ai sensi dell'art. 6, par. 2, lett. a) del Regolamento (UE) n.537/2014 ed ai sensi del paragrafo 17 dell'ISA Italia 260, che conferma il rispetto dei principi di etica di cui agli articoli 9 e 9 bis del D.lgs. 39/2010 non riscontrando situazioni che possano compromettere l'indipendenza della società di revisione nel periodo che va dal 1° gennaio 2017 fino alla data di emissione della dichiarazione (20 aprile 2018).

Vista l'applicazione, a decorrere dal 17 giugno 2016, del Regolamento (UE) n. 537/14 in materia di revisione legale dei conti di enti di interesse pubblico, e le modifiche apportate al D.Lgs n. 39/10 con l'emanazione del D.Lgs n. 135/16, in vigore dal 5 agosto 2016, in coerenza con la raccomandazione del Collegio Sindacale, la Società ha proceduto, sotto la vigilanza dello scrivente organo di controllo, ad elaborare una nuova Linea Guida per il conferimento di incarichi alla società di revisione legale dei conti, conforme alle novità introdotte nel quadro regolamentare di riferimento; la "Linea Guida per il conferimento di incarichi alla società di revisione legale dei conti" è stata sottoposta al vaglio del Collegio Sindacale e approvata dal Consiglio di Amministrazione del 15 marzo 2017. La nuova linea guida regola sia il processo di preventiva valutazione/approvazione degli incarichi non connessi allo svolgimento dell'attività di revisione legale da affidare al Revisore, sia il monitoraggio del CAP previsto dal Regolamento UE a livello di Gruppo.

In allegato alle note del bilancio di esercizio della Società, nel paragrafo "Compensi alla Società di revisione ai sensi dell'art. 149-duodecies del Regolamento Emittenti CONSOB", è riportato il prospetto dei corrispettivi di competenza dell'esercizio riconosciuti alla Società di revisione PricewaterhouseCoopers SpA e alle entità appartenenti alla sua rete.

Tenuto conto:

- ✓ della dichiarazione di indipendenza rilasciata dalla PricewaterhouseCoopers SpA ai sensi dell'art. 6, par. 2, lett. a) del Regolamento (UE) n. 537/2014 e della relazione di trasparenza prodotta dalla stessa e pubblicata sul proprio sito internet ai sensi dell'art. 13 del citato Regolamento;
- ✓ degli incarichi conferiti alla stessa e alle società appartenenti alla sua rete da Poste Italiane SpA e dalle società del Gruppo;
non sono state riscontrate situazioni che abbiano compromesso l'indipendenza del Revisore.

Ai sensi della "Linea Guida Conferimento di Incarichi alla Società di Revisione" del Gruppo Poste, sugli incarichi aggiuntivi affidati nel corso dell'esercizio 2017 alla Società di revisione legale o a società appartenenti al network del Revisore legale diversi da quello della revisione legale dei conti" il Collegio Sindacale ha rilasciato i seguenti pareri favorevoli:

Incarico	Importo
Integrazione dell'incarico conferito a PwC per la revisione contabile volontaria del reporting package (annuale e semestrale) di Poste Vita S.p.A. predisposto ai soli fini della redazione del bilancio consolidato del Gruppo Poste Italiane per gli esercizi dal 2016 al 2019	160.000 € oltre spese nei limiti del 5% degli onorari e IVA (corrispettivo annuo pari a 40.000 €).
Svolgimento di verifiche, su richiesta di Cassa Depositi e Prestiti, inerenti le attività di collocamento e gestione del risparmio postale con riferimento all'esercizio 2016 (relazione descrittiva del sistema contabile e dei controlli connessi all'operatività nel Risparmio Postale – Patrimonio Bancoposta e relazione redatta dal Revisore legale del bilancio di Poste Italiane circa le specifiche attività di verifica e di analisi delle procedure che concorrono a formare il predetto sistema nell'ambito dei servizi forniti da Poste Italiane a CDP).	55.000 € oltre 2.750 € a titolo di rimborso spese vive e di segreteria e IVA.
Con riferimento all'aggiornamento annuale del Programma Euro Medium Term Note di Poste Italiane SpA (Bond emesso a giugno 2013 e quotato presso la Borsa di Lussemburgo): emissione di una Comfort Letter, a beneficio di Poste e delle Banche dealers, la verifica della versione in inglese del Bilancio Consolidato al 31 dicembre 2016 e della Semestrale al 30 giugno 2017.	40.000 € (oltre spese nei limiti del 5% degli onorari e IVA) per la Comfort Letter. 30.000 € (oltre spese nei limiti del 5% degli onorari e IVA) per la verifica del Bilancio in Inglese.
Verifica della "Dichiarazione Consolidata Non Finanziaria" per gli esercizi dal 2017 al 2019.	270.000 € oltre IVA (nel dettaglio 70.000 € per ciascuno dei tre esercizi del triennio a cui si aggiungono 60.000 € nel primo anno dell'incarico per lo svolgimento di alcune attività preliminari)

Si precisa che in merito agli incarichi affidati al Revisore legale dalle società controllate, il Collegio Sindacale di Capogruppo approva espressamente tali incarichi a far data dalla approvazione delle nuove "Linee Guida per l'affidamento di incarichi alla società di revisione", redatte a seguito del cambiamento del quadro normativo.

9. Indicazione dell'esistenza di pareri rilasciati ai sensi di legge nel corso dell'esercizio.

Ai sensi dell'art. 2389, comma 3, del Codice Civile, per la remunerazione degli amministratori investiti di particolari cariche, il Collegio ha rilasciato parere favorevole sulla determinazione dei compensi spettanti rispettivamente al Presidente del Consiglio di Amministrazione, all'Amministratore Delegato e ai componenti dei comitati endoconsiliari. Si precisa che i pareri in questione di cui all'art. 2389 comma 3 attengono ex lege, al solo compenso per la carica di Amministratore esecutivo e non a quello inerente l'eventuale rapporto di lavoro dipendente e relativi piani di incentivazione MBO e ILT.

Da ultimo, il Collegio ha rilasciato la proposta motivata per la prossima assemblea dei soci inerente l'integrazione del compenso del Revisore legale per lo svolgimento delle attività

aggiuntive conseguenti al nuovo Regolamento UE 537/2014 ed all'applicazione dei nuovi principi contabili IFRS 9 e IFRS 15.

10. Indicazioni della frequenza e del numero delle riunioni del Cda, del Comitato Esecutivo e del Collegio Sindacale.

Nel corso dell'esercizio il Collegio Sindacale ha partecipato complessivamente a n. 91 riunioni, incontrandosi n. 40 volte in sede di Collegio Sindacale (di cui 9 tenutesi in forma congiunta con il Comitato Controllo e Rischi), con durata media delle riunioni di (circa) 2 ore e 56 minuti, partecipando a tutte le adunanze consiliari ed a quelle dei comitati endoconsiliari; più specificatamente, il Collegio è intervenuto in n. 14 riunioni del Consiglio di Amministrazione, n. 14 riunioni del Comitato Controllo e Rischi (di cui 9 tenute in forma congiunta con il Collegio Sindacale), n. 5 riunioni del Comitato Nomine, n. 14 riunioni del Comitato Parti Correlate e Soggetti Collegati, n. 12 riunioni del Comitato Remunerazioni per il tramite di almeno un proprio componente, nonché a n. 1 Assemblea ordinaria.

L'impegno complessivo per singolo componente, considerate anche le ulteriori attività di competenza del Collegio Sindacale, è risultato pari a circa 500 ore per il singolo sindaco e pari a circa 600 ore nel caso del presidente con un significativo scostamento in aumento rispetto alle attività previste in sede di nomina da parte dell'Assemblea dei Soci. Tale scostamento si è verificato sia per effetto di una sottostima in generale delle attività del Collegio Sindacale che in particolare di quelle derivanti dal Codice di Autodisciplina, nonché per effetto di diverse nuove normative che hanno inciso sull'attività del Collegio (Dichiarazione non finanziaria e nuovi principi contabili IFRS 9 e 15) e per le attività connesse alle ispezioni delle Autorità di Vigilanza.

Si precisa in ultimo che alle riunioni del Collegio Sindacale concernenti il sistema dei controlli è stato sempre invitato il Magistrato della Corte dei Conti delegato al controllo su Poste Italiane.

11. e 12. Osservazioni sul rispetto dei principi di corretta amministrazione ed adeguatezza della struttura organizzativa

Il Collegio Sindacale ha vigilato, per quanto di propria competenza, sull'adeguatezza della struttura organizzativa della Società e, più in generale, del Gruppo Poste Italiane nel suo insieme, tramite l'acquisizione di informazioni e il costante aggiornamento fornito dalla Società sulle disposizioni organizzative. Tenuto conto della complessità della struttura

organizzativa della Società e del Gruppo Poste, soggetta a un processo evolutivo continuo, il Collegio Sindacale ritiene che l'assetto organizzativo sia adeguato. Il Collegio Sindacale, ex art. 1 Codice di Autodisciplina, considerati il nuovo assetto delle deleghe di cui al Consiglio d'Amministrazione del 25 gennaio 2018 e l'approvazione del nuovo piano industriale 2018/2022, evidenzia come sia essenziale che venga assicurata dal Consiglio di Amministrazione la valutazione periodica dell'adeguatezza dell'assetto organizzativo.

13. Attività di vigilanza sull'adeguatezza del sistema di controllo interno

Con riferimento al sistema di controllo interno e gestione dei rischi, il Collegio Sindacale richiama le informazioni fornite nella Relazione sul Governo Societario e gli Assetti Proprietari sul sistema di controllo interno e gestione dei rischi.

Il Collegio Sindacale ha esaminato la Relazione 2017 della Funzione Controllo Interno di Poste Italiane e l'analogo documento annuale della funzione di Revisione Interna di BancoPosta; in particolare, il documento di valutazione del sistema di controllo interno da parte della funzione Controllo Interno di Poste Italiane attesta che *“non sono emerse, alla data della presente relazione, situazioni tali da far ritenere non adeguato il sistema di controllo interno e di gestione dei rischi di Poste Italiane nel suo complesso”*, ferma restando la segnalazione di un'area di attenzione rappresentata dal sistema di controllo interno nella gestione dei processi logistici di corrispondenza e pacchi. In proposito il Collegio Sindacale, prendendo atto che la Società ha già identificato le iniziative necessarie per un rafforzamento del sistema di controllo interno relativo a detta area, raccomanda all'organo amministrativo di monitorare l'esecuzione dei piani di azione entro le tempistiche previste.

Il Collegio Sindacale ha incontrato periodicamente il responsabile della funzione *internal audit* di gruppo ed esaminato la relazione 2017 della funzione. Con riferimento alle diverse segnalazioni evidenziate a livello di Gruppo dalla funzione di *internal audit* sono stati predisposti piani di intervento migliorativi e correttivi che richiedono il puntuale rispetto delle tempistiche previste da parte di tutti i soggetti coinvolti.

Con riferimento alle diverse raccomandazioni avanzate dal Collegio Sindacale nella precedente relazione al bilancio 2016 in merito alla necessità di un rafforzamento sia del sistema di controllo interno che del ruolo d'indirizzo, coordinamento e controllo di Poste Italiane S.p.A. si segnala positivamente che, molte di queste, sono state realizzate in quanto la Società, per il tramite della Direzione Corporate Affairs, ha posto in essere alcune importanti iniziative di seguito evidenziate.

In primo luogo, la Società ha proceduto all'aggiornamento della precedente Linea Guida sul sistema di controllo interno e gestione dei rischi risalente al luglio 2015; si è, infatti, proceduto al suo adeguamento formale, in modo che tenesse conto dell'avvenuta separazione dell'attribuzione delle funzioni dell'Organismo di Vigilanza che fino al 2016 erano state affidate al Collegio Sindacale, nonché al suo adeguamento sostanziale implementando in maniera strutturata gli ulteriori flussi informativi in materia di rischi tra funzioni aziendali e Collegio Sindacale.

In merito alla richiesta, di cui alla precedente relazione del Collegio Sindacale, di definire alcune figure trasversali di raccordo per assicurare il governo unitario delle funzioni aziendali e delle società controllate, il Collegio Sindacale prende positivamente atto della costituzione della stessa Direzione *Corporate Affairs*, creata con la specifica responsabilità di garantire il governo unitario delle tematiche legali societarie e di *corporate governance* del gruppo Poste Italiane, definire le politiche di acquisto di gruppo, supportare il vertice aziendale per l'efficace implementazione e gestione del processo di *risk management* a livello di gruppo, assicurare la definizione, gli indirizzi e gli obiettivi in materia di responsabilità sociale d'impresa del gruppo Poste Italiane.

Sempre con riferimento alla precedente relazione del Collegio Sindacale, anche in ordine all'invito di rivedere il sistema delle deleghe dell'organo amministrativo prende atto che, nel gennaio 2018, la Società ha definito i criteri per identificare le operazioni rilevanti poste in essere dalla società, di significativo rilievo strategico, patrimoniale, economico e finanziario, prevedendone l'esame ed approvazione del Consiglio d'amministrazione e la preventiva informativa in caso di operazioni poste in essere dalle altre società del gruppo. Inoltre, si evidenzia che l'organo amministrativo ha posto in essere diversi presidi organizzativi utili anche in termini di rafforzamento del sistema di controllo interno:

- ha approvato in data 25 gennaio 2018 il nuovo modello organizzativo ex D. Lgs. 231/2001;
- ha approvato, in pari data, la nuova Linea Guida in materia di applicazione del D.Lgs. 231/2001 del gruppo Poste Italiane che identifica i requisiti generali di riferimento a cui tutte le società del gruppo dovranno ispirarsi nell'adozione ed aggiornamento del modello 231;
- ha approvato in data 20 marzo 2018 la nuova Linea Guida *Risk Management* di Gruppo che definisce il processo di *Risk Management* di Gruppo;
- ha approvato la nuova Linea Guida Antiriciclaggio di Gruppo in data 25 gennaio 2018;

- ha approvato la nuova Linea Guida “Sistema Normativo Aziendale”, con l’obiettivo di disciplinare le linee di *governance* del Sistema Normativo Aziendale, vale a dire i principi di riferimento, architettura e ciclo di vita delle classi documentali, ruoli e responsabilità dei diversi attori coinvolti, disciplinando la gestione del sistema stesso anche in conformità alle norme di riferimento del sistema di gestione integrato;
- ha approvato, sul finire del 2017, il nuovo Regolamento interno acquisti in coerenza anche con quanto previsto in materia di appalti pubblici dal D. Lgs. 18 aprile 2016 n. 50 e s.m.i.; a corollario dello stesso, sono state altresì approvate la “Linea Guida sistema di qualificazioni dei fornitori di gruppo” e il “Disciplinare Albo Fornitori di Gruppo”. Inoltre, è stato intrapreso un percorso di ridefinizione del modello di funzionamento degli acquisti, la cui implementazione passa attraverso una gestione unitaria ed integrata della materia, nell’ottica di assicurare le migliori performance economiche, con riferimento sia ai costi esterni che interni di processo. In proposito, il Collegio ha osservato di completare l’iter avviato con l’emanazione del predetto “Regolamento acquisti di gruppo” con l’emissione delle conseguenti procedure di acquisti, aggiornate con il rafforzamento dei presidi suggeriti in termini procedurali;
- ha approvato, ad aprile 2018, il nuovo “Codice Etico del gruppo Poste Italiane”, che prevede un rafforzamento dei criteri di condotta e dei rapporti con gli *stakeholders* recependo, in particolare, una segnalazione del Collegio sul tema dei potenziali conflitti di interesse;
- ha approvato, sempre nel mese di aprile 2018, la nuova Linea Guida sul sistema di segnalazione delle violazioni (*whistleblowing*), disciplinando in tal modo i canali e le modalità di trasmissione e gestione delle irregolarità o violazioni della normativa (anche ai fini di cui al D.Lgs. 231/2001) ed implementando altresì uno specifico portale web, che consente la ricezione delle segnalazioni garantendo l’anonimato a tutela del segnalante;
- ha approvato, ad aprile 2018, la nuova Linea Guida in materia di *Privacy*, in attuazione del regolamento europeo in materia di “*Data Protection*” (*GDPR, Regulation UE 2016/679*).

Il Collegio Sindacale ha, inoltre, periodicamente incontrato l’Organismo di Vigilanza al fine constatare l’attività svolta da quest’ultimo nel corso dell’esercizio 2017; in particolare il Collegio ha verificato l’avvenuta implementazione del Modello 231 in occasione della nuova Linea Guida per l’applicazione del D. Lgs. 231/2001, nonché insieme all’Organismo l’adeguatezza, tra gli altri, di alcuni presidi posti dalla Società a presidio delle funzioni di

acquisto. Non sono emerse criticità rispetto alla corretta attuazione del modello organizzativo che debbano essere evidenziate nella presente relazione.

In sintesi, il Collegio Sindacale non ha rilevato situazioni o fatti critici che possano far ritenere non adeguato il sistema di controllo interno nel suo complesso.

14. Osservazioni sull'adeguatezza del sistema amministrativo – contabile e sull'affidabilità di questo a rappresentare correttamente i fatti di gestione.

Il Collegio Sindacale ha acquisito conoscenza e vigilato, per quanto di sua competenza, sull'adeguatezza dell'assetto amministrativo-contabile della Società nel rappresentare correttamente i fatti di gestione, sull'efficacia del sistema di controllo interno e gestione dei rischi e sul processo di informativa finanziaria, mediante: (i) la raccolta di informazioni dai responsabili delle diverse funzioni, dalla Società di revisione legale e dal Dirigente Preposto alla redazione dei documenti contabili societari; (ii) l'esame della Relazione annuale del Dirigente Preposto sul sistema di controllo interno per la redazione dei documenti contabili e societari; (iii) la partecipazione ai lavori del Comitato Controllo e Rischi e del Comitato Parti Correlate; (iv) l'esame della Relazione annuale sulle attività svolte dalla funzione Controllo Interno di Poste Italiane S.p.A. e Revisione Interna di BancoPosta; (v) l'esame della proposta di Piano di audit 2018 sia della funzione di Controllo Interno di Poste Italiane S.p.A. che della Revisione Interna di BancoPosta; (vi) l'esame dei rapporti della funzione di Controllo Interno di Poste Italiane S.p.A. e Revisione Interna di BancoPosta; (vii) le informative in merito alle notizie e notifiche di ispezioni e procedimenti da parte di organi ed autorità, anche indipendenti, dello Stato italiano o della Comunità Europea, per il cui dettaglio si rinvia all'informativa contenuta al paragrafo "Principali rapporti con le Autorità" delle note al Bilancio.

Il Collegio ha inoltre preso atto delle Attestazioni, datate 29 marzo 2018, sul bilancio di esercizio e sul bilancio consolidato al 31 dicembre 2017, ai sensi dell'art. 154-bis, comma 5, del D. Lgs n. 58/1998 e dell'art. 81-ter del Regolamento Consob 14 maggio 1999, n. 11971, con le quali l'Amministratore Delegato ed il Dirigente Preposto alla redazione dei documenti contabili societari attestano, tra l'altro, che il bilancio d'esercizio ed il bilancio consolidato:

- ✓ sono redatti in conformità ai principi contabili internazionali applicabili e riconosciuti nella Comunità Europea, ai sensi del regolamento (CE) n. 1606/2002 del Parlamento europeo e del Consiglio del 19 luglio 2002;
- ✓ corrispondono alle risultanze dei libri e delle scritture contabili;

✓ sono idonei a fornire una rappresentazione veritiera e corretta della situazione patrimoniale, economica e finanziaria dell'emittente e dell'insieme delle imprese incluse nel consolidamento.

L'Amministratore Delegato e il Dirigente Preposto attestano altresì, che la Relazione sulla gestione comprende un'analisi attendibile dell'andamento e del risultato della gestione, nonché della situazione dell'emittente e dell'insieme delle imprese incluse nel consolidamento, unitamente alla descrizione dei principali rischi e incertezze cui sono esposti.

15. Osservazioni sull'adeguatezza delle disposizioni impartite dalla società alle società controllate ai sensi dell'art. 11, comma 2, del D. Lgs. N. 58/1998.

Il Collegio ha riscontrato l'adeguatezza delle disposizioni impartite dalla Società alle sue Controllate ai sensi dell'art. 114, comma 2, del Testo Unico della Finanza, a valle dell'aggiornamento delle "Linea Guida Gestione e comunicazioni al pubblico delle informazioni privilegiate e istituzione e tenuta dell'elenco delle persone che hanno accesso a informazioni privilegiate" approvate dal Consiglio di Amministrazione del 22 giugno 2017. Detta Linea guida e la "Linea Guida Internal Dealing", anch'essa approvata dal Consiglio di Amministrazione del 22 giugno 2017, risultano essere conformi alle novità introdotte nell'ordinamento nazionale a partire da luglio 2016 in ottemperanza al recepimento del Regolamento (UE) n. 596/2014 del Parlamento Europeo e del Consiglio del 16 aprile 2014 relativo agli abusi di mercato.

Inoltre, il Collegio Sindacale ha incontrato periodicamente i Collegi Sindacali delle principali società controllate del Gruppo; in particolare il Collegio ha preso atto del rilascio da parte della Società di attestazioni di impegno irrevocabile di supporto patrimoniale e finanziario per l'intero esercizio 2018 a SDA Express Courier S.p.A., Mistral Air S.r.l. e, per tutto il periodo della liquidazione, a Poste Tributi S.c.p.A. in liquidazione. In ordine all'avvio di un accertamento ispettivo sulla controllata Poste Vita - in data 20 marzo 2017 - da parte dell'IVASS ai sensi dell'art. 189 del D.Lgs. n. 209/2005 (Codice delle assicurazioni Private), mirato alla verifica della miglior stima delle riserve tecniche ("best estimate of liabilities") e delle assunzioni utilizzate per il calcolo di tale posta e per il calcolo del requisito di solvibilità (SCR), anche in chiave prospettica, di cui peraltro si era fatto cenno nella precedente relazione del Collegio, si evidenzia che in un contesto complessivamente soddisfacente del livello di implementazione del framework Solvency II, l'Autorità ha ritenuto di non formulare specifiche contestazioni nei confronti della

Compagnia, formulando solamente alcune osservazioni di carattere metodologico e relative al sistema di governo e controllo.

16. Attività di vigilanza sulla revisione legale dei conti annuali e dei conti consolidati ed osservazioni sugli eventuali aspetti rilevanti emersi nel corso delle riunioni tenutesi con i revisori ai sensi dell'art. 150. Comma 2. del D. Lgs. 58/1998

La società di revisione legale, periodicamente incontrata dallo scrivente Collegio, in ossequio al disposto dell'art. 150, comma 3, del D. Lgs. 58/1998 (TUF) al fine dello scambio di reciproche informazioni, non ha evidenziato atti o fatti ritenuti censurabili né irregolarità che abbiano richiesto la formulazione di specifiche segnalazioni ai sensi dell'art. 155, comma 2, del D. Lgs. 58/1998 (TUF).

La Società di revisione legale ha rilasciato, in data 20 aprile 2018, la Relazione aggiuntiva ai sensi dell'art. 11 del Regolamento (UE) n.537/2014, di cui sono parte integrante l'*Audit Plan* 2017, la Conferma annuale di Indipendenza e la Lettera di suggerimenti per l'esercizio 2017, questi ultimi già oggetto di illustrazione da parte della Società di revisione al Collegio, che ne ha approfondito i contenuti nel corso di riunioni collegiali.

Non sono state segnalate informazioni su eventi o circostanze identificati nel corso della revisione che possano sollevare dubbi significativi sulla capacità dell'ente di continuare a operare come un'entità in funzionamento né segnalazioni su eventuali carenze significative nel sistema di controllo interno per l'informativa finanziaria e/o nel sistema contabile o su eventuali questioni significative riguardanti casi di non conformità, effettiva o presunta, a leggi e regolamenti o disposizioni statutarie rilevati nel corso della revisione.

17. Vigilanza sull'adesione della società al codice di autodisciplina del Comitato Corporate Governance delle società quotate

Il Collegio ha vigilato, ai sensi dell'art. 149, comma 1, lettera c-bis del Testo Unico della Finanza, sulle modalità di concreta attuazione delle regole di governo societario previste dal Codice di Autodisciplina adottato dal Consiglio di Amministrazione.

- ✓ In merito alle attività previste dal Codice di Autodisciplina, nel corso dell'esercizio il Collegio Sindacale, oltre alle 40 riunioni di propria competenza, ha assicurato la propria presenza a tutte le riunioni del Consiglio d'Amministrazione ed a tutte le riunioni dei Comitati endoconsiliari, oltre che all'adunanza assembleare, per un totale complessivo di n. 91 riunioni. Data la numerosità e complessità delle stesse, il Collegio auspica che la programmazione dei comitati endoconsiliari sia

ragionevolmente distanziata rispetto alle riunioni consiliari e condivide l'auspicio avanzato in sede di autovalutazione dagli amministratori, nonostante i buoni progressi, di migliorare la tempistica dell'invio delle informazioni specie in occasione dei comitati endoconsiliari.

- ✓ Come in precedenza indicato, in merito a quanto segnalato dallo scrivente organo di controllo nella relazione dello scorso anno, l'organo amministrativo ha approvato in ossequio al criterio applicativo 1.C.1. lett. f) del Codice di Autodisciplina, nell'ambito dei poteri di competenza del Consiglio d'Amministrazione, le linee di indirizzo per l'identificazione delle operazioni, effettuate dall'emittente e dalle sue controllate, di significativo rilievo strategico, economico, patrimoniale o finanziario per la Capogruppo, da sottoporre all'attenzione e/o delibera del Consiglio di Amministrazione della Capogruppo medesima. In proposito il Collegio Sindacale ha suggerito di estenderne l'ambito applicativo alle operazioni rilevanti di investimento eseguite dalle società vigilate all'interno delle gestioni separate nonché alle operazioni rilevanti di acquisto anche in fase di indizione.
- ✓ In merito alla raccomandazione formulata dal Collegio nella precedente relazione, di formalizzare in un'apposita linea guida la procedura adottata per la valutazione dell'indipendenza dei componenti dell'organo amministrativo, definendo la soglia di significatività delle relazioni commerciali, finanziarie o professionali che possano comprometterne lo *status* di indipendenza, si osserva che la stessa è ad oggi in corso di definizione presso il competente Comitato Nomine e *Corporate Governance*; ciò anche al fine di coordinarla con l'emanando decreto ministeriale recante il regolamento in materia di requisiti (indipendenza inclusa) e criteri di idoneità allo svolgimento dell'incarico degli esponenti aziendali delle banche e degli intermediari finanziari (regolamento *Fit & Proper*).
- ✓ Il Collegio Sindacale, data la complessità delle operazioni societarie poste in essere, la numerosità delle parti correlate, la loro eterogeneità, raccomanda, un rafforzamento in generale del presidio legale societario ed in particolare di quello dedicato alla rilevazione, analisi e gestione dell'iter autorizzativo delle operazioni con parti correlate così come il sopraindicato aggiornamento del processo conseguente al nuovo presidio informatico delle parti correlate.
- ✓ Si segnala positivamente che il Consiglio d'Amministrazione, nel mese di gennaio 2018 ha esteso le competenze del Comitato Nomine alla *Corporate Governance*, attribuendo a tale Comitato anche il compito di assistere il Consiglio di

Amministrazione con funzioni istruttorie, di natura propositiva e consultiva in materia di *corporate governance* della Società e del Gruppo.

- ✓ Così pure, sempre nel mese di gennaio 2018, il Consiglio d'Amministrazione ha attribuito al Comitato Controllo e Rischi, contestualmente ridenominato Comitato Controllo, Rischi e Sostenibilità, anche il compito di supervisionare le questioni di sostenibilità connesse all'esercizio dell'attività dell'impresa.
- ✓ Il Collegio, per quanto di propria competenza, secondo quanto previsto dal Codice di Autodisciplina, ha altresì verificato i contenuti della Relazione sul governo societario e gli assetti proprietari predisposta dagli amministratori, redatta secondo le istruzioni contenute nel Regolamento dei Mercati Organizzati gestiti da Borsa Italiana SpA e nel Testo Unico della Finanza; il Collegio, per quanto di propria competenza, secondo quanto previsto dal Codice di Autodisciplina, ha inoltre verificato i contenuti della Relazione sulla Remunerazione predisposta dagli amministratori. In merito alla sezione I di tale relazione, oggetto di espressa approvazione dell'assemblea dei soci, la stessa risulta redatta secondo le istruzioni contenute nel Regolamento dei Mercati Organizzati gestiti da Borsa Italiana S.p.A. e nel Testo Unico della Finanza. In merito alla sezione II, il Collegio Sindacale ha osservato di effettuare una rappresentazione unitaria delle competenze in via individuale anziché, in via separata, in funzione della distinta attività svolta nel corso dell'esercizio 2017.
- ✓ Il Collegio Sindacale ha verificato nel corso dell'esercizio 2017 la corretta applicazione dei criteri e delle procedure di accertamento adottati dal Consiglio di Amministrazione per valutare l'indipendenza degli amministratori; l'accertamento annuale si è svolto tenendo in considerazione il suggerimento del Collegio Sindacale di effettuare la valutazione di indipendenza anche sulla base delle informazioni a disposizione dell'ente, con riferimento agli eventuali rapporti e/o relazioni di natura economico/finanziaria in essere tra le società del Gruppo Poste, gli Amministratori ed eventuali loro parti correlate, in coerenza con quanto previsto sui requisiti di indipendenza all'art. 3.C.1 lett. c) del Codice di Autodisciplina. Il Consiglio di Amministrazione ha effettuato la valutazione sul funzionamento, la dimensione e la composizione, propria e dei Comitati endoconsiliari, con il supporto di una primaria società di consulenza, dando evidenza dei relativi esiti nella Relazione sul governo societario e gli assetti proprietari. Per quanto riguarda la valutazione dell'indipendenza dei propri componenti, il Collegio Sindacale ha verificato la

sussistenza dei relativi requisiti, contemplati tanto dal Testo Unico della Finanza quanto dal Codice di Autodisciplina, tenendo anche conto degli esiti degli accertamenti effettuati dall'ente in merito agli eventuali rapporti e/o relazioni di natura economico/finanziaria in essere con le società del Gruppo Poste.

Ai sensi del codice di autodisciplina il Collegio Sindacale è stato altresì sentito nel corso dell'esercizio 2017, per tramite del Comitato Controllo Rischi, in merito alle seguenti attività:

- approvazione del piano MBO per il responsabile della funzione di internal audit;
- definizione del piano di audit;
- valutazione dei risultati esposti dal Revisore legale nella lettera di suggerimenti e relazione sulle questioni fondamentali al bilancio d'esercizio 2016;
- valutazione del corretto utilizzo dei principi contabili e loro omogeneità ai fini della redazione del bilancio consolidato.

B) Vigilanza sul Patrimonio BancoPosta

Nel corso dell'esercizio 2017 e fino alla data odierna il Consiglio di Amministrazione ha approvato diversi regolamenti e linee guida volte a rafforzare l'adeguatezza del disegno e della effettiva operatività del sistema complessivo dei controlli interni afferente al patrimonio BancoPosta:

- i) il nuovo "Regolamento Organizzativo e di Funzionamento BancoPosta";
- ii) il nuovo "Regolamento Generale di affidamento di funzioni aziendali di BancoPosta a Poste Italiane";
- iii) le "Linee Guida in materia di esternalizzazione del Patrimonio BancoPosta";
- iv) le procedure servizi di investimento;
- v) le "Linee guida *market abuse*";
- vi) le "Linee guida per le operazioni personali in strumenti finanziari eseguite da soggetti rilevanti";
- vii) le "Linee guida per la gestione delle operazioni con soggetti in conflitti di interesse".

Nello scorso mese di dicembre, inoltre, il Consiglio di Amministrazione ha approvato l'aggiornamento della "Linea Guida sulla gestione finanziaria di Poste Italiane" e deliberato la "Linea Guida IFRS9 per il Gruppo Poste Italiane".

Infine, nel mese di gennaio 2018, il Consiglio di Amministrazione ha deliberato, rispettivamente, la “Linea Guida Antiriciclaggio di Gruppo”, l’aggiornamento volto al recepimento dei requisiti della MiFID2 del documento “Procedure Servizi di Investimento” e delle “Linee guida conflitti di interesse” nonché l’aggiornamento ulteriore delle “Linea Guida Esternalizzazione del Patrimonio BancoPosta”.

Da ultimo, a marzo 2018 il Consiglio di Amministrazione ha approvato un nuovo regolamento organizzativo di BancoPosta che definisce il modello di funzionamento di Bancoposta, il suo attuale assetto organizzativo e le correlate responsabilità assegnate alle diverse funzioni.

In merito all’accertamento ispettivo della Banca d’Italia ai sensi dell’art. 54, D.Lgs n. 385/93 (Testo Unico Bancario), finalizzato ad analizzare i sistemi di governo e controllo e di gestione dei rischi operativo e informatico nell’ambito delle attività di BancoPosta in data 5 maggio 2017 - peraltro segnalato nella Relazione del Collegio Sindacale dello scorso esercizio - la Banca d’Italia ha emesso un rapporto ispettivo con risultanze “parzialmente sfavorevoli” in assenza di sanzioni. In base al rapporto ispettivo sono state identificate alcune aree che richiedono l’adozione di interventi correttivi inerenti: i) governo del rischio, assetti organizzativi e di controllo; ii) gestione e misurazione dei rischi; iii) sistemi informativi e iv) servizi di investimento. Alla data odierna alcune azioni correttive sono state già tempestivamente realizzate da parte della Società, altre sono tuttora in corso in quanto necessitano di interventi maggiormente complessi e spesso realizzabili solo con supporto esterno specialistico. In proposito le funzioni aziendali di controllo stanno monitorando periodicamente l’esecuzione dei piani di azione e l’organo amministrativo sta informando periodicamente l’Autorità di Vigilanza e l’organo di controllo in merito allo stato di avanzamento dei piani. Il Collegio Sindacale raccomanda che gli interventi prospettati alla Banca d’Italia siano conclusi, al più tardi, nella tempistica proposta e che le funzioni di controllo ne accertino l’effettiva efficacia.

Inoltre, in data 28 settembre 2017, la Filiale di Roma della Banca d’Italia, Divisione Supervisione Banche, ha disposto accertamenti ispettivi in materia di Antiriciclaggio, attraverso attività di controllo presso 14 Uffici Postali dislocati sul territorio nazionale, con la finalità di verificare lo stato di avanzamento delle iniziative correttive individuate e comunicate da BancoPosta a Banca d’Italia, a valle di una precedente ispezione effettuata da tale Autorità nel corso del 2015. Alla data odierna non è ancora pervenuto il rapporto finale dell’Autorità.

Il Collegio Sindacale ha vigilato sul Patrimonio BancoPosta ai sensi:

- del DPR n. 144/2001 “Regolamento recante norme sui servizi di bancoposta”, delle norme del Testo Unico Bancario e del Testo Unico della Finanza ivi richiamate e, delle disposizioni attuative previste per le banche, ritenute applicabili a BancoPosta dalle competenti Autorità, nonché ai sensi del Regolamento del Patrimonio BancoPosta deliberato dall’Assemblea degli azionisti del 14 aprile 2011 e modificato dall’Assemblea straordinaria del 31 luglio 2015. Come da detto Regolamento, il Collegio Sindacale ha esaminato separatamente le tematiche specifiche del Patrimonio BancoPosta, dandone evidenza nelle verbalizzazioni delle proprie sedute;
- delle Disposizioni di Vigilanza di Banca d’Italia del 27 maggio 2014 e più in generale ai sensi della Circolare n. 285 del 17 dicembre 2013.

Ad esito delle informazioni ricevute dal Dirigente Preposto alla redazione dei documenti contabili e societari, dalla Società di revisione legale, dal management di BancoPosta e dai responsabili delle funzioni di controllo BancoPosta, nonché dall’esame della Relazione annuale del Dirigente Preposto sul sistema di controllo interno per la redazione dei documenti contabili e societari, si rileva che:

- i)* il Patrimonio BancoPosta è separato organizzativamente e contabilmente dal resto delle attività svolte dalla Società. Per l’elaborazione del Rendiconto del Patrimonio Bancoposta, in ottemperanza a quanto disposto dal D.L. n. 225/10 convertito con Legge n. 10/11, che ha normato la costituzione del Patrimonio BancoPosta prevedendo per questo la separazione dei libri e delle scritture contabili prescritti dagli artt. 2214 e seguenti del Codice Civile nonché il rendiconto separato, la Società ha introdotto apposito sistema dedicato. Il punto 2 della Circolare di Banca d’Italia n. 285/2013 – parte IV Disposizioni per intermediari particolari Bancoposta sez. II - dispone che al Patrimonio Bancoposta siano imputati, oltre ai ricavi e ai costi a esso direttamente afferenti, anche gli oneri connessi alle attività svolte da Poste per la gestione del patrimonio destinato e che l’imputazione di tali oneri sia effettuata secondo criteri che riflettono il reale contributo delle diverse gestioni al risultato del patrimonio destinato e della società nel suo complesso. Il Collegio Sindacale ha verificato con cadenza almeno semestrale l’adeguatezza dei criteri adottati, e nei limiti delle proprie competenze di organo di legittimità, privo del controllo contabile, il rispetto delle norme e delle disposizioni applicabili. In base

ai dati ed alle informazioni disponibili il Collegio Sindacale ritiene che il livello di presidio della gestione contabile del Patrimonio BancoPosta risulti adeguato;

- ii)* come indicato dagli amministratori nel fascicolo di bilancio, è in corso di definizione il conferimento da parte di Poste Italiane di parte del patrimonio di BancoPosta in Poste Mobile, che a sua volta costituirà un patrimonio separato dedicato alla monetica e alla prestazione di servizi di pagamento, trasformandosi in istituto di monetica elettronica (IMEL) ibrido, a valle di tutte le autorizzazioni richieste presso Banca d'Italia.

Il Collegio ha ricevuto periodiche informazioni dalle funzioni di controllo BancoPosta e approfondito gli esiti delle attività di verifica esaminando, in particolare, le Relazioni annuali delle funzioni di controllo, su cui ha vigilato ai sensi della Delibera CONSOB n. 17297 del 2010.

Ad esito delle attività svolte sul patrimonio BancoPosta, si rileva quanto segue:

Nel corso del 2017 e fino alla data odierna, così come sopraindicato, l'assetto dei controlli interni del patrimonio separato di BancoPosta è stato oggetto di ulteriore consolidamento in relazione anche agli interventi sinora implementati.

Il Collegio Sindacale ha incontrato periodicamente la funzione di controllo interno (c.d. "Revisione Interna") di BancoPosta, che ha confermato un quadro dell'assetto dei controlli interni del patrimonio BancoPosta in progressivo consolidamento ed in continua evoluzione. Il Collegio Sindacale ha condiviso il giudizio della funzione di dare priorità al completamento degli interventi correttivi emersi a seguito dell'ispezione di Banca d'Italia del 2017, del Piano di Consob e degli interventi di adeguamento alla "Mifid II".

Nel corso dell'esercizio il Collegio ha vigilato, anche con riferimento al rispetto delle Disposizioni di Vigilanza di cui alla Circolare di Banca d'Italia n. 285/2013 ed in stretto raccordo con il Comitato Remunerazione, sulla corretta applicazione delle regole relative alla remunerazione dei responsabili delle funzioni aziendali di controllo.

Con riferimento alle attività di controllo esternalizzate a funzioni di Poste Italiane, il Collegio Sindacale, in linea con quanto previsto in materia dalle Disposizioni di Vigilanza, ha valutato costi, rischi e benefici dell'affidamento.

In ambito antiriciclaggio, così come esposto in sede di relazione annuale dalla competente funzione, pur risultando medio - alto il “rischio intrinseco” connesso alla natura e all’estensione dell’attività svolta da BancoPosta, la vulnerabilità dell’assetto organizzativo e dei presidi di BancoPosta è risultata a giudizio della funzione preposta “poco significativa” ed il sistema dei presidi sviluppati e consolidati nel tempo ha determinato un basso livello di “rischio residuo”. Il Collegio Sindacale ha preso atto sia del piano di interventi conseguiti nel 2017 che del nuovo piano di interventi programmati per il 2018 finalizzati al rafforzamento del sistema dei controlli interni nonché di mitigazione del rischio, raccomandando di dare esecuzione alla tempistica prevista al piano di interventi proposti dalla funzione in materia di i) adeguata verifica e profilatura della clientela, ii) presidi rafforzati sul rischio, iii) segnalazione delle operazioni sospette, iv) accertamenti giudiziari, v) assetto organizzativo e vi) attività formative. Inoltre, il Collegio raccomanda di monitorare con attenzione le dinamiche sottostanti il trend crescente di segnalazioni di operazioni sospette (dovuto anche alla crescita dei volumi, dei clienti e ad una positiva maggiore consapevolezza dei responsabili degli Uffici Postali) nonché le tempistiche previste dalle procedure interne per le lavorazioni delle stesse.

La funzione *Compliance* e la funzione *Risk Management* hanno periodicamente riferito, rispettivamente, sulla valutazione dei rischi di non conformità e dei rischi rilevanti per BancoPosta, nonché sull’avanzamento delle iniziative avviate ad esito degli impegni assunti con Banca d’Italia (a valle sia della verifica condotta nel 2015 in materia di trasparenza delle operazioni e correttezza delle relazioni con la clientela e in tema antiriciclaggio, che della ispezione 2016/2017 finalizzata ad analizzare i sistemi di governo e controllo e di gestione dei rischi operativo e informatico nell’ambito delle attività di BancoPosta) e con la Consob (sulla prestazione dei Servizi di Investimento). In proposito, il Collegio Sindacale è stato sentito dall’autorità di vigilanza in occasione della ispezione della Banca d’Italia conclusasi nel 2017; sempre allo scrivente organo di controllo con lettera Consob del 17 gennaio 2018 di richiesta dati e notizie, ai sensi dell’art. 6-bis, comma 4, lettera a) del D.Lgs. n. 58/1998, è stato inoltre richiesto di esprimere le proprie osservazioni all’autorità di vigilanza in merito a specifici profili dell’ambito dei Servizi di Investimento e in ordine alla richiesta di ricevere aggiornamenti rispetto all’avanzamento delle iniziative avviate post verifica 2014 e adeguamento a MiFID2.

La funzione *Compliance* di BancoPosta ha completato integralmente il piano di interventi del 2017, riportando l'esito aggiornato dell'*assessment* e le azioni correttive pianificate nel 2018. Dalla valutazione del livello di conformità del requisito normativo la funzione non ha riscontrato livelli di valutazione "non adeguati", ma solo alcune parziali "non conformità" per le quali sono stati redatti specifici piani di azione. A tale proposito, il Collegio, raccomanda di dare esecuzione a tutti gli interventi correttivi proposti per i servizi di investimento ex Mifid 2, per quelli di intermediazione assicurativa ex Direttiva IDD, per i servizi bancari e di risparmio postale (specie per il rafforzamento della gestione dei reclami), per i servizi di pagamento ex Direttiva PSD2, per gli interventi sulle aree trasversali a presidio indiretto specie per quelli volti al rafforzamento del sistema informativo (con particolare riguardo alla definizione degli standard di *Data Governance* e alla gestione degli incidenti operativi e di sicurezza dei servizi finanziari), gestione del contante e salute e sicurezza sul lavoro.

Il Collegio raccomanda di continuare a monitorare con attenzione le cause sottostanti il trend crescente di segnalazioni di reclami e frodi così come di dare priorità sia all'adeguamento agli orientamenti EBA sulla sicurezza dei pagamenti e sia al consolidamento delle basi dati di analisi dei rischi operativi anche attraverso diverse fonti (reclami, frodi, ecc.). In particolare, con riferimento al *Business Continuity Management*, pur oggetto di progressivo consolidamento in ottemperanza alle Disposizioni di Vigilanza in materia, il Collegio raccomanda di accelerare le attività di interventi implementativi volti al completamento del programma di adeguamento previsto nel corso del 2018 al fine di pervenire alla copertura integrale in *disaster recovery* del perimetro degli applicativi finanziari, così come al superamento delle obsolescenze tecnologiche ed infrastrutturali segnalate dalla funzione *compliance*.

Stante quanto sin qui riferito, il Collegio ha monitorato l'avanzamento delle attività volte all'implementazione, prevista a partire dal 2018, dei requisiti contenuti nelle nuove direttive europee in tema di servizi di investimento (MiFID2), intermediazione assicurativa (IDD) e sicurezza dei servizi di pagamento (PSD2).

La funzione Risk Management ha riferito periodicamente al Collegio Sindacale circa il monitoraggio e l'evoluzione dei rischi rilevanti per BancoPosta. Al 31 dicembre 2017, le misure di adeguatezza patrimoniale evidenziano un elevato *capital ratio* (CET1, pari a 16,9%) e mezzi propri che, grazie alla riduzione dell'esposizione al rischio tasso, risultano più che doppi rispetto agli assorbimenti patrimoniali a fronte dei rischi quantificati in

termini di capitale (*free capital Pillar 2* pari a 46,1%). A tale proposito, il Collegio raccomanda il costante e attento monitoraggio dei principali indicatori definiti nel Risk Appetite Framework per l'esercizio 2018, con particolare riguardo alla "leva finanziaria" ed al "costo dei rischi operativi", il cui *trend* nel 2017 è risultato crescente.

Gli importi di perdita per rischi operativi registrati nel conto economico d'esercizio sono stati più consistenti rispetto al 2016, principalmente per effetto di eventi riconducibili al passato; nonostante ciò, è parere del Collegio che questi eventi vadano attentamente monitorati periodicamente dalla funzione risk management sia per approfondirne le dinamiche ed i relativi riflessi in termini di stanziamenti contabili che per valutarne i rischi in termini reputazionali.

Il Collegio ha condiviso le indicazioni della funzione *Risk Management* in merito all'opportunità di rafforzare ulteriormente i mezzi patrimoniali di BancoPosta, al fine, in particolare, di mantenere il rapporto tra mezzi propri e totale dell'attivo (*leverage ratio*) entro gli obiettivi stabiliti nel Risk Appetite Framework.

Il Collegio ribadisce la precedente raccomandazione all'organo di supervisione strategica, di monitorare periodicamente i rischi finanziari, anche in chiave prospettica pluriennale, verificando, tramite un'istruttoria del competente Comitato Controllo, Rischi e Sostenibilità, le politiche di copertura. Inoltre il Collegio, in considerazione della composizione del portafoglio titoli di gruppo, della persistente riduzione dei tassi di interesse e del "rischio spread" e relativi effetti sui capital gain e sulle plusvalenze latenti, così come nella precedente relazione, raccomanda all'organo amministrativo, come peraltro già avvenuto in occasione della presentazione del piano industriale pluriennale, di proseguire nel periodico monitoraggio dei principali *driver* del piano delivery 2022 e relativa *sensitivity*, verificando i relativi presidi ed apprezzando il livello di rischio residuo, con specifico focus anche su base pluriennale.

Il resoconto ICAAP 2017/2018, approvato ad aprile 2018, alla luce delle analisi condotte, ha evidenziato come BancoPosta presenti livelli di dotazione patrimoniale adeguati ai rischi assunti, misurati sia nell'ottica attuale che in quella prospettica in condizioni di stress, considerata anche la buona capacità di autofinanziamento della crescita patrimoniale, connessa all'elevata redditività della gestione e la resilienza al verificarsi di scenari di stress.

In ultimo, in ossequio alle Disposizioni di Vigilanza di Banca d'Italia, il Collegio Sindacale ha svolto nel corso del 2017 la verifica sulla propria adeguatezza in termini di

esercizio dei poteri, funzionamento e composizione, dando evidenza degli esiti in apposita relazione.

18. e 19 Valutazioni conclusive in ordine all'attività di vigilanza svolta ed indicazione di eventuali proposte da rappresentare all'assemblea ai sensi dell'art. 153, comma 2, del D. Lgs. N. 58/1998.

In aderenza alle disposizioni Consob, precisiamo che dall'attività svolta non sono emersi omissioni, fatti censurabili o irregolarità né elementi di inadeguatezza della struttura organizzativa, del sistema di controllo interno o del sistema amministrativo contabile.

Sulla base della attività di vigilanza svolta nel corso dell'esercizio il Collegio non rileva motivi ostativi all'approvazione del bilancio d'esercizio di Poste Italiane S.p.A. e del bilancio consolidato del Gruppo Poste al 31 dicembre 2017 e alla proposta di distribuzione del dividendo formulata dal Consiglio di Amministrazione.

27 aprile 2018

Mauro Lonardo

- Presidente



Alessia Bastiani

- Sindaco effettivo



Maurizio Bastoni

- Sindaco effettivo





Independent auditor's report

*in accordance with article 14 of Legislative Decree No. 39 of 27
January 2010 and article 10 of Regulation (EU) No. 537/2014*

Poste Italiane SpA

***Consolidated Financial Statements
as of 31 December 2017***



Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Poste Italiane SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Poste Italiane Group (the Group), which comprise the consolidated statement of financial position as of 31 December 2017, consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Poste Italiane SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were

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addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	Auditing procedures performed in response to key audit matters
<p>Recoverable amount of the “Mail, Parcels and Distribution” business segment</p> <p><i>Note 2.3 to the consolidated financial statements as of 31 December 2017 “Accounting policies adopted – Impairment of assets”</i></p> <p><i>Note 2.5 to the consolidated financial statements as of 31 December 2017 “Use of estimates”, paragraphs “Impairment test and cash generating units” and “Measurement of other non-current assets”</i></p> <p><i>Note C1 to the consolidated financial statements as of 31 December 2017 “Statement of profit or loss – Revenue from letter post, parcels and other”</i></p> <p><i>Note 4.4 to the consolidated financial statements as of 31 December 2017 “Operating segments”</i></p> <p>The persistent decline of the postal market in which the Poste Italiane Group operates makes the ability to forecast future cash flows and the related prospective operating results of the “Mail, Parcels and Distribution” business segment significantly uncertain. Within this context, based on the new Group Business Plan for the period 2018 – 2022 approved by the Board of Directors of Poste Italiane on 26 February 2018 (the “Business Plan”), the Cash Generating Unit (“CGU”) represented by the “Mail, Parcels and Distribution” business segment was subject to an impairment test, in compliance with IAS36 “Impairment of assets”. Such test was aimed at verifying that the book value of the assets allocated to the CGU, which also includes properties used as post offices and sorting</p>	<p>As part of our audit activities, also supported by experts within the PwC network, we carried out the following main activities in order to address this key audit matter:</p> <ul style="list-style-type: none"> • in-depth technical analysis of the principal hypotheses and assumptions of the Business Plan with reference to the “Mail, Parcels and Distribution” business segment, also through discussions with management of Poste Italiane SpA; verification of the events after the end of the reporting period and reading of the minutes of the corporate governance bodies’ meetings; • update of our understanding of the method to identify the CGU “Mail, Parcels and Distribution” at the level of the parent company Poste Italiane SpA and the method to determine the related recoverable amount in compliance with IAS36 “Impairment of assets” and valuation best practices, verifying that the criteria adopted in prior years have continued to be applied; • obtainment and critical analysis of the impairment test prepared by Poste Italiane SpA based on the aforementioned method, as well as verification of the consistency between the cash flows considered in the abovementioned test with the related book values and data in the Business Plan; • verification of the logical and

centres, can be recovered through their use in operations. In this regard, the “value in use” of the CGU was calculated, which represented the estimate of the future cash flows expected from the use of the assets included in the CGU within the context of regular corporate operations and considering the Universal Postal Service obligation. Such cash flows were discounted at an appropriate rate and account was taken of the transfer prices by which BancoPosta’s Ring-fenced Capital is expected to remunerate the services provided, through the sole and widespread network used by the Group and allocated to the CGU.

Therefore, as part of our audit for the financial year 2017, we focused on the determination of the recoverable amount of the “Mail, Parcels and Distribution” business segment, as well as the reasonableness of the most significant underlying assumptions and hypotheses.

mathematical correctness of the determination of the cash flows in the context of the impairment test mentioned above, as well as of the overall reasonableness of the calculation of the weighted average cost of capital (“WACC”) and of the consistency of the assumptions related to the “terminal value”, that is the value that represents the ability of the company to generate cash flows, estimated beyond the explicit forecast period 2018 – 2022 in the Business Plan;

- verification of the sensitivity analyses prepared by Poste Italiane SpA vis-à-vis any change in key assumptions, comparing the reasonableness of the related results with those deriving from the sensitivity analyses performed by us independently;
- verification of disclosures provided in the consolidated financial statements as of 31 December 2017.

Measurement of the technical provisions for insurance business

Note 2.3 to the consolidated financial statements as of 31 December 2017 “Accounting policies adopted – Insurance contracts”

Note 2.5 to the consolidated financial statements as of 31 December 2017 “Use of estimates – Technical provisions for insurance business”

Note B5 to the consolidated financial statements as of 31 December 2017 “Liabilities – Technical provisions for insurance business”

Note C4 to the consolidated financial statements as of 31 December 2017 “Statement of profit or loss – Revenue from insurance services net of changes in technical provisions for insurance business and cost of claims”

As part of our audit activities, also supported by experts within the PwC network, we carried out the following main activities in order to address this key audit matter:

- update of the walkthrough analysis and of our understanding of the insurance “provisioning” process, that is the corporate process aimed at determining the liabilities representing the contractual obligations undertaken at the reporting date and in relation to the issued premiums, on the part of an insurance company towards its policyholders;
- update of the analysis of the design and effectiveness, on a sample basis, of the

*Note 6 to the consolidated financial statements
as of 31 December 2017 "Risk management –
Other risks – Insurance risks"*

The technical provisions for the insurance business represent the estimate at the reporting date of the obligations in relation to the issuance of premiums towards the holders of insurance policies entered into by the subsidiaries Poste Vita SpA and Poste Assicura SpA (hereinafter also the "Companies").

The technical provisions for the insurance business, equal to about Euro 123,650 million, represent about 61% of total liabilities and equity of the Poste Italiane Group as of 31 December 2017. In particular, the mathematical provisions for life insurance amount approximately to Euro 111,014 million, thus constituting almost all of the abovementioned technical provisions for the insurance business recognised in the consolidated financial statements of the Poste Italiane Group as of 31 December 2017.

The technical provisions for the insurance business represent an item the estimate of which is predominant and requires a significant level of professional judgement, depending on diverse and significant assumptions of a technical, actuarial, demographic and financial nature, as well as on the forecasts of future cash flows deriving from the insurance contracts entered into by the Companies and existing at the reporting date.

Therefore, as part of our audit activity, we paid particular attention to the analysis of the measurement techniques and methods of the technical provisions for the insurance business in the consolidated financial statements as of 31 December 2017.

significant controls performed on said provisioning process, also with reference to the quality of the input data used and the consistency between information in the IT systems used by the Companies and the related supporting documentation obtained;

- performance of procedures aimed at verifying the agreement and reconciliation, if any, of the management information with the accounting information used by the Companies, for the purpose of estimating the technical provisions;
- critical analysis of the methods, hypotheses and assumptions adopted by the Companies for estimating the insurance technical provisions;
- comparison of the methods and assumptions mentioned above with the sector regulations and with valuation best practices, as well as verification of whether the criteria adopted in prior years have continued to be applied;
- obtainment and analysis of the documentation prepared by Poste Vita SpA to measure the ability of future cash flows, deriving from the assets in the investment portfolio, to cover obligations towards the policyholders as at 31 December 2017 and, therefore, to verify the adequacy of the measurement of the technical provisions recognised in the consolidated financial statements of the Poste Italiane Group at such date (the so-called: "Liability Adequacy Test").

Valuation of the unlisted financial instruments measured at fair value

Note 2.5 to the consolidated financial statements as of 31 December 2017 "Use of estimates – Fair value of unquoted financial instruments"

Note 2.6 to the consolidated financial statements as of 31 December 2017 "Determination of fair value"

Note A.5 to the consolidated financial statements as of 31 December 2017 "Financial assets - Fair value hierarchy"

Note B.8 to the consolidated financial statements as of 31 December 2017 "Financial liabilities – Fair value hierarchy"

Note 6 to the consolidated financial statements as of 31 December 2017 "Risk management"

Financial assets classified in levels 2 and 3 of the fair value hierarchy were recognised for an amount of approximately Euro 27,785 million and Euro 1,676 million respectively in the financial statements as of 31 December 2017; moreover, financial liabilities classified in level 2 of the fair value hierarchy were recognised for an amount of approximately Euro 1,676 million.

Level 2 of the fair value hierarchy comprises the measurement of financial instruments based on inputs other than quoted prices in organised and regulated markets ("level 1"), and directly and indirectly observable in the market with reference to the same instruments. On the contrary, level 3 of the fair value hierarchy includes the measurement of financial instruments based also on inputs that are not directly or indirectly observable in the market.

As part of our audit activity, we paid particular attention to the analysis of the measurement

As part of our audit activities, also supported by experts within the PwC network, we carried out the following main activities in order to address this key audit matter:

- update of the analyses of the design and the effectiveness of the internal control system and the specific corporate guidelines governing IT systems and applications used by the Group for the calculation of the fair value under levels 2 and 3;
- verification, on a sample basis, of the reasonableness of the input assumptions and parameters underlying the valuation techniques used to determine level 2 and level 3 fair value of the financial instruments;
- requests for confirmation and for information from external banks and financial counterparties about financial instrument transactions carried out in 2017;
- verification of disclosures provided in the consolidated financial statements as of 31 December 2017, in compliance with IFRS7 "Financial instruments: disclosures".

techniques and methods of financial instruments that are unquoted on regulated markets and measured at fair value in the financial statements as of 31 December 2017. In particular, the use of estimates mainly concerns specific types of structured securities and derivatives classified in levels 2 and 3 of the fair value hierarchy in compliance with IAS39 "Financial instruments: recognition and measurement" and IFRS13 "Fair value measurement".

Recognition of the acquisition of the stake in FSIA Investimenti Srl

Note 2.5 to the consolidated financial statements as of 31 December 2017 "Use of estimates - Goodwill"

Note 3.1 to the consolidated financial statements as of 31 December 2017 "Significant events in the year – principal corporate actions"

Note A4 to the consolidated financial statements as of 31 December 2017 "Investments accounted for using the equity method"

The analysis of the purchase price allocation (equal to about Euro 279 million) of the 30% stake in FSIA Investimenti Srl, which is jointly controlled by Poste Italiane SpA and CDP Equity SpA, and of the consequent measurement at 31 December 2017 of the goodwill included in the value of such stake (equal to about Euro 254 million), represented one of the main activities of our audit process, considering the complexity of the valuation methods and estimates adopted.

As part of our audit activities, also supported by experts within the PwC network, we carried out the following main activities in order to address this key audit matter:

- critical analysis of the documents supporting the transaction, including the minutes of the corporate governance bodies' meetings, as well as discussions with the corporate functions involved in the determination of the cost of the transaction;
- understanding and assessment of the method used to calculate the fair value of the acquired stake;
- analysis of the accounting for the transaction and of the related disclosures provided in the consolidated financial statements as of 31 December 2017, in compliance with IAS28 "Investments in Associates and Joint Venture" and IFRS3 Revised "Business Combinations".



Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No.38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate Poste Italiane SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

- expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 14 April 2011, during the annual general meeting, the shareholders of Poste Italiane SpA appointed us to perform the statutory audit of the Company's consolidated and separate financial statements for the years ending 31 December 2011 to 31 December 2019.



We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No.537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as the audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No.39/2010 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/1998

Management of Poste Italiane SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Poste Italiane Group as of 31 December 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Poste Italiane Group as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Poste Italiane Group as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and the environment in which it operates obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

Management of Poste Italiane SpA is responsible for the preparation of the non-financial disclosure statement pursuant to Legislative Decree No. 254 of 30 December 2016.



We have verified that management approved the non-financial disclosure statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial disclosure statement is the subject of a separate statement of compliance issued by us.

Rome, 20 April 2018

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.



Independent auditor's report

*in accordance with article 14 of Legislative Decree No. 39 of 27
January 2010 and article 10 of Regulation (EU) No. 537/2014*

Poste Italiane SpA

Financial Statements as of 31 December 2017



Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Poste Italiane SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Poste Italiane SpA (the Company), which comprise the statement of financial position as of 31 December 2017, the statement of profit or loss, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters
Auditing procedures performed in response to key audit matters

Recoverable amount of the “Mail, Parcels and Distribution” business segment

Note 2.3 to the financial statements as of 31 December 2017 “Accounting policies adopted – Impairment of assets”

Note 2.5 to the financial statements as of 31 December 2017 “Use of estimates”, paragraphs “Impairment test and cash generating units” and “Measurement of other non-current assets”

Nota C1 to the financial statements as of 31 December 2017 “Statement of profit or loss – Revenue from sales and services – Revenue for postal services”

Note 4.4 to the financial statements as of 31 December 2017 “Operating segments”

The persistent decline of the postal market in which Poste Italiane operates makes the ability to forecast future cash flows and the related prospective operating results of the “Mail, Parcels and Distribution” business segment significantly uncertain. Within this context, based on the new Business Plan of the Poste Italiane Group for the period 2018 – 2022 approved by the Board of Directors of Poste Italiane on 26 February 2018 (the “Business Plan”), the Cash Generating Unit (“CGU”) represented by the “Mail, Parcels and Distribution” business segment was subject to an impairment test, in compliance with IAS36 “Impairment of assets”. Such test was aimed at verifying that the book value of the assets allocated to the CGU, which also includes properties used as post offices and sorting centres, can be recovered through their use in operations. In this regard, the “value in use” of the CGU was calculated, which represented the estimate of the future cash flows expected from the use of the assets included in the

As part of our audit activities, also supported by experts within the PwC network, we carried out the following main activities in order to address this key audit matter:

- in-depth technical analysis of the principal hypotheses and assumptions of the Business Plan with reference to the “Mail, Parcels and Distribution” business segment, also through discussions with management of Poste Italiane SpA; verification of the events after the end of the reporting period and reading of the minutes of the corporate governance bodies’ meetings;
 - update of our understanding of the method to identify the CGU “Mail, Parcels and Distribution” and to determine the related recoverable amount in compliance with IAS36 “Impairment of assets” and valuation best practices, verifying that the criteria adopted in prior years have continued to be applied;
 - obtainment and critical analysis of the impairment test prepared by Poste Italiane SpA based on the aforementioned method, as well as verification of the consistency between the cash flows considered in the abovementioned test with the related book values and data in the Business Plan;
 - verification of the logical and mathematical correctness of the determination of the cash flows in the context of the impairment test mentioned above, as well as of the overall reasonableness of the calculation of the weighted average cost of capital (“WACC”) and the consistency of the assumptions related to the “terminal value”, that is the value that represents the ability of the
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CGU within the context of regular corporate operations and considering the Universal Postal Service obligation. Such cash flows were discounted at an appropriate rate and account was taken of the transfer prices by which BancoPosta's Ring-fenced Capital is expected to remunerate the services provided, through the sole and widespread network used by the Company and allocated to the CGU.

Therefore, as part of our audit for the financial year 2017, we focused on the determination of the recoverable amount of the "Mail, Parcels and Distribution" business segment, as well as of the reasonableness of the most significant underlying assumptions and hypotheses.

company to generate cash flows, estimated beyond the explicit forecast period 2018 – 2022 in the Business Plan;

- verification of the sensitivity analyses prepared by Poste Italiane SpA vis-à-vis any change in key assumptions, comparing the reasonableness of the related results with those deriving from the sensitivity analyses performed by us independently;
- verification of disclosures provided in the financial statements as of 31 December 2017.

Valuation of the unlisted financial instruments measured at fair value

Note 2.5 to the financial statements as of 31 December 2017 "Use of estimates – Fair value of unquoted financial instruments"

Note 2.6 to the financial statements as of 31 December 2017 "Determination of fair value"

Note A.5 to the financial statements as of 31 December 2017 "Financial assets attributable to BancoPosta - Fair value hierarchy of financial assets attributable to BancoPosta"

Note B.6 to the financial statements as of 31 December 2017 "Financial liabilities attributable to BancoPosta – Derivative financial instruments"

Note 6 to the financial statements as of 31 December 2017 "Risk management"

Financial assets attributable to BancoPosta, classified in levels 2 and 3 of the fair value hierarchy were recognised for an amount of approximately Euro 3,254 million and Euro 37

As part of our audit activities, also supported by experts within the PwC network, we carried out the following main activities in order to address this key audit matter:

- update of the analyses of the design and the effectiveness of the internal control system and the specific corporate guidelines governing IT systems and applications used by the Company for the calculation of the fair value under levels 2 and 3;
- verification, on a sample basis, of the reasonableness of the input assumptions and parameters underlying the valuation techniques used to determine level 2 and level 3 fair value of the financial instruments;
- requests for confirmation and for information from external banks and financial counterparties about the financial instrument transactions carried out in 2017;
- verification of disclosures provided in the financial statements as of 31 December 2017, in compliance with IFRS7 "Financial instruments: disclosures".

million respectively in the financial statements as of 31 December 2017; moreover, financial liabilities attributable to BancoPosta, represented by derivative financial instruments, classified in level 2 of the fair value hierarchy were recognised for an amount of approximately Euro 1,638 million.

Level 2 of the fair value hierarchy comprises the measurement of financial instruments based on inputs other than quoted prices in organised and regulated markets ("level 1"), and directly and indirectly observable in the market, with reference to the same instruments. On the contrary, level 3 of the fair value hierarchy includes the measurement of financial instruments based also on inputs that are directly not or indirectly observable in the market.

As part of our audit activity, we paid particular attention to the analysis of the measurement techniques and methods of the financial instruments that are unquoted on regulated markets and measured at fair value in the financial statements as of 31 December 2017. In particular, the use of estimates mainly concerns specific types of structured securities and derivatives classified in levels 2 and 3 of the fair value hierarchy in compliance with IAS39 "*Financial instruments: recognition and measurement*" and IFRS13 "*Fair value measurement*".

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;



- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 14 April 2011, during the annual general meeting, the shareholders of Poste Italiane SpA appointed us to perform the statutory audit of the Company's consolidated and separate financial statements for the years ending 31 December 2011 to 31 December 2019.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No.537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as the audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Poste Italiane SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Poste Italiane SpA as of 31 December 2017, including their consistency with the relevant financial statements and their compliance with the law.



We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Poste Italiane SpA as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Poste Italiane SpA as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and the environment in which it operates obtained in the course of the audit, we have nothing to report.

Rome, 20 April 2018

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.



**INDEPENDENT AUDITOR'S REPORT ON THE
CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT
TO ARTICLE 3, PARAGRAPH 10, OF LEGISLATIVE DECREE
NO. 254/2016 AND ARTICLE 5 OF CONSOB REGULATION
NO. 20267**

POSTE ITALIANE SPA

YEAR ENDED 31 DECEMBER 2017



Independent auditor's report on the Consolidated Non-Financial Statement

pursuant to article 3, paragraph 10, of Legislative Decree No. 254/2016 and article 5 of CONSOB Regulation No. 20267

To the Board of Directors of Poste Italiane SpA

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016 (hereafter, the "Decree") and article 5 of CONSOB Regulation No. 20267, we have performed a limited assurance engagement on the consolidated non-financial statement of Poste Italiane SpA (hereafter, also the "Parent Company") and its subsidiaries (hereafter, the "Group") for the year ended 31 December 2017 prepared in accordance with article 4 of the Decree, presented in the specific section No. 6 of the report on operations to the consolidated financial statements of the Group, and approved by the Board of Directors on 29 March 2018 (hereafter, the "NFS").

Responsibility of Management and Those Charged with Governance for the NFS

Management is responsible for the preparation of the NFS in accordance with article 3 and 4 of the Decree and with the "Global Reporting Initiative Sustainability Reporting Standards" issued in 2016 by GRI - *Global Reporting Initiative* (hereafter, the "GRI Standards"), identified by them as the reporting standards.

Management is responsible, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

Management is responsible for identifying the content of the NFS, within the matters mentioned in article 3, paragraph 1, of the Decree, considering the activities and characteristics of the Group and to the extent necessary to ensure an understanding of the Group's activities, its performance, its results and related impacts.

Management is responsible for defining the business and organisational model of the Group and, with reference to the matters identified and reported in the NFS, for the policies adopted by the Group and for the identification and management of risks generated and/or faced by the Group.

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Those charged with governance are responsible for overseeing, in the terms prescribed by law, compliance with the Decree.

Auditor's Independence and Quality Control

We are independent in accordance with the principles of ethics and independence set out in the Code of Ethics for Professional Accountants published by the International Ethics Standards Board for Accountants, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, confidentiality and professional behaviour. Our audit firm adopts International Standard on Quality Control 1 (ISQC Italy 1) and, accordingly, maintains an overall quality control system which includes processes and procedures for compliance with ethical and professional principles and with applicable laws and regulations.

Auditor's responsibilities

We are responsible for expressing a conclusion, on the basis of the work performed, regarding the compliance of the NFS with the Decree and the GRI Standards. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information (hereafter “ISAE 3000 Revised”), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. The standard requires that we plan and apply procedures in order to obtain limited assurance that the NFS is free of material misstatement. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not provide us with a sufficient level of assurance that we have become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFS were based on our professional judgement and consisted in interviews, primarily of company personnel responsible for the preparation of the information presented in the NFS, analyses of documents, recalculations and other procedures designed to obtain evidence considered useful.

In particular, we performed the following procedures:

1. Analysis of the relevant matters reported in the NFS relating to the activities and characteristics of the company, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree and with the reporting standard adopted.



2. Analysis and assessment of the criteria used to identify the consolidation area, in order to assess their compliance with the Decree.
3. Understanding of the following matters:
 - business and organisational model of the Group with reference to the management of the matters specified by article 3 of the Decree;
 - policies adopted by the Group with reference to the matters specified in article 3 of the Decree, actual results and related key performance indicators;
 - main risks generated and/or faced by the Group with reference to the matters specified in article 3 of the Decree.

With reference to those matters, we compared the information obtained with the information presented in the NFS and carried out the procedures described under point 4, a) below.

4. Understanding of the processes underlying the preparation, collection and management of the significant qualitative and quantitative information included in the NFS.
In particular, we held meetings and interviews with the management of Poste Italiane SpA and with the personnel of Poste Vita SpA, SDA Express Courier SpA, Postel SpA, Mistral Air SpA and Poste Mobile SpA, and we performed limited analyses of documentary evidence, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFS.

Moreover, for material information, considering the activities and characteristics of the Group:

- at the Parent Company level:
 - a) with reference to the qualitative information included in the NFS, and in particular to the business model, the policies adopted and the main risks, we carried out interviews and acquired supporting documentation to verify their consistency with available evidence;
 - b) with reference to quantitative information, we performed analytical procedures as well as limited tests, in order to assess, on a sample basis, the accuracy of consolidation of the information;
- for the Parent Company and the following subsidiaries: Poste Vita SpA, SDA Express Courier SpA, Postel SpA, Mistral Air SpA and Poste Mobile SpA, which were selected on the basis of their activities and their contribution to the performance indicators at a consolidated level, we carried out site visits during which we met local management and gathered supporting documentation regarding the correct application of the procedures and calculation methods used for the key performance indicators.



Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of Poste Italiane Group for the year ended 31 December 2017 is not prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with the GRI Standards.

Rome, 27 April 2018

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 statement referred to in this report.