HALF-YEAR REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2018

Posteitaliane

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INTERIM REPORT ON OPERATIONS FOR THE SIX MONTHS ENDED 30 JUNE 2018

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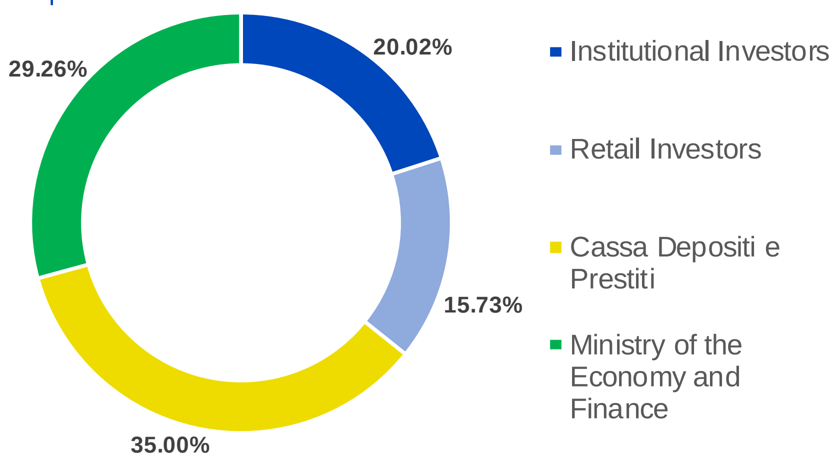
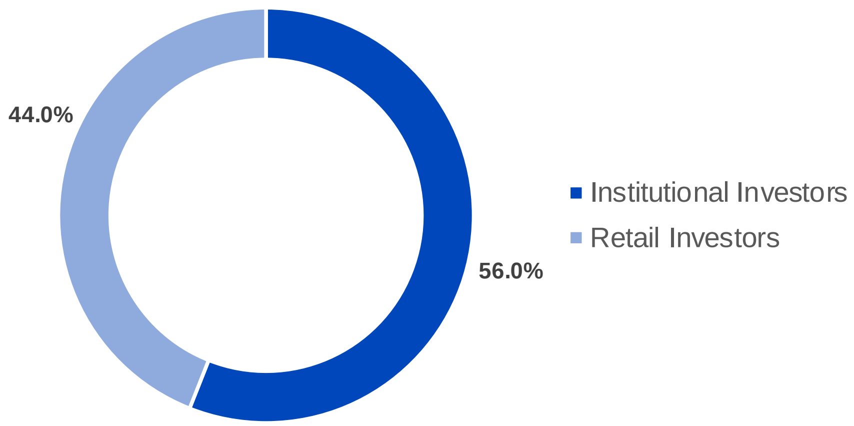
Ownership structure



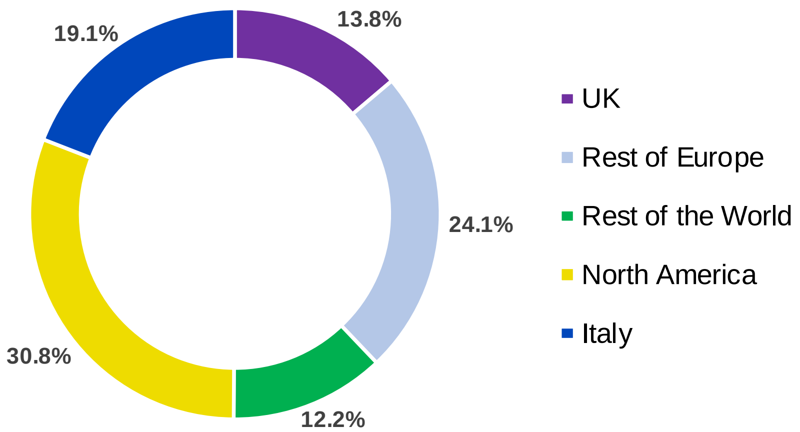
Last updated 5 December 2017

Shareholder breakdown



Last updated 5 December 2017

Geographical breakdown of institutional shareholders



Last updated 5 December 2017

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]

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

Independent Auditors	
	PricewaterhouseCoopersSpA

Audit, Risk and Sustainability Committee[5]	Remuneration Committee[5]	Nominations and Corporate Governance Committee[5]	Related and Connected Parties Committee[5]
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 Meeing of 24 May 2016 to serve for a period of three years and will remain in office until the General Meeting's approval of the financial statements for the year ended 31 December 2018. On 30 January 2017, the Alternate Auditor, Andrea Bonechi, resigned from his position with immediate effect. As a result, the Annual General Meeting of 27 April 2017 elected Antonio Santi to serve as an Alternate Auditor.

(3) The Supervisory Board was appointed by the Board of Directors' meeting of 24 May 2016 for a three-year term. Giulia Bongiorno, appointed a member of the Supervisory Board by the Board of Directors on 22 June 2017, resigned on 12 March 2018.

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

(5) 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.

Meetings of the Board of Directors of Poste Italiane SpA

Poste Italiane's Board of Directors met on 9 occasions in the first half of 2018 to examine the following principal matters and approve the following resolutions.

DATE	PRINCIPAL RESOLUTIONS
25 January 2018	Proposed changes to BancoPosta RFC: Injection of fresh capital by Poste Italiane into BancoPosta RFC to boost leverage ratio
	Proposed changes to BancoPosta RFC (removal from the ring-fence of the “payments and e-money” unit); Changes to the subsidiary, PosteMobile: (A) authorisation to establish a separate ring-fenced e-money and payment services entity, (B) the transformation of this entity into a hybrid electronic money institution; Grant of authority to begin the process of applying for authorisation from the Bank of Italy.
	Participation in Anima Holding SpA's rights issue
19 February 2018	Preliminary results for 2017, proposed dividend
26 February 2018	Approval of the Deliver 2022 Strategic Plan
29 March 2018	The Company's financial statements for the year ended 31 December 2017 and the consolidated financial statements for the same period
	Proposed appropriation of earnings
19 April 2018	Revision of the Group's Code of Ethics
	Revision of the Whistleblowing Guidelines
	Data Protection Guidelines (GDPR)
27 April 2018	Authorisation to purchase and dispose of treasury shares
9 May 2018	Interim report for the three months ended 31 March 2018
29 May 2018	Long-term contract with Amazon for postal delivery services (parcels)
28 June 2018	Revision of the 231 Model

Corporate actions during the first half

On 7 August 2017, Poste Italiane completed the sale of its 100% interest in Banca del Mezzogiorno-Medio Credito Centrale to Agenzia nazionale per l’attrazione degli investimenti e lo sviluppo d’impresa (Invitalia) for a total consideration of approximately €387 million, including €317 million collected at 30 June 2018. The remaining amount is to be collected in tranches, the last of which five years from the date of the agreement.

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 in the agreement of 21 December 2017.

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 and extension of the partnership that will have a duration of 15 years. Following the transaction, Poste Italiane will retain its 100% interest in BancoPosta Fondi SGR, with the aim of creating a competence centre to manage all 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.

On 12 April 2018, Poste Italiane implemented the decision taken by its Board of Directors on 25 January 2018, subscribing for its share of the rights issue carried out by Anima Holding SpA, amounting to a total of approximately €30 million. This has enabled the Company to retain its 10.04% interest in Anima Holding SpA.

On 19 April 2018, the Board of Directors of BancoPosta Fondi SGR SpA approved the planned spin-off and the application for authorisation to be submitted to the Bank of Italy, which granted clearance on 11 July 2018.

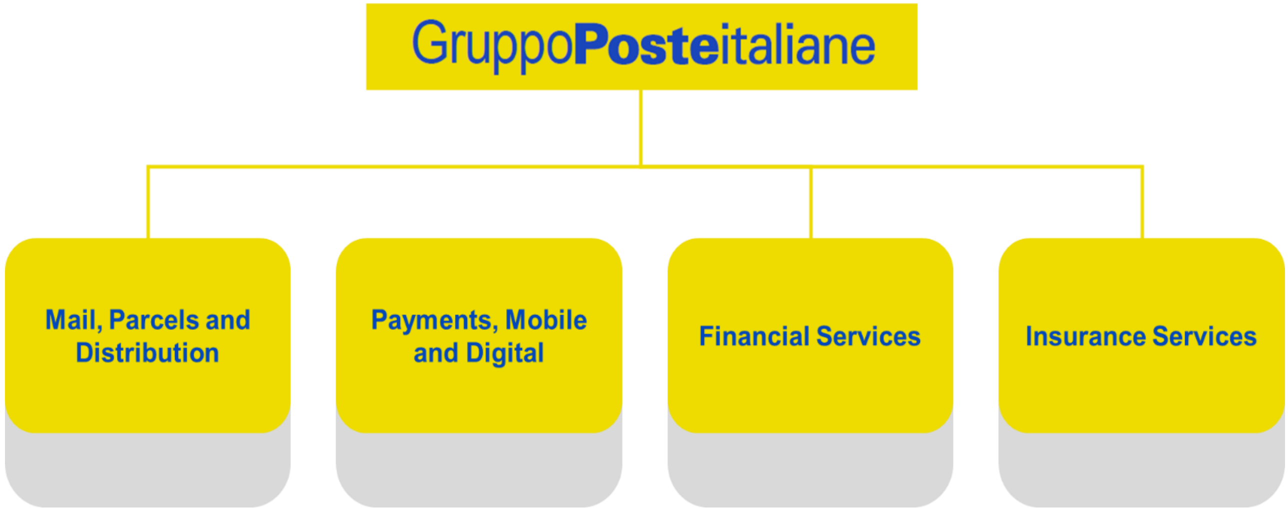
With the aim of more effectively driving growth in the payment services market and strengthening the service offering for retail, business and Public Administration customers, Poste Italiane has decided to combine the Poste Italiane Group's distinctive expertise and competencies in the field of mobile and digital payments in one specialist 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 ring-fenced entity 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.
Following the receipt of authorisation from the Bank of Italy on 24 April 2018, the Extraordinary General Meeting of Poste Italiane's shareholders held on 29 May 2018 approved the proposed removal, from the ring-fence that applies to BancoPosta RFC, of the assets, contractual rights and authorisations that make up the e-money and payment services unit. Poste Italiane is providing the Bank of Italy with regular updates on the related implementation of information systems. The same General Meeting also approved removal, from the ring-fence of the contractual rights and authorisations relating to back office and anti-money laundering activities.
These activities are to be centralised within Poste Italiane with the aim of creating single competence centres at Group level, whilst achieving high standards of quality and boosting the effectiveness and efficiency of operating processes.

In addition:

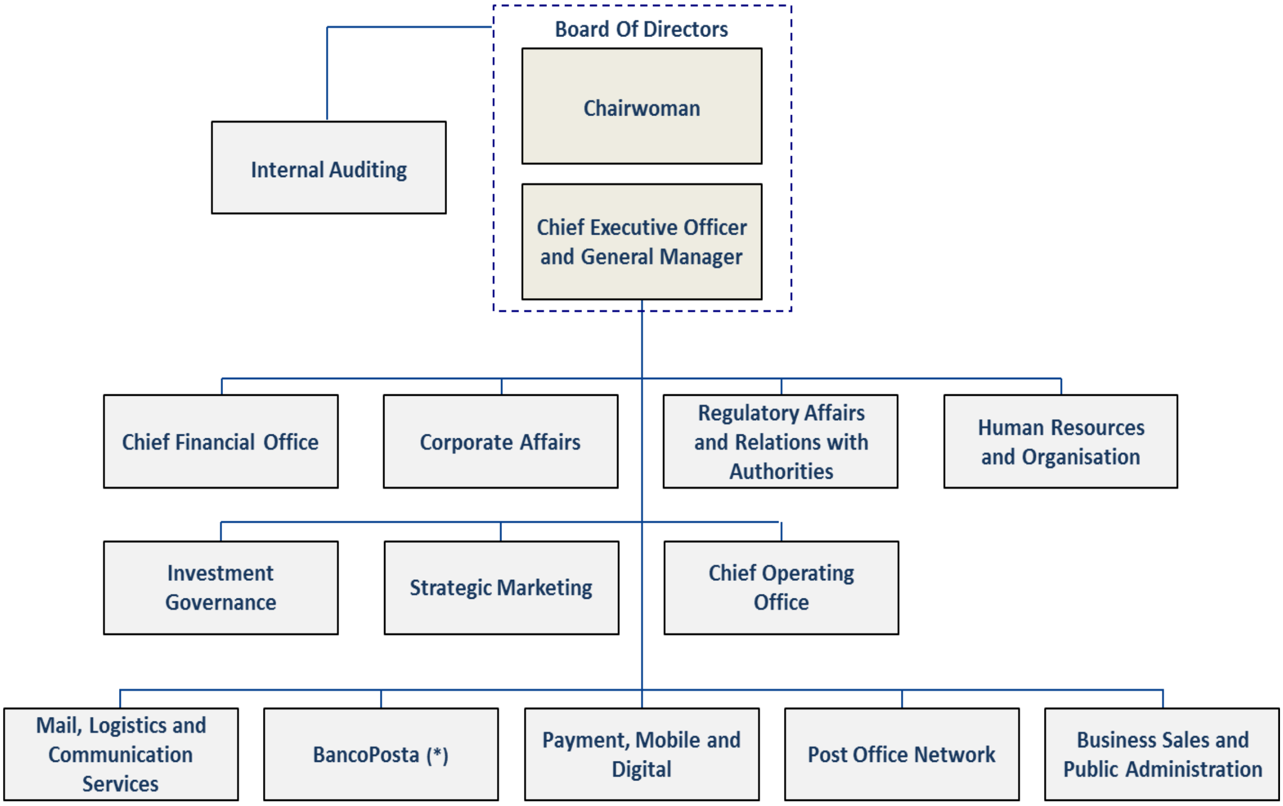
- On 25 January 2018, Poste Italiane SpA's Board of Directors authorised payment to SDA Express Courier SpA of a total of €40 million to cover the losses incurred through to 31 December 2017, and to recapitalise the company and establish an extraordinary reserve. SDA Express Courier ended the first half of 2018 with a capital deficit of €10.4 million, thereby falling within the scope of art. 2447 of the Italian Civil Code (a reduction in capital to below the legal minimum). As a result, the value of Poste Italiane SpA's investment is zero and SDA's Board of Directors has called an Extraordinary General Meeting of shareholders to decide on the company's recapitalisation.
- On 13 February 2018, the deed for the merger of PosteTutela SpA (a wholly owned subsidiary of Poste Italiane SpA) with and into Poste Italiane 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, on 19 February 2018, Poste Italiane SpA's Board of Directors approved an initiative designed to protect customers of the Europa Immobiliare 1 fund. On 28 March 2018, the manager of the fund, Vegagest SGR, announced to the market that it had provisionally suspended the resolution approving the final liquidation financial statements and, on 13 June 2018, approved the partial repayment to quotaholders of 50% of the final liquidation value. Subsequently, on 28 June 2018, Poste Italiane's Board of Directors reviewed the above initiative designed to protect customers, with the resulting impact on risks and charges at 30 June 2018 of amounting to approximately €17 million.

The Group's organisational structure and operating segments



Poste Italiane SpA's organisational structure

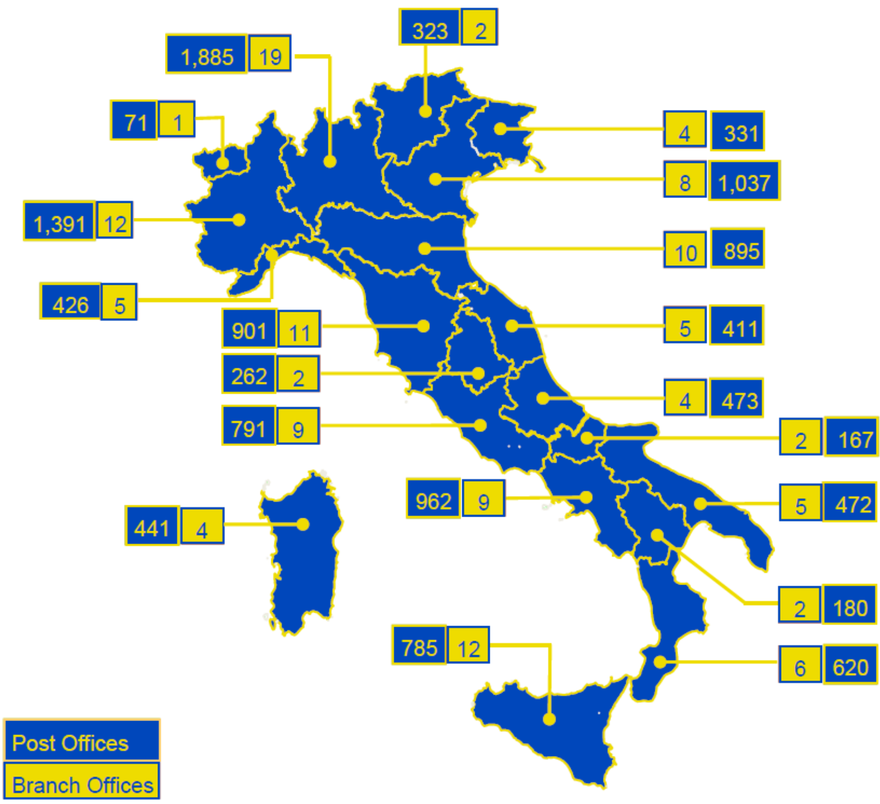


(*) BancoPosta's Internal Auditing function reports directly to the Board of Directors and the Board of Auditors

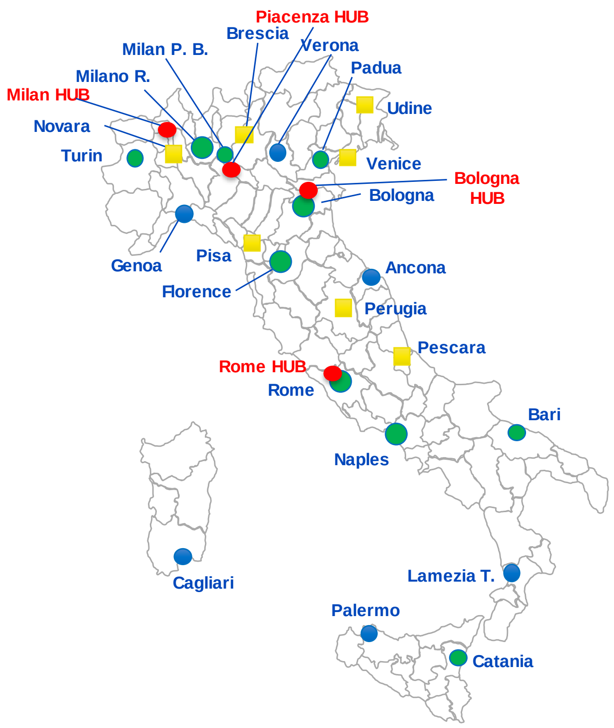
The Group began the process of revamping its organisational structure during the first half, with the aim of enabling it to achieve the strategic goals and objectives set out in the Deliver 2022 Strategic Plan.
In this regard, the main changes made related to the following:

- The launch of the process of reorganising BancoPosta's e-money and payment services unit in order to establish an electronic money institution.
- A growth strategy involving the adoption of an increasingly customer-centric commercial approach, whilst at the same fully exploiting the specific characteristics of the different sales channels. This has led to redefinition of the criteria for assigning responsibility for corporate customer segments between the Post Office Network and the Business Sales and Public Administration functions. The latter has now been assigned responsibility for medium-sized enterprises, whilst the Post Office Network function focuses exclusively on small business customers.
- The centralisation of back office activities within the Chief Operating Office with the aim of achieving cost savings and high standards of quality and boosting the effectiveness and efficiency of operating processes.
- A restructuring of BancoPosta, with the primary aim of strengthening the intermediary's role in leading product development and distribution, in collaboration with other Group companies, and in managing the sales network so as to ensure greater coordination, increased efficiency and more effective commercial management.
- Simplification of the geographical structure of the Post Office Network, Mail, Logistics and Communication Services and Human Resources and Organisation functions, by combining and rationalising the existing structure in order to create six macro areas in place of the previous nine, with the aim of simplifying and streamlining decision-making processes. This initiative is the first step in implementing a wider plan to create a geographical model that is in keeping with the new business objectives and supported by more streamlined and effective processes, and which will be extended to all the staff and business support functions.
- Redesign and rationalisation of the operating model for procurement, with the aim of putting in place a standardised, integrated system at Group level, progressively centralising subsidiaries' procurement processes.
- The creation of a Group Administration, Planning & Control function within the Chief Financial Office, bringing together responsibility for financial reporting and planning and control at Group level, providing support for business and corporate functions in accordance with the financial business partner model.

Geographical distribution of post offices and branch offices



Structure of the logistics network



Key

10 Multi-product sorting centres (for both priority and bulk mail)

6 Specialist sorting centres (primarily for priority mail)

7 Priority Centres with low levels of mechanisation

4 SDA HUBs

2. MACROECONOMIC ENVIRONMENT

The international economy continued to expand during the first few months of 2018, albeit at a slightly slower pace than in the last quarter of 2017.

In its World Economic Outlook, the International Monetary Fund forecasts GDP growth of 3.9% for 2018, in line with the previous year's figure (3.8%), whilst expecting exports of goods to fall back (4.8% growth in 2018 compared with 5.2% in 2017). The protectionist US trade policy, and the countermeasures likely to be taken by the countries involved, have created uncertainty and risk holding back international trade.

The global recovery led to a rapid realignment between oil product demand and supply, resulting in a substantial rise in prices. Brent was up 62.1%, rising from $48.85 per barrel at 30 June 2017 to $79.2 at 29 June 2018.

Among the industrialised economies, the **United States** continued to achieve sustained growth (up 0.5% in the first quarter of 2018) and the International Monetary Fund forecasts GDP growth of 2.9% in 2018 compared with 2.3% in 2017. The tax reform approved in December generated an increase in disposable household income and will enable businesses to step up their investment. However, increased growth will create few benefits beyond the United States, as the administration wishes to keep expansionary effects within its national borders, minimising their impact on the rest of the world.

The **UK** economy is also growing, albeit more slowly than in previous years. According to a Bank of England survey, uncertainties about future trade relations with Europe (post-Brexit) have reduced investment growth by between 3% and 4%. High inflation (standing at 2.4% in May) also highlights the possibility of rate increases by the Bank of England.

In **China,** rebalancing of the economy towards a model that is more focused on domestic consumption continues, with exports growing 11.3% and imports rising 14.1% in June. Investment expenditure was slightly down due to the gradual tightening of monetary policy, aimed at containing the debt in the Chinese economy.

After forging ahead in 2017, the **euro area** economy registered a deceleration in its growth rate in the first quarter of 2018 (0.3% compared to 0.6% in the fourth quarter of 2017). The European Central Bank (ECB) judges the weakening that has affected countries such as Germany and France to be unexpected. The drop in the €-coin[1] indicator, which fell again in June (0.48) for the fourth consecutive month, suggests that the current slowdown may be protracted. Inflation also rose in June to above 2% in many Eurozone countries, mainly due to energy prices. The euro area's core inflation remains stuck at 1.2%[2]. The ECB might therefore start preparing the market for a possible future revision of monetary policy.

In line with the cyclical trend in the euro area, the **Italian economy** ended the first quarter of the year with a slight slowdown in GDP growth (0.3% compared with 0.4% in the fourth quarter of 2017). Growth was mainly driven by consumption and inventories. Employment is rising and the latest available data, reported in May, registered new record employment figures. After falling in April, industrial production in May was up 0.7% on the previous month and up 2.1% on an annual basis, but in June the predictive Ita-coin[3] indicator fell to 0.01 (down from 0.53 in January), confirming that GDP continued to slacken in the second quarter. In May, a fall in investor confidence in Italy pending the outcome of the general election led to market turbulence and an accentuation of perceived country risk, together with an increase in sovereign yields. This situation was reflected in the 10-year spread between BTPs and Bunds, which has risen sharply since May. After peaking at 290 bps, the spread fell to 238 bps at the end of June, against a backdrop of high volatility.

[1] An indicator developed by the Bank of Italy in collaboration with the Centre for Economic Policy Research (CEPR) which provides an indication of the current economic performance of the euro area in terms of quarterly GDP growth shorn of the most variable components (seasonal factors, measurement errors and short-term volatility).

[2] Core inflation is a measure of average price increases (and decline in the currency's purchasing power) which does not take account of goods with a high degree of price volatility: especially energy and food items.

[3] An indicator developed by the Bank of Italy, providing a real-time monthly estimate of the evolutionary trend of economic activity by using data from various quantitative and qualitative variables (industrial output, inflation, retail sales, trade flows and equity indices in the former case, and household and business confidence and SME indicators, in the latter). Ita-coin therefore has similar purposes to those for which €-coin is used.

The increase in short-term yields was also very sharp, with short-term treasury bill auctions returning to positive rates (in 2017 they always registered negative yields on issue).

Against this backdrop, BancoPosta's financial operations focused on maintaining stable returns on its securities portfolio, realising gains of €379 million, in line with the target set out in the Plan for 2018. Given the continuation of favourable market conditions, steps have been taken to stabilise overall revenue for 2019. This was done in the first part of the year through forward sales of government securities, with settlement dates at the beginning of 2019. Finally, the significant increase in volatility in May led the Company to purchase securities maturing in 2018, including forward purchases providing higher yields than those expected on the BTPs held in the portfolio at maturity.

In addition, hedges have been entered into in order to fix a part of the return on the deposits of Public Administration customers held with the Ministry of the Economy and Finance at end-of-June levels. These returns are of a variable nature as they are linked to the yields on 6-month ordinary treasury bills and the Rendistato index (representing the average yield on government securities with maturities greater than 1 year). The hedges regarded approximately half of the expected amount to be deposited in the second half of 2018.

3. FINANCIAL REVIEW

Three months ended 30 June					Six months ended 30 June			
Increase/(decrease)		2017	2018	Results of operations (€m)	2018	2017	Increase/(decrease)	
-4.5%	(120)	2,665	2,545	Revenue	5,429	5,498	(69)	-1.3%
				of which:				
-3.9%	(35)	898	863	Mail, Parcels and Distribution	1,761	1,812	(51)	-2.8%
10.8%	16	148	164	Payments, Mobile and Digital	307	278	29	10.4%
-7.3%	(91)	1,248	1,157	Financial Services	2,676	2,710	(34)	-1.3%
-2.7%	(10)	371	361	Insurance Services	685	698	(13)	-1.9%
-6.8%	(150)	2,205	2,055	Total costs	4,104	4,370	(266)	-6.1%
				of which:				
-2.6%	(38)	1,454	1,416	Total personnel expenses	2,846	2,934	(88)	-3.0%
-3.4%	*(49)*	*1,452*	*1,403*	*of which personnel expenses*	*2,827*	*2,930*	*(103)*	*-3.5%*
n/s	*11*	*2*	*13*	*of which early retirement incentives*	*19*	*4*	*15*	*n/s*
-14.9%	(112)	751	639	Other operating costs	1,258	1,436	(178)	-12.4%
6.5%	**30**	**460**	**490**	**EBITDA**	**1,325**	**1,128**	**197**	**17.5%**
0.7%	1	139	140	Depreciation, amortisation and impairments	272	281	(9)	-3.2%
9.0%	**29**	**321**	**350**	**EBIT**	**1,053**	**847**	**206**	**24.3%**
	1.7%	**12.0%**	**13.8%**	**EBIT margin**	**19.4%**	**15.4%**	**4.0%**	
n/s	95	(81)	14	Finance income/(costs)	22	(75)	97	n/s
51.7%	**124**	**240**	**364**	**Profit before tax**	**1,075**	**772**	**303**	**39.2%**
40.7%	33	81	114	Income tax expense	340	262	78	29.8%
57.2%	**91**	**159**	**250**	**Profit for the period**	**735**	**510**	**225**	**44.1%**
57.2%	**0.070**	**0.121**	**0.191**	**Earnings per share**	**0.563**	**0.391**	**0.172**	**44.1%**

Group capital expenditure in the six months ended 30 June (€m)	2018	2017	Increase/(decrease)	
Capital expenditure	151	183	(32)	-17.5%
of which				
Mail, Parcels and Distribution	*111*	*148*	*(37)*	*-25.0%*
Payments, Mobile and Digital	*19*	*19*	*-*	*n/s*
Financial Services	*13*	*10*	*3*	*30.0%*
Insurance Services	*8*	*6*	*2*	*33.3%*

Financial position	At 30 June 2018	At 31 December 2017	Increase/(decrease)	
(€m)				
Non-current assets	2,991	3,077	(86)	-2.8%
Net working capital	2,204	1,452	752	51.8%
Gross invested capital	5,195	4,529	666	14.7%
Sundry provisions and other assets/liabilities	(2,485)	(2,546)	61	-2.4%
Net invested capital	2,710	1,983	727	36.7%
Equity	7,595	7,550	45	0.6%
Net funds	(4,885)	(5,567)	682	-12.3%
Net debt/(funds) of the Mail, Parcels and Distribution segment (ESMA)	(407)	(845)	438	-51.8%

Group workforce in the six months ended 30 June	2018	2017	Increase/(decrease)	
Average workforce (*)	135,284	137,970	(2,686)	-1.9%
Ordinary unit cost of labour (€000)	41.8	42.6	(0.8)	-1.9%

(*) Shown in full-time equivalent terms.

Consolidated operating results

The performance in the first half of 2018 has resulted in consolidated operating profit of €1,053 million, an increase of 24.3% compared with the same period of the previous year (€847 million). This primarily reflects reductions in operating costs and personnel expenses.

The Group's total revenue amounts to €5.4 billion, marking a slight decline of €69 million (1.3%) compared with the same period of the previous year.

In detail, total revenue from Mail, Parcels and Distribution services amounts to €1,761 million, a reduction of 2.8% compared with the first half of 2017. This reflects a decrease in traditional letter post, partially offset by the performance of parcels, where volumes were up 7.3% from 55 million items in the first half of 2017 to 59 million.

The Payments, Mobile and Digital segment contributed €307 million to total revenue, up 10.4% on the first half of 2017. This figure includes revenue from payment services, e-money products and PosteMobile SpA's telecommunications services.

Total revenue from Financial Services amounts to €2,676 million, a reduction of 1.3% compared with the €2,710 million of the first half of 2017. Despite a 16% increase in commission income on the collection of postal savings deposits, reflecting the mechanisms established in the new Agreement with Cassa Depositi e Prestiti, the figure reflects a reduction in realised gains, in line with the Group's new strategy of reducing the dependence of its results on extraordinary items and a decrease in revenue due to the sale of Banca del Mezzogiorno–MCC, completed on 7 August 2017.

The Insurance Services segment contributed €685 million to total revenue (€698 million in the same period of the previous year), marking a reduction of €13 million and reflecting a slowdown in the Life business, where premium revenue is down from €11.1 billion in the first half of 2017 to €8.8 billion.

As anticipated, total costs are down from the €4.4 billion of 2017 to €4.1 billion, marking a decline of 6.1%.

Personnel expenses are down 3.0% from €2,934 million in the first half of 2017 to €2,846 million in 2018, primarily reflecting a decrease in the average workforce (approximately 2,700 fewer FTEs compared with the same period of the previous year) and increase costs relating to renewal of the related contract, estimated in 2017.

The cost of early retirement incentives during the first half amounts to €19 million (€4 million in 2017) and primarily regards management personnel, with the remaining personnel being covered by the pre-existing scheme.

Other operating costs are down from €1,436 million in the first half of 2017 to €1,258 million in 2018, a reduction of 12.4%. This reflects higher provisions for risks and charges in the first half of 2017, for the most part linked to financial instruments and investment products sold in previous years, whose performance has not been in line with customers' expectations.

After depreciation, amortisation and impairments for the period (€272 million in the first half of 2018, compared with €281 million in the first half of 2017), net finance income for 2018, unlike 2017 which reflected the impairment loss of €82 million on the Contingent Convertible Notes subscribed for by Poste Italiane in December 2014 and issued by Midco SpA (the company that owns 51% of Alitalia SAI), and income tax expense for the period, profit for the period amounts to €735 million, marking an increase of 44.1% compared with the figure for the first half of 2017 (€510 million).

Consolidated financial position and cash flow

From 1 January 2018, the Poste Italiane Group has adopted *IFRS 9 Financial Instruments* (adopted with Regulation (EU) no. 2067/2016) an *IFRS 15 Revenue from Contracts with Customers* (adopted with Regulation (EU) no. 1905/2016).

The resulting changes primarily regard the reclassifications of financial assets, in line with the identified business models, to the new categories defined by IFRS 9, leading to a net increase in financial assets of €1,720 million (primarily due to the reclassification of financial instruments previously measured at amortised cost and now measured at fair value), and the recognition of expected losses in application of the new impairment model for financial assets and receivables, totalling €39 million. The effects of the changes introduced by the new accounting standards are reported in the condensed consolidated interim financial statements for the six months ended 30 June 2018.

(€m)	At 30 June 2018	At 31 December 2017	Increase/(decrease)	
Property, plant and equipment	1,953	2,053	(100)	-4.9%
Intangible assets	497	516	(19)	-3.7%
Investments	541	508	33	6.5%
Non-current assets	**2,991**	**3,077**	**(86)**	**-2.8%**
Trade receivables, Other receivables and Inventories	6,620	6,170	450	7.3%
Trade payables and Other liabilities	(4,420)	(4,788)	368	-7.7%
Current tax assets/(liabilities)	4	70	(66)	-94.3%
Net working capital	**2,204**	**1,452**	**752**	**51.8%**
Gross invested capital	**5,195**	**4,529**	666	14.7%
Provisions for risks and charges	(1,495)	(1,595)	100	-6.3%
Provisions for employee termination benefits	(1,221)	(1,274)	53	-4.2%
Deferred tax assets/(liabilities)	231	323	(92)	-28.5%
Net invested capital	**2,710**	**1,983**	**727**	**36.7%**
Equity	**7,595**	**7,550**	**45**	**0.6%**
of which: Fair value reserve	*146*	*371*	(225)	-60.7%
Financial assets	(191,093)	(186,766)	(4,327)	2.3%
Cash and deposits attributable to BancoPosta	(3,250)	(3,196)	(54)	1.7%
Cash and cash equivalents	(1,703)	(2,428)	725	-29.9%
Technical provisions for the insurance business	124,506	123,579	927	0.8%
Financial liabilities	66,655	63,244	3,411	5.4%
Net funds	**(4,885)**	**(5,567)**	**682**	**-12.3%**

(€m)

At 30 June 2018	Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Property, plant and equipment	1,923	22	-	8	-	1,953
Intangible assets	423	30	-	44	-	497
Investments	1,814	8	12	157	(1,450)	541
Non-current assets	**4,160**	**60**	**12**	**209**	**(1,450)**	**2,991**
Trade receivables, Other receivables and Inventories	2,928	120	2,367	2,572	(1,367)	6,620
Trade payables and Other liabilities	(2,600)	(219)	(1,831)	(995)	1,225	(4,420)
Current tax assets/(liabilities)	(6)	(3)	(7)	20	-	4
Net working capital	**322**	**(102)**	**529**	**1,597**	**(142)**	**2,204**
Gross invested capital	**4,482**	**(42)**	**541**	**1,806**	**(1,592)**	**5,195**
Provisions for risks and charges	(937)	(21)	(526)	(12)	1	(1,495)
Provisions for employee termination benefits	(1,200)	(3)	(16)	(3)	1	(1,221)
Deferred tax assets/(liabilities)	371	16	65	(221)	-	231
Net invested capital	**2,716**	**(50)**	**64**	**1,570**	**(1,590)**	**2,710**
Equity	**3,123**	**271**	**2,588**	**3,203**	**(1,590)**	**7,595**
of which: Fair value reserve	*1*	-	*152*	*(7)*	-	*146*
Financial assets	(915)	(3,874)	(64,827)	(126,386)	4,909	(191,093)
Cash and deposits attributable to BancoPosta	-	-	(3,250)	-	-	(3,250)
Cash and cash equivalents	(863)	(15)	(465)	(764)	404	(1,703)
Technical provisions for the insurance business	-	-	-	124,506	-	124,506
Financial liabilities	1,371	3,568	66,018	1,011	(5,313)	66,655
Net funds	**(407)**	**(321)**	**(2,524)**	**(1,633)**	**-**	**(4,885)**

(€m)

At 31 December 2017	Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Property, plant and equipment	2,025	18	1	9	-	2,053
Intangible assets	440	33	-	43	-	516
Investments	1,784	7	11	157	(1,451)	508
Non-current assets	**4,249**	**58**	**12**	**209**	**(1,451)**	**3,077**
Trade receivables, Other receivables and Inventories	2,352	115	2,454	1,972	(723)	6,170
Trade payables and Other liabilities	(2,892)	(171)	(1,526)	(781)	582	(4,788)
Current tax assets/(liabilities)	77	3	(1)	(9)	-	70
Net working capital	**(463)**	**(53)**	**927**	**1,182**	**(141)**	**1,452**
Gross invested capital	**3,786**	**5**	**939**	**1,391**	**(1,592)**	**4,529**
Provisions for risks and charges	(1,031)	(21)	(532)	(11)	-	(1,595)
Provisions for employee termination benefits	(1,253)	(3)	(16)	(3)	1	(1,274)
Deferred tax assets/(liabilities)	388	10	94	(170)	1	323
Net invested capital	**1,890**	**(9)**	**485**	**1,207**	**(1,590)**	**1,983**
Equity	**2,735**	**325**	**2,702**	**3,378**	**(1,590)**	**7,550**
of which: Fair value reserve	*12*	-	*180*	*179*	-	*371*
Financial assets	(1,097)	(3,283)	(60,688)	(125,860)	4,162	(186,766)
Cash and deposits attributable to BancoPosta	-	-	(3,196)		-	(3,196)
Cash and cash equivalents	(1,997)	(21)	(396)	(907)	893	(2,428)
Technical provisions for the insurance business	-	-	-	123,579	-	123,579
Financial liabilities	2,249	2,970	62,063	1,017	(5,055)	63,244
Net funds	**(845)**	**(334)**	**(2,217)**	**(2,171)**	**-**	**(5,567)**

(€m)

Changes 30 June 2018 vs 31 December 2017	Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Property, plant and equipment	(102)	4	(1)	(1)	-	(100)
Intangible assets	(17)	(3)	-	1	-	(19)
Investments	30	1	1	-	1	33
Non-current assets	**(89)**	**2**	**-**	**-**	**1**	**(86)**
Trade receivables, Other receivables and Inventories	576	5	(87)	600	(644)	450
Trade payables and Other liabilities	292	(48)	(305)	(214)	643	368
Current tax assets/(liabilities)	(83)	(6)	(6)	29	-	(66)
Net working capital	**785**	**(49)**	**(398)**	**415**	**(1)**	**752**
Gross invested capital	**696**	**(47)**	**(398)**	**415**	**-**	**666**
Provisions for risks and charges	94	-	6	(1)	1	100
Provisions for employee termination benefits	53	-	-	-	-	53
Deferred tax assets/(liabilities)	(17)	6	(29)	(51)	(1)	(92)
Net invested capital	**826**	**(41)**	**(421)**	**363**	**-**	**727**
Equity	**388**	**(54)**	**(114)**	**(175)**	**-**	**45**
of which: Fair value reserve	*(11)*	-	*(28)*	*(186)*	-	*(225)*
Financial assets	182	(591)	(4,139)	(526)	747	(4,327)
Cash and deposits attributable to BancoPosta	-	-	(54)	-	-	(54)
Cash and cash equivalents	1,134	6	(69)	143	(489)	725
Technical provisions for the insurance business	-	-	-	927	-	927
Financial liabilities	(878)	598	3,955	(6)	(258)	3,411
Net debt/(funds)	**438**	**13**	**(307)**	**538**	**-**	**682**

The Poste Italiane Group's net invested capital at 30 June 2018 amounts to €2,710 million (€1,983 million at 31 December 2017).

Non-current assets total €2,991 million, marking a reduction of €86 million compared with the end of 2017. This figure reflects investment of €151 million – offset by depreciation, amortisation and impairments, totalling €272 million – and the Parent Company's subscription, in April 2018, for shares issued by Anima Holding SpA as a result of its rights issue, amounting to €30 million.

In line with the investment programme for the period 2018-2022, designed to support delivery of the Strategic Plan, Capital expenditure largely regarded the Mail, Parcels and Distribution segment, where efforts to improve and automate operating processes continued. This included the installation of new sorting equipment at the Bologna Sorting Centre with the aim of automating the sorting of letter post. In April, the Group also began the rollout of the new "Joint delivery" model, designed to revisit the delivery network in line with the growth in e-commerce and changing customer needs. Introduction of the new "PuntoPoste" network has also taken place, with 287 lockers located around the country for the collection of online purchases and for sending returns and prefranked or prepaid parcels. Further lockers are due to be rolled out in the coming months, with the aim of extending coverage to the whole country.

The Group also invested further 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 Payments, Mobile and Digital segment, as part of the digital transformation, work on boosting the Group's competitiveness in the fixed line and mobile telecommunications markets continued. Upgraded versions of the applications used on the Electronic postman platform have also been introduced, with new functions including the option of delivering a parcel to a second addressee nominated at the time of purchase.

With regard to Financial Services, in line with the guidelines in the Deliver 2022 plan, following the entry into effect in Italy of the "MiFID II" regulations on 3 January 2018, Poste Italiane has continued to take the necessary steps to ensure compliance with the new requirements. This has primarily involved improvements to product governance, the provision of information to customers, customer profiling, advisory services and the training of sales personnel. New product offerings, promotions and functions relating to postal savings, asset management, insurance and loan products have also been launched during the period under review.

In Insurance Services, work on planning for the segment's growth continued in the first half of 2018, as did investment in improvements to business support systems. Investment focused above all on the system used to manage the Life portfolio and on the application of EU Regulation 2016/679 "on the protection of natural persons with regard to the processing of personal data and on the free movement of such data" (the so-called GDPR Regulation), which came into effect on 25 May 2018.

In terms of investment in IT, which will play a key role in enabling delivery of the objectives in the Strategic Plan, work is continuing on rationalisation of the Group's Data Centre infrastructure, on the technological upgrade of the hardware used in post offices, head offices and delivery offices and on the evolution and enhancement of the applications and systems used in supplying services.

Net working capital amounts to €2,204 million at 30 June 2018, an increase of €752 million compared with the end of 2017. This reflects an increase in trade receivables of €450 million, mainly due to an increase in payments on account of withholding tax and substitute tax on capital gains on Life insurance policies, and reductions of €368 million in amounts due to staff and social security institutions (€162 million relating to the payment of early retirement incentives) and of €66 million in net current tax assets.

Provisions for risks and charges are down €100 million from the €1,595 million of the end of December 2017 to €1,495 million. On the one hand, this reflects net provisions of approximately €190 million to cover amounts payable to staff in relation to estimated performance-related bonuses and commercial/operational and management incentive plans. On the other hand, these new provisions have been offset by the use of €257 million in provisions for early retirement incentives - made in 2017 (totalling €446 million) to cover the liabilities that Poste Italiane will incur for staff taking voluntary early retirement by 31 December 2019 - and in order to pay other amounts due to staff, totalling €12 million, and by net uses of provisions for disputes with third parties, amounting to €20 million. Finally, the balance also takes into account provisions for operational risk, reflecting adjustments to provisions for potential liabilities linked to claims brought by customers who purchased financial instruments and investment products in previous years, and whose performance has not been in line with their expectations.

Equity amounts to €7,595 million at 30 June 2018, an increase of €45 million compared with 31 December 2017, primarily as a result of profit for the period of €735 million. This was partially offset by the payment of dividends totalling €549 million and a reduction of €130 million in reserves. The latter follows a decrease of €225 million in the fair value reserve (including €1,233 million resulting from the transition to IFRS 9), reflecting movements (positive and/or negative) in the value of investments classified in the new FVTOCI category, and an increase of €95 million in the cash flow hedge reserve.

Total net funds at 30 June 2018 amount to €4,885 million, down from the €5,567 million of 31 December 2017. The change during the period reflects the increase in net working capital.

Analysis of net debt/(funds) in accordance with ESMA guidelines

(€m)	At 30 June 2018	At 31 December 2017	Increase/(decrease)	
A. Cash	(3)	(4)	1	-25.0%
B. Other cash equivalents	(860)	(1,993)	1,133	-56.8%
C. Securities held for trading	-	-	-	-
D. Liquidity (A+B+C)	**(863)**	**(1,997)**	1,134	-56.8%
E. Current loans and receivables	**(82)**	**(245)**	163	-66.5%
F. Current bank borrowings	200	201	(1)	-0.5%
G. Current portion of non-current debt	-	763	(763)	n/s
H. Other current financial liabilities	19	82	(63)	-76.8%
I. Current financial debt (F+G+H)	**219**	**1,046**	(827)	-79.1%
J. Current net (funds)/debt (I+E+D)	**(726)**	**(1,196)**	470	-39.3%
K. Non-current bank borrowings	-	200	(200)	n/s
L. Bond issues	50	49	1	2.0%
M. Other non-current liabilities	32	36	(4)	-11.1%
N. Non-current financial debt (K+L+M)	**82**	**285**	(203)	-71.2%
O. Net (funds)/debt (ESMA guidelines) (J+N)	**(644)**	**(911)**	267	-29.3%
Non-current financial assets	(567)	(585)	18	-3.1%
Net (funds)/debt	**(1,211)**	**(1,496)**	285	-19.1%
Intersegment loans and receivables	(266)	(267)	1	-0.4%
Intersegment financial liabilities	1,070	918	152	16.6%
Industrial net (funds)/debt after adjusting for intersegment transactions	**(407)**	**(845)**	438	-51.8%

n/s: not significant

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

- an EIB loan of €200 million maturing in March 2019 (current bank borrowings);
- a private placement of €50 million (bond issues).

Another EIB loan of €200 million reached maturity and was repaid in April 2018.

A five-year bond issue with a nominal value of €750 million, issued by the Parent Company on 18 June 2013, matured and was repaid in June 2018.

The net funds attributable to the Mail, Parcels and Distribution segment are down €438 million, declining from €845 million at 31 December 2017 to €407 million at 30 June 2018. This reflects:

- operating profit of €229 million;
- a negative movement in working capital and tax assets and liabilities, amounting to approximately €546 million, primarily due to a reduction of approximately €368 million in amounts due to staff, an increase of approximately €220 million in trade receivables and a reduction of approximately €80 million in trade payables, offset by an increase in tax liabilities;
- an outflow of €128 million for investing activities;
- an outflow of €30 million to pay for subscription for the new shares issued by Anima Holding;
- a net inflow of €50 million from dividends, after the payment of dividends to shareholders (€549 million).

4. OPERATING RESULTS BY OPERATING SEGMENT

(€m)

Six months ended 30 June 2018	Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Total revenue	**4,216**	**472**	**3,191**	**685**	**(3,135)**	**5,429**
External revenue	1,761	307	2,676	685	-	5,429
Intersegment revenue	2,455	165	515	-	(3,135)	-
Total costs	**4,032**	**371**	**2,783**	**325**	**(3,135)**	**4,376**
Total personnel expenses	2,760	16	50	20	-	2,846
of which personnel expenses	*2,749*	*16*	*43*	*19*	-	*2,827*
of which early retirement incentives	*11*	-	*7*	*1*	-	*19*
Other operating costs	985	85	147	41	-	1,258
Depreciation, amortisation and impairments	252	12	-	8	-	272
Intersegment costs	35	258	2,586	256	(3,135)	-
EBIT	**184**	**101**	**408**	**360**	**-**	**1,053**
EBIT MARGIN	**4.4%**	**21.4%**	**12.8%**	**52.6%**		**19.4%**
Finance income/(costs)	(14)	-	7	29	-	22
Profit/(Loss) before tax	**170**	**101**	**415**	**389**	**-**	**1,075**
Income tax expense	56	24	122	138	-	340
Profit for the period	**114**	**77**	**293**	**251**	**-**	**735**

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 shopping and mobile payments).

The Italian market confirms the reduced inclination, compared to other European countries, to use paper communication. The reduction in the use of Direct Marketing and unaddressed mail as a means of promotion, as well as the lesser propensity, on the part of certain specific industries where there is widespread use of prepaid consumption models, such as banking and telecommunications, to use statements of account in paper form, have had a particularly strong impact.

The Express Delivery and Parcel services market, on the other hand, continued to grow, driven by the development of e-commerce, which is expected to see growth of around 6.2% in 2018 compared with 2017 (approximately 6.2% for services within Italy and around 6.1% for services based on delivery to or receipt from overseas countries) [4].

Regulatory environment

Law 124 of 4 August 2017, the "Annual market and competition law", came into effect on 29 August 2017. The legislation has eliminated, from 10 September 2017, the exclusive right to offer services relating to legal process and the notification of violations of the Highway Code, opening the market for these services up to other postal operators. Competing operators must be issued with a licence subject to meeting a series of requirements (e.g. reliability, professionalism and integrity) and satisfy certain universal service obligations covering the security, quality, continuity, availability and provision of the services. In this regard, the regulator (the *Autorità per le Garanzie nelle Comunicazioni* or AGCom) launched a public consultation, and having consulted the Ministry of Justice, subsequently issued Resolution 77/18/CONS dated 20 February 2018. This resolution sets out the regulations governing the issue of special licences to provide postal services relating to legal process and the notification of violations of the Highway Code.

[4] Source Cerved Databank – updated to June 2018 (the percentage growth represents estimated market revenue growth in 2018 vs 2017).

In Resolution 266/18/CONS, dated 6 June 2018, AGCom has fixed new, higher basic rates for the universal postal services provided to publishers[5] with effect from 1 July 2018. The Resolution allows increases in the basic rates for the universal postal services provided to publishers in order to enable operators to cover more of their costs in a sector that is in long-term decline. The subsidised rates paid by publishers and non-profit associations and organisations (extended by Law 19 of 27 February 2017 until the adoption of new subsidised rates of postage) are instead unchanged. This will ensure continued provision of a service of general economic interest, the aim of which is to make information available to end users.

The funds earmarked to finance government subsidies for 2018 and 2019 by the 2018 Stability Law, amount to €59.3 million and €57.5 million, respectively.

Within the constraints imposed by AGCom Resolution 728/13/CONS in order to protect consumers, from 3 July 2018, Poste Italiane has introduced new rates for certain universal services, announcing the changes on 30 May 2018. The increases meet the need to maintain high standards of quality, enabling a partial recovery of the costs incurred in guaranteeing the universal postal service throughout the country.

Mail, Parcels and Distribution segment profit or loss

Three months ended 30 June					Six months ended 30 June			
Increase/(decrease		2017	2018	(€m)	2018	2017	Increase/(decrease	
-4.7%	(31)	663	632	Mail	1,297	1,342	(45)	-3.4%
5.4%	9	168	177	Parcels	352	342	10	2.9%
-19.4%	(13)	67	54	Other revenue	112	128	(16)	-12.5%
-2.9%	(33)	1,119	1,086	Intersegment revenue	2,455	2,453	2	0.1%
-3.4%	**(68)**	**2,017**	**1,949**	**Total revenue**	**4,216**	**4,265**	**(49)**	**-1.1%**
-2.6%	(36)	1,406	1,370	Personnel expenses	2,760	2,838	(78)	-2.7%
-3.0%	*(42)*	*1,406*	*1,364*	*of which personnel expenses*	*2,749*	*2,837*	*(88)*	*-3.1%*
n/s	*6*	*-*	*6*	*of which early retirement incentives*	*11*	*1*	*10*	*n/s*
-3.1%	(16)	524	508	Other operating costs	985	1,058	(73)	-6.9%
5.3%	1	19	20	Intersegment costs	35	34	1	2.9%
-2.6%	**(51)**	**1,949**	**1,898**	**Total costs**	**3,780**	**3,930**	**(150)**	**-3.8%**
-25.0%	**(17)**	**68**	**51**	**EBITDA**	**436**	**335**	**101**	**30.1%**
1.6%	2	128	130	Depreciation, amortisation and impairments	252	260	(8)	-3.1%
31.7%	**(19)**	**(60)**	**(79)**	**EBIT**	**184**	**75**	**109**	**n/s**
	-1.1%	**-3.0%**	**-4.1%**	**EBIT MARGIN**	**4.4%**	**1.8%**	**2.6%**	
93.3%	83	(89)	(6)	Finance income/(costs)	(14)	(97)	83	85.6%
43.0%	**64**	**(149)**	**(85)**	**Profit/(Loss) before tax**	**170**	**(22)**	**192**	**n/s**
40.5%	17	(42)	(25)	Income tax expense	56	5	51	n/s
43.9%	**47**	**(107)**	**(60)**	**Profit for the period**	**114**	**(27)**	**141**	**n/s**

n/s: not significant

[5] Under Legislative Decree 261 of 1999, the postage of books, catalogues, newspapers, periodicals and similar publications fall within the scope of the Universal Postal Service.

KPIs for the Mail, Parcels & Distribution segment	At 30 June 2018	At 30 June 2017	Increase/(decrease)	
Letters handled by the Group (volumes in millions)	1,572	1,627	(55)	-3.4%
Parcels handled by Group (volumes in million)	59	55	4	7.3%
Parcels delivered by postmen and women (volumes in millions)	19.3	13.1	6.2	47.3%
Revenue/FTEs (€)	31,763	31,570	193	0.6%
New PuntoPoste network (number of Lockers and alternative collection points)	293	-	293	n/s
Number of delivery centres	1,916	2,093	(177)	-8.5%
Number of post offices	12,824	12,822	2	n/s
Ethnic post offices	27	27	-	n/s
Consulting rooms	6,496	6,400	96	1.5%
Stands promoting PosteMobile products and services	341	340	1	0.3%
Poste office stands (*)	118	115	3	2.6%
Postamat ATM network	7,271	7,250	21	0.3%

(*) This format, present in post offices with high growth potential, is used to promote ancillary current account services and provide information on insurance products, directing interested customers to specialists in the relevant area.

The Mail, Parcels and Distribution segment reports an operating profit of €184 million, an improvement of €109 million compared with the same period of the previous year. This reflects a reduction in costs (down €150 million), which more than offset a €49 million decline in revenue.

External revenue is down from €1,812 million to €1,761 million, a reduction of 2.8% due to lower revenue from traditional letter post (down €45 million) and a fall in other revenue (down €16 million) which, among other things, includes the revenue generated by the airline, Mistral Air, which in 2018 is progressively withdrawing from the passenger transport market, as envisaged in the Strategic Plan.

Intersegment revenue, which primarily regards fees received in return for the distribution of financial and insurance products through post offices, is broadly in line, having risen from €2,453 million in the first half of 2017 to €2,455 million.

As previously mentioned, costs are down 3.8% from €3,930 million in the first half of 2017 to €3,780 million, reflecting reduced personnel expenses (down €78 million) as a result of a decrease in the average workforce, and lower other operating costs (down €73 million), linked primarily to a reduction in variable costs (including the lower costs incurred by the airline, Mistral Air, as a result of its withdrawal from the above market) and a decrease in other operating costs following the release of provisions for disputes with third parties, as the related liabilities for which provision had been made in previous years failed to materialise.

Net finance costs of €14 million are an improvement of €83 million compared with the same period of the previous year (€97 million), which was impacted by the impairment loss on the Contingent Convertible Notes subscribed for by Poste Italiane in December 2014 and issued by Midco SpA (the company that owns 51% of Alitalia SAI).

After income tax expense for the period (€56 million), the segment's profit for the first half amounts to €114 million, an improvement of €141 million compared with the loss of €27 million recorded in the first half of 2017.

Performance analysis

Mail

	Volumes (in millions)				Revenue (€m)			
for the six months ended 30 June	2018	2017	Increase/(decrease)		2018	2017	Increase/(decrease)	
Unrecorded Mail	727	734	(7)	-1.0%	414	434	(20)	-4.6%
Recorded mail	100	96	4	4.2%	481	482	(1)	-0.2%
Direct Marketing	314	338	(24)	-7.1%	73	79	(6)	-7.6%
Integrated services	14	13	1	7.7%	85	77	8	10.4%
Other (1)	417	446	(29)	-6.5%	95	120	(25)	-20.8%
Universal Service Obligation (USO) compensation and tariff subsidies (2)					149	150	(1)	-0.7%
Total Mail attributable to the Group	**1,572**	**1,627**	**(55)**	**-3.4%**	**1,297**	**1,342**	**(45)**	**-3.4%**

n/s: not significant

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

(2) 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 w ith the law .

The performance of the Group's Mail services saw volumes and revenue both decrease by 3.4% (55 million fewer items and a €45 million reduction in revenue) compared with the first half of 2017. This essentially reflects a long-term decline 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 (7 million fewer items, or 1.0% less than in the first half of 2017) led to a fall in revenue of €20 million (down 4.6%).

The Recorded Mail segment registered an increase in volumes of 4.2% (4 million more items) compared with the first half of 2017. This primarily reflects growth in inbound international registered mail relating to the shipment of small objects linked to the development of e-commerce. The increase in volumes was not, however, accompanied by a matching increase in revenue, which is down 0.2% or €1 million. This is because the rates charged for the above products are lower than those for other products in this segment.

Direct Marketing volumes are down 7.1% and the related revenue is down 7.6% (24 million fewer items and a €6 million reduction in revenue). This is due to customers rationalising their mail spend.

Integrated Services registered an increase of 7.7% in volumes to 14 million items in the first half of 2018, generating a 10.4% improvement in revenue to €85 million. This was essentially due to the positive contribution from the Integrated Notification Service for legal process.

Other revenue that includes, among other things, revenue from the Printing services provided by the subsidiary, Postel, is down 6.5% in volume terms (29 million fewer shipments) and 20.8% in revenue terms (down €25 million) compared with the same period of 2017, due to a decline in the market for such services.

The compensation partially covering the cost of the Universal Service for the first half of 2018, as provided for in the 2015-2019 Service Contract in force, amounts to €131 million, whilst publisher tariff subsidies, introduced from 1 January 2017, amount to €18 million.

Parcels

	Volumes (in millions)				Revenue (€m)			
for the six months ended 30 June	2018	2017	Increase/(decrease)		2018	2017	Increase/(decrease)	
B2B	15	15	-	n/s	106	112	(6)	-5.4%
B2C	32	26	6	23.1%	129	106	23	21.7%
C2C	3	3	-	n/s	28	29	(1)	-3.4%
Other (*)	9	11	(2)	-18.2%	89	95	(6)	-6.3%
Total parcels	**59**	**55**	**4**	**7.3%**	**352**	**342**	**10**	**2.9%**

n/s: not significant

(*) This item includes international parcels, partnerships w ith logistics operators, dedicated services, integrated logistics and other revenue.

The performance of the Parcels segment saw growth in volumes and revenue of 7.3% (4 million more items) and 2.9% (€10 million), respectively, compared with the first half of 2017. This is due to the expansion of e-commerce in the B2C segment, which generated revenue of €129 million during the period, up 21.7% on the same period of the previous year. Almost 32 million parcels were shipped.

Following agreement with the labour unions, the progressive rollout of the new “Joint delivery” model began in April. The new model, which aims to keep pace with the development of e-commerce and changing customer needs, enables parcels to be delivered via the network of postmen and women, introducing afternoon and weekend shifts in order to facilitate successful delivery and meet addressees' expectations.
The flexibility offered by the “Joint delivery” model also played a role in the conclusion of an agreement with Amazon in June, covering the delivery of products throughout Italy. Thanks to this partnership, which will have a duration of three years, renewable for a further three, the Group will help to drive the development of e-commerce in Italy.

Progressive expansion of the new PuntoPoste network, for collecting online purchases and sending returns and prefranked or prepaid parcels, also continued during the period. The new PuntoPoste network offers customers both lockers (automated kiosks equipped with touchscreens, barcode readers and mini-printers) and collection points providing a complementary alternative to post offices, meeting the growing need for readily accessible service points and flexible opening hours. 287 PuntoPoste lockers entered operation in the first half of 2018 within the self service areas of a number of post offices and in locations with a high footfall, such as supermarkets, shopping centres and fuel stations. Further lockers are due to be rolled out in the coming months, with the aim of extending coverage to the whole country.
Finally, major progress was made in this sense in May, with the conclusion of a framework cooperation agreement between Poste Italiane and the Federation of Italian Tobacconists, which enables tobacconists’ shops to join the PuntoPoste network.

Postal service quality

On 8 May 2018, AGCom published the results of its review of the quality of universal postal services for 2017. All the results are ahead of the annual regulatory targets at national level, with the exception of the second target for ordinary mail (J+6: 97.1% vs the target of 98%).

Payments, Mobile and Digital

The market for mobile and digital payments

After years of relative inertia, Italy’s payment services market showed signs of major growth in 2017, when the value of card transactions reached €220 billion (up 10% on 2016). Of these transactions, 21% (15% in 2016) were carried out using innovative forms of digital payment: e-commerce and e-payments (€20.3 billion), Contactless Payments (€18 billion), Mobile Payments & M-commerce (€6.7 billion) and Mobile POS (€0.9 billion).
In addition to changes in consumers’ buying habits, the growth in new digital payments is also being driven by contactless and mobile proximity payments, with the former increasing by over 150% in 2017 (8% of card transactions).

In terms of the digital market, 73% of the Italian population has access to the internet (43 million people) and there are around 34 million social media users, with the number of users rising continuously year after year. 83% of users access the internet from a mobile device and 51% use social media from their mobile phone. The average time spent on the internet is 6 hours a day, including 2 hours primarily spent on social media. 88% of users access the internet at least once a day.

E-commerce is continuing the growth trend seen in recent years and mobile devices are playing a key role in users' purchasing experience.

Aspects such as user experience, ease of access and the flexibility and speed of services are the key drivers behind the shift towards digital services. Businesses are thus embarking on digital transformation processes in keeping with market trends and the changing needs of increasingly connected users.

Digitalisation is also a priority for the Public Administration: the SPID, the Public Digital ID system aims to provide citizens with a single system for logging in to access all the online services provided by the Public Administration. The system enables access to over 4,300 online services provided by approximately 3,800 participating central and local government entities, including INPS, the tax authority, municipal authorities and universities[6]. At 30 June 2018, Poste Italiane has 2.3 million identities, representing a market share of 86.6%.

According to the latest available figures[7], mobile market penetration, in terms of total mobile lines, stands at approximately 167% of the population, with MVNOs accounting for 14%. The total number of lines in the first quarter of 2018 amounts to an estimated 101 million, including around 17.2 million Machine to Machine (M2M) SIM cards. In terms of market share, PosteMobile, with a total market share of approximately 4%, accounts for approximately 47% of the human customers of mobile virtual network operators[8].

The rise of the Internet of Things (IoT) market is gaining pace in 2018, with revenue projected to grow by up to 11% by 2025. The launch of 5G is expected to drive growth in IoT, enabling operators to further develop their offerings by developing end-to-end solutions that are increasingly tailored to their customers' needs[9].

The decline in revenue from traditional services continued in the first half, offset by growth in browsing services. In the meantime, the leading mobile operators adopted acquisition strategies that aim to substantially maintain existing pricing policies and focus less on operator attack offerings[10], with the objective of preserving their revenues and margins, whilst awaiting the entry of new players (the French mobile operator, Iliad, made its entry into the Italian market on 29 May 2018). 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, fixed line networks and the penetration of broadband are playing a key role in development of the market, with the latter seeing a further increase in 2018 to reach 27.73% of the Italian population (27.33% at the end of 2017).

Regulatory 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.

With particular regard to the technical standards regulating strong customer authentication and common and secure open standards of communication (RTS - Regulatory Technical Standards), on 13 March 2018, Delegated Regulation (EU) 2018/389 of the Commission, dated 27 November 2017, was published in the Official Journal of the European Union. This Regulation supplements PSD2.

The Delegated Regulation defines the requirements to be complied with by payment service providers (PSPs) in implementing security measures, with the aim of: (i) applying the strong customer authentication procedure; (ii)

[6] Source: 'Digital in 2018 – Italy', We Are Social, Hootsuite - January 2018.
[7] Source: AGCom Communications Observatory no. 2/2018.
[8] Internal estimate by PosteMobile based on AGCom Communications Observatory no. 1/2018.
[9] ETNO (European Telecommunications Network Operators) Annual Economic Report 2017 M2M and IOT.
[10] "Operator attack" offerings are commercial offerings limited to specific target customers of one or more competing operators.

exempting providers from the application of strong customer authentication, under specific and limited conditions, based on the level of risk, amount and recurrence of the payment transaction and the payment channel used to execute the transaction; (iii) protecting the confidentiality and integrity of the personal security credentials of the payment service user; (iv) establishing common and secure open standards of communication between account servicing payment service providers and third parties (e.g. payment initiation service providers, account information service providers, etc.).
The Regulation is applicable from 14 September 2019, with the exception of the sections covering general obligations for access interfaces with third parties, which are applicable from 14 March 2019.
Following the assessments conducted, Poste Italiane has planned a number of technological changes aimed at implementing "strong customer authentication" both when accessing systems and when making payments (dynamic links).

The new text of the Digital Administration Code (DAC), as amended by Legislative Decree 217 of 13 December 2017, came into effect on 27 January 2018. The general aim of the revision of the DAC, within the context of the digitalisation of public services, is to ensure that citizens have the right to access their data, documents and services in digital form.
With a view to simplification, the new DAC keeps the primary legislation separate from the legislation containing technical and functional requirements, to be published primarily through the issue of Guidelines (Art. 71) by the Digital Italy Agency (AgID) or, in specific cases, via the issue of Cabinet Office or Ministerial decrees by delegated ministers.
The main points regard:

- extension of the scope of application to public service providers, including listed companies, in relation to the public interest services provided;
- a stronger commitment to standardisation with the European legislative framework regarding identification, communication and authentication tools;
- the simplification of administrative procedures, with the introduction of a new signature procedure;
- the central role played by the digital identity provided under the SPID (*Sistema Pubblico di Identità Digitale*) system, considered the means of guaranteeing exercise of the right to access online services;
- the central role played by the digital domicile for the purposes of electronic communications with legal validity;
- support for digital and electronic payments in transactions with public administration entities, including micro-payments using phone credits.

Extension of the DAC to include public service providers produces a series of effects and will require changes to the way that digital services are provided. The most important aspects regard the obligations linked to providing access to online public services via a Digital Identity and the handling of communications via the digital domicile. The related providers will also be obliged to accept payments in electronic form – including via the use of mobile phone credits – using the platform made available by AgID.

The above Legislative Decree 218/2017 has also amended Legislative Decree 11/2010, art. 2, paragraph 2.n) of which enables the providers of electronic communications networks and services, in addition to the communication services provided, to offer customers payment services based on the use of mobile phone credits.
These services are subject to limits on the amount (up to €50 per individual payment transaction and a total of €300 in a month) and type (the purchase of digital content and services using voice technology; charitable donations and the purchase of tickets for services) and require the communication services provider to register as a payment Institution, in the section for undertakings that operate under an exemption.
Entry into the register, which is managed by the Bank of Italy, is not an authorisation to operate. Its purpose is to verify whether or not the undertaking meets the requirements to operate under an exemption from application of the regulations in question and to inform the European Banking Authority (EBA) of the type of operator offering payment services.

On 8 February 2018, the Bank of Italy launched a public consultation on the draft text of periodic reporting and disclosure requirements. The consultation came to an end on 12 March 2018.

Payments, Mobile and Digital segment profit or loss

Three months ended 30 June					Six months ended 30 June			
Increase/(decrease)		2017	2018	(€m)	2018	2017	Increase/(decrease)	
26.0%	13	50	63	E-money	122	99	23	23.2%
-2.2%	(1)	45	44	Other payments	76	76	-	n/s
7.5%	4	53	57	Mobile	109	103	6	5.8%
1.2%	1	82	83	Intersegment revenue	165	168	(3)	-1.8%
7.4%	17	**230**	**247**	**Total revenue**	**472**	**446**	**26**	**5.8%**
14.3%	1	7	8	Personnel expenses	16	15	1	6.7%
14.3%	*1*	*7*	*8*	*of which personnel expenses*	*16*	*15*	*1*	*6.7%*
-	-	-	-	*of which early retirement incentives*	-	-	-	-
-2.2%	(1)	46	45	Other operating costs	85	85	-	n/s
9.1%	12	132	144	Intersegment costs	258	240	18	7.5%
6.5%	12	**185**	**197**	**Total costs**	**359**	**340**	**19**	**5.6%**
11.1%	5	**45**	**50**	**EBITDA**	**113**	**106**	**7**	**6.6%**
20.0%	1	5	6	Depreciation, amortisation and impairments	12	11	1	9.1%
10.0%	4	**40**	**44**	**EBIT**	**101**	**95**	**6**	**6.3%**
	0.4%	**17.4%**	**17.8%**	**EBIT MARGIN**	**21.4%**	**21.3%**	**0.1%**	
n/s	(3)	2	(1)	Finance income/(costs)	-	2	(2)	n/s
2.4%	**1**	**42**	**43**	**Profit/(Loss) before tax**	**101**	**97**	**4**	**4.1%**
-18.2%	(2)	11	9	Income tax expense	24	27	(3)	-11.1%
9.7%	**3**	**31**	**34**	**Profit for the period**	**77**	**70**	**7**	**10.0%**

n/s: not significant

KPIs for the Payments, Mobile & Digital segment	At 30 June 2018	At 30 June 2017	Increase/(decrease)	
Number of cards in issue (in millions)	26.2	24.6	1.6	6.5%
of which Postepay cards (in millions)	18.6	17.1	1.5	8.8%
of which Postepay Evolution cards (in millions)	5.4	4.0	1.4	35.0%
Value of total card transactions (€m)	12,894	11,038	1,856	16.8%
Number of card transactions (in millions)	554	436	118	27.1%
of which number of e-commerce transactions (in millions)	93	78	15.0	19.2%
Postepay Digital e-Wallets (in millions)	2.2	1.2	1.0	83.3%
PosteMobile fixed and mobile Sims issued (in thousands)	598	569	29.0	5.1%
Customers registered on Poste Italiane's digital channels (websites and apps) (in millions)	16.2	13.5	2.7	20.0%
Digital identities (number in millions)	2.3	1.3	1.0	76.9%

The 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), and 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 Payments, Mobile and Digital segment reports operating profit of €101 million for the first half of 2018, after depreciation, amortisation and impairments, marking an increase of 6.3% compared with the same period of the previous year.

Total revenue of €472 million (up 5.8%) benefitted from the positive performance of e-money services, which recorded growth of 23.2% (€23 million) as a result of an increase in the value of Postepay transactions (up 25.9% on the same period of the previous year) and the issue of approximately 1.8 million new Postepay cards since the beginning of the

year. At 30 June 2018, there are approximately 18.6 million cards in circulation, including 5.4 million Postepay Evolution cards, marking growth of 35% compared with 30 June 2017. The number of Postamat in circulation is stable at 7 million.
Revenue from acquiring services is also up compared with the same period of the previous year, rising from €2.5 million to €4.5 million (up 33.3%), thanks to an increase in the value of transactions.
Revenue from other payments is stable at €76 million. The slight reduction in revenue from the collection and processing of payment slips (down 4.2% compared with the same period of the previous year) was offset by growth in revenue from the processing of tax payments using forms F23/F24, which is up from €24.6 million to €25.8 million (up 4.9%).
Mobile revenue is up from €103 million in the first half of 2017 to €109 million, reflecting an increase in the fixed line customer base.
The segment's total costs amount to €359 million, up 5.6% on the same period of the previous year due to greater intersegment costs (up 7.5%). These costs primarily include technology upgrades and back-office and distribution services provided by Poste Italiane SpA's other segments to the e-money and payments business. The increase primarily regards the growing cost of printing and enveloping the communications sent to customers and the cost of acceptance services.
Depreciation, amortisation and impairments are in line with the first half of 2017 at approximately €12 million.
After income tax expense for the period (€24 million), the segment's profit for the first half amounts to €77 million, up 10.0% on the same period of the previous year.

FINANCIAL SERVICES

Financial market trends

Global equity markets witnessed a significant increase in volatility during the first half of 2018. The tensions caused by concerns regarding US trade policy led to further share price weakness around the world. In particular, after the fall registered in the first quarter, the US S&P500 index reversed the trend to record a positive performance, rising 1.66% since the beginning of the year. Due to political uncertainty, European bourses are slightly down compared with the beginning of the year, with the Euro Stoxx 50 having lost 3.07%.
Having reached a peak for recent years of 24,544 on 7 May 2018, the Italian stock market ended the first half down 0.95% with respect to the beginning of the year. The uncertainty that followed the outcome of the general election resulted in increased volatility and sharp declines in share prices, which fell back to where they began the year.
This situation had an even greater impact on the spread between ten-year Treasury Notes (BTPs) and Bunds which, from May, has risen significantly. After peaking at 290 basis points, the spread fell to 238 basis points at the end of June, against a highly volatile backdrop. There was a sharp increase in yields on both longer and shorter dated bonds, with the yields on short-term treasury bills (BOTs) turning positive, having registered negative yields on issue since 2017.
In the currency markets, the fall in the US dollar that began in 2017 came to a halt. In March, the euro was worth US$1.23, compared with the current US$1.17. Sterling remained broadly stable in the first half of 2018, the euro/GBP exchange rate shifting between a low of 0.8635 and a high of 0.89[11].

Banking system

According to figures from ABI (the Italian banking association), funding by banks operating in Italy in the first half of 2018, represented by deposits by resident Italian savers and the issue of bonds, registered a year-on-year increase of 1.8%. Total funding amounts to approximately €1,736 billion at the end of June, marking an increase in absolute terms of almost €31 billion compared with the same month of the previous year. This reflects an increase in deposits by resident Italian savers (current accounts, certificates of deposit and repurchase agreements) of approximately €88 billion (up

[11] Source: Bloomberg

6.34% on the same month of 2017), more than offsetting the sharp decline in investments in bonds, amounting to €57 billion (down 18.3% year on year). Funding costs (deposits, bonds and repurchase agreements) were 0.73%.
Bank lending is up over the same period: at the end of June 2018, total lending to Italian residents (private sector and the Public Administration) - excluding interbank loans – amounted to approximately €1,773 billion, marking a year-on-year increase of 1.9%. Rises in both consumer credit and mortgages have contributed to the increase in lending to households. According to figures from ABI for April 2018, mortgage lending is up 2.6% year on year.
Doubtful loans within the banking system, after impairments and provisions made from own funds, are down, with the figure amounting to approximately €49.3 billion in May 2018, marking a reduction of almost 43% in the last 17 months. In percentage terms, doubtful loans had fallen to 2.84% of total loans in May 2018 (4.89% at the end of 2016). The average interest rate applied to household and corporate loans is at an all-time low of 2.60% in June 2018, well below pre-crisis levels (6.18% at the end of 2007).

Regulatory environment

On 3 January 2018, the new Directive 2014/65/UE (so-called "MiFID2") came into effect throughout the European Union. Together with MiFIR - Markets in financial instruments regulation (Regulation (EU) 600/2014), the Directive has amended the previous regulations. As a result of implementation of MiFID II, changes have been made to Italian legislation and regulations. This has led to the amendment of Legislative Decree 58/98 (the Consolidated Law on Finance), in effect from 28 February 2018, and of the related implementing regulations, including CONSOB Regulation 11971/99 (Issuers) and Regulation 20249/2017 (Markets), both in effect from 3 January 2018, and CONSOB Regulation 16190/2007 (Intermediaries), which has been abolished from 15 February 2018. The new regulations have boosted the efficiency and transparency of financial markets, boosting protections for investors and strengthening certain organisational requirements and rules for intermediaries.
Poste Italiane began work on developing the necessary processes and procedures and on the related preparations in 2017. The objective was to achieve full compliance with the new statutory requirements, primarily in relation to improvements to product governance, the provision of information to customers, customer profiling, advisory services and the training of post office personnel.

At EU level, three regulations (effective from 31 January 2018) were published in the Official Journal of the European Union (L 6) on 11 January 2018. The regulations regard the comparability on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (the so-called "Payment Accounts Directive, or PAD"). The PAD was implemented in the Italian legal system by Legislative Decree 37 of 15 March 2017, which has introduced "Specific provisions relating to payment accounts" into Chapter II-*ter* of Title VI of the Consolidated Law on Banking, giving the providers of payment services 180 days to comply with the related implementing regulations, which the Bank of Italy is required to adopt within 180 days of the effective date of the technical standards.

On 8 February 2018, the Bank of Italy published a consultation paper on its website with the aim of implementing the guidelines issued by the European Banking Authority (EBA) on "*Governance arrangements and product oversight for retail banking products*", dated 22 March 2016. In order to implement the guidelines, Section XI ("Organisational requirements") of the provisions relating to "*Transparency of banking and financial transactions and services. Fairness in dealings between intermediaries and customers*" (issued by the Bank of Italy on 29 July 2009, as amended) has been modified with the intention of regulating the organisational measures that intermediaries (the producers and distributors of third-party products) are required to adopt in order to process, monitor and (if necessary) amend the products, and for their distribution to customers. The regulations being consulted on strengthen the measures designed to ensure the fairness of dealings between intermediaries and customers, guaranteeing that products are offered to the target customers that the products were originally intended. It is expected that intermediaries will have to comply with the new measures by 1 January 2019, whilst the final version of the regulations is expected following the conclusion of the public consultation on 9 April 2018.

On 16 May 2018, the decree implementing Directive (EU) 2016/97 on insurance distribution (the “IDD”), which will come into effect on 1 October 2018. This legislation regulates the distribution of insurance contracts and brings into line the rules governing insurance broking with those applicable to investment services, reforming the various models and systems designed to protect customers.

Application of the legislation, which will affect the processes involved in product governance, customer profiling, assessment of whether or not the recommended product meets the customer’s needs and the provision of information is the subject of a specific cross-functional project at Group level.

EU Regulation 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (the so-called GDPR Regulation) came into effect on 25 May 2018, harmonising data protection legislation throughout the EU. In this regard, Poste Italiane has revisited its internal data protection procedures, defining the related roles and responsibilities (for example, the appointment of a Data Protection Officer), updating the information provided to customers on data protection and their rights in this regard and strengthening the measures designed to protect the data held by the Group.

Other information - Principal relations with the authorities

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. In parallel, further compliance initiatives were carried out in order to implement the MiFID 2 Directive, which came into force on 3 January 2018.

The changes made to the related procedures and IT systems, and the further initiatives planned for 2018 in order to strengthen the Company's oversight of compliance, were the subject of specific reports to the CONSOB in March.

BANK OF ITALY

With regard to the inspection conducted by the Bank of Italy in 2017, with the aim of assessing the governance, control and operational and IT risk management systems in relation to BancoPosta’s operations, the process of implementing the relevant compliance initiatives is still in progress and work is proceeding according to the established timing.

Following an inspection of a sample of post offices that was completed in December 2017, relating to efforts to combat money laundering and the financing of terrorism, in May 2018, the Bank of Italy invited BancoPosta to provide a report, updated to 30 September 2018, on the progress made in implementing all the initiatives undertaken in this regard.

Financial Services segment profit or loss

Three months ended 30 June					Six months ended 30 June			
Increase/(decrease)		2017	2018	(€m)	2018	2017	Increase/(decrease)	
-98.6%	(138)	140	2	Gross capital gains	404	537	(133)	-24.8%
6.6%	24	362	386	Interest income	747	728	19	2.6%
6.7%	28	416	444	Collection of postal savings	894	771	123	16.0%
1.7%	4	229	233	Transaction banking	459	467	(8)	-1.7%
-11.4%	(9)	79	70	Distribution of third-party products	128	162	(34)	-21.0%
n/s	-	22	22	Asset management	44	45	(1)	-2.2%
-2.7%	(7)	261	254	Intersegment revenue	515	519	(4)	-0.8%
-6.5%	**(98)**	**1,509**	**1,411**	**Total revenue**	**3,191**	**3,229**	**(38)**	**-1.2%**
-12.5%	(4)	32	28	Personnel expenses	50	63	(13)	-20.6%
-26.7%	*(8)*	*30*	*22*	*of which personnel expenses*	*43*	*60*	*(17)*	*-28.3%*
n/s	*4*	*2*	*6*	*of which early retirement incentives*	*7*	*3*	*4*	*n/s*
-58.2%	(92)	158	66	Other operating costs	147	248	(101)	-40.7%
n/s	(1)	1	-	Depreciation, amortisation and impairments	-	1	(1)	n/s
-2.9%	(34)	1,182	1,148	Intersegment costs	2,586	2,590	(4)	-0.2%
-9.5%	**(131)**	**1,373**	**1,242**	**Total costs**	**2,783**	**2,902**	**(119)**	**-4.1%**
24.3%	**33**	**136**	**169**	**EBIT**	**408**	**327**	**81**	**24.8%**
	3.0%	**9.0%**	**12.0%**	**EBIT MARGIN**	**12.8%**	**10.1%**	**2.7%**	
n/s	3	1	4	Finance income/(costs)	7	3	4	n/s
26.3%	**36**	**137**	**173**	**Profit/(Loss) before tax**	**415**	**330**	**85**	**25.8%**
39.5%	15	38	53	Income tax expense	122	96	26	27.1%
21.2%	**21**	**99**	**120**	**Profit for the period**	**293**	**234**	**59**	**25.2%**

n/s: not significant

KPIs for the Financial Services segment	At 30 June 2018	At 30 June 2017	Increase/(decrease)	
Client assets (€bn)	510.3	506.2	4.1	0.8%
of which				
Postal Savings	322.1	322.9	(0.8)	-0.2%
Interest-bearing postal certificates	*216.5*	*214.3*	*2.2*	*1.0%*
Savings books	*105.6*	*108.6*	*(3.0)*	*-2.8%*
Current accounts	55.6	51.9	3.7	7.1%
Technical provisions for life insurance business	124.4	123.5	0.9	0.7%
Investment funds	8.2	7.9	0.3	3.8%
CET1 Capital (€m)	2,074	2,059	15	0.7%
CET1 Ratio	17.5%	16.9%	0.6%	

	At 30 June 2018	At 30 June 2017	Increase/(decrease)	
Net deposits (€m) [1]	4,372	5,413	(1,041)	-19.2%
Postal Savings (average in €bn)	308.7	307.7	1.0	0.3%
Current accounts (average for the period in €bn) [2]	58.0	54.4	3.6	6.6%
Loans (disbursed in €m)	1,587	1,390	197	14.2%
Number of financial and insurance products sold (in millions)	4.2	3.9	0.3	7.7%
Fees per customer (€) [3]	118.8	114.8	4.0	3.5%
Average return on current accounts without capital gains	2.58%	2.70%	-0.12%	
Net gains (€m)	379	532	(153)	-28.8%
Unrealised gains (€m)	(1,291)	1,424	(2,715)	n/s

[1] Net deposits at 31 December 2017 amount to €5,056 million.

[2] The figure does not include Poste Italiane's own liquidity.

[3] The figure includes revenue from financial and insurance services, after interest income and gains on the sale of financial assets, divided by the total number of customers, excluding the "lower mass" segment.

Operating profit generated by the Financial Services segment in the first half of 2018 amounts to €408 million, up 24.8% compared with the same period of the previous year (€327 million).

Total revenue of €3,191 million is down 1.2% compared with the €3,229 million of the first half of 2017. Despite a 16% increase in commission income on the collection of postal savings deposits, reflecting the mechanisms established in the

new agreement with Cassa Depositi e Prestiti, the performance reflects a reduction in realised gains, in keeping with the objectives in the Strategic Plan (a reduction of 24.8%), and a reduction in fees from transaction banking (down 1.7%), partly reflecting a decline in the volume of bills paid using payment slips, primarily following the decision by a major client to switch from a monthly to a bi-monthly billing cycle. The fall in revenue also reflects the absence of Banca del Mezzogiorno–MCC's contribution to revenue, following this company's sale in the second half of last year.
The segment's total costs are down 4.1% (€119 million) compared with the same period of the previous year, essentially due to a decrease in other operating costs (down €101 million or 40.7%). This reflects higher provisions for risks and charges in the comparative period, linked to financial instruments and investment products sold in previous years, whose performance has not been in line with customers' expectations.
Personnel expenses are also down, declining 20.6% from €63 million to €50 million primarily due to the sale of MCC.
After net finance income of €7 million and income tax expense of €122 million, the segment ended the first half with profit of €293 million, up 25.2% on the same period of the previous year.

On 11 April 2018, Poste Italiane and Intesa Sanpaolo signed a three-year framework agreement for the distribution of specific products and services belonging to the two groups. Under this agreement, and with particular regard to asset management, Poste Italiane's network has begun to distribute *BancoPosta Orizzonte Reddito*, a mutual investment fund created as a result of the partnership between BancoPosta Fondi SGR and Eurizon Capital SGR, a wholly owned subsidiary of Intesa Sanpaolo.
The fund adopts a flexible investment strategy to invest in global bond and equity markets, thereby maximising investment opportunities and diversification of the portfolio, whilst at the same time keeping the risk profile of the entire fund under close control.

Following on from the Board of Directors' resolution of 25 January 2018, on 29 May 2018, the Extraordinary General Meeting of Poste Italiane SpA's shareholders approved Poste Italiane SpA's proposed injection of fresh capital of €210 million into BancoPosta RFC in order to return its leverage ratio to within the threshold set in the Risk Appetite Framework. This transaction will take place in the third quarter, once the deadline for creditors to file their opposition has passed.
During the first half of 2018, the leverage ratio was influenced by the financial impact of adoption of the new accounting standard, IFRS 9, by the performance of operating volumes and movements in the value of assets as a result of market returns. At the end of the period, the ratio was 2.9% before considering the capital injection approved by shareholders. After taking into account the above transaction, the ratio is 3.2%.

The Common Equity Tier 1 (CET1) ratio at 30 June 2018 is 17.5%, compared with 16.9% at 31 March 2018, confirming the strength of the segment's balance sheet. CET1 capital at 30 June 2018 amounts to €2,074 million, compared with €2,059 million at 31 December 2017.

INSURANCE SERVICES

The insurance services market

Based on the available official data (source: ANIA), new business for Life insurance policies at 31 May 2018 amounts to €36.4 billion (up 3.8% on the same period of the previous year). If new Life business reported by EU insurers is taken into account, the figure rises to €43.1 billion, substantially in line (up 0.2%) with the same period of 2017. Analysing the composition and performance of new business, Class I premiums amount to €23.3 billion, up 2.2% compared with the same period of the previous year, whilst new business for Class V policies has also performed well, with premium revenue rising 6.3% to €0.7 billion. New business for unit-linked Class III Life products has seen strong growth in the first five months of the year, rising 6.8% compared with the same period of 2017 to €12.3 billion. Sales of long-term care products (Class IV) have also performed well, with premium revenue, albeit modest, rising more than 56% compared with the same period of 2017 to €7 million.

New business and contributions relating to individual pension plans are slightly up (0-9%) at the end of May 2018 compared with the same period of 2017, reaching a total of €0.5 billion since the beginning of the year.

Single premiums continued to be the preferred form of payment for policyholders, representing 94% of total premiums written and 60% of policies by number.

With regard, finally, to distribution channel, over 70% of new business was obtained through banks and post offices, with premium revenue of €26.0 billion up 7.0% compared with the first five months of 2017. In terms of agents as a whole, the volume of new business amounted to €5.0 billion in the first five months of 2018, marking growth of 2.4% compared with the same period of 2017.

The performance of new business obtained through authorised financial advisors was, on the other hand, negative, with premium revenue of €5.2 billion marking a decline of 9.2% compared with the figure for the same period of 2017.

Based on the available official data (source: ANIA), total direct Italian premiums in the Non-life insurance market, thus including policies sold by Italian and overseas insurers, amounted to €9.1 billion at the end of the first quarter of 2018, slightly up on the same period of 2017 (an increase of 1.7%). This marks the fourth consecutive quarter reversing the negative trend seen over the last five years. The performance was helped by both the slight increase in premium revenue from vehicle insurance and further growth in other Non-life classes.

In detail, third-party land vehicle premiums amount to €3.4 billion, down 0.2% on the first quarter of 2017 (when the reduction was 3.5%), whilst land vehicle hull premiums amount to €0.8 billion, up 6.8% on the same period of the previous year. Other classes have continued the positive trend of recent quarters, with premium revenue of over €4.8 billion in the first quarter of 2018, an increase of 2.1%.

Other classes, in terms of volumes and growth rate, include general third-party liability insurance, with premium revenue of €1.0 billion up 4.5%, medical, with premiums of €0.7 billion (up 3.2%), and other property insurance, with premiums of €0.7 billion (up 2.9%).

In terms of distribution channel, as regards policies sold by Italian and overseas insurers, agents continue to lead the way with a market share of 75.2%, slightly down on the figure for the end of the first quarter of 2017 (75.8%). Brokers represent the second most popular channel for Non-life products, with a market share of 8.8%, whilst the market share of banks and post offices is in line with the same period of 2017 at 6.4%. Direct sales accounted for 9.3% of the market at the end of the first quarter of 2018, up compared with the first quarter of 2017 (8.9%).

Regulatory environment

In a Letter to the Market dated 19 March 2018, IVASS announced, in connection with pillar 3 of the Solvency II Directive, the main requirements for insurance undertakings in relation to quarterly and annual filings. The Letter to the market of 28 March 2018 then announced the results of the regulator's comparative analysis of the new requirements for reporting to the regulator and the market introduced by the Solvency II framework. The latter also indicates aspects where the regulator expects to see an improvement, starting with the reports for 2017. The areas for improvement are broadly similar to those identified in the reports submitted by other European undertakings, as described in the comparative analyses conducted by EIOPA and other national regulators.

IVASS issued Ruling 74 on 8 May 2018, containing amendments and additions to ISVAP Regulation 7 of 13 July 2007, concerning the formats for the financial statements of insurance and reinsurance undertakings required to adopt international financial reporting standards. The amendments have been made necessary following the entry into effect of IFRS 9 (Financial Instruments) which, from the financial statements for 2018, has replaced the previous IAS 39.

In addition, in a Letter to the Market dated 5 June 2018, IVASS announced the outcome of its study of the methods for calculating technical provisions for life insurance contracts (best estimates of liabilities). The study has highlighted the need to strengthen the processes underlying the application of both general principles and the application rules for the calculation of technical provisions.

Finally, on 3 July 2018, IVASS issued Regulation 38, containing provisions regarding the corporate governance system for both undertakings and groups. The new regulations implement the EIOPA guidelines on corporate governance and, where compatible with the new primary regulations, also apply the provisions of ISVAP Regulation 20 of 26 March 2008. The result is a strengthening of the qualitative requirements which, together with the prudential requirements of a quantitative nature, represent the rules designed to safeguard the stability of undertakings and groups.

Insurance Services segment profit or loss

Three months ended 30 June					Six months ended 30 June			
Increase/(decrease		2017	2018	(€m)	2018	2017	Increase/(decrease)	
-27.6%	(29)	105	76	Upfront Life	193	228	(35)	-15.4%
9.5%	22	232	254	Net investment result Life	452	437	15	3.4%
14.3%	1	7	8	Technical margin Life	10	12	(2)	-16.7%
n/s	(15)	4	(11)	Change in other technical provisions and other technical costs/income	(33)	(27)	(6)	22.2%
-6.0%	**(21)**	**348**	**327**	**Net Life revenue**	**622**	**650**	**(28)**	**-4.3%**
37.5%	12	32	44	Premium revenue	82	65	17	26.2%
30.0%	(3)	(10)	(13)	Change in technical provisions and claims expenses (*)	(21)	(19)	(2)	10.5%
n/s	1	(1)	-	Result from reinsurance	(4)	(3)	(1)	n/s
n/s	1	(1)	-	Net Non-life income (**)	-	(1)	1	n/s
55.0%	**11**	**20**	**31**	**Net Non-life revenue**	**57**	**42**	**15**	**35.7%**
n/s	-	3	3	Other operating income	6	6	-	n/s
-2.7%	**(10)**	**371**	**361**	**Total revenue**	**685**	**698**	**(13)**	**-1.9%**
11.1%	1	9	10	Personnel expenses	20	18	2	11.1%
n/s	-	*9*	*9*	*of which personnel expenses*	*19*	*18*	1	5.6%
n/s	1	-	*1*	*of which early retirement incentives*	1	-	1	n/s
-13.0%	(3)	23	20	Other operating costs	41	45	(4)	-8.9%
-20.0%	(1)	5	4	Depreciation, amortisation and impairments	8	9	(1)	-11.1%
-14.0%	(18)	129	111	Intersegment costs	256	276	(20)	-7.2%
-15.1%	(18)	*119*	*101*	*of which fees*	*237*	*257*	(20)	-7.8%
-12.7%	**(21)**	**166**	**145**	**Total costs**	**325**	**348**	**(23)**	**-6.6%**
5.4%	**11**	**205**	**216**	**EBIT**	**360**	**350**	**10**	**2.9%**
	4.6%	**55.3%**	**59.8%**	**EBIT MARGIN**	**52.6%**	**50.1%**	**2.4%**	
n/s	12	**5**	**17**	Finance income/(costs)	29	17	12	70.6%
11.0%	**23**	**210**	**233**	**Profit/(Loss) before tax**	**389**	**367**	**22**	**6.0%**
4.1%	3	74	77	Income tax expense	138	134	4	3.0%
14.7%	**20**	**136**	**156**	**Profit for the period**	**251**	**233**	**18**	**7.7%**

n/s: not significant

(*) This item does not include allocation of the attributable share of personnel expenses and the cost of goods and services incurred in the management and payment of claims.

(**) Includes finance income from investments by the Non-life business and other income and expenses from insurance activities.

KPIs for the Insurance Services segment	At 30 June 2018	At 31 December 2017	Increase/(decrease)	
Net technical provisions, Poste Vita group (€bn)	124.5	123.6	0.9	0.7%
	At 30 June 2018	At 30 June 2017	Increase/(decrease)	
Gross premium revenue, Poste Vita group (€m) [1]	8,902	11,127	(2,225)	-20.0%
P&C insurance products sold (in millions)	0.20	0.20	-	n/s
Combined ratio (confirmed by ANIA)	55.4%	64.1%	-8.7%	
Loss ratio	27.8%	31.5%	-3.7%	
Expenses ratio (confirmed by ANIA)	27.6%	32.6%	-5.0%	
GWP - Life (€m) [2]	8,305	10,570	(2,265)	-21.4%
GWP - Private Pension Plans (€m) [2]	510	487	23	4.7%
GWP - P&C (€m) [2]	96	73	23	31.5%

[1] Includes earned premiums before outward reinsurance premiums attributable to Poste Vita SpA and Poste Assicura SpA and Poste Welfare Servizi Srl's revenue.

[2] Includes gross premium revenue before the premium reserve and outward reinsurance premiums.

Operating profit generated by the Insurance Services segment totals €360 million for the first half of 2018, an increase of 2.9% compared with the figure for the same period of the previous year (€350 million).

Total revenue is down 1.9% from €698 million in the first half of 2017 to €685 million, essentially reflecting the performance of the Life business, which contributed €622 million, whilst the contribution from the Non-life business is €57 million.

Net Life revenue is down 4.3% (€28 million) compared with the first half of 2017, primarily due to a reduction in gross premium revenue of €2.2 billion (20%), which has resulted in a €35 million reduction in loadings, partially offset by an increase of €15 million in the net investment result which, on the other hand, benefitted from the greater volume of assets under management.

Net Non-life revenue amounts to €57 million, marking an increase of 35.7% compared with the first half of 2017 (€42 million). This was driven primarily by a positive commercial performance, with total premium revenue amounting to €96.4[12] million, up 32% on the figure for the same period of 2017 (€73.3 million). This was accompanied by a positive technical performance as a result of a reduced volume of claims with respect to the growth in sales.

Total costs of €325 million are down €23 million compared with the figure for the same period of 2017 and regard:

- intersegment costs of €256 million (€276 million in the first half of 2017) regarding fees paid for distribution, collection and maintenance services, totalling €237 million and down from the €257 million of the previous year due to a reduction in gross premium revenue;
- personnel expenses of €20 million (€18 million in the first half of 2017);
- depreciation, amortisation and impairments of €8 million (€9 million in the first half of 2017);
- other costs totalling €41 million (€45 million in the first half of 2017).

Net finance income amounts to €29 million (income from the investment of free capital, totalling €43 million, after deducting interest payable on subordinated loans, amounting to €14 million), an increase of 70.6% compared with the first half of 2017, when the impairment loss of €12 million on the investment of Poste Vita's free capital in the Atlante fund weighed.

After income tax expense for the period (€138 million), the segment's profit for the first half amounts to €251 million, up 7.7% on the €233 million of the same period of the previous year.

In keeping with its strategic objectives, in the first half, the Poste Vita insurance group primarily focused its efforts on:

- strengthening its leadership in the life insurance market, with a greater focus on Class III policies and pensions;
- boosting its position in the protection and welfare segment.

In the Life business, the Class I offering has been rationalised and a new product, providing greater flexibility in the choice of payment method has been launched. By the end of July 2018, the offering will be further expanded with the

[12] Gross earned premiums for the period amount to €82 million.

launch of a new multiclass policy. The commercial promotion of protection products has continued with the aim of supporting the sales network and building customer loyalty.

The Life business generated gross premium revenue of €8.8 billion, marking a decline with respect to the first half of 2017 (€11.1 billion), but reflecting an uneven performance depending on class of business. Class III premiums amount to €416 million, marking a significant improvement with respect to the €232 million of the same period of 2017 (growth of 79%), driven by inflows into the *PIR* (*Piano Individuale di Risparmio*) product launched from the second half of 2017, amounting to €225 million, and the positive performance of the multiclass product which, with net premium revenue of €299 million, registered growth of 45% compared with 2017. Gross inflows into traditional with-profits policies, including pension products, amount to €8.2 billion, down from the €10.7 billion of the first half of 2017.
The Life business generated net premium revenue of €4.9 billion (€5.9 billion in the first half of 2017), contributing significantly to the growth in assets under management, in line with the stated aim of consolidating the group's market leadership. Claims paid to customers total €4.0 billion (€5.1 billion in the first half of 2017) and include policy expirations of €1.3 billion (€2.8 billion in the same period of 2017), with €0.7 billion of this sum attributable to Class III policies. Total surrenders amount to €1.7 billion (€1.5 billion in the same period of 2017), accounting for 3.1% of initial provisions (3.0% at 30 June 2017), a figure that continues to be far lower than the industry average (the latest figure published on ANIA's website at 31 March 2018 is 6.96%).
Technical provisions for the Life business, before the portion ceded to reinsurers, amount to €124.4 billion (including mathematical provisions of €119.7 billion). This figure is up compared with the €123.5 billion (including mathematical provisions of €114.0 billion) and €118.5 billion (including mathematical provisions of €109.5 billion), respectively, of December and June of the previous year.

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. The 32% growth in gross premiums revenue was driven by all the types of policy: CPI up 44%, Property and Personal up 11% thanks to the launch of the *Posta Protezione Casa 360* product, which has introduced cover for guarantees linked to natural disasters, Welfare, where revenue is up from €4 million in the first half of 2017 to €14 million, driven by the launch of the health care fund for the Poste Italiane Group's employees from 1 April 2018 and by growing inflows into other health care funds and collective accident policies.
Technical provisions for the Non-life business, before the portion ceded to reinsurers, amount to €180 million at the end of the period, up 13% compared with the end of 2017 (€160 million).

5. NON-FINANCIAL INFORMATION

HUMAN RESOURCES

With over 135,000 FTE employees working nationwide, Poste Italiane remains Italy's leading employer.

Poste Italiane Group

	Average number of employeesi (*) in the six months ended 30 June			
Permanent workforce	**2018**	**2017**	**increase/(decrease)**	
Executives	701	743	(42)	-5.7%
Middle managers	15,551	15,895	(344)	-2.2%
Operational staff	110,783	115,673	(4,890)	-4.2%
Total workforce on permanent contracts	**127,035**	**132,311**	**(5,276)**	**-4.0%**
Work placements	-	1	(1)	n/s
Apprenticeships	3	17	(14)	-82.4%
Total permanent workforce	**127,038**	**132,329**	**(5,291)**	**-4.0%**
Flexible workforce				
Agency staff	121	2	119	n/s
Fixed-term contracts	8,125	5,639	2,486	44.1%
Total flexible workforce	**8,246**	**5,641**	**2,605**	**46.2%**
Total permanent and flexible workforce	**135,284**	**137,970**	**(2,686)**	**-1.9%**

(*) Expressed in full-time equivalent terms.
n/s: not significant

Workforce by gender (figures shown in full-time equivalent terms)	**At 30 June 2018**	**At 30 June 2017**	**Increase/(decrease)**	
Permanent workforce	**125,687**	**131,160**	**(5,473)**	**-4.2%**
of which				
Men	57,752	61,049	(3,297)	-5.4%
Women	67,935	70,111	(2,176)	-3.1%
Flexible workforce	**8,149**	**6,019**	**2,130**	**35.4%**
of which				
Men	4,875	3,586	1,289	35.9%
Women	3,274	2,433	841	34.6%

Regarding gender diversity in the Group's governing bodies, during the first half of 2018 the boards of directors of Group companies were chaired by 63 people. Women make up 32% of the total (including 41% in the 30-50 age group).

TRAINING

In the first half of 2018, approximately 1.4 million hours of classroom and online training were provided, including:

- mandatory courses on workplace health and safety;
- management training aimed at strengthening leadership and management effectiveness, with a focus on the role of managers in the performance management system;
- specialist technical training including a compliance and business support approach, aimed at delivery and front-end staff and in general at sales channels and customer relations, with a focus on combatting money laundering and terrorism.

INDUSTRIAL RELATIONS

On 8 February 2018, a draft agreement was signed with all the labour unions regarding the reorganisation of Delivery activities. The new arrangements envisage the following:

- The alternate day delivery model for the areas specific in the existing regulatory framework (AGCom Resolution 395/15/CONS), where a Basic Service operating on alternate days will be in place. In the case of business opportunities linked to specific commercial agreements, such as the distribution of newspapers in certain areas, temporary business arrangements will be adopted.

- The Joint Delivery model for the remaining areas, in which mail delivery will be in the form of a Basic Service and a Business Service for the daily door-to-door delivery of products under Service Level Agreements for next-day deliveries.

This operational and organisational restructuring will take place during 2018 and 2019, each divided into 4 phases, the first of which was launched on 16 April 2018.

The Parties also defined procedures for managing surplus staff resulting from this reorganisation process, excluding recourse to collective redundancy procedures pursuant to Law 223/91.

Finally, following on from the undertakings given regarding active labour policies with the signing of the National Collective Labour Contract on 30 November 2017, the Parties reached an agreement on 13 June 2018 in which the procedures and criteria for managing changes in the workforce in the three-year period 2018-2020 were established. In particular, during the period in question, the equivalent of 6,000 FTE jobs are to be created in return for a number of voluntary redundancies, affecting employees on permanent contracts, amounting to at least 15,000 FTEs. The actions to be taken in order to meet the Company's operational and organisational requirements are as follows: 1) the permanent hire of employees who have worked on fixed-term contracts; 2) external recruitment, primarily in the form of apprenticeships; 3) the conversion of part-time to full-time contracts; and 4) voluntary redundancies.

On 19 June 2018, in line with previous accords, two agreements were signed: 1) the offer of permanent contracts to staff formerly employed on fixed-term contracts and temporary staff reinstated under a favourable court decision that has not yet become final, who work for the Company and who have not benefited from similar previous agreements; 2) the recruitment on fixed-term contracts of delivery agency staff who are unemployed or are the beneficiaries of income support as a result of the total or partial insourcing of Poste Italiane's delivery activities.

Welfare

During the first half of the year, the welfare system continued to promote inclusive services provided to socially vulnerable groups, and develop initiatives geared towards the needs of employees and their families.

As part of the "Work experience champions" memorandum of understanding signed with the Ministry of Education, Universities and Research, a national work experience project was launched including training courses in five thematic areas covering the main corporate processes, which saw participation by around 150 students.

Regarding the initiatives aimed at encouraging active parenthood, MAAM training was also extended to include fathers. This project aims to make parenthood a "training ground" for the development of soft parenting skills.

Health plan for employees

On 30 April, the first phase was completed of the adoption of the PosteVitaFondosalute Supplementary Health Care Fund, which was established with the renewal of National Collective Labour Agreement on 30 November 2017. This health plan provides two levels of coverage: "Basic", paid for entirely by the Company, and "*Plus*", which extends the "Basic" level of coverage in return for payment of an additional premium by the employee. To date, almost 100,000 employees have signed up to the plan, amounting to 75% of those entitled to do so.

Development activities

During the first half of the year, new development initiatives to support the challenges outlined in the 2022 Deliver Plan included the launch of the Mentoring project. This tool designed to strengthen a community of leadership practice, involved 40 mentors identified from among the executive managers and around 80 mentees selected from among middle managers under development.

The in-house programme of hackathons, involving around 250 talented people engaged in the design of innovative projects to support change, also continued.

The virtual "MLAB Community", which has around 400 participants and is aimed at consolidating managerial skills in line with the changes that Poste Italiane is facing, was also launched.

The 2017 performance appraisal process involved the Poste Italiane Group's entire workforce and approximately 8,000 appraisers.

Planning of MLab and POP scouting programmes, dedicated respectively to middle managers and high-performing employees, also continued.

CUSTOMER EXPERIENCE AND QUALITY

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 Group's approach to quality is based on the principles of simplification and transparency of customer information, and equality and impartiality of service to all customers without discrimination.

			Actual result for the six months ended 30 June	
Quality of products included within the scope of the universal service (*)	Delivery within	Target	2018	2017
Posta 1 - Priority (1)	1 day	80.0%	87.2% (5)	85.9%
Posta 1 - Priority (1)	4 days	98.0%	99.3% (5)	98.9%
Posta 4 - Ordinary (2)	4 days	90.0%	89.9% (4)	92.3% (3)
Posta 4 - Ordinary (2)	6 days	98.0%	97.5% (4)	97.3% (3)
Bulk mail (1)	4 days	90.0%	98.8%	96.6%
Bulk mail (1)	6 days	98.0%	99.8%	99.6%
Registered mail (1)	4 days	90.0%	95.6%	94.7%
Registered mail (1)	6 days	98.0%	98.1%	97.6%
Insured mail (1)	4 days	90.0%	99.4%	99.6%
Insured mail (1)	6 days	98.0%	99.9%	99.9%
Standard parcels (1)	4 days	90.0%	96.9% (5)	95.4%

(1) Monitored using the electronic tracking system

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

(3) Figure to July YTD (does not include standard deviation)

(4) Figure to May YTD (does not include standard deviation)

(5) Figure to May YTD

(*) not consolidated

Settlements

	In the six months ended 30 June			
	2018	2017	Increase/(decrease)	
Retail postal product disputes discussed	348	476	(128.0)	-26.9%
of which settled	*97%*	*89%*	*8.0%*	
Business postal product disputes discussed	29	46	(17.0)	-37.0%
of which settled	*93%*	*67%*	*26.0%*	
Bancaposta product disputes discussed	224	163	61.0	37.4%
of which settled	*55%*	*57%*	*-2.0%*	
PosteMobile product disputes discussed	25	21	4.0	19.0%
of which settled	*96%*	*52%*	*44.0%*	
Total disputes discussed	**626**	**706**	**(80.0)**	**-11.3%**
of which settled	***512***	***560***	***(48.0)***	***-8.6%***

(*) The deadline for the submission of claims under the conciliation procedure for the IRS Real Estate Fund was 15 September 2017.
n/s: not significant

During the first half of the year, 626 settlement applications were submitted, of which 512 (82%) were settled with the parties reaching agreement.

Complaints handled

	In the six months ended 30 June		Increase/(decrease)	
Post offices	**2018**	**2017**		
Complaints received (*)	4,651	4,274	377	8.8%
Average reply time (days)	31	33	(2)	-6.1%
Mail				
Complaints received (*)	45,435	52,402	(6,967)	-13.3%
Average reply time (days)	27	29	(2)	-6.9%
Parcels				
Complaints received (*)	101,064	95,480	5,584	5.8%
Average reply time (days)	17	22	(5)	-22.7%
Financial Services				
Complaints received (*)	46,264	40,976	5,288	12.9%
Average reply time (days)	10	15	(5)	-33.3%
Insurance Services				
Complaints received (*)	1,536	1,651	(115)	-7.0%
Average reply time (days)	14	15	(1)	-6.7%
Investigations initiated by the Insurance Regulator	89	97	(8)	-8.2%
Poste Mobile				
Mobile telephone complaints received (*)	6,515	8,695	(2,180)	-25.1%
Average reply time (days)	5	5	-	-
Landline complaints received (*)	427	60	367	n/s
Average reply time (days)	15	10	5	50.0%

(*) Figures for compliants refer to the open files requiring back-office intervention.
n/s: not significant

In the first half of 2018, the “Poste Risponde" Contact Centre handled 11.6 million contacts (12 million in the first half of 2017). Assistance is provided regarding financial and postal services, insurance and pension services and mobile telecommunications services. Development of the Contact Centre continued during the first half of the year, partly thanks to the integration of assistance dedicated to large business and Public Administration customers at central and regional level, with the aim of improving the ability to respond to the needs of leading customers regarding the Group's products and services.
In addition, the Contact Centre's response capability, measured by the percentage of calls from customers who received a reply, improved from 91.8% in the first half of 2017 to 95.2% in the first half of 2018.

Post office waiting times

	In the six months ended 30 June		Increase/(decrease)	
	2018	**2017**		
Average waiting time in post offices (minutes)	8.17	7.79	0.4	4.9%
Customer served within 15 minutes (%)	83.9	84.9	(1.0)	-1.2%

INCLUSION

Inclusive ATMs

	In the six months ended 30 June				Increase/(decrease)	
	2018		**2017**			
Total number of ATMs	**7,271**		**7,250**		21.0	0.3%
of which:		Coverage		Coverage		
ATMs with touchpads for the visually impaired and the blind and graphical maps for the visually impaired	7,271	*100%*	7,250	*100%*	21.0	0.3%
ATMs with voice guidance	6,035	*83%*	5,501	*76%*	534.0	9.7%

The attention Poste Italiane pays to customers with disabilities has led to the creation of a new generation post offices without architectural barriers. Moreover, 83% of ATMs are equipped 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 7,271 ATMs enable visually impaired people to make withdrawals, and since December 2017 the list of movements has also been available.

Cultural integration post offices

	In the six months ended 30 June			
	2018	**2017**	**Increase/(decrease)**	
Mono-ethnic (no.)	2	2	-	-
Multi-ethnic (no.)	25	25	-	-
Number of customers served (in thousands)	1,657	1,653	4.0	0.2%
Total transactions carried out (in thousands)	2,777	2,828	(51.0)	-1.8%

Poste Italiane's commitment to developments in the social environment, in which its approach to foreign citizens in Italy has become an important element in overcoming language barriers, 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.
- 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.

New customers in the categories most at risk of financial exclusion as a percentage of total new acquisitions

	In the six months ended 30 June		
	2018	**2017**	**Increase/(decrease)**
New retail current account openings			
Percentage of young current account holders (under 35)	24.5	25.0	(0.5)
Percentage of senior current account holders (over 65)	24.2	24.4	(0.2)
Percentage of current account holders who are "new Italians"	16.5	17.4	(0.9)
New retail Postepay standard cards (*)			
Percentage of young Postepay standard card holders (under 35)	35.1	37.9	(2.8)
Percentage of senior Postepay standard card holders (over 65)	7.7	6.6	1.1
Percentage of Postepay standard card holders who are "new Italians"	12.4	12.9	(0.5)
New retail Postepay Evolution cards (*)			
Percentage of young Postepay Evolution card holders (under 35)	44.7	44.5	0.2
Percentage of senior Postepay Evolution card holders (over 65)	5.7	5.5	0.2
Percentage of Postepay Evolution card holders who are "new Italians"	21.7	20.9	0.8

(*) For Postepay Standard and Evolution cards, renewals during the period are excluded.

In the first half of the year, 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).

DIGITALISATION, INNOVATION AND RESPECT FOR THE ENVIRONMENT

Digital is now a key driver in the relationship with the stakeholders who interact with Poste Italiane using multiple channels, both physically through the network of 12,824 post offices, 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.

Digital services in numbers

	In the six months ended 30 June			
Category	**2018**	**2017**	**Increase/(decrease)**	
Customers registered on Poste Italiane's digital channels (websites and apps) (in millior	16.2	13.5	2.7	20.0%
Digital identitities issued (in millions)	2.3	1.3	1.0	76.9%
Apps downloaded (*) (in millions)	17.9	12.1	5.8	47.9%
Transactions carried out via consumer digital channels (websites and apps) (in millions)	22.5	18.6	3.9	21.0%
Focus – Poste Vita customers				
Poste Vita Insurance Group customers registered in the reserved area (no.)	478,313	385,833	92,480	24.0%
Customers who use Poste Vita and Poste Assicura services via mobile devices (%)	35.9%	30.1%	5.8%	

(*) App downloads refer to users who have downloaded the app from the launch of the first version until the date indicated (30 June 2018 and 30 June 2017).

The dematerialisation of contracts and transactions, managed via the Electronic Management of Contracts and Transactions (EMCT) project, is aimed at implementing 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. The environmental benefits include lower consumption of resources (paper) and waste generation (toner cartridges), less energy used for printing, and reduced CO_2 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.

	In the six months ended 30 June			
Types of procedure (in thousands)	**2018**		**2017**	
	No. Procedures	**% dematerialised**	**No. Procedures**	**% dematerialised**
Total	7,566	84%	7,190	70%

	In the six months ended 30 June			
Corresponding transactions (in thousands)	**2018**		**2017**	
	Dematerialised and digitalised	**Dematerialised**	**Dematerialised and digitalised**	**Dematerialised**
Total transactions	37,803	18,955	37,274	21,059
Total electronic transactions	33,498	16,571	28,669	15,106
Electronic transactions as % of total	89%	87%	77%	72%

At 30 June 2018, 10,670 post offices have been "dematerialised" for both contracts and transactions (83% of the total). Specifically, compared with the first half of 2017, the number of post offices dematerialised for contracts has risen by 7,066 (3,604 offices enabled at 30 June 2017) and the number of post offices dematerialised for transactions has risen by 2,213 (8,457 offices enabled at 30 June 2017).

The consumption of paper and cardboard for printing services

	In the six months ended 30 June			
	2018	**2017**	**increase/(decrease)**	
Paper and cardboard (in tonnes)	10,216	10,549	(333)	-3.2%

Postel SpA is the Group company that provides customers with a technology platform for the digitalisation of communications and document management processes, enabling the dematerialisation and electronic processing of documents. It is also active in the printing services sector in the centres in Milan, Rome and Genoa, where it is equipped with bulk printing (bills, invoices, statements of account) and enveloping systems. 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.

Internal energy consumption for real estate by source

In the six months ended 30 June 2018	Consumption (GJ) *	CO_2 emissions (in tonnes)
Renewable energy	**845,836**	-
Certified guarantee of origin electricity	845,836	-
Non-renewable energy	**481,428**	**29,701**
of which:		
Electricity supplied by the National Grid	37,841	3,942
Natural gas	373,524	20,955
LPG	7,169	452
Diesel	48,407	3,585
District heating	14,487	767
Total energy	**1,327,264**	**29,701**

* Energy consumption has been converted into GJ (Gigajoules) using the energy fuel conversion factors adopted by the IPC (International Post Corporation).

Poste Italiane's energy consumption primarily derives from its 15 thousand workplaces. The process of overseeing the utilisation of energy resources is aimed at curbing consumption and consequently reducing the environmental impact in terms of the amount of greenhouse gases produced. In this regard, among other things, the LED project was launched, entailing replacement of light fixtures with fluorescent lights (neon type) with LED technology light fixtures (ceiling lights and spotlights): during the first half of 2018, the project was implemented at the first 405 sites.

In the first half of the year, 29,701 tonnes of CO_2 were emitted, compared with energy use of approximately 1.3 million GJ.

Vehicle fleet data

	In the six months ended 30 June			
	2018	2017	increase/(decrease)	
Total km travelled	171,544	168,180	3,364	2.0%
Total vehicles	33,578	39,014	(5,436)	-13.9%
of which:				
Traditional vehicles (no.)	29,622	34,321	(4,699)	-13.7%
Alternative vehicles (no.)	3,956	4,693	(737)	-15.7%
of which:				
Bicycles	324	324	-	-
Electric vehicles	833	1,064	(231)	-21.7%
Hybrid cars	93	113	(20)	-17.7%
Petrol-natural gas fuelled vehicles	1,727	2,210	(483)	-21.9%
Petrol-LPG fuelled vehicles	979	982	(3)	-0.3%
Percentage of alternative vehicles	11.8%	12.1%	-0.3%	
Grams of CO2 /Km	210	210	-	-

The gradual achievement of better quality and efficiency standards, together with the development opportunities linked to the e-commerce market, have led to a rejigging of overall vehicle requirements. The reduction in motorcycles and electric quadricycles was partly offset by the acquisition of new 4-wheeled vehicles capable of guaranteeing a load factor in line with the growing volume of parcels handled. In addition, the reduction of around 5 thousand vehicles compared to the first half of 2017 is due to the replacement of the entire 4-wheeled fleet completed during 2017, which led to an overlapping period in which old vehicles were being disposed of and new ones acquired. If the effects of this period are stripped out and the average actual size of the fleet in 2017 is taken into account, the real reduction amounts to approximately 1,000 vehicles.

6. 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.

As part of the continuous process of developing and improving the model, the various sectors in which Poste Italiane operates were studied. The aim was to provide an organic overview of the Group, standardise the methods and support tools used in managing risk and build awareness of the fact that the understanding and measurement of risk, and identification of the "sustainable" actions designed to contain it, in the various forms it may take in such a varied and complex entity such as Poste Italiane, is one of the Group's priorities and can have a major impact on its ability to achieve its strategic objectives.

In terms of the organisational measures needed for the purposes of oversight and effective treatment of the Group's risks, the Poste Italiane Group has set up a Group Risk Management function in order to improve the governance of processes and make them more efficient. This function is tasked with:

- to ensure, through a structured and integrated process, the identification, assessment and monitoring of risks in coordination with all the various actors within the SCIGR;
- 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 at Group level;
- to oversee the flow of information to the various corporate bodies as part of efforts to strengthen the SCIGR;
- to promote the dissemination of a risk management culture at all levels within the Group in order to systematically manage the organisation's principal risks and identify any potential opportunities.

The Poste Italiane Group's risk management process is 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 its 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 Group's Risk Management function supports senior management in the effective implementation and integrated management of the risk management process, in relation to all the areas/types of risk to which the Group is exposed, identified, as a matter of primary importance, in accordance with a process-based approach.
The Group has also adopted an integrated Governance, Risk and Compliance ("GRC") platform that enables it to study and record all the risks and help each of the actors involved in the process to view the information in line with their profile within the system. The system also supports the GRM function and the other actors in preparing integrated risk reports.

The principal risks resulting from the Group's activities are described in the Consolidated Non-financial Statement included in the Annual Report for 2017. Information on financial and insurance risks is provided in the condensed consolidated interim financial statements for the six months ended 30 June 2018 - Risk management.

7. OUTLOOK

In the second half of 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 will focus on progressive implementation of the new joint delivery model. The adoption of new automation technologies to support production processes will continue, with the aim of boosting the efficiency and quality of postal services, maximising synergies in the logistics and operations network and leveraging all the Group's available assets. This strategy will also enable the Group to improve its competitive position in the parcels market by taking advantage of the opportunities arising from the growth of e-commerce.

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 its existing assets in terms of expertise, customer base and physical and digital networks.
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 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. This will enable the latter to operate as an e-money institution. Following the receipt of authorisation from the Bank of Italy on 24 April 2018, the Annual General Meeting of Poste Italiane's shareholders, held on 29 May 2018, approved 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.

The above changes will be effective from 1 October 2018.

In the Financial Services segment, the Plan aims to take advantage of the opportunities arising from recent regulatory innovations (MiFID II 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.

Consolidation of the partnership with the Intesa San Paolo group as regards loans will lead to the launch of two new credit protection and insurance products providing cover for the mortgaged properties. The Group will begin marketing residential mortgages under the partnership with Intesa SanPaolo, enabling us to again develop a multi-partner strategy, completing the existing products offered in collaboration with Deutsche Bank.

In the Insurance Services segment, 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.

The bond markets witnessed prolonged falls in interest rates and spreads in the first six months of 2018, following by a sudden increase in the perception of sovereign risk for Italy following the uncertainty caused by the outcome of the general election of 4 March.

The sharp increase in volatility in May led to a very significant rise in the spread at the short-term end of the BTP curve.

The market currently appears to be biding its time, although it is reasonable to expect a period of BTP interest rate and spread volatility.

8. OTHER INFORMATION

EVENTS AFTER 30 JUNE 2018

In July, the Parent Company, Poste Italiane SpA, collected a dividend of €238 million from its subsidiary, Poste Vita.

Further events after the end of the reporting period for the Half-Year Report for 2018 are described in other sections of this document and no other material events have occurred after 30 June 2018.

RELATED PARTY TRANSACTIONS OF GREATER SIGNIFICANCE

Within the scope of the transactions with Monte dei Paschi di Siena Capital Services Banca per le Imprese SpA authorised by the Board of Directors on 20 September 2017, having obtained the consent of the Related and Connected Parties Committee, four repurchase agreements, fifteen buy & sell back transactions, which expired during the period, and seven Interest rate Swaps for hedging purposes and fifteen trades in government securities were carried out in the first half of 2018.

Within the scope of the transactions with Cassa Depositi e Prestiti authorised by the Board of Directors on 11 October 2016, having obtained the consent of the Related and Connected Parties Committee, two repurchase agreements were entered into during the first half of 2018.

There are no other related party transactions of greater significance completed in the first half of 2018 requiring the prior consent of the Related and Connected Parties Committee in accordance with the guidelines for managing transactions with related and connected parties.

Details of the impact of related party transactions on the financial position and profit or loss are provided in the condensed consolidated interim financial statements for the six months ended 30 June 2018 – Related party transactions.

STATEMENT OF RECONCILIATION OF PROFIT AND EQUITY

The statement of reconciliation of the Parent Company's profit/(loss) for the period and Equity with the consolidated amounts at 30 June 2018, compared with the statement at 31 December 2017, is included in the condensed consolidated interim financial statements for the six months ended 30 June 2018 - Share capital.

EXCEPTIONAL AND/OR UNUSUAL TRANSACTIONS

Under the definition provided by the CONSOB ruling of 28 July 2006, the Poste Italiane Group did not conduct any exceptional and/or unusual transactions[13] in the first half of 2018.

9. 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.

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.

NON-CURRENT ASSETS – this indicator represents the sum of property, plant and equipment, investment property, intangible assets and investments measured using the equity method. This indicator is also presented separately for each operating segment before adjusting for intersegment transactions.

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. This indicator is also presented separately for each operating segment before adjusting for intersegment transactions.

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. This indicator is also presented separately for each operating segment before adjusting for intersegment transactions.

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

[13] 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.

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.

LOSS RATIO is a measure of the technical performance of an insurance company providing Non-life cover and is calculated as the ratio of total losses incurred (including claims expenses) and gross earned premiums.

EXPENSE RATIO is calculated as the ratio of total expenses (operating costs and fees and commissions) and gross premium revenue.

COMBINED RATIO is a measure of profitability, calculated by taking total claim-related losses and general business costs and dividing them by the value of gross earned premiums and gross premium revenue. It is the sum of the Loss Ratio and the Expense Ratio.

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.

POSTE ITALIANE SPA				
for the six months ended 30 June (€m)	2018	2017	Increase/(decrease)	
Revenue from sales and services	4,854	4,583	271	5.9%
Operating profit/(loss)	905	469	436	93.0%
Profit/(loss) for the period	696	261	435	n/s
Investment	121	151	(30)	-19.9%
Equity (*)	5,729	5,118	611	11.9%
Permanent workforce - average	123,678	128,425	(4,747)	-3.7%
Flexible workforce - average	8,056	5,475	2,581	47.1%

(*) The amount shown in the column for the six months ended 30 June 2017 refers to 31 December 2017.

n/s: not significant

POSTEL SPA				
for the six months ended 30 June (€000)	2018	2017	Increase/(decrease)	
Revenue from sales and services	102,322	115,036	(12,714)	-11.1%
Operating profit/(loss)	(1,819)	2,073	(3,892)	n/s
Profit/(loss) for the period	(644)	507	(1,151)	n/s
Investment	1,439	5,649	(4,210)	-74.5%
Equity (*)	99,609	101,459	(1,850)	-1.8%
Permanent workforce - average	1,063	1,122	(59)	-5.3%
Flexible workforce - average	27	25	2	8.0%

(*) The amount shown in the column for the six months ended 30 June 2017 refers to 31 December 2017.

n/s: not significant

SDA EXPRESS COURIER SPA				
for the six months ended 30 June (€000)	2018	2017	Increase/(decrease)	
Revenue from sales and services	269,876	286,217	(16,341)	-5.7%
Operating profit/(loss)	(29,389)	(10,205)	(19,184)	n/s
Profit/(loss) for the period	(22,942)	(7,666)	(15,276)	n/s
Investment	5,283	1,118	4,165	n/s
Equity (*)	(10,379)	(22,876)	12,497	-54.6%
Permanent workforce - average	1,335	1,368	(33)	-2.4%
Flexible workforce - average	127	71	56	78.9%

(*) The amount shown in the column for the six months ended 30 June 2017 refers to 31 December 2017. Equity for the first half of 2018 includes capital of €40 million injected by the Parent Company during the first half.

n/s: not significant

EUROPA GESTIONI IMMOBILIARI SPA				
for the six months ended 30 June (€000)	2018	2017	Increase/(decrease)	
Revenue from sales and services	43,426	44,782	(1,356)	-3.0%
Operating profit/(loss)	1,878	2,250	(372)	-16.5%
Profit/(loss) for the period	653	862	(209)	-24.2%
Investment	153	453	(300)	-66.2%
Equity (*)	237,898	237,263	635	0.3%
Permanent workforce - average	28	28	0	n/s
Flexible workforce - average	1	-	1	n/s

(*) The amount shown in the column for the six months ended 30 June 2017 refers to 31 December 2017.

n/s: not significant

MISTRAL AIR SRL				
for the six months ended 30 June (€000)	2018	2017	Increase/(decrease)	
Revenue from sales and services	25,872	35,913	(10,041)	-28.0%
Operating profit/(loss)	(4,031)	(5,389)	1,358	-25.2%
Profit/(loss) for the period	(3,222)	(4,355)	1,133	-26.0%
Investment	73	158	(85)	-53.8%
Equity (*)	1,822	(1,895)	3,717	n/s
Permanent workforce - average	121	136	(15)	-11.0%
Flexible workforce - average	28	41	(13)	-31.7%

(*) The amount shown in the column for the six months ended 30 June 2017 refers to 31 December 2017. Equity for the first half of 2018 includes capital of €7 million injected by the Parent Company during the first half.

n/s: not significant

POSTE VITA SPA (*)				
for the six months ended 30 June (€000)	2018	2017	Increase/(decrease)	
Insurance premium revenue (**)	8,815,652	11,057,651	(2,241,999)	-20.3%
Profit/(loss) for the period	229,789	221,900	7,889	3.6%
Financial assets (***)	126,126,079	125,626,314	499,765	0.4%
Technical provisions for insurance business	124,400,497	123,489,910	910,587	0.7%
Equity (***)	3,137,532	3,323,728	(186,196)	-5.6%
Permanent workforce - average	395	372	23	6.2%
Flexible workforce - average	3	3	-	-

(*) 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.

(***) The amount shown in the column for the six months ended 30 June 2017 refers to 31 December 2017. During the first half, the company declared dividends totalling €238 million.

POSTE ASSICURA SPA (*)				
for the six months ended 30 June (€000)	2018	2017	Increase/(decrease)	
Insurance premium revenue (**)	81,561	64,720	16,841	26.0%
Profit/(loss) for the period	20,125	11,510	8,615	74.8%
Financial assets (***)	260,061	233,498	26,563	11.4%
Technical provisions for insurance business	180,411	160,005	20,406	12.8%
Equity (***)	113,477	104,359	9,118	8.7%
Permanent workforce - average	58	50	8	16.0%
Flexible workforce - average	1	-	1	n/s

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

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

(***) The amount shown in the column for the six months ended 30 June 2017 refers to 31 December 2017.

n/s: not significant

BANCOPOSTA FONDI SPA SGR				
for the six months ended 30 June (€000)	2018	2017	Increase/(decrease)	
Fee income	53,160	53,464	(304)	-0.6%
Net fee income	25,622	28,641	(3,019)	-10.5%
Profit/(loss) for the period	12,746	15,087	(2,341)	-15.5%
Financial assets (liquidity and securities) (*)	92,120	71,372	20,748	29.1%
Equity (*)	66,065	53,886	12,179	22.6%
Permanent workforce - average	56	56	-	-
Flexible workforce - average	1	-	1	n/s

(*) The amount shown in the column for the six months ended 30 June 2017 refers to 31 December 2017.

n/s: not significant

POSTEMOBILE SPA				
for the six months ended 30 June (€000)	2018	2017	Increase/(decrease)	
Revenue from sales and services	120,566	114,929	5,637	4.9%
Operating profit/(loss)	20,050	11,740	8,310	70.8%
Profit/(loss) for the period	14,383	8,190	6,193	75.6%
Investment	14,827	13,273	1,554	11.7%
Equity(*)	63,072	57,905	5,167	8.9%
Permanent workforce - average	202	211	(9)	-4.3%
Flexible workforce - average	-	4	(4)	n/s

(*) The amount shown in the column for the six months ended 30 June 2017 refers to 31 December 2017. During the first half, the company declared dividends totalling €9 million.

n/s: not significant

CONDENSED
CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

Posteitaliane

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 30 June 2018, 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.

These condensed consolidated financial statements refer to the six months ended 30 June 2018 and have been prepared in euros, the currency of the economy in which the Group operates. They consist of the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, the condensed statement of cash flows and the notes. Amounts in the financial statements and the notes are shown in millions of euros, unless otherwise stated.

2. BASIS OF PRESENTATION FOR THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

2.1 COMPLIANCE WITH IAS/IFRS

The consolidated interim financial statements are prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and endorsed by the European Union (“EU”) in EC Regulation 1606/2002 of 19 July 2002, and in accordance with Legislative Decree 38 of 28 February 2005, which governs the application of IFRS in Italian law.

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 1 August 2018, the date on which the Board of Directors of Poste Italiane SpA approved the interim report.

2.2 BASIS OF PRESENTATION

These consolidated interim financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* and article 154-ter (paragraph 3) of the Consolidated Law on Finance. As permitted by IAS 34, they provide less information than the annual financial statements (which are prepared in accordance with IAS 1 – *Presentation of Financial statements*), as they are intended to provide an update on the latest complete set of annual financial statements focusing on new activities, events and circumstances – to the extent considered relevant – as well as certain minimum additional information; accordingly, they do not duplicate information previously reported in the consolidated financial statements of the Poste Italiane Group at and for the year ended 31 December 2017, to which reference should be made for a more complete understanding of the matters reported herein. In accordance with IAS 34, the following information included in these financial statements is considered to be relevant in terms of providing an understanding of the changes in financial position, operating performance and cash flows during the first six months of 2018.

The accounting policies and recognition, measurement and classification criteria adopted in preparing the consolidated interim financial statements are the same as those adopted in the preparation of the consolidated financial statements at and for the year ended 31 December 2017, with the exception of the criteria applied to the classification, measurement and impairment of financial instruments, and the method of revenue recognition, which have changed following the entry into effect of the new accounting standards, IFRS 9 – *Financial Instruments* and IFRS 15 – *Revenue from Contracts with Customers*.

In view of the above, the impact of transition to the new international financial reporting standards and the Poste Italiane Group's new accounting policies are described in these consolidated interim financial statements.

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

With regard to the interpretation and application of newly published, or revised, international accounting standards, and to certain aspects of taxation[14], where the related interpretations are based on examples of best practice or case-law that cannot yet be regarded as exhaustive, the financial statements have been prepared on the basis of the relevant best practices. Any future changes or updated interpretations will be reflected in subsequent reporting periods, in accordance with the specific procedures provided for by the related standards.

2.3 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.

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[14] 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. Two further decrees have been issued in 2018. These contain regulations governing determination of the tax bases for IRES and IRAP, with the aim of coordinating application of the international financial reporting standards, IFRS 9 – *Financial Instruments* and IFRS 15 – *Revenue from Contracts with Customers*, which have come into effect in 2018.

The financial statements consolidated on a line-by-line basis have been specifically prepared at 30 June 2018, after appropriate adjustment, where necessary, to align accounting policies with those of the Parent Company.

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

The criteria and basis of consolidation adopted in these interim financial statements are consistent with those adopted in preparing the consolidated financial statements at and for the year ended 31 December 2017, to which reference is made for further details.

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

Subsidiaries and joint ventures	At 30 June 2018	At 31 December 2017
Consolidated on a line-by-line basis[15]	14	15
Accounted for using the equity method	6	6
Total companies	**20**	**21**

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.*

2.4. USE OF ESTIMATES

While preparation of the consolidated interim financial statements requires management to make more extensive use of estimates compared with the annual financial statements, there have been no changes with respect to the Poste Italiane Group's consolidated financial statements at and for the year ended 31 December 2017, in terms of either the type of estimates made or the methods of calculation and measurement adopted, with the following exceptions: estimates regarding application of the rules governing the impairment of financial instruments in accordance with IFRS 9; and estimates of variable consideration included in the recognition of revenue introduced by IFRS 15. These estimates are described in detail in note 3, "Changes to accounting policies".

This section provides an update of those consistently adopted accounting estimates that, in view of changing conditions during the six months ended 30 June 2018, require an update. Reference is made to the Annual Report for 2017 for a comprehensive review of the use of estimates.

Revenue and trade 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

15 The change in the scope of consolidation regards the merger of PosteTutela SpA with and into Poste Italiane SpA, completed on 13 February 2018. The transaction was effective for legal purposes from 1 March 2018, and for accounting and tax purposes from 1 January 2018.

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 accounting periods after the period ended 30 June 2018 to reflect variations in estimates, due to future regulatory enactments or following the finalisation of expired agreements to be renewed.

At 30 June 2018, Poste Italiane Group's receivables outstanding with central and local authorities amounted to €998 million (€969 million at 31 December 2017), gross of provisions for doubtful debts.

The table below summarises receivables due from the State.

(€m)

Receivables		at 30 June 2018	at 31 December 2017
Universal Service compensation	(i)	75	31
Electoral subsidies	(ii)	83	83
Remuneration of current account deposits	(iii)	20	25
Delegated services	(iii)	28	56
Other		3	2
Trade receivables due from the MEF		**209**	**197**
Shareholder transactions:			
Amount due from MEF following cancellation of EC Decision of 16 July 2008	(iv)	**39**	**39**
Total amounts due from the MEF		**248**	**236**
Receivables due from Ministries and Public Administration entities: Cabinet Office for publisher tariff subsidies	(v)	61	43
Receivables due from Ministries and Public Administration entities: Ministry for Econ. Dev.	(vi)	77	77
Other trade receivables due from Public Administration entities	(vii)	540	538
Trade receivables due from Public Administration entities		**678**	**658**
Other receivables and assets:			
Sundry receivables due from Public Administration entities	(viii)	**5**	**8**
Amounts receivable for IRES refund		55	55
Amounts receivable for IRAP refund		12	12
Current tax assets and related interest	(ix)	**67**	**67**
Total amounts due from the MEF and Public Administration entities		**998**	**969**

Specifically, at 30 June 2018, the total exposure to the State includes the following items.

i. Receivables related to Universal Service compensation, totalling €75 million and relating to:
   - €44 million in remaining compensation accrued during the first half and received in July 2018;
   - €31 million in compensation for previous years not funded in the state budget.
ii. Receivables related to electoral tariff subsidies, totalling €83 million, are fully funded in the state budget for 2017 and in those for prior years. These receivables are shown gross of collection of the amount of €55 million deposited in an escrow account with the Italian Treasury 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 procedures for release of the amount deposited and for payment of the remaining amount receivable are in the process of being finalised with the MEF.
iii. Sums due from the MEF in the amount of €48 million, accruing during the period and not giving rise to any particular concerns.
iv. Receivables of €39 million following cancellation of the EC Decision of 16 July 2008, relating to 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 have been deferred or adjusted.

v. Sums of €61 million due from the Cabinet Office in the form of publisher tariff subsidies[16], including €19 million accruing during the period, included in the state budgets for 2017 and 2018. These receivables are shown gross of collection of the amount of €42 million in subsidies for 2017, which was deposited by the Cabinet Office in an escrow account with the Italian Treasury and, for this reason, accounted for in "Prepayments received". Release of the amount deposited and extinguishment of the receivables in question are awaiting approval from the European Commission.

vi. Receivables due from the Ministry for Economic Development, amounting to €77 million, including receivables of €62 million that are the subject of legal action brought by Poste Italiane 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. Receivables outstanding with central and local government entities, totalling €540 million. Certain items are still overdue, mainly because no provision was made in the relevant budgets or in connection with contracts or agreements. To this end, steps continue to be taken to renew the expired agreements and to make the necessary provisions[17].

viii. Other receivables of €5 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 30 June 2018, was assessed during 2017, 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.

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

17 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.

At 30 June 2018, 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 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 30 June 2018 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)[18].

Measurement of other non-current assets

The current economic and financial crisis - which has resulted in highly volatile markets and great uncertainty with regard to economic projections - and the decline of the postal market in which the Group operates make it difficult to produce forecasts that can, with certainty, be defined as reliable. In this context, at 30 June 2018, 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

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[18] In the test carried out at 30 June 2018, use was made of an assumed long-term growth rate of between 1.53% and 1.6%, while the WACC for each CGU tested for impairment, determined in accordance with best market practices and for each operating segment, ranged from a minimum of 5.76% to 6.96%. The cost of equity (Ke) is estimated as 6.78% for banking activities and 7.12% for asset management activities.

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 6.13% 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 30 June 2018. 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.

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 period. 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.

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), the short-term incentive plan (MBO) for BancoPosta RFC's material risk takers (approved by Poste Italiane SpA's shareholders on 27 April 2017) and early retirement schemes 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.

2.5 DETERMINATION OF FAIR VALUE

The Poste Italiane Group has adopted a fair value policy, setting out the general principles and rules to be applied in determining fair value for the purposes of preparing the financial statements, conducting risk management assessments and supporting the market transactions carried out by the Finance departments of the various Group entities. The principles and rules to be applied in measuring the fair value of financial instruments are unchanged with respect to 31 December 2017 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 period, 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) third;
- **Financial liabilities**: measurement is based on the ask prices quoted by CBBT (*Bloomberg Composite Price*).

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

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

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

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

Bonds either quoted on inactive markets or not at all:

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

Unquoted equities: this category may be 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 measure using the discounted cash flow techniques described for plain vanilla interest rate swaps above. Using the derivatives held in Poste Italiane's portfolio as an example, the option component is derived from interest rate or inflation rate risks and is valued using a closed form expression, as with classical option valuation models with underlyings exposed to such risks.

- **Bond forwards:** valuation is based on the present value of the differential between the forward price of the underlying instrument as of the measurement date and the settlement price.
- **Warrants:** considering the features of the securities held, measurement is based on the 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.

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

Accounting standards and interpretations applicable from 1 January 2018:

- **IFRS 15** – *Revenue from Contracts with Customers*, adopted with Regulation (EU) no. 1905/2016, which has replaced IAS 18 - *Revenue*, IAS 11 – *Construction Contracts* and IFRIC 13 – *Customer Loyalty Programmes*, introducing an innovative, single framework that substantially changes the definitions, criteria and methods used for measuring and recognising revenue in the financial statements.
- **IFRS 9** - *Financial Instruments,* adopted with Regulation (EU) no. 2067/2016, which has replaced a large part of IAS 39 – *Financial Instruments: Recognition and Measurement*, improving 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 at the timely recognition of expected losses on financial assets.
- **Amendments to IFRS 15** – *Revenue from Contracts with Customers – Clarifications to IFRS 15*, adopted with Regulation (EU) no. 1987/2017. Certain clarifications have been 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 IAS 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 used.
- **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.
- **IFRIC 22** - *Foreign Currency Transactions and Advance Consideration* adopted with Regulation (EU) no. 519/2018. This interpretation clarifies the accounting treatment of transactions involving advance receipts or payments in foreign currency.

Accounting standards and interpretations soon to be effective

The following, on the other hand, are applicable from 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 financial liability for an amount equal to the present value of the periodic contractual payments for the lease in return for the right to use the asset, over the agreed lease term deemed to be reasonably certain. The value of the right-of-use asset on initial measurement must be equal to the value of the financial liability, unless there are certain items represented, for example, by direct costs incurred in order to conclude the contract.
  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. Contracts for which the standard grants the option of non-application, despite the fact that they meet the requirements for identification of a lease arrangement, are those in which the arrangement concerns an intangible asset other than those expressly excluded from the scope of the standard (e.g. motion picture films, video recordings, plays, manuscripts, patents and copyrights).
- **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 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*.
- Amendments to the *Conceptual Framework* for IFRS.

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.

IFRS 16 - *Leases*

In early 2018, the Parent Company began the specific process of implementing IFRS 16, broken down into the following stages.

- Assessment, with the aim of identifying the relevant arrangements throughout the Group. This has involved analysing the main characteristics, surveying the available IT systems and identifying the necessary changes and additions, mapping the related processes and procedures, identifying the impact on the Group's activities (Budgeting, Forecasting, Treasury and Legal). The design stage will also assess the various scenarios for transition to the standard and, by simulating the main effects on profit or loss, the financial position and cash flow, identify the best solutions in terms of feasibility and accuracy. This stage is expected to be completed by the end of July 2018.
- Design, with the aim of putting in place an administrative and accounting system capable of ensuring full compliance with the standard in terms of: accounting flows, underlying information systems, corporate processes and procedures and responsibilities. This stage is expected to be completed by the end of September 2018.
- Implementation, with the aim of implementing the plan produced during the Design stage, in accordance with the timing and procedures for transition to the standard. This stage is expected to be completed by the end of December 2018.

In line with the expected timing, the survey aimed at identifying the lease contracts to which Poste Italiane SpA and other Group companies are party had been completed at the end of the first half of 2018. The main types of identified arrangement falling with the scope of the standard primarily regard:

- properties used in operations (approximately 10,500 contracts)
- the fleet of vehicles used in the delivery of postal products and company vehicles for business or private use by personnel (approximately 10 contracts covering around 17,000 company vehicles);
- properties used as residential accommodation by personnel (approximately 130 contracts);
- aircraft used by the airline, Mistral Air Srl (2 contracts).

At the date of preparation of these interim financial statements, assessment of the financial impact of application of IFRS 16 is not sufficiently exhaustive or reliable. However, considering the substantial number of leases to which Group companies are party, it is reasonable to suppose that the effects will be significant in terms of financial position and appreciable in terms of profit or loss, and will have major implications for management and control processes.

3 CHANGES IN ACCOUNTING POLICIES

3.1 BASIS OF PREPARATION

From 1 January 2018, the Poste Italiane Group has adopted *IFRS 9 Financial Instruments* (adopted with Regulation (EU) no. 2067/2016) and *IFRS 15 Revenue from Contracts with Customers* (adopted with Regulation (EU) no. 1905/2016).

Below, details are provided of the new classification and measurement methods introduced by the abovementioned IFRS and the impact of their first-time adoption on the Poste Italiane Group's statement of financial position.

3.1.1 IFRS 9 – Financial Instruments

On initial recognition, financial assets and liabilities are classified at fair value based on the business purpose for which they were acquired. The purchase and sale of financial instruments is recognised by category, either on the date on which the Group commits to purchase or sell the asset (the transaction date), or, in the case of insurance transactions and BancoPosta's operations, at the settlement date[19]. Any changes in fair value between the transaction date and the settlement date are recognised in the financial statements.

On the other hand, trade receivables are recognised at their transaction price, in accordance with *IFRS 15 Revenue from Contracts with Customers.*

Financial assets

On initial recognition, financial assets are classified in one of the following categories, based on the business model adopted to manage them and the characteristics of their contractual cash flows.

- Financial assets recognised at amortised cost
  This category reflects financial assets held to collect the contractual cash flows (the held to collect or HTC business model) representing solely payments of principal and interest (SPPI). These assets are recognised at amortised cost, that is the amount of the asset on initial recognition, less principal repayments, plus or minus the accumulated amortisation, using the effective interest method, of all the differences between the initial principal and principal at maturity, net of any provisions for doubtful debts. The business model on which the classification of financial assets is based permits the sale of such assets; if the sales are not occasional, and are not immaterial in terms of value, consistency with the HTC business model should be assessed.

- Financial assets recognised at fair value through other comprehensive income (FVTOCI)
  This category includes financial assets held both to collect the relevant contractual cash flows and for sale (the held to collect and sell or HTC&S business model), with the contractual cash flows representing solely payments of principal and interest.
  These assets are recognised at fair value through other comprehensive income – except for impairment losses and revaluations and foreign exchange gains and losses – until the financial asset is derecognised

[19] This is possible for transactions carried out on organised markets (the "regular way").

or reclassified. If the financial asset is derecognised, the accumulated gains/(losses) recognised in OCI are recycled to profit or loss.

This category includes debt instruments that meet the above characteristics as well as equity instruments that would otherwise be recognised through profit or loss, for which the irrevocable election was made to recognise changes in fair value through OCI (the **FVTOCI option**). This option entails the recognition of dividends alone through profit or loss.

- Financial assets at fair value through profit or loss

  This category includes: (a) financial assets primarily held for trading; (b) those that qualify for designation at fair value through profit or loss, exercising the fair value option; (c) financial assets that must be recognised at fair value through profit or loss; (d) derivative instruments, with the exception of the effective portion of those designated as cash flow hedges. 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.

Classification in current or non-current assets depends on the maturity of the instrument, given that current assets include instruments expected to mature within 12 months of the reporting date.

An expected credit loss (ECL) provision must be made for financial assets recognised at amortised cost and financial assets at fair value through OCI. The method utilised is the "General deterioration model" whereby:

- If on the reporting date the credit risk of a financial instrument has not increased significantly since initial recognition, a 12-month ECL is recognised (stage 1). Interest on the instrument is calculated on the gross carrying amount (amortised cost inclusive of the ECL);
- If on the reporting date the credit risk of the financial instrument has increased significantly since initial recognition, a lifetime ECL is recognised (stage 2). Interest on the instrument is calculated on the gross carrying amount (amortised cost inclusive of the ECL);
- If a financial instrument is already impaired on initial recognition or shows objective evidence of impairment as at the reporting date, lifetime expected losses are recognised. Interest is calculated on amortised cost (stage 3).

In determining whether credit risk has increased significantly, it is necessary to compare the risk of default of the financial instrument as at the reporting date with the risk of default of the financial instrument on initial recognition.

However, there is a rebuttable default presumption if the financial instrument is more than 90 days past due, unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Regarding trade receivables, a simplified approach is applied to measure the expected credit loss, if these receivables do not contain a significant financing component pursuant to IFRS 15. Under the simplified approach, use is made of a provision matrix based on observed historical losses.

In case of a change in the business model, financial assets already accounted for are reclassified to a new category. The effects of the reclassification are only recognised prospectively, without any recalculation of gains/losses and interest recognised previously.

The effects of the reclassification are as follows:

- if the financial asset is reclassified from amortised cost to fair value through profit or loss, the fair value of the asset is determined on the reclassification date. Gains and losses resulting from the difference between the previous amortised cost and fair value are recognised through profit or loss;
- if the financial asset is reclassified from fair value through profit or loss to amortised cost, the fair value on the reclassification date becomes the new gross carrying amount;
- if the financial asset is reclassified from amortised cost to fair value through other comprehensive income, the fair value of the asset is determined on the reclassification date. Gains and losses resulting from the difference between the previous amortised cost and fair value are recognised through other comprehensive income. The effective interest rate and the expected credit loss are not adjusted following reclassification;
- if the financial asset is reclassified from fair value through other comprehensive income to amortised cost, the cumulative gain (loss) recognised previously through other comprehensive income is derecognised from equity through an adjustment to the fair value of the financial asset on the reclassification date. Consequently, the financial asset is reported as though it had always been reported at amortised cost, by not changing the effective interest rate and the expected credit loss;
- if the financial asset is reclassified from fair value through profit or loss to fair value through other comprehensive income, the financial asset continues to be measured at fair value;
- if the financial asset is reclassified from fair value through other comprehensive income to fair value through profit or loss, the financial asset continues to be measured at fair value. The cumulative gain (loss) recognised previously through other comprehensive income is recycled to profit or loss on the reclassification date.

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.

When required by the applicable IFRS (e.g. in case of derivative liabilities), or when the irrevocable fair value option is exercised, financial liabilities are recognised at fair value through profit or loss. In this case, changes in fair value attributable to changes in own credit risk are recognised directly in equity, unless this treatment creates or enhances an accounting asymmetry, whilst the residual amount of the changes in the fair value of liabilities is recognised through profit or loss.

Financial liabilities are derecognised when they are extinguished or when all the risks and rewards of the instrument are 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 IAS 39 – Financial Instruments: Recognition and Measurement, as described in full in the Annual Report for 2017.

3.1.2 IFRS 15 - Revenue from Contracts with Customers

Revenue is recognised to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services (the transaction price).

Revenue is recognised on the basis of a 5-step framework, which consists of the following:

1. Identification of the contract with the customer (sale contracts except leases, insurance contracts, financial instruments and non-monetary exchanges);
2. Identification of the performance obligations in the contract, such as the express or implied obligation to transfer a specific good or service to the customer;
3. Determination of the transaction price;
4. In case of multiple offers ("bundles") that give rise to different performance obligations, allocation of the transaction price to the performance obligations; in this case it is necessary to estimate the standalone selling price related to each performance obligation;
5. Recognition of revenue as and when the performance obligations are satisfied, i.e. when title to the good or service passes to the customer. Performance obligations may be satisfied either:
    - "at a point in time": In this case revenue is recognised only when total "control" over the good or the service exchanged passes to the customer. In this respect, account is taken not only of the significant exposure to the risks and rewards associated with the god or service but also physical possession, customer acceptance, existence of legal rights, etc.;
    - "over time": In this case revenue measurement and recognition reflect, virtually, progress of the customer's level of satisfaction. An appropriate approach is defined to measure progress of the performance obligation.

Identification of the performance obligation

Every single supplier obligation with the customer is considered, measured and recognised separately. This approach involves a preliminary accurate analysis of the contract to identify every "single product/service" or every "single component" of a product/service that the supplier promises to provide, attributing to each the relevant consideration, and to monitor each such obligation during the life of the contract (in terms both of manner and timing of fulfilment and the customer's level of satisfaction)

Determination of the elements of variable consideration

For revenue recognition purposes, IFRS 15 requires recognition of the elements of variable consideration. In particular, revenue incorporates these elements in the transaction price (discounts, rebates, allowances, incentives, penalties and similar).
Of the elements of variable consideration, particularly important are penalties (other than those related to compensation for damages). These expenses are deducted directly from revenue.

Allocation of the transaction price

In the presence of multiple performance obligations, the transaction price is allocated to each performance obligation to the extent of the consideration that the entity is entitled to receive for the transfer of the relevant goods and services to the customer. The transaction price will be allocated on the basis of the standalone selling price of the goods and services associated with the performance obligation. The standalone selling price is the price at which an entity would sell the goods and services separately to the customer, under similar circumstances and to similar customers. If the standalone selling price is not observable, the Company would need to estimate it considering all the information available (market conditions, information on the customer or the class of customers) and the estimation methods used in similar circumstances.

Contract costs

The incremental costs of obtaining a contract must be capitalised and amortised over the useful life of the contract, if longer than 12 months, while any non-incremental costs of obtaining a contract are expensed as incurred. Costs incurred to fulfil performance obligations related to a contract that do not qualify for treatment under other standards (*IAS 2 – Inventories, IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets*) are capitalised only if the following conditions are met:

- the costs related directly to a contract (general and administrative costs are not capitalised);
- the costs generate or enhance resources;
- the costs are expected to be recovered.

Contract assets and liabilities

A contract asset is an entity’s right to payment for goods and services already transferred to a customer. If goods or services are transferred to the customer before the relevant payment is due, the amount must be recognised as a contract asset.
A contract liability is the obligation to transfer to the customer goods or services for which payment has already been obtained (or for which the customer’s consideration is due before the goods and services are provided). This consideration is recognised as a contract liability.

3.2 USE OF ESTIMATES IN RELATION TO IFRS 9 AND IFRS 15

Below, a description is provided of the estimates adopted by the Poste Italiane Group following application of the new rules under IFRS 9 and determination of the elements of variable consideration introduced by IFRS 15.

Impairment and stage allocation

To calculate impairment, the Poste Italiane Group considers the following:

- determination of the parameters of significant increase in credit risk (SICR);

- estimates of probability of default (PD) and internal ratings of sovereign and banking counterparties (internal ratings are developed for certain residual types of corporate counterparties).

Determination of the elements of variable consideration

The main factors in revenue recognition include the elements of variable consideration, particularly penalties (other than those related to compensation for damages). Elements of variable consideration are identified at the inception of the contract and estimated as of every close of the accounts for the entire contract term, to take into account new circumstances and changes in the circumstances already considered for the previous estimations. Elements of variable consideration include refund liabilities.

3.3 IMPACT OF THE ADOPTION OF IFRS 9 AND IFRS 15 ON THE FINANCIAL POSITION

The Poste Italiane Group elected to apply IFRS 9 and IFRS 15 as of its effective date, 1 January 2018, without early adoption. Regarding the methods allowed for the transition, it was decided:

- for the transition to IFRS9, to use the exemption under IFRS 9.7.2.15 whereby the retrospective cumulative effect of the change in accounting standard is recognised as of 1 January 2018 in retained earnings and in the fair value reserve, where appropriate, without restating the comparative year-earlier financial position;
- for the transition to IFRS 15, to adopt the simplified transition method, whereby 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 financial position. 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.

In the assessment phase of the project for the adoption of IFRS 9, the Poste Italiane Group - given the prevailing nature of Poste Vita SpA's business and the stabilising effect of the shadow accounting mechanism – considered that the adoption of IFRS 9 by its insurance subsidiaries, Poste vita SpA and Poste Assicura Spa, would not give rise to significant volatility effects on the income statements, or any mismatches. Accordingly, the Poste Italiane Group decided that it would be fully compliant with IFRS 9 as of 1 January 2018.

The tables below show the effects determined by the transition to IFRS 9 and IFRS 15 on every single line item of the Group's accounts. In particular, the Group's statement of financial position includes the effects deriving from the new classification and measurement rules of IFRS 9 and applied for the transition on the single assets; adjustments, on the other hand, include the rules deriving from the initial application of the new impairment model.

(€m)

ASSETS	Balance at 31 December 2017	Classification and measurement (IFRS 9) and Reclassifications (IFRS 15)*	Adjustments (IFRS 9 and 15)**	Balance at 1 January 2018
Non-current assets				
Property, plant and equipment	2,001	-	-	2,001
Investment property	52	-	-	52
Intangible assets	516	-	-	516
Investments accounted for using the equity method	508	-	-	508
Financial assets	171,004	1,747	(7)	172,744
Trade receivables	9	-	-	9
Deferred tax assets	869	(156)	4	717
Other receivables and assets	3,043	-	(1)	3,042
Technical provisions attributable to reinsurers	71	-	-	71
Total	**178,073**	**1,591**	**(4)**	**179,660**
Current assets				
Inventories	138	-	-	138
Trade receivables	2,026	-	(12)	2,014
Current tax assets	93	-	5	98
Other receivables and assets	954	-	-	954
Financial assets	15,762	(27)	(4)	15,731
Cash and deposits attributable to BancoPosta	3,196	-	-	3,196
Cash and cash equivalents	2,428	-	-	2,428
Total	**24,597**	**(27)**	**(11)**	**24,559**
Non-current assets and disposal groups held for sale	**-**	**-**	**-**	**-**
TOTAL ASSETS	**202,670**	**1,564**	**(15)**	**204,219**

LIABILITIES AND EQUITY	Balance at 31 December 2017	Classification and measurement (IFRS 9) and Reclassifications (IFRS 15)*	Adjustments (IFRS 9 and 15)**	Balance at 1 January 2018
Equity				
Share capital	1,306	-	-	1,306
Reserves	1,611	1,218	15	2,844
Retained earnings	4,633	13	(30)	4,616
Equity attributable to owners of the Parent	**7,550**	**1,231**	**(15)**	**8,766**
Equity attributable to non-controlling interests	-	-	-	-
Total	**7,550**	**1,231**	**(15)**	**8,766**
Non-current liabilities				
Technical provisions for insurance business	123,650	1	-	123,651
Provisions for risks and charges	692	-	-	692
Employee termination benefits and pension plans	1,274	-	-	1,274
Financial liabilities	5,044	-	-	5,044
Deferred tax liabilities	546	331	-	877
Other liabilities	1,207	-	-	1,207
Total	**132,413**	**332**	**-**	**132,745**
Current liabilities				
Provisions for risks and charges	903	-	-	903
Trade payables	1,332	28	1	1,361
Current tax liabilities	23	1	(1)	23
Other liabilities	2,249	(28)	-	2,221
Financial liabilities	58,200	-	-	58,200
Total	**62,707**	**1**	**-**	**62,708**
Liabilities related to assets held for sale	**-**	**-**	**-**	**-**
TOTAL EQUITY AND LIABILITIES	**202,670**	**1,564**	**(15)**	**204,219**

** The column "Classificatione and measurement (IFRS 9) and Reclassifications (IFRS 15) includes:*
- remeasurements resulting from first-time adoption of the new rules for the classification and measurement in compliance with IFRS 9.7.2.3 et seq.;
- reclassifications resulting from first-time adoption of IFRS 15;
*** Adjustments primarily include the impairment resulting from first-time adoption of IFRS 9.*

The effects of first-time adoption have been recognised in the opening balances of retained earnings and the fair value reserve at 1 January 2018. Reconciliations between the balances at 31 December 2017 and those at 1 January 2018 are shown below.

Reconciliation of retained earnings	*(€m)*
Retained earnings at 31 December 2017	**4,633**
Effect of reclassifications of financial instruments - IFRS 9	13
Effect of adjustments for expected losses - IFRS 9	(39)
Effect of first-time adoption of IFRS 15	(1)
Tax effects	10
Retained earnings at 1 January 2018	**4,616**

Reconciliation of the fair value reserve	*(€m)*
Fair value reserve at 31 December 2017 - IAS 39 (AFS)	**371**
Effect of reclassifications of financial instruments - IFRS 9	1,705
Effect of adjustments for expected losses - IFRS 9	15
Tax effects	(487)
Fair value reserve at 1 January 2018 - IFRS 9 (FVTOCI)	**1,604**

3.3.1 IFRS 9 – FINANCIAL INSTRUMENTS

Key elections

This paragraph illustrates the key elections by the Poste Italiane Group regarding the application of IFRS 9 – Financial Instruments and formalised on 13 December 2017 by Poste Italiane SpA's Board of Directors. The Board also approved specific IFRS 9 Guidelines, in relation to:

- the choice of Business Models to be adopted at Group level;
- the approach to estimating the impairment of financial instruments, relating to both securities and receivables, and expected credit losses;
- the stage allocation criteria, to allocate financial instruments to the applicable stages on the basis of any significant increase in credit risk;
- hedge accounting choices.

Below a description is provided of the most significant aspects addressed by the IFRS 9 Guidelines regarding Classification & Measurement, Impairment and Hedge Accounting.

Classification & Measurement

Based on IFRS 9 - Financial Instruments, the Poste Italiane Group has identified the following Business Models:

- 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; financial instruments that fall into this business model, and that met the SPPI test, are recognised at amortised cost.
- 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; financial instruments that fall into

this business model, and that met the SPPI test, are recognised at fair value through other comprehensive income.

- 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. Financial instruments that fail to meet the SPPI test, as well as the shares/units of UCITS held by Poste Vita SpA, are recognised at fair value through profit or loss.

Equity instruments account for a residual portion of the portfolio compared with the debt instruments and shares/units of mutual investment funds 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

Regarding the impairment of financial assets, the Group applies the general impairment model, on the basis of the estimated risk associated with the counterparty. On the other hand, for trade receivables the simplified approach is applied, whereby no determination is made of any significant increase in credit risk but provisions are set aside for lifetime expected credit losses.

A more detailed illustration of credit risk management, and how its practices relate to the estimation and recognition of expected losses on financial instruments, is provided in the paragraph "Credit risk management practices"

The Group did not use the low risk credit exemption.

Hedge Accounting

For hedge accounting transactions, the Poste Italiane Group has elected to use the option made available by IFRS 9 and has retained the accounting treatments provided for by IAS 39.

Summary of the effects of first-time adoption

The effects of the application of IFRS 9 are described below, separately by Classification & Measurement and Impairment.

Classification & Measurement

The table below describes the original classification under IAS 39 and the new classification under IFRS 9 for every financial asset class of the Poste Italiane Group at 1 January 2018.

Financial instruments

(€m)	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount	IFRS 9 carrying amount
Financial receivables	Loans and receivables	Amortised cost	7,916	7,913
	Loans and receivables	Fair value through profit or loss	216	216
Fixed income instruments	Held-to-maturity	Amortised cost	3,246	3,245
	Held-to-maturity	FVOCI - Debt securities	9,666	11,131
	Available-for-sale	Amortised cost	17,014	17,262
	Available-for-sale	FVOCI - Debt securities	117,067	117,067
	Available-for-sale	Fair value through profit or loss	308	308
	Fair value through profit or loss	Fair value through profit or loss	2,420	2,420
	Fair value through profit or loss	FVOCI - Debt securities	3,800	3,800
Other investments	Fair value through profit or loss	FVOCI - Debt securities	546	546
	Fair value through profit or loss	Fair value through profit or loss	22,514	22,514
	Available-for-sale	Fair value through profit or loss	1,352	1,352
Equity instruments	Fair value through profit or loss	Fair value through profit or loss	58	58
	Available-for-sale	Fair value through profit or loss	59	59
	Available-for-sale	FVOCI - Equities	5	5
Non-hedging derivatives	Fair value through profit or loss	Fair value through profit or loss	184	184
Hedging derivatives	Fair value - Hedging instrument	Fair value - Hedging instrument	395	395
Total financial assets			**186,766**	**188,475**
Amounts due from staff under fixed-term contract settlements	Loans and receivables	Amortised cost	188	187
Trade receivables	Loans and receivables	Amortised cost	2,035	2,023
Cash	Loans and receivables	Amortised cost	2,428	2,428
Cash and deposits attributable to BancoPosta	Loans and receivables	Amortised cost	3,196	3,196

Below, details are provided of the main effects, as of the transition date, resulting from application of the new classification, measurement and expected loss rules.

(€m)	Note	*BALANCE AT 31 DECEMBER 2017 (IAS 39)*	Classification, measurement and impairment					*BALANCE AT 1 JANUARY 2018 (IFRS 9)*
			Amortised cost	FVTOCI	FVTPL	FVTPL equities	FVTOCI equities	
Balance of financial assets at 31 December 2017 (IAS 39)		**186,766**						
Available-for-sale financial assets		**135,805**						
Reclassifications from AFS to amortised cost	i) a	(17,014)	17,014	-	-	-	-	17,014
Remeasurements			255	-	-	-	-	255
Reclassifications from AFS to FVTOCI	i) b	(117,072)	-	117,067	-	-	5	117,072
Reclassifications from AFS to FVTPL	i) c	(1,719)	-	-	1,660	59	-	1,719
								-
Held-to-maturity financial assets and loans and receivables		**21,044**						
Reclassifications from HTM and loans and receivables to amortised cost	ii) a	(11,162)	11,162	-	-	-	-	11,162
Reclassifications from HTM to FVTOCI	ii) b	(9,666)	-	9,666	-	-	-	9,666
Remeasurements			-	1,465	-	-	-	1,465
Reclassifications from loans and receivables to FVTPL	ii) c	(216)	-	-	216	-	-	216
								-
Financial instruments at FVTPL		**29,338**						
Reclassification from FVTPL to FVTOCI	iii) a	(4,346)	-	4,346	-	-	-	4,346
FVTPL	iii) b	(24,992)	-	-	24,934	58	-	24,992
								-
Derivative financial instruments		**579**						
Effect of reclassifications		(579)	-	-	579	-	-	579
								-
Effect of adjustment for expected credit losses on instruments at amortised cost			(11)					(11)
Balance of financial assets at 1 January 2018 (IFRS 9)			**28,420**	**132,544**	**27,389**	**117**	**5**	**188,475**

AFS: Available-for-sale
HTM: Held-to-maturity
FVTPL: Fair value through profit or loss
FVTOCI: Fair value through other comprehensive income

i) Reclassification of available-for-sale financial assets to the following IFRS 9 categories:

a. Amortised cost, totalling €17,014 million, with an increase of €255 million in the fair value reserve.

b. FVOCI, totalling €117,072 million, including €5 million in equity instruments for which the Group has exercised the FVOCI option.

c. FVTPL, totalling €1,719 million, regarding financial assets held under a business model other than the above, that is financial assets that do not pass the SPPI test. This category also includes equity instruments that were not measured at FVTOCI, whose reclassification has resulted in an increase in retained earnings and a simultaneous decrease in the fair value reserve of €16 million, attributable to the Visa Inc. shares.

ii) Reclassification of held-to-maturity financial assets and loans and receivables to the following IFRS 9 categories:
   a. Amortised cost, totalling €11,162 million.
   b. FVTOCI, totalling €9,666 million, resulting in an increase in the fair value reserve of €1,465 million.
   c. FVTPL, totalling €216 million, including €208 million in receivables arising from capital contributions to mutual funds for which the corresponding shares/units have not yet been issued and an €8 million receivable from Visa Inc. that did not pass the SPPI test.

iii) Reclassification of Financial instruments recognised at fair value through profit or loss to the following IFRS 9 categories:
   a. FVTOCI, totalling €4,346 million, resulting in a decrease in retained earnings of approximately €3 million and a simultaneous increase in the fair value reserve and deferred liabilities due to policyholders (the latter amounting to approximately €1 million).
   b. FVTPL, totalling €24,992 million, maintaining the same amount as that under IAS 39.

The application of IFRS 9 to trade receivables did not entail any reclassifications. The balance of provisions for doubtful debts was recalculated on the basis of the new impairment model.

(€m)	*BALANCE AT 31 DECEMBER 2017 (IAS 39)*	Reclassifications and adjustments				
		Amortised cost	FVTOCI	FVTPL	FVTPL equities	FVTOCI equities
Trade receivables	2,649					
Provisions for doubtful trade receivables	(614)					
Total trade receivables (IAS 39)	**2,035**					
Effect of reclassifications	(2,035)	2,035				
Effect of adjustments for expected losses		(12)	-	-	-	-
Balance at 1 January 2018 (IFRS 9)		**2,023**	-	-	-	-

The provisions for doubtful debts related to other receivables and assets changed by €1 million.

Impairment

The effects of the application of the new impairment model, which during the transition had a contra-entry in retained earnings, are outlined below:

- €11 million in expected losses in relation to financial instruments recognised at amortised cost;
- €15 million in expected losses in relation to financial instruments recognised at FVTOCI (impairment losses taken on these financial instruments have an offsetting entry in the fair value reserve);
- €13 million in expected losses, including €12 million in additional provisions in relation to trade receivables and €1 million in additional provisions in relation to other receivables and assets.

The new impairment model has been applied to “Cash and cash equivalents” and to “Cash and deposits attributable to BancoPosta” and did not entail a significant provisions related to these items.

Credit risk management practices: inputs, assumptions and estimation techniques

The new impairment model applicable to financial instruments measured at amortised cost and at fair value through other comprehensive income is based on Expected Credit Losses (ECL). Below, the methods adopted to manage credit risk are described.

General description of the models utilised

The Group uses the general impairment model in accordance with risk ratings estimated on the basis of the type of counterparty:

- Securities/deposits with sovereign and banking counterparties (and certain residual corporate types): Internal risk rating estimation models;
- Other corporate and government securities: risk ratings provided by an external provider.

The simplified approach is applied to trade receivables, as described in greater detail later.

Significant increase in credit risk

Based on the impairment model adopted by the Poste Italiane Group to meet the requirements of IFRS 9, any significant increase in credit risk associated with the financial instruments held, other than trade receivables, is determined on the basis of a change in the relevant credit rating between the time of the initial investment and the reporting date.

This change is set against a threshold value that takes into consideration the following factors:

- the rating of the financial instrument when it is first included in the portfolio;
- the rating of the financial instrument on the reporting date;
- the age of the position within the portfolio;
- an additive factor to mitigate the non-linearity of PD with respect to the rating classes[20];
- a judgmental factor that is used only in the event of sudden changes in creditworthiness not yet reflected in internal and external credit ratings[21] .

The ratings used in stage allocation derive from internal models in the case of banking and sovereign counterparties, and external models in the case of corporate and government counterparties. Based on the above information, the Poste Italiane Group rebuts the presumption that there have been significant increases in credit risk following initial recognition, when financial assets are more than 30 days past due.

The Poste Italiane Group decided not to adopt the Low Credit Risk Exemption and to proceed instead with stage allocation of the financial instruments concerned.

Regarding trade receivables, given the adoption of the simplified approach under IFRS 9, expected credit losses are determined throughout the lifetime of the instrument.

Definition of default

The Poste Italiane Group defines default on the basis of ad hoc assessments that take into account:

- any payment delays;
- market information, such as an assignment of default rating by rating agencies;
- internal analyses on specific credit exposures.

Collective and individual provisions

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[20] The additive factor is built in view of the rating level at the reporting date, where the better the final rating the higher the threshold for the transition to Stage 2.

[21] The judgmental factor can summarise important aspects in determining the significant increase in credit risk, taking into account such elements as:

- an actual or expected significant change in the internal/external credit rating of the financial instrument;
- existing or expected negative changes in economic, financial or business conditions that might cause a significant change in the debtor's ability to honour its obligations, such as an actual or expected increase in interest rates or an actual or expected significant increase in unemployment rates.

A collective provision criterion is applied to a homogeneous group of financial assets that defines the extent of the ECL on such assets, without attributing the expected loss to a specific exposure.
Individual provisions are considered only following the review of trade receivables for amounts in excess of a given threshold and only in relation to single receivables.

Forward looking information

According to IFRS 9, the ECL calculation must also factor in forward looking components based on broad consensus scenarios.

The Poste Italiane Group incorporates forward looking information directly in the PD estimation. In particular, the internal model adopted allows completion of the input dataset necessary to estimate PD whenever reliable estimates or actual data related to certain variables for a given time period are made available. The purpose of this approach is to estimate the variables that have not been assessed by using the historical correlation of the available information.

Estimation techniques used

Since events of default cannot be used, as they are not very frequent, to develop credit scoring models for sovereign and banking counterparties it is necessary to adopt a low default approach. In particular, the Poste Italiane Group has developed a shadow rating methodology.

This methodology involves the use of target variables linked to the external ratings produced by the rating agencies. The target may be directly the rating or, alternatively, the default rate associated with the rating grade.

A key rating agency was selected to construct the target, taking into account both the large number of rated counterparties and the availability of historical data over what was deemed to be an adequate period of time.

To construct the models the following types of data were extracted and utilised for each country sampled:

- macroeconomic data;
- market data; domestic market indices, global energy/non-energy indices, the Eurostoxx and the S&P 500;
- financial reporting data.

The internal model estimate used a definition of default based on the following approach:

- Government bonds – payment delays, including also for one day, or debt renegotiation;
- Corporate and Banking – 90-day payment delays.

To determine the rating of corporate bonds, reference is made to the ratings assigned by the main agencies. In the absence of such information, the rating is estimated by filling a scorecard that takes into account, among others:

- the risk specific to the company;
- the risk specific to the industry in which the company operates;
- the specific and generic risk of the country to which the company belongs.

ECL measurement

Expected credit losses (ECL) are determined over a time horizon consistent with the stage level (12 months or lifetime) on the basis of the following factors:

- Probability of Default (PD);
- Loss Given Default (LGD);
- Exposure at Default (EAD);
- Time Factor (TF).

The main assumptions/choices adopted in the determination of the factors are as follows:

- PD - As indicated in the standard a forward-looking point-in-time (PIT) PD was adopted over a defined time horizon (12 months or lifetime);
- LGD – Use was made of values consistent with the Internal Rating Based (IRB) approach under the Basel regulations (45% for senior risk-assets and 75% for subordinated risk-assets);
- EAD – Exposure calculated prospectively until maturity of the instrument, starting from the development of expected cash flows. The development took into account the specific indexation assumptions for each asset class (fixed-income instruments, floating-rate instruments, inflation-linked instruments, etc.);
- TF – The effective interest rate determined for each position has been adopted as discount rate.

The tables below provide information on the credit risk at 1 January 2018 associated with financial assets at amortised cost and at fair value through other comprehensive income for which the general impairment model is used.

Poste Italiane Group - Credit risk - Internal ratings (€m)

Item	from AAA to AA-			from A+ to BBB-			from BB+ to C			Total	Not rated	Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3			
Financial assets at amortised cost	206	-	-	27,472	-	-	54	-	-	27,732	403	28,135
Loans and receivables	200	-	-	6,983	-	-	50	-	-	7,233	403	7,636
Loans	-	-	-	-	-	-	-	-	-	-	-	-
Receivables	200	-	-	6,983	-	-	50	-	-	7,233	403	7,636
Fixed income instruments	6	-	-	20,489	-	-	4	-	-	20,499	-	20,499
Other investments	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at FVTOCI	1,373	-	-	121,856	-	-	271	-	-	123,500	-	123,500
Loans and receivables	-	-	-	-	-	-	-	-	-	-	-	-
Loans	-	-	-	-	-	-	-	-	-	-	-	-
Receivables	-	-	-	-	-	-	-	-	-	-	-	-
Fixed income instruments	1,373	-	-	121,310	-	-	271	-	-	122,954	-	122,954
Other investments	-	-	-	546	-	-	-	-	-	546	-	546
Total at 1 January 2018	**1,579**	**-**	**-**	**149,328**	**-**	**-**	**325**	**-**	**-**	**151,232**	**403**	**151,635**

Poste Italiane Group - Credit risk - External ratings (€m)

Item	from AAA to AA-			from A+ to BBB-			from BB+ to C			Total	Not rated	Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3			
Financial assets at amortised cost	-	-	-	285	-	-	-	-	-	285	-	285
Loans and receivables	-	-	-	277	-	-	-	-	-	277	-	277
Loans	-	-	-	-	-	-	-	-	-	-	-	-
Receivables	-	-	-	277	-	-	-	-	-	277	-	277
Fixed income instruments	-	-	-	8	-	-	-	-	-	8	-	8
Other investments	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at FVTOCI	730	-	-	7,748	2	-	527	38	-	9,045	-	9,045
Loans and receivables	-	-	-	-	-	-	-	-	-	-	-	-
Loans	-	-	-	-	-	-	-	-	-	-	-	-
Receivables	-	-	-	-	-	-	-	-	-	-	-	-
Fixed income instruments	730	-	-	7,748	2	-	527	38	-	9,045	-	9,045
Other investments	-	-	-	-	-	-	-	-	-	-	-	-
Total at 1 January 2018	**730**	**-**	**-**	**8,033**	**2**	**-**	**527**	**38**	**-**	**9,330**	**-**	**9,330**

Trade receivables

The Group adopts the simplified approach to test for the impairment of trade receivables. This approach is determined through the following process:

- based on total revenue or the historical credit exposure, all receivables or credit exposures exceeding a certain pre-established credit threshold are assessed analytically. This assessment of receivables implies an analysis of the credit quality and the debtor's solvency, as determined on the basis of internal and external evidence to support the process;
- receivables below the pre-established threshold are evaluated through a provision matrix which shows the different percentages of the total receivable amount to be set aside as estimated on the basis of historical loss data, or on historical collection data. In setting up the provision matrix, receivables are grouped by homogeneous categories, depending on their characteristics, to take into account the historical loss experience.

The tables below provide information on the provisions for doubtful debts related to trade receivables and the reconciliation with ECL provisions at 1 January 2018.

Poste Italiane Group - Credit risk - Trade receivables adjusted for analytical impairments (€m)

Item	1 January 2018	
	Gross carrying amount	Provisions for doubtful debts
Trade receivables		
Receivables due from customers	1,634	412
Cassa Depositi e Prestiti	374	-
Ministries and Public Administration entities	416	99
Overseas counterparties	174	1
Private entities	670	312
Receivables due from the MEF	195	31
Total	**1,829**	**443**

Poste Italiane Group - Credit risk - Trade receivables adjusted on the basis of the provision matrix (€m)

Range of past due	1 January 2018	
	Gross carrying amount	Provisions for doubtful debts
Trade receivables not yet due	427	4
Past due 0 - 1 year	145	10
Past due 1 - 2 years	55	11
Past due 2 - 3 years	17	8
Past due 3 - 4 years	12	7
Past due > 4 years	40	38
Positions subject to legal action and/or bankruptcy proceedings	124	105
Total	**820**	**183**

Riconciliation of expected credit loss provisions for trade receivables (€m)

Item	
Expected credit loss provisions at 31 December 2017 (IAS 39 compliant)	**614**
Additional impairments recognised at 1 January 2018 on:	
Trade receivables	12
Expected credit loss provisions at 1 January 2018 (IFRS 9 compliant)	**626**

3.3.2 IFRS 15 - REVENUE FROM CONTRACTS WITH CUSTOMERS

The main results of the assessments conducted are described below:

- for PosteMobile SpA it was necessary, pursuant to IFRS 15, to adjust opening equity, in the presence of contracts not completed as of the date of transition and contracts entailing multiple performance obligations for which the revenue recognition rules have been revised;
- there were penalties payable to customers (in the case of failure to achieve certain pre-established levels of service) and provisions involving the refund of fees received in return for the distribution of mortgages and loans where customers opt for early cancellation of the agreement (which to date have been refunded out of provisions for risks and charges). As of 1 January 2018, such fees are deducted directly from revenue;
- the effects of what has been described above generate, at the transition date, a decrease in retained earnings of approximately €1 million.

In addition, first-time adoption of IFRS 15 has resulted in the reclassification of trade receivables totalling approximately €28 million, relating to liabilities arising from contracts with customers that were previously recognised as other liabilities.

4. MATERIAL EVENTS DURING THE PERIOD

4.1 PRINCIPAL CORPORATE ACTIONS

- *Poste Italiane and Anima Holding conclude agreements strengthening partnership in asset management*

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. The transaction, which 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 and extension of the partnership that will have a duration of 15 years from closing, will be completed in the second half of 2018. On 19 April 2018, the Board of Directors of BancoPosta Fondi SGR SpA approved the planned spin-off and the application for authorisation to be submitted to the Bank of Italy, which granted clearance on 11 July 2018.

4.2 OTHER MATERIAL EVENTS

- *Approval of Poste Italiane's Strategic Plan*

On 26 February 2018, Poste Italiane SpA's Board of Directors approved "Deliver 2022", the five-year strategic plan that aims, among other things, to maximise the value of Poste Italiane SpA's distribution network, already acknowledged to be the most efficient and secure in the country.

- *Rights issue by Anima Holding*

On 12 April 2018, Poste Italiane implemented the decision taken by its Board of Directors on 25 January 2018, subscribing for its share of the rights issue carried out by Anima Holding SpA, amounting to a total of approximately €30 million. This has enabled the Company to retain its 10.04% interest in the associate.

- *Poste Italiane SpA: proposed authority to purchase and hold treasury shares*

On 29 May 2018, the Ordinary and Extraordinary General Meeting of Poste Italiane SpA's shareholders authorised the Company to purchase and hold up to 65.3 million of the Company's ordinary shares, representing approximately 5% of the share capital, at a total cost of up to €500 million. Purchase of the treasury shares will be permitted for eighteen months from the date of the shareholder resolution granting the authority. There is, in contrast, no limit on the period of time in which the treasury shares will be at the Company's disposition. The General Meeting also, as proposed by the Board of Directors, defined the purposes, terms and conditions for the purchase and sale of treasury shares, establishing the methods for calculating the purchase price, and the operating procedures for carrying out purchases.

- *Start of the process of establishing an electronic money institution within the Group*

Following on from the Board of Directors' resolution of 25 January 2018, on 29 May 2018, the Extraordinary General Meeting of Poste Italiane's shareholders approved the proposed removal, from the ring-fence that applies to BancoPosta RFC, of: (i) the assets, contractual rights and authorisations that make up the e-money and payment services unit, and (ii) the contractual rights and authorisations relating to back-office and anti-money laundering activities.
The resolution is in line with the Company's strategic guidelines and the restructuring launched in the closing months of the previous year. Removal of the ring-fence from the assets, contractual rights and authorisations that make up the e-money and payment services unit forms part of the plan to create a centralised unit within the Group to manage e-money and payment services and to operate as a competence centre to support the implementation of the Group's digital strategy. The relevant business unit will be transferred to PosteMobile SpA, which will in turn establish a separate ring-fenced entity to enable it to operate as a "hybrid" electronic money institution, in compliance with the related regulatory requirements.

- *Injection of capital for BancoPosta RFC*

Following on from the Board of Directors' resolution of 25 January 2018, and following the receipt of prior authorisation from the Bank of Italy in April, on 29 May 2018, the Extraordinary General Meeting of Poste Italiane SpA's shareholders approved Poste Italiane SpA's proposed injection of fresh capital of €210 million into BancoPosta RFC in order to return its leverage ratio to within the threshold set in the Risk Appetite Framework. This transaction will take place in the third quarter, once the deadline for creditors to file their opposition has passed.

The following material events also took place during the first half of 2018:

- On 25 January 2018, Poste Italiane SpA's Board of Directors authorised payment to SDA Express Courier SpA of a total of €40 million to cover the losses incurred through to 31 December 2017, and to recapitalise the company and establish an extraordinary reserve. SDA Express Courier ended the first half of 2018 with a loss of €23 million, thereby falling within the scope of art. 2447 of the Italian Civil Code (a reduction in capital to below the legal minimum). On 5 July 2018, SDA Express Courier SpA's Board of Directors fixed the dates of the general meeting (to be held in first call on 3 August 2018 and in second call on 25 September 2018) to approve the proposed recapitalisation.

- On 13 February 2018, the deed for the merger of PosteTutela SpA (a wholly owned subsidiary of Poste Italiane SpA) with and into Poste Italiane was executed. The transaction will be effective for legal purposes from 1 March 2018, and for accounting and tax purposes from 1 January 2018.
- On 19 February 2018 and 28 June 2018, Poste Italiane SpA's Board of Directors approved an initiative designed to protect customers of the Europa Immobiliare 1 fund, granting the Chief Executive Officer the authority to take all the necessary steps, both preparatory and subsequent, to implement the initiative.

Poste Italiane Group

Financial statements

for the six months ended 30 June 2018

5.1 CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(€m)

ASSETS	Note	at 30 June 2018	*of which, related party transactions*	at 31 December 2017	*of which, related party transactions*
Non-current assets					
Property, plant and equipment	[A1]	1,904	-	2,001	-
Investment property	[A2]	49	-	52	-
Intangible assets	[A3]	497	-	516	-
Investments accounted for using the equity method	[A4]	541	*541*	508	*508*
Financial assets	[A5]	171,877	*5,064*	171,004	*3,059*
Trade receivables	[A7]	8	-	9	-
Deferred tax assets	[C13]	1,014	-	869	-
Other receivables and assets	[A8]	3,391	*1*	3,043	*1*
Technical provisions attributable to reinsurers		75	-	71	-
Total		**179,356**		**178,073**	
Current assets					
Inventories	[A6]	135	-	138	-
Trade receivables	[A7]	2,151	*753*	2,026	*688*
Current tax assets	[C13]	215	-	93	-
Other receivables and assets	[A8]	935	*5*	954	*5*
Financial assets	[A5]	19,216	*8,471*	15,762	*6,211*
Cash and deposits attributable to BancoPosta	[A9]	3,250	-	3,196	-
Cash and cash equivalents	[A10]	1,703	*440*	2,428	*385*
Total		**27,605**		**24,597**	
Non-current assets and disposal groups held for sale		**-**	-	**-**	-
TOTAL ASSETS		**206,961**		**202,670**	

LIABILITIES AND EQUITY	Note	at 30 June 2018	*of which, related party transactions*	at 31 December 2017	*of which, related party transactions*
Equity					
Share capital	[B2]	1,306	-	1,306	-
Reserves	[B4]	1,482	-	1,611	-
Retained earnings		4,807	-	4,633	-
Equity attributable to owners of the Parent		**7,595**		**7,550**	
Equity attributable to non-controlling interests		-	-	-	-
Total		**7,595**		**7,550**	
Non-current liabilities					
Technical provisions for insurance business	[B5]	124,581	-	123,650	-
Provisions for risks and charges	[B6]	710	*60*	692	*58*
Employee termination benefits	[B7]	1,221	-	1,274	-
Financial liabilities	[B8]	4,846	*11*	5,044	-
Deferred tax liabilities	[C13]	783	-	546	-
Other liabilities	[B10]	1,157	-	1,207	-
Total		**133,298**		**132,413**	
Current liabilities					
Provisions for risks and charges	[B6]	785	*11*	903	*13*
Trade payables	[B9]	1,324	*194*	1,332	*194*
Current tax liabilities	[C13]	211	-	23	-
Other liabilities	[B10]	1,938	*60*	2,249	*70*
Financial liabilities	[B8]	61,809	*359*	58,200	*3,541*
Total		**66,067**		**62,707**	
Liabilities related to assets held for sale		**1**	-	**-**	-
TOTAL EQUITY AND LIABILITIES		**206,961**		**202,670**	

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(€m)

	Note	For the six months ended 30 June 2018	*of which, related party transactions*	For the six months ended 30 June 2017	*of which, related party transactions*
Revenue from Mail, Parcel & other	[C1]	1,761	*249*	1,812	*244*
Revenue from Payments, Mobile & Digital	[C2]	307	*30*	278	*29*
Revenue from Financial Services	[C3]	2,676	*979*	2,710	*822*
Revenue from Insurance Services after movements in technical provisions and other claims expenses	[C4]	685	*8*	698	*8*
Insurance premium revenues		8,871	-	11,098	-
Income from insurance activities		1,729	*8*	2,131	*8*
Net change in technical provisions for insurance business and other claim expenses		(9,078)	-	(12,171)	-
Expenses from insurance activities		(837)	-	(360)	-
Net operating revenue		**5,429**		**5,498**	
Cost of goods and services	[C5]	1,126	*93*	1,184	*98*
Expenses from financial activities	[C6]	35	*1*	33	-
Personnel expenses	[C7]	2,846	*21*	2,934	*19*
Depreciation, amortisation and impairments	[C8]	272	-	281	-
Capitalised costs and expenses		(6)	-	(13)	-
Other operating costs	[C9]	93	*4*	210	*12*
Impairment loss/(reversal) on debt instruments, receivables and other assets	[C10]	10	-	22	-
Operating profit/(loss)		**1,053**		**847**	
Finance costs	[C11]	40	-	48	-
Finance income	[C11]	54	-	58	*1*
of which, non-recurring income		-		*2*	
Impairment loss/(reversal) on financial instruments	[C12]	-	-	94	
of which, non-recurring expense/(income)		-		*82*	
Profit/(Loss) on investments accounted for using the equity method	[A4]	8	-	9	-
Profit/(Loss) before tax		**1,075**		**772**	
Income tax for the period	[C13]	340	-	262	-
of which, non-recurring expense/(income)		-		*(9)*	
PROFIT FOR THE PERIOD		**735**		**510**	
of which, attributable to owners of the Parent		735		510	
of which, attributable to non-controlling interests		-		-	

Earnings per share	[B3]	**0.563**		**0.391**	
Diluted earnings per share	[B3]	**0.563**		**0.391**	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€m)

	Note	For the six months ended 30 June 2018	For the year ended 31 December 2017	For the six months ended 30 June 2017
Profit/(Loss) for the period		**735**	**689**	**510**
Items to be reclassified in the Statement of profit or loss for the period				
FVOCI debt instruments				
Increase/(decrease) in fair value during the period	[tab. B4]	(1,656)	(315)	(591)
Transfers to profit or loss	[tab. B4]	(381)	(676)	(596)
Increase/(Decrease) for expected credit loss		(3)		
Cash flow hedges				
Increase/(decrease) in fair value during the period	[tab. B4]	135	(57)	(18)
Transfers to profit or loss	[tab. B4]	(1)	(4)	(1)
Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the period		544	287	350
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		-	-	-
After-tax increase/(decrease) in reserves related to group of assets and liabilites held for sale	[tab. B4]	-	2	(1)
Items not to be reclassified in the Statement of profit or loss for the period				
FVOCI equity instruments				
Increase/(decrease) in fair value during the period		-		
Transfers to equity		-		
Actuarial gains/(losses) on provisions for employee termination benefits	[tab. B7]	7	(1)	41
Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the period		(2)	-	(12)
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		-	-	-
Total other comprehensive income		**(1,357)**	**(764)**	**(828)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**(622)**	**(75)**	**(318)**
of which, attributable to owners of the Parent		(622)	(75)	(318)
of which, attributable to non-controlling interests		-	-	-

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(€m)

	Equity										
		Reserves									
	Share capital	Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Reserves related to disposal groups and liabilites held for sale	Reserve for investees accounted for using equity method	Retained earnings / (Accumulated losses)	Total equity attributable to owners of the Parent	Equity attributable to non-controlling interests	Total equity
Balance at 1 January 2017	**1,306**	**299**	**1,000**	**1,092**	**(18)**	**(1)**	**2**	**4,454**	**8,134**	**-**	**8,134**
Total comprehensive income for the period	-	-	-	(843)	(13)	(1)	-	539	(318)	-	**(318)**
Dividends paid	-	-	-	-	-	-	-	(509)	(509)	-	**(509)**
Balance at 30 June 2017	**1,306**	**299**	**1,000**	**249**	**(31)**	**(2)**	**2**	**4,484**	**7,307**	**-**	**7,307**
Total comprehensive income for the period	-	-	-	121	(30)	3	-	149	243	-	**243**
Dividends paid	-	-	-	-	-	-	-	-	-	-	**-**
Reclassifications to/from reserves related to disposal groups and liabilites held for sale	-	-	-	1	-	(1)	-	-	-	-	**-**
Balance at 31 December 2017	**1,306**	**299**	**1,000**	**371**	**(61)**	**-**	**2**	**4,633**	**7,550**	**-**	**7,550**
Adjustments due to adoption of IFRS 9 and IFRS 15	**-**	**-**	**-**	**1,233**	**-**	**-**	**-**	**(17)**	**1,216**	**-**	**1,216**
Reclassifications of financial instruments	-	-	-	1,705	-	-	-	13	1,718	-	**1,718**
Adjustments	-	-	-	15	-	-	-	(40)	(25)	-	**(25)**
Tax effects	-	-	-	(487)	-	-	-	10	(477)	-	**(477)**
Balance at 1 January 2018 including IFRS 9 and IFRS 15 effects	**1,306**	**299**	**1,000**	**1,604**	**(61)**	**-**	**2**	**4,616**	**8,766**	**-**	**8,766**
Total comprehensive income for the period	-	-	-	(1,458)	96	-	-	740 (*)	(622)	-	**(622)**
Dividends paid	-	-	-	-	-	-	-	(549)	(549)	-	**(549)**
Balance at 30 June 2018	**1,306**	**299**	**1,000**	**146**	**35**	**-**	**2**	**4,807**	**7,595**	**-**	**7,595**

* This item includes profit for the period of €735 million and actuarial gains on provisions for employee termination benefits of €7 million, after the related current and deferred taxation of €2 million.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(€m)

		For the six months ended 30 June 2018	For the six months ended 30 June 2017
Unrestricted net cash and cash equivalents at beginning of period		**1,978**	**2,292**
Cash subject to investment restrictions		-	780
Escrow account with the Italian Teasury		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
Cash and cash equivalents at beginning of period		**2,428**	**3,902**
Cash and cash equivalents at beginning of period		**2,428**	**3,902**
Profit/(loss) for the period		735	510
Depreciation, amortisation and impairments		272	281
Losses and impairments/(recoveries) on receivables		13	22
(Gains)/Losses on disposals		-	(1)
Impairment of disposal groups		-	7
Impairment/(reversal) of financial activities		-	94
(Increase)/decrease in inventories		-	-
(Increase)/decrease in receivables and other assets		(533)	(452)
Increase/(decrease) in payables and other liabilities		(242)	(379)
Movement in group of assets and liabilites held for sale		-	145
Movement in provisions for risks and charges		(99)	114
Movement in provisions for employee termination benefits and pension plans		(47)	(55)
Differences in accrued finance costs and income (cash correction)		(28)	(22)
Other changes		147	(12)
Net cash flow generated by/(used in) non-financial operating activities	[a]	218	252
Increase/(decrease) in liabilities attributable to financial activities		4,557	4,149
Net cash generated by/(used for) financial assets attributable to financial activities		(2,917)	(3,166)
(Increase)/decrease in cash and deposits attributable to BancoPosta		(54)	(742)
(Income)/expenses from financial activities		(1,085)	(1,039)
Cash generated by/(used for) assets and liabilities attributable to financial activities	[b]	501	(798)
Net cash generated by/(used for) financial assets attributable to insurance activities		(4,632)	(4,465)
Increase/(decrease) in net technical provisions for insurance business		5,132	6,827
(Gains)/losses on financial assets/liabilities measured at fair value through profit or loss		695	(363)
(Income)/expenses from insurance activities		(1,063)	(973)
Cash generated by/(used for) assets and liabilities attributable to insurance activities	[c]	132	1,026
Net cash flow from/(for) operating activities	**[d]=[a+b+c]**	**851**	**480**
- of which, related party transactions		**(7,616)**	**(3,826)**
Investing activities			
Property, plant and equipment, investment property and intangible assets		(151)	(183)
Investments		(30)	(228)
Other financial assets		-	(1)
Disposals			
Property, plant and equipment, investment property and intangible assets and assets held for sale		2	3
Investments		-	-
Other financial assets		163	5
Change in scope of consolidation		-	-
Net cash flow from/(for) investing activities	**[e]**	**(16)**	**(404)**
- of which, related party transactions		**134**	**(218)**
Proceeds from/(Repayments of) borrowings		(1,011)	11
(Increase)/decrease in loans and receivables		-	1
Dividends paid		(549)	(509)
Net cash flow from/(for) financing activities and shareholder transactions	**[f]**	**(1,560)**	**(497)**
- of which, related party transactions		**(406)**	**(327)**
Net increase/(decrease) in cash	**[g]=[d+e+f]**	**(725)**	**(421)**
Cash and cash equivalents at end of period		**1,703**	**3,481**
Cash and cash equivalents at end of period		**1,703**	**3,481**
Cash subject to investment restrictions		-	-
Escrow account with the Italian Teasury		(97)	-
Cash attributable to technical provisions for insurance business		(413)	(1,806)
Amounts that cannot be drawn on due to court rulings		(17)	(13)
Current account overdrafts		-	-
Cash received on delivery (restricted) and other restrictions		(14)	(24)
Unrestricted net cash and cash equivalents at end of period		**1,162**	**1,638**

5.2 NOTES TO THE STATEMENT OF FINANCIAL POSITION

ASSETS

A1 - PROPERTY, PLANT AND EQUIPMENT (€1,904 million)

The following table shows movements in property, plant and equipment in the first half of 2018:

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	2,956	2,168	325	482	1,875	43	7,925
Accumulated depreciation	-	(1,756)	(1,837)	(295)	(286)	(1,658)	-	(5,832)
Accumulated impairments	-	(66)	(14)	(1)	(10)	(1)	-	(92)
Balance at 1 January 2018	**76**	**1,134**	**317**	**29**	**186**	**216**	**43**	**2,001**
Movements during the period								
Additions	-	8	13	1	8	16	16	62
Adjustments	-	-	-	-	-	-	-	-
Reclassifications	-	8	4	1	5	8	(23)	3
Disposals	-	2	(1)	-	(2)	1	-	-
Depreciation	-	(57)	(37)	(4)	(16)	(50)	-	(164)
(Impairments)/Reversal of impairments	-	4	-	-	(2)	-	-	2
Total movements	**-**	**(35)**	**(21)**	**(2)**	**(7)**	**(25)**	**(7)**	**(97)**
Cost	76	2,974	2,159	321	492	1,874	36	7,932
Accumulated depreciation	-	(1,815)	(1,851)	(293)	(301)	(1,682)		(5,942)
Accumulated impairments	-	(60)	(12)	(1)	(12)	(1)	-	(86)
Balance at 30 June 2018	**76**	**1,099**	**296**	**27**	**179**	**191**	**36**	**1,904**

At 30 June 2018, **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 €47 million.

Capital expenditure of €62 million in the first half of 2018 consists largely of:

- €8 million primarily relating to extraordinary maintenance of premises used as post offices and local head offices around the country and mail sorting offices;
- €13 million relating to plant, with the most significant expenditure made by the Parent Company, of which €7 million for plant and equipment related to buildings and €3 million for the installation of ATMs;
- €8 million primarily in the upgrade of plant and the structure of properties held under lease;
- €16 million relating to “Other assets”, including €7 million in expenditure by the Parent Company for the purchase of new computer hardware for post offices and head offices and the consolidation of storage systems, and €7 million invested by the subsidiary, PosteMobile SpA, with €5 million invested in services relating to the electronic postman and €2 million in “PosteMobile Casa” devices;
- €16 million relating to assets under construction, of which €12 million incurred by the Parent Company and including €5 million invested in new parcel sorting equipment, €3 million for the restyling of post offices and €2 million for the renovation of primary distribution centres.

Reclassifications from assets under construction, totalling €23 million, relate to the acquisition cost of assets that became available and ready for use during the first half.

The balance of reclassifications of property, plant and equipment, totalling €3 million, regards the amended classification of a property owned by the subsidiary, EGI SpA, that is no longer held for sale (A6 – Inventories).

A2 - INVESTMENT PROPERTY (€49 million)

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

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

	Six months ended 30 June 2018
Cost	141
Accumulated depreciation	(88)
Accumulated impairments	(1)
Balance at 1 January	**52**
Movements during the period	
Additions	-
Disposals	(1)
Depreciation	(2)
(Impairments)/Reversal of impairments	-
Total movements	**(3)**
Cost	139
Accumulated depreciation	(89)
Accumulated impairments	(1)
Balance at end of period	**49**
Fair value at end of period	*101*

The fair value of investment property at 30 June 2018 includes €66 million representing the sale price applicable to the Parent Company's former service accommodation in accordance with Law 560 of 24 December 1993, while the remaining balance reflects market price estimates computed internally by the Company[22].

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.

[22] 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 (€497 million)

The following table shows carrying amounts and movements in intangible assets in the first half of 2018:

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

	Industrial patents, intellectual property rights, concessions, licences, trademarks and similar rights	Assets under construction and advances	Goodwill	Other	Total
Cost	2,871	117	120	100	3,208
Accumulated amortisation and impairments	(2,531)	-	(69)	(92)	(2,692)
Balance at 1 January 2018	**340**	**117**	**51**	**8**	**516**
Movements during the period					
Additions	32	57	-	-	89
Reclassifications	69	(69)	-	-	-
Transfers and disposals	-	-	-	-	-
Amortisation and impairments	(106)	-	-	(2)	(108)
Total movements	**(5)**	**(12)**	**-**	**(2)**	**(19)**
Cost	2,972	105	120	100	3,297
Accumulated amortisation and impairments	(2,637)	-	(69)	(94)	(2,800)
Balance at 30 June 2018	**335**	**105**	**51**	**6**	**497**

Investment in “Intangible assets” during the first half of 2018 amounts to €89 million, of which €6 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** totals €32 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 used under finance lease arrangements by PosteMobile SpA. The platform is amortised over 10 years.

The increase in **intangible assets under construction** primarily regards the development for software relating to the infrastructure platform (€24 million), for BancoPosta services (€14 million), for use in providing support to the sales network (€8 million) and for the postal products platform (€6 million). The balance includes the Parent Company’s development primarily of software for the infrastructure platform (€41 million), for Bancoposta services (€31 million), for use in providing support to the sales network (€11 million) and for the postal products platform (€8 million).

During the first half, the Group effected reclassifications from intangible assets under construction to industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights, amounting to €69 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 30 June 2018	Balance at 31 December 2017
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 recognised.

A4 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (€541 million)

tab. A4 - Investments (€m)

Item	Balance at 30 June 2018	Balance at 31 December 2017
Investments in associates	251	219
Investments in subsidiaries	3	3
Investments in joint ventures	287	286
Total	**541**	**508**

The movement in **investments** primarily regards:

- Poste Italiane SpA's subscription for its share of the rights issue carried out by the associate, Anima Holding SpA on 12 April 2018, amounting to a total of approximately €30 million and enabling the Company to retain its 10.04% interest in Anima Holding SpA. In addition, there has been a net increase in the carrying amount of the investment of approximately €1.7 million, primarily reflecting a reduction of €5.9 million following the payment of dividends for 2017, and an increase of €7.8 million representing the share of profit booked by the investee between 30 September 2017 and 31 March 2018 (the latest data available). At 30 June 2018, the investment in Anima Holding SpA amounts to €250.8 million.
- A net increase of approximately €1 million in the carrying amount of the investment in FSIA Investimenti Srl, over which the Parent Company exercises joint control, primarily reflecting the profit booked by the investee between 30 September 2017 and 31 March 2018 (the latest data available), after amortisation of the intangible assets identified at the time of the purchase price allocation.

At 30 June 2018, 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 (€191,093 million)

tab. A5 - Financial assets

Financial assets (€m)

Item	Balance at 30 June 2018			Balance at 31 December 2017		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Financial assets at amortised cost	22,418	12,491	34,909	11,708	9,336	21,044
Financial assets at FVTOCI	121,000	4,609	125,609	130,969	4,836	135,805
Financial assets at fair value through profit or loss	28,159	1,859	30,018	27,857	1,481	29,338
Derivative financial instruments	300	257	557	470	109	579
Total	**171,877**	**19,216**	**191,093**	**171,004**	**15,762**	**186,766**

Financial assets by type of activity (€m)

Item	Balance at 30 June 2018			Balance at 31 December 2017		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
FINANCIAL SERVICES	49,625	14,433	64,058	49,415	10,663	60,078
Financial assets at amortised cost	20,981	12,329	33,310	11,675	8,837	20,512
Financial assets at FVTOCI	28,293	1,975	30,268	37,346	1,825	39,171
Financial assets at fair value through profit or loss	51	7	58	-	-	-
Derivative financial instruments	300	122	422	394	1	395
INSURANCE SERVICES	121,685	4,701	126,386	121,005	4,853	125,858
Financial assets at amortised cost	1,404	85	1,489	-	258	258
Financial assets at FVTOCI	92,173	2,629	94,802	93,072	3,006	96,078
Financial assets at fair value through profit or loss	28,108	1,852	29,960	27,857	1,481	29,338
Derivative financial instruments	-	135	135	76	108	184
POSTAL AND BUSINESS SERVICES	567	82	649	584	246	830
Financial assets at amortised cost	33	77	110	33	241	274
Financial assets at FVTOCI	534	5	539	551	5	556
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Total	**171,877**	**19,216**	**191,093**	**171,004**	**15,762**	**186,766**

Financial assets break down as follows by type of activity:

- 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.

The impact of the transition to IFRS 9 is commented on in note 3 – *Changes to accounting policies*, to which reference should be made.

FINANCIAL SERVICES

Financial assets at amortised cost

Movements in financial assets at amortised cost, including the impact of first-time adoption of the new IFRS 9, are shown below:

tab. A5.1 - Movements in financial assets at amortised cost (€m)

	Receivables	Fixed income instruments	Total
Balance at 31 December 2017	**7,600**	**12,912**	**20,512**
First-time adoption IFRS 9	(10)	6,182	6,172
Balance at 1 January 2018	7,590	19,094	26,684
Purchases		5,182	5,182
Changes in amortised cost	-	(37)	(37)
Changes in fair value through profit or loss	-	152	152
Changes in cash flow hedges (*)	-	-	-
Changes in impairment	-	-	-
Net changes	2,446		2,446
Effects of sales on profit or loss	-	2	2
Accrued income	-	169	169
Sales, redemptions and settlement of accrued income		(1,288)	(1,288)
Balance at 30 June 2018	**10,036**	**23,274**	**33,310**

(*) The item, "Changes in cash flow hedge transactions", relates to the purchase of forward contracts in relation to cash flow hedge transactions and reflects changes in the fair value of these forward contracts between the date of purchase and the settlement date, with a matching entry in equity, in the cash flow hedge reserve.

Receivables

This item breaks down as follows:

tab. A5.1.1 - Receivables at amortised cost (€m)

	Balance at 30 June 2018			Balance at 31 December 2017		
Item	**Non-current assets**	**Current assets**	**Total**	**Non-current assets**	**Current assets**	**Total**
Amounts deposited with MEF	-	6,191	6,191	-	6,011	6,011
Receivables	-	6,194	6,194	-	6,011	-
Provisions for doubtful amounts deposited with MEF	-	(3)	(3)	-	-	-
MEF account, held at the Treasury	-	2,177	2,177	-	-	-
Other financial receivables	-	1,668	1,668	8	1,581	1,589
Total	**-**	**10,036**	**10,036**	**8**	**7,592**	**7,600**

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 indices[23]. Following the introduction of IFRS 9, the deposits have been adjusted to reflect accumulated impairments of approximately €3 million, reflecting the risk of counterparty default. In the first half of 2018, the Parent Company entered into derivatives with the aim of converting the return on the deposits in question into a fixed rate. The transaction was designed to fix the return on the indexed components of the deposits for the current year, through a series of forward purchases and spot sales of BTPs, without delivery of the underlying securities at maturity, but with settlement of the differential between the forward price of the securities and their market value.
- the **MEF account**, held at the **Treasury**, amounting to €2,177 million, consisting of:

[23] 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.

tab. A5.1.1.1 - MEF account, held at the Treasury

Item	Balance at 30 June 2018 Non-current assets	Current assets	Total	Balance at 31 December 2017 Non-current liabilites	Current liabilites	Total
Balance of cash flows for advances	-	2,212	2,212	-	(3,375)	(3,375)
Balance of cash flows from management of postal savings	-	160	160	-	83	83
Amounts payable due to theft	-	(160)	(160)	-	(157)	(157)
Amounts payable for operational risks	-	(35)	(35)	-	(35)	(35)
Total	**-**	**2,177**	**2,177**	**-**	**(3,483)**	**(3,483)**

The *balance of cash flows for advances*, amounting to €2,212 million, represents the net amount receivable as a result of transfers of deposits and any excess liquidity, less advances from the MEF to meet the cash requirements of BancoPosta. These break down as follows:

tab. A5.1.1.1 a) - Balance of cash flows for advances

Item	Balance at 30 June 2018 Non-current assets	Current assets	Total	Balance at 31 December 2017 Non-current liabilites	Current liabilites	Total
Net advances	-	2,212	2,212	-	(3,375)	(3,375)
MEF postal current accounts and other payables	-	(670)	(670)	-	(671)	(671)
Ministry of Justice - Orders for payment	-	-	-	-	-	-
MEF - State pensions	-	671	671	-	671	671
Total	**-**	**2,212**	**2,212**	**-**	**(3,375)**	**(3,375)**

At 31 December 2017, the item "*Net advances*" was in debit, reflecting the provisions of Law 205 of 27 December 2017 which, by changing the timing of pension payments, delayed the payment of pensions for the month of January 2018 by one bank working day. As a result, the payment of pensions for January 2018 on behalf of the paying entity, INPS, was carried out on the first working day of 2018 rather than on the last working day of December 2017. At 30 June 2018, the balance of this item is comparable with the figure for 30 June 2017.

The *balance of cash flows from the management of postal savings*, amounting to a positive €160 million, represents the balance of withdrawals less deposits during the last two days of the period and cleared early in the following period. The balance at 30 June 2018 consists of €116 million receivable from Cassa Depositi e Prestiti and €44 million receivable from the MEF.

Amounts payable due to thefts from post offices regard the Parent Company's liability to the MEF on behalf of the Italian Treasury for losses resulting from theft and fraud, totalling €160 million. This liability derives from cash withdrawals from the Treasury to make up for the losses resulting from these criminal acts, in order to ensure that post offices can continue to operate.

Other financial receivables include guarantee deposits of €1,299 million, including €935 million provided to counterparties in asset swap transactions (with collateral provided by specific Credit Support Annexes), €298 million provided to counterparties in repurchase agreements on fixed income securities (with collateral contemplated by specific Global Master Repurchase Agreements) and €66 million provided to central counterparties as collateral for outstanding transactions.

Fixed income instruments

These are Eurozone fixed income instruments held by BancoPosta RFC, consisting of government securities issued by the Italian government and securities guaranteed by the Italian government with a nominal value of €21,482 million. The carrying amount of €23,274 million consists of the amortised cost of unhedged fixed income instruments, totalling €11,309 million, and the amortised cost of hedged fixed income instruments,

totalling €11,162 million, adjusted by a total of €803 million to take into account the impact of fair value hedges. Following the introduction of IFRS 9, fixed income instruments recognised at amortised cost are adjusted to take into account the related impairments. Accumulated impairments at 30 June 2018 amount to approximately €8 million (unchanged compared with 1 January 2018).
At 30 June 2018, the fair value[24] of these instruments is €21,745 million.

Fair value gains recognised in profit or loss of €152 million reflect the impact of existing fair value hedges.

This category of financial asset includes fixed rate instruments, amounting to €4,500 million, issued by Cassa Depositi e Prestiti SpA and guaranteed by the Italian government (at 30 June 2018, their carrying amount totals €4,522 million).

Financial assets at fair value through other comprehensive income

Movements in financial assets at fair value through other comprehensive income (FVTOCI), including the impact of first-time adoption of the new IFRS 9, are shown below:

tab. A5.2 - Movements in financial assets at FVTOCI (€m)

	Fixed income instruments	Equity instruments	Total
Balance at 31 December 2017	**39,130**	**41**	**39,171**
First-time adoption IFRS 9	(4,267)	(41)	(4,308)
Balance at 1 January 2018	34,863	-	34,863
Purchases	673	-	673
Transfers to equity	(368)	-	(368)
Changes in amortised cost	(7)	-	(7)
Fair value gains and losses through equity	(1,586)	-	(1,586)
Changes in fair value through profit or loss	132	-	132
Changes in cash flow hedges (*)	-	-	-
Effects of sales on profit or loss	350	-	350
Accrued income	308	-	308
Sales, redemptions and settlement of accrued income	(4,097)	-	(4,097)
Balance at 30 June 2018	**30,268**	**-**	**30,268**

Fixed income instruments

These are Eurozone fixed income instruments held primarily by BancoPosta RFC, consisting of government securities issued by the Italian government and securities guaranteed by the Italian government with a nominal value of €28,399 million.
Total fair value losses for the period of €1,454 million, with losses of €1,586 million recognised in the relevant equity reserve in relation to the portion of the portfolio not hedged by fair value hedges, and losses of €132 million recognised through profit and loss in relation to the hedged portion.
Following the introduction of IFRS 9, fixed income instruments recognised at FVTOCI are adjusted for impairment through the relevant equity reserve, with a matching entry in profit or loss. Accumulated impairments at 30 June 2018 amount to €11 million (€14 million at 1 January 2018).

Sales with a nominal value of €3,128 million were carried out in the first half of 2018.

[24] In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, €17,375 million of the total amount qualifies for inclusion in level 1 and €4,370 million for inclusion in level 2.

Financial assets at fair value through profit or loss

Movements in financial assets at fair value through profit or loss (FVTPL), including the impact of first-time adoption of the new IFRS 9, are shown below:

tab. A5.3 - Movements in financial assets at FVTPL (€m)

	Receivables	Equity instruments	Total
Balance at 31 December 2017	**-**	**-**	**-**
First-time adoption IFRS 9	8	41	49
Balance at 1 January 2018	**8**	**41**	**49**
Purchases		-	-
Fair value gains and losses through profit or loss	-	9	9
Net changes	-		-
Accrued income	-	-	-
Effects of sales on profit or loss	-	-	-
Sales/Settlement of accrued income		-	-
Balance at 30 June 2018	**8**	**50**	**58**

Receivables

Receivables of approximately €8 million arise from the deferred portion of the consideration due to the Parent Company following the sale of its Visa Europe Ltd. share to Visa Incorporated (payable three years after transaction closing on 21 June 2016). Following its failure to pass the SPPI test, this receivable has been measured at fair value through profit or loss.

Equity instruments

This item regards the following:

- €45 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 13.893[25] 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;
- €5 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 period under review, amounting to €9 million, have been recognised in profit or loss in "Revenue from financial activities".

Derivative financial instruments

The following table shows movements in derivative instruments during the period:

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

	Cash flow hedges						*Fair value hedges*		FVTPL				Total	
	Forward purchases		Forward sales		*Asset swaps*		*Asset swaps*		Forward purchases		Forward sales			
	notional	fair value	notional	fair value	notional	fair value	notional	*fair value*	notional	*fair value*	notional	fair value	notional	fair value
Balance at 1 January 2018	**-**	**-**	**1,408**	**(23)**	**1,110**	**(59)**	**19,755**	**(1,160)**	**-**	**-**	**-**	**-**	**22,273**	**(1,242)**
Increases/(decreases) *	685	16	1,340	126	-	(7)	4,380	(285)	852	3	-	-	7,257	(147)
Gains/(Losses) through profit or loss **	-	-	-	-	-	-	-	(1)	-	-	-	-	-	(1)
Transactions settled ***	-	-	(1,408)	-	-	(11)	(1,445)	296	(77)	-	-	-	(2,930)	285
Balance at 30 June 2018	**685**	**16**	**1,340**	**103**	**1,110**	**(77)**	**22,690**	**(1,150)**	**775**	**3**	**-**	**-**	**26,600**	**(1,105)**
Of which:														
Derivative assets	685	16	1,340	103	175	28	6,835	272	775	3	-	-	9,810	422
Derivative liabilities	-	-	-	-	935	(105)	15,855	(1,422)	-	-	-	-	16,790	(1,527)

25 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.

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

Fair value hedges in the form of asset swaps regard instruments classified as at amortised cost, with a nominal value of €10,335 million, and instruments classified as FVTOCI, with a nominal value of €12,355 million.

Fair value hedges in the form of asset swaps and forward sales, on the other hand, regard instruments classified as FVTOCI, with nominal values of €1,110 million and €1,340 million, respectively.

During the period under review, the effective portion of interest rate hedges recorded an overall fair value gain of €135 million, reflected in the cash flow hedge reserve.

Fair value hedges recorded a fair value loss on the effective portion of €285 million, whilst the hedged securities classified either at amortised cost or at FVTOCI (tables A5.1 and A.5.2) recorded a fair value gain of €284 million, with the difference of €1 million due to paid differentials.

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

- the conclusion of forward purchases with a nominal value of €685 million;
- the conclusion of forward sales with a nominal value of €1,340 million;
- the settlement of forward sales outstanding at 31 December 2017, totalling €1,408 million;
- new asset swaps used as fair value hedges with a nominal value of €4,380 million;
- the unwinding of asset swaps, used as fair value hedges for securities that have been sold, with a nominal value of €1,445 million.

In addition, the Parent Company has entered into forward purchases and spot sales with a total nominal value of €852 million (recognised at fair value through profit or loss), with the aim of fixing the return, for the current year, on public customers' current account deposits held at the parent, the MEF, and earning a variable rate of return (tab. A5.1.1).

INSURANCE SERVICES

Financial assets at amortised cost

Movements in financial assets at amortised cost, including the impact of first-time adoption of the new IFRS 9, are shown below:

tab. A5.5 - Movements in financial assets at amortised cost (€m)

	Receivables	Fixed income instruments	Total
Balance at 31 December 2017	**258**	**-**	**258**
First-time adoption IFRS 9	(208)	1,412	1,204
Balance at 1 January 2018	50	1,412	**1,462**
Purchases		17	17
Changes in amortised cost	-	4	4
Changes in fair value through profit or loss	-	-	-
Changes in cash flow hedges (*)	-	-	-
Changes in impairment	-	-	-
Net changes	21		21
Effects of sales on profit or loss	-	-	-
Accrued income	-	15	15
Sales, redemptions and settlement of accrued income		(30)	(30)
Balance at 30 June 2018	**71**	**1,418**	**1,489**

Receivables

Financial receivables of €71 million primarily regard accrued interest yet to be collected at 30 June 2018.

Fixed income instruments

Fixed income instruments at amortised cost at 30 June 2018 have a carrying amount of €1,418 million. These instruments exclusively regard the free capital of Poste Vita SpA and Poste Assicura SpA. At 30 June 2018, the fair value[26] of these instruments is €1,534 million.

Following the introduction of IFRS 9, fixed income instruments recognised at amortised cost are adjusted to take into account the related impairments. Accumulated impairments at 30 June 2018 amount to approximately €0.5 million (€0.6 million at 1 January 2018).

Financial assets at fair value through other comprehensive income

Movements in financial assets at fair value through other comprehensive income (FVTOCI), including the impact of first-time adoption of the new IFRS 9, are shown below:

tab. A5.6 - Movements in financial assets at FVTOCI (€m)

	Fixed income instruments	Other instruments	Equity instruments	Total
Balance at 31 December 2017	**94,709**	**1,352**	**17**	**96,078**
First-time adoption IFRS 9	1,875	(806)	(17)	1,052
Balance at 1 January 2018	96,584	546	-	**97,130**
Purchases	9,065	-	-	9,065
Transfers to equity	(199)	-	-	(199)
Changes in amortised cost	153	-	-	153
Fair value gains and losses through equity	(4,032)	(41)	-	(4,073)
Effects of sales on profit or loss	163	-	-	163
Accrued income	720	-	-	720
Sales, redemptions and settlement of accrued income	(8,157)	-	-	(8,157)
Balance at 30 June 2018	**94,297**	**505**	**-**	**94,802**

These financial instruments have recorded a net fair value loss of €4,073 million. This includes €4,017 million deriving primarily from the measurement of securities held by Poste Vita SpA and transferred to policyholders, with a contra-entry made in technical provisions in accordance with the shadow accounting method, and a portion of €56 million reflected in a matching negative movement in the related equity reserve.

[26] In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, €1,278 million of the total amount qualifies for inclusion in level 1 and €256 million for inclusion in level 2.

Fixed income instruments

At 30 June 2018, these instruments relate primarily to investments held by Poste Vita SpA, totalling €94,297 million (a nominal value of €91,540 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 €1,113 million.

Following the introduction of IFRS 9, fixed income instruments recognised at FVTOCI are adjusted for impairment through the relevant equity reserve, with a matching entry in profit or loss. Accumulated impairments at 30 June 2018 amount to €37 million, including a portion of €36 million transferred to policyholders using the shadow accounting method (at 1 January 2018, impairments amounted to €43 million, including €42 million transferred to policyholders using the shadow accounting method).

Other investments

At 30 June 2018, following the first-time adoption of IFRS 9, Cassa Depositi e Prestiti's private placement of a Constant Maturity Swap, classified as at FVTOCI, amounts to €505 million. Fair value losses registered during the period, totalling €41 million, have been transferred to policyholders using the shadow accounting method.

Following the introduction of IFRS 9, this investment is adjusted for impairment through the relevant equity reserve, with a matching entry in profit or loss. Accumulated impairments at 30 June 2018 amount to €0.3 million, transferred in full to policyholders.

Financial assets at fair value through profit or loss

Movements in financial assets at fair value through profit or loss (FVTPL), including the impact of first-time adoption of the new IFRS 9, are shown below:

tab. A5.7 - Movements in financial assets at FVTPL (€m)

	Receivables	Fixed income instruments	Other instruments	Equity instruments	Total
Balance at 31 December 2017	**-**	**6,220**	**23,060**	**58**	**29,338**
First-time adoption IFRS 9	208	(3,492)	806	17	(2,461)
Balance at 1 January 2018	**208**	**2,728**	**23,866**	**75**	**26,877**
Purchases		230	5,166	75	5,471
Fair value gains and losses through profit or loss	-	(22)	(664)	(6)	(692)
Net changes	5				5
Effects of sales on profit or loss	-	(5)	-	2	(3)
Accrued income	-	9	-	-	9
Sales/Settlement of accrued income		(758)	(921)	(28)	(1,707)
Balance at 30 June 2018	**213**	**2,182**	**27,447**	**118**	**29,960**

Receivables

This item regards receivables relating to contributions made in the form of subscriptions and payment for unissued units of mutual investment funds.

Fixed income instruments

At 30 June 2018, fixed income instruments of €2,182 million consist of €1,525 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 €657 million is primarily made up of corporate bonds issued by blue-chip companies, including €413 million linked to separately managed accounts, €229 million covering contractual obligations arising on Class III insurance policies and the remaining €15 million relating to securities in which the company's free capital has been invested.

Other investments

Other investments, amounting to €27,447 million, relate to:

- €27,427 million in units of mutual investment funds, which include €26,193 million to cover Class I products and €1,228 million to cover Class III products. The remaining €6 million regards investment of the company's free capital (see note 11 – *Additional information - Unconsolidated structured entities*);
- €20 million relating to a Constant Maturity Swap placed by Cassa Depositi e Prestiti (a nominal value of €22 million) and covering products linked to separately managed accounts.

The fair value of other investments has decreased by approximately €664 million, almost entirely transferred to Class I policyholders using the shadow accounting method.

Equity instruments

Equity instruments amount to €118 million and cover the contractual obligations arising on Class I products linked to separately managed accounts and Class III policies. The increase over the period reflects the combined effect of net investments of approximately €47 million, the proceeds from sales of €2 million and a fair value loss of approximately €6 million.

Derivative financial instruments

At 30 June 2018, outstanding instruments primarily regard warrants executed by Poste Vita SpA to cover contractual obligations deriving from Class III policies with a fair value of €135 million and a total nominal amount of €1,528 million. The reduction in value during the period under review, totalling €49 million, reflects redemptions and sales during the period (€45 million) and the change in fair value (€4 million). Details of the Group's warrants are as follows:

tab. A5.8 - Warrants (€m)

	At 30 June 2018		At 31 December 2017	
Policy	Nominal value	Fair value	Nominal value	Fair value
Titanium	-	-	621	45
Arco	165	34	165	34
Prisma	166	30	166	29
6Speciale	200	-	200	-
6Avanti	200	-	200	-
6Sereno	173	17	173	18
Primula	176	16	176	17
Top5	223	17	223	18
Top5 edizione II	225	21	225	23
Total	1,528	135	2,149	184

POSTAL AND BUSINESS SERVICES

Financial assets at amortised cost

Financial assets at amortised cost refer solely to financial receivables totalling €110 million.

This item breaks down as follows:

tab. A5.9 - Receivables at amortised cost (€m)

	Balance at 30 June 2018			Balance at 31 December 2017		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Guarantee deposits	-	35	35	-	40	40
Due from the purchasers of service accommodation	5	2	7	5	2	7
Due from others	28	40	68	28	199	227
Provisions for doubtful debts	-	-	-	-	-	-
Total	**33**	**77**	**110**	**33**	**241**	**274**

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.

Financial assets at fair value through other comprehensive income

tab. A5.10 - Movements in financial assets at FVTOCI (€m)

	Fixed income instruments	Equity instruments	Total
Balance at 31 December 2017	**551**	**5**	**556**
First-time adoption IFRS 9	-	-	-
Balance at 1 January 2018	551	5	**556**
Purchases	-	-	-
Transfers to equity	-	-	-
Changes in amortised cost	-	-	-
Fair value gains and losses through equity	(14)	-	(14)
Changes in fair value through profit or loss	(4)	-	(4)
Changes in cash flow hedges (*)	-	-	-
Effects of sales on profit or loss	-	-	-
Accrued income	6	-	6
Sales, redemptions and settlement of accrued income	(5)	-	(5)
Balance at 30 June 2018	**534**	**5**	**539**

Fixed income instruments

This item regards 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.

Following the introduction of IFRS 9, fixed income instruments recognised at FVTOCI are adjusted to take into account the related impairments. Accumulated impairments at 30 June 2018 amount to approximately €0.2 million (unchanged compared with 1 January 2018).

Equity instruments

This item regards the investment in CAI SpA (formerly Alitalia CAI SpA), which was acquired for €75 million in 2013 and written off in 2014.

Financial assets at fair value through profit or loss

This item consists of equity instruments (as defined by art. 2346, paragraph 6 of the Italian Civil Code) resulting from the conversion of Contingent Convertible Notes[27], whose value at 30 June 2018 is zero.

Derivative financial instruments

tab. A5.11 - Movements in derivative financial instruments (€m)

	Six months ended 30 June 2018			
	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total
Balance at 1 January 2018	**(5)**	**(34)**	**-**	**(39)**
Increases/(decreases) (*)	-	(2)	-	(2)
Hedge completion	-	-	-	-
Gains/(Losses) through profit or loss (**)	-	-	-	-
Transactions settled (*)	(1)	5	-	5
Balance at 30 June 2018	**(6)**	**(31)**	**-**	**(36)**
Of which:				
Derivative assets	-	-	-	-
Derivative liabilities	(6)	(31)	-	(36)

* Completed transactions include settled forward transactions, differentials that are past due and falling due and the extinguishment of asset swaps on securities sold.

At 30 June 2018, derivative financial instruments include:

- a swap contract entered into in 2013 to hedge the cash flows of a €50 million bond issued on 25 October 2013 (note B8 – *Financial liabilities*). With this transaction, the Parent Company took on the obligation to pay a fixed rate of 4.035% and sold the variable rate of the bond which, at 30 June 2018, is 1.843%;
- 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;

[27] 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. On the fulfilment of certain negative pledge conditions, in 2017 the loan was converted into equity instruments (as defined by art. 2346, paragraph 6 of the Italian Civil Code), carrying the same rights associated with the Notes.

FAIR VALUE HIERARCHY

Fair value hierarchy								(€m)
Item	at 30 June 2018				at 31 December 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Financial assets at FVTOCI	117,375	8,229	5	125,609	129,465	5,418	922	135,805
Equity instruments	-	-	5	5	17	4	42	63
Fixed income instruments	117,375	7,724	-	125,099	129,448	4,942	-	134,390
Other investments	-	505	-	505	-	472	880	1,352
Financial assets at FVTPL	781	26,991	2,246	30,018	6,796	21,788	754	29,338
Receivables	-	8	213	221	-	-	-	-
Equity instruments	117	5	46	168	58	-	-	58
Fixed income instruments	572	1,610	-	2,182	6,212	8	-	6,220
Other investments	92	25,368	1,987	27,447	526	21,780	754	23,060
Derivative financial instruments	-	557	-	557	-	579	-	579
Total	**118,156**	**35,777**	**2,251**	**156,184**	**136,261**	**27,785**	**1,676**	**165,722**

Transfers between levels 1 and 2, relating entirely to the Poste Vita insurance group, are shown below, based on fair value levels at 1 January 2018 (the date of transition to the new accounting standard, *IFRS 9 – Financial Instruments*):

Net transfers between Level 1 and 2 at 30 June 2018				(€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	**(6,576)**	**6,576**	**613**	**(613)**
Financial assets at FVTOCI				
Equity instruments	-	-	-	-
Fixed income instruments	(6,227)	6,227	613	(613)
Other investments	-	-	-	-
Financial assets at FVTPL				
Receivables	-	-	-	-
Equity instruments	-	-	-	-
Fixed income instruments	(40)	40	-	-
Other investments	(309)	309	-	-
(Net transfers between Level 1 and 2)	**(6,576)**	**6,576**	**613**	**(613)**

Reclassifications from level 1 to level 2 regard financial instruments whose value, at 30 June 2018, 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 30 June 2018, is observable in a liquid and active market.

Movements in level 3 during the period are shown below:

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

Item	Financial assets			
	Financial assets at FVTOCI	Financial assets at FVTPL	Derivative financial instruments	Total
Balance at 31 December 2017	**922**	**754**	**-**	**1,676**
First-time adoption IFRS 9	(917)	1,130	-	213
Balance at 1 January 2018	**5**	**1,884**	**-**	**1,889**
Purchases/Issues	-	1,018	-	1,018
Sales/Extinguishment of initial accruals	-	(692)	-	(692)
Redemptions	-	-	-	-
Movements in fair value through profit or loss	-	36	-	36
Movements in fair value through equity	-	-	-	-
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	-	-	-	-
Write-off	-	-	-	-
Other movements (including accruals at end of period)	-	-	-	-
Balance at 30 June 2018	**5**	**2,246**	**-**	**2,251**

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 and occurring between the latest NAV date and the measurement date. These financial instruments primarily consist of investments in private equity funds and, to a lesser extent, real estate funds associated entirely with Class I products related to separately managed accounts. Movements during the period regard the purchase of new investments, redemptions of units of unquoted close-end funds and changes in fair value during the period (including gains of €8 million on the "Series C Visa Inc. convertible preferred stock" held by the Parent Company).

A6 - INVENTORIES (€135 million)

tab. A6 - Inventories (€m)

Item	Balance at 31 December 2017	Increase / (decrease)	Reclassifications	Balance at 30 June 2018
Properties held for sale	119	2	(3)	118
Work in progress, semi-finished and finished goods and goods for resale	10	(1)	-	9
Raw , ancillary and consumable materials	9	(1)	-	8
Total	**138**	**-**	**(3)**	**135**

Properties held for sale refer entirely to the portion of EGI SpA's real estate portfolio to be sold, whose fair *value*[28] at 30 June 2018 amounts to approximately €281 million.

A7 – TRADE RECEIVABLES (€2,159 million)

tab. A7 - Trade receivables (€m)

Item	Balance at 30 June 2018			Balance at 31 December 2017		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Customers	8	1,974	1,982	9	1,860	1,869
MEF	-	176	176	-	166	166
Subsidiaries, associates and joint ventures	-	1	1	-	-	-
Prepayments to suppliers	-	-	-	-	-	-
Total	**8**	**2,151**	**2,159**	**9**	**2,026**	**2,035**

Receivables due from customers

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

Item	Balance at 30 June 2018			Balance at 31 December 2017		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Ministries and Public Administration entities	-	678	678	-	658	658
Cassa Depositi e Prestiti	-	410	410	-	374	374
Parcel express courier and express parcel services	-	292	292	-	259	259
Unfranked mail delivered and other value added services	20	252	272	20	254	274
Overseas counterparties	-	237	237	-	229	229
Overdraw n current accounts	-	148	148	-	148	148
Amounts due for other BancoPosta services	-	119	119	-	87	87
Property management	-	7	7	-	7	7
Other trade receivables	3	422	425	4	412	416
Provisions for doubtful debts	(15)	(591)	(606)	(15)	(568)	(583)
Total	**8**	**1,974**	**1,982**	**9**	**1,860**	**1,869**

Amounts due from **ministries and Public Administration entities** refer to the following:

- €281 million from the provision of integrated notification and mailroom services.
- Reimbursement of the costs associated with the management of property, vehicles and security incurred on behalf of the Ministry for Economic Development, totalling €76 million, of which €1 million relates to the amount accrued during the first half.
- Compensation for the discounts applied to publishers, due from the *Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria* (Cabinet Office – Publishing department), amounting to €61 million, of which €19 million accruing during the first half. These receivables are shown gross of collection of the amount of €42 million in subsidies for 2017, which was deposited by the Cabinet Office in an escrow account with the Italian Treasury and, for this reason, accounted for in "Prepayments received". Release of the

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

amount deposited and extinguishment of the receivables in question are awaiting approval from the European Commission.

- The payment of pensions and vouchers on behalf of INPS (the National Institute of Social Security), totalling €63 million. In order to settle the amount due, INPS has expressed a willingness to offset receivables due to the Parent 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, reserving the right to take action to enforce its claims once it has exhausted all the possible options to resolve the dispute. At this time, however, whilst waiting for INPS and Poste Italiane to complete their assessment of the respective payables and receivables, the Company has suspended its legal action against INPS.

Provisions for doubtful debts relating to customers are described in note 6 – *Risk management*.

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. A7.2 - Receivables due from the MEF (€m)

Item	Balance at 30 June 2018	Balance at 31 December 2017
Publisher tariff and electoral subsidies	83	83
Universal Service compensation	75	31
Payment for delegated services	28	56
Remuneration of current account deposits	20	25
Other	3	2
Provision for doubtful debts due from the MEF	(33)	(31)
Total	**176**	**166**

Specifically:

Receivables arising from **electoral subsidies** refer to compensation for previous years. Funds have been earmarked in the state budgets for 2017 and previous years. These receivables are shown gross of collection of the amount of €55 million deposited in an escrow account with the Italian Treasury 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 procedures for release of the amount deposited and for payment of the remaining amount receivable are in the process of being finalised with the MEF.

- **Universal Service compensation** includes:

tab. A7.2.1 - Universal Service compensation receivable (€m)

Item	Balance at 30 June 2018	Balance at 31 December 2017
First half 2018	44	-
Remaining balance for 2012	23	23
Remaining balance for 2005	8	8
Total	**75**	**31**

Receivables accruing in the first half of 2018 amounted to €131 million, of which €87 million was collected during the period and €44 million was collected in July 2018.

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.

- Payments for **delegated services** relate to fees accrued solely in the period under review for treasury services performed by Bancoposta on behalf of the state in accordance with a specific agreement with the MEF, renewed on 16 November 2017 for the three-year period 2017-2019.
- The **remuneration of current account deposits** refers entirely to amounts accruing during the period and almost entirely relates to the deposit of funds deriving from accounts opened by Public Administration entities and attributable to BancoPosta RFC.

Provisions for doubtful debts due from the MEF are described in note 6 – *Risk management*.

A8 – OTHER RECEIVABLES AND ASSETS (€4,326 million)

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

Item	Note	Balance at 30 June 2018 Non-current assets	Current assets	Total	Balance at 31 December 2017 Non-current assets	Current assets	Total
Substitute tax paid		3,284	500	3,784	2,926	541	3,467
Receivables relating to fixed-term contract settlements		92	86	178	101	87	188
Amounts due from social security agencies and pension funds (excl. fixed-term contract settlements)		-	101	101	-	98	98
Amounts restricted by court rulings		-	79	79	-	75	75
Accrued income and prepaid expenses from trading transactions		-	19	19	-	11	11
Tax assets		-	1	1	-	5	5
Sundry receivables		15	171	186	16	159	175
Provisions for doubtful debts due from others		-	(72)	(72)	-	(72)	(72)
Other receivables and assets		3,391	885	4,276	3,043	904	3,947
Interest accrued on IRES refund	[C11.1]	-	47	47	-	47	47
Interest accrued on IRAP refund	[C11.1]	-	3	3	-	3	3
Total		**3,391**	**935**	**4,326**	**3,043**	**954**	**3,997**

Specifically:

- **Substitute tax paid** refers mainly to:
  - €2,272 million on non-current receivables paid in advance by Poste Vita SpA for the financial years 2012-2018, relating to withholding and substitute tax paid on capital gains on life policies[29];
  - €1,012 million charged to holders of Interest-bearing Postal Certificates and Class III and V insurance policies for stamp duty at 30 June 2018[30]. 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);
  - €409 million relating to advances paid in relation to stamp duty to be paid in virtual form in 2018 and to be recovered from customers by Poste Italiane.
- 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 €178 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 €66 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 30 June 2018 in relation to the tax credit determined by an unreported deduction of IRAP paid on labour costs

[29] Of the total amount, €512 million, assessed on the basis of provisions at 30 June 2018, has yet to be paid and is accounted for in "Other taxes payable" (tab. B10.3).

[30] 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).

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 2.4– *Use of estimates*.

Provisions for doubtful debts due from others are described in note 6 – *Risk management*.

A9 - CASH AND DEPOSITS ATTRIBUTABLE TO BANCOPOSTA (€3,250 million)

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

Item	Balance at 30 June 2018	Balance at 31 December 2017
Cash and cash equivalents in hand	2,904	2,799
Bank deposits	346	397
Total	**3,250**	**3,196**

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 (€1,209 million) and companies that provide cash transportation services whilst awaiting transfer to the Italian Treasury (€1,695 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 €343 million.

A10 – CASH AND CASH EQUIVALENTS (€1,703 million)

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

Item	Balance at 30 June 2018	Balance at 31 December 2017
Bank deposits and amounts held at the Italian Treasury	1,250	2,034
Deposits with the MEF	440	379
Cash and cash equivalents in hand	13	15
Total	**1,703**	**2,428**

The balance of cash at 30 June 2018 includes approximately €541 million the use of which is restricted, including €413 million in liquidity covering technical provisions for the insurance business, €97 million deposited in a non-interest bearing escrow account with the Italian Treasury (further details are provided above in note A7 on trade receivables), €17 million whose use is restricted by court orders related to different disputes and €14 million resulting from the collection of cash on delivery and amounts subject to other restrictions.

EQUITY

B1 – EQUITY (€7,595 million)

The following table shows the reconciliation of the Parent Company's equity and profit for the period and consolidated equity and profit for the period:

tab. B1 - Reconciliation of equity (€m)

	Equity at 30 June 2018	Changes in equity during first half of 2018	Profit/(loss) for first half of 2018	Equity at 1 January 2018 including IFRS 9 and IFRS 15 effects	Changes resulting from IFRS 9 and IFRS 15	Equity at 31 December 2017
Financial statements of Poste Italiane SpA	**5,729**	**(1,847)**	**696**	**6,880**	**1,368**	**5,512**
- Undistributed profit (loss) of consolidated companies	3,533	-	252	3,281	(12)	3,293
- Investments accounted for using the equity method	35	-	8	27	-	27
- Balance of FV and CFH reserves of investee companies	(30)	(46)	-	16	(140)	156
- Actuarial gains and losses on employee termination benefits of investee companies	(4)	-	-	(4)	-	(4)
- Fees to be amortised attributable to Poste Vita SpA and Poste Assicura SpA	(40)	-	-	(40)	-	(40)
- 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)	(1,852)	(13)	(253)	(1,586)	-	(1,586)
- Elimination of adjustments to value of consolidated companies	448	-	20	428	-	428
- Amortisation until 1 January 2004/Impairment of goodwill	(139)	-	-	(139)	-	(139)
- Impairments of disposal groups held for sale	(40)	-	-	(40)	-	(40)
- Other consolidation adjustments	6	-	12	(6)	-	(6)
Equity attributable to owners of the Parent	**7,595**	**(1,906)**	**735**	**8,766**	**1,216**	**7,550**
- Non-controlling interests (excluding profit/(loss))	-	-	-	-	-	-
- Profit/(loss) attributable to non-controlling interests	-	-	-	-	-	-
Equity attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL CONSOLIDATED EQUITY	**7,595**	**(1,906)**	**735**	**8,766**	**1,216**	**7,550**

The calculation of basic and diluted earnings per share (EPS) is based on consolidated profit for the period. The denominator used in the calculation of both basic and diluted EPS is represented by the number of the Parent Company's shares in issue, given that no financial instruments with potentially dilutive effects had been issued at 30 June 2018 or at 30 June 2017.

B2 – SHARE CAPITAL (€1,306 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 30 June 2018, 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.

B3 – SHAREHOLDERS TRANSACTIONS

As resolved at the General Meeting of shareholders held on 29 May 2018, on 20 June 2018, the Parent Company paid dividends totalling €549 million, based on a dividend per share of €0.42.

B4 – RESERVES (€1,482 million)

tab. B4 - Reserves (€m)

	Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Reserve for investees accounted for using equity method	Total
Balance at 31 December 2017	**299**	**1,000**	**371**	**(61)**	**2**	**1,611**
Changes resulting from IFRS 9 and IFRS 15	**-**	**-**	**1,233**	**-**	**-**	1,233
Reclassifications of financial instruments	-	-	1,705	-	-	1,705
Adjustments	-	-	15	-	-	15
Tax effects	-	-	(487)	-	-	(487)
Balance at 1 January 2018 including IFRS 9 and IFRS 15 effects	**299**	**1,000**	**1,604**	**(61)**	**2**	**2,844**
Increases/(decreases) in fair value during the period	-	-	(1,656)	135	-	(1,521)
Tax effect of changes in fair value	-	-	473	(38)	-	435
Transfers to profit or loss	-	-	(381)	(1)	-	(382)
Tax effect of transfers to profit or loss	-	-	109	-	-	109
Increase/(Decrease) for expected credit loss	-	-	(3)	-	-	(3)
Gains/(losses) recognised in equity	-	-	(1,458)	96	-	(1,362)
Balance at 30 June 2018	**299**	**1,000**	**146**	**35**	**2**	**1,482**

Details are as follows:

- the **fair value reserve** regards changes in the value of financial assets at fair value through other comprehensive income. Fair value losses in the first half of 2018 total €1,656 million and regard:
  - a net decrease of €1,586 million in financial assets at fair value through other comprehensive income attributable to the Group's Financial Services;
  - a net decrease of €56 million in financial assets at fair value through other comprehensive income attributable to the Group's Insurance Services;
  - a net decrease of €14 million in financial assets at fair value through other comprehensive income attributable to the Group's Postal and Business Services.

- 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 the first half of 2018, fair value losses of €135 million were attributable primarily to the value of BancoPosta RFC's derivative financial instruments.

LIABILITIES

B5 - TECHNICAL PROVISIONS FOR INSURANCE BUSINESS (€124,581 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 30 June 2018	Balance at 31 December 2017
Mathematical provisions	117,109	111,014
Outstanding claims provisions	639	631
Technical provisions where investment risk is transferred to policyholders	3,218	3,530
Other provisions	3,434	8,315
for operating costs	94	90
for deferred liabilities to policyholders	3,340	8,225
Technical provisions for claims	181	160
Total	**124,581**	**123,650**

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

The provisions for deferred liabilities due to policyholders include portions of gains and losses attributable to policyholders under the shadow accounting method. In particular, the value of the provisions reflects the attribution to policyholders, in accordance with the relevant accounting standards, of unrealised gains and losses on financial assets at fair value through other comprehensive income at 30 June 2018 (€3,784 million in net unrealised gains) and, to a lesser extent, on financial instruments at fair value through profit or loss (€444 million in net unrealised losses). The reduction in the reserve reflects the effect of the change in the spread in the last two months of the period under review.

B6 - PROVISIONS FOR RISKS AND CHARGES (€1,495 million)

Movements in provisions for risks and charges are as follows:

tab. B6 - Movements in provisions for risks and charges for the six months ended 30 June 2018 (€m)

Item	Balance at 1 January 2018	Provisions	Finance costs	Released to profit or loss	Uses	Balance at 30 June 2018
Provisions for operational risk	439	24	-	(3)	(23)	437
Provisions for disputes with third parties	369	17	-	(30)	(8)	348
Provisions for disputes with staff (1)	77	7	-	(1)	(11)	72
Provisions for personnel expenses	133	222	-	(6)	(28)	321
Provisions for early retirement incentives	446	-	-	-	(257)	189
Provisions for expired and statute barred postal savings certificates	15	-	-	-	-	15
Provisions for taxation/social security contributions	14	-	-	-	-	14
Other provisions for risks and charges	102	2	-	-	(5)	99
Total	**1,595**	**272**	**-**	**(40)**	**(332)**	**1,495**
Overall analysis of provisions:						
- non-current portion	692					710
- current portion	903					785
	1,595					1,495

(1) Net accruals for Personnel expenses amount to €3 million. Service costs (legal assistance) total €2 million.

Specifically:

- **Provisions for operational risk** primarily relate to operational risks arising from the Group's financial services, for which BancoPosta is responsible. Provisions for the period, totalling €24 million, primarily reflect a revised estimate of probable liabilities linked to disputes with customers regarding certain investment instruments and products sold in the past and whose performance is not in line expectations. In this regard, during the first half, the Group monitored the process and procedures involved in liquidating the real estate funds distributed by the Parent Company in previous years. This has resulted in an updated estimate of the liabilities that may be incurred by the Group, above all in relation to the voluntary action taken to protect customers who had invested in the Europa Immobiliare fund (which reached maturity on 31 December 2017), as approved by Poste Italiane's Board of Directors on 19 February 2018 and 28 June 2018. Uses of €23 million regard the settlement of liabilities during the first half.
- **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. Movements during the period primarily regard updated estimates of liabilities, measured on the basis of expected outcomes, and uses to cover 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 €6 million regard 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.
- **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 totalling €257 million were used during the first half.

B7 - EMPLOYEE TERMINATION BENEFITS (€1,221 million)

The following movements in employee termination benefits took place in the first half of 2018:

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

	Six months ended 30 June 2018
Balance at 1 January	**1,274**
Current service cost	-
Interest component	11
Effect of actuarial (gains)/losses	(7)
Uses for the period	(57)
Balance at end of period	**1,221**

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 30 June 2018	At 31 December 2017
Discount rate	1.30%	1.25%
Inflation rate	1.50%	1.50%
Annual rate of increase of employee termination benefits	2.625%	2.625%

tab. B7.2 - Demographic assumptions

	At 30 June 2018
Mortality	RG48 differentiated by gender
Disability	INPS 1998 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

Demographical assumptions have not undergone changes during the period under review.

Actuarial gains and losses were generated primarily by changes in financial assumptions.

B8 – FINANCIAL LIABILITIES (€66,655 million)

tab. B8 - Financial liabilities (€m)

Item	Balance at 30 June 2018			Balance at 31 December 2017		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Payables deriving from postal current accounts	-	50,244	50,244	-	46,575	46,575
Borrowings	3,281	6,447	9,728	3,398	3,419	6,817
Bonds	50	751	801	798	775	1573
Borrowings from financial institutions	3,231	5,695	8,926	2,600	2,643	5,243
Other borrowings	-	-	-	-	-	-
Finance leases	-	1	1	-	1	1
MEF account, held at the Treasury	-	-	-	-	3,483	3,483
Derivative financial instruments	1,564	(1)	1,563	1,645	31	1,676
Cash flow hedges	117	(6)	111	101	17	118
Fair value hedges	1447	5	1452	1544	14	1558
Fair value through profit or loss	-	-	-	-	-	-
Other financial liabilities	1	5,119	5,120	1	4,692	4,693
Total	**4,846**	**61,809**	**66,655**	**5,044**	**58,200**	**63,244**

Payables deriving from postal current accounts

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

Borrowings

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

Bonds

Bonds consist of the following:

- Bonds with an amortised cost of €50 million, issued by Poste Italiane SpA under its €2 billion EMTN – Euro Medium Term Note programme and listed by the Company in 2013 on the Luxembourg Stock Exchange. These bonds were issued through a private placement 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 – *Financial assets*; the fair value[31] of this borrowing at 30 June 2018 is €50 million.

- Subordinated bonds[32] with a nominal value of €750 million and accounted for at their amortised cost of €751, issued at a below par price of 99.597 by Poste Vita SpA on 30 May 2014 and listed on the Luxembourg Stock Exchange. The bonds have a five-year term to maturity and pay annual coupon interest of 2.875%. The fair value[33] of this liability at 30 June 2018 is €765 million.

A five-year bond issue with a nominal value of €750 million, issued by the Parent Company on 18 June 2013, matured and was repaid in June 2018.

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

Borrowings from financial institutions

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

Item	Balance at 30 June 2018 Non-current liabilities	Current liabilities	Total	Balance at 31 December 2017 Non-current liabilities	Current liabilities	Total
Repurchase agreements	3,231	5,495	8,726	2,400	2,442	4,842
EIB fixed rate loan maturing 11 April 2018	-	-	-	-	200	200
EIB fixed rate loan maturing 23 March 2019	-	200	200	200	-	200
Current account overdrafts	-	-	-	-	1	1
Total	**3,231**	**5,695**	**8,926**	**2,600**	**2,643**	**5,243**

Borrowings from financial institutions are subject to standard negative pledges[34].

Outstanding liabilities for repurchase agreements at 30 June 2018 amount to €8,726 million and relate to contracts with a total nominal value of €8,068 million, entered into by the Parent Company with major financial institutions. These liabilities consist of:

- €5,886 million relating to Long Term Repos, with the resulting resources invested in Italian fixed income government securities of a matching nominal amount;
- €2,840 million relating to BancoPosta's ordinary borrowing operations via repurchase agreements, with the aim of optimising investments with respect to short-term movements in private deposits and as funding for incremental deposits used as collateral.

The fair value[35] of these repurchase agreements at 30 June 2018 is €8,742 million.

The fair value[36] of fixed rate EIB loans of €200 million obtained by the Parent Company amounts to €201 million.

An EIB loan of €200 million granted to the Parent Company in the past reached maturity and was repaid in April 2018.

At 30 June 2018, the following credit facilities are available:

- committed lines of €173 million;
- uncommitted lines of credit of €1,059 million;
- overdraft facilities of €167 million;
- unsecured guarantee facilities with a value of €620 million (with €505 million available to the Parent Company), of which guarantees with a value of €271 million have been used in favour of third parties.

At 30 June 2018, the committed and uncommitted lines of credit have not been used.

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 €561 million, and the facility is unused at 30 June 2018.

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34 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.

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

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

Derivative financial instruments

Movements in derivative financial instruments during the first half of 2018 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. B8.2 - Other financial liabilities (€m)

Item	Balance at 30 June 2018			Balance at 31 December 2017		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Prepaid cards	-	3,287	3,287	-	2,853	2,853
Domestic and international money transfers	-	626	626	-	734	734
Tax collection and road tax	-	299	299	-	145	145
Guarantee deposits	-	193	193	-	100	100
Cashed cheques	-	168	168	-	243	243
Endorsed cheques	-	163	163	-	188	188
Amounts to be credited to customers	-	84	84	-	88	88
Other amounts payable to third parties	-	80	80	-	68	68
Payables for items in process	-	195	195	-	190	190
Other	1	24	25	1	83	84
Total	**1**	**5,119**	**5,120**	**1**	**4,692**	**4,693**

Amounts payable for guarantee deposits regard amounts received by the Parent Company in relation to asset swaps (collateral provided by specific Credit Support Annexes).

Fair value hierarchy

In terms of the fair value hierarchy, derivative financial instruments held at 30 June 2018 (€1,563 million) are classified as level 2.

B9 – TRADE PAYABLES (€1,324 million)

tab. B9 - Trade payables (€m)

Item	Balance at 30 June 2018	Balance at 31 December 2017
Amounts due to suppliers	974	1,064
Liabilities resulting from contracts	331	253
Amounts due to subidiaries	2	1
Amounts due to associates	2	2
Amounts due to joint ventures	15	12
Total	**1,324**	**1,332**

Amounts due to suppliers

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

Item	Balance at 30 June 2018	Balance at 31 December 2017
Italian suppliers	851	926
Overseas suppliers	23	30
Overseas counterparties (1)	100	108
Total	**974**	**1,064**

(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.

Liabilities resulting from contracts

tab. B9.2 - Liabilities resulting from contracts

Item	Balance at 30 June 2018	Balance at 31 December 2017
Prepayments and advances from customers	267	246
Liabilities for fees to be refunded	16	-
Other liabilities resulting from contracts	48	7
Total	**331**	**253**

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

tab. B9.3 -Prepayments and advances from customers (€m)

Item	Note	Balance at 30 June 2018	Balance at 31 December 2017
Prepayments from overseas suppliers		84	107
Prepayments from the MEF	[tab. A7.2]	55	55
Automated franking		47	47
Advances from the Cabinet Office - Publishing and Information department	[tab. A7.1]	42	-
Unfranked mail		14	13
Postage-paid mailing services		7	7
Other services		18	17
Total		**267**	**246**

Liabilities for fees to be refunded represent the estimated liability linked to the refund of fees on loan products sold after 1 January 2018, under the terms of which the related fees must be refunded if the customer opts for early cancellation of the agreement.

Other liabilities resulting from contracts primarily regard Postamat and "Postepay Evolution" card fees collected in advance.

B10 – OTHER LIABILITIES (€3,095 million)

tab. B10 - Other liabilities (€m)

Item	Balance at 30 June 2018			Balance at 31 December 2017		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Amounts due to staff	6	681	687	4	932	936
Social security payables	36	357	393	35	482	517
Other taxes payable	1,012	764	1,776	1,065	687	1,752
Other amounts due to joint ventures	-	1	-	-	1	1
Sundry payables	92	75	167	92	68	160
Accrued liabilities and deferred income	11	60	71	11	79	90
Total	**1,157**	**1,938**	**3,095**	**1,207**	**2,249**	**3,456**

Amounts due to staff

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

Item	Balance at 30 June 2018			Balance at 31 December 2017		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Thirteenth and fourteenth month salaries	-	239	239	-	231	231
Incentives	6	284	290	4	448	452
Accrued vacation pay	-	96	96	-	56	56
Other amounts due to staff	-	62	62	-	197	197
Total	**6**	**681**	**687**	**4**	**932**	**936**

At 30 June 2018, provisions have been made for certain payables due to staff, the amount of which is still being determined.

Social security payables

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

Item	Balance at 30 June 2018			Balance at 31 December 2017		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
INPS	1	271	272	1	385	386
Pension funds	-	69	69	-	82	82
Health funds	-	4	4	-	-	-
INAIL	35	3	38	34	3	37
Other agencies	-	10	10	-	12	12
Total	**36**	**357**	**393**	**35**	**482**	**517**

Other tax liabilities

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

Item	Balance at 30 June 2018			Balance at 31 December 2017		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Stamp duty payable	1,012	90	1,102	1,065	31	1,096
Tax due on insurance provisions	-	512	512	-	489	489
Withholding tax on employees' and consultants' salaries	-	52	52	-	98	98
VAT payable	-	41	41	-	21	21
Substitute tax	-	19	19	-	24	24
Withholding tax on postal current accounts	-	1	1	-	1	1
Other taxes due	-	49	49	-	23	23
Total	**1,012**	**764**	**1,776**	**1,065**	**687**	**1,752**

Specifically:

- **Stamp duty,** paid via the virtual system at 30 June 2018, is shown gross of payments on account. The non-current portion of the stamp duty relates to the amount accrued at 30 June 2018 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.

Sundry payables

tab. B10.4 - Sundry payables (€m)

Item	Balance at 30 June 2018			Balance at 31 December 2017		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Sundry payables attributable to BancoPosta	75	6	81	75	8	83
Guarantee deposits	10	1	11	10	4	14
Other payables	7	68	75	7	56	63
Total	**92**	**75**	**167**	**92**	**68**	**160**

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

5.3 NOTES TO THE STATEMENT OF PROFIT OR LOSS

C1 – REVENUE FROM MAIL, PARCELS AND OTHER REVENUE (€1,761 million)

This item breaks down as follows:

tab. C1 - Revenue from mail, parcels & other

Item	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Mail and parcel revenue	1,664	1,702
Other revenue	97	110
Total	**1,761**	**1,812**

Mail and parcel revenue breaks down as follows:

tab. C1.1 - Mail and parcel revenue

Item	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Unfranked mail	552	567
Automated franking by third parties and at post offices	346	382
Express parcel and express courier services	196	214
Integrated services	76	67
Stamps	66	81
Overseas mail and parcels	111	83
Postage-paid mailing services	44	46
Electronic document management and e-procurement services	6	19
Telegrams	19	21
Innovative services	6	6
Logistics services	6	5
Other postal services	87	61
Total market revenue	**1,515**	**1,552**
Universal Service compensation	131	131
Publishing subsidies	18	19
Total	**1,664**	**1,702**

Universal Service compensation relates to amounts paid by the MEF to cover the costs of fulfilling the USO. Compensation for services rendered during the period, amounting to €131 million, was recognised on the basis of the new *Contratto di Programma* (Service Contract) for 2015-2019, which took effect on 1 January 2016.

Publisher tariff subsidies[37] 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 2012, as converted into Law 103 of 16 July 2012. In this regard, provision has again been made in the state

[37] 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.

budget for 2018 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.

C2 – REVENUE FROM PAYMENT SERVICES, MOBILE AND DIGITAL (€307 million)

This item breaks down as follows:

tab. C2 - Revenue from payments, mobile & digital

Item	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Mobile	109	103
Cards & Acquiring	122	98
Cards	111	89
Acquiring	4	3
Other fees	7	6
Transaction Banking	76	77
Payment Slips	38	40
Commissions for processing tax payments using forms F23/F24	26	25
Banking & Money Transfers	10	11
Other Transaction Banking	2	1
Total	**307**	**278**

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 (€2,676 million)

This item breaks down as follows:

tab. C3 - Revenue from financial services

Item	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Financial services	2,258	2,169
Income from financial activities	418	539
Other operating income	-	2
Total	**2,676**	**2,710**

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 six months ended 30 June 2018	For the six months ended 30 June 2017
Fees for collection of postal savings deposits	894	771
Income from investment of postal current account deposits	744	727
Commissions on payment of bills by payment slip	209	226
Other revenues from current account services	183	177
Distribution of loan products	117	101
Income from delegated services	51	52
Mutual fund management fees	44	45
Money transfers	8	9
Securities custody	2	3
Commissions from securities trading	2	2
Interest on loans and other income	-	22
Fees for the management of public funds	-	27
Other products and services	4	7
Total	**2,258**	**2,169**

Specifically:

- *Fees for the collection of postal savings deposits* relate to remuneration for the provision and redemption of Interest-bearing Postal Certificates and payments into and withdrawals from Postal Savings Books. This service is provided by Poste Italiane SpA on behalf of Cassa Depositi e Prestiti under the Agreement of 14 December 2017, covering the three-year period 2018-2020.

- *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 six months ended 30 June 2018	For the six months ended 30 June 2017
Income from investments in securities	722	712
Interest income on financial assets at amortised cost	236	249
Interest income on financial assets at FVTOCI	480	486
Interest expense on asset swaps of financial assets at FVTOCI and at amortised cost	1	(26)
Interest income on repurchase agreements	5	3
Income from deposits held with the MEF	22	15
Remuneration of current account deposits (deposited with the MEF)	22	15
Total	**744**	**727**

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 period on amounts deposited by Public Administration entities.

Income from financial activities breaks down as follows:

tab. C3.2 - Income from financial activities

Item	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Income from equity instruments at FVTPL	9	-
Fair value gains	9	-
Income from financial assets at FVTPL	2	-
Fair value gains	2	-
Income from financial assets at FVTOCI	400	536
Realised gains	400	536
Income from financial assets at amortised cost	4	-
Realised gains	4	-
Income from fair value hedges	-	1
Fair value gains	-	1
Foreign exchange gains	3	2
Other income	-	-
Total	**418**	**539**

C4 – REVENUE FROM INSURANCE SERVICES AFTER MOVEMENTS IN TECHNICAL PROVISIONS AND OTHER CLAIMS EXPENSES (€685 million)

This item breaks down as follows:

tab. C4 - Revenue frome Insurance Services after movements in technical provisions and other claims expenses

Item	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Insurance premium revenue	8,871	11,098
Income from insurance activities	1,729	2,131
Movement in technical provisions for insurance business and other claims expenses	(9,078)	(12,171)
Expenses from insurance activities	(837)	(360)
Total	**685**	**698**

A breakdown of premium revenue, showing outward reinsurance premiums, is as follows:

tab. C4.1 - Insurance premium revenue

Item	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Class I	8,329	10,764
Class III	416	232
Class IV	15	14
Class V	56	48
Gross life Premiums	**8,816**	**11,058**
Outward reinsurance premiums	(7)	(9)
Net life premiums	**8,809**	**11,049**
Non-life premiums	82	65
Outward reinsurance premiums	(20)	(16)
Net non-life premiums	**62**	**49**
Total	**8,871**	**11,098**

Income from insurance activities is as follows:

tab. C4.2 - Income from insurance activities

Item	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Income from financial assets at FVTPL	310	752
Interest	217	175
Fair value gains	75	556
Realised gains	18	21
Income from financial assets at FVTOCI	1,394	1,361
Interest	1,234	1,194
Realised gains	160	167
Other income	25	18
Total	**1,729**	**2,131**

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 claim expenses

Item	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Claims paid	3,943	5,342
Movement in mathematical provisions	6,097	7,730
Movement in outstanding claim provisions	9	(213)
Movement in Other technical provisions	(667)	246
Movement in technical provisions w here investment risk is transferred to policyholders	(312)	(939)
Total movement in technical provisions for insurance business and other claims expenses: Life	**9,070**	**12,166**
Portion ceded to reinsurers: Life	**(4)**	**(8)**
Total movement in technical provisions for insurance business and other claims expenses: Non-life	**21**	**19**
Portion ceded to reinsurers: Non-life	**(9)**	**(6)**
Total	**9,078**	**12,171**

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 movement in other technical provisions in the period under review includes the transfer to policyholders (under the shadow accounting method) of the net charges resulting from fair value measurement of the securities included in separately managed accounts and classified as at fair value through Profit and Loss;
- the change in mathematical provisions reflecting increased obligations to policyholders;
- the decrease of €312 million in technical provisions where investment risk is transferred to policyholders, 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 six months ended 30 June 2018	For the six months ended 30 June 2017
Expenses from financial assets at FVTPL	824	164
Fair value losses	807	150
Realised losses	17	14
Expenses from financial assets at FVTOCI	4	69
Interest	2	-
Realised losses	2	69
Impairments	(6)	93
Change in fair value of financial liabilities	-	-
Other expenses	15	34
Total	**837**	**360**

C5 - COSTS OF GOODS AND SERVICES (€1,126 million)

tab. C5 - Cost of goods and services

(€m)

Item	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Services	917	949
Lease expense	148	166
Raw , ancillary and consumable materials and goods for resale	61	69
Total	**1,126**	**1,184**

Cost of services

tab. C5.1 - Services

(€m)

Item	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Transport of mail, parcels and forms	277	270
Routine maintenance and technical assistance	117	118
Outsourcing fees and external service charges	83	95
Personnel services	69	73
Energy and w ater	60	61
Mobile telecommunication services for customers	47	46
Credit and debit card fees and charges	45	41
Transport of cash	44	49
Cleaning, w aste disposal and security	34	31
Mail, telegraph and telex	29	28
Telecommunications and data trasmission	28	31
Advertising and promotions	25	39
Electronic document management, printing and enveloping services	15	15
Consultants' fees and legal expenses	10	14
Asset management fees	10	9
Airport costs	6	10
Insurance premiums	6	8
Agent commissions and other	6	6
Securities custody and management fees	1	1
Remuneration of Statutory Auditors	1	1
Other	4	3
Total	**917**	**949**

Lease expense

tab. C5.2 - Lease expense

(€m)

Item	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Real estate leases and ancillary costs	90	92
Vehicle leases	23	35
Equipment hire and softw are licences	23	23
Other lease expense	12	16
Total	**148**	**166**

Raw, ancillary and consumable materials and goods for resale

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

Item	Note	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Consumables, advertising materials and goods for resale		33	39
Fuels and lubricants		25	26
Printing of postage and revenue stamps		2	3
SIM cards and scratch cards		1	1
Change in inventories of work in progress, semi-finished and finished goods and goods for resale	[tab. A6]	1	1
Change in inventories of raw, ancillary and consumable materials	[tab. A6]	1	-
Change in property held for sale	[tab. A6]	(2)	(1)
Other		-	-
Total		**61**	**69**

C6 - EXPENSES FROM FINANCIAL ACTIVITIES (€35 million)

This item breaks down as follows:

tab. C6 - Expenses from financial activities (€m)

Item	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Expenses from financial assets at FVTOCI	22	5
Realised losses	22	5
Expenses from financial assets at amortised cost	3	-
Realised losses	3	-
Expenses from fair value hedges	1	-
Fair value losses	1	-
Foreign exchange losses	-	1
Interest expense	8	13
Other expenses	1	14
Total	**35**	**33**

C7 - PERSONNEL EXPENSES (€2,846 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 six months ended 30 June 2018	For the six months ended 30 June 2017
Wages and salaries		2,108	2,198
Social security contributions		598	619
Provisions for employee termination benefits: current service cost	[tab. B7]	-	-
Provisions for employee termination benefits: supplementary pension funds and INPS		128	130
Agency staff		3	-
Remuneration and expenses paid to Directors		1	1
Early retirement incentives		19	4
Net provisions (reversals) for disputes w ith staff	[tab. B6]	3	(10)
Provisions for early retirement incentives	[tab. B6]	-	-
Amounts recovered from staff due to disputes		(2)	(4)
Share-based payments		2	1
Other personnel expenses/(cost recoveries)		(14)	(5)
Total		**2,846**	**2,934**

Net provisions for disputes with staff and provisions for early retirement incentives 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 period-end headcount for the period:

tab. C7.1 - Number of employees

Category	Number of employees (*) Average	
	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Executives	701	743
Middle managers	15,551	15,895
Operational staff	110,181	114,843
Back-office staff	602	830
Total employees on permanent contracts	**127,035**	**132,311**

(*) Figures expressed in full time equivalent terms.

Taking account of staff on flexible contracts, the total average number of full-time equivalent staff in the period is 135,284 (137,970 in the first half of 2017).

C8 - DEPRECIATION, AMORTISATION AND IMPAIRMENTS (€272 million)

This item breaks down as follows:

tab. C8 - Depreciation, amortisation and impairments (€m)

Item	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Property, plant and equipment	164	168
Properties used in operations	57	56
Plant and machinery	37	41
Industrial and commercial equipment	4	4
Leasehold improvements	16	15
Other assets	50	52
Impairments/recoveries/adjustments of property, plant and equipment	(2)	(7)
Depreciation of investment property	2	2
Amortisation and impairments of intangible assets	108	118
Industrial patents and intellectual property rights,concessions, lincenses, trademarks and similar rights	106	115
Other	2	3
Total	**272**	**281**

C9 - OTHER OPERATING COSTS (€93 million)

Other operating costs break down as follows:

tab. C9 - Other operating costs (€m)

Item	Note	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Operational risk events		25	24
Thefts		2	2
Loss of BancoPosta assets, net of recoveries		1	1
Other operating losses of BancoPosta		22	21
Net provisions for risks and charges made/(released)		10	122
for disputes with third parties	[tab. B6]	(13)	8
for non-recurring charges	[tab. B6]	21	101
for other risks and charges	[tab. B6]	2	13
Losses		1	1
Municipal property tax, urban waste tax and other taxes and duties		38	36
Impairments of disposal groups held for sale		-	7
Other recurring expenses		19	20
Total		**93**	**210**

Other operating costs are lower than in the same period of the previous year, primarily due to a reduction in provisions for operational risk events. The balance for the comparative period reflected higher net provisions to cover risks linked to disputes with customers regarding certain investment products whose performance is not in line expectations.

C10 – IMPAIRMENT LOSSES/(REVERSALS) ON DEBT INSTRUMENTS, RECEIVABLES AND OTHER ASSETS (€10 million)

This item breaks down as follows:

tab. C10 - Impairment loss/(reversal) on debt instruments, receivables and other assets

Item	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Net provisions and losses on receivables and other assets (uses of provisions)	13	22
Provisions (reversal of provisions) for receivables due from customers	14	18
Provisions (reversal of provisions) for receivables due from the MEF	(1)	-
Provisions (reversal of provisions) for sundry receivables	-	4
Impairment/(reversal) on financial assets at FVTOCI	(3)	-
Impairment/(reversal) on financial assets at amortised cost	-	-
Total	**10**	**22**

C11 – FINANCE INCOME (€54 million) AND COSTS (€40 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 six months ended 30 June 2018	For the six months ended 30 June 2017
Income from financial assets at FVTOCI	20	45
Interest	20	47
Accrued differentials on fair value hedges	(5)	(5)
Realised gains	5	3
Income from amortised cost financial assets	28	-
Income from financial assets at FVTPL	-	1
Other finance income	3	6
Foreign exchange gains	3	6
Total	**54**	**58**

Finance costs

tab. C11.2 - Finance costs (€m)

Item	Note	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Finance costs on financial liabilities		25	26
on bonds		24	24
on borrowings from financial institutions		-	1
on derivative financial instruments		1	1
Finance costs on sundry financial assets		-	-
Finance costs on provisions for employee termination benefits and pension plans	[tab. B7]	11	11
Finance costs on provisions for risks	[tab. B6]	1	1
Remuneration of Poste Italiane's liquidity		-	-
Other finance costs		1	3
Foreign exchange losses		2	7
Total		**40**	**48**

C12 – IMPAIRMENT LOSSES/(REVERSALS) ON FINANCIAL ASSETS (-€0.4 million)

~~This item breaks down as follows:~~

tab. C12 - Impairment loss/(reversal) on financial assets

Item	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Impairment/(reversal) on financial assets at FVTOCI	-	12
Impairment/(reversal) on financial assets at amortised cost	-	82
Total	**-**	**94**

The impairment losses recognised in the first half of 2017 regarded the impairment loss on the Notes issued by Midco SpA and subscribed for by Poste Italiane SpA (€82 million including interest) and the impairment loss on the investment in the Atlante I fund held by Poste Vita SpA and classified as forming part of the insurance company's free capital (€12 million).

C13 - INCOME TAX EXPENSE (€340 million)

This item breaks down as follows:

tab. C13 - Income tax expense (€m)

Item	For the six months ended 30 June 2018			For the six months ended 30 June 2017		
	IRES	IRAP	Total	IRES	IRAP	Total
Current tax expense	151	39	190	232	41	273
Deferred tax income	(101)	2	(99)	(39)	(1)	(40)
Deferred tax expense	249	-	249	23	6	29
Total	**299**	**41**	**340**	**216**	**46**	**262**

Current tax assets and liabilities

tab. C13.1 - Movements in current tax assets /(liabilities) (€m)

Item	Current taxes for the six months ended 30 June 2018		
	IRES	IRAP	Total
	Assets/ (Liabilities)	Assets/ (Liabilities)	
Balance at 1 January	**71**	**(1)**	**70**
Effects of first-time adoption of IFRS 9 and IFRS 15	5	-	5
Payment of	74	40	114
payments on account for the current year	72	31	103
balance payable for the previous year	2	9	11
Provisions to profit or loss	(151)	(39)	(190)
Provisions to equity	2	-	2
Other	3	-	3
Balance at end of period	**4**	**-**	**4**
of which:			
Current tax assets	172	43	**215**
Current tax liabilities	(168)	(43)	**(211)**

In addition to payments on account for 2018, totalling €193 million, current tax assets of €215 million at 30 June 2018 include the assets described in note 2.4 – *Use of estimates*, amounting to €17 million.

Deferred tax assets and liabilities

tab. C13.2 - Deferred taxes (€m)

Item	Balance at 30 June 2018	Balance at 31 December 2017
Deferred tax assets	1,014	869
Deferred tax liabilities	(783)	(546)
Total	**231**	**323**

The nominal tax rate for IRES is 24%, whilst the Group's average statutory rate for IRAP, calculated at 31 December 2017, was 6.33%[38]. Movements in deferred tax assets and liabilities are shown below:

tab. C13.3 - Movements in deferred tax assets and liabilities (€m)

Item	For the six months ended 30 June 2018	For the year ended 31 December 2017
Balance at 1 January	**323**	**53**
Effects of first-time adoption of IFRS 9 and IFRS 15	(484)	-
Net income/(expenses) recognised in profit or loss	(150)	(16)
Net income/(expenses) recognised in equity	542	286
Balance at end of period	**231**	**323**

[38] The nominal IRAP rate is 3.90% for most taxpayers, 4.20% for companies that operate under concession arrangements, 4.65% for banks and other financial entities and 5.90% for insurance companies (+/-0.92% in the form of regional surtaxes and reliefs and +0.15% in the form of a surtax payable in regions reporting a healthcare deficit).

At 30 June 2018, deferred tax assets and liabilities recognised directly in equity are as follows:

tab. C13.4 - Income/(expense) recognised in equity

	Increases/(decreases) in equity (€m)	
Item	**For the six months ended 30 June 2018**	**For the year ended 31 December 2017**
Fair value reserve for FVTOCI financial assets	582	269
Cash flow hedge reserve for hedging instruments	(38)	18
Actuarial gains /(losses) on employee termination benefits	(2)	(1)
Retained earnings from shareholder transactions	-	-
Total	**542**	**286**

5.4 – OPERATING SEGMENTS

The identified operating segments, which are in line with the Group's new strategic guidelines reflected in the Strategic Plan for the period 2018-2022 and the organisational changes that took place in 2017, are as follows:

- 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.
The 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.

With regard to revenue recognised in accordance with the requirements of IFRS 15, the following table distinguishes between external revenue for each operating segment depending on whether it refers to an obligation "fulfilled at a point in time" or an obligation "fulfilled over time".

(€m)

For the six months ended 30 June 2018	Mail, Parcel & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Net external revenue from ordinary activities	1,761	307	2,676	685	-	5,429
Net intersegment revenue from ordinary activities	2,455	165	515	-	(3,135)	-
Net revenue from ordinary activities	**4,216**	**472**	**3,191**	**685**	**(3,135)**	**5,429**
Operating profit/(loss)	**184**	**101**	**408**	**360**	**-**	**1,053**
Finance income/(costs)	(19)	-	-	33	-	14
(Impairment loss)/reversal on debt instruments, receivables and other assets	-	-	-	-	-	-
Profit/(Loss) on investments accounted for using the equity method	-	-	8	-	-	8
Intersegment finance income/(costs)	5	-	(1)	(4)	-	-
Income tax expense	(56)	(24)	(122)	(138)	-	(340)
Profit/(loss) for the period	**114**	**77**	**293**	**251**	**-**	**735**
External revenue from contracts with customers	**1,737**	**305**	**1,484**	**5**	**-**	**3,531**
Recognition at a point in time	319	13	218	-	-	550
Recognition over time	1,418	292	1,266	5	-	2,981

(€m)

For the six months ended 30 June 2017	Mail, Parcel & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Net external revenue from ordinary activities	1,812	278	2,710	698	-	5,498
Net intersegment revenue from ordinary activities	2,453	168	519	-	(3,140)	-
Net revenue from ordinary activities	**4,265**	**446**	**3,229**	**698**	**(3,140)**	**5,498**
Operating profit/(loss)	**75**	**95**	**327**	**350**	**-**	**847**
Finance income/(costs)	(20)	-	(1)	31	-	10
(Impairment loss)/reversal on debt instruments, receivables and other assets	(82)	-	-	(12)	-	(94)
Profit/(Loss) on investments accounted for using the equity method	-	2	7	-	-	9
Intersegment finance income/(costs)	5	-	(3)	(2)	-	-
Income tax expense	(5)	(27)	(96)	(134)	-	(262)
Profit/(loss) for the period	**(27)**	**70**	**234**	**233**	**-**	**510**

Disclosure about geographical segments, based on the geographical areas in which the various Group companies are based or the location of its customers, is of no material significance. At 30 June 2018, 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.

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 30 June 2018 (€m)

	Balance at 30 June 2018						
Name	**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	-	-	-	-	-	15	-
Associates							
Anima Holding Group	-	-	-	-	-	2	-
Related parties external to the Group							
MEF	8,371	333	16	440	3	100	8
Cassa Depositi e Prestiti Group	5,049	410	-	-	72	1	-
Enel Group	-	28	-	-	-	5	-
Eni Group	-	5	-	-	-	14	-
Equitalia Group	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	38	-
Montepaschi Group	51	6	-	-	295	-	-
Other related parties external to the Group	68	13	-	-	-	17	51
Provision for doubtful debts owing from external related parties	(4)	(42)	(10)	-	-	-	-
Total	**13,535**	**753**	**6**	**440**	**370**	**194**	**60**

At 30 June 2018, total provisions for risks and charges made to cover probable liabilities arising from transactions with related parties external to the Group and primarily attributable to trading relations amount to €71 million.

Impact of related party transactions on the financial position at 31 December 2017 (€m)

	Balance at 31 December 2017						
Name	**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	-
Indabox	-	-	-	-	-	-	-
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**

Impact of related party transactions on profit or loss for the six months ended 30 June 2018 (€m)

Name	Six months ended 30 June 2018												
	Revenue					Costs							
						Capital expenditure		Current expenditure					
	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	Finance income	Property, plant and equipment	Intangible assets	Goods and services	Personnel expenses	Other operating costs	Expenses from financial activities	Impairment loss/(reversal) on debt instruments, receivables and other assets	Finance costs
Subsidiaries													
Address Software Srl	-	-	-	-	-	-	-	-	-	-	-	-	-
Kipoint SpA	-	-	-	-	-	-	-	1	-	-	-	-	-
Joint ventures				-									
FSIA Group	-	-	-		-	-	1	15	-	-	-	-	-
Associates													
Anima Holding Group	1	-	-	-	-	-	-	3	-	-	-	-	-
Other SDA group associates	-	-	-	-	-	-	-	-	-	-	-	-	-
Related parties external to the Group													
MEF	183	25	51	-	-	-	-	2	-	4	1	(1)	-
Cassa Depositi e Prestiti Group	1	-	928	8	-	-	-	3	-	-	-	1	-
Enel Group	30	4	-	-	-	-	-	15	-	-	-	-	-
Eni Group	9	1	-	-	-	-	-	19	-	-	-	-	-
Equitalia Group	-	-	-	-	-	-	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	1	5	16	-	-	-	-	-
Montepaschi Group	11	-	-	-	-	-	-	-	-	-	-	-	-
Other related parties external to the Group	14	-	-	-	-	-	-	19	21	-	-	-	-
Total	**249**	**30**	**979**	**8**	**-**	**1**	**6**	**93**	**21**	**4**	**1**	**-**	**-**

In the first half of 2018, net provisions for risks and charges used to cover probable liabilities arising from transactions with related parties external to the Group and primarily attributable to trading relations amount to €0.5 million.

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

Name	Six months ended 30 June 2017											
	Revenue					Costs						
						Capital expenditure		Current expenditure				
	Revenue from Mail, Parcel & other	Revenue from Payments, Mobile & Digital	Revenue from Financial Services	Revenue from Insurance Services after movements in technical provisions and other claims	Finance income	Property, plant and equipment	Intangible assets	Goods and services	Personnel expenses	Other operating costs	Expenses from financial activities	Finance costs
Subsidiaries												
Address Software Srl	-	-	-	-	-	-	-	-	-	-	-	-
Kipoint SpA	-	-	-	-	-	-	-	1	-	-	-	-
Joint ventures												
FSIA Group	-	-	-	-	-	-	1	13	-	-	-	
Associates												
Gruppo Anima Holding	1	-	-	-	-	-	-	2	-	-	-	-
Altre collegate del gruppo SDA	1	-	-	-	-	-	-	-	-	-	-	-
Related parties external to the Group												
MEF	168	24	45	-	-	-	-	3	-	1	-	-
Cassa Depositi e Prestiti Group	1	-	777	8	-	-	-	4	-	-	-	-
Enel Group	39	4	-	-	-	-	-	16	-	2	-	-
Eni Group	10	1	-	-	-	-	-	21	-	-	-	-
Equitalia Group	19	-	-	-	-	-	-	1	-	-	-	-
Leonardo Group	-	-	-	-	-	-	5	16	-	-	-	-
Other related parties external to the Group	5	-	-	-	-	-	-	20	18	-	-	-
Totale	**244**	**29**	**822**	**8**	**-**	**-**	**6**	**97**	**18**	**3**	**-**	**-**

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 the comparable date, 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 (%)
	Balance at 30 June 2018			Balance at 31 December 2017		
Assets and liabilities						
Financial assets	191,093	13,535	7.1	186,766	9,270	5.0
Trade receivables	2,159	753	34.9	2,035	688	33.8
Other receivables and assets	4,326	6	0.1	3,997	6	0.2
Cash and cash equivalents	1,703	440	25.8	2,428	385	15.9
Non-current assets and disposal groups held for sale	-	-	n.a.	-	-	n.a.
Provisions for risks and charges	1,495	71	4.7	1,595	71	4.5
Financial liabilities	66,655	370	0.6	63,244	3,541	5.6
Trade payables	1,324	194	14.7	1,332	194	14.6
Other liabilities	3,095	60	1.9	3,456	70	2.0
Liabilities related to assets held for sale	1	-	n.a.	-	-	n.a.
	Six months ended 30 June 2018			Six months ended 30 June 2017		
Profit or loss						
Revenue from Mail, Parcel & other	1,761	249	14.1	1,812	244	13.5
Revenue from Payments, Mobile & Digital	307	30	9.8	278	29	10.4
Revenue from Financial Services	2,676	979	36.6	2,710	822	30.3
Revenue frome Insurance Services after movements in technical provisions and other claims expenses	685	8	1.2	698	8	1.1
Cost of goods and services	1,126	93	8.3	1,184	98	8.3
Expenses from financial activities	35	1	2.9	33	-	n.a.
Personnel expenses	2,846	21	0.7	2,934	19	0.6
Other operating costs	93	4	4.3	210	12	5.7
Finance costs	40	-	n.a.	48	-	n.a.
Finance income	54	-	n.a.	58	1	1.7
Cash flows						
Cash flow from/(for) operating activities	851	(7,616)	n.a.	480	(3,826)	n.a.
Cash flow from/(for) investing activities	(16)	134	n.a.	(404)	(218)	n.a.
Cash flow from/(for) financing activities and shareholder transactions	(1,560)	(406)	26.0	(497)	(327)	65.8

Key management personnel

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

Remuneration of key management personnel (€000)

Item	Six months ended 30 June 2018	Six months ended 30 June 2017
Remuneration to be paid in short/medium term	6,857	6,883
Post-employment benefits	230	220
Other benefits to be paid in longer term	257	316
Termination benefits	-	139
Share-based payments	1,174	(101)
Total	**8,518**	**7,457**

Remuneration of Statutory Auditors (€000)

Name	Six months ended 30 June 2018	Six months ended 30 June 2017
Remuneration	646	695
Expenses	29	24
Total	**675**	**719**

The remuneration paid to members of the Parent Company's Supervisory Board amounts to approximately €32 thousand for the first half of 2018. In determining the remuneration, the amounts paid to managers of Poste Italiane who are members of the Supervisory Board is not taken into account, as this remuneration is passed on to the employer.

No loans were granted to key management personnel during the period and, at 30 June 2018, 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.

The Fondoposte Pension Fund is a defined contribution fund and the contributions paid are recognised in profit or loss as incurred.

Other related party disclosures

Within the scope of the transactions with Monte dei Paschi di Siena Capital Services Banca per le Imprese SpA authorised by the Board of Directors on 20 September 2017, having obtained the consent of the Related and Connected Parties Committee, four repurchase agreements, fifteen buy & sell back transactions, which expired during the period, seven Interest rate Swaps for hedging purposes and fifteen trades in government securities were carried out in the first half of 2018.

Within the scope of the transactions with Cassa Depositi e Prestiti authorised by the Board of Directors on 11 October 2016, having obtained the consent of the Related and Connected Parties Committee, two repurchase agreements were entered into during the first half of 2018.

There were no other related party transactions of greater significance completed in the first half of 2018, requiring the prior consent of the Related and Connected Parties Committee in accordance with the guidelines for managing transactions with related and connected parties.

6. RISK MANAGEMENT

FINANCIAL RISK

This section provides a brief review of items in the financial statements subject to financial risk (prepared in accordance with IFRS 7 – *Financial Instruments: Disclosures*), provided in summary form as permitted by IAS 34 – *Interim Financial Reporting*.

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 the Chief Financial Office.

Management of the Group's financial transactions and of the associated risks relates mainly to the operations of Poste Italiane SpA and Poste Vita SpA.

- The operations of **Poste Italiane SpA**'s BancoPosta RFC division consist 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 securities[39], 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 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.

  At 30 June 2018, the **leverage ratio** stands at approximately 2.94% (3% being the minimum level required by the regulations). In order to restore the leverage ratio to the target level set out in the Risk Appetite Framework (3.15%), on 29 May 2018, the Extraordinary General Meeting of Poste Italiane SpA's shareholders, following on from the Board of Directors' resolution of 25 January 2018, approved Poste Italiane SpA's proposed injection of fresh capital of €210 million into BancoPosta RFC. 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 Risk Appetite Framework (RAF).

- 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.

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[39] 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.

With regard to Traditional life policies, classified under Class I and V, 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 of unrealised gains and losses over a period of time that matches the assets and liabilities held in the portfolio. The impact of financial risk on investment performance can be absorbed in full or in part by the insurance provisions based on the level and structure of the guaranteed minimum returns and the profit-sharing mechanisms of the "separate portfolio" for the policyholder. The company determines the sustainability of minimum returns through periodic analyses using an internal financial-actuarial (Asset-Liability Management) model which simulates, for each separate portfolio, the change in value of the financial assets and the expected returns under a "central scenario" (based on current financial and commercial assumptions) and under stress and other scenarios based on different sets of assumptions. This model makes it possible to manage the risks assumed by Poste Vita SpA on a quantitative basis, thereby fostering reduced earnings volatility and optimal allocation of financial resources.

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 classified as at fair value through other comprehensive income ("FVTOCI") or at fair value through profit or loss ("FVTPL"), and certain derivative financial instruments where changes in value are recognised in profit or loss.

In relation to **financial assets recognised at fair value through profit or loss**, price risk concerns the following:

- investments in units of mutual investment funds held by Poste Vita SpA, totalling €27,021 million, including €25,793 million used to cover Class I policies and €1,228 million used to cover Class III policies;
- equity instruments held by Poste Vita SpA, totalling €118 million, used to cover Class I policies linked to separately managed accounts and to cover Class III policies;
- equity instruments held by BancoPosta RFC, totalling €50 million, consisting of €45 million in Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock) and €5 million in Class C shares of Visa Incorporated.

Lastly, in relation to **derivative financial instruments,** the price risk relates to warrants totalling €135 million, held by Poste Vita SpA to cover the benefits associated with the Class III policies.

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.

Exposure to this risk primarily regards trade receivables and trade payables deriving from the Parent Company's relations with overseas counterparties, and the Parent Company's above investment in Visa shares (totalling 59 million US dollars at 30 June 2018) and units in certain funds held by Poste Vita SpA (56 million US dollars at 30 June 2018).

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 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. The impact of these effects is directly related to the financial instrument's duration.

In terms of **financial assets recognised at fair value through other comprehensive income**, the risk in question primarily regards investments held almost exclusively by the Parent Company and by Poste Vita SpA, as follows:

- fixed income government bonds held by Poste Vita SpA, totalling €77,957 million; of this amount, €76,234 million is used to cover Class I and V policies linked to separately managed accounts and €1,723 million relates to the company's free capital;
- €30,233 million in fixed income government bonds held by BancoPosta RFC, which consist of: fixed rate bonds amounting to €13,936 million; variable rate bonds converted into fixed rate bonds via cash flow swaps amounting to €1,352 million; variable rate bonds amounting to €2,305 million (inflation-linked instruments); and fixed or variable rate bonds converted to variable rate positions via fair value hedges amounting to €12,640 million (of which €11,670 million in forward starts);
- €16,183 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;
- bonds issued by CDP SpA, with a fair value of €505 million, held by Poste Vita SpA, primarily to cover Class I policies.

The **financial assets recognised at fair value through profit or loss** exposed to this risk are held by Poste Vita SpA and concern a portion of the company's fixed income instruments, totalling €2,182 million (consisting of investments with a fair value of €1,525 million, relating to coupon stripped[40] BTPs primarily covering obligations associated with Class III insurance products, investments with a fair value of €657 million, relating to corporate bonds primarily covering Class I, III and V contractual obligations, and, to a lesser extent, investments of the company's free capital), "Other investments" represented by mutual funds, totalling €406 million, and bonds issued by CDP SpA with a fair value of €20 million.

[40] 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 sale contracts for government bonds with a nominal value of €1,340 million and forward purchase contracts for government bonds with a nominal value of €685 million, classified as cash flow hedges and entered into during the first half 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 30 June 2018, with reference to the interest rate risk exposure determined by the average duration[41] of the portfolios, the duration of BancoPosta's overall investments is 5.08.

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 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.

Until May, the spread between ten-year Italian government bonds and German bunds during the first half of 2018 was at a relatively low level, recording an average of approximately 133 bps. From the second half of May on, however, political uncertainty led to rising market volatility, driving the spread between BTPs and Bunds upwards to record a high of 290 bps.

At 30 June 2018, the spread between ten-year Italian government bonds and German bunds stands at approximately 238 bps, up on the 159 bps of 31 December 2017. In the first three weeks of July 2018, the spread has reached a high of 243 bps, with an average of 229 bps.

This has had the following impact on the Group's portfolio in the period under review:

(i) a net reduction of approximately €1.5 billion in the fair value of BancoPosta RFC's *financial assets at fair value through other comprehensive income* (a nominal value of approximately €28 billion), with losses of €1.6 billion recognised in the relevant equity reserve in relation to the portion of the portfolio not hedged by fair value hedges, and losses of €0.1 billion recognised through profit and loss in relation to the hedged portion;

(ii) a net reduction of approximately €4 billion in the fair value of the Poste Vita group's *financial assets at fair value through other comprehensive income* (a nominal value of the fixed income instruments of approximately €92 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 €56 million).

An analysis of sensitivity to spread risk has been conducted at 30 June 2018, limited to the most significant positions in the portfolios of both the Parent Company and the Poste Vita group.

[41] Duration is the indicator used to estimate the percentage change in price in response to a shift in market returns.

Poste Italiane SpA's exposure to this risk regards *financial assets at fair value through other comprehensive income* with a fair value at 30 June 2018 of €30,767 million (a nominal value of €28,864 million) and derivative financial instruments, classified as cash flow hedges, with a fair value of €119 million (a nominal value of €655 million). The sensitivity analysis conducted on *financial assets at fair value through other comprehensive income* shows how an increase in the spread of 100 bps would result in a negative change in the fair value reserve of approximately €2,572 million before the related taxation (including €2,559 million attributable to BancoPosta RFC).

For the purposes of full disclosure, a movement in the spread would have no accounting effect on financial assets measured at amortised cost, but would only impact unrealised gains and losses. In other words, fixed income instruments measured at amortised cost attributable entirely to BancoPosta, which at 30 June 2018 amount to €23,274 million (a nominal value of €21,482 million) and have a fair value of €21,745 million, would be reduced in fair value by approximately €2 billion following an increase in the spread of 100 bps, with the change not reflected in the accounts.

Movements in the spread have no impact on BancoPosta RFC's ability to meet its capital requirements, as the fair value reserves are not included in the computation of own funds for supervisory purposes.

On the other hand, with regard to the Poste Vita group, the investments exposed to this risk amount to a total of €97,410 million at 30 June 2018 (a nominal value of €94,207 million) and consist of €94,802 million in *financial assets at fair value through other comprehensive income* (a nominal value of €92,040 million) and a residual amount of €2,608 million in *financial assets at fair value through profit or loss* (a nominal value of €2,167 million). The sensitivity analysis conducted on the portfolio as a whole shows that an increase in the spread of 100 bps would reduce its fair value by approximately €6,415 million. Of this change, €6,342 million would be attributed to deferred liabilities due to policyholders under the shadow accounting method[42], €14 million would be recognised in the company's profit or loss and €59 million would have an impact on the fair value reserve for instruments in which the company's free capital is invested.

For the purposes of full disclosure, following an increase in the spread of 100 bps, fixed income instruments measured at amortised cost attributable to the Poste Vita group, which at 30 June 2018 amount to €1,418 million (a nominal value of €1,474 million) and have a fair value of €1,534 million, would be reduced in fair value by approximately €100 million, with the change not reflected in the accounts[43].

Credit risk

This is the risk of default of one of the counterparties to which there is an exposure, with the exception of equities and units of mutual funds.

With regard to the **financial assets** exposed to this risk and to which the accounting rules governing impairment apply (as described in the paragraph, "***Credit risk management practices***"), the following table

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[42] In order to test the adequacy of the technical provisions, a Liability Adequacy Test (LAT) is periodically conducted. This measures the ability of future cash flows from insurance contracts to cover the liabilities to policyholders.

[43] In compliance with statutory requirements, Posta Vita SpA prepares its separate financial statements under Italian GAAP. These standards require investments not classified as non-current to be recognised at the lower of purchase cost and market value, and do not permit any unrealised losses on investments to be reflected in liabilities to policyholders. As a result of movements in the spread during the last two months of the period under review, at 30 June 2018, it is likely that the company may report a net loss of approximately €400 million in its separate financial statements for the first half of 2018.

shows the Poste Italiane Group's exposure at 30 June 2018 by rating grade, as required by paragraph 35M of IFRS 7 – *Financial Instruments: Disclosures*. The credit risk exposure for the above financial assets is presented separately depending on whether the model used to estimate the counterparty rating is internal or external.

Poste Italiane Group - Credit risk - Internal ratings (€m)

Item	from AAA to AA-	from A+ to BBB-	from BB+ to C	Total	Not rated	Total
	Stage 1	Stage 1	Stage 1			
Financial assets at amortised cost	134	33,937	59	34,130	370	34,500
Loans and receivables	134	9,253	59	9,446	370	9,816
Loans	-	-	-	-	-	-
Receivables	134	9,253	59	9,446	370	9,816
Fixed income instruments	-	24,684	-	24,684	-	24,684
Other investments	-	-	-	-	-	-
Financial assets at FVTOCI	857	116,010	68	116,935	-	116,935
Loans and receivables	-	-	-	-	-	-
Loans	-	-	-	-	-	-
Receivables	-	-	-	-	-	-
Fixed income instruments	857	115,505	68	116,430	-	116,430
Other investments	-	505	-	505	-	505
Totale at 30 June 2018	**991**	**149,947**	**127**	**151,065**	**370**	**151,435**

Poste Italiane Group - Credit risk - External ratings (€m)

Item	from AAA to AA-	from A+ to BBB-	from BB+ to C		Total	Not rated	Total
	Stage 1	Stage 1	Stage 1	Stage 2			
Financial assets at amortised cost	-	409	-	-	409	-	409
Loans and receivables	-	401	-	-	401	-	401
Loans	-	-	-	-	-	-	-
Receivables	-	401	-	-	401	-	401
Fixed income instruments	-	8	-	-	8	-	8
Other investments	-	-	-	-	-	-	-
Financial assets at FVTOCI	699	7,287	663	20	8,669	-	8,669
Loans and receivables	-	-	-	-	-	-	-
Loans	-	-	-	-	-	-	-
Receivables	-	-	-	-	-	-	-
Fixed income instruments	699	7,287	663	20	8,669	-	8,669
Other investments	-	-	-	-	-	-	-
Totale at 30 June 2018	**699**	**7,696**	**663**	**20**	**9,078**	**-**	**9,078**

Credit risk arising from **derivative financial instruments**, to which the rules governing impairment do not apply, is mitigated through rating limits, based on the ratings published by the leading agencies, and by monitoring group/counterparty concentrations. In addition, interest rate, asset swap and forward purchase and sale 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 debt[44] at 30 June 2018 is shown in the table below.

[44] "Sovereign debt" includes bonds issued by, and loans provided to, central and local governments and government bodies.

Poste Italiane Group - Exposure to sovereign debt (€m)

Item	at 30 June 2018		
	Nominal value	Carrying amount	Fair Value
Italy	**122,918**	**128,121**	**126,944**
Financial assets at amortised cost	18,434	20,147	18,970
Financial assets at FVTOCI	102,961	106,450	106,450
Financial assets at FVTPL	1,523	1,524	1,524
Belgium	**89**	**94**	**94**
Financial assets at amortised cost	-	-	-
Financial assets at FVTOCI	89	94	94
Financial assets at FVTPL	-	-	-
France	**151**	**176**	**176**
Financial assets at amortised cost	-	-	-
Financial assets at FVTOCI	151	176	176
Financial assets at FVTPL	-	-	-
Germany	**59**	**68**	**68**
Financial assets at amortised cost	-	-	-
Financial assets at FVTOCI	58	67	67
Financial assets at FVTPL	1	1	1
Ireland	**10**	**11**	**11**
Financial assets at amortised cost	-	-	-
Financial assets at FVTOCI	10	11	11
Financial assets at FVTPL	-	-	-
Spain	**1,704**	**2,056**	**2,056**
Financial assets at amortised cost	3	3	3
Financial assets at FVTOCI	1,701	2,053	2,053
Financial assets at FVTPL	-	-	-
Total	**124,931**	**130,526**	**129,349**

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 2.4, 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 following tables provide the reconciliation between the opening and closing balances of the expected credit loss provisions required by IFRS 9, broken down by class of financial instrument.

Financial assets

Poste Italiane Group - Credit risk - Details of the provision to cover expected losses on financial instruments at amortized cost

(€m)

Item	Financial assets at amortised cost		
	Receivables	Fixed income instruments	Total
	Stage 1	Stage 1	
Balance at 1 January 2018	**3**	**8**	**11**
Impairment losses/(Reversal) on instruments held at beginning of period	-	(1)	(1)
Impairment of fixed income instruments / receivables purchased/paid in the period	-	2	2
Reversal due to sale / collection	-	-	-
Other movements	-	-	-
Balance at 30 June 2018	**3**	**9**	**12**

At 30 June 2018, the estimated expected credit losses on financial instruments measured at amortised cost amount to approximately €12 million. The net increase of €1 million primarily reflects the impairment of fixed income instruments purchased during the period under review by BancoPosta RFC (approximately €5.2 billion) after the reversals recognised as the securities progressively approach maturity.

Poste Italiane Group - Credit risk - Details of the provision to cover expected losses on financial assets at FVTOCI

(€m)

Item	Financial assets at FVTOCI		
	Fixed income instruments	Other invesments	Total
	Stage 1	Stage 1	
Balance at 1 January 2018	**15**	**-**	**15**
Impairment losses/(Reversal) on instruments held at beginning of period	(2)	-	(2)
Impairment of fixed income instruments / receivables purchased/paid in the period	-	-	-
Reversal due to sale / collection	(1)	-	(1)
Other movements	-	-	-
Balance at 30 June 2018	**12**	**-**	**12**

At 30 June 2018, the estimated expected credit losses on financial instruments measured at fair value through other comprehensive income amount to approximately €12 million. The net decrease of €3 million primarily reflects the reversals recognised as the securities progressively approach maturity and reversals following the sale of fixed income instruments during the period.

Movements in the expected credit loss provisions for financial instruments measured at amortised cost and those measured at fair value through other comprehensive income during the period under review do not include the portion transferred to policyholders under the shadow accounting method.

Trade receivables

Movements in the expected credit loss provisions for trade receivables (due from customers and the MEF) are as follows:

Details of the provision to cover expected losses on trade receivables (€m)

Item	Balance at 31 december 2017	First-time adoption IFRS 9	Balance at 1 january 2018	Net provisions	Uses	Balance at 30 june 2018
Trade receivables						
Receivables due from customers						
Public administration entities	144	2	146	4	-	150
Overseas postal operators	7	-	7	1	-	8
Private customers	382	7	389	9	(1)	397
Interest on late payments	50	-	50	8	(7)	51
Receivables due from the MEF	31	3	34	(1)	-	33
Total	**614**	**12**	**626**	**21**	**(8)**	**639**

Other receivables and assets

Expected credit loss provisions for other receivables have not undergone significant changes during the period. The provisions for amounts due from staff under fixed-term contract settlements amount to approximately €9.5 million at 30 June 2018.

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;
- the use of dedicated analytical models to monitor the maturities of assets and liabilities.

In terms of BancoPosta RFC's specific operations, the liquidity risk regards current account deposits and 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. 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.

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.

With respect to **financial assets**, cash flow interest rate risk primarily relates to:

- a portion of the securities portfolio held by Poste Vita SpA, with a total nominal value of €13,626 million;
- investment by the Parent Company of the funds deriving from the current account deposits of Public Administration entities in deposits with the MEF, with a nominal value of €6,194 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 €1,190 million (including €650 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 bonds issued by CDP with a total nominal value of €1,500 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 €1,334 million, reflecting collateral posted to secure liabilities arising in relation to derivative financial instruments, held by BancoPosta RFC to €1,299 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.

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.

At 30 June 2018, cash flow inflation risk relates to inflation-linked government securities not subject to cash flow hedges or fair value hedges. These securities are primarily held by Poste Vita SpA (a nominal value of €10,494 million) and BancoPosta RFC (a nominal value of €2,075 million).

OTHER RISKS

The other principal risks to which the Poste Italiane Group is exposed at 30 June 2018 are described below. A full description is provided in the Annual Report for 2017.

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.

During the first half of 2018, work on refining the operational risk management framework continued, with the aim of making the process of recording operational losses more efficient and mitigating such risks through the presence 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 2017.

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.).

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. During the first half of 2018, drawing up of the guidelines contained in the document, "The ESG (Environmental Social and Governance) process within the Poste Italiane Group", was completed. This process is designed to ensure the cross-functional, standardised, consistent application of the principles underlying the concept of sustainability throughout the Group's various operations, the permanent, transparent and proactive involvement of stakeholders and management of the associated reputational risk.

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 subsidiaries, Poste Vita SpA and Poste Assicura 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 six months ended 30 June 2018, 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 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 provisions made to fund this initiative were used in their entirety in 2017. In addition, with a view to consolidating the Company's historical customer relationships, based on trust and transparency, on 19 February and 28 June 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 are reflected in provisions for risks and charges at 30 June 2018 (note B6).

7. PROCEEDINGS PENDING AND PRINCIPAL RELATIONS WITH THE AUTHORITIES

The following information, provided in accordance with accounting standard IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*, only covers ongoing proceedings where there have been significant developments during the first half of 2018. More detailed information is provided in the financial statements for the year ended 31 December 2017.

TAX DISPUTES

On 19 April 2018, the tax authorities in Rome (*Guardia di Finanza – Nucleo di Polizia economico-finanziaria*) entered the offices of SDA Express Courier SpA. The purpose of the inspection was to verify the company's compliance with the requirements regarding VAT, income tax, IRAP and withholding tax for the years 2014, 2015 and 2016, pursuant to and for the purposes of articles 52 and 63 of Presidential Decree 633/72, art. 33 of Presidential Decree 600/73, art. 2 of Legislative Decree 68/2001 and Law 4/1929. The inspection is still in progress and the company has yet to be notified of any findings.

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 €18.8 million at 30 June 2018. 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 immediately filed an appearance in both actions, claiming that the proposed appeals are inadmissible and unfounded. The company in turn submitted a cross-appeal that is dependent on the Court of Appeal in Genoa accepting the appeals filed by INPS.

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.

Taking into account the favourable judgement at first instance on 11 July 2017, the reasons given for the judgement and the latest appeals brought by INPS, the company has adjusted its provisions for risks and charges based on the opinion of its legal advisors.

PRINCIPAL PROCEEDINGS PENDING AND RELATIONS WITH THE AUTHORITIES

Autorità Garante della Concorrenza e del Mercato (AGCM - the Antitrust Authority)

On 4 June 2015, the AGCM launched an investigation pursuant to art.8, paragraph 2 *quater* of Law 287/90, aimed at ascertaining whether actions taken by **Poste Italiane** were designed to prevent H3G SpA (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 Mobile[45].

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 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 28 May 2018, the Court of Rome ordered that the case be dismissed.

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 amounting to €23 million, limited – with respect to 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.

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.

On 27 June 2018, the Council of State, in ruling on Poste Italiane's request for suspensive relief, requested the AGCM to evaluate the collateral effects (including those of an indirect nature) that could result from proactive action taken in the period between the date of its decision and the date of the judgement at first instance, and to refrain from taking decisions that could result in further, serious complications in the above dispute.

At 30 June 2018, the Parent Company continues to take the fine into account in its calculation of provisions for disputes with third parties.

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

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[45] 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.

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.

Bank of Italy

With regard to the inspection conducted by the Bank of Italy in 2017, with the aim of assessing the governance, control and operational and IT risk management systems in relation to BancoPosta's operations, the process of implementing the relevant compliance initiatives is still in progress and work is proceeding according to the established timing.

Following an inspection of a sample of post offices that was completed in December 2017, relating to efforts to combat money laundering and the financing of terrorism, in May 2018, the Bank of Italy invited BancoPosta to provide a report, updated to 30 September 2018, on the progress made in implementing all the initiatives undertaken in this regard.

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

Two proceedings launched by the regulator in respect of Poste Vita SpA's alleged violation 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 term provided for in the related contracts, are pending at 30 June 2018.
In addition, an injunction obtained by IVASS in order to settle a proceeding was notified on 1 June 2018. The proceeding regarded the violation of art. 183, paragraph 1.a) of Legislative Decree 209 of 7 September 2015, relating to payment of a claim beyond the 30-day term provided for in the related contract. The injunction requires the company to pay an administrative fine based on the minimum amount required by law, resulting in an immaterial sum, plus costs.

Autorità 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 at and for the year ended 31 December 2016 were adjusted accordingly. On 21 March 2017, Equitalia Servizi di riscossione SpA notified the company of a payment order in which, in addition to requesting payment of a fine of €0.24 million, as reduced by the judgement handed won by the Court of Rome, it also applied, among other things, an additional amount of €0.12 million. The company appealed the order, resulting in cancellation of the fine of €0.12 million. The company has filed a formal request with the Authority in order to recover the sums in question (already paid by Postel following the Authority's seizure of the related amounts from a third party).

8. MATERIAL NON-RECURRING EVENTS AND/OR TRANSACTIONS

Under the definition provided by CONSOB ruling DEM/6064293 of 28 July 2006, the Poste Italiane Group has not been a party to material non-recurring events and transactions[46] in the first half of 2018.

9. EXCEPTIONAL AND/OR UNUSUAL TRANSACTIONS

Under the definition provided by the CONSOB ruling of 28 July 2006, the Poste Italiane Group did not conclude any exceptional and/or unusual transactions[47] in the first half of 2018.

10. EVENTS AFTER THE END OF THE REPORTING PERIOD

Events after the end of the reporting period are described in the above notes and no other significant events have occurred after 30 June 2018.

11. ADDITIONAL INFORMATION

ANALYSIS OF NET DEBT/(FUNDS)

The following table provides an analysis of the Poste Italiane Group's net debt/(funds) at 30 June 2018.

Net funds/(debt) at 30 June 2018 (€m)

Balance at 30 June 2018	Mail, Parcel & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Eliminations	Consolidated amount	*of which, related parties*
Financial liabilities	**1,371**	**3,568**	**66,018**	**1,011**	**(5,313)**	**66,655**	
Postal current accounts	-	-	50,648	-	(404)	50,244	-
Bonds	50	-	-	751	-	801	-
Borrowings from financial institutions	200	-	8,726	-	-	8,926	327
Other borrowings	-	-	-	-	-	-	-
Finance leases	-	1	-	-	-	1	-
MEF account, held at the Treasury	-	-	-	-	-	-	-
Derivative financial instruments	36	-	1,527	-	-	1,563	11
Other financial liabilities	15	3,567	1,529	9	-	5,120	32
Intersegment financial liabilities	1,070	-	3,588	251	(4,909)	-	-
Technical provisions for insurance business	**-**	**-**	**-**	**124,581**	**-**	**124,581**	**-**
Financial assets	**(915)**	**(3,874)**	**(64,827)**	**(126,386)**	**4,909**	**(191,093)**	
Loans and receivables	-	-	-	-	-	-	-
Held-to-maturity financial assets	-	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-	-
Financial assets at amortised cost	(110)	-	(33,310)	(1,489)	-	(34,909)	(12,981)
Financial assets at FVTOCI	(539)	-	(30,268)	(94,802)	-	(125,609)	(505)
Financial assets at FVTPL	-	-	(58)	(29,960)	-	(30,018)	(21)
Derivative financial instruments	-	-	(422)	(135)	-	(557)	(28)
Intersegment financial assets	(266)	(3,874)	(769)	-	4,909	-	-
Technical provisions attributable to reinsurers	**-**	**-**	**-**	**(75)**	**-**	**(75)**	**-**
Net financial liabilities/(assets)	**456**	**(306)**	**1,191**	**(869)**	**(404)**	**68**	
Cash and deposits attributable to BancoPosta	**-**	**-**	**(3,250)**	**-**	**-**	**(3,250)**	**-**
Cash and cash equivalents	**(863)**	**(15)**	**(465)**	**(764)**	**404**	**(1,703)**	**(440)**
Net debt/(funds)	**(407)**	**(321)**	**(2,524)**	**(1,633)**	**-**	**(4,885)**	

46 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.

47 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.

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 FVTPL	-	-	-	(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)**	

As shown above, the Group has consolidated net funds of €4,885 million at 30 June 2018. The change during the period reflects a reduction in the fair value of financial instruments classified as at fair value through other comprehensive income (€2,037 million). The related fair value reserve, before tax, amounts to €190 million.

An analysis of the net funds of the Mail, Parcels and Distribution segment at 30 June 2018, in accordance with ESMA recommendation 319/2013, is provided below:

ESMA net financial indebtedness (€m)

	at 30 June 2018	at 31 December 2017
A. Cash	(3)	(4)
B. Other cash equivalents	(860)	(1,993)
C. Securities held for trading	-	-
D. Liquidity (A+B+C)	**(863)**	**(1,997)**
E. Current loans and receivables	**(82)**	**(245)**
F. Current bank borrowings	200	201
G. Current portion of non-current debt	-	763
H. Other current financial liabilities	19	82
I. Current financial debt (F+G+H)	**219**	**1,046**
J. Current net debt/(funds) (I+E+D)	**(726)**	**(1,196)**
K. Non-current bank borrowings	-	200
L. Bond issues	50	49
M. Other non-current liabilities	32	36
N. Non-current financial debt (K+L+M)	**82**	**285**
O. Net debt/(funds) (ESMA guidelines) (J+N)	**(644)**	**(911)**
Non-current financial assets	(567)	(585)
Net debt/(funds)	**(1,211)**	**(1,496)**
Intersegment loans and receivables	(266)	(267)
Intersegment financial liabilities	1,070	918
Net debt/(funds) including intersegment transactions	**(407)**	**(845)**

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.

Following the entry into effect of IFRS 9, from 1 January 2018, certain mutual funds previously classified as available-for-sale have been reclassified as at fair value through profit or loss.

Nature of the involvement in the unconsolidated structured entity

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

(€m)

ISIN	Name	Nature of entity	Activity of the Fund	% investment	NAV At	NAV Amount
LU1379774190	Multiflex-Diversified Dis-Cm	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29 June 2018	5,617
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 June 2018	4,770
LU1407712287	Multiflex - Strategic Insurance Distribution	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29 June 2018	4,542
LU1193254122	Mfx - Global Fund - Asset Global Fund (Pimco Multi Asset)	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29 June 2018	3,939
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 June 2018	3,572
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	8 June 2018	448
LU1808839242	Multiflex-Olymp Insurn Ma-Cm	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29 June 2018	398
LU1808838863	Multiflex-Olympium Opt Ma-Cm	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29 June 2018	398
LU1500341240	Multiflex-Lt Optimal M/A-Cm	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29 June 2018	345
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	151
LU1500341752	Multiflex-Dynamic Lt M/A-Cm	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29 June 2018	149
IT0005174450	Fondo Diamond Eurozone Office Ubs	Italian-registered, closed-end alternative real estate investment funds	Investment in "core" and "core plus" real estate assets for retail use, located in the Eurozone and euro-denominated	100	31 March 2018	135
IT0005210387	Diamond Eurozone Retail Property Fund	Italian-registered, closed-end alternative real estate investment funds	Investment in "core" and "core plus" real estate assets for office use, located in the Eurozone and euro-denominated	100	31 March 2018	99
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	64	31 March 2018	91
LU1581282842	Indaco Sicav Sif - Indaco Cifc Us Loan	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds, loans and equities)	100	30 April 2018	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 April 2018	78
IT0005215113	Fondo Cbre Diamond	Italian-registered, closed-end alternative real estate investment funds	Investiment in real estate assets, real property rights, including those resulting from property lease arrangements, participating interests in property companies and in units of alternative real estate funds	100	31 March 2018	67
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	29 March 2018	61
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	57
IT0005247819	Fondo Diamond Value Added 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 and concessions and in investment in unquoted property companies	100	31 December 2017	52
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	31 March 2018	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 30 June 2018 are provided below.

(€m)

ISIN	Name	Classification	Carrying amount	Maximum loss exposure*	Difference between carrying amount and maximum loss exposure	Method to determine maximum loss exposure
LU1379774190	Multiflex-Diversified Dis-Cm	Financial assets FVPL	5,617	935	4,682	VaR 99.5% over a 1-year time horizon
LU1407712014	Multiflex - Global Optimal Multi Asset Fund	Financial assets FVPL	4,770	255	4,515	Provided by fund management company
LU1407712287	Multiflex - Strategic Insurance Distribution	Financial assets FVPL	4,542	495	4,047	Provided by fund management company
LU1193254122	Mfx - Global Fund - Asset Global Fund (Pimco Multi Asset)	Financial assets FVPL	3,939	399	3,540	Provided by fund management company
LU1407711800	Multiflex - Dynamic Multi Asset Fund	Financial assets FVPL	3,572	197	3,375	Provided by fund management company
IT0004937691	Tages Platinum Growth	Financial assets FVPL	448	33	415	Provided by fund management company
LU1808839242	Multiflex-Olymp Insurn Ma-Cm	Financial assets FVPL	398	42	356	Provided by fund management company
LU1808838863	Multiflex-Olympium Opt Ma-Cm	Financial assets FVPL	398	22	376	Provided by fund management company
LU1500341240	Multiflex-Lt Optimal M/A-Cm	Financial assets FVPL	345	22	323	Provided by fund management company
IT0005212193	Diamond Italian Properties	Financial assets FVPL	151	46	105	VaR 99.5% over a 1-year time horizon
LU1500341752	Multiflex-Dynamic Lt M/A-Cm	Financial assets FVPL	149	8	141	Provided by fund management company
IT0005174450	Fondo Diamond Eurozone Office Ubs	Financial assets FVPL	135	44	91	VaR 99.5% over a 1-year time horizon
IT0005210387	Diamond Eurozone Retail Property Fund	Financial assets FVPL	99	25	74	VaR 99.5% over a 1-year time horizon
LU1081427665	Shopping Property Fund 2	Financial assets FVPL	58	25	33	VaR 99.5% over a 1-year time horizon
LU1581282842	Indaco Sicav Sif - Indaco Cifc Us Loan	Financial assets FVPL	81	49	32	VaR 99.5% over a 1-year time horizon
QU0006738854	Prima Credit Opportunity Fund	Financial assets FVPL	78	38	40	VaR 99.5% over a 1-year time horizon
IT0005215113	Fondo Cbre Diamond	Financial assets FVPL	67	25	42	VaR 99.5% over a 1-year time horizon
QU0006738052	Prima Eu Private Debt Opportunity Fund	Financial assets FVPL	61	8	53	VaR 99.5% over a 1-year time horizon
IT0005210593	Diamond Other Sector Italia	Financial assets FVPL	57	14	43	VaR 99.5% over a 1-year time horizon
IT0005247819	Fondo Diamond Value Added Properties	Financial assets FVPL	52	14	38	VaR 99.5% over a 1-year time horizon
IT0004597396	Advance Capital Energy Fund	Financial assets FVPL	22	12	10	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 instrument in which the funds invest and the main markets of reference.

Asset class	Fair Value (€m)
Financial instruments	
Corporate bonds	10,279
Government bonds	9,450
Other investments net of liabilities	2,526
Equity instruments	2,053
Cash	962
Derivatives	
Swaps	26
Futures	(53)
Forwards	(168)
Total	**25,075**

Market traded on and UCITS	Fair Value (€m)
New York	3,014
Germany (Frankfurt, Berlin, Munich)	3,352
London	1,328
Parigi	1,094
Luxembourg	159
Dublin	1,500
Eurotlx	292
Euromtf	486
Tokyo	403
Euronext	948
Trace	2,531
Singapore	471
Hong Kong	165
Other	7,652
Funds	1,680
Total	**25,075**

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.

Determination of fair value and effects on profit or loss

First Cycle 2016-2018

The total number of phantom stocks awarded to the 39 Beneficiaries of the First Cycle of the Plan outstanding at 30 June 2018 amount to 393,328. 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 the first half of 2018 is approximately €0.7 million, whilst the liability recognised in amounts due to staff is approximately €2.1 million.

Second Cycle 2017-2019

The total number of phantom stocks awarded to the 53 Beneficiaries of the Second Cycle of the Plan amount to 589,376. 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 the first half of 2018 is approximately €0.9 million, whilst the liability recognised in amounts due to staff is approximately €1.7 million.

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.

Determination of fair value and effects on profit or loss

The number of phantom stocks outstanding at 30 June 2018 totals 101,694. An independent expert, external to the Group, was appointed to measure the value of the stocks, based on best market practices. The liability recognised in amounts due to staff amounts to approximately €0.6 million.

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 number of phantom stocks outstanding at 30 June 2018 totals 276,744. The liability recognised in amounts due to staff amounts to approximately €1.7 million.

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 period	Equity
BancoPosta Fondi SpA SGR (Rome)	100.00%	12,000	12,746	66,065
Consorzio Logistica Pacchi ScpA (Rome)	100.00%	516	-	738
Consorzio per i Servizi di Telefonia Mobile ScpA (Rome)	100.00%	120	-	116
Consorzio PosteMotori (Rome)	80.75%	120	-	290
Europa Gestioni Immobiliari SpA (Rome)	100.00%	103,200	653	237,898
Mistral Air Srl (Rome) (**)	100.00%	1,000	(3,222)	1,822
PatentiViaPoste ScpA (Rome) (*)	86.86%	120	(1)	123
PosteMobile SpA (Rome)	100.00%	7,561	14,383	63,072
Poste Tributi ScpA (Rome) (*)(**)	100.00%	2,325	-	(1,788)
Poste Vita SpA (Rome) (*)	100.00%	1,216,608	229,789	3,137,532
Poste Assicura SpA (Rome) (*)	100.00%	25,000	20,125	113,477
Postel SpA (Rome)	100.00%	20,400	(644)	99,609
SDA Express Courier SpA (Rome) (**)	100.00%	10,000	(22,942)	(10,379)
Poste Welfare Servizi Srl (Rome)	100.00%	16	1,429	9,079

(*) The figures shown for these companies were prepared in accordance with IFRS and, as such, may vary from those contained 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 period
Address Software Srl (Rome) (a)	Subsidiary	237	51.00%	931	466	465	1,087	38
Anima Holding SpA (Milan) (b)	Associate	250,783	10.04%	2,014,902	1,158,102	856,800	313,011 (*)	44,961
Conio Inc. (San Francisco) (c)	Associate	27	18.50%	140	136	4	-	(205)
FSIA Investimenti Srl (Milan) (d)	Joint venture	286,781	30.00%	1,021,588	68,307	953,281	5,971 (**)	(2,886)
Indabox Srl (Rome) (a)	Subsidiary	1,222	100.00%	755	151	604	98	(289)
ItaliaCamp Srl (Rome) (a)	Associate	54	20.00%	1,157	521	636	848	153
Kipoint SpA (Rome)	Subsidiary	698	100.00%	2,937	2,239	698	2,349	84
Risparmio Holding SpA (Rome)	Subsidiary	845	80.00%	1,119	64	1,055	-	(35)
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						

a. Data derived from the accounts for the period ended 31 December 2017, the latest approved by the company.

b. Data derived from the latest consolidated interim accounts for the period ended 31 March 2018 approved by the company's board of directors.

c. Data for Conio Inc. and its subsidiary, Conio Srl at 31 December 2017.

d. Data derived from the latest consolidated interim accounts for the period ended 31 March 2018 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.

e. Data derived from the accounts for the period ended 31 December 2015, the latest approved by the company.

f. 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.

(**) The amount includes the total represented by dividends and measurement of the investments at equity.

POSTAL SAVINGS DEPOSITS

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

Postal savings deposits (€m)

Item	Balance at 30 June 2018	Balance at 31 December 2017
Post office savings books	105,610	108,564
Interest-bearing Postal Certificates	216,544	214,347
Cassa Depositi e Prestiti	149,915	146,104
MEF	66,629	68,243
Total	**322,154**	**322,911**

ASSETS UNDER MANAGEMENT

Assets under management by BancoPosta Fondi SpA SGR, measured at fair value using information available on the last working day of the period, amount to €8,192 million at 30 June 2018 (€7,984 million at 31 December 2017).

COMMITMENTS

The Group's purchase commitments break down as follows.

Commitments (€m)

Item	Balance at 30 June 2018	Balance at 31 December 2017
Purchase commitments		
Property leases	502	523
Purchases of property, plant and equipment	60	42
Purchases of intangible assets	46	32
Vehicle leases	179	200
Other leases	28	26
Total	**815**	**823**

At 30 June 2018, EGI SpA has given commitments to purchase electricity, with a total value of €9.68 million, on regulated forward markets in the second half of 2018. At 30 June 2018, the corresponding market value is €11.83 million.

GUARANTEES

Unsecured guarantees issued by the Group are as follows:

Guarantees		(€m)
Item	**Balance at 30 June 2018**	**Balance at 31 December 2017**
Sureties and other guarantees issued:		
by banks/insurance companies in the interests of Group companies in favour of third parties	272	283
by the Group in its own interests in favour of third parties	21	21
Total	**293**	**304**

THIRD-PARTY ASSETS

Third-party assets held by Group companies are shown below.

Third-party assets		(€m)
Item	**Balance at 30 June 2018**	**Balance at 31 December 2017**
Bonds subscribed by customers held at third-party banks	3,150	3,562
Total	**3,150**	**3,562**

ASSETS IN THE PROCESS OF ALLOCATION

At 30 June 2018, the Parent Company has 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.

12. ATTESTATION OF THE MANAGER RESPONSIBLE FOR FINANCIAL REPORTING AND INDEPENDENT AUDITORS' REPORT

Attestation of the condensed consolidated interim financial statements for the six months ended 30 June 2018 pursuant to art. 154-*bis* of Legislative Decree 58/1998 and art. 81-*ter* of CONSOB Regulation 11971 of 14 May 1999

1. The undersigned, Matteo Del Fante, as Chief Executive Officer, and Tiziano Ceccarani, as Manager responsible for Poste Italiane SpA's financial reporting, having also taken account of the provisions of art.154-*bis*, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998, hereby attest to:

- the adequacy with regard to the nature of the Poste Italiane Group and
- the effective application of the administrative and accounting procedures adopted in preparation of the Poste Italiane Group's condensed consolidated interim financial statements during the period from 1 January 2018 to 30 June 2018.

2. In this regard, it should be noted that:
- the adequacy of the administrative and accounting procedures adopted in preparation of the Poste Italiane Group's condensed consolidated interim financial statements was verified by assessment of the internal control system over financial reporting. This assessment was conducted on the basis of the criteria contained in the Internal Control–Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO);
- the assessment of the internal control system over financial reporting did not identify any material issues.

3. We also attest that:

3.1 the Poste Italiane Group's condensed consolidated interim financial statements for the six months ended 30 June 2018:

a) have been prepared in compliance with the International Financial Reporting Standards endorsed by the European Union through EC Regulation 1606/2002, issued by the European Parliament and by the Council on 19 July 2002;
b) are consistent with the underlying accounting books and records;
c) give a true and fair view of the financial position and results of operations of the issuer and the companies included in the scope of consolidation.

3.2 the Directors' Interim Report on Operations includes a reliable analysis of significant events during the first six months of the year and of their impact on the condensed consolidated interim financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year. The Interim Report on Operations also includes a reliable analysis of material related party transactions.

Rome, 1 August 2018

Chief Executive Officer	Manager responsible for financial reporting
Matteo Del Fante	Tiziano Ceccarani

REVIEW REPORT

POSTE ITALIANE SPA

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2018

REVIEW REPORT ON CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Poste Italiane SpA

Foreword

We have reviewed the accompanying condensed interim consolidated financial statements of Poste Italiane SpA and its subsidiaries ("Poste Italiane Group") as of 30 June 2018, comprising the consolidated statement of financial position, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the condensed consolidated statement of cash flows and the related notes. The directors of Poste Italiane SpA are responsible for the preparation of the condensed interim consolidated financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of condensed interim consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed interim consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements of Poste Italiane Group as of

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C .F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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30 June 2018 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Rome, 3 August 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.