HALF-YEAR REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2019

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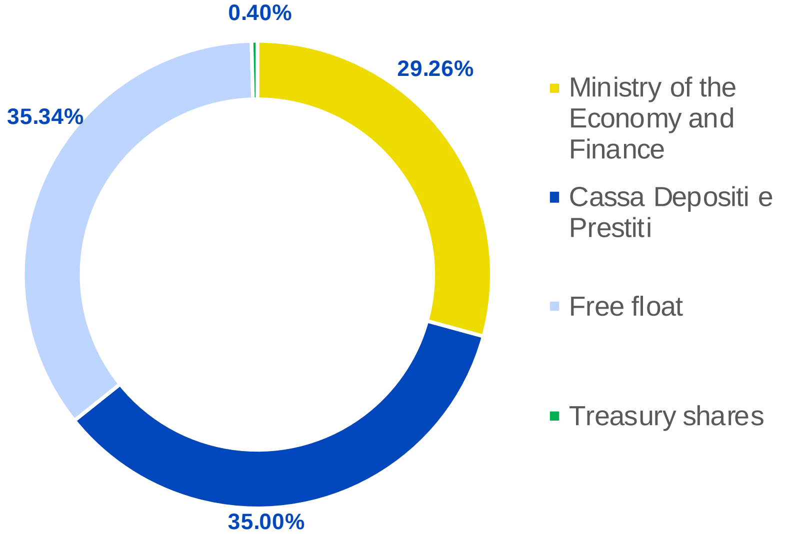
REPORT ON OPERATIONS FOR THE SIX MONTHS ENDED 30 JUNE 2019

1. OWNERSHIP, GROUP AND ORGANISATIONAL STRUCTURES

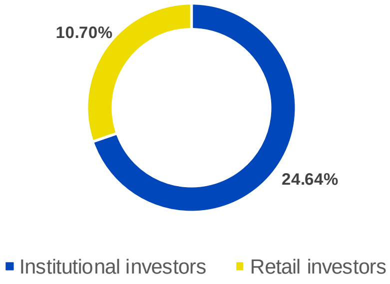
SHAREHOLDER STRUCTURE

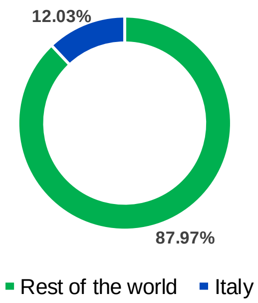


The Company has been listed on the *Mercato Telematico Azionario* (the MTA, an electronic stock exchange) organised and managed by Borsa Italiana SpA since October 2015. The free float represents approximately 35% of the shares.

At 30 June 2019, the Company is 29.3% owned by the Ministry of the Economy and Finance (MEF) and 35% owned by Cassa Depositi e Prestiti SpA (CDP), itself controlled by the MEF. The remaining shares are held by institutional and retail investors.

24.64% of investors are institutional and 10.70% are retail, with 12.03% located in Italy and 87.97% in the rest of the world.



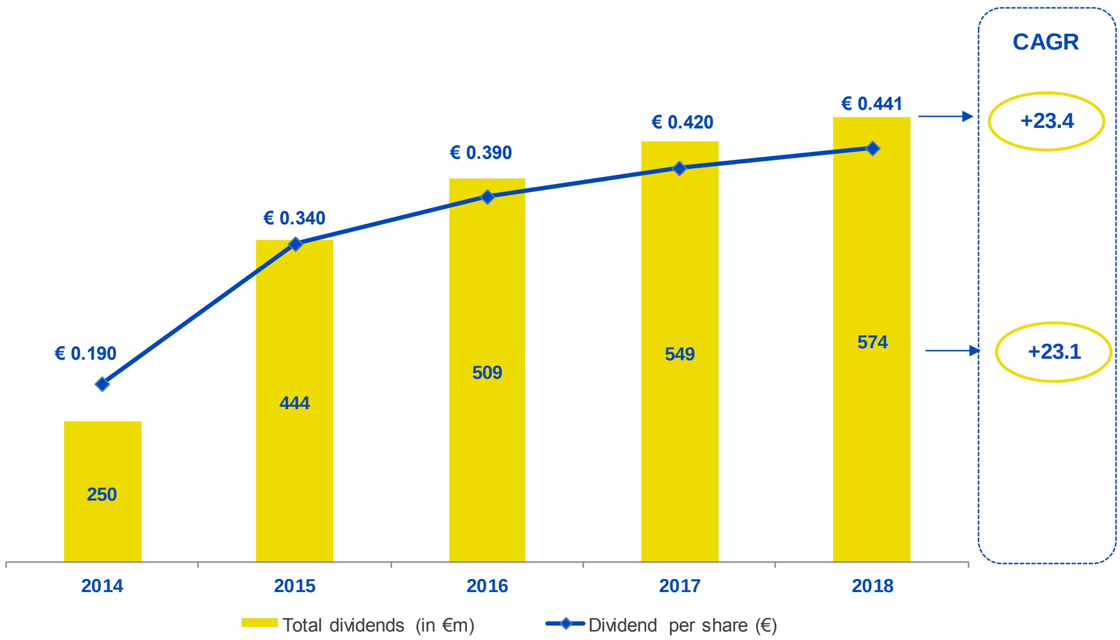


In the period between 4 February and 29 March 2019, Poste Italiane purchased 5,257,965 own shares (equal to 0.4026% of the share capital) at an average price of €7.608, making a total cost of approximately €40 million. The purchases were made in execution of the buyback authority approved by the Annual General Meeting of shareholders held on 29 May 2018. The buybacks are part of a programme whose launch was announced to the market on 1 February 2019, pursuant to art. 144-*bis* of CONSOB Regulation 11971/1999.

Share buybacks are carried out with the aim of creating a stock of treasury shares of up to €50 million, partly to service any future staff incentive plans.

SHARE PRICE PERFORMANCE

DIVIDENDS



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

Audit, Risk and Sustainability Committee[2]	Remuneration Committee[2]	Nominations and Corporate Governance Committee[2]	Related and Connected Parties Committee[2]
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

Board of Statutory Auditors[3]	
Chairman	Mauro Lonardo
Auditors	Luigi Borrè Anna Rosa Adiutori
Alternates	Alberto De Nigro Maria Francesca Talamonti Antonio Santi

Supervisory Board[4]	
Chairwoman	Nadia Fontana
Members	Paolo Casati [5] Carlo Longari

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

Independent Auditor	
	PricewaterhouseCoopers SpA[6]

(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) Committee members were appointed by the Board of Directors' meeting of 28 April 2017.

(3) The Board of Statutory Auditors was elected by the Ordinary General Meeting of 28 May 2019 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 2021.

(4) The Supervisory Board was appointed by the Board of Directors' meeting of 24 May 2016 for a three-year term and will remain in office until the appointment of a new Supervisory Board, which is expected to take place on 30 July 2019.

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

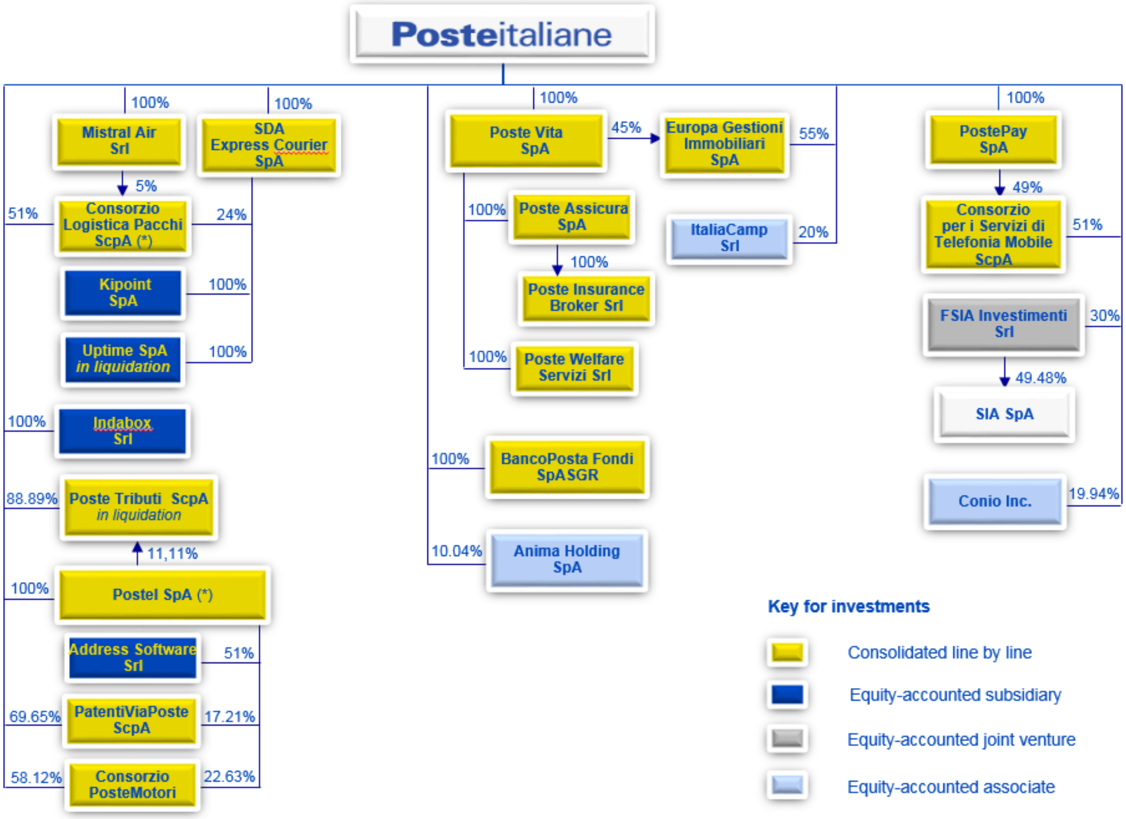
(6) The company has been engaged to conduct the statutory audit of the accounts for the financial years 2011-2019. The Annual General Meeting of 28 May 2019 voted to engage Deloitte & Touche SpA to conduct the statutory audit of the Poste Italiane Group's accounts for the financial years 2020-2028.

Meetings of the Board of Directors of Poste Italiane SpA

Poste Italiane's Board of Directors met on 6 occasions in the first half of 2019 to examine the following principal matters and approve the following resolutions.

DATE	PRINCIPAL RESOLUTIONS
31 January 2019	Approval of BancoPosta's new Organisational and Operational Regulation
28 February 2019	Approval of the Poste Italiane Group's Environmental Sustainability Policy and the Policy on Community Initiatives
	Approval of the Share Ownership Guidelines
18 and 19 March 2019	The Company's financial statements for the year ended 31 December 2018 and the consolidated financial statements for the same period
	Proposed appropriation of earnings
	Budget for 2019
	Appointment of the Head of the BancoPosta function and confirmation of professional and integrity requirements
	Examination of the Board of Statutory Auditors' recommendation for the engagement of the Independent Auditor for the nine-year period 2020-2028
18 April 2019	Plan for the partial demerger of SDA Express Courier and transfer to Poste Italiane: approval and authorisation for the CEO to complete the necessary activities and formalities
	Guidelines for BancoPosta's Remuneration and Incentive Policies for 2019
	Revised ICAAP/ILAAP guidelines and related revision of operational risk guidelines
	Approval of the Agreement with the MEF regarding the rate of return on postal current account deposits in the name of persons other than private customers
7 May 2019	Interim report for the three months ended 31 March 2019
	Approval of the committed credit facility granted to BancoPosta by CDP, amounting to up to €5 billion
27 June 2019	Partial demerger of SDA Express Courier and transfer to Poste Italiane: approval of the plan filed and registered with the Companies' Register
	Revised Conflict of Interest Guidelines for the provision of investment services

STRUCTURE OF THE GROUP AT 30 JUNE 2019



(*) The remaining 20% of Consorzio Logistica Pacchi ScpA's equity is held by Postel SpA.

On 14 March 2019, FSIA Investimenti Srl, an investment vehicle 30% owned by Poste Italiane (the remaining 70% is indirectly controlled by CDP Equity via FSI Investimenti), announced its intention to exercise its call option on 7.934% of the shares in SIA SpA held by UniCredit and Intesa SanPaolo, and on 28 May 2019 signed the relevant agreement. Following the exercise of this option, completion of which is conditional on obtaining the necessary clearance from the Antitrust Authority and the Bank of Italy, FSIA will hold a 57.4% interest in SIA. As a result, Poste Italiane's stake in this latter company will rise from 14.85% to 17.23%.
On 27 May 2019, the shareholders agreements that gave FSIA Investimenti, together with other shareholders, joint control of SIA expired. The shareholder agreement between Poste Italiane and FSI Investimenti entered into on 16 September 2016, relating to their investment in FSIA Investimenti, remains in force, meaning that the investment continues to be classified as a joint venture.

On 12 April 2019, Poste Assicura established Poste Insurance Broker Srl, an insurance brokerage company set up to oversee relations between BancoPosta RFC and selected partner companies in order to launch a pilot project for the offer of vehicle insurance policies to employees.

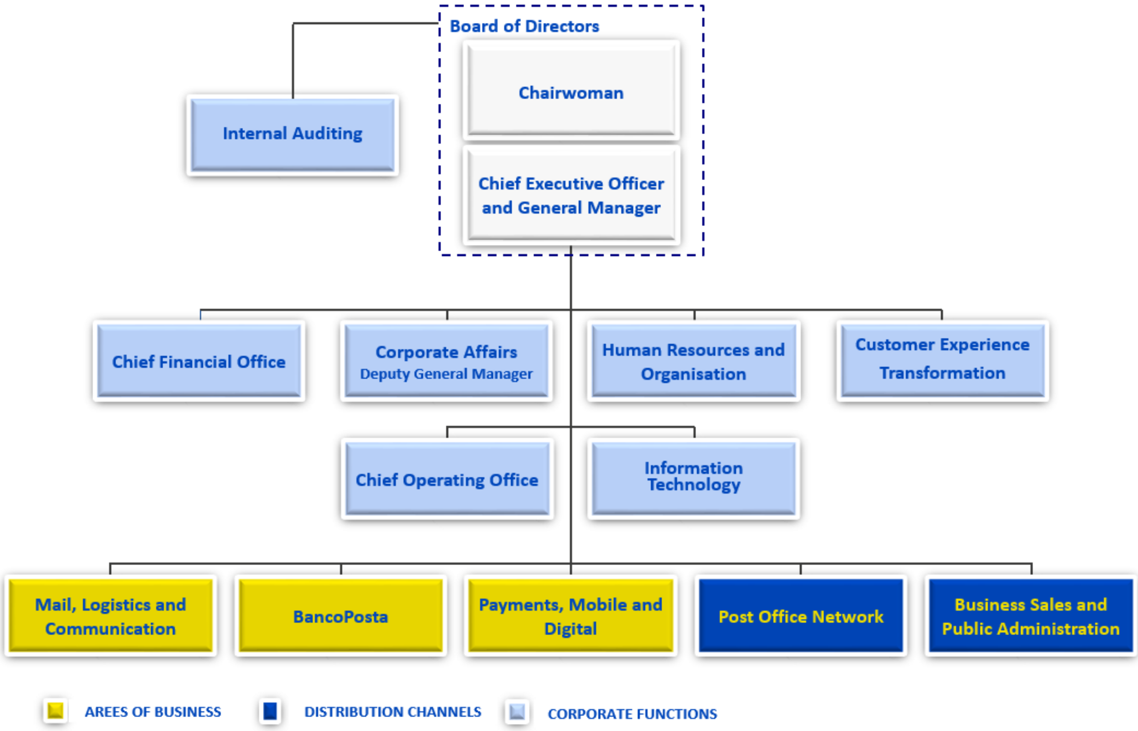
On 7 May 2019, Poste Italiane entered into partnership with the German digital road-freight-forwarder, sennder GmbH, with the aim of establishing a joint venture in Italy with the aim of boosting the efficiency of long-haul logistics operations, in line with the Deliver 2022 Strategic Plan.

On 5 June 2019, the company, Risparmio Holding, which was already in liquidation, was struck off the Companies' Register.

On 20 June 2019, an Extraordinary General Meeting of SDA Express Courier's shareholders and, on 27 June 2019, the Board of Directors of Poste Italiane approved the partial demerger of the business unit responsible for commercial and customer care activities relating to SDA's Express Parcel Delivery services to Poste Italiane. The transaction is part of the plan to create a "Single Offering", with the aim of boosting the competitiveness and effectiveness of the Group's positioning in the Express Delivery market by putting in place a single, comprehensive offering for all customers. The demerger, which will be effective from 1 November 2019, once the legally required deadlines for creditors to oppose the deal has passed and the documents have been filed with the Companies' Register.

On 25 June, an agreement was signed that will result in the transfer to Poste Italiane of SDA Express Courier's Information and Communication Technology business unit. The transfer, which came into effect on 1 July 2019, is aimed at improving the efficiency of subsidiaries' ICT processes by centralising these activities within Poste Italiane.

POSTE ITALIANE SPA'S ORGANISATIONAL STRUCTURE



During the first half of 2019, the Group's organisational model continued to evolve, in line with the strategic guidelines and objectives in the Deliver 2022 Business Plan. This resulted in the following main changes:

- The Head of Corporate Affairs was assigned the role of Deputy General Manager in recognition of the part played by his department in providing strategic guidance and cohesion for the Group, as well as its responsibility for carrying out high-impact, cross-cutting initiatives. In addition, with the aim of taking advantage of the interdependencies resulting from the integrated management of relations with the Company's key stakeholders, the function responsible for Regulatory Affairs and Relations with the Authorities now reports directly to the Head of Corporate Affairs.
- The creation of the Customer Experience Transformation function for joint management of the digital innovation and transformation programme launched by the Company.
- Development of the role of BancoPosta's Area Marketing function, with the aim of providing a single interface with distribution channels with regard to training requirements for financial products/services.
- The transfer of the Financial Sales Coordination function dedicated to Business and Public Administration customers to the Post Office Network function, with a view to integrating the commercial offering of financial products/services into a single distribution channel.
- The launch of the Financial Education and Best Practices initiative, reporting directly to the Chief Executive Officer, in order to coordinate an action plan designed to educate customers and citizens in general, and to raise their awareness of the Group's offering and its various businesses, as well as of the solutions and service models of most importance for the community and social cohesion.
- Redefinition of the geographical structure of staff functions (reduced from 9 to 6).

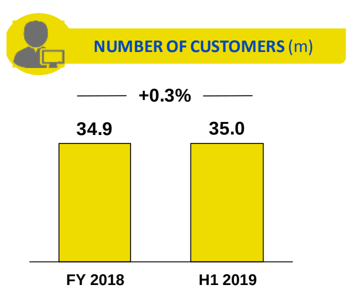
DISTRIBUTION CHANNELS

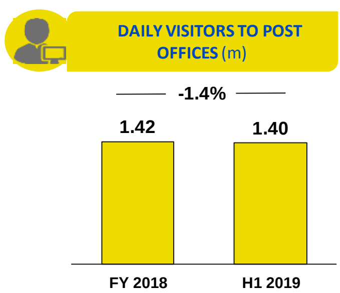
RETAIL/BUSINESS AND PUBLIC ADMINISTRATION MACRO AREAS (*)

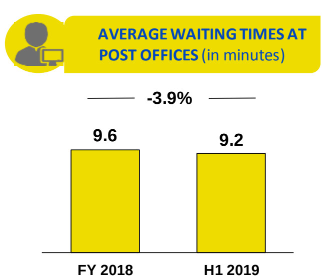
GEOGRAPHICAL DISTRIBUTION OF POST OFFICES AND BRANCH OFFICES

(*) In terms of Business and Public Administration macro areas, the Sicily and Southern areas have been combined in a single area (called the Southern Area).

During the first half of the year, the network reorganisation process continued, aimed at implementing a commercial structure capable of meeting the requirements of the Retail and Small Business segments. In particular, as part of the Framework Agreement regarding the reorganisation process, signed with the labour unions on 8 March 2019, the Area Business Transformation project was presented. This aims to reorganise macro areas by simplifying business processes and guaranteeing business continuity and service quality for end customers. In addition, in line with business requirements, organisational initiatives are underway to offer services that are more in line with the market, involving a strengthening of front-end operations. These initiatives include: a) the development of stands within post offices promoting products and services; and b) a review of support and coordination roles at post offices.

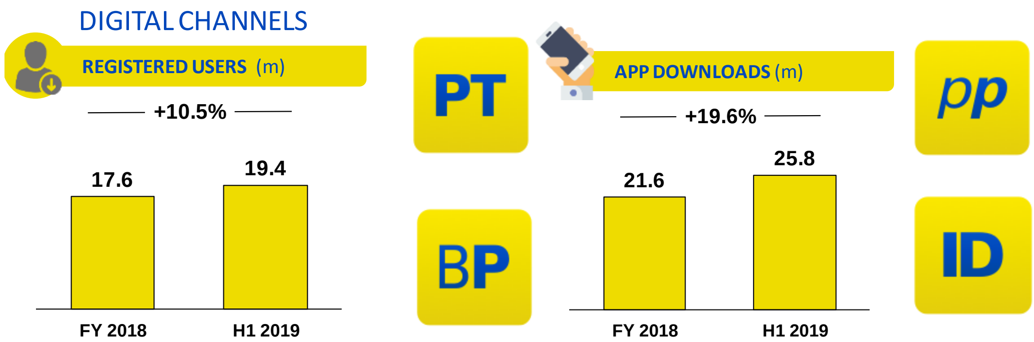






The digital Web and App channels provide access to online services for 19.4 million retail and business users (17.6 million at 31 December 2018) and operate as both direct sales and after-sales channels.

During the first half of the year, in line with its digital transformation programme, the Group continued to make changes aimed at simplifying customers' experience of digital channels when using Poste Italiane's financial, insurance, payment and logistics services.



LOGISTICS NETWORK

The Group's mail and parcel services are provided via two integrated and synergistic logistics networks, designed to fully leverage all the available assets: the postal logistics network set up to manage mail and that now includes small parcels; and the parcel logistics network which, by taking advantage of the SDA Group's express courier assets, is also able to handle all types of parcel.

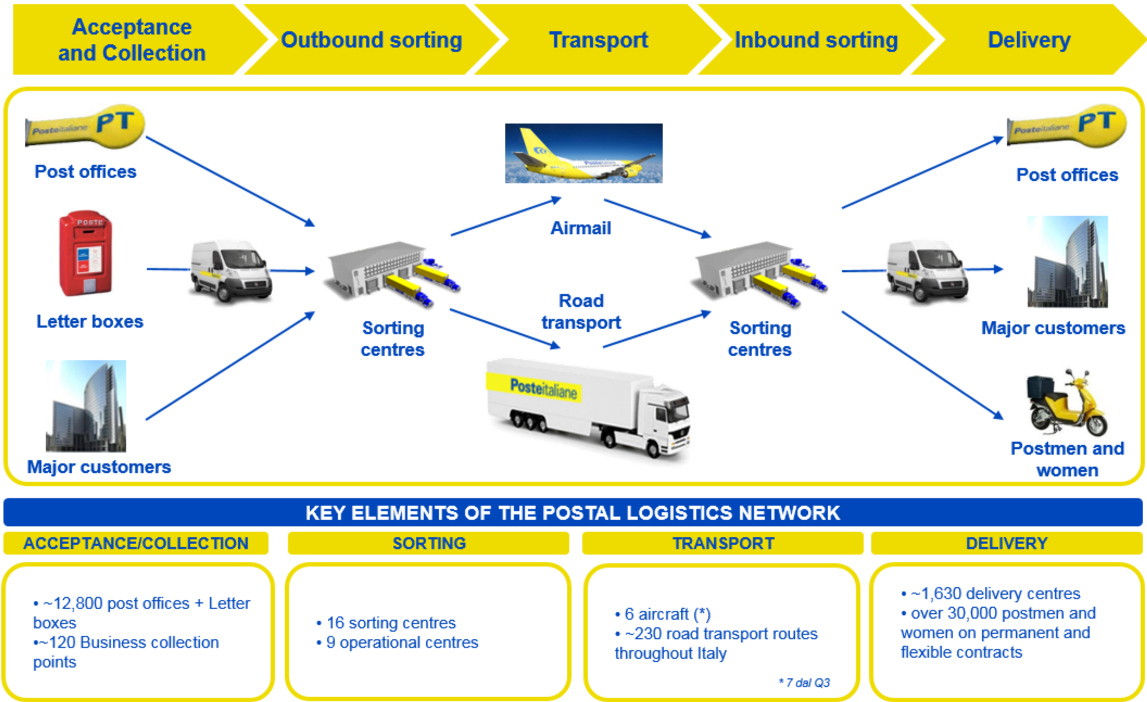
The new organisational model for the logistics network breaks down into six Logistics Macro Areas, which handle all stages of the value chain: acceptance and collection, outbound sorting, transport, inbound sorting and delivery. This model has enabled the simplification and streamlining of the decision-making chain by redefining local responsibilities.

The model's macro areas are shown below.

LOGISTICS MACRO AREAS

The Logistics Macro Areas manage the flow of mail and small parcels, which can be sorted within the postal network and delivered by postmen and women. The following chart provides an overview of the logistics network value chain and the main quantitative drivers:

DESCRIPTION OF LOGISTICS NETWORK ACTIVITIES



The main network hubs within the value chain are:

- The sorting network: Sorting Centres and Operating Centres, which collect, sort and deliver mail and parcels using postmen and women. The Sorting Centres are mostly highly automated, while the Operating Centres provide "light" automation and handling is mainly done manually;
- The delivery network: Distribution Centres**,** where mail is prepared for delivery, and from which postmen and women set out on their rounds.

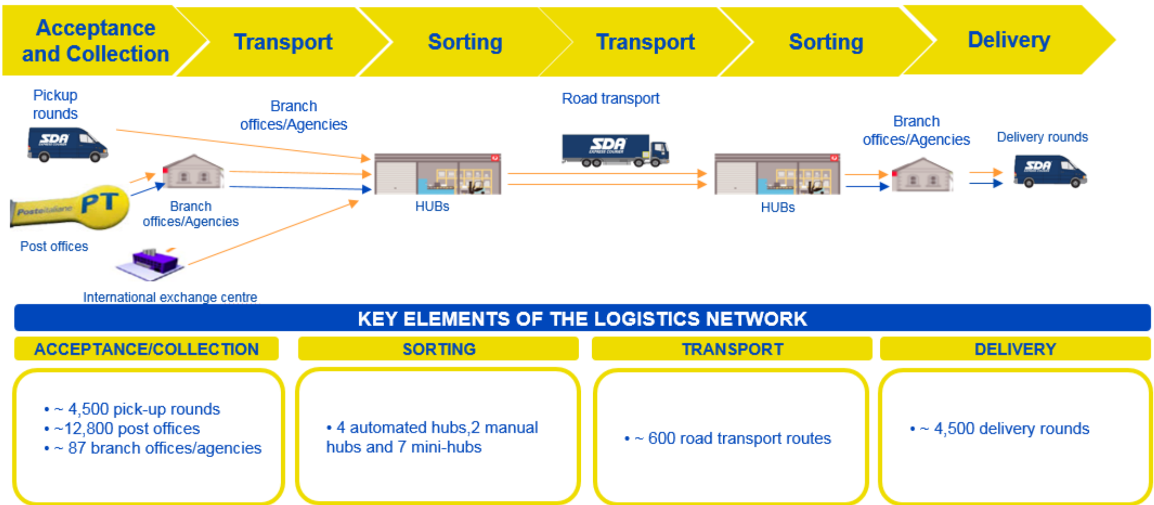
These Logistics Centres are structured in accordance with the following drivers:

- the distribution of origin-destination product flows;
- the concentration of sorting operations in highly automated centres;
- the simplification and streamlining of operations throughout the logistics chain, from collection to delivery.

DESCRIPTION OF PARCELS NETWORK ACTIVITIES

Parcels and express courier products that are larger than those delivered by postmen and women are delivered via the network operated by the subsidiary, SDA Express Courier.

SDA's logistics flow is shown below:



CUSTOMER AND BACK OFFICE OPERATIONS

During the first half of 2019, the development of contact centre and back office operations continued with the creation at Group level of the One Contact Centre and the One Back Office. The aim is to:

- support the growth of the Group's businesses with an effective and efficient "operating machine";
- ensure the implementation of a centralised customer care and back office model;
- improve the quality of the services provided via the standardisation, digitisation and automation of processes, as well as the development of support platforms in line with a customer-centred approach.

		Strategic Business Unit				*Channels*		
		Mail and Parcels	*Financial Services*	*Payments, Mobile & Digital*	*Insurance Services*	*Post Office Network*	*Business Sales and PA*	*Digital*
One Contact Center	*Customer care*	✓	✓	✓	✓	✓	✓	✓
One Contact Center	*Complaints*	✓	✓	✓	✓	✓	✓	✓
One Back Office	*Postal and Financial*	✓ (1)	✓	✓	✓ (2)	✓	✓	

1) Document management (formerly RI and NIS), Data entry (formerly Video coding)
2) Back office managed by PosteVita

During the first half of the year, the reorganisation of local areas in line with a Hub and Spoke approach was completed. This involved identification of primary sites in order to speed up implementation of the planned operating model, which aims to create competence centres that specialise in specific activities and products.

At central level, the Customer Care Control Room, which is responsible for the real-time planning and monitoring of customer support and the centralised handling of service disruptions, entered service in the second quarter of 2019.

2. MACROECONOMIC ENVIRONMENT

Global economic growth saw an upturn in the first half of 2019, albeit somewhat diminished by a political context marked by worsening trade tensions between the United States and China. The most recent analysis by the International Monetary Fund (IMF - World Economic Outlook, April 2019) forecasts global growth of 3.3% in 2019, compared to 3.6% last year, with the figure set to stabilise in 2020 at around the level registered in 2018. The slowdown is widespread, affecting more than 70% of countries.

Since April 2019, oil prices have been falling and have recently been more volatile as a result of the above-mentioned tensions between the United States and China. Brent crude oil fell from US$75.37 a barrel on 25 April 2019 to US$65.77 on 27 June, at a midpoint compared to the lows registered in January (around US$55)[20].

Global inflationary pressures have remained moderate. In April, 12-month consumer price inflation in the countries of the Organisation for Economic Cooperation and Development (OECD) averaged 2.5% (2.3% in the previous month). Labour market conditions in most of the major advanced economies have so far resulted in modest wage growth, indicating that underlying inflationary pressures are still limited.

Monetary policy stances have continued to be accommodative. The Federal Reserve (FED) and the European Central Bank (ECB) have interrupted the process of normalising monetary policy in order to carefully assess the intensity and effects of the global slowdown.

The ECB has kept its interest rates on hold and leaving its asset purchase programme unchanged by repurchasing all maturing securities. Moreover, it has decided to leverage forward guidance, by specifying that rates will remain at current levels until at least the first half of 2020, and publicising the operational details of a new refinancing plan (TLTRO III) for the banking system to be implemented between September 2019 and March 2021.

In the **United States**, economic activity has decelerated, but is still in good shape. Labour market stability, favourable financial conditions and the fiscal stimulus have continued to bolster growth. Overall, real GDP grew at an annualised rate of 3.1% in the first quarter, up 2.2% on the last quarter of 2018[21].

China registered a 1.4% slowdown in growth in the first quarter of 2019, compared to 1.5% in the previous quarter.

In the **United Kingdom**, the extension of the country's date of exit from the European Union, the increase in inventories, together with expansionary fiscal policy and better-than-expected consumer spending and private investment, produced quarterly real GDP growth of 0.5% in the first quarter of 2019, following the modest 0.2% registered in the last quarter of 2018[22]. However, economic indicators for the second quarter point to a continuation of the broad underlying trend of weakening growth observed since the referendum on EU membership.

In the **euro area**, real GDP grew 0.4% in the first quarter of the year compared with the previous quarter[23], following the slowdown recorded in the second half of 2018, against a backdrop of weak external demand. The rebound was partly due to the normalisation of economic trends in Germany and Italy, after the exceptionally poor performance at the end of 2018 linked to the fate of the automotive and electronics sectors, as well as to climatic factors. According to Eurostat, inflation in the euro area[24] fell to 1.2% in May 2019 from 1.7% in April

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[20] Source: Bloomberg
[21] Source: Bureau of Economic Analysis - Gross Domestic Product.
[22] Source: Office for National Statistics - Gross Domestic Product.
[23] Source: European Commission - Gross Domestic Product.
[24] Harmonised Index of Consumer Prices (HICP).

2019. Inflation has been largely held in check, but pressures on labour costs have started to become stronger and more widespread in the face of increased use of production capacity. In the medium term, inflation is expected to rise gradually, supported by the ECB's monetary policy.

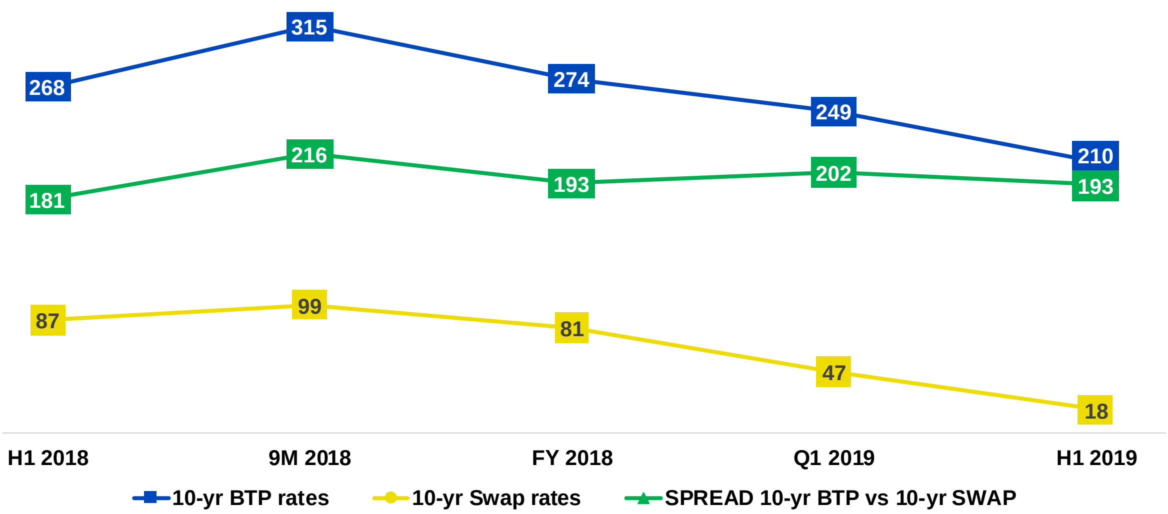
Italy, thanks to a second consecutive cyclical rise in industrial production and retail sales registered in February 2019, is on its way out of the technical recession recorded at the end of 2018. However, the encouraging figure for GDP in the first quarter of 2019 (revised downwards in the second quarter from 0.2% to 0.1% compared to the previous quarter) seems to be more positive than early indications would seem to suggest, as they do not yet appear to point to significant expansion.

The overall outlook for 2019 from the leading research centres is still largely sluggish, albeit with the potential for upward revisions. In April 2019, the IMF cut its growth forecast from 0.6% to 0.1% and the Italian government has acknowledged the deteriorating economic situation.

On 5 June, the European Commission launched an excessive deficit procedure against Italy for failure to comply with debt rules in 2018. On 1 July, the Cabinet approved amendments to the draft budget law for 2019, revising the outlook for the public accounts for the current year and the estimated deficit downwards by €6.1 billion, compared with the Economic and Financial Planning Document published in April. Following discussions with European institutions, the Government also passed a decree law guaranteeing a further reduction in net borrowing of at least €1.5 billion, and estimated that, excluding the effects of the economic cycle and one-off measures, the deficit as a percentage of GDP would improve by more than 0.3 percentage points in 2019 compared with 2018.

In the light of these developments, on 3 July the Commission concluded that, in 2019, Italy has substantially complied with the preventive arm of the Stability and Growth Pact and that, therefore, the conditions for launching an excessive deficit procedure against Italy no longer apply[25].

The performance of the yields on 10-year BTPs over the last year, registering a decline from 274 bps at 31 December 2018 to 210 bps at 30 June 2019, is shown below.



[25] Source: Economic Bulletin No. 3/2019, Bank of Italy.

3. FINANCIAL REVIEW[26]

GROUP OPERATING RESULTS(*)

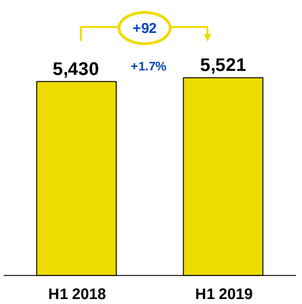
(€m)		H1 2019	H1 2018	INCREASE/(DECREASE)	
EXTERNAL REVENUE	*Adjusted*	**5,242**	**5,017**	**+225**	**+4.5%**
	Reported	*5,521*	*5,430*	+92	*+1.7%*
TOTAL COSTS	*Adjusted*	***4,418***	***4,316***	***+102***	**+2.4%**
	Reported	*4,441*	*4,377*	+64	+1.5%
EBIT	*Adjusted*	**825**	**701**	**+123**	**+17.6%**
	Reported	*1,081*	*1,053*	+28	+2.6%
EBIT margin (%)	*Adjusted*	**15.7%**	**14.0%**		
	Reported	*19.6%*	*19.4%*		
NET PROFIT	*Adjusted*	**570**	**482**	**+88**	**+18.3%**
	Reported	*763*	*735*	+28	+3.9%
EARNINGS PER SHARE	*Adjusted*	**0.44**	**0.37**	**+0.07**	**+19%**
	Reported	*0.59*	*0.56*	+0.02	+4%
ROE	*Adjusted*	**15.3%**	**15.3%**		
	Reported	*13.3%*	*18.3%*		
CAPEX		**230**	**151**	**+79**	**+53%**
% of revenue	**Adjusted**	***4.4%***	***3.0%***		
% of revenue	*Reported*	*4.2%*	*2.8%*		

(*) *The reconciliation of the Group's adjusted and reported results is provided in the section, "Alternative performance indicators" (Section 6).*

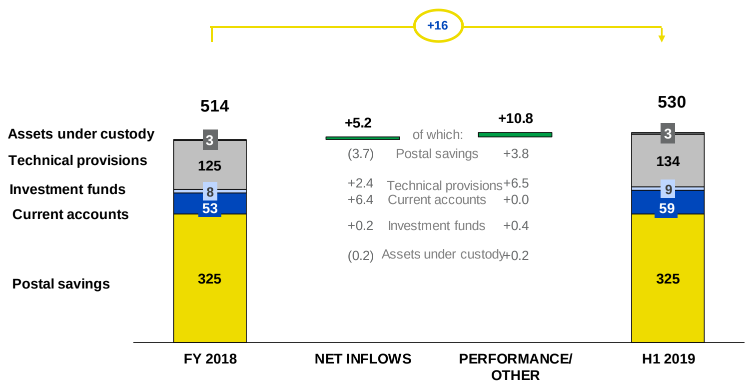
The Group's total revenue of €5.5 billion is up €92 million (1.7%) compared with the first half of 2018. This reflects the positive contribution of the Insurance Services Strategic Business Unit, which contributed €795 million to total revenue, marking an improvement of €111 million (up 16.2% on the first half of 2018), primarily due to the greater volume of assets under management by the Life business and an increase in P&C premium revenue.

After adjusting for non-recurring items, including gains of €261 million realised during the first half (€404 million in the first half of 2018), revenue is up €225 million (4.5%).

EXTERNAL REVENUE (€m)



TOTAL FINANCIAL ASSETS (€bn)



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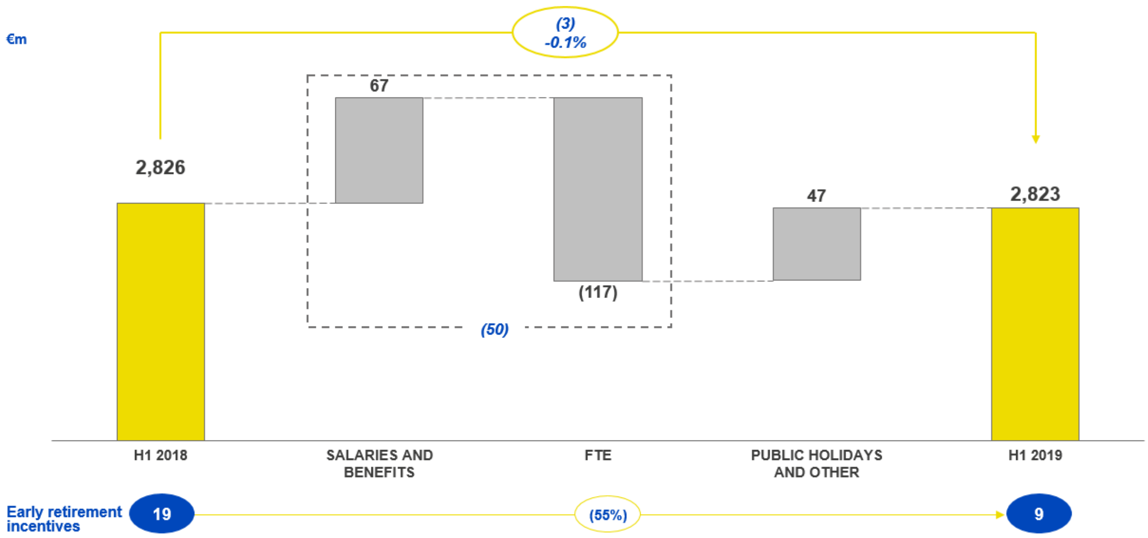
[26] Amounts shown in millions of euros in this report have been rounded, with the result that the sum of the rounded figures does not always tally with the rounded total.

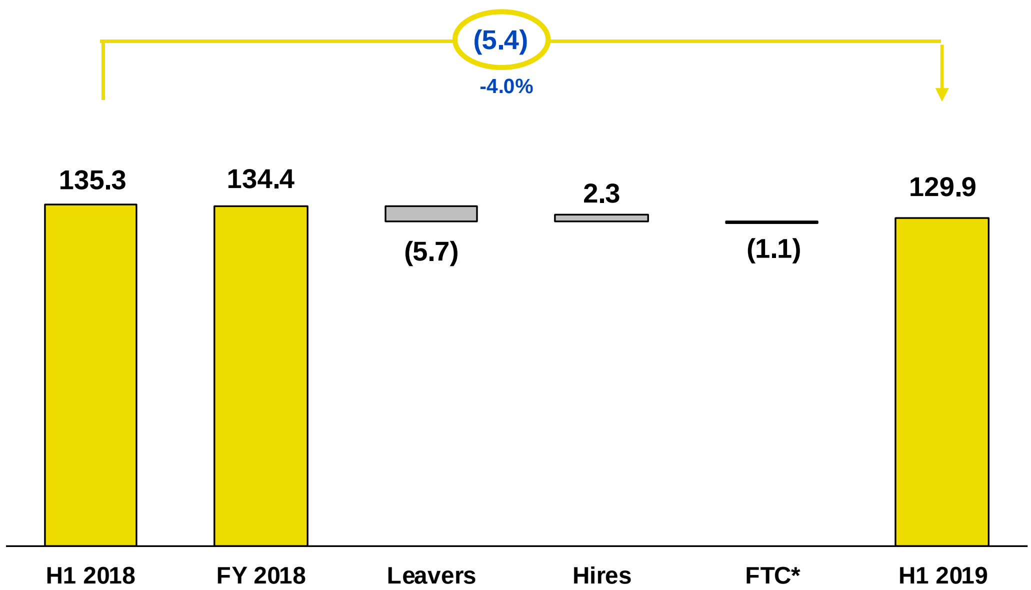
Total financial assets amount to €530 billion, an increase of €16 billion compared with 31 December 2018. This is linked to the positive performance of current account deposits (partly reflecting transitional factors) and the strong performance of the insurance business, thanks to the contribution from multiclass products and the effects of fair value measurement.

Total costs, including depreciation, amortisation and impairments, amount to €4.4 billion, including €2.8 billion in personnel expenses and €1.6 billion in other operating costs.

ORDINARY PERSONNEL EXPENSES



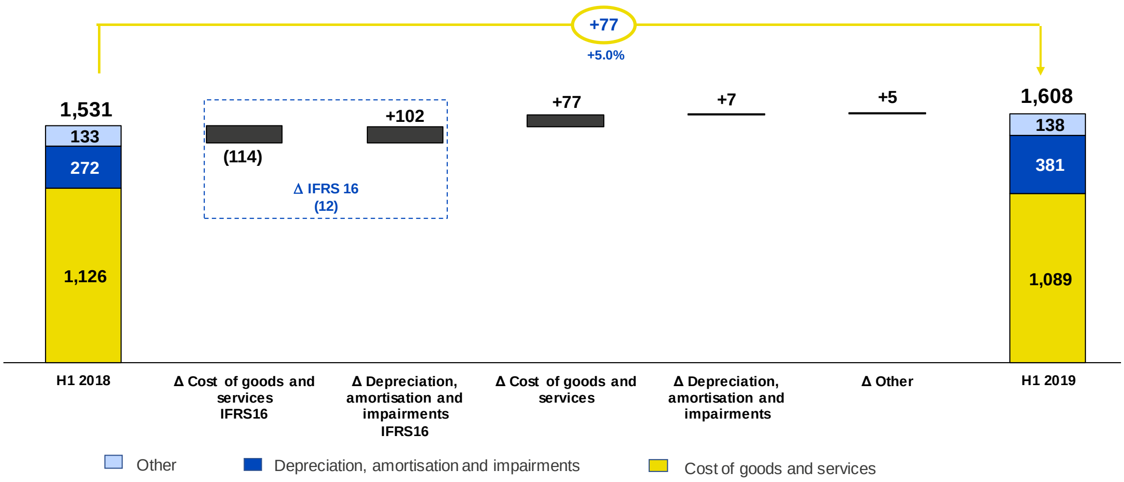
WORKFORCE (in thousands of FTEs)



* Fixed-term contracts

Personnel expenses are down €13 million (0.4%) compared with the first half of 2018, reflecting a reduction in the average workforce employed during the period (over 5,400 fewer FTEs compared with the first half of 2018), which more than offset the increase in the per capita cost linked to the full entry into force of the latest collective labour agreement (for 2016-2018).

OTHER COSTS (€m)



Other costs are up from e1.5 billion in the first half of 2018 to €1.6 billion in the first half of 2019 (an increase of €77 million). This primarily reflects a rise in variable costs linked to business growth and above all to expansion of the parcels business.

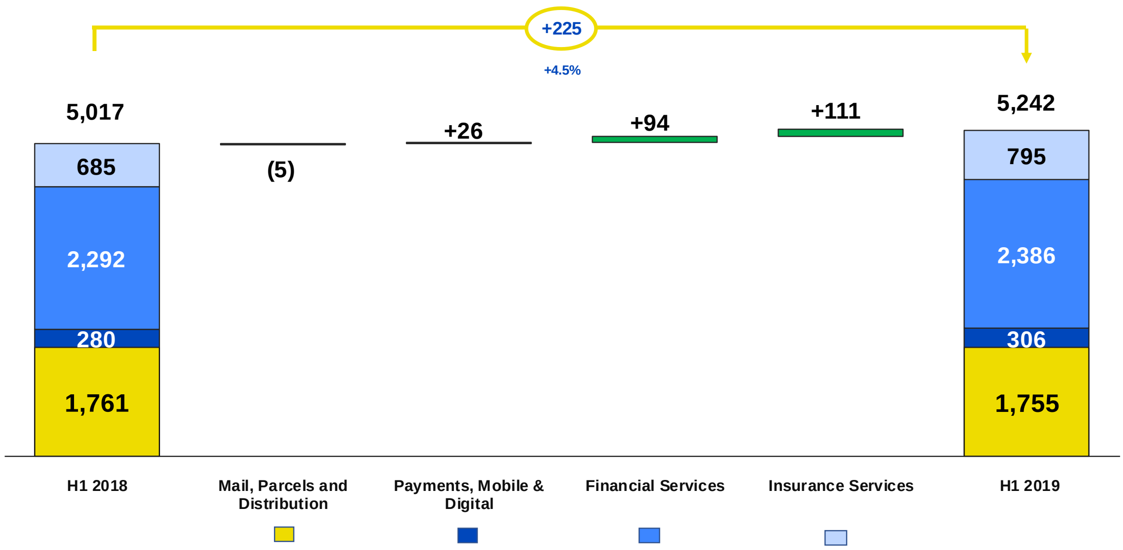
Consolidated EBIT is up from the €1,053 million of the first half of 2018 to €1,081 million (an increase of 2.6%), reflecting the positive contributions of the Insurance Services Strategic Business Unit (up €94 million or 26%), the Financial Services Strategic Business Unit (up €27 million or 6.5%) and the Payments, Mobile and Digital Strategic Business Unit (up €10 million or 9.8%).
After income tax expense for the period, net profit for the first half totals €763 million (€735 million in 2018).

Net profit for the period after adjusting for non-recurring items, including gains on the securities portfolio, measurement of the shareholding in Visa under IFRS 9 and early retirement incentives, amounts to €570 million (€482 million for the same period of the previous year).
In this regard, and in keeping with the strategy in the Deliver 2022 Plan to reduce the dependence on non-recurring items, it should be noted that the following review of the operating results by Strategic Business Unit does not take into account such non-recurring items.

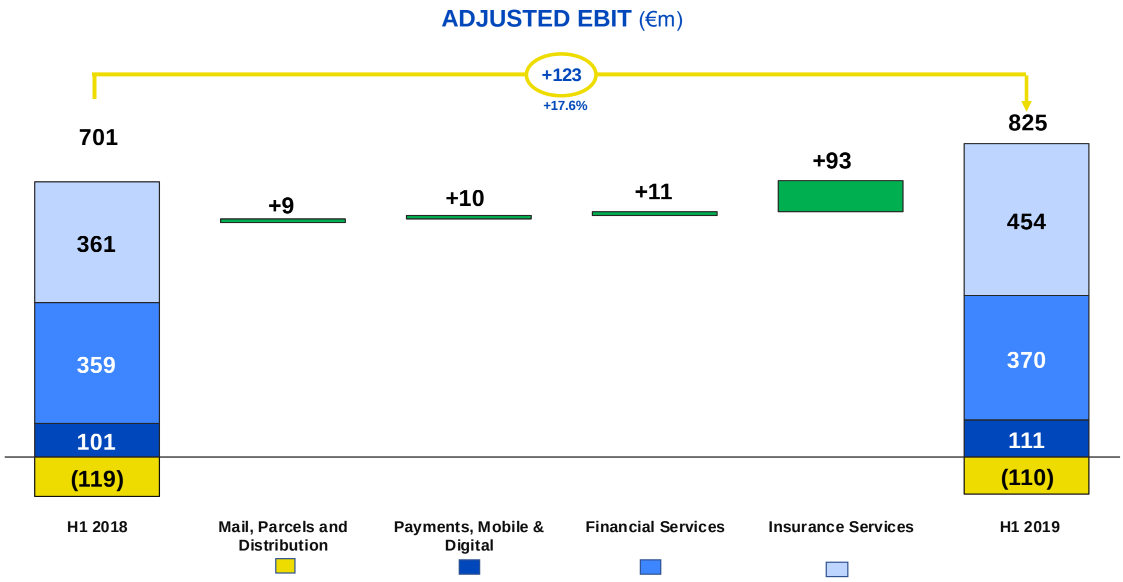
SUMMARY OF OPERATING RESULTS BY STRATEGIC BUSINESS UNIT

The chart below shows the structure of the Group in terms of the operating segments presented in the following review of the results by individual Strategic Business Unit.

ADJUSTED REVENUE (€m)



Adjusted revenue is up 4.5% (€225 million), driven by growth in the multiclass products sold by the Insurance Services and in Financial Services. The Payments, Mobile and Digital unit also performed well.



The positive performance of adjusted EBIT, which is up from €701 million for the first half of 2018 to €825 million (an increase of 17.6%), reflects the contributions from all the Strategic Business Units and, above all, Insurance Services, which registered an improvement of €94 million.

MAIL, PARCELS AND DISTRIBUTION STRATEGIC BUSINESS UNIT

THE POSTAL SERVICES MARKET

The postal services market is going through a period of radical change, primarily linked to the digital transformation of the economy, which has influenced the volume of letters and parcels in circulation. The ongoing decline in traditional mail (with a CAGR for volumes of approximately -6% in the period), which is being replaced with more immediate forms of communication such as e-mail and instant messaging, is accompanied by a significant increase in the volume of parcels sent, linked to the growth in e-commerce. In Italy, the percentage of retail purchases made on line rose from 4% in 2017 to 7% in 2018[27], and growth remains strong compared with the double-digit growth rates registered in the main European countries.
Poste Italiane is now one of the leading operators in the sector with a market share (B2C) of over 30%.

REGULATORY ENVIRONMENT

The *Contratto di Programma* (Service Contract) regulates relations between the Ministry for Economic Development and Poste Italiane SpA regarding provision of the Universal Postal Service. The current *Contratto di Programma* (Service Contract) 2015-2019 is in force until 31 December 2019. Discussions are in progress with the institutions concerned regarding the definition of a new *Contratto di Programma* (Service Contract).

Regarding the regulation of postal services relating to legal process and notification of violations of the Highway Code, AGCom Resolution 155/19/CONS of 14 May 2019 has brought the current provisions into line with the new ones introduced by the 2019 Budget Law (Law 145 of 30 December 2018), including reintroduction of the receipt of notification service in the event of notification to an authorised person.

[27] Source: Polytechnic University of Milan study, 2018.

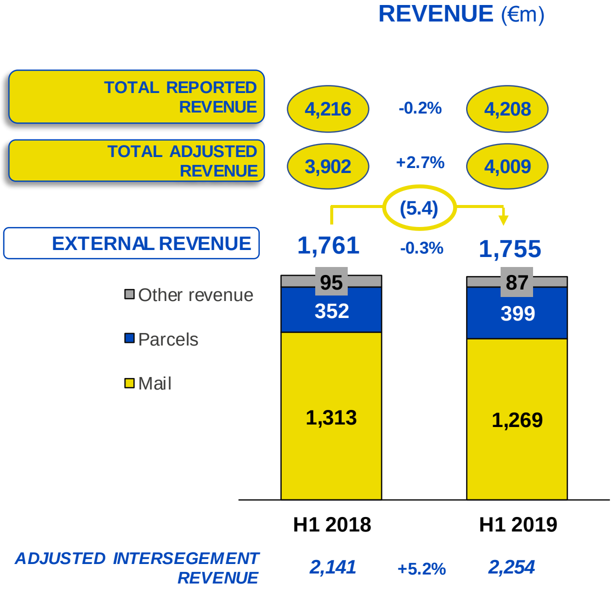
AGCom Resolution 214/19/CONS regarding "Assessment of the net cost of the universal postal service for 2015 and 2016" was published on 2 July 2019. In addition to acknowledging that the cost is unfair, the Resolution quantified the cost of providing the Universal Postal Service in 2015 and 2016, respectively, as €389 million and €356 million, compared with compensation of €329 million and €262 million provided for in the *Contratto di Programma*. It should be noted that AGCom did not establish a Compensation Fund for 2015 and 2016, so it has not been possible to recover the difference between compensation provided by the state and the costs quantified by AGCom. On the same date, the regulator announced that it had initiated an assessment of the net cost for 2017 and 2018.

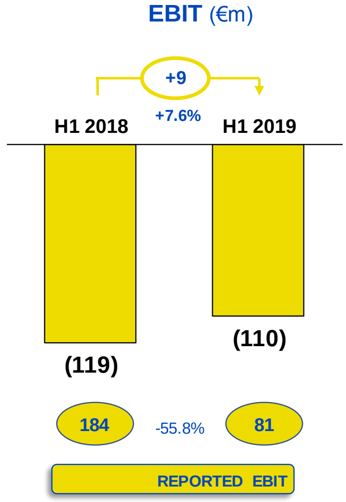
To complete the picture, it should be remembered that, on 6 September 2017, AGCom published Resolution 298/17/CONS regarding "Assessment of the net cost of the universal postal service for 2013 and 2014", which, in addition to acknowledging that the cost is unfair, quantified the cost of providing the Universal Postal Service in 2013 and 2014, respectively, as €393 million and €409 million, compared with compensation of €343 million and €336 million provided for in the *Contratto di Programma*. Again, no Compensation Fund was established for 2013 and 2014 and, on 6 November 2017, Poste Italiane filed a legal challenge before Lazio Regional Administrative Court (the case is still pending).

On 22 July 2019, pursuant to EU state aid regulations, the European Commission approved public service compensation for Poste Italiane, in the form of publisher tariff subsidies, of a maximum amount of €171.74 million for the years 2017 to 2019, in line with the budgeted amount. Again, with regard to publisher tariff subsidies, the 2019 Budget Law earmarked the sum of €54.9 million for 2019 and provisionally allocated €54.3 million for 2020 and €54.6 million for 2021.

AGCom has launched a static and dynamic analysis of the parcel delivery services market (Resolution 399/18/CONS) with the aim of defining the relevant markets for regulatory purposes and examining the effects of the growth of e-commerce on the market. The analysis will also assess the impact of e-commerce, online platforms and logistics companies on the supply and demand structure, in order to assess the extent of market competitiveness and the effects on regulation. Market participants have provided the regulator with the information requested, with a view to preparing a document to be submitted for consultation in the coming months.

MAIL, PARCELS AND DISTRIBUTION SBU PROFIT OR LOSS AND PRINCIPAL KPIs





The Mail, Parcels and Distribution Strategic Business Unit reports negative adjusted EBIT of €110 million, marking an improvement of approximately €9 million compared with the negative €119 million reported for the same period of the previous year, primarily linked to higher intersegment revenue from BancoPosta, arising from an increase in distribution activities, and the growing contribution of the parcels segment.

Principal KPIs	H1 2019	H1 2018	Increase/(decrease)	
Mail & Parcels				
Revenue/FTEs (€)	33,919	31,583	2,336	7.4%
Parcels deliverable by postmen/women (m)	23.5	19.3	4.2	21.8%
Progress of Joint Delivery model rollout[1]	81%	50%		
Number of Delivery Centres	1,634	1,916	(282)	-14.7%
New PuntoPoste network [1] (number of Lockers and alternative collection points)	3,513	417	3,096	742.4%
Distribution				
Number of post offices[1]	12,812	12,812	-	-
Number of customers (m)[1]	35.0	34.9	0.1	0.3%
Daily visitors to post offices (m)[1]	1.40	1.42	(0.02)	-1.4%
Consulting rooms	6,688	6,496	192	3.0%
Stands promoting PosteMobile products and services	459	459	-	-
Poste office stands[2]	459	459	-	-
Postamat ATM network	7,425	7,271	154	2.1%

[1] The figure shown in the H1 2018 column refers to 31 December 2018.

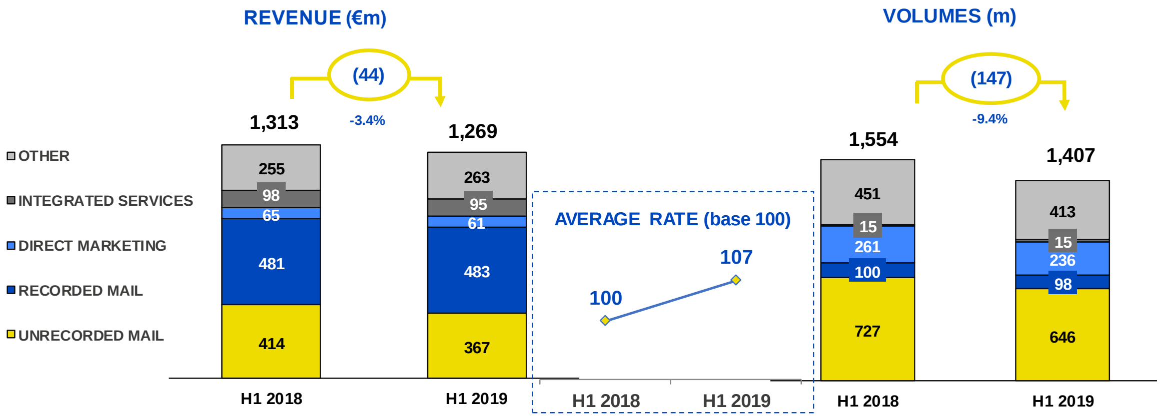
[2] Including 341 stands promoting PosteMobile products and services and 118 post office stands. This format, present in post offices with high growth potential, is used to promote ancillary current account services and provide information on insurance products, directing interested customers to specialists in the relevant area.

External revenue is down from €1,761 million to €1,755 million, reflecting lower revenue from traditional letter post (down €44 million), largely offset by the performance of parcels segment revenue (up €47 million, or 13%, on the same period of 2018), which grew in the B2C segment driven by the expansion of e-commerce. Other revenue (down €8 million) includes, among other things, the activities of the airline, Mistral Air, which in the first half of 2018 was still transporting passengers.

Total costs, including depreciation, amortisation and impairments, amount to of €4,119 million and are up 2% (€98 million) compared with the same period of 2018. This essentially reflects an increase in operating costs (up €67 million) as a result of the growth of the parcels business. The impact of application of the new accounting standard, IFRS 16 (depreciation of right-of-use assets) was neutralised (the reduction in operating costs being offset by a higher depreciation charge). Ordinary personnel expenses of €2,767 million are up €18 million compared with the first half of 2018, reflecting the increase in the unit cost from 1 October 2018, in line with the provisions of the National Collective Labour Agreement for 2016-2018, and the payment of two-days' pay in lieu of public holidays. The increase was partially offset by a reduction in the workforce, equivalent to 4,300 FTEs.

The figure for adjusted EBIT also reflects the contribution of the subsidiary, Mistral Air, which, after its restructuring in line with the objectives in the Deliver 2022 Business Plan, reached break-even point (positive EBIT of €1.0 million in the first half of the year, compared with a negative €4 million in the same period of 2018) as a result of the airline's decision to focus exclusively on its cargo business.

Performance of mail



The performance of the Group's Mail services saw volumes and revenue decrease by 9% (147 million fewer items) and 3% (down €44 million), respectively, compared with the first half of 2018. This essentially reflects the structural decline in demand for traditional postal services as a result of the digitalisation of the economy. However, revenue performed better in the second quarter of 2019, rising from -5% in the first quarter to -1.5% in the second quarter (compared to the same periods in 2018), mainly due to the exceptional number of items sent in connection with the European elections in May 2019.

The contraction in volumes of Unrecorded Mail (81 million fewer items, or 11% less than in 2018) led to a fall in revenue of €47 million (11%). This primarily reflects the replacement of paper-based mail by electronic mail. In the Recorded Mail segment, the lower volumes of items sent from post offices and of inbound international mail were partially offset by tariff increases in the second half of 2018, which partially mitigated the decline in revenues.

Direct Marketing saw a 10% slowdown in volumes (25 million fewer items), which generated a 7% fall in revenue (down €5 million).

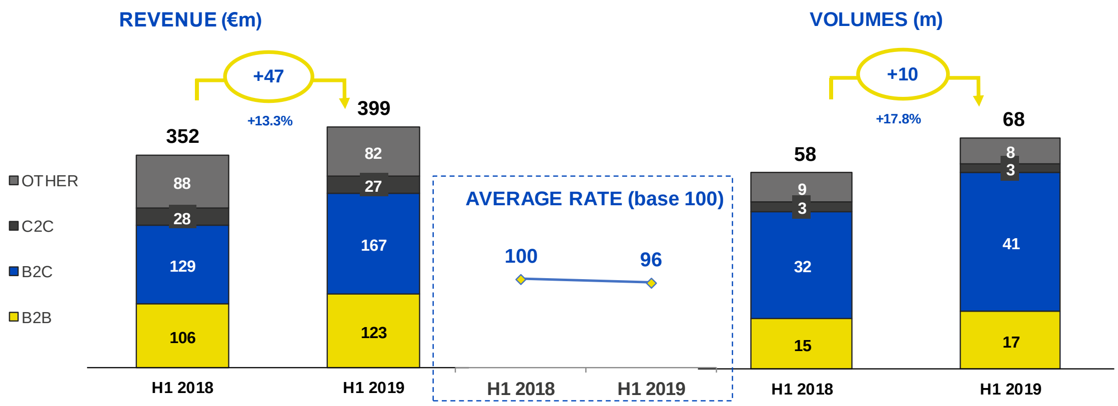
Integrated Services registered a decrease in volumes and revenue of 2% and 3%, respectively, compared with the first half of 2018. This was primarily due to a change in Public Administration customers' delivery schedules during the year, which more than compensated for the above-mentioned increase in deliveries of poll cards to Italians living abroad for the European elections in May 2019.

Other revenue that includes, among other things, revenue from the Printing services provided by the subsidiary, Postel, is down 8% in volume terms (38 million fewer shipments) compared with the first half of 2018, due to a decline in the market for printing services. Publisher tariff subsidies (€29 million in the first half of 2019 and €18 million in the same period of 2018), which are also included in other revenue, benefitted in the first half of 2019 from the increase in the basic rates applied by AGCom from 1 July 2018.

The compensation covering the cost of the Universal Service for the first half of 2019, as provided for in the current *Contratto di Programma* (Service Contract) for 2015-2019, amounts to €131 million, in line with the figure registered in the first half of 2018.

On this subject, on 2 July 2019, AGCom published the Resolution regarding "Assessment of the net cost of the universal postal service for 2015 and 2016". Details are provided in the condensed consolidated interim financial statements.

Performance of parcels



The performance of the Parcels segment saw growth in volumes and revenue of 17.8% (10 million more items) and 13.3% (€47 million), respectively, compared with the previous year. This is essentially due to the expansion of Poste Italiane's presence in the e-commerce market and the positive performance of the B2C segment, which generated revenue of €167 million, an increase of 28.7% compared with 2018, on 41 million items shipped. The B2B segment also grew strongly (2 million more parcels, up 14.2%, equivalent to revenue of €17 million, up 16.0%).

The quality results achieved for the Universal Service, whose objectives are defined by AGCom, are shown below. The regulator verifies compliance with the objectives and publishes the results annually. The quality of the Universal Postal Service in the first half of 2019 is substantially in line with the objectives. Over the last 15 months, the postal network has undergone a profound restructuring (e.g. the Joint Delivery model) which has altered its processes and operating procedures. This transformation has had limited, physiological effects on specific KPIs, regarding which the Group has undertaken specific improvement initiatives.

Quality of products covered by the Universal Service H1 2019 versus H1 2018

Posta 1 Priority

Delivery within:	Target	Result 2018	Result 2019
1 day	80.0%	86.8%	86.7%
2 days	80.0%	93.2%	89.9%
3 days	80.0%	97.7%	94.9%
4 days	98.0%	99.0%	98.9%

Posta 4 Ordinary

Delivery within:	Target	Result 2018	Result 2019
4 days	90.0%	89.5%	88.1%
6 days	98.0%	97.5%	96.5%

Bulk mail

Delivery within:	Target	Result 2018	Result 2019
4 days	90,0%	98.8%	97.9%
6 days	98.0%	99.8%	99.4%

Registered mail

Delivery within:	Target	Result 2018	Result 2019
4 days	90.0%	95.6%	92.5%
6 days	98.0%	98.1%	96.1%

Insured mail

Delivery within:	Target	Result 2018	Result 2019
4 days	90.0%	99.4%	99.6%
6 days	98.0%	99.9%	99.9%

Standard Delivery

Delivery within:	Target	Result 2018	Result 2019
4 days	90.0%	96.5%	96.2%

OPERATING REVIEW

The Group continued to transform and develop its mail and parcel services, in line with the long-term objectives set out in the Deliver 2022 Plan.

In the delivery segment, in the first half of the year the rollout of the new "Joint Delivery" model introduced in April 2018 involved 265 centres (in addition to the 350 rolled out in 2018, thus enabling 81% of the targeted number of centres to be achieved). The new model enables parcels to be delivered via the network of postmen and women, introducing afternoon and weekend shifts. The flexibility offered by the Joint Delivery model is also enhanced by the partnership with Amazon, which has involved the introduction of a new same-day delivery service for parcels in Italy's main cities (Bari, Bologna, Florence, Milan, Naples, Padua, Rome, Turin and Verona), via the network of postmen and women. The number of centres where Saturday delivery and 24-hour delivery services are up and running has also been increased, including Sicily and Sardinia, thanks to new air links operated by Mistral Air.

The development of the potential of the partnership with Amazon is in line with Poste Italiane's strategy of expanding the logistics segment in connection with online purchases. This is also connected with expansion of the PuntoPoste network for collecting online purchases and sending returns. This consists of 3,178 alternative collection points (mainly tobacconists) and 335 PuntoPoste lockers located in the self-service areas of a number of post offices and in high footfall locations such as supermarkets, shopping centres and fuel stations, which are in addition to post offices. There was significant growth in the PuntoPoste network in the first half: from 417 points at 31 December 2018 (89 alternative collection points and 328 lockers), the number now stands at 3,513 (3,089 more collection points and 7 more lockers compared with 31 December 2018).

In June, a partnership was also established with Zalando to manage the returns of customers in Italy making purchases via the online platform, who are able to return products received by contacting one of the more than 12,000 post offices authorised to provide the service or the PuntoPoste network.

Regarding the automation of production processes, during the second quarter of 2019 the largest parcel sorting plant currently operating in Italy entered service at the Bologna Freight Terminal. The new facility is able to automatically sort and process 250,000 parcels a day.

In addition, in order to improve the e-shopping experience, options have been introduced in order to personalise parcel delivery (delivery on another date, to alternative address, to a safe place, to a neighbour or for storage if the addressee is on holiday). The new "Poste Delivery" offering, a new range of parcel delivery services for customers who send their parcels from post offices or via the website (poste.it), requesting a pick-up from home or a drop-off at a post office or PuntoPoste point, has also been launched. This initiative has streamlined the commercial offering for customers, making it simpler, more convenient and more comprehensive. Indeed, Poste Delivery caters to all needs, providing solutions for shipping in Italy and overseas with varying delivery times and additional services.

A partnership has also been developed with the Municipality of Genoa and with a local start-up to find new solutions for more eco-friendly deliveries within the city centre (the "Metropolitan Logistics" project).

In terms of sorting processes, work is continuing on redefining a new logistics network operating model, based on major investment in automation and the introduction of lean production, a way of organising work that guarantees continuous improvements in operating processes. One of the enabling factors of this process is represented by the framework agreement regarding levels of employment signed on 8 March 2019 with all the labour unions, details of which are provided in the section on "Industrial relations".

OTHER INFORMATION

In November 2018, Consorzio Postemotori received notice of an order issued by the Criminal Court in Rome and of a precautionary seizure regarding the consortium, amounting to €4.6 million. On 8 March 2019, the consortium was notified of the Court of Rome decree regarding the scheduling of the preliminary hearing and the corresponding indictment request issued by the Public Prosecutor on 27 February 2019. On 13 May 2019, the Court ruled that there was insufficient evidence to proceed against the current Executive Director.

PAYMENTS, MOBILE AND DIGITAL

THE MARKET FOR MOBILE AND DIGITAL PAYMENTS

The latest available figures for the card payments market show that the total value of transactions stood at €58 billion at 31 March 2019 (up 11% compared with the same quarter of the previous year), despite a reduction in the average value of individual transactions for every type of card. This reduction indicates increasingly widespread usage, partly due to the progressive extension of the service to segments where use is less intensive. Prepaid cards saw the sharpest growth in terms of both value and the number of transactions (up 20% and 26%, respectively, compared with the first quarter of 2018); debit cards were again the most used form of payment.

According to the latest available figures, mobile market penetration, in terms of total mobile lines[28], stands at approximately 172% of the population, with MVNOs accounting for 14%. The total number of lines at 31 December 2018 amounts to 103.6 million, including approximately 21 million Machine to Machine (M2M) SIM cards. PosteMobile, with a total market share of approximately 4%, accounts for around 47% of the total customers of mobile virtual network operators.

In terms of the digital market[29], 92% of the Italian population has access to the internet (55 million people) and there are around 35 million social media users, with the number of users rising continuously year after year. 85% of users access the internet from a mobile device and 52% use social media from their mobile phone.

MARKET [1]		Q1 2018	Q1 2019	% change 19 vs 18
	Value of card transactions (€bn)	52.5	58.1	+11%
		FY 2018	Q1 2019	% change 19 vs 18
	Telecoms (number of SIMs in millions)[2]	82.6	82.2	-0.5%
POSTE ITALIANE		Q1 2018	Q1 2019	% change 19 vs 18
	Value of card transactions (€bn)	7.9	9.2	+17%
		FY 2018	Q1 2019	% change 19 vs 18
	Telecoms (number of SIMs in millions)[2]	3.9	4.0	+3.1%

[1] Source: Poste Italiane.
[2] The figures solely include H2H SIM cards.

[28] Source: AGCom Communications Observatory no. 1/2019.
[29] Source: https://wearesocial.com.

REGULATORY ENVIRONMENT

From 1 January 2019, the Guidelines regarding fraud data reporting requirements pursuant to article 96, paragraph 6, of the Payment Services Directive (PSD2) will be applied, with the exception of reporting data relating to exemptions from the requirement to use strong customer authentication, which will be applicable from 14 September 2019. The Guidelines, aimed at payment service providers (PSPs) and the competent authorities, provide detailed statistical data regarding frauds linked to the various forms of payment that PSPs should report to their respective supervisory authorities, as well as the aggregated data the latter are required to share with the European Banking Authority (EBA) and the European Central Bank (ECB).

On 19 March 2019, after a public consultation, the Bank of Italy issued a measure amending the provisions regarding “Transparency of transactions and banking and financial services and the fairness of relations between intermediaries and customers". The new provisions, in force from 1 July 2019, are aimed at bringing national regulations into line with the European regulatory framework with regard to: (i) the transparency of payment services (in implementation of PSD2); (ii) pre-contractual information on benchmark indicators relating to property loans and consumer credit transactions (in implementation of the provisions of Regulation 2016/1011/EU - the so-called Benchmark Regulation); (iii) remuneration policies and practices regarding staff responsible for offering banking products and third parties operating in the sales network (in implementation of the relevant EBA Guidelines); (iv) complaint handling (in implementation of the relevant Joint Committee of the European Supervisory Authorities (ESA) Guidelines).

Moreover, on 27 March 2019, the Bank of Italy published the new "Provisions regarding internal organisation, procedures and controls to prevent the use of intermediaries for the purposes of money laundering and the financing of terrorism". The measure, which specifically implements the provisions regarding organisation, procedures and internal controls contained in Legislative Decree no. 231/2007, as amended by the Anti-Money Laundering Directive, is applicable from 1 June 2019, with certain exceptions that will enter into force on 1 January 2020, including: (i) the requirement for corporate bodies to define and approve a sound policy that specifies the choices the party concerned has made regarding the organisational structure, procedures and internal controls, adequate verification and data storage); (ii) the requirement for the parent company to set up a common database); and (iii) the requirement to carry out a self-assessment of money laundering risks).

Finally, also with regard to combating money laundering, on 28 March 2019 the Financial Intelligence Unit published provisions containing instructions relating to objective communications which, in implementation of Legislative Decree 231/2007, introduce the requirement to periodically submit to the regulator data and information identified on the basis of objective criteria regarding transactions at risk in relation to money laundering or the financing of terrorism.

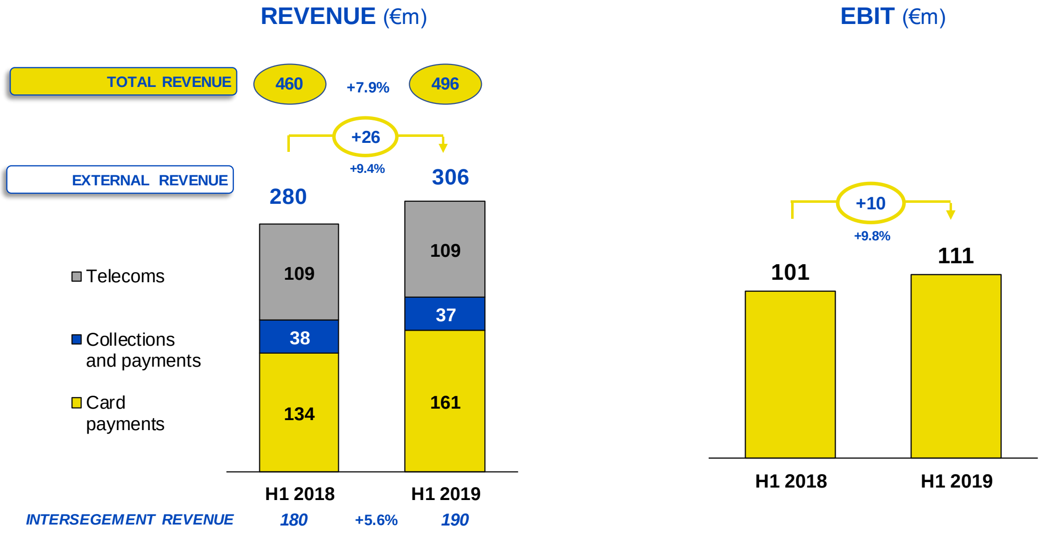
With regard to telecommunications, in January 2019, AGCom published Resolution 599/18/CONS, which concludes the regulator’s latest review of the termination services market[30] for voice calls on individual mobile networks. The regulator has identified twelve relevant markets, one for each operator, including PosteMobile, having significant market power regarding the termination of voice calls on their mobile networks. The rate set

[30] In order to ensure that subscribers to different fixed and mobile network operators are able to communicate with each other, networks must be interconnected and operators must therefore enter into interconnection contracts regarding the provision of one or more services.

for operators for the period 2018-2021 was obtained by revising the cost model previously adopted by the regulator in Resolution 60/11/CONS. The rate for 2019 has been reduced by 8% compared with the previous year, with additional progressive annual reductions until 2021 and symmetrical rates for all notified operators.

At EU level, by 31 December 2020 the Commission must adopt a delegated act supplementing the directive establishing the European Electronic Communications Code, defining a single maximum termination rate for voice calls on mobile and fixed networks within the European Union.

PAYMENTS, MOBILE AND DIGITAL SBU PROFIT OR LOSS AND PRINCIPAL KPIs



Principal KPIs	H1 2019	H1 2018	Increase/(decrease)	
Card payments				
Total value of card transactions (€m)[1]	14,647	12,366	2,281	18.4%
Number of cards (m)[2]	26.9	26.2	0.7	2.8%
of which PostePay cards (m)[3]	19.7	19.0	0.7	3.8%
of which Postepay Evolution cards (m)[4]	6.9	6.3	0.7	10.8%
Payment card transactions (m)	679	512	167	32.6%
of which e-commerce transactions (m)	*109*	93	16	16.7%
Telecoms				
Fixed and mobile PosteMobile SIM cards ('000)[3]	4,379	4,082	297.3	7.3%
Digital				
Customers registered with Poste Italiane's digital channels (web and app) (m)[3]	19.4	17.6	1.8	10.5%
Daily online users (web and app) (m) [5]	1.9	1.4	0.5	36.0%
Digital financial transactions - Consumers (m)	26.7	22.5	4.2	18.5%
App downloads (m)[3]	25.8	21.6	4.2	19.6%
Postepay Digital e-Wallets in issue (m) [3]	3.4	2.8	0.6	20.8%
Electronic identification (m)[3]	3.5	2.6	1.0	37.0%

1 Value of payments made using Postamat and PostePay.

2 Includes PostePay cards and debit cards. The figure shown in the H1 2018 column refers to 31 December 2018.

3 The figure shown in the H1 2018 column refers to 31 December 2018.

4 Includes business customers. The figure shown in the H1 2018 column refers to 31 December 2018.

5 Average monthly figure for the relevant period.

The Payments, Mobile and Digital Strategic Business Unit reports EBIT of €111 million for the first quarter of 2018, an increase of 10% compared with the same period of the previous year. This reflects the contribution from card payments (growth in the number of cards issued and transactions) and the release of provisions made in 2018 in relation to the request for clarification regarding VAT.

Total revenue of €496 million (up 8%) benefitted from the positive performance of card payments, which recorded growth of 20% (up €27 million from €134 million in the first half of 2018 to €161 million).

At 30 June 2019, there are approximately 19.7 million Postepay cards in circulation (19 million at 31 December 2018), including 6.9 million Postepay Evolution cards, an increase of over 10% compared with 6.3 million Postepay Evolution cards reported at 31 December 2018, partly thanks to the integrated offering with PostePay Connect.

Acquiring services revenue also grew compared to the same period of the previous year, rising from €3.8 million to €5.6 million (up 47%) thanks to increases in transaction volumes and the number of POS activated.
The performance of the telecommunications business was in line with the previous year (€109 million), despite the market downturn (down by approximately 10%), thanks to the increase in fixed line services revenue due to the strong growth of the customer base (rising from 87,000 lines in June 2018 to 166,000 in June 2019), which offset the reduction in mobile telephone services revenue (down €8 million).
Revenue from collection and payment services is €37 million, substantially in line with the same period of 2018.
Total costs amount to €372 million, up 7% on the same period of 2018, in line with the increase in revenue. In particular, the cost of external goods and services rose approximately 8%, due to the increase in variable costs from traffic relating to fixed and mobile telecommunications services, as well as variable costs linked to cards. The intersegment costs incurred on the services provided by Poste Italiane’s other segments to the card payments and payment services business grew by 16%, and mainly include distribution, information system management, back-office and anti-money laundering activities, as well postal services.

OPERATING REVIEW

In addition to the Postepay Connect offering with an annual charge, a version that provides for monthly payment of the price plan included in the offering has been marketed since January 2019. Customers who opt for Postepay Connect with a monthly price plan can also manage payment and telephone services quickly and intuitively thanks to the Postepay App; transfer data free of charge in real time from a PosteMobile Connect SIM card to another PosteMobile Connect SIM card (G2G); transfer money between two Postepay accounts (p2p); and purchase extra data using the Postepay App with the cost debited automatically to a Postepay Evolution account.

In 2019, PostePay joined the temporary grouping of Poste Italiane and Postel, which, in implementation of the service entrusted to it pursuant to article 81, paragraph 35, letter b), of Law Decree 112/2008 regarding the Carta Acquisti (Social Card), and in compliance with Law Decree 4/2019, issued and is managing the payment cards needed to benefit from the Citizens' Income and the Citizens' Pension. The process of issuing Social Cards to eligible beneficiaries began in April 2019 and approximately 700,000 cards are currently being managed.

As regards collections, activities were aimed at repositioning the collections offering both in terms of digitalisation and compliance with the Digital Italy Agency (AgID) standards for payments to Public Administration entities.
Since 8 April 2019, it has been possible to pay vehicle tax on Postepay channels via the PagoPA system, in line with the roadmap for the rollouts envisaged for the digital transformation of payments to Public Administration entities.

With regard to mobile telephone services, in June the commercial offering for the Creami range was renewed, with the launch of the new Relax 100 price plan, whilst PosteMobile Casa expanded its range of fixed line services with the new "PosteMobile Casa Facile" plan, designed for customers who use their landline telephone primarily to make calls to national landlines and wish to reduce their domestic phone bill.

FINANCIAL SERVICES

FINANCIAL MARKET TRENDS[31]

During the first half of 2019, international equity markets made up most of the ground lost in the last quarter 2018 and, in the second quarter of 2019, settled at levels close to record highs. In the USA, the S&P500 index ended the quarter at 2,941.76, an increase of 18.35% compared with the end of December 2018. European markets followed suit, with the Euro Stoxx 50 gaining 16.31% and the FTSEMIB 15.88%.

The stabilisation of share prices benefitted from the prudent approach adopted by central banks. In the early part of the year, the Federal Reserve put a halt to all interest rate rises and decided to end reduction of its balance sheet in the autumn. The European Central Bank, on the other hand, amended its forward guidance, announcing that it would not adjust interest rates before mid-way through 2020. A number of risk factors dissipated, such as those connected with the European elections, whilst others were put off, like Brexit, which has now been postponed until 31 October 2019. US trade policy remains a highly unpredictable risk factor and had a negative impact on the markets in May when the US administration raised tariffs on Chinese imports from 10% to 25%, leading to a similar reaction from China.

Market sentiment rapidly worsened together with early indications of the impact that the tariffs could have on global economic growth. It was once again central banks that restored market stability. In June, the Fed opened up to the possibility of an adjustment to interest rates, which could as early as this summer be cut from the current 2.50%. The ECB also intimated that it was considering a new round of monetary stimulus, including cuts to interest rates or a renewed programme of quantitative easing.

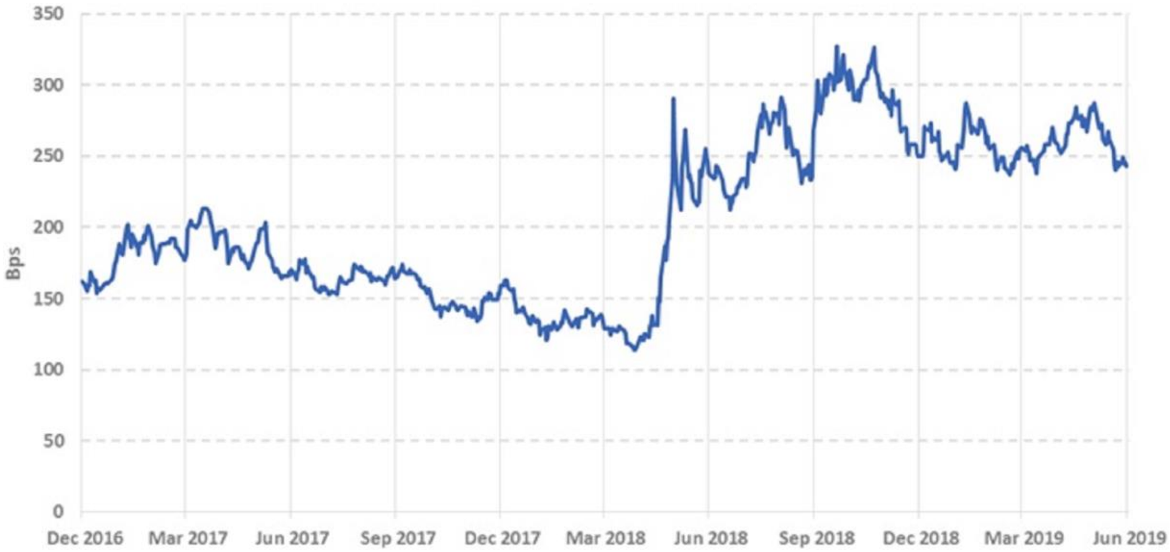
Revised forward guidance from central banks led to a marked decline in risk-free rates, providing support for ten-year Treasury Notes (BTPs). The yield on 10-year German Bunds, which closed 2018 at 0.242%, ended the half at -0.33%. The same fate was met by the 10-year swap rate, which declined from 0.812% at the beginning of the year to close the first half at 0.179%, whilst the yields on 10-year BTPs fell from 2.74% at the end of 2018 to 2.10% in June 2019.

In June, the European Commission put its proposal to launch an excessive deficit procedure against Italy to the European Council. This contributed to volatility and helped to drive up the credit spread. Talks aimed at finding an agreement that would avoid the need for such a procedure and find a credible solution to concerns over Italy's debt came to a positive conclusion in July 2019. The movement in swap rates meant that the spread between BTPs and swaps remained stationary at 1.93% (the same level as in December 2018).

	H1 2018	FY 2018	Q1 2019	H1 2019
10-yr BTPs	2.68	2.74	2.48	2.10
10-yr SWAPs	0.87	0.81	0.46	0.18
15-yr BTPs	2.99	3.03	3.08	2.55
15-yr SWAPs	1.23	1.17	0.82	0.49
30-yr BTPs	3.45	3.53	3.47	3.09
30-yr SWAPs	1.46	1.38	1.07	0.72

[31] Source: Bloomberg.

Ten-year spread between BTPs and Bunds



In the first quarter of 2019, two new 15- and 30-year BTP benchmarks were placed by a syndicate of banks (amounting to a total of €18 billion), whilst a new 20-year benchmark security was placed in the second quarter (€6 billion). All the issues attracted strong market demand.

BANKING SYSTEM[32]

The banking sector recorded a positive performance overall in the first half of 2019. According to statistics from ABI (the Italian banking association), in June 2019, lending to the private sector, adjusted to take into account off-balance sheet securitised loans, was up 0.5% year on year (1.0% in May 2019) at €1,439 billion. This performance reflects different trends in the various segments: figures updated to May 2019 relating to household loans show that lending was up 2.6% year on year, whilst lending to non-financial companies was down 0.2%. The performance of business lending continues to be influenced by investment and the economic cycle, both of which remain weak.

In the first half of 2019, interest rates on bank loans to households and non-financial companies remained within the range of 2.57-2.59 registered in the previous half. The rates on new loans to households (mortgages) and non-financial companies were slightly down in June 2019 compared with the previous month, falling from 1.43% to 1.36% and from 1.85% to 1.78%, respectively.

Funding has seen strong growth. In June 2019, private sector deposits (current accounts, certificates of deposit and repurchase agreements) were up 3.7% (an increase of €54.8 billion) year on year (3.8% in May 2019). Funding through bond issues continues to decline, registering a fall of 6.4% in June 2019 (down 7.6% in May 2019). Interest rates paid on the various forms of deposit were broadly unchanged in the first half of 2019. Again, in June, the overall average deposit rate was 0.38%, in line with the previous month. The spread between the average rate charged on loans and the average rate payable on deposits by households and non-financial companies has remained stable since June 2018 at around 196 basis points.

[32] ABI Monthly Outlook – July 2019.

(€bn)		FY 2018	Q1 2019	% change 19 vs 18
MARKET[1]	Total financial assets[2]	3,741	3,828	+2.4%
	Assets under custody – Collective accounts	905	944	+4.3%
POSTE ITALIANE	Total financial assets[2]	510	520	+1.9%
	Assets under custody – Collective accounts	8.1	8.7	+7.5%

[1] Source: Poste Italiane.
[2] This item does not include reserves calculated in application of the shadow accounting method.

REGULATORY ENVIRONMENT

From 1 January 2019, the Guidelines regarding fraud data reporting requirements pursuant to the Payment Services Directive (PSD2) have been applied, with payment service providers (PSPs) required to report detailed statistical data regarding frauds linked to the various forms of payment to their respective supervisory authorities, as well as the aggregated data the latter are required to share with the European Banking Authority (EBA) and the ECB.

The Guidelines regarding strong customer authentication and standards for communications between payment service providers (PSPs) and third parties also came into effect from 1 January 2019. In particular, account servicing payment service providers (ASPSPs) may introduce a specific interface allowing third parties to access online payment accounts or adopt a solution supplied by an external provider. Poste Italiane has opted for the latter solution which, moreover, allows it to request the Bank of Italy to grant an exemption from the application of a contingency mechanism to be used if the interface is unavailable or suffers disruption. BancoPosta has its request for exemption to the Bank of Italy on 14 March 2019.

The "Final Report on EBA Draft Guidelines on outsourcing arrangements" was published on 25 February 2019. This aims to standardise the guidelines for outsourcing arrangements, which intermediaries must comply with by no later than 31 December 2021. The Guidelines have already been applied in the "Guidelines governing BancoPosta RFC's contracting out and outsourcing process", annexed to "BancoPosta's Organisational and Operational Regulation", approved by the Board of Directors at the meeting of 31 January 2019.

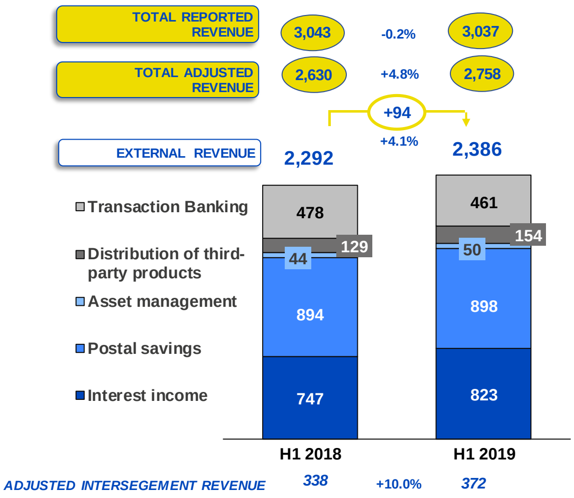
Poste Italiane has also complied with the new provisions regarding "Transparency of banking and financial transactions and services. Fairness in dealings between intermediaries and customers", which form an integral part of the general regulations governing organisational requirements and internal control systems, strengthening the organisational measures and controls that intermediaries (producers and the distributors of third-party products) are required to adopt in order to process, distribute, monitor and (if necessary) modify the products offered to customers. The requirements introduced by the new provisions have been applied in the "Product Governance guidelines" annexed to "BancoPosta's Organisational and Operational Regulation" referred to above. Also, with regard to transparency requirements, further changes to the practical guidance for customers, consumer credit and consumer mortgages have been introduced in relation to the use of benchmarks and repayment methods. These changes are applicable from 1 July 2019.

The ESMA Guidelines issued on 6 November 2018 came into effect on 8 March 2019. The guidelines have clarified the application of certain aspects linked to the suitability requirements provided for in the MiFID II Directive, with adoption of the guidelines reflected in the process involved in customer profiling and in assessing the suitability of products.

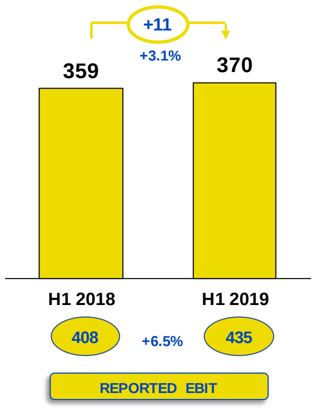
On 11 April 2019, the CONSOB announced that it intends to comply with the ESMA Guidelines of 30 April 2019 regarding "Guidelines on internalised settlement reporting under article 9 of the Central Securities Depository Regulation (CSDR)". EU Regulation 909/2014 (the CSDR) is the first European regulation governing the activities of central securities depositories (CSDs) and, among other things, defines "settlement internalisers" as entities (for example, banks) that executive transfer orders on their own account or on its behalf of clients without using a system managed by a central counterparty. In order to monitor these transfers, which are also carried out by Poste Italiane, settlement internalisers must report specific aggregated data on internalised transactions to the CONSOB on a quarterly basis. The first report was submitted on 24 July 2019 and concerned internalized transactions in the second quarter of 2019. In this regard, Poste Italiane has, as permitted by the CONSOB, chosen to delegate the filing of such reports to an external provider.

FINANCIAL SERVICES SBU PROFIT OR LOSS AND PRINCIPAL KPIs

REVENUE (€m)



EBIT (€m)



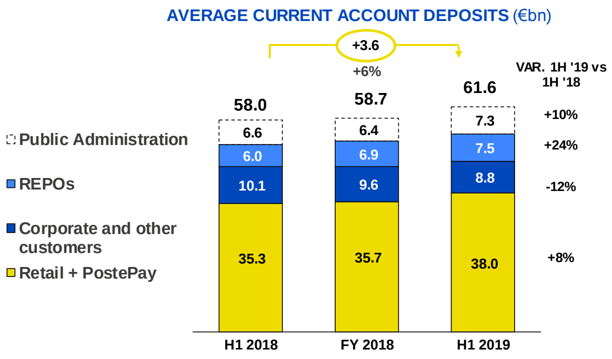
Principal KPIs	**H1 2019**	**H1 2018**	**Increase/(decrease)**	
Total financial asstes (€bn) [1]	530	514	16	3.1%
Net inflows (€m)	5,233	3,888	1,345	34.6%
Unrealised capital gains/(losses) (€m)	(1,889)	(1,291)	(598)	-46.3%
Net gains (€m)	256	379	(123)	-32.6%
Average current account deposits for period (€bn)	61.6	58.0	3.6	6.2%
Average return on current accounts excluding capital gains	2.63%	2.57%	0.06%	
Average postal savings deposits (€bn)	311.4	308.7	2.7	0.9%
Loans and mortgages - volumes lent (€m)	1,863	1,587	275.3	17.3%

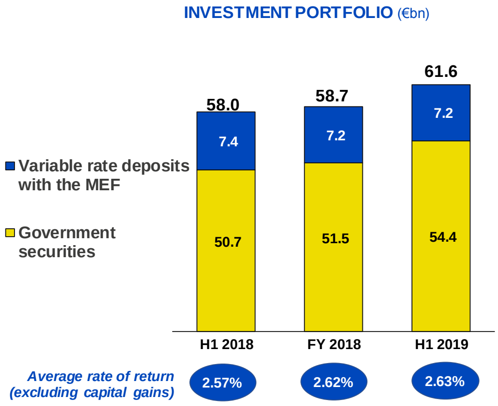
[1] The figures refer to 30 June 2019 and 31 December 2018.

The Financial Services Strategic Business Unit generated adjusted EBIT of €370 million in the first half of 2019, a 3.1% increase compared with the €359 million of the same period of the previous year (up €11 million).

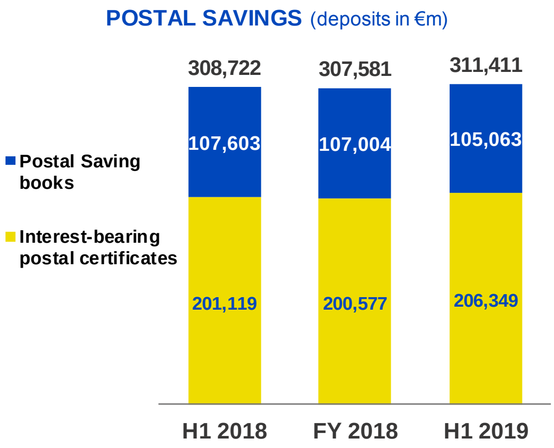
Total adjusted revenue of €2,758 million is up 4.8% (€128 million) compared with the €2,630 million of the first half of 2018. This reflects the positive contributions of all components with the exception of collection and payments services, which recorded a decline of 3.6%, primarily due to the reduced volume of payment slips processed.

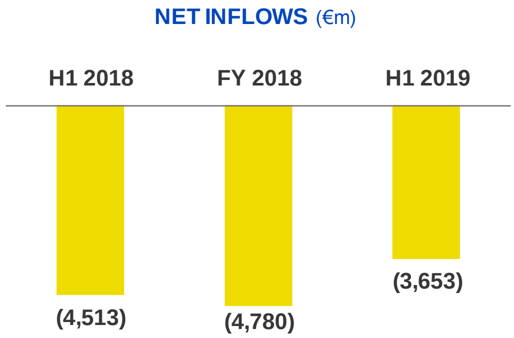
Revenue growth was driven by the contribution from interest income, which is up 10.2% (up €76 million compared with the first half of 2018), primarily as a result of an increase in current account deposits, which are up €3.6 billion compared with the same period of the previous year, thanks to the contribution of the Retail segment.





Investments in securities and deposits held at the MEF rose by approximately €3 billion in the first half, in line with the growth in the average duration of deposits.

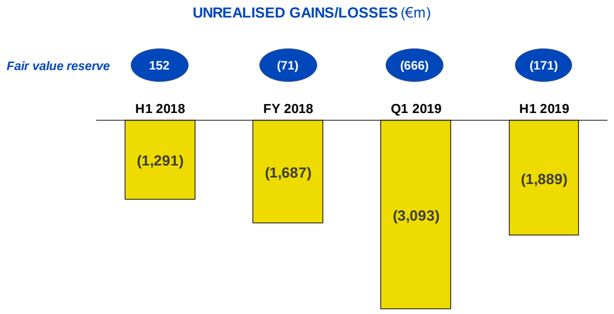


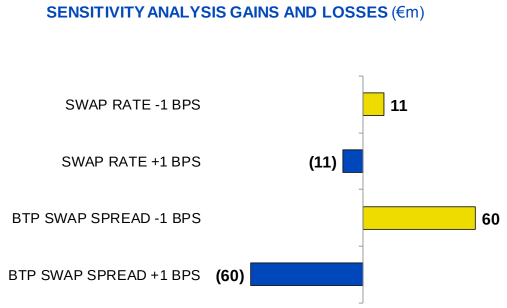


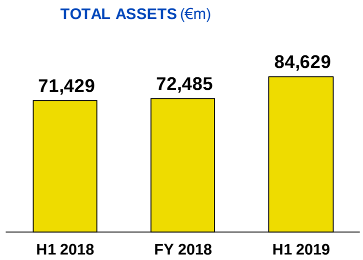
Revenue from the collection of postal savings deposits also performed well, with commissions amounting to €898 million (€894 million in the first half of 2018). The increase primarily reflects the good performance of the "a campagna" Interest-bearing Postal Certificates.

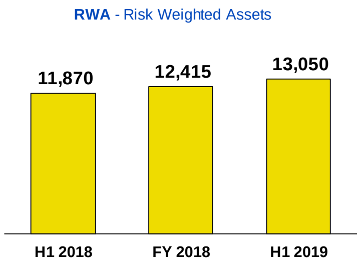
Income from the distribution of third-party financial products is up €26 million, reflecting the greater volume of retail loans arranged, above all in the form of personal and salary loans. Income from asset management amounts to €50 million (up 12.2% on the same period of the previous year) and reflects an increase in management and placement fees.

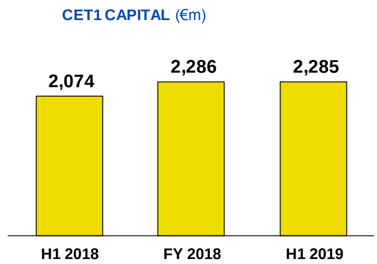
The SBU's total costs are up 5.1% (€116 million) on the same period of the previous year, primarily due to an increase in intersegment costs, reflecting the greater amount of fees paid for the distribution of products linked to the performance of revenue.

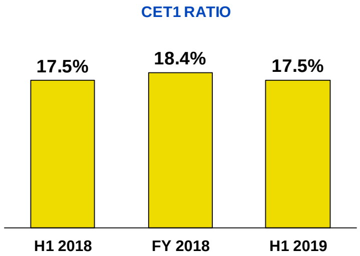


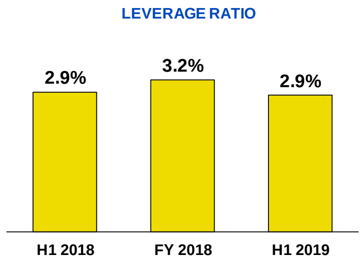












The CET1 Ratio is stable at 18% and is sufficient to ensure compliance with regulatory capital requirements.

The Leverage Ratio stands at approximately 2.87% at 30 June 2019 (3% being the minimum level required by the regulations). The Company will assess Bancoposta's capital position at the end of the year and, if necessary, will consider action to strengthen its capital in order to return the indicator to the target level set in the Risk Appetite Framework (RAF).

OPERATING REVIEW

In the first half of 2019, BancoPosta RFC's financial management continued to implement the policy regarding the stabilisation of overall revenue and the investment of private customer current account deposits.

During the first quarter, when market returns were particularly high, activity focused primarily on reinvestment of the proceeds from maturing securities and new customer deposits. These purchases focused primarily on securities with terms of between 10 and 20 years.

In the second quarter, on the other hand, in response to a gradual decline in interest rates and a relatively stable credit spread, BancoPosta RFC concluded forward sales for settlement in December 2019. This was done to realise the gains targeted in the Deliver 2022 plan for the current year.

In view of the historically low level of interest rates, the Company has also entered into new structured repurchase agreements with terms of between 1 and 3 years, thereby anticipating the renewal of a number of repurchase agreements in relation to structural funding of the portfolio.

In line with the Deliver 2022 Plan, commercial initiatives continued to focus on enhancing the offering of postal savings products, and developing the distribution of financial, insurance, consumer credit and corporate loan products and services.

The range of postal savings products has been restructured by Cassa Depositi e Prestiti, taking into account market conditions. This has led to the relaunch of Interest-bearing Postal Certificates indexed to the Italian inflation rate and a halt to the sale of certificates with terms of 3 years or more. In addition, in May, a new Supersmart Savings Book was launched, with the aim of attracting new deposits.

Major new promotional and advertising campaigns were launched to consolidate the repositioning of products and services based on the various target customers. The process of providing 24-hour access to services via ATMs and web and App channels also began.

Finally, initiatives designed to complete the process of digitalising Postal Savings included implementation of the process enabling customers to subscribe electronically for dematerialised Certificates and to apply to open a Savings Book.

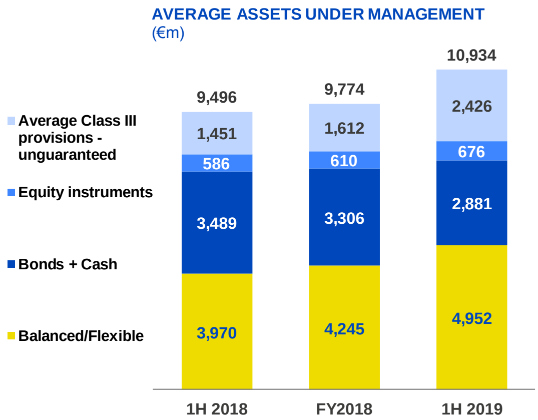
As regards assets under custody, from 10 June 2019, Poste Italiane has been a member of the syndicate placing the new retail bonds issued by Cassa Depositi e Prestiti.

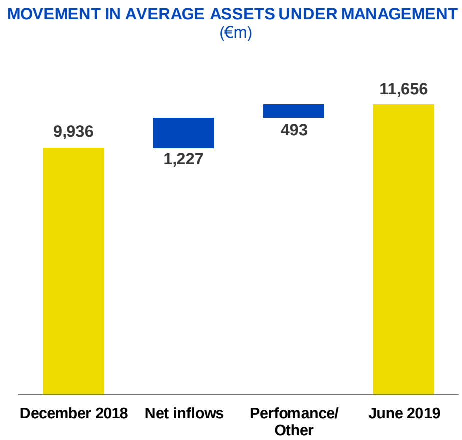
With regard to the real estate funds marketed in the period between 2002 and 2005, following the resolutions approved by the Board of Directors, on 28 February 2019, Poste Italiane took steps to protect both its customers and the Group's excellent reputation and operational capabilities, founded on trust and transparency. This involved giving investors in the "Europa Immobiliare 1" fund a second chance to take advantage of the initiative designed to protect their interests (from 23 May 2019 to 13 July 2019). A further initiative aimed at protecting the interests of customers who invested in the Obelisco fund, which matured on 31 December 2018, is being considered.

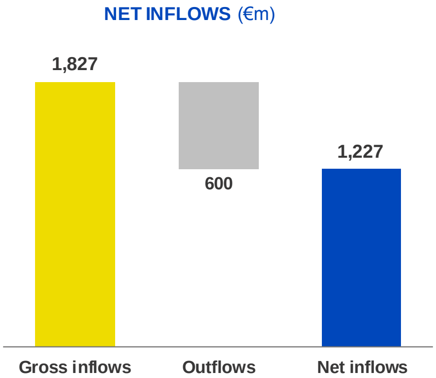
With regard to asset management, the distribution of new mutual investment funds through Poste Italiane's network has begun. This is the result of the partnership with Anima SGR and Eurizon Capital SGR, acting as delegated fund managers.

In terms of loans provided to private customers by external partners, a number of promotions were run during the first half of 2019 for specific categories of customer, type of product or interest rate and/or purpose, supported by advertising campaigns. Preparations for optimising the sales process for loans was completed with the rollout of dematerialised contracts at post offices, using the advanced electronic signature.

As regards Transaction Banking services, marketing of the new BancoPosta account continued. In addition to guaranteeing multi-channel access in line with customer needs and market trends, this product offers customers a competitive, convenient alternative. The introduction of digital features and the simplification of certain operating requirements have made it easier for customers to access reward schemes and increased the ease of use and satisfaction with current accounts.







The value of average total financial assets at 30 June 2019 has increased due to both a net increase in deposits and positive price movements.

OTHER INFORMATION

CONSOB

On 12 February 2019, the CONSOB requested further clarification regarding the measured adopted to ensure compliance with the rules of conduct for dealing with customers with reference to: i) the provision of advice on insurance investment products; ii) obligations regarding Product Governance and the incentive scheme for network personnel in relation to the distribution of insurance investment products. The above information was provided in a specific response submitted to the regulator on 15 February 2019.

Later, on 18 April 2019, the CONSOB requested further clarification regarding the notes submitted by BancoPosta between September 2018 and February 2019 and the “Report on the conduct of investment services and activities” relating to: (i) concerns regarding compliance with the above legislation; (ii) aspects where there is a need for precise clarification in order assess compliance with industry regulations; (iii) updates on matters for which information on initiatives in progress was previously provided.

The above information was provided in a specific response submitted to the regulator on 3 June 2019.

On 23 May 2019, the CONSOB requested additional information on the closed-end real estate fund, "Obelisco", which matured on 31 December 2018, and any initiatives to be adopted by Poste Italiane in order to protect investors, similar to the action taken with regard to the closed-end real estate funds, "IRS" and "Europa Immobiliare 1". The Company responded on 16 June 2019.

Finally, on 31 May 2019, the CONSOB requested information and an update relating to *ex ante* and *ex post* disclosures to customers. Notes replying to the regulator were sent on 1 July (with regard to ex ante disclosures) and on 22 July 2019 (with regard to ex post disclosures).

BANK OF ITALY

On 23 May 2019, the Bank of Italy began an inspection of approximately 25 post offices with the aim of verifying fulfilment of the obligations in terms of banking transparency, including an assessment of the related rules, procedures and controls.

The inspection, whilst being conducted at local level, regards matters covered in previous checks carried out by the Bank in 2015 at the Company's headquarters and primarily connected with aspects such as: (i) the storage of contract documents; (ii) the handling of unilateral changes to the terms and conditions offered to customers; (iii) the handling of complaints and the application of financial conditions via the related system.

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.

On 20 June 2019, the Bank of Italy requested BancoPosta to ensure that the procedures used in handling complaints regarding Interest-bearing Postal Certificates were fit for purpose. The Bank also requested information on the fraudulent use of payment instruments. The Company has initiated the process of gathering the necessary information in order to provide the required responses within the agreed deadlines. At the date of preparation of this half-year report, the Company does not believe it necessary to revisit its approach to handling complaints regarding Interest-bearing Postal Certificates or, as a result, to modify estimates of the related provisions for risks and charges at 30 June 2019. Any changes to estimates may take place only following agreement with the Bank of Italy on any alterations to the procedures currently used.

AUTORITA' GARANTE DELLA CONCORRENZA E DEL MERCATO (*AGCM* OR ANTITRUST AUTHORITY)

On 8 October 2018, the AGCM notified Poste Italiane of the launch of investigation PS11215, contesting an advertising campaign called "*Buoni e libretti – Buono a sapersi*", promoting Interest-bearing Postal Certificates and Postal Savings Books via TV and press adverts. The investigation regards the alleged violation of articles 21 and 22, paragraph 1 and 4 letter a) of the Consumer Code, as the effect of taxation was, in the Authority's view, not clearly indicated.

Having replied to the request for information, Poste Italiane sent the Authority a list of its commitments pursuant to the Consumer Code, Legislative Decree 145/2007 and the Regulation for investigations. On 1 April 2019, the AGCM notified the Company that the investigation was closed and that it had accepted the commitments, which are now obligatory, without imposing a fine.

INSURANCE SERVICES

THE INSURANCE SERVICES MARKET

Based on the available official data, at 31 May 2019[33], new business for Life insurance policies, including EU undertakings, amounts to €41.1 billion, down 4.5% compared with the same period of 2018. New business for Italian undertakings is, in contrast, up 1.9% to €37.1 billion.

Analysing the figures by class of insurance, Class I premiums amount to €27.3 billion at the end of May 2019, a 17.1% increase on the same period of the previous year, confirming that this is the leading class, thanks to growth in multiclass policies.

Class III products, on the other hand, recorded a 25.9% reduction in premiums to €9.1 billion compared with the same period of 2018.

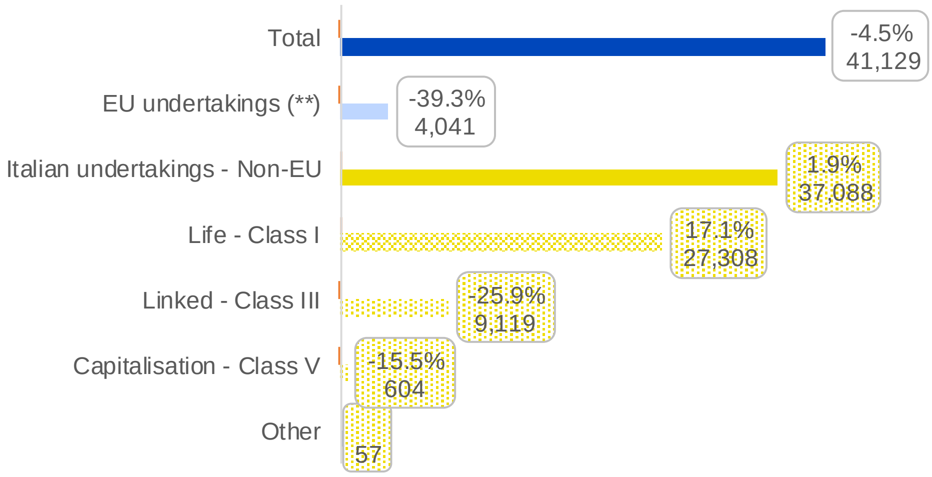
Single premiums continued to be the preferred form of payment for policyholders, representing 94.3% of total premiums written and 64% of policies by number.

With regard, finally, to distribution channel, around 70% of new business was obtained through banks and post offices, with premium revenue of €26 billion.

New Life business (*)

(figures updated to May 2019 in €m)

Premiums since the beginning of the year by class/product and % change May 2019 vs May 2018

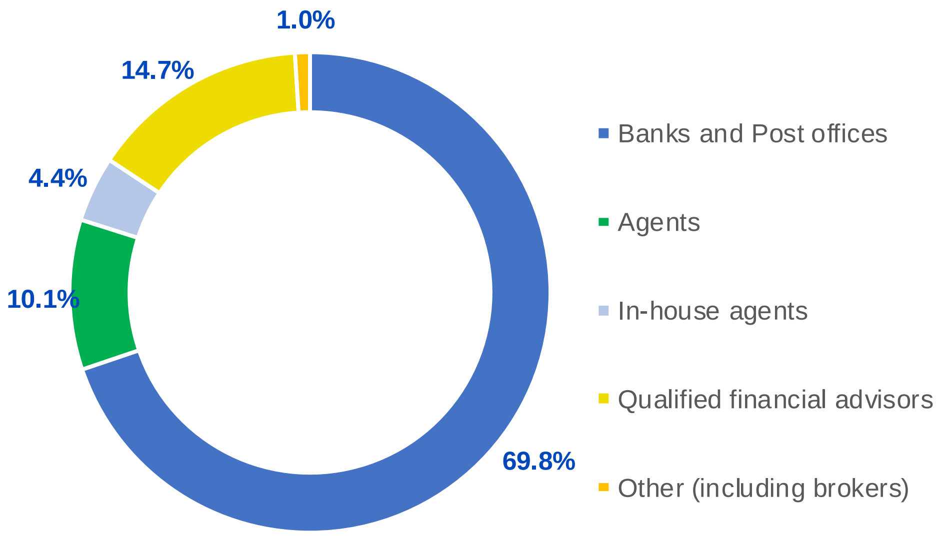


(*) Source: ANIA

(**) The term "EU insurers" refers to the Italian subsidiaries of undertakings with a registered office in an EU country operating under the right of establishment and freedom to provide services.

[33] ANIA Newsletter on new Life business (edition of 5 July 2019).

New Life business by distribution channel



Source: ANIA - figures updated to May 2019

Based on the available official data[34], total direct Italian premiums in the P&C insurance market, thus including policies sold by Italian and overseas undertakings, amounted to €9.4 billion at the end of the first quarter of 2019, up 4% compared with the same period of 2018. This is the fastest rate of growth in the last two years. The performance was helped by both the growth in other P&C classes (up 6.1% on the same period of the previous year) and an improvement in premium revenue from vehicle insurance, which is up 0.8% on the first quarter of 2018 to a total of €3.5 billion.

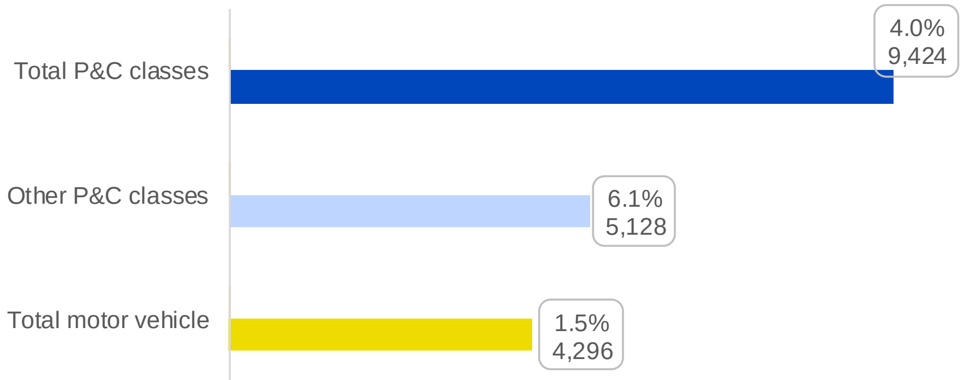
In terms of distribution channel, agents continue to lead the way with a market share of 73.9%, although this is slightly down on the figure for the end of the first quarter of 2018 (75.2%).

[34] ANIA Newsletter on quarterly P&C premiums (first quarter of 2019).

P&C premium revenue [(*)]

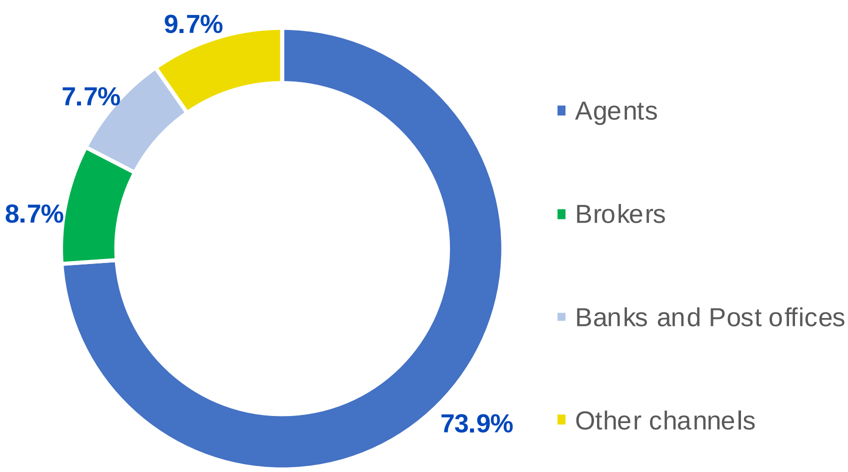
(figures updated to March 2019 in €m)

Premiums since the beginning of the year by class and % change Q1 2019 vs Q1 2018



(*) Source: ANIA

Distribution of direct premiums by distribution channel (*)



Source: ANIA - figures updated to March 2019

[(*)] *Italian undertakings and subsidiaries of non-EU undertakings*

REGULATORY ENVIRONMENT

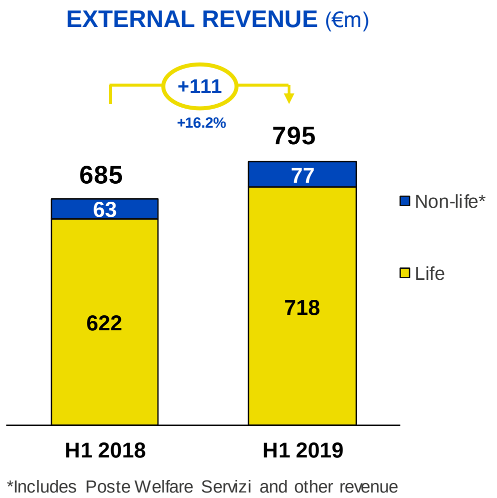
On 12 February 2019, IVASS published Regulation 43 concerning implementation of the provisions regarding the temporary suspension of short-term losses on securities, introduced by Law 136 of 17 December 2018. The legislation allows a temporary exemption from the regulations provided for in the Italian Civil Code and was introduced in response to financial market volatility in 2018.

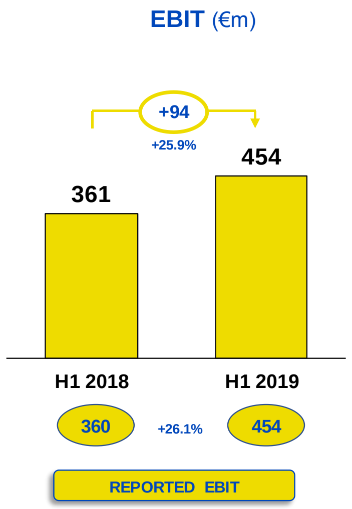
Letter to the Market dated 1 April 2019

This Letter to the Market from IVASS called attention to the changes introduced by Law Decree 119/2018 (converted into Law 136/2018), which amended Presidential Decree 116/2007 of 22 June 2017 concerning dormant accounts and insurance policies. In detail:

i) paragraph 1-*bis* of art. 3 of the Presidential Decree, as amended, requires insurance undertakings operating in Italy to use the open database established by the Italian tax authorities to check, by 31 December of each year, whether or not the holders of life or accident policies have died; ii) where the holder's death is ascertained, undertakings must start the settlement process, including a search for the beneficiary not expressly indicated in the policy, and iii) by 31 March of the year following the one in which the check was carried out, undertakings must report to IVASS on any payments made to such beneficiaries. The first round of checks must be conducted by 31 December 2019.

INSURANCE SERVICES SBU PROFIT OR LOSS AND PRINCIPAL KPIs





Principal KPIs	At 30 June 2019	At 31 December 2018	Increase/(decrease)	
Poste Vita Group net technical provisions (€bn)	134.0	125.1	8.9	7.1%
of which Poste Vita SpA	*133.8*	*125.0*	*8.9*	*7.1%*
Life Business	**H1 2019**	**H1 2018**	**Increase/(decrease)**	
GWP - Life (€m)[1]	10,039	8,816	1,223.8	13.9%
of which: Classes I-IV-V	8,995	8,399	595.9	7.1%
of which: Class III	1,044	416	627.9	150.8%
P&C Business	**H1 2019**	**H1 2018**	**Increase/(decrease)**	
GWP - P&C (€m)[1]	133	96	36.9	38.2%
Loss ratio[2]	28.4%	27.8%	0.6%	
Expenses ratio (confirmed by ANIA)[3]	23.5%	27.7%	-4.2%	
Combined ratio (confirmed by ANIA)[4]	51.9%	55.4%	-3.5%	

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

[2] This is the ratio of claims expenses to gross premiums earned for the period.

[3] This is the ratio of operating costs + commission expense to gross premiums earned for the period.

[4] This is the sum of the Loss and Expenses ratios.

The Insurance Services Strategic Business Unit generated adjusted EBIT of €454 million in the first half of 2019, up 26% on the same period of the previous year (€361 million).

Total revenue is up from €685 million in the first six months of 2018 to €795 million (up 16%), essentially due to the performance of the Life business, which contributed €718 million, whilst the P&C business contributed €77 million.

Net Life revenue is up 15% (an increase of €96 million compared with the first six months of 2018) after benefitting from an improvement in the net investment result (up €32 million compared with the previous year), reflecting the greater volume of assets under management, increased revenue from protection products (up €13 million) and a reduction in technical provisions for future expenses. With regard to products currently on sale, no new provisions are necessary (up €51 million).

Net P&C revenue is €77 million (up 24%), with growth across all lines of business (retail up 11%; Employee Benefits up 196%) and total gross premium revenue amounting to €133[35] million, up 38% on the same period of 2018 (€96 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 €330 million are up €13 million compared with the figure for the same period of 2018. The increase is primarily due to the performance of intersegment costs, essentially linked to fees paid for distribution, collection and maintenance services totalling €252 million, up from the €237 million of 2018 due to the growth in business.
Net finance income amounts to €12 million, down on the €29 million of 2018 due to the impact of the cost of Ancillary Own Funds, which was not present in the previous first quarter, and the expenses relating to the subordinated loan that matured in May 2019.

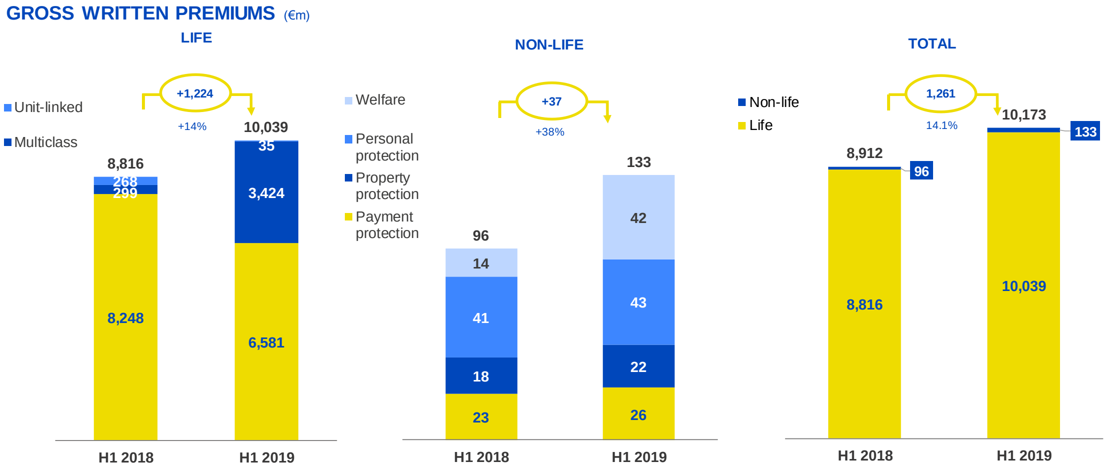
After tax expense for the period (€150 million), the SBU reports net profit of €317 million, up 26% compared with the €252 million of the same period of the previous year.

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

- consolidating its leadership in the life insurance market, focusing on multiclass products; with regard to insurance investment products, this involved further expansion of the offering with the launch of new products combining the capital guarantees typical of Class I products with the opportunity to invest in an internal insurance fund offering various levels of risk and, over time, differentiating the investment approach based on customers' needs and expectations in terms of timing;
- boosting its position in the protection and welfare segment; in the P&C segment, the Group is focused on implementing the guidelines set out in the Strategic Piano, 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 process of simplifying and improving the range of products continued. In March and April 2019, the positioning of accident and health policies was reviewed in terms of pricing and type of cover provided. In addition, in order to take advantage of the needs of existing protection insurance customers, the Group has introduced offerings based on the cross-selling of policies.

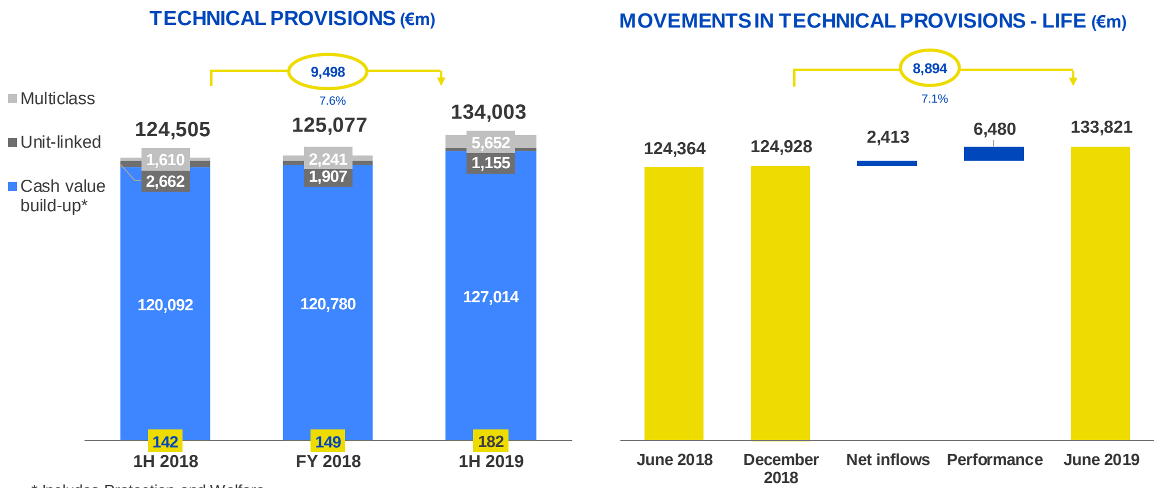
[35] Gross premium revenue for the period amounts to €108 million.

The performance of premium revenue at the Life and P&C businesses is shown below:



The Life business generated gross premium revenue of €10 billion, up 14% on the first half of 2018, with a significant contribution from Multiclass products (up €3.1 billion compared with the same period of the previous year). These products made a major contribution to growth in sales of Class III products, accounting for 10.4% of the total (compared with 4.7% in the first half of 2018).

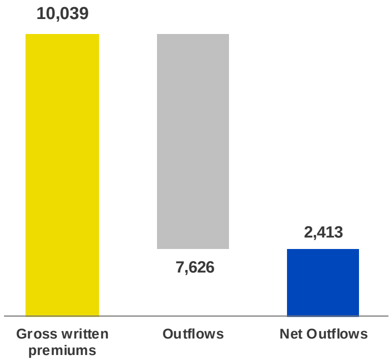
The P&C business recorded gross premium revenue of €133 million, up 38% on the figure for 2018 (an increase of €37 million), with growth across all lines of business: Welfare (up €28 million or 196%), property and personal protection (up €6 million or 10%) and payment protection (up €3 million or 12%).



* Includes Protection and Welfare

Technical provisions for the Life business amount to €133.8 billion, an increase of €8.9 billion compared with 31 December 2018. This primarily reflects an increase in mathematical provisions linked to growth in net premium revenue (up €2.4 billion) and the performance of deferred policyholder liabilities (up €5.7 billion). Technical provisions for the P&C business, after the portion ceded to reinsurers, amount to €182 million at the end of the period (€213 million before the portion ceded to reinsurers), an increase of 22% compared with the end of 2018 (€149 million; €183 million before the portion ceded to reinsurers).

NET PREMIUM REVENUE – H1 2019

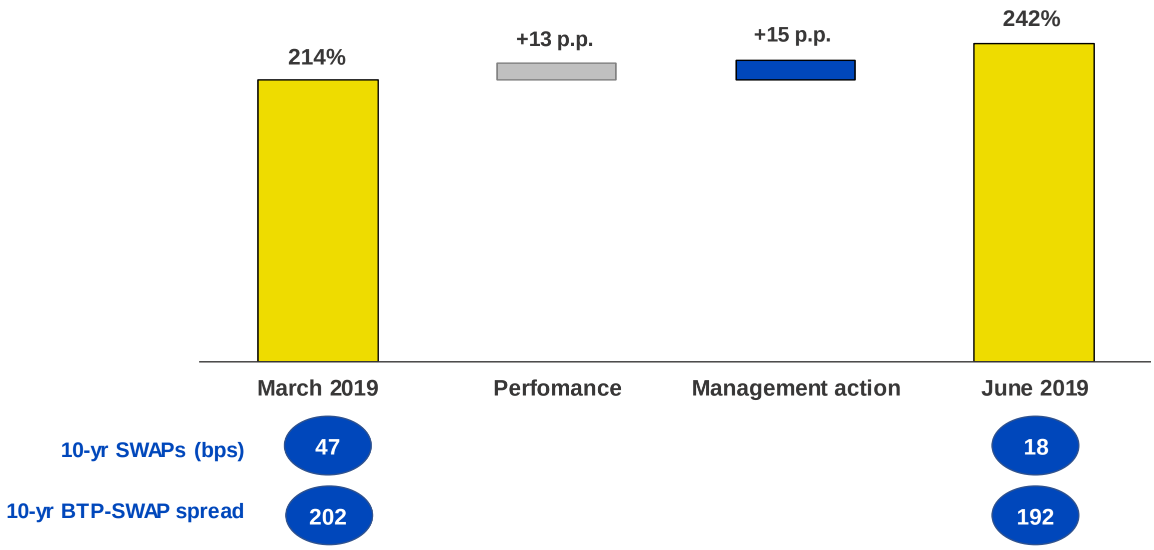


	H1 2018	H1 2019	Change in bps
Lapse rate	3.05%	3.10%	4.93

The Life business generated net premium revenue of €2.4 billion, down compared with 2018 as a result of an increase in policy expirations during the half, including €0.8 billion relating to the last tranche of guaranteed index-linked policies.

The surrender rate has remained broadly stable at 3.10% and well below the market average (approximately 7%)

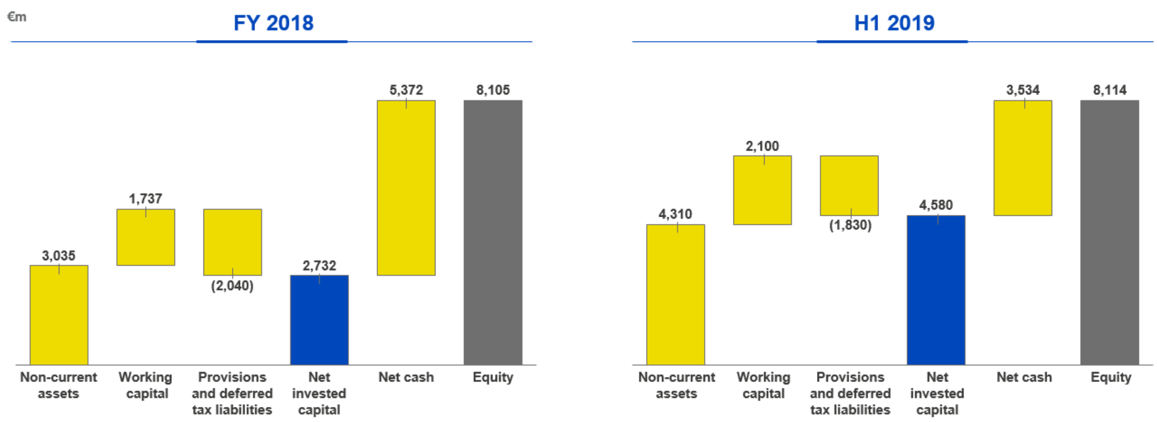
SOLVENCY



The Insurance Group's solvency ratio at 30 June 2019 stands at 242%, up from 214% in March 2019 (up 28 percentage points). This reflects both the positive impact of the steps taken by management to support the ratio (up 15 percentage points versus the first quarter of 2019), and market trends (up 13 percentage points versus the first quarter of 2019).

FINANCIAL POSITION AND CASH FLOW

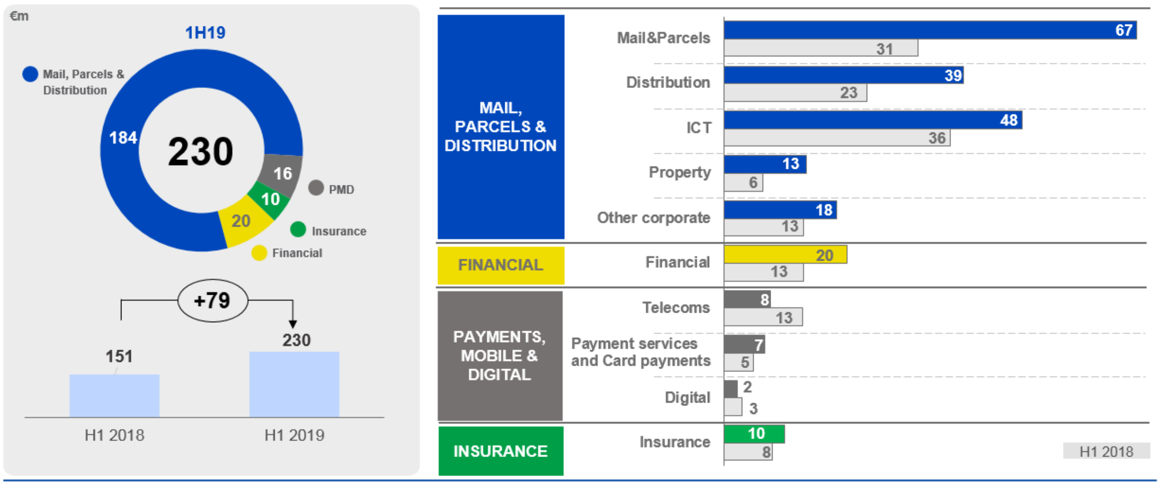
€m	At 30 June 2019	At 31 December 2018	INCREASE/(DECREASE)	
NON-CURRENT ASSETS	**4,310**	**3,035**	**+1,275**	**+42%**
NET WORKING CAPITAL	**2,100**	**1,737**	**+363**	**+21%**
GROSS INVESTED CAPITAL	**6,410**	**4,772**	**+1,638**	**+34%**
PROVISIONS AND OTHER ASSETS/LIABILITIES	**(1,830)**	**(2,040)**	**+210**	**-10%**
NET INVESTED CAPITAL	**4,580**	**2,732**	**+1,848**	**+68%**
EQUITY	**8,114**	**8,105**	**+9**	**+0%**
NET CASH POSITION	**(3,534)**	**(5,372)**	**+1,838**	**-34%**
Net debt/(cash) position of the Mail, Parcels and Distribution SBU	***764***	***(1,131)***	**+1,895**	**-168%**



The Poste Italiane Group's non-current assets amount to €4,310 million at 30 June 2019, an increase of €1,275 million compared with the end of 2018. This primarily reflects first-time adoption, from 1 January 2019, of the new accounting standard, IFRS 16, resulting in the recognition of right-of-use assets of €1,374 million. The figure for non-current assets also reflects investment of €230 million, purchases due to new contracts and modifications and terminations of leases resulting in right-of-use assets of €56 million. Investment was more than offset by depreciation, amortisation and impairments of €381 million, including €109 million in depreciation of right-of-use assets.

At 30 June 2019, the carrying amounts of the investments in Anima Holding SpA and FSIA Investimenti srl were tested for impairment, as was the net invested capital of the Parcels and Distribution cash generating unit, without the need to recognise any impairment losses (IAS 36).

The Group's investment in the first half of 2019 amounts to €230 million, a 53% increase compared with the first half of 2018 (up €79 million).



In line with the investment programme for the period 2018-2022, designed to support delivery of the Strategic Plan, around 80% of the Group's investment (€184 million) focused on the transformation of the Mail, Parcels and Distribution Strategic Business Unit.

In terms of the Mail & Parcels business, the rollout of the new "Joint delivery" model continued, with the model implemented at delivery centres covering approximately 81% of the country at 30 June.

With regard to the automation of operating processes, the Group's new parcel sorting centre at the Bologna Freight terminal fully entered service in the second quarter of 2019. The centre is located at the heart of the country's logistics system, hosting the largest sorting plant currently installed in Italy and capable of automatically sorting and handling 250,000 parcels a day. The centre is equipped with the latest safety and energy saving technologies.

A new Mixed Mail sorting plant for letters was also introduced at the Turin Sorting Centre.

The introduction of lean production processes, guaranteeing continuous improvements in operating processes, also continued. 8 sorting centres have so far been reorganised in 2019 (15 centres since the launch of the project).

In the other areas of business, investment in the upgrade of post offices and the creation of new areas for specialist services (67 new rooms) continued. In terms of technology infrastructure, the following initiatives proceeded:

- the creation of a unified CRM unit, bringing together all aspects of customer care during sales and after-sales processes for the various channels;
- the introduction of Robotic Process Automation technologies and the dematerialisation and digitalisation of operating processes;
- consolidation of the Group's Data Centre infrastructure, at both peripheral and central level; this involved completion of the design of Poste Italiane's unified Disaster Recovery environment for the Turin Data Centre and the migration of 36% of the applications used in managing logistics processes to the cloud.

Finally, work has begun on centralisation of the Group's IT, with the aim of ensuring that development is aligned with the Group's strategy.

In addition, work on improving occupational health and safety, IT security and active and passive security measures is continuing. The design of security systems for the Milano Roserio, Verona and Brescia sorting centres has been completed.
The installation of LED lamps in place of fluorescent lighting continued (a total of approximately 53,000 lights were replaced in the first half).

In the Financial Services Strategic Business Unit, total investment amounts to €20 million and regarded initiatives designed to expand the Wealth Management offering (Postal Savings, Life products and Funds) and those aimed at simplifying processes and ensuring compliance, including completion of the process of dematerializing the contracts used in the sale of loan products.

Investment in the Payments, Mobile and Digital Strategic Business Unit amounts to €16 million. Key initiatives, relating to the mail and parcels business, regarded upgraded applications for the Electronic Postman platform, the supply of the next generation of handheld devices for delivery staff, the development of new applications for handheld devices in order to obtain the customers' signatures and provide digital proof of receipt for legal process. Investment in telecommunications systems also included the launch of an upgrade programme for telecommunications platforms, with the first projects completed in the first quarter of 2019. Investment in the fixed and mobile offering also continued with the goal of boosting market competitiveness and improving quality. As part of the Digital Transformation programme, work was carried out on reengineering and improving the user experience provided by the poste.it website and by Apps. This included the launch of "Personal Financial Management" functions for the BancoPosta and Postepay apps and the addition of new functions for the PostePay+ app relating to urban transport, car parks and fuel purchases.
In addition, the Postepay Evolution and Postepay Evolution Business cards were enabled for online payments via the "tokenisation" service which, from May, guarantees users a greater degree of security when making purchases with one of the cards[36]).
Furthermore, work continued on the modifications to systems needed in order to comply with the European PSD2 Directive, governing digital payments. The Directive will come into effect in September 2019.

In the Insurance Services Strategic Business Unit, work continued on operational and infrastructural improvements to key business support systems. In particular, investment was targeted at the systems used in managing the Life portfolio and at developing the procedure for making claims and the new restricted area of the website. The online flexible benefits platform, providing support for the VIVI WELFARE initiative targeted at employees and their families, was implemented. The process of insourcing and revamping customer care using the Group's TPA (Third Party Administration) also got underway. Total investment amounted to €10 million.

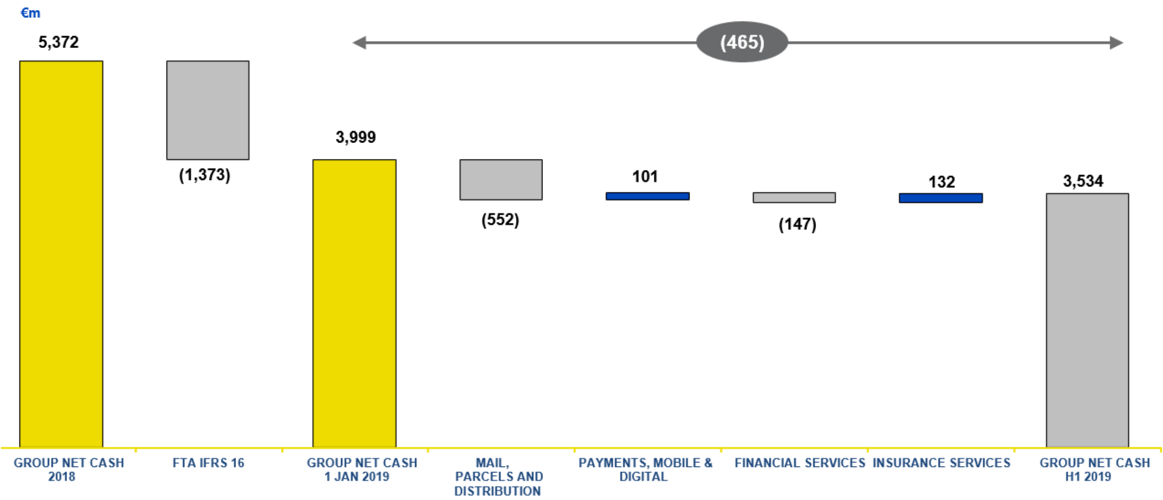
Net working capital amounts to €2,100 million at 30 June 2019, an increase of €363 million compared with the end of 2018. This reflects a reduction in payables of €622 million, largely due to amounts payable to personnel as incentives, offset by an increase in net current tax liabilities (€335 million) as a result of tax expense for the first half.

[36] Sensitive card data is replaced with a unique string of numbers (the token). When the consumer makes a purchase using the 'tokenisation' service, a token that is unique to the merchant is presented and not the card data.

Provisions and other assets and liabilities at 30 June 2019 amount to €1,830 million, an increase of €210 million. This item includes provisions for risks and charges of €1,370 million (€1,519 million at the end of December 2018) and the remaining provisions for early retirement incentives, totalling €233 million, reflecting the estimated liabilities that Poste Italiane will incur (€447 million at 31 December 2018), under the current arrangements agreed with the unions, as a result of a certain number of staff taking voluntary early retirement by 31 December 2020. The balance also takes into account provisions for disputes with third parties and operational risk, the latter relating, among other things, to provisions for potential liabilities linked to claims brought by customers who invested in real estate funds in the period between 2002 and 2005 and whose performance was not in line with their expectations.

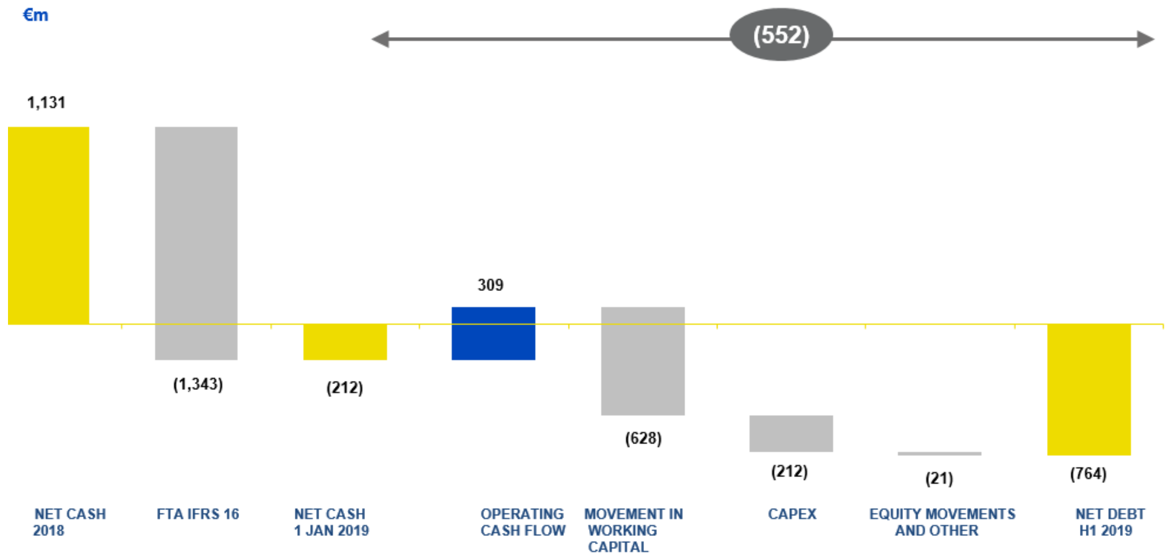
Equity amounts to €8,114 million at 30 June 2019, an increase of €9 million compared with 31 December 2018. The change reflects net profit for the period of €763 million, partially offset by the payment of dividends for 2018, totalling €574 million, a reduction in the fair value reserve of €81 million, reflecting movements in the value of investments classified as FVTOCI, actuarial losses of €44 million on employee termination benefits (*TFR*), a decrease of €14 million in the cash flow hedge reserve, and the purchase of 5,257,965 treasury shares (equal to 0.4026% of the share capital) during the period for a total of €40 million.

NET CASH POSITION



Total net cash at 30 June 2019 amounts to €3,534 million, down from €5,372 million at 31 December 2018. The reduction of €1,838 million during the period primarily reflects the recognition of financial liabilities resulting from the first-time adoption, from 1 January 2019, of the new accounting standard, IFRS 16 (€1,352 million at 30 June 2019) and the payment of dividends for 2018, totalling €574 million.

Net (debt)/cash position of the Mail, Parcels and Distribution Strategic Business Unit



The Mail, Parcels and Distribution Strategic Business Unit has seen a decline of €1,895 million from net cash of €1,131 million at 31 December 2018 to net debt of €764 million at 30 June 2019. The change during the period primarily reflects first-time adoption, from 1 January 2019, of the new accounting standard, IFRS 16. The Strategic Business Unit's lease liabilities at 30 June 2019 amount to €1,321 million.
After adjusting for this change, net cash is down from €1,131 million at 31 December 2018 to €557 million at 30 June 2019.

The movement reflects:

- operating profit €309 million, including €407 million in net profit and depreciation and amortisation, offset by €98 million in changes in provisions for risks and charges (following the use of provisions of early retirement incentives after net provisions for personnel expenses), employee termination benefits or *TFR* and non-cash items;
- a net outflow for the change in net working capital, largely due to incentives paid to personnel and other remaining transactions, totalling €628 million;
- an outflow of €212 million for investing activities;
- a net inflow of €87 million from dividends, after the payment of dividends to shareholders (€574 million), an outflow of approximately €40 million to finance the purchase of treasury shares and the recognition of net lease liabilities of a further €68 million.

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

- an EIB loan of €173 million maturing in March 2026;
- a private placement of approximately €50 million.

An EIB loan of €200 million was repaid in March 2019.

4. OUTLOOK

The Poste Italiane Group will continue to be engaged in implementing the objectives outlined in the five-year Deliver 2022 Plan, approved by the Board of Directors on 26 February 2018 and, with specific regard to 2019, will focus on the targets set out in the budget for 2019 approved by the Board of Directors on 19 March 2019 and presented to the market.

The Mail, Parcels and Distribution Strategic Business Unit will be engaged in completing implementation of the new joint delivery model, which will see the reorganisation of all 755 delivery centres by the end of 2019 (at 30 June, 81% of the project's objectives have been achieved). The Unit will also continue with the adoption of new automation technologies to support operating processes, with the aim of boosting the efficiency and quality of sorting processes. In addition, further mail and parcel sorting centres are also due to enter service as part of the postal network, with a further three mail sorting centres (Naples, Rome and Bologna) and one parcel sorting centre (Brescia) coming on stream in 2019.
The aim of this investment is to maximise synergies in the logistics and operations network and leverage all the Group's available assets, enabling us to improve our competitive position in the parcels market by taking advantage of the opportunities arising from the growth of e-commerce.
In addition, as part of the process of modernising its vehicle fleet, the Group will continue with the introduction of alternative electric delivery vehicles (3-wheeled vehicles). This will improve occupational safety and extend the process, launched in recent years, of adopting eco-friendly forms of transport, involving the introduction of a fleet of 4-wheeled electric vehicles. In the next 12 months, approximately 200 electric vehicles are scheduled to join the Group's fleet.

A large number of initiatives were undertaken in the first half in relation to the "10 commitments to support communities in small towns" programme, launched in 2018 with the aim of improving the customer experience of services provided to citizens and promoting specific initiatives to support local development. As of 15 July 2019:

- there have been no post office closures,
- 1 central office now provides dedicated support for small towns,
- 381 new ATMs have been installed in as many towns,
- 3,928 Wi-Fi connections have been installed in 3,526 towns,
- 403 architectural barriers have been removed in 384 towns,
- 2,509 video-surveillance systems have been installed in 1,234 towns,
- 2,715 new post boxes have been installed in 1,849 towns.

Creation of the new Payments, Mobile and Digital Strategic Business Unit aims to deliver on the strategic objective of becoming Italy's leading payments ecosystem, ensuring convergence between payments and mobile technology, and between physical and digital channels. In this regard, PostePay SpA intends to lead changes in the habits of consumers, businesses and the Public Administration, creating new integrated products and services.
The promotion of mobile telecommunications services as part of the integrated Postepay Connect offering will continue in the second half of the year as part of efforts to exploit the Group's positioning. The bundle offering aims to meet the needs of different target markets and take advantage of customer loyalty through innovative

pricing strategies and by attracting new online customers via a fully digital acquisition process. Postepay Connect will be the first product to be sold on line through a fully digital process using the Postepay App.
With regard to collection services, the possibility to make payments to the Public Administration using payment slips will be extended to third-party networks with which Poste Italiane has concluded agreements. New methods of interaction between the Public Administration and the public have enabled fully digital payments to be introduced via push and pull Payment Notices[37].

As regards Acquiring, further services are to be added to the Postepay Tandem App for Mobile POS users. These are designed to support businesses by providing training in the procedures to be followed by merchants and tools for monitoring the performance of collections, including comparisons with competitors operating in the same area or sector.

In line with the Deliver 2022 Plan, the Financial Services Strategic Business Unit will continue with initiatives designed to take advantage of the opportunities resulting from the recent regulatory changes brought about by MiFID II and IDD, leveraging the Group's existing strengths: its customer base, distribution network and brand. Within the scope of the agreement with Cassa Depositi e Prestiti, work on the progressive simplification of front-end operations will continue, with the aim of boosting efficiency and the quality of the customer experience of sales and after-sales services for Postal Savings products. New initiatives will also be launched with a view to expanding the digital offering for customers, thanks to the development of new online services, and new and additional communication initiatives.
With regard to current accounts, development of the offering will focus on meeting the needs of separate target customer segments and on making the changes necessary to ensure compliance with the new requirements introduced by the PSD2 Directive governing digital payments, which will come into effect from September 2019.
In terms of the distribution of loan products, the agreement with Intesa Sanpaolo regarding property mortgages will allow the Group to further expand its offering. In addition, the launch of Personal Loans in collaboration with the same partner is expected to take place in the last quarter of 2019. The launch of the partnership with Unicredit, covering salary loans, has enabled the Group to develop a multi-partner strategy, adding to the existing offering.
In terms of asset management, with a view to expanding the product range, the launch of mutual funds focusing on specific themes is due to take place in the second half of 2019.
Finally, as regards pensions, a multi-strategy Supplementary Pension Fund named *Posta Previdenza Valore* is due to be launch, with three investment strategies: Guaranteed, Life Cycle and Dynamic.
In terms of protection products, the Group will continue to with commercial and promotional initiatives designed to raise awareness of the sector. In the meantime, both the sales process and the range of products offered will be reviewed with the aim of simplifying procedures and focusing on the ability to meet the full range of customer needs.
The boards of directors of Cassa Depositi e Prestiti and Poste Italiane have approved a committed credit facility for BancoPosta of up to €5 billion, enabling the diversification of BancoPosta's sources of funding.

[37] A Payment Notice is the digital document by which a creditor entity notifies the payor that payment is due. The creditor entity uses the pull notice to enable the end user to view their outstanding debts.
The digital push notice is a service provided by the pagoPA System, enabling end users to receive notices in digital form, so that the related payment can be made easily and securely using the pagoPA System.

Finally, as part of BancoPosta RFC's financial management strategy, a number of forward transactions for settlement within 12 months were entered into at the end of June 2019, timed to coincide with the approaching maturities of securities held. We expect to see an increase in investments in keeping with the growth in current account deposits by private customers.

In keeping with the first half of 2019, the offering of the Insurance Services Strategic Business Unit will aim to consolidate the Group's leadership in the Italian market, supported by a progressive rebalancing of the offering to provide products providing greater value added (multiclass), but that have risk-return profiles that are still moderate, in keeping with the type of customer served by the Group. In the P&C segment, the aim is to continue to achieve growth in the welfare and non-vehicle sectors by exploiting unrealised potential, and to completed preparations for the launch of a vehicle insurance offering for employees.

5. OTHER INFORMATION

POSTE ITALIANE'S INTEGRATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

In an environment marked by operational and regulatory complexity, and by the need to compete increasingly efficiently in the Group's core markets, risk management and the related control systems have a central role to play in the decision-making and value creation processes.

In order to promote and maintain an adequate Internal Control and Risk Management System (also "SCIGR"), Poste Italiane uses a series of organisational, IT and regulatory tools to enable it to identify, measure, manage and monitor the Group's principal risk exposures.

This system is at the heart of Poste Italiane's corporate governance, allowing the Board of Directors to pursue its priority goal of creating value over the medium to long term whilst being able to determine the nature and level of risk that is compatible with the Company's business objectives.

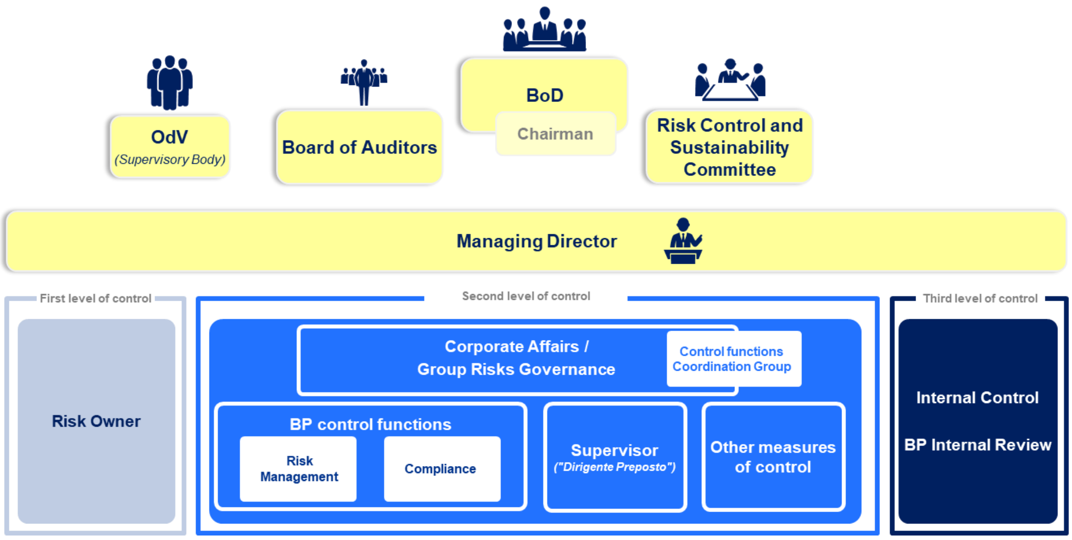
For this reason, the Company has proceeded to adopt an SCIGR that is integrated with both the system's internal and external environments.

On the one hand, its components must be coordinated and interdependent with each other whilst, on the other, the overall system has to be integrated into the general organisational, administrative and accounting structures.

Poste Italiane's SCIGR is a set of tools, organisational structures, corporate rules and regulations designed to ensure sound and correct business practices, in line with the Group's objectives. This is done through an appropriate process for determining the related actors and the roles and responsibilities of the various oversight bodies and control functions, and for identifying, measuring, managing and monitoring key risks, as well as by ensuring that there are adequate information flows designed to ensure that everyone has the information they need.

In line with statutory requirements and the related best practices, the SCIGR consists of three levels of control and involves a range of actors within the organisation.

POSTE ITALIANE'S INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM



The process for managing financial risk is regulated and overseen by supervisory authorities (the Bank of Italy and IVASS, the insurance industry regulator) and is the responsibility of the Risk Management units belonging to the various business units, coordinated by the function responsible for coordinating risk governance at Group level.
Financial risk primarily relates to the operations of BancoPosta RFC and PostePay's ring-fenced EMI (the active management of the liquidity deriving from postal current account deposits, and of collections and payments carried out in the name of and on behalf of third parties), asset financing and the investment of liquidity and, as regards the Poste Vita Insurance Group, investments designed to cover contractual obligations to policyholders.
Insurance risks derive from the stipulation of insurance contracts and the terms and conditions contained therein (technical bases adopted, premium calculation, the terms and conditions of cash surrender, etc.). In technical terms, mortality is one of the main risk factors for Poste Vita SpA, i.e. any risk associated with the uncertainty of a policyholder's life expectancy, alongside the risk associated with surrenders.

Risk management and risk assessment

Poste Italiane has adopted a Risk Management model based on the Enterprise Risk Management (ERM) framework, with the aim of providing an organic, integrated vision and an effective, standardised response to the risks to which the Group is exposed. The Group Risk Management function ("GRM"), which forms part of the Corporate Affairs function, is responsible for ensuring that these objectives are met. This is primarily done through the definition of an integrated risk management process that relies on the coordinated involvement of all the actors in the Internal Control and Risk management System, above all the specialist forms of second-level control, the use of standardised models and metrics based on Group-wide criteria, and the design and implementation of shared tools for assessing and managing risk. In this latter regard, the Group implemented an integrated Governance, Risk and Compliance ("GRC") platform in 2018 to support the integrated risk management process. This IT tool assesses and manages operational risk, in accordance with Legislative Decree 231/01 and the various fraud, IT security, strategic, ESG and reputational risks, as well as ensuring compliance with the statutory requirements applicable to financial and payment services. This is the tool that has enabled the Group to maximise integration of the risk management process, ensuring that risk assessment methods are shared across all the specialist second-level control functions. At the same time, it has improved communication with senior management and corporate bodies and between the various control functions, minimising the risk of inadequate or redundant information.

The principal risks to which the Poste Italiane Group is exposed are described below.

Risk category	Description
Strategic	This category of risk could influence achievement of the goals set out in the Strategic Plan and are identified, classified and monitored with the involvement of management from the GRM function. This process describes the key nature of the risks, the triggers and the potential consequences or effects, in both financial terms (e.g. losses, increased costs due to delays or the failure to implement restructuring plans and efficiencies, reduced revenue), and in other terms (e.g. customer satisfaction).
Operational	Operational risk refers to the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. Management of operational risk takes place at both the level of specialist units within the Group (the Risk Management functions within BancoPosta, the Poste Vita Group, BancoPosta Fondi SGR and PostePay), in compliance with the respective supervisory standards, and at an integrated level, involving the GRM function. The following risks, among others, are closely monitored: i) IT risk, above all the risk that malfunctions and/or shortcomings in information systems could result in the loss of data integrity, leaks of personal data or breaches of confidentiality, potentially causing disruption to the services provided to customers; ii) health and safety risk, with specific regard to the risk of workplace injury to employees or contractors as a result of operating activities (e.g. the collection, transport and sorting of parcels and letter post, and the delivery of postal products using motor vehicles); iii) physical security risk, relating to access to the headquarters premises of Group companies, to post offices or other private areas by unauthorised or unidentified persons, and the limited protection of Poste Italiane's assets and property against criminal behaviour (robberies, losses resulting from fraud, theft, ATM attacks, vandalism, etc.). Operational risk also includes disruption and/or obstacles to entry to the Group's operating facilities (mail sorting centres and delivery centres, etc.) due to industrial action or strikes.
Compliance	This refers to the risk that breaches of existing laws and regulations, such as the risks connected with Legislative Decree 231/01, Law 262/05, Data Protection and Market Abuse regulations or the introduction of new legislation or regulations (or new interpretations legislation and regulations) of either general importance (e.g. regarding administrative, accounting, tax matters, etc.) or specific to the sectors in which the Poste Italiane Group operates. This risk category includes the risks linked to the introduction of new regulations governing the management and development of universal postal services and the related rates providing a return for Poste Italiane, and the risk of the failure to meet the service quality standards set by the regulator (the *Autorità per le Garanzie nelle Comunicazioni* or AGCom).
Reputational	This category regards the risks connected with a negative perception among the Group's stakeholders, in response to which the Group has adopted a stakeholder engagement framework in order to identify and assess this type of risk at source. The main element of reputational risk to which the Group is, by its nature, exposed is linked

Risk category	Description
	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 and Poste Assicura, and mutual funds managed by BancoPosta Fondi SpA SGR), and those linked to the perceived and effective quality of the services linked to letter post and parcel delivery.

The principal forms of financial risk to which the Group is exposed are described below. Further details are provided in the condensed consolidated interim financial statements for the six months ended 30 June 2019.

Risk category	Description
Spread	This is the risk of a potential fall in the value of the bonds held, following deterioration in the creditworthiness of issuers. This is due to the importance that the impact of the spread on yields on government securities has on the fair value of euro zone government and corporate securities. In the Poste Italiane Group's case, this risk particularly relates to the spread on Italian government securities, which influences the fair value of the Group's holdings of Italian government securities. The nominal value of these securities at 30 June 2018 amounts to €125.7 billion (€150 billion in terms of total bond holdings). The first half 2019 saw an increase in yields on Italian government securities compared with the same period of 2018. In June, the trend went into reverse, with yields on ten-year government bonds amounting to 2.1%, down from 2.7% in 2018 and resulting in an increase in unrealised gains[38]. An increase in the spread also has an impact on the Poste Vita group's solvency ratio, which at 30 June 2019 stands at 242%, up from the 211% of December 2018 and 214% at the end of March 2019. Given the performance of the spread and pressure on the solvency ratio, in 2018, the insurance company examined and implemented measures to support its solvency ratio, including the use of so-called ancillary own funds (AOFs), represented by unfunded capital instruments in the form of unsecured guarantees or commitments that may be included in the computation of own funds. The transaction designed to strengthen the company's capital position through the use of AOFs was formalised in November 2018 with Poste Italiane's signature of an unconditional, irrevocable commitment letter with a five-year term. The letter commits the Parent Company, merely at the request of the subsidiary, to subscribe for ordinary shares to be issued in future by Poste Vita, amounting to up to €1,750 million. Following clearance from IVASS, the commitment letter signed by the Parent Company in the subsidiary's favour is included in the computation of Tier 2 AOFs, as defined by the *Solvency* II Directive and the regulatory framework for insurance companies, within the

[38] Poste Italiane SpA's exposure to this form of risk regards financial assets at fair value through other comprehensive income (FVTOCI), which have a fair value of €35,408 million at 30 June 2019, and derivative financial instruments classified as cash flow hedges, on which net fair value losses amount to €9 million. The sensitivity analysis conducted on financial assets at FVTOCI shows that an upward shift of in the spread of 100 bps would reduce fair value by approximately €3,149 million before the related taxation. The fair value of fixed income instruments measured at amortised cost, entirely attributable to BancoPosta and amounting to €25,242 million at 30 June 2019 (a fair value of €23,521 million), would be reduced by approximately €2,436 million following a 100 bps increase in the spread, with the change not reflected in the accounts. With regard to the Poste Vita group, on the other hand, the portfolio exposed to this form of risk at 30 June 2019 amounts to a total of €102,239 million and primarily consists of financial assets at FVTOCI. The sensitivity analysis conducted on the portfolio as a whole shows that an upward shift of in the spread of 100 bps would reduce fair value by approximately €6,996 million (€6,945 million would be attributed to deferred liabilities to policyholders under the shadow accounting mechanism).

Risk category	Description
	limits represented by the available amount, being approximately €1,796 million at 30 June 2019.
Price	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.
Credit	This is the risk of default of one of the counterparties to which there is an exposure. In relation to revenue and receivables due from the state and from central and local government entities, regulated by statute and specific agreements or contracts, 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.
Liquidity	This is the risk that the Poste Italiane Group is unable to meet its obligations deriving from financial instruments due to its inability to raise sufficient funds (funding liquidity risk) or to sell assets in the market (market liquidity risk) effectively or at market conditions. The Poste Italiane Group applies a financial policy based on diversification of the various forms of short-term and long-term borrowings and counterparties, the availability of significant committed and uncommitted lines of credit in terms of amounts and the number of banks, the gradual and consistent distribution of the maturities of medium/long-term borrowings and the use of dedicated analytical models to monitor the maturities of assets and liabilities.
Fair value interest rate	This is the risk that the value of a financial instrument fluctuates as a result of movements in market interest rates. This refers to the effects of changes in interest rates on the price of fixed rate financial instruments or variable rate financial instruments converted to fixed rate via cash flow hedges and, to a lesser degree, the effects of changes in interest rates on the fixed components (the interest spread) of floating rate financial instruments or fixed rate financial instruments converted to variable rate via fair value hedges. The impact of these effects is directly related to the financial instrument's duration.
Cash flow interest rate	This is defined as the uncertainty related to the generation of future cash flows, due to fluctuations in market interest rates. 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.
Cash flow inflation	This is defined as the uncertainty related to future cash flows due to changes in the rate of inflation observed in the market.
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. This risk primarily regards trade receivables and payables due from and to overseas counterparties, investments in equity instruments and holdings in certain funds.
Downgrade of Poste Italiane	This regards the risk of a downgrade of the ratings assigned to Poste Italiane by the three rating agencies, the latest being: • Standard & Poors: BBB/Negative • Moody's: Baa3/Stable • Fitch: BBB/Negative

Risk category	Description
	An eventual downgrade due to a significant deterioration in Poste Italiane's creditworthiness, above all to below investment grade, could have an impact on Poste Italiane's cost of funding and potentially restrict Poste Italiane's access to certain forms of financing, including the capital markets. On 18 March 2019, Standard & Poors confirmed its rating of Poste Italiane as BBB/Negative; on 17 April 2019, Fitch confirmed its rating of Poste Italiane as BBB/Negative.

EVENTS AFTER 30 JUNE 2019

Events after the end of the interim reporting period are described in other sections of this document and no other material events have occurred after 30 June 2019.

RELATED PARTY TRANSACTIONS

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 2019 (Related party transactions).

No related party transactions as defined by art. 5, paragraph 8 of the "Related Party Transactions Regulations" - CONSOB Resolution 17221 of 12 March 2010, as amended, were concluded in the first six months of 2019.

INDUSTRIAL RELATIONS

Reorganisation and employment policies 2019

On 8 March 2019, a Framework Agreement was signed with the labour unions regarding plans for the reorganisation of Logistics activities, central and local staff departments and the post office network. Later, on 8 May, 26 June and 18 July 2019, further agreements were tagged on to the Framework Agreement, setting out the initiatives to be implemented during the first and second halves of 2019.

As regards Logistics, the Group plans to invest €150 million in automation over the life of the plan and in implementing a lean production system, which will enable it to reduce the number of full-time equivalents ("FTEs") by at least 1,600 in 2019 across the various operational sites and internal departments.

Personnel leaving central and local staff departments are expected to be equivalent to at least 650 FTEs in 2019 on a voluntary basis. This will take the form of voluntary retirement schemes, redeployment initiatives and the conversion of full-time to part-time contracts.

Plans to streamline the post office network will involve at least 1,400 FTEs, following the geographical reorganisation that took place in 2018 and the projects to be implemented in 2019. As previously described in the section, "Distribution channels", the parties have agreed the criteria to be applied in redeploying surplus personnel in order to strengthen front-end roles, whilst also offering the option of voluntary early retirement.

The above agreements also envisage the following initiatives that will have a positive impact on employment in 2019: the offer of permanent contracts to 4,300 (3,450 FTEs) staff formerly employed on fixed-term contracts, including 2,600 full-time and 1,700 part-time staff, the proposed conversion of 1,420 staff from part-time to full-time contracts, proposed voluntary redeployment to other parts of the country for 710 people, the recruitment of 900 specialists, the recruitment of 620 new part-time personnel (310 FTEs) for operational sites and post offices and the transfer of 470 delivery staff to front-end roles within the post office network.

Two statements of agreement were signed in May 2019, one relating to Poste Italiane and the other to Group companies who apply the same national collective labour agreement. These regard the removal of compensation payable when a public holiday coincides with a Sunday. The agreements have granted employees, on a trial basis for 2019, the right to choose to convert the payment previously due to them into one day of paid leave. This applies to the two public holidays of 2 June and 8 December 2019, falling on a Sunday.

Welfare

With regard to the union agreements of 31 July and 2 August 2018 relating to performance-related bonuses for 2018, an IT platform has been created to allow employees, on a voluntary basis, to opt to use the remaining portions of their bonuses to cover the cost of goods and services with a social impact (e.g. the cost of schooling and children's education, care services for the aged and dependent family members, health and wellbeing, leisure and entertainment, education and training, local public transport, supplementary pensions and supplementary health benefits).

The aim of the initiative, dubbed VIVI WELFARE, is to enable personnel to access a wide range of customisable services and, in general, to enhance their purchasing power thanks to the tax and social security benefits provided for by law.

6. APPENDIX

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(REPORTED BASIS)

RECLASSIFIED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (€m)	H1 2019	H1 2018	INCREASE/ (DECREASE)		Q2 2019	Q2 2018	INCREASE/ (DECREASE)	
Revenue	**5,521**	5,430	92	**1.7%**	**2,679**	2,546	134	**5.3%**
of which:								
Mail, Parcels & Distribution	1,755	1,761	(5)	-0.3%	875	862	13	1.5%
Payments, Mobile and Digital	306	280	26	9.4%	167	150	17	11.2%
Financial Services	2,665	2,704	(40)	-1.5%	1,180	1,173	7	0.6%
of which gross capital gains	*261*	*404*	*(142)*	*-35.3%*	*0*	*1*	*(1)*	*-97.5%*
Insurance Services	795	685	111	16.2%	458	361	97	26.9%
Costs	**4,060**	**4,105**	**(45)**	**-1.1%**	**2,023**	**2,056**	**(33)**	**-1.6%**
of which:								
Total personnel expenses	2,833	2,846	(13)	-0.4%	1,395	1,416	(20)	-1.4%
of which personnel expenses	*2,823*	*2,826*	*(2)*	*-0.1%*	*1,389*	*1,401*	*(12)*	*-0.9%*
of which early retirement incentives	*9*	*19*	*(11)*	*-54.8%*	*6*	*13*	*(8)*	*-57.1%*
of which disputes and other extraordinary items	*1*	*1*	*0*	*25.8%*	*1*	*1*	*(1)*	*-38.4%*
Other operating costs	1,227	1,259	(33)	-2.6%	628	640	(12)	-2.0%
EBITDA	**1,462**	**1,325**	**137**	**10.3%**	**656**	**490**	**167**	**34.0%**
Depreciation, amortisation and impairments	381	272	109	40.2%	193	140	53	37.9%
EBIT	**1,081**	**1,053**	**28**	**2.6%**	**464**	**350**	**114**	**32.5%**
EBIT margin	**19.6%**	**19.4%**			**17.3%**	**13.7%**		
Finance income/(costs)	18	22	(4)	-17.0%	12	14	(2)	-13.9%
Profit before tax	**1,099**	**1,075**	**24**	**2.2%**	**476**	**364**	**112**	**30.7%**
Income tax expense	336	340	(4)	-1.2%	151	114	37	32.5%
Net profit	**763**	**735**	**28**	**3.9%**	**324**	**250**	**75**	**29.9%**
Earnings per share	**0.59**	0.56	**0.02**	**4.3%**	0.25	0.19	**0.06**	**30.4%**

CONTRIBUTION OF STRATEGIC BUSINESS UNITS TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(REPORTED BASIS)

H1 2019 (€m)	Mail, Parcels & Distribution	Payments, Mobile and Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Total revenue	**4,208**	**496**	**3,037**	**796**	**(3,015)**	**5,521**
External revenue	1,755	306	2,665	795		5,521
Intersegment revenue	2,453	190	372	0	(3,015)	0
Total costs	**4,127**	**386**	**2,602**	**341**	**(3,015)**	**4,441**
Total personnel expenses	2,775	15	22	20		2,833
of which personnel expenses	*2,766*	*15*	*21*	*20*		*2,823*
of which early retirement incentives	*8*	*0*	*1*	*0*		*9*
of which disputes and other extraordinary ite	*1*	*0*	*0*	*0*		*1*
Other operating costs	959	135	*91*	43		1,227
Depreciation, amortisation and impairments	357	13	0	11		381
Intersegment costs	37	223	2,488	267	(3,015)	0
EBIT	**81**	**111**	**435**	**454**		**1,081**
EBIT MARGIN	**1.9%**	**22.3%**	**14.3%**	**57.1%**		**19.6%**
Finance income/(costs)	4	4	(2)	12		18
Profit/(Loss) before tax	**85**	**115**	**432**	**466**		**1,099**
Income tax expense	35	32	128	141		336
Net profit	**50**	**83**	**305**	**325**		**763**

STATEMENTS OF PROFIT OR LOSS BY STRATEGIC BUSINESS UNIT

(REPORTED BASIS)

STATEMENT OF PROFIT OR LOSS OF THE MAIL, PARCELS AND DISTRIBUTION STRATEGIC BUSINESS UNIT (€m)	H1 2019	H1 2018	INCREASE/ (DECREASE)		Q2 2019	Q2 2018	INCREASE/ (DECREASE)	
Revenue	**4,208**	**4,216**	**(8)**	**-0.2%**	**1,997**	**1,948**	**49**	**2.5%**
Mail	1,269	1,313	(44)	-3.4%	630	639	(10)	-1.5%
Parcels	399	352	47	13.3%	198	177	21	12.0%
Other revenue	87	95	(8)	-8.4%	48	46	2	3.3%
Intersegment revenue	2,453	2,456	(3)	-0.1%	1,122	1,086	36	3.3%
Costs	**3,770**	**3,781**	**(10)**	**-0.3%**	**1,884**	**1,898**	**(14)**	**-0.8%**
of which:								
Total personnel expenses	2,775	2,760	15	0.5%	1,368	1,370	(2)	-0.2%
of which personnel expenses	*2,766*	*2,748*	*18*	*0.7%*	*1,362*	*1,362*	*(0)*	*0.0%*
of which early retirement incentives	*8*	*11*	*(3)*	*-30.2%*	*6*	*7*	*(1)*	*-16.7%*
of which disputes and other extraordinary items	*1*	*1*	*(0)*	*-17.8%*	*1*	*1*	*(1)*	*-40.7%*
Other operating costs	959	*987*	(28)	-2.9%	*499*	*510*	(11)	-2.1%
Intersegment costs	37	34	3	9.6%	17	18	(1)	-7.4%
EBITDA	**438**	**436**	**2**	**0.4%**	**114**	**50**	**63**	**125.9%**
Depreciation, amortisation and impairments	357	252	104	41.4%	181	130	51	39.2%
EBIT	**81**	**184**	**(103)**	**-55.8%**	**(67)**	**(79)**	**13**	**15.7%**
EBIT margin	**1.9%**	4.4%			**-3.4%**	-4.1%		
Finance income/(costs)	4	(14)	18	130.8%	2	(6)	8	133.5%
Profit before tax	**85**	**170**	**(84)**	**-49.7%**	**(65)**	**(85)**	**20**	**23.8%**
Income tax expense	35	56	(21)	-36.9%	(14)	(25)	11	44.2%
Net profit	**50**	**114**	**(64)**	**-55.9%**	**(51)**	**(60)**	**9**	**15.3%**

STATEMENT OF PROFIT OR LOSS OF THE PAYMENTS, MOBILE AND DIGITAL STRATEGIC BUSINESS UNIT* (€m)	H1 2019	H1 2018	INCREASE/ (DECREASE)		Q2 2019	Q2 2018	INCREASE/ (DECREASE)	
Revenue	**496**	**460**	**36**	**7.9%**	**261**	**241**	**20**	**8.3%**
Card payments	161	134	27	20.0%	85	68	17	25.3%
Other payments	37	38	(1)	-1.9%	24	25	(1)	-3.2%
Telecoms	109	109	0	0.2%	57	57	0	0.5%
Intersegment revenue	190	180	10	5.6%	94	91	3	3.6%
Costs	**372**	**348**	**25**	**7.1%**	**200**	**191**	**9**	**4.8%**
of which:								
Total personnel expenses	15	16	(0)	**-2.8%**	6	8	(1)	**-17.4%**
of which personnel expenses	*15*	*16*	*(0)*	*-2.8%*	*6*	*8*	*(1)*	*-17.4%*
of which early retirement incentives	*0*	*0*	*0*	*-*	*0*	*0*	*0*	*-*
of which disputes and other extraordinary items	*0*	*0*	*0*	*-*	*0*	*0*	*0*	*-*
Other operating costs	*135*	*140*	(5)	*-3.8%*	*62*	*74*	*(12)*	*-16.4%*
Intersegment costs	223	192	30	**15.9%**	132	109	23	**20.8%**
EBITDA	**124**	**112**	**12**	**10.3%**	**61**	**50**	**11**	**21.7%**
Depreciation, amortisation and impairments	13	12	2	15.0%	7	6	1	17.5%
EBIT	**111**	**101**	**10**	**9.8%**	**54**	**44**	**10**	**22.3%**
EBIT margin	**22.3%**	**21.9%**			20.6%	18.2%		
Finance income/(costs)	4	0	4	n/s	2	(1)	3	347.1%
Profit before tax	**115**	**101**	**14**	**13.5%**	**56**	**43**	**13**	**30.2%**
Income tax expense	32	25	7	28.4%	15	9	6	66.8%
Net profit	**83**	**76**	**7**	**8.7%**	**41**	**34**	**7**	**20.3%**

* The figures for H1 2018 and Q2 2018 have been reclassified on the basis of the new scope of the Payments, Mobile & Digital SBU.

STATEMENT OF PROFIT OR LOSS OF THE FINANCIAL SERVICES STRATEGIC BUSINESS UNIT* (€m)	H1 2019	H1 2018	INCREASE/ (DECREASE)		Q2 2019	Q2 2018	INCREASE/ (DECREASE)	
Revenue	**3,037**	**3,043**	**(6)**	**-0.2%**	**1,359**	**1,329**	**30**	**2.3%**
Gross capital gains	261	404	(142)	-35.3%	0	1	(1)	-97.5%
Interest income	823	747	76	10.2%	413	386	27	7.0%
Postal savings	898	894	4	0.4%	431	444	(13)	-2.9%
Transaction banking	479	487	(9)	-1.8%	233	248	(15)	-5.9%
Distribution of third-party products	154	129	26	20.1%	77	71	6	8.7%
Asset management	50	44	5	12.2%	25	22	2	11.1%
Intersegment revenue	372	338	34	10.0%	179	156	23	14.7%
Costs	**2,602**	**2,635**	**(33)**	**-1.2%**	**1,185**	**1,159**	**25**	**2.2%**
of which:								
Total personnel expenses	22	50	(28)	-56.2%	10	28	(18)	-63.6%
of which personnel expenses	*21*	*43*	*(22)*	-50.8%	*10*	*22*	*(12)*	-54.1%
of which early retirement incentives	*1*	*7*	*(7)*	-90.1%	*0*	*6*	*(6)*	-98.2%
of which disputes and other extraordinary items	*0.0*	*(0.4)*	*0.4*	101.2%	*(0)*	*(0)*	*0*	89.1%
Other operating costs	*91*	*93*	(1)	-1.5%	*48*	*38*	10	25.8%
Intersegment costs	2,488	2,492	(3)	-0.1%	1,127	1,094	33	3.0%
EBITDA	**435**	**408**	**27**	**6.6%**	**174**	**169**	**5**	**2.7%**
Depreciation, amortisation and impairments	0.3	0.2	0.2	89.9%	0	0	0	107.4%
EBIT	**435**	**408**	**27**	**6.5%**	**174**	**169**	**4**	**2.6%**
EBIT margin	**14.3%**	13.4%			**12.8%**	12.7%		
Finance income/(costs)	(2)	6	(9)	-136.1%	(4)	4	(7)	-204.3%
Profit before tax	**432**	**414**	**18**	**4.4%**	**170**	**173**	**(3)**	**-1.7%**
Income tax expense	128	121	7	5.5%	55	53	2	4.2%
Net profit	**305**	**293**	**11**	**3.9%**	**114**	**120**	**(5)**	**-4.3%**

* The figures for H1 2018 and Q2 2018 have been reclassified on the basis of the new scope of the Payments, Mobile & Digital SBU.

STATEMENT OF PROFIT OR LOSS OF THE INSURANCE SERVICES STRATEGIC BUSINESS UNIT (€m)	H1 2019	H1 2018	INCREASE/ (DECREASE)		Q2 2019	Q2 2018	INCREASE/ (DECREASE)	
Revenue	**796**	**685**	**110**	**16.1%**	**458**	**362**	**96**	**26.7%**
Upfront Life	194	193	0	0.1%	80	76	4	4.9%
Net investment result Life	484	452	32	7.1%	279	254	25	9.9%
Technical margin Life	23	10	13	126.9%	13	8	5	61.7%
Change in other technical provisions and other technical costs/income	18	(33)	51	153.0%	45	(11)	56	504.6%
Net Life revenue	**718**	**622**	**96**	**15.5%**	**418**	**327**	**90**	**27.6%**
Premium revenue	108	82	27	32.9%	54	43	11	26.6%
Change in technical provisions and claims expenses	(28)	(21)	(8)	-36.6%	(14)	(13)	(1)	-6.6%
Result from reinsurance	(9)	(4)	(5)	-148.8%	(5)	1	(5)	-946.0%
Net P&C income (*)	0	0	0	82.8%	1	0	1	198.3%
Net P&C revenue	**72**	**58**	**14**	**24.5%**	**37**	**31**	**6**	**19.6%**
Other operating income	6	5	1	13.2%	3	3	1	21.1%
Intersegment revenue	0	1	(1)	-68.7%	0	1	(1)	-98.3%
Costs	**330**	**317**	**13**	**4.0%**	**149**	**141**	**8**	**5.5%**
of which:								
Total personnel expenses	20	20	1	3.2%	10	10	0	2.2%
of which personnel expenses	*20*	*19*	*1*	6.1%	*10*	*9*	*1*	7.9%
of which early retirement incentives	*0*	*1*	*(1)*	-100.0%	*0*	*1*	*(1)*	-100.0%
of which disputes and other extraordinary items	*0*	*0*	*0*	-	*0*	*0*	*0*	-
Other operating costs	*43*	*41*	2	4.3%	*20*	*20*	1	2.6%
Intersegment costs	267	256	10	4.0%	118	112	7	6.3%
of which fees	*252*	*237*	*16*	6.7%	*111*	*100*	*11*	10.5%
EBITDA	**466**	**368**	**98**	26.5%	**309**	**220**	**89**	40.2%
Depreciation, amortisation and impairments	11	8	4	44.1%	6	4	2	41.9%
EBIT	**454**	**360**	**94**	**26.1%**	**303**	**216**	**87**	**40.2%**
EBIT margin	**57.1%**	52.6%			**66.2%**	59.8%		
Finance income/(costs)	12	29	(17)	-58.8%	12	17	(6)	-32.5%
Profit before tax	**466**	**390**	**77**	**19.7%**	**315**	**234**	**81**	**34.9%**
Income tax expense	141	138	3	2.1%	95	77	18	22.9%
Net profit	**325**	**251**	**74**	**29.4%**	**220**	**156**	**64**	**40.7%**

FINANCIAL POSITION

NET INVESTED CAPITAL AND RELATED FUNDING

(€m)	At 30 June 2019	At 31 December 2018	Increase/(decrease)	
Property, plant and equipment and Investment property	1,954	1,993	(39)	-2.0%
Intangible assets	542	545	(3)	-0.6%
Right-of-use assets	1,321	-	1,321	n/s
Investments	493	497	(4)	-0.8%
Total non-current assets	**4,310**	**3,035**	**1,275**	**42.0%**
Trade receivables, Other receivables and assets and Inventories	6,990	6,914	76	1.1%
Trade payables and other liabilities	(4,660)	(5,282)	622	-11.8%
Current tax assets and liabilities	(230)	105	(335)	-319.0%
Net working capital	**2,100**	**1,737**	**363**	**20.9%**
Gross invested capital	**6,410**	**4,772**	**1,638**	**34.3%**
Provisions for risks and charges	(1,370)	(1,519)	149	-9.8%
Provisions for employee termination benefits	(1,188)	(1,187)	(1)	0.1%
Deferred tax assets/(liabilities)	728	666	62	9.3%
Net invested capital	**4,580**	**2,732**	**1,848**	**67.6%**
Equity	**8,114**	**8,105**	**9**	**0.1%**
of which: net profit	*763*	*1,399*	*(636)*	*-45.5%*
of which: fair value reserve	*(150)*	*(69)*	*(81)*	*117.2%*
Financial liabilities	80,557	66,929	13,628	20.4%
Technical provisions for the insurance business	134,003	125,076	8,927	7.1%
Financial assets	(212,963)	(190,864)	(22,099)	11.6%
Cash and deposits attributable to BancoPosta	(3,606)	(3,318)	(288)	8.7%
Cash and cash equivalents	(1,525)	(3,195)	1,670	-52.3%
Net cash position	**(3,534)**	**(5,372)**	**1,838**	**-34.2%**

n/s: not significant

(€m)

At 30 June 2019	Mail, Parcels & Distribution	Payments, Mobile and Digital	Financial Services	Insurance Services	Adjustments and elimination	Consolidated
Property, plant and equipment and Investment property	1,922	21	-	10	1	1,954
Intangible assets	465	28	-	48	1	542
Right-of-use assets	1,291	7	1	29	(7)	1,321
Investments	1,434	283	207	157	(1,588)	493
Total non-current assets	**5,112**	**339**	**208**	**244**	**(1,593)**	**4,310**
Trade receivables, Other receivables and assets and Inventories	2,812	385	2,618	2,584	(1,409)	6,990
Trade payables and other liabilities	(2,789)	(539)	(2,107)	(633)	1,408	(4,660)
Current tax assets and liabilities	(34)	(36)	(2)	(158)	-	(230)
Net working capital	**(11)**	**(190)**	**509**	**1,793**	**(1)**	**2,100**
Gross invested capital	**5,101**	**149**	**717**	**2,037**	**(1,594)**	**6,410**
Provisions for risks and charges	(915)	(9)	(435)	(11)	-	(1,370)
Provisions for employee termination benefits	(1,179)	(2)	(4)	(3)	-	(1,188)
Deferred tax assets/(liabilities)	392	21	149	167	(1)	728
Net invested capital	**3,399**	**159**	**427**	**2,190**	**(1,595)**	**4,580**
Equity	**2,635**	**290**	**2,477**	**4,299**	**(1,587)**	**8,114**
of which: net profit	*50*	*83*	*305*	*325*	-	*763*
of which: fair value reserve	*5*	-	*(170)*	*15*	-	*(150)*
Financial liabilities	3,132	5,151	79,356	332	(7,414)	80,557
Technical provisions for the insurance business	-	-	-	134,003	-	134,003
Financial assets	(1,388)	(5,009)	(77,716)	(135,571)	6,721	(212,963)
Cash and deposits attributable to BancoPosta	-	-	(3,606)	-	-	(3,606)
Cash and cash equivalents	(980)	(273)	(84)	(873)	685	(1,525)
Net cash position	**764**	**(131)**	**(2,050)**	**(2,109)**	**(8)**	**(3,534)**

n/s: not significant

(€m)

At 31 December 2018	Mail, Parcels & Distribution	Payments, Mobile and Digital	Financial Services	Insurance Services	Adjustments and elimination	Consolidated
Property, plant and equipment and Investment property	1,957	23	-	12	1	1,993
Intangible assets	467	30	-	48	-	545
Right-of-use assets	-	-	-	-	-	-
Investments	1,434	280	214	157	(1,588)	497
Total non-current assets	**3,858**	**333**	**214**	**217**	**(1,587)**	**3,035**
Trade receivables, Other receivables and assets and Inventories	2,534	382	2,798	2,433	(1,232)	6,914
Trade payables and other liabilities	(3,259)	(502)	(1,917)	(836)	1,231	(5,282)
Current tax assets and liabilities	86	(3)	1	22	(1)	105
Net working capital	**(639)**	**(123)**	**882**	**1,619**	**(2)**	**1,737**
Gross invested capital	**3,219**	**210**	**1,096**	**1,836**	**(1,589)**	**4,772**
Provisions for risks and charges	(980)	(16)	(512)	(11)	(1)	(1,519)
Provisions for employee termination benefits	(1,178)	(2)	(5)	(2)	1	(1,187)
Deferred tax assets/(liabilities)	389	15	135	127	1	666
Net invested capital	**1,450**	**207**	**714**	**1,950**	**(1,588)**	**2,732**
Equity	**2,581**	**243**	**2,911**	**3,958**	**(1,588)**	**8,105**
of which: net profit	*(372)*	*153*	*617*	*1,001*	*(0)*	*1,399*
of which: fair value reserve	*4*	-	*(71)*	*(1)*	-	*(69)*
Financial liabilities	1,259	4,307	67,022	1,035	(6,693)	66,929
Technical provisions for the insurance business	-	-	-	125,076	-	125,076
Financial assets	(1,417)	(4,097)	(64,578)	(126,545)	5,773	(190,864)
Cash and deposits attributable to BancoPosta	-	-	(3,318)	-	-	(3,318)
Cash and cash equivalents	(973)	(246)	(1,323)	(1,574)	921	(3,195)
Net cash position	**(1,131)**	**(36)**	**(2,197)**	**(2,008)**	**-**	**(5,372)**

n/s: not significant

(€m)

Changes 30 June 2019 vs 31 December 2018	Mail, Parcels & Distribution	Payments, Mobile and Digital	Financial Services	Insurance Services	Adjustments and elimination	Consolidated
Property, plant and equipment and Investment property	(35)	(2)	-	(2)	-	(39)
Intangible assets	(2)	(2)	-	-	1	(3)
Right-of-use assets	1,291	7	1	29	(7)	1,321
Investments	-	3	(7)	-	-	(4)
Total non-current assets	**1,254**	**6**	**(6)**	**27**	**(6)**	**1,275**
Trade receivables, Other receivables and assets and Inventories	278	3	(180)	151	(177)	76
Trade payables and other liabilities	470	(37)	(190)	203	177	622
Current tax assets and liabilities	(120)	(33)	(3)	(180)	1	(335)
Net working capital	**628**	**(67)**	**(373)**	**174**	**1**	**363**
Gross invested capital	**1,882**	**(61)**	**(379)**	**201**	**(5)**	**1,638**
Provisions for risks and charges	65	7	77	-	1	149
Provisions for employee termination benefits	(1)	-	1	(1)	(1)	(1)
Deferred tax assets/(liabilities)	3	6	14	40	(2)	62
Net invested capital	**1,949**	**(48)**	**(287)**	**240**	**(7)**	**1,848**
Equity	**54**	**47**	**(434)**	**341**	**1**	**9**
of which: fair value reserve	*1*	*-*	*(99)*	*16*	*-*	*(81)*
Financial liabilities	1,873	844	12,334	(703)	(721)	13,628
Technical provisions for the insurance business	-	-	-	8,927	-	8,927
Financial assets	29	(912)	(13,138)	(9,026)	948	(22,099)
Cash and deposits attributable to BancoPosta	-	-	(288)	-	-	(288)
Cash and cash equivalents	(7)	(27)	1,239	701	(236)	1,670
Net cash position	**1,895**	**(95)**	**147**	**(101)**	**(8)**	**1,838**

n/s: not significant

NET CASH POSITION OF THE MAIL, PARCELS AND DISTRIBUTION SEGMENT

(€m)

Net (cash)/debt position in accordance with ESMA guidelines	At 30 June 2019	At 31 December 2018	Increase/(decrease)	
A. Liquidity	**(980)**	**(973)**	**(7)**	**0.7%**
B. Current loans and receivables	**(35)**	**(57)**	22	-38.6%
C. Current bank borrowings	502	201	301	149.8%
D. Current lease liabilities	219	-	219	n/s
E. Current portion of non-current debt	1	-	1	n/s
F. Other current financial liabilities	13	23	(10)	-43.5%
G. Current financial debt (C+D+E)	**735**	**224**	**511**	**228.1%**
H. Current net (funds)/debt (A+B+F)	**(280)**	**(806)**	**526**	**-65.3%**
I. Non-current bank borrowings	173	-	173	n/s
L. Bond issues	50	50	0	n/s
M. Non-current lease liabilities	1,101	-	1,101	n/s
N. Other non-current liabilities	25	27	(2)	-7.4%
O. Non-current financial debt (H+I+J)	**1,349**	**77**	**1,272**	**1651.9%**
P. Net (cash)/debt (ESMA guidelines) (G+K)	**1,069**	**(729)**	**1,798**	**-246.6%**
Non-current financial assets	(568)	(570)	2	-0.4%
Net (cash)/debt	**501**	**(1,299)**	**1,800**	**-138.6%**
Intersegment loans and receivables and financial liabilities	263	168	95	56.5%
Net (cash)/debt including intersegment transactions	**764**	**(1,131)**	**1,895**	**-167.6%**

n/s: not significant

KEY PERFORMANCE INDICATORS FOR PRINCIPAL POSTE ITALIANE GROUP COMPANIES

The figures shown in the tables below reflect the financial and operational indicators 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	H1 2019	H1 2018	INCREASE/ (DECREASE)	
(€m)				
Revenue from sales and services	4,649,047	4,854,022	(204,975)	-4.2%
Operating profit/(loss)	565,204	904,617	(339,413)	-37.5%
Net profit/(loss)	403,190	695,562	(292,372)	-42.0%
Investment	194,883	121,350	73,533	60.6%
Equity(*)	5,092,055	5,458,747	(366,692)	-6.7%
Permanent workforce - average	119,454	123,678	(4,224)	-3.4%
Flexible workforce - average	7,013	8,056	(1,043)	-12.9%

(*) The figure in the column for H1 2018 refers to 31 December 2018.

POSTEL SPA	H1 2019	H1 2018	INCREASE/ (DECREASE)	
(€000)				
Revenue from sales and services	100,418	102,322	(1,904)	-1.9%
Operating profit/(loss)	669	(1,819)	2,488	136.8%
Net profit/(loss)	442	(644)	1,086	168.6%
Investment	2,651	1,439	1,212	84.2%
Equity(*)	84,237	83,962	275	0.3%
Permanent workforce - average	1,016	1,063	(47)	-4.4%
Flexible workforce - average	35	27	8	29.6%

(*) The figure in the column for H1 2018 refers to 31 December 2018.

SDA EXPRESS COURIER SPA	H1 2019	H1 2018	INCREASE/ (DECREASE)	
(€000)				
Revenue from sales and services	319,778	269,876	49,902	18.5%
Operating profit/(loss)	(25,721)	(29,389)	3,668	12.5%
Net profit/(loss)	(20,896)	(22,942)	2,046	8.9%
Investment	13,738	5,283	8,455	160.0%
Equity(*)	1,577	22,514	(20,937)	-93.0%
Permanent workforce - average	1,272	1,335	(63)	-4.7%
Flexible workforce - average	65	127	(62)	-48.8%

(*) The figure in the column for H1 2018 refers to 31 December 2018.

EUROPA GESTIONI IMMOBILIARI SPA	H1 2019	H1 2018	INCREASE/ (DECREASE)	
(€000)				
Revenue from sales and services	47,812	43,426	4,386	10.1%
Operating profit/(loss)	1,571	1,878	(307)	-16.3%
Net profit/(loss)	424	653	(229)	-35.1%
Investment	190	153	37	24.2%
Equity(*)	238,077	237,674	403	0.2%
Permanent workforce - average	29	28	1	3.6%
Flexible workforce - average	0	1	(1)	-100.0%

(*) The figure in the column for H1 2018 refers to 31 December 2018.

MISTRAL AIR SRL	H1 2019	H1 2018	INCREASE/ (DECREASE)	
(€000)				
Revenue from sales and services	21,493	25,872	(4,379)	-16.9%
Operating profit/(loss)	991	(4,031)	5,022	124.6%
Net profit/(loss)	202	(3,222)	3,424	106.3%
Investment	13	73	(60)	-82.2%
Equity(*)	1,030	845	185	21.9%
Permanent workforce - average	82	121	(39)	-32.2%
Flexible workforce - average	4	28	(24)	-85.7%

(*) The figure in the column for H1 2018 refers to 31 December 2018.

POSTE VITA SPA (*)	H1 2019	H1 2018	INCREASE/ (DECREASE)	
(€000)				
Insurance premium revenue (**)	10,039,480	8,815,652	1,223,828	13.9%
Net profit/(loss)	296,268	229,789	66,479	28.9%
Financial assets (***)	135,232,941	126,263,345	8,969,596	7.1%
Technical provisions for insurance business (***)	133,861,168	124,965,928	8,895,240	7.1%
Equity (***)	4,172,301	3,862,261	310,040	8.0%
Permanent workforce - average	392	395	(3)	-0.8%
Flexible workforce - average	6	3	3	100.0%

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

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

(***) The figure in the column for H1 2018 refers to 31 December 2018.

POSTE ASSICURA SPA (*)	H1 2019	H1 2018	INCREASE/ (DECREASE)	
(€000)				
Insurance premium revenue (**)	108,336	81,561	26,775	32.8%
Net profit/(loss)	26,028	20,125	5,903	29.3%
Financial assets (***)	337,490	281,905	55,585	19.7%
Technical provisions for insurance business (***)	212,514	183,077	29,437	16.1%
Equity (***)	168,407	139,723	28,684	20.5%
Permanent workforce - average	60	58	2	3.4%
Flexible workforce - average	0	1	(1)	-100.0%

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

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

(***) The figure in the column for H1 2018 refers to 31 December 2018.

BANCOPOSTA FONDI SPA SGR	H1 2019	H1 2018	INCREASE/ (DECREASE)	
(€000)				
Fee income	57,051	53,160	3,891	7.3%
Net fee income	21,020	25,622	(4,602)	-18.0%
Net profit/(loss)	7,562	12,746	(5,184)	-40.7%
Financial assets (liquidity and securities) (*)	88,867	70,827	18,040	25.5%
Equity (*)	45,529	60,709	(15,180)	-25.0%
Permanent workforce - average	39	56	(17)	-30.5%
Flexible workforce - average	0	1	(1)	-100.0%

(*) The figure in the column for H1 2018 refers to 31 December 2018.

POSTEPAY SPA	H1 2019	H1 2018	INCREASE/ (DECREASE)	
(€000)				
Revenue from sales and services	493,438	120,566	372,872	309.3%
Operating profit/(loss)	110,560	20,050	90,510	451.4%
Net profit/(loss)	78,942	14,383	64,559	448.9%
Investment	9,517	14,827	(5,310)	-35.8%
Equity (*)	288,415	243,059	45,356	18.7%
Permanent workforce - average	324	202	122	60.4%
Flexible workforce - average	0	0	-	-

(*) The figure in the column for H1 2018 refers to 31 December 2018.

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, 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:

ADJUSTED EBIT, NET PROFIT AND ROE – to provide an improved basis for assessment and comparison, the following statement shows the reconciliation of reported EBIT, net profit and ROE and adjusted EBIT, net profit and ROE:

CET1 CAPITAL: this indicator includes initial capital and retained earnings (Tier 1 capital), applied on a transitional basis (EU Regulation 2017/2395).

CET1 RATIO: this ratio measures the adequacy of Tier 1 capital with respect to Pillar 1 risks (operational, credit, counterparty and foreign exchange). It is the ratio of CET1 Capital to total Risk Weighted Assets (RWA).

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.

EBIT (Earnings before interest and taxes) - this is an indicator of operating profit before financial expenses and taxation.

EBIT margin – this is an indicator of the operating performance and is calculated as the ratio of operating profit (EBIT) to total revenue. This indicator is also presented separately for each Strategic Business Unit.

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

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

GROUP NET CASH POSITION - 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 Strategic Business Unit.

It is calculated as Surrenders / Mathematical Provisions (on a linear basis over 12 months).

LAPSE RATE: this is an indirect measure of customer loyalty. It is based on surrenders during the period as a percentage of mathematical provisions at the beginning of the period.

LEVERAGE RATIO: this is the ratio of CET1 Capital to total assets, the latter after adjustments for derivative financial instruments and off-balance sheet exposures.

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

NET CASH POSITION OF THE MAIL, PARCELS AND DISTRIBUTION STRATEGIC BUSINESS UNIT – 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.

NET INVESTED CAPITAL – this indicator represents 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 Strategic Business Unit.

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.

NON-CURRENT ASSETS – this indicator represents the sum of property, plant and equipment, intangible assets and investments measured using the equity method. This indicator is also presented separately for each Strategic Business Unit.

ROE (Return on Equity) – this is calculated as the ratio of annualised net profit to average equity (net of the fair value reserves) at the beginning and end of the reporting period.

RWA (Risk-Weighted Assets): this indicator measures the risk exposure of assets in accordance with Basel III regulations. Risk-Weighted Assets, or RWA, are calculated by applying a weighting to assets that takes into account the level of exposure to credit, counterparty, market and operational risk.

This indicator is also presented separately for each Strategic Business Unit.

TOTAL ASSETS: total assets in the statement of financial position.

TSR (Total Shareholder Return): this measures the total annual return for an investor and is calculated by adding the increase in the share price over a determinate period of time to the impact of dividends per share paid in the same period.

ADJUSTED EBIT, NET PROFIT AND ROE – to provide an improved basis for assessment and comparison, the following statement shows the reconciliation of reported EBIT, net profit and ROE and adjusted EBIT, net profit and ROE:

(€m)	H1 2018	H1 2019	H1 2019 vs H1 2018
REPORTED REVENUE	**5,430**	**5,521**	**92**
ADJUSTMENTS	**413**	**279**	**(134)**
Gross gains	*404*	*261*	*(142)*
Visa (FV measurement under IFRS 9)	*9*	*17*	*7*
Visa - gain on sale of shares	*0*	*1*	*1*
ADJUSTED REVENUE	**5,017**	**5,242**	**225**
REPORTED COSTS	**4,377**	**4,441**	**64**
ADJUSTMENTS	**61**	**23**	**(38)**
Early retirement incentives	*19*	*9*	*(11)*
Provision for real estate funds	*17*	*0.2*	*(17)*
Losses	*25*	*6*	*(19)*
Change in fair value of derivative hedging VISA shares	*0*	*9*	*9*
ADJUSTED COSTS	**4,316**	**4,418**	**102**
REPORTED EBIT	**1,053**	**1,081**	**28**
TOTAL ADJUSTED ITEMS	**(352)**	**(256)**	**96**
ADJUSTED EBIT	**701**	**825**	**123**
REPORTED PROFIT BEFORE TAX	**1,075**	**1,099**	**24**
ADJUSTED FINANCE COSTS	**0**	**0**	**0**
Impairment loss on financial receivable following sale of MCC	*0*	*0*	*0*
Impairment loss on Anima	*0*	*0*	*0*
ADJUSTED PROFIT BEFORE TAX	**723**	**843**	**120**
REPORTED NET PROFIT	**735**	**763**	**28**
ADJUSTMENTS	**(253)**	**(193)**	**60**
ADJUSTMENT TO EBIT (AFTER TAXATION)	*(253)*	*(185)*	*69*
*POSTE VITA - deferred tax assets**	*0*	*(9)*	*(9)*
ADJUSTED NET PROFIT	**482**	**570**	**88**

* Deferred tax assets on the non-deductible movement in technical provisions for the Life business

(€m)	H1 2018	H1 2019	H1 2019 vs H1 2018
NET PROFIT	**735**	**763**	**28**
ANNUALISED PROFIT**	*664*	*339*	*(325)*
ANNUALISED NET PROFIT (A)	*1,399*	*1,102*	*(296)*
AVERAGE EQUITY*	**7,659**	**8,306**	**647**
ROE	**18.3%**	**13.3%**	**-5.0%**
ANNUALISED ADJUSTMENTS TO NET PROFIT	*(236)*	*152*	*388*
ANNUALISED ADJUSTMENTS TO AVERAGE EQUITY	*(55)*	*(97)*	*(42)*
ADJUSTED ANNUALISED NET PROFIT	**1,163**	**1,254**	**91**
ADJUSTED AVERAGE EQUITY*	**7,604**	**8,210**	**605**
ADJUSTED ROE	**15.3%**	**15.3%**	**0.0%**

** Results and equity annualised on the basis of the second half of 2018.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

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 2019, the Company is 35% owned by CDP and 29.3% owned by the MEF, with the remaining shares held by institutional and retail investors. At 30 June 2019, the Parent Company holds 5,257,965 own shares (equal to 0.4026% of the share capital). 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 2019 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 adopted by the European Union and contained in the EU regulations published as of 30 July 2019, 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 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 2018, with the exception of the provisions of the new accounting standard, IFRS 16 – Leases, effective from 1 January 2019.

In order to provide a consistent basis of comparison with the accounts for the first half of 2018, a number of notes have been reclassified and certain changes have been made to presentation in the condensed statement of cash flows in order to make it more readily understandable. In particular, the sub-totals, "Cash generated by/(used for) assets and liabilities attributable to financial activities" and Cash generated by/(used for) assets and liabilities attributable to insurance activities" have been combined in a new line item "Cash generated by/(used for) financial assets and liabilities attributable to financial, payment service, card payment and insurance activities".

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.

With regard to the interpretation and application of newly published, or revised, international accounting standards, and to certain aspects of taxation[39], 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 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 2018.

The financial statements consolidated on a line-by-line basis have been specifically prepared at 30 2019, after appropriate adjustment, where necessary, to align accounting policies with those of the Parent Company.

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

Subsidiaries and joint ventures	At 30 June 2019	At 31 December 2018
Consolidated on a line-by-line basis	15	14
Accounted for using the equity method	5	6
Total companies	**20**	**20**

A list of companies consolidated on a line-by-line basis and using the equity method is provided in note 12 *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

[39] At the end of the first half of 2019, the decree coordinating application of the new accounting standard, IFRS16, effective from 1 January 2019, has yet to be published.

2018, in terms of either the type of estimates made or the methods of calculation and measurement adopted, with the exception of the estimates required by IFRS 16. These estimates are described in detail in note 3, “Changes to accounting policies”.

Revenue and receivables due from the State

Revenue from activities carried out in favour of or on behalf of the State and Public Administration entities is recognised on the basis of the amount effectively accrued, with reference to the laws and agreements in force, taking account, in any event, of the instructions contained in legislation regarding the public finance. The legal framework of reference is still subject to change and, as has at times been the case, circumstances were such that estimates made in relations to previous financial statements, with effects on the statement of profit and loss, had to be changed. The complex process associated with the determination of receivables, which has not been completed yet, may result in changes in the results for the accounting periods after the period ended 30 June 2019 to reflect variations in estimates, due to future regulatory enactments or following the finalisation of expired agreements to be renewed.

At 30 June 2019, Poste Italiane Group’s receivables outstanding with central and local authorities amounted to €845 million (€881 million at 31 December 2018), gross of provisions for doubtful debts.

The table below summarises receivables due from the State.

(€m)

Receivables	at 30 June 2019	at 31 December 2018
Universal Service compensation	53	31
Remuneration of current account deposits	43	39
Delegated services	28	28
Electoral subsidies	1	1
Other	2	1
Trade receivables due from the MEF	**127**	**100**
Shareholder transactions:		
Amount due from MEF following cancellation of EC Decision of 16 July 2008	**39**	**39**
Total amounts due from the MEF	**166**	**139**
Receivables due from Ministries and Public Administration entities: Cabinet Office for publisher tariff subsidies	133	104
Receivables due from Ministries and Public Administration entities: Ministry for Econ. Dev.	80	78
Other trade receivables due from Public Administration entities	407	490
Trade receivables due from Public Administration entities	**620**	**672**
Other receivables and assets:		
Sundry receivables due from Public Administration entities	**3**	**3**
Amounts receivable for IRES refund	55	55
Amounts receivable for IRAP refund	1	12
Current tax assets and related interest	**56**	**67**
Total amounts due from the MEF and Public Administration entities	**845**	**881**

At 30 June 2019, provisions for doubtful debts reflect receivables for which no provision had been made in the state budget and uncertainty regarding past due amounts due from the Public Administration.

Revenue from contracts with customers

The main factors in the recognition of revenue from contracts with customers include 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.

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 and stage allocation for financial instruments

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).

Impairment tests of goodwill, cash generating units and equity investments

Goodwill and other non-current assets are tested for impairment in accordance with IAS 36 – *Impairment of Assets*.

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 no goodwill is allocated, was tested for impairment.

The impairment tests at 30 June 2019 were performed on the basis of the five-year business plans of the CGUs (cash generating units) concerned or the latest available projections. Where required, the Discounted Cash Flow (DCF) method was applied to the resulting amounts. 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)[40]. With regard to the impairment test of the investment in FSIA Investimenti Srl, given the absence of reliable medium-term projections, the fair value of the investment at 30 June 2019 was determined (level 3 in the hierarchy) using market multiples. To identify the market multiple to use, reference was made to a study of a comparable company by a leading investment bank. The multiple used was 15.5 based on EBITDA for 2020 and 17.1 based on EBITDA for 2019.

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[40] In the test carried out at 30 June 2019, use was made of an assumed long-term growth rate of between 1.244% and 1.442%, while the WACCs, determined in accordance with best market practices and for each operating segment, ranged from a minimum of 6.30% to 8.56%. The cost of equity (Ke) is estimated as 8.06% for banking activities and 8.50% for asset management activities.

Figures from the last year of the plan, or the latest available projections, were used in determining the terminal value.

Impairment test of the Mail, Parcels and distribution segment

The current environment - 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 2019, 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 decline of the postal sector, the Parent Company's Mail, Parcels and Distribution CGU 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 CGU's value in use, reference was made to revenue and cost projections in the Strategic Plan for 2018-2022, updated to take into account the actual results for 2018 and best estimates for 2019. The terminal value, on the other hand, was determined on the basis of data for the latest explicit projection period, was based on normalised earnings, taking into account the existence of potential positive elements whose value was not reflected in the explicit projections over the life of the plan. Reference was also made to the transfer prices that BancoPosta RFC is expected to pay for the services provided by Poste Italiane's distribution network. A WACC of 6.30% 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. 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 property valuations carried out. 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 the Poste Vita group, 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.

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

Accounting standards and interpretations applicable from 1 January 2019:

- **IFRS 16** - *Leases*, adopted with Regulation (EU) no. 1986/2017. The new standard entails a substantial revision of the accounting treatment of lease contracts by lessees.
  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) the value of the asset on initial recognition must be equal to the present value of the lease payments periodically required by contract in order to have the right to use the asset;
  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 is reduced, as each periodic payment is made, by the same amount of the payment, and increased by the amount of interest accrued, as calculated on the basis of the internal rate indicated in the lease contract.

  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 lessee may elect not to apply IFRS 16, and to continue with the IAS 17.

- **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.
- **Interpretation IFRIC 23** - *Uncertainty over Income Tax Treatments*, adopted with Regulation (EU) no. 1595/2018. This interpretation aims to clarify how to reflect uncertainty in accounting for income tax.
- **Annual Improvements cycle in relation to IFRS 2015 – 2017** adopted with Regulation (EU) no. 412/2019; the amendments regard:
  - **Amendments to IFRS 3** – *Business Combinations*: the amendments clarify that when an entity obtains control of a business that is a joint operation, the transaction is a business combination achieved in stages.
  - **Amendments to IFRS 11** – *Joint Arrangements*: the amendments clarify that when a party that has an interest in a joint operation without having joint control obtains such control, it must remeasure the fair value of the previously held interest.
  - **Amendments to IAS 12** – *Income Taxes*: the amendments establish that an entity must recognise the income tax consequences of dividends, as defined in IFRS 9, when it recognises a liability to pay a dividend.
  - **Amendments to IAS 23** – *Borrowing Costs*: the amendments state that, to the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the

entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. However, an entity shall exclude from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete.

- **Amendments to IAS 28** – *Long-term Interests in Associates and Joint Ventures*, adopted with Regulation (EU) no. 237/2019. These amendments clarify that entities must apply IFRS 9 - Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied, without taking account of any adjustments to the carrying amount of such interests.
- **Amendments to IAS 19** – *Employee Benefits - Plan Amendment, Curtailment or Settlement*: adopted with Regulation (EU) no. 402/2019. The amendments to this standard aim to clarify that, following an amendment, curtailment or settlement of a defined benefit plan, the entity must apply updated assumptions when remeasuring its net defined benefit liability or asset for the remainder of the relevant period.

Accounting standards and interpretations soon to be effective

As of the reporting date for this interim report, the IASB has issued certain financial reporting standards, amendments and interpretations not yet endorsed by the European Commission:

- Amendments to the Conceptual Framework;
- IFRS 17 – *Insurance Contracts;*
- Amendments to IFRS 3: *Business Combinations*;
- Amendments to IAS 1 and IAS 8: *Definition of Material*.

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.

3. CHANGES TO ACCOUNTING POLICIES

3.1 BASIS OF PREPARATION

From 1 January 2019, the Poste Italiane Group has adopted *IFRS 16 – Leases* (adopted with Regulation (EU) no. 2017/1986). Below, details are provided of the new accounting policies introduced, the impact of first-time adoption on the statement of financial position and amounts recognised in the statement of financial position and the statement of profit or loss at and for the six months ended 30 June 2019.

3.1.1 IFRS 16 – LEASES

Initial assessment of the agreement

When entering into a lease contract, the Group determines if a contract contains a lease component. This initial assessment is only reviewed during the term of the contract if there are substantial modifications to the contract conditions (for example, modifications to the object of the contract or to requirements having an impact on the right to control the underlying asset). If the lease contract also contains a non-lease component, the Group separates this component and treats it in accordance with the related accounting standard, unless separation is not possible on the basis of objective criteria: in this case, the Group applies the practical expedient permitted by the standard, treating the lease component and any non-lease components in accordance with IFRS 16.

The Group recognises a right-of-use asset and a matching lease liability for all lease contracts in which it is the lessee, with the exception of short-term contracts (for up to 12 months), low-value contracts (where the underlying asset does not exceed US$5,000), and contracts where the underlying asset is an intangible asset (e.g. software licences). For these contracts, the Group has elected to exercise the option of continuing to apply IAS 17, thus recognising lease payments in operating costs, with a matching entry in short-term trade payables.

Right-of-use asset

At the date of inception of the lease, the Group recognises a right-of-use asset equal to the initial amount of the matching lease liability, plus lease payments due prior to the commencement date and any initial direct costs.

These assets are subsequently measured less accumulated depreciation and any accumulated impairment losses. The right-of-use asset is depreciated over the shorter of the lease term and the useful life of the underlying asset. Depreciation begins from the lease commencement date.

Right-of-use assets are presented in a separate line item in the statement of financial position.

Lease liability

The lease liability is initially measured at the present value of unpaid lease payments at the lease commencement date, discounted using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate, defined on the basis of the term of the borrowing and for each Group company, and periodically reviewed and revised (at least once a year).

The payments included in the initial measurement of the lease liability include:

- fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date (e.g. ISTAT indexes);
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

Variable lease payments that do not depend on an index or a rate are, in contrast, not included in the initial measurement of the lease liability. These payments are recognised as a cost in the statement of profit or loss in the period in which the event or the condition giving rise to the obligation occurs.

The lease liability is subsequently reduced to reflect the lease payments made and increased to reflect interest on the remaining amount (using the effective interest rate method).

The Group remeasures the lease liability (and accordingly adjusts the related right-of-use asset) when there is a change in:

- the lease term (for example, in the case of early termination of the contract or an extension of the lease);
- the assessment of a purchase option for the underlying asset; in these cases, lease payments due are

reviewed on the basis of the revised lease term and to take account of the change in the amounts payable in view of the purchase option;

- future lease payments deriving from a change in the index or rate used to determine the payments, or as a result of a renegotiation of the financial conditions.

Only in the case of a substantial and significant change in the lease term or in future lease payments does the Group remeasure the remaining lease liability with reference to the incremental borrowing rate at the date of the modification. In all other cases, the lease liability is remeasured using the initial discount rate.

Lease liabilities are presented in “Financial liabilities” in the statement of financial position.

3.2 USE OF ESTIMATES IN RELATION TO IFRS 16

The following is a description of the main estimated used by the Poste Italiane Group at 30 June 2019 in accordance with IFRS 16.

Incremental borrowing rate

The Group has opted to use an incremental borrowing rate or “IBR**”** in line with a hypothetical loan obtained in the current economic environment, and applied to groups of contracts with similar remaining terms and to similar companies. In particular, each IBR takes account of the risk-free rate identified on the basis of factors such as the economic environment, currency, contract term and credit spread reflecting the companies’ organisation and financial structure. The IBR associated with the commencement of each contract will be reviewed whenever there is a lease modification, meaning substantial and significant changes to the contract conditions over the life of the agreement (e.g. the lease term or the amount of future lease payments).

Lease term

With regard to determination of the lease term at the commencement date or of the remaining term at a later date (in the event of substantial and significant changes to contract conditions) and, in particular, for property leases, the Group uses a valuation approach based primarily on the expected duration of the obligation as per the agreement between the parties and/or in the legal framework of reference (Law 392 of 27 July 1978), and it expects an extension of the lease due to an interpretation/forecast of events, circumstances and future intentions, including of a strategic nature, of both the lessor and the lessee. This has resulted in a set of rules for determining the lease term, to be applied to leased properties classified previously in three distinct clusters: properties where the lease is subject to legal restrictions and high commercial-value properties; properties for civilian use, such as the company accommodation for Group employees and executives; and other properties used in operations.
The lease term for all the other agreements was set as equal to the duration of the obligation agreed upon between the parties, in keeping with future intent in wanting and being able to complete the term and past experience.

3.3 IMPACT OF FIRST-TIME ADOPTION OF IFRS 16 ON THE STATEMENT OF FINANCIAL POSITION

Approach and effects of transition

At 1 January 2019, the Group recognised the following types of agreement/asset included within the scope of application of the standard:

- Properties used in operations (e.g. those used as post offices or operational sites);
- Properties not used in operations, providing accommodation for employees and executives;
- Leased vehicles for the corporate fleet;
- Leased vehicles for personal use by staff;
- Aircraft used by the Group's airline;
- IT equipment and devices of various type.

Of the methods allowed for the transition to IFRS 16, the Poste Italiane Group opted for the simplified retrospective approach that requires the recognition of:

- the financial liability of the lease starting from the date of initial application and taking into account future lease payments until contract expiration;
- the right-of-use asset at an amount equal to the financial liability of the lease as adjusted for any prepayments or accrued liabilities related to the leases reported in the statement of financial position immediately prior to first-time adoption.

The approach does not require the restatement of comparative data and allows the use of practical expedients to calculate financial liabilities and right-of-use assets at the transition date.

At 1 January 2019, the Group recognised right-of-use assets of €1,374 million, in relation to leases previously classified as operating leases under IAS 17, and financial liabilities totalling €1,373 million (equal to the present value of remaining payments). The difference regards adjustments to right-of-use assets due to prepayments or accrued liabilities at 31 December 2018 on leases recognised under IAS 17 immediately prior to first-time adoption of IFRS 16.
The following statement shows the impact of first-time adoption on the Group's statement of financial position.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 1 JANUARY 2019

(€m)

ASSETS	Balance at 31 December 2018	IFRS 16 effects	Balance at 1 January 2019
Non-current assets			
Property, plant and equipment	1,945	-	1,945
Investment property	48	-	48
Intangible assets	545	-	545
Right of use assets	-	1,374	1,374
Investments accounted for using the equity method	497	-	497
Financial assets	170,922	-	170,922
Trade receivables	7	-	7
Deferred tax assets	1,368	-	1,368
Other receivables and assets	3,469	-	3,469
Technical provisions attributable to reinsurers	71	-	71
Total	**178,872**	**1,374**	**180,246**
Current assets			
Inventories	136	-	136
Trade receivables	2,192	-	2,192
Current tax assets	117	-	117
Other receivables and assets	1,111	(2)	1,109
Financial assets	19,942	-	19,942
Cash and deposits attributable to BancoPosta	3,318	-	3,318
Cash and cash equivalents	3,195	-	3,195
Total	**30,011**	**(2)**	**30,009**
Non-current assets and disposal groups held for sale	-	-	-
TOTAL ASSETS	**208,883**	**1,372**	**210,255**

LIABILITIES AND EQUITY	Balance at 31 December 2018	IFRS 16 effects	Balance at 1 January 2019
Equity			
Share capital	1,306	-	1,306
Reserves	1,531	-	1,531
Retained earnings	5,268	-	5,268
Equity attributable to owners of the Parent	**8,105**	**-**	**8,105**
Equity attributable to non-controlling interests			
Total	**8,105**	**-**	**8,105**
Non-current liabilities			
Technical provisions for insurance business	125,149	-	125,149
Provisions for risks and charges	656	-	656
Employee termination benefits	1,187	-	1,187
Financial liabilities	7,453	1,146	8,599
Deferred tax liabilities	701	-	701
Other liabilities	1,379	-	1,379
Total	**136,525**	**1,146**	**137,671**
Current liabilities			
Provisions for risks and charges	863	-	863
Trade payables	1,583	-	1,583
Current tax liabilities	12	-	12
Other liabilities	2,319	(1)	2,318
Financial liabilities	59,476	227	59,703
Total	**64,253**	**226**	**64,479**
TOTAL EQUITY AND LIABILITIES	**208,883**	**1,372**	**210,255**

The table below show the reconciliation between the lease commitments at 31 December 2018 and the amount of the lease liabilities recognised at 1 January 2019.

Reconciliation of lease commitments/liabilities at 1 January 2019	(€m)
Item	
Operating lease commitments at 31 December 2018	780
Short-term lease exemption 31 December 2018	(5)
Low-value exemption at 31 December 2018	(5)
Lease liabilities at 31 December 2018 within scope of IFRS 16	**770**
Adjustment following different treatment of extension and termination options	760
Undiscounted lease liabilities at 1 January 2019	**1,530**
Adjustment for discounted lease liabilities at 1 January 2019	(157)
Lease liabilities resulting from application of IFRS 16 at 1 January 2019	**1,373**

The incremental borrowing rate used at the date of first-time adoption is 2.2%.

Practical expedients adopted

On first-time adoption of IFRS 16, the Group used the following practical expedients permitted by the standard:

- regarding the identification of contracts in scope, the Group elected not to remeasure contracts outstanding at the date of transition that had (or had not been) classified previously as leases or as containing a lease component. As a result of this expedient, all lease contracts or contracts containing a lease component, which had been accounted for in accordance with IAS 17, now fall within the scope of IFRS 16;
- non-lease components were not separated from the lease components in rental contracts for the corporate fleet and vehicles for personal use.

3.4 IMPACT OF THE ADOPTION OF IFRS 16 AT 30 JUNE 2019

Movements in right-of-use assets (€m)

	Properties used in operations	Corporate fleet	Vehicles for personal use	Other assets	Total
Cost	**1,233**	**121**	**12**	**8**	**1,374**
Accumulated depreciation and impairments	-	-	-	-	-
Balance at 1 January 2019	**1,233**	**121**	**12**	**8**	**1,374**
Movements during the period					
Additions due to new contracts	32	7	2	19	60
Contract modifications	2	-	-	-	2
Contract terminations	(6)	-	-	-	(6)
Depreciation and impairments	(74)	(30)	(2)	(3)	(109)
Total movements	**(46)**	**(23)**	**-**	**16**	**(53)**
Cost	1,262	128	14	26	1,430
Accumulated depreciation and impairments	(74)	(30)	(2)	(3)	(109)
Balance at 30 June 2019	**1,188**	**98**	**12**	**23**	**1,321**

Additions during the period primarily refer to the Parent Company (€49 million) and regard new property leases (€28 million), the lease of IT equipment (€17 million) and the lease of company vehicles (€4 million).

The following table shows amounts recognised in the statement of profit or loss for the reporting period:

Amounts recognised in profit or loss at 30 June 2019 (€m)

Item	
Depreciation of right-of-use assets	109
Interest expense on lease liabilities	14
Cost of short-term leases	4
Cost of low-value leases	21
Cost of leases of intangible assets	5
Other costs outside of scope of IFRS 16	12
Total	**165**

Total cash outflows for leases during the period amount to €64 million, whilst expected cash outflows in future years (including principal and interest) relating to lease liabilities at 30 June 2019 are shown below:

(€m)

Liquidity risk - lease liabilities	at 30 June 2019			
	Within 12 months	Between 1 and 5 years	Over 5 years	Total
Lease liabilities	233	631	611	1,476

4. MATERIAL EVENTS DURING THE PERIOD

4.1 PRINCIPAL CORPORATE ACTIONS

The following corporate actions took place in the first half of 2019:

- On 12 April 2019, Poste Assicura established Poste Insurance Broker Srl, an insurance brokerage company, to operate as a distributor and insurance and reinsurance broker, subject to entry in the relevant register held by the insurance regulator, IVASS.
- On 7 May 2019, Poste Italiane signed a Letter of Intent with the German digital road-freight-forwarder, sennder GmbH, with the aim of establishing a joint venture in Italy with the aim of boosting the efficiency of long-haul logistics operations. The new company is expected to begin operating in the third quarter of 2019.
- On 5 June 2019, the company, Risparmio Holding, which was already in liquidation, was struck off the Companies' Register.
- On 27 June 2019, the Board of Directors of Poste Italiane approved the partial demerger of the business unit responsible for commercial and customer care activities relating to SDA's Express Parcel Delivery services to Poste Italiane. The transaction had already been approved by an Extraordinary General Meeting of SDA Express Courier's shareholders.
  Furthermore, on 25 June, an agreement was signed that will result in the transfer to Poste Italiane of SDA Express Courier's Information and Communication Technology business unit. The transfer, which came into effect on 1 July 2019, is aimed at improving the efficiency of subsidiaries' ICT processes by centralising these activities within Poste Italiane.

4.2 OTHER MATERIAL EVENTS

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. In the period between 4 February and 29 March 2019, Poste Italiane SpA began and completed the buyback programme[41] through direct purchases on the MTA market. On completion of the programme, Poste Italiane holds 5,257,965 own shares with a total value of €40 million (an average price of €7.608), equal to 0.4026% of the share capital.

[41] The programme was conducted in accordance with the related shareholder resolution and in compliance with art. 144-*bis*, paragraph 1.B) of CONSOB Regulation 11971/1999 and the applicable provisions, in such a manner as to ensure equal treatment for shareholders pursuant to art. 132 of the Consolidated Law on Finance, and in accordance with the operating procedures required by the organizational and operational arrangements of Borsa Italiana SpA.

5. POSTE ITALIANE GROUP FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

5.1 CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(€m)

ASSETS	Note	at 30 June 2019	*of which, related party transactions*	at 31 December 2018	*of which, related party transactions*
Non-current assets					
Property, plant and equipment	[A1]	1,908	-	1,945	-
Investment property	[A2]	46	-	48	-
Intangible assets	[A3]	542	-	545	-
Right-of-use assets	[3]	1,321		-	
Investments accounted for using the equity method	[A4]	493	*493*	497	*497*
Financial assets	[A5]	184,274	*4,491*	170,922	*5,101*
Trade receivables	[A7]	6	-	7	-
Deferred tax assets	[C13]	1,475	-	1,368	-
Other receivables and assets	[A8]	3,474	*1*	3,469	*1*
Technical provisions attributable to reinsurers		71	-	71	-
Total		**193,610**		**178,872**	
Current assets					
Inventories	[A6]	141	-	136	-
Trade receivables	[A7]	2,363	*706*	2,192	*661*
Current tax assets	[C13]	111	-	117	-
Other receivables and assets	[A8]	1,006	*3*	1,111	*7*
Financial assets	[A5]	28,689	*10,353*	19,942	*6,004*
Cash and deposits attributable to BancoPosta	[A9]	3,606	-	3,318	-
Cash and cash equivalents	[A10]	1,525	*64*	3,195	*1,306*
Total		**37,441**		**30,011**	
TOTAL ASSETS		**231,051**		**208,883**	

LIABILITIES AND EQUITY	Note	at 30 June 2019	*of which, related party transactions*	at 31 December 2018	*of which, related party transactions*
Equity					
Share capital	[B2]	1,306	-	1,306	-
Reserves	[B4]	1,435	-	1,531	-
Own shares		(40)		-	
Retained earnings		5,413	-	5,268	-
Equity attributable to owners of the Parent		**8,114**		**8,105**	
Equity attributable to non-controlling interests		-	-	-	-
Total		**8,114**		**8,105**	
Non-current liabilities					
Technical provisions for insurance business	[B5]	134,074	-	125,149	-
Provisions for risks and charges	[B6]	590	*57*	656	*58*
Employee termination benefits	[B7]	1,188	-	1,187	-
Financial liabilities	[B8]	11,993	*8*	7,453	*20*
Deferred tax liabilities	[C13]	747	-	701	-
Other liabilities	[B10]	1,300	-	1,379	-
Total		**149,892**		**136,525**	
Current liabilities					
Provisions for risks and charges	[B6]	780	*11*	863	*12*
Trade payables	[B9]	1,521	*94*	1,583	*150*
Current tax liabilities	[C13]	341	-	12	-
Other liabilities	[B10]	1,839	*59*	2,319	*75*
Financial liabilities	[B8]	68,564	*109*	59,476	*3,970*
Total		**73,045**		**64,253**	
TOTAL EQUITY AND LIABILITIES		**231,051**		**208,883**	

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(€m)

	Note	For the six months ended 30 June 2019	*of which, related party transactions*	For the six months ended 30 June 2018	*of which, related party transactions*
Revenue from Mail, Parcels & other	[C1]	1,755	*250*	1,761	*249*
Revenue from Payments, Mobile & Digital	[C2]	306	*26*	307	*30*
Revenue from Financial Services	[C3]	2,664	*1,013*	2,676	*979*
Revenue from Insurance Services after movements in technical provisions and other claims expenses	[C4]	795	*8*	685	*8*
Insurance premium revenue		10,126	-	8,871	-
Income from insurance activities		3,264	*8*	1,729	*8*
Net change in technical provisions for insurance business and other claim expenses		(12,480)	-	(9,078)	-
Expenses from insurance activities		(115)	-	(837)	-
Net operating revenue		**5,520**		**5,429**	
Cost of goods and services	[C5]	1,089	*87*	1,126	*93*
Expenses from financial activities	[C6]	35	*3*	35	*1*
Personnel expenses	[C7]	2,832	*23*	2,846	*21*
Depreciation, amortisation and impairments	[C8]	381	-	272	-
Capitalised costs and expenses	[C9]	(14)	-	(6)	-
Other operating costs	[C10]	87	*1*	93	*4*
Impairment loss/(reversal) on debt instruments, receivables and other assets	[C11]	29	-	10	-
Operating profit/(loss)		**1,081**		**1,053**	
Finance costs	[C12]	40	-	40	-
Finance income	[C12]	54	-	54	-
Impairment loss/(reversal) on financial instruments		-	-	-	-
Profit/(Loss) on investments accounted for using the equity method	[A4]	4	-	8	-
Profit/(Loss) before tax		**1,099**		**1,075**	
Income tax expense	[C13]	336	-	340	-
NET PROFIT FOR THE PERIOD		**763**		**735**	
of which, attributable to owners of the Parent		763		735	
of which, attributable to non-controlling interests		-		-	

Earnings per share	[B1]	**0.587**		**0.563**	
Diluted earnings per share		**0.587**		**0.563**	

CONSOLIDATED STATEMENT OF COMPEHENSIVE INCOME

(€m)

	Note	For the six months ended 30 June 2019	For the year ended 31 December 2018	For the six months ended 30 June 2018
Net profit/(loss) for the period		**763**	**1,399**	**735**
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]	93	(1,946)	(1,656)
Transfers to profit or loss	[tab. B4]	(211)	(396)	(381)
Increase/(Decrease) for expected credit loss		3	(1)	(3)
Cash flow hedges				
Increase/(decrease) in fair value during the period	[tab. B4]	61	191	135
Transfers to profit or loss	[tab. B4]	(80)	19	(1)
Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the period		39	609	544
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		(1)	-	-
After-tax increase/(decrease) in reserves related to group of assets and liabilites held for sale	[tab. B4]	-	-	-
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]	(62)	16	7
Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the period		18	(4)	(2)
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		-	-	-
Total other comprehensive income		**(140)**	**(1,511)**	**(1,357)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**623**	**(112)**	**(622)**
of which, attributable to owners of the Parent		623	(112)	(622)
of which, attributable to non-controlling interests		-	-	-

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(€m)

	Equity										
			Reserves								
	Share capital	Own shares	Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Reserve for investees accounted for using equity method	Retained earnings / (Accumulated losses)	Total equity attributable to owners of the Parent	Equity attributable to non-controlling interests	Total equity
Balance at 1 January 2018	**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**
Total comprehensive income for the period	-	-	-	-	(215)	54	-	671	510	-	**510**
Dividends paid	-	-	-	-	-	-	-	-	-	-	**-**
Other changes	-		-	210	-	-	-	(210)	-	-	**-**
Balance at 31 December 2018	**1,306**	**-**	**299**	**1,210**	**(69)**	**89**	**2**	**5,268**	**8,105**	**-**	**8,105**
Total comprehensive income for the period	-	-	-	-	(81)	(14)	(1)	719 (*)	623	-	**623**
Dividends paid	-	-	-	-	-	-	-	(574)	(574)	-	**(574)**
Other changes	-	(40)	-		-	-	-		(40)	-	**(40)**
Balance at 30 June 2019	**1,306**	**(40)**	**299**	**1,210**	**(150)**	**75**	**1**	**5,413**	**8,114**	**-**	**8,114**

* This item includes profit for the period of €763 million and actuarial losses on provisions for employee termination benefits of €44 million, after the related current and deferred taxation.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(€m)

		For the six months ended 30 June 2019	For the six months ended 30 June 2018
Unrestricted net cash and cash equivalents at beginning of period		**1,639**	**1,978**
Unrestricted net cash and cash equivalents at beginning of period		1,556	448
Current account overdrafts		-	1
Cash and cash equivalents at beginning of period		**3,195**	**2,428**
Cash and cash equivalents at beginning of period		**3,195**	**2,428**
Profit/(loss) for the period		763	735
Depreciation, amortisation and impairments		381	272
Losses and impairments/(recoveries) on receivables		22	13
(Gains)/Losses on disposals		1	-
(Increase)/decrease in inventories		(5)	-
(Increase)/decrease in receivables and other assets		(186)	(533)
Increase/(decrease) in payables and other liabilities		(190)	(242)
Movement in provisions for risks and charges		(149)	(99)
Movement in provisions for employee termination benefits and pension plans		(62)	(47)
Differences in accrued finance costs and income (cash correction)		20	(28)
Other changes		(7)	147
Net cash flow generated by/(used in) non-financial operating activities	[a]	588	218
Increase/(decrease) in liabilities attributable to financial activities		9,273	4,557
Net cash generated by/(used for) held for trading financial assets attributable to financial activities		(11,858)	(7,603)
(Income)/Expenses and other non-cash components		(3,278)	(1,453)
Increase/(decrease) in net technical provisions for insurance business		4,793	5,132
Cash generated by/(used for) financial assets and liabilities attributable to financial, payment service, card payment and insurance	[b]	(1,070)	633
Net cash flow from/(for) operating activities	**[c]=[a+b]**	**(482)**	**851**
- of which, related party transactions		**(7,752)**	**(7,616)**
Investing activities			
Property, plant and equipment, investment property and intangible assets		(230)	(151)
Investments		-	(30)
Other financial assets		(1)	-
Disposals			
Property, plant and equipment, investment property and intangible assets and assets held for sale		-	2
Investments		1	-
Other financial assets		23	163
Net cash flow from/(for) investing activities	**[d]**	**(207)**	**(16)**
- of which, related party transactions		**19**	**134**
Proceeds from/(Repayments of) borrowings		(367)	(1,011)
(Increase)/decrease in loans and receivables		-	-
(Purchase)/disposal of own shares		(40)	-
Dividends paid		(574)	(549)
Net cash flow from/(for) financing activities and shareholder transactions	**[e]**	**(981)**	**(1,560)**
- of which, related party transactions		**(364)**	**(406)**
Net increase/(decrease) in cash	**[f]=[c+d+e]**	**(1,670)**	**(725)**
Cash and cash equivalents at end of period		**1,525**	**1,703**
Cash and cash equivalents at end of period		**1,525**	**1,703**
Cash and cash equivalents at end of period		(617)	(541)
Current account overdrafts		-	-
Unrestricted net cash and cash equivalents at end of period		**908**	**1,162**

5.2 NOTES TO THE STATEMENT OF FINANCIAL POSITION

ASSETS

A1 – PROPERTY, PLANT AND EQUIPMENT (€1,908 million)

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	2,999	2,198	319	515	1,909	55	8,071
Accumulated depreciation	-	(1,871)	(1,856)	(291)	(315)	(1,710)	-	(6,043)
Accumulated impairments	-	(58)	(11)	(1)	(11)	(2)	-	(83)
Balance at 1 January 2019	**76**	**1,070**	**331**	**27**	**189**	**197**	**55**	**1,945**
Movements during the period								
Additions	-	11	22	3	16	17	50	119
Adjustments	-	-	-	-	-	-	-	-
Reclassifications	-	6	5	-	5	5	(21)	-
Disposals	-	-	-	-	-	-	-	-
Depreciation	-	(57)	(37)	(4)	(17)	(44)	-	(159)
(Impairments)/Reversal of impairments	-	2	-	-	1	-	-	3
Total movements	**-**	**(38)**	**(10)**	**(1)**	**5**	**(22)**	**29**	**(37)**
Cost	76	3,016	2,191	318	536	1,923	84	8,144
Accumulated depreciation	-	(1,928)	(1,859)	(291)	(332)	(1,746)		(6,156)
Accumulated impairments	-	(56)	(11)	(1)	(10)	(2)	-	(80)
Balance at 30 June 2019	**76**	**1,032**	**321**	**26**	**194**	**175**	**84**	**1,908**

At 30 June 2019, 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 €39 million.

Capital expenditure of €119 million in the first half of 2019 consists largely of:

- €50 million relating to assets under construction, of which €38 million attributable to the Parent Company, and including €12 million for the restyling of post offices, €9 million for the renovation of primary distribution centres and €9 million for the purchase of new computer hardware and other equipment yet to enter service;
- €27 million in investment in the upgrade of plant and the structure of properties held under lease (€16 million accounted for in "Leasehold improvements") and owned property used in operations (€11 million accounted for in "property used in operations");
- €22 million relating to plant, with the most significant expenditure made by the Parent Company, of which €9 million for plant and equipment related to buildings, €5 million for the purchase of telecommunications infrastructure and €3 million for the installation of ATMs;
- €17 million relating to "Other assets", including €12 million in expenditure by the Parent Company, of which €8 million for the purchase of new computer hardware for post offices and head offices and the consolidation of storage systems and approximately €3 million invested by PostePay SpA in "PosteMobile Casa" devices.

Reclassifications from assets under construction, totalling €21 million, relate to the entry into service of hardware held in storage and completion of the process of restyling leased and owned properties.

A2 – INVESTIMENT PROPERTY (€46 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 2019
Cost	139
Accumulated depreciation	(91)
Accumulated impairments	-
Balance at 1 January	**48**
Movements during the period	
Additions	-
Disposals	-
Depreciation	(2)
(Impairments)/Reversal of impairments	-
Total movements	**(2)**
Cost	139
Accumulated depreciation	(93)
Accumulated impairments	-
Balance at end of period	**46**
Fair value at end of period	*100*

The fair value of investment property at 30 June 2019 includes €65 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[42].

[42] 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 (€542 million)

The following table shows carrying amounts and movements in intangible assets in the first half of 2019:

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	3,109	156	120	101	3,486
Accumulated amortisation and impairments	(2,743)	-	(102)	(96)	(2,941)
Balance at 1 January 2019	**366**	**156**	**18**	**5**	**545**
Movements during the period					
Additions	22	89	-	-	111
Reclassifications	75	(75)	-	-	-
Transfers and disposals	(1)	1	-	-	-
Amortisation and impairments	(113)	-	-	(1)	(114)
Total movements	**(17)**	**15**	**-**	**(1)**	**(3)**
Cost	3,198	171	120	102	3,591
Accumulated amortisation and impairments	(2,849)	-	(102)	(98)	(3,049)
Balance at 30 June 2019	**349**	**171**	**18**	**4**	**542**

During the first half of 2019, investment in industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights (€22 million) relate primarily to the acquisition of software licences.

The balance of intangible assets under construction includes the activities involved in the Parent Company's development of software for the infrastructure platform (€60 million), for BancoPosta services (€44 million), for use in providing support to the sales network (€30 million) and for the postal products platform (€18 million). The increase during the period (€89 million), relating primarily to the development of software for the infrastructure platform and BancoPosta services, includes €13 million regarding software developed internally by the Group.

During the period, the Group effected reclassifications from intangible assets under construction to industrial patents and intellectual property rights amounting to €75 million, reflecting the completion and commissioning of software and the upgrade of existing software.

Goodwill allocated to the subsidiary, Poste Welfare Servizi Srl (€18 million) has been tested for impairment as required by IAS 36. Based on the information available and the impairment tests conducted, there has been no need to recognise impairment losses on the goodwill recognised.

RIGHT-OF-USE ASSETS (€1,321 million)

Movements in this item during the period are shown in note 3 – *Changes to accounting policies.*

A4 – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (€493 million)

tab. A4 - Investments (€m)

Item	Balance at 30 June 2019	Balance at 31 December 2018
Investments in associates	208	214
Investments in subsidiaries	2	3
Investments in joint ventures	283	280
Total	**493**	**497**

Movements in investments accounted for using the equity method during the six months ended 30 June 2019

Investments	Balance at 1 January 2019	Additions / (Reductions)	Adjustments		Balance at 30 June 2019
			accounted for using the equity method	dividend adjustments	
in subsidiaries					
Kipoint SpA	1	-	-	-	1
Indabox Srl	1	-	-	-	1
Risparmio Holding SpA - in liquidation	1	(1)	-	-	-
Total subsidiaries	**3**	**(1)**	**-**	**-**	**2**
in joint ventures					
Fsia Investimenti Srl	280	(1)	4	-	283
Total joint ventures	**280**	**(1)**	**4**	**-**	**283**
in associates					
Anima Holding SpA	214	-	-	(6)	208
Total associates	**214**	**-**	**-**	**(6)**	**208**
Total	**497**	**(2)**	**4**	**(6)**	**493**

The reduction in **Investments in associates** reflects the reduction of €6 million in the carrying amount of the investment in Anima Holding due to the dividends received for 2018. At 30 June 2019, given the 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[43], there was no need to recognise an impairment loss on the goodwill accounted for at the time of acquisition of the investment.

Investments in joint ventures refer to the investment in FSIA Investimenti Srl. The increase of approximately €3 million primarily reflects an increase in the share of the joint venture's results[44], after amortisation of the intangible assets identified at the time of the purchase price allocation.

On 14 March 2019, FSIA Investimenti Srl announced its intention to exercise its call option on 7.934% of the shares in SIA SpA held by UniCredit SpA and Intesa SanPaolo SpA and, following exercise of this option, on 28 May 2019 signed the relevant agreement. Effectiveness of the transaction is conditional on obtaining the necessary clearance from the relevant authorities. On 27 May 2019, the shareholders agreements that gave FSIA Investimenti, together with other shareholders, joint control of SIA expired. The shareholder agreement between Poste Italiane and FSI Investimenti SpA entered into on 16 September 2016, relating to their investment in FSIA Investimenti Srl, remains in force, meaning that the investment continues to be classified as a joint venture.

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[43] Value in use was determined using a cost of equity (Ke) of 8.50% (8.51% at 31 December 2018) and a growth rate of 1.244% (1.475% at 31 December 2018).

[44] 31 March 2019 is the date of the latest available financial statements.

A5 – FINANCIAL ASSETS (€212,963 million)

tab. A5 - Financial assets

Financial assets (€m)

Item	Balance at 30 June 2019			Balance at 31 December 2018		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Financial assets at amortised cost	25,298	18,235	43,533	22,965	9,904	32,869
Financial assets at FVTOCI	125,718	10,100	135,818	118,994	8,761	127,755
Financial assets at fair value through profit or loss	33,168	345	33,513	28,753	1,074	29,827
Derivative financial instruments	90	9	99	210	203	413
Total	**184,274**	**28,689**	**212,963**	**170,922**	**19,942**	**190,864**

Financial assets by type of activity (€m)

Item	Balance at 30 June 2019			Balance at 31 December 2018		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
FINANCIAL SERVICES	56,561	20,304	76,865	51,575	12,143	63,718
Financial assets at amortised cost	23,870	17,924	41,794	21,507	9,714	31,221
Financial assets at FVTOCI	32,539	2,371	34,910	29,808	2,263	32,071
Financial assets at fair value through profit or loss	62	-	62	50	8	58
Derivative financial instruments	90	9	99	210	158	368
INSURANCE SERVICES	127,146	8,197	135,343	118,778	7,688	126,466
Financial assets at amortised cost	1,391	127	1,518	1,420	85	1,505
Financial assets at FVTOCI	92,649	7,725	100,374	88,655	6,492	95,147
Financial assets at fair value through profit or loss	33,106	345	33,451	28,703	1,066	29,769
Derivative financial instruments	-	-	-	-	45	45
MAIL, PARCELS AND DISTRIBUTION	567	35	602	569	58	627
Financial assets at amortised cost	37	31	68	38	52	90
Financial assets at FVTOCI	530	4	534	531	6	537
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
PAYMENT SERVICES AND CARD PAYMENTS	-	153	153	-	53	53
Financial assets at amortised cost	-	153	153	-	53	53
Total	**184,274**	**28,689**	**212,963**	**170,922**	**19,942**	**190,864**

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.
- Payment Services and Card Payments, representing the financial assets held by the ring-fenced EMI.

FINANCIAL SERVICES

Financial assets at amortised cost

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

	Receivables	Fixed income instruments	Total
Balance at 1 January 2019	**8,349**	**22,872**	**31,221**
Purchases		1,941	1,941
Changes in amortised cost	-	(28)	(28)
Changes in fair value through profit or loss	-	1,619	1,619
Changes in cash flow hedges (*)	-	8	8
Changes in impairment	(1)	(2)	(3)
Net changes	8,204		8,204
Effects of sales on profit or loss	-	(6)	(6)
Accrued income	-	173	173
Sales, redemptions and settlement of accrued income		(1,335)	(1,335)
Balance at 30 June 2019	**16,552**	**25,242**	**41,794**

(*) 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.

Loans and receivables

tab. A5.1.1 - Loans and receivables at amortised cost (€m)

	Balance at 30 June 2019			Balance at 31 December 2018		
Item	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Loans	-	1,491	1,491	-	251	251
Receivables	-	15,061	15,061	-	8,098	8,098
Amounts deposited with MEF	-	7,232	7,232	-	5,927	5,927
Receivables	-	7,236	7,236	-	5,930	5,930
Provisions for doubtful amounts deposited with MEF	-	(4)	(4)	-	(3)	(3)
MEF account, held at the Treasury	-	2,252	2,252	-	-	-
Other financial receivables	-	5,577	5,577	-	2,171	2,171
Total	**-**	**16,552**	**16,552**	**-**	**8,349**	**8,349**

Loans refer to outstanding repurchase agreements with a total nominal value of €1,382 million, entered into with Cassa di Compensazione e Garanzia SpA (the Central Counterparty)[45].

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[46].
- **Other financial receivables** include guarantee deposits of €5,219 million, including €4,480 million provided to counterparties in asset swap transactions (with collateral provided by specific Credit Support Annexes), €313 million provided to counterparties in repurchase agreements on fixed income securities (with collateral contemplated by specific Global Master Repurchase Agreements) and €426

45 The Central Counterparty is an entity that acts as an intermediary in a transaction between two parties, avoiding the parties' exposure to the risk that one of the counterparties to the agreement may default and guaranteeing successful completion of the transaction.

46 The rate in question is calculated as follows: 50% is based on the yield on 6-month BOTs, with the remaining 50% based on the yield on 10-year BTPs.

million in collateral deposited with the Central Counterparty, in relation to the clearing system (i.e. the Default Fund)[47].

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 € 21,685 million. At 30 June 2019, the balance of €25,242 million refers to the amortised cost of unhedged fixed income instruments, totalling €10,477 million, and fair-value hedged fixed income instruments, totalling €12,153 million, increased by €2,612 million to take into account the effects of the hedge (€1,619 million in the first half of 2019). These instruments are adjusted to take into account the related impairments, with accumulated impairments at 30 June 2019 amounting to approximately €11 million. At 30 June 2019, the fair value[48] of these instruments is €23,521 million.

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 2019, their carrying amount totals €4,675 million).

Financial assets at fair value through other comprehensive income

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

	Fixed income instruments
Balance at 1 January 2019	**32,072**
Purchases	6,007
Transfers to equity	(284)
Changes in amortised cost	(4)
Fair value gains and losses through equity	64
Changes in fair value through profit or loss	1,776
Changes in cash flow hedges (*)	163
Effects of sales on profit or loss	261
Accrued income	319
Sales, redemptions and settlement of accrued income	(5,464)
Balance at 30 June 2019	**34,910**

(*) 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.

[47] A guarantee fund established with payments from participants in the derivative, equity and bond markets, as a further guarantee for the transactions carried out. The fund can be used to meet the charges arising from any participant default.

[48] In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, €18,986 million of the total amount qualifies for inclusion in level 1 and €4,535 million for inclusion in level 2.

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 €31,346 million. Total fair value gains for the period amount to €1,840 million, recognised in the relevant equity reserve in relation to the portion of the portfolio not hedged by fair value hedges (€64 million) and recognised through profit and loss in relation to the hedged portion (€1,776 million). These instruments are adjusted for impairment through profit or loss, with a matching entry in the relevant equity reserve. Accumulated impairments at 30 June 2019 amount to €16 million.

Financial assets at fair value through profit or loss

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

	Receivables	Equity instruments	Total
Balance at 1 January 2019	**8**	**50**	**58**
Purchases		-	-
Fair value gains and losses through profit or loss	-	17	17
Net changes	(8)		(8)
Accrued income	-	-	-
Effects of sales on profit or loss	-	-	-
Sales/Settlement of accrued income		(5)	(5)
Balance at 30 June 2019	**-**	**62**	**62**

Receivables

In June 2019, the outstanding amount of €8 million due to the Parent Company following the sale of its Visa Europe Ltd. share to Visa Incorporated was collected.

Equity instruments

This item, totalling €62 million, reflects 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 13.884[49] 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. Fair value gains in the period under review, amounting to €17 million, have been recognised in profit or loss in "Revenue from financial activities".

In the first half of 2019, the Parent Company entered into a forward sale agreement for 400,000 ordinary Visa Incorporated shares at a price of US$153.46 per share and at an exchange rate of 1.2037. The total consideration is €51 million and the settlement date is 1 March 2021. The ordinary shares involved in the forward sale amount to approximately 28,810 Visa Incorporated (series C) preference shares held in portfolio at the applicable conversion rate at 30 June 2019. The fair value of the forward sale has decreased by €9 million in the reporting period, reflecting movements in both the price of the shares in US dollars and the euro/dollar exchange rate (tab. A5.4). This reduction has been recognised in profit or loss in "Expenses from financial activities".

[49] 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.

Finally, during the first half of 2019, Poste Italiane sold its previous holding of 11,144 class C Visa Incorporated shares following their prior conversion into class A shares. The transaction in question resulted in a total gain of €1.4 million recognised in profit or loss in “Other income from financial activities”.

Derivative financial instruments

tab. A5.4 - Movements in derivative financial instruments

(€m)

	Cash flow hedges						*Fair value hedges*		FVTPL		Total	
	Forward purchases		Forward sales		*Interest rate swaps*		*Interest rate swaps*		Forward sales			
	nominal	fair value	nominal	fair value	nominal	fair value	nominal	*fair value*	nominal	*fair value*	nominal	fair value
Balance at 1 January 2019	**1,545**	**94**	**1,340**	**61**	**1,610**	**(57)**	**23,590**	**(1,559)**	**-**	**-**	**28,085**	**(1,461)**
Increases/(decreases) *	565	(3)	330	9	505	55	1,755	(3,392)	7	(9)	3,162	(3,340)
Gains/(Losses) through profit or loss **	-	-	-	-	-	-	-	(2)	-	-	-	(2)
Transactions settled ***	(1,545)	(88)	(1,340)	(82)	-	(14)	-	(13)	(7)	-	(2,892)	(197)
Balance at 30 June 2019	**565**	**3**	**330**	**(12)**	**2,115**	**(16)**	**25,345**	**(4,966)**	**-**	**(9)**	**28,355**	**(5,000)**
Of which:												
Derivative assets	415	3	-	-	1,125	96	-	-	-	-	1,540	99
Derivative liabilities	150	-	330	(12)	990	(112)	25,345	(4,966)	-	(9)	26,815	(5,099)

* 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.

Cash flow hedges refer to interest rate swaps with a nominal value of €2,115 million (instruments classified as FVTOCI) and forward purchases and sales with a nominal value of €565 million and €330 million, respectively. The effective portion of the hedges in question recorded a net fair value gain during the period of €61 million, as reflected in the cash flow hedge reserve in equity.

Fair value hedges in the form of interest rate swaps regard instruments classified as at amortised cost, with a nominal value of €11,295 million, and instruments classified as FVTOCI, with a nominal value of €14,050 million. The effective portion of the hedges in question recorded a net fair value loss during the period of €3,392 million, after taking into account net fair value gains of €3,394 million on the hedged instruments (table A5.2) net of €2 million in 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 €565 million and the settlement of forward sales outstanding at 1 January 2019 of €1,545 million;
- forward sales with a nominal value of €330 million and the settlement of forward sales outstanding at 1 January 2019, totalling €1,340 million;
- new interest rate swaps designated as cash flow hedges with a nominal value of €505 million;
- new interest rate swaps designated as fair value hedges with a nominal value of €1,755 million;
- a forward sale agreement for 400,000 ordinary Visa Incorporated shares (described above).

INSURANCE SERVICES

Financial assets at amortised cost

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

	Receivables	Fixed income instruments	Total
Balance at 1 January 2019	**38**	**1,467**	**1,505**
Purchases		26	26
Changes in amortised cost	-	5	5
Changes in fair value through profit or loss	-	-	-
Changes in cash flow hedges (*)	-	-	-
Changes in impairment	-	-	-
Net changes	(17)		(17)
Effects of sales on profit or loss	-	-	-
Accrued income	-	14	14
Sales, redemptions and settlement of accrued income		(15)	(15)
Balance at 30 June 2019	**21**	**1,497**	**1,518**

Receivables

Financial receivables of €21 million regard accrued interest yet to be collected at 30 June 2019.

Fixed income instruments

Fixed income instruments exclusively regard the free capital of Poste Vita SpA and Poste Assicura SpA. At 30 June 2019, the fair value[50] of these instruments is €1,667 million. These instruments are adjusted to take into account the related impairments. Accumulated impairments at 30 June 2019 amount to approximately €0.8 million.

Financial assets at fair value through other comprehensive income

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

	Fixed income instruments	Other instruments	Total
Balance at 1 January 2019	**94,622**	**524**	**95,146**
Purchases	12,653	-	12,653
Transfers to equity	64	-	64
Changes in amortised cost	113	-	113
Fair value gains and losses through equity	4,087	6	4,093
Effects of sales on profit or loss	(5)	-	(5)
Accrued income	759	-	759
Sales, redemptions and settlement of accrued income	(12,449)	-	(12,449)
Balance at 30 June 2019	**99,844**	**530**	**100,374**

These financial instruments have recorded a net fair value gains of €4,093 million. This includes €4,066 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 €27 million reflected in a matching positive movement in the related equity reserve.

[50] In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, €1,389 million of the total amount qualifies for inclusion in level 1 and €278 for inclusion in level 2.

Fixed income instruments

At 30 June 2019, these instruments relate primarily to investments held by Poste Vita SpA, totalling €99,645 million (a nominal value of €93,115 million) and 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 €1,072 million. These instruments are adjusted for impairment through the relevant equity reserve, with a matching entry in profit or loss. Accumulated impairments at 30 June 2019 amount to approximately €51 million, including a portion of €50 million transferred to policyholders using the shadow accounting method.

Other investments

At 30 June 2019, other investments include €530 million relating to Cassa Depositi e Prestiti's private placement of a Constant Maturity Swap. The increase in fair value of €6 million during the period was transferred to policyholders using the shadow accounting method.

Financial assets at fair value through profit or loss

tab. A5.7 - Movements in financial assets at FVTPL

(€m)

	Receivables	Fixed income instruments	Other instruments	Equity instruments	Other instruments	Total
Balance at 1 January 2019	**59**	**1,571**	**27,952**	**166**	**21**	**29,769**
Purchases		291	3,091	47	-	3,429
Fair value gains and losses through profit or loss	-	(2)	1,599	14	-	1,611
Net changes	(59)					(59)
Effects of sales on profit or loss	-	52	13	6	-	71
Accrued income	-	13	-	-	-	13
Sales/Settlement of accrued income		(849)	(463)	(71)	-	(1,383)
Balance at 30 June 2019	**-**	**1,076**	**32,192**	**162**	**21**	**33,451**

Receivables

At 30 June 2019, the units of mutual investment funds were issued and the related receivables extinguished.

Fixed income instruments

At 30 June 2019, fixed income instruments of €1,076 million consist of €57 million in coupon stripped Zero Coupon bonds, while the balance of €1,019 million is primarily made up of corporate bonds issued by blue-chip companies. These financial instruments are used to cover the obligations on products linked to separately managed accounts (€710 million) and Class III policies (€350 million), with the remaining €16 million regarding the investment of the company's free capital.

Units of mutual investment funds

At 30 June 2019, units of mutual investment funds amount to €32,192 million include €29,810 million to cover Class I products and €2,376 million to cover Class III products. The remaining €6 million regards investment of the company's free capital. Net investment in the funds during the period amounts €2,628 million and the fair value has increased by approximately €1,599 million, almost entirely transferred to Class I policyholders using the shadow accounting method.

At 30 June 2019, the investments primarily regard equity funds, totalling €30,114 million, units in real estate funds, totalling €1,285 million, and funds that primarily invest in bonds, totalling €793 million.

Equity instruments

Equity instruments amount to €162 million, and cover the contractual obligations arising on Class I products linked to separately managed accounts and Class III policies. The reduction over the period reflects the combined effect of net sales of approximately €24 million, the proceeds from sales of approximately €6 million and fair value gains of approximately €14 million.

Other investments

Other investments, amounting to €21 million relate 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.

Derivative financial instruments

At 30 June 2019, the warrants executed by Poste Vita SpA to cover contractual obligations deriving from Class III policies amount to zero as the policies have been repaid in full.

The company has also entered into forward sales of fair value hedges on BTPs, with a nominal value of €1,458 million. The value of this derivative is €25 million at 30 June 2019.

POSTAL AND BUSINESS SERVICES

Financial assets at amortised cost

tab. A5.8 - Receivables at amortised cost (€m)

	Balance at 30 June 2019			Balance at 31 December 2018		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Guarantee deposits	-	29	29	-	30	30
Due from the purchasers of service accommodation	4	2	6	5	2	7
Due from others	33	20	53	33	40	73
Provisions for doubtful debts	-	(20)	(20)	-	(20)	(20)
Total	**37**	**31**	**68**	**38**	**52**	**90**

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

Other receivables, with a nominal value of €50 million, regard the remaining amount due from Invitalia SpA as a result of the sale of Banca del Mezzogiorno-MedioCreditoCentrale SpA on 7 August 2017[51]. Following the agreement between the parties finalised in January 2019, €20 million of this amount was collected on 27 February 2019.

[51] Of a total consideration of €387 million, €158 million was collected in 2017 and €159 million in early 2018. As regards the remaining amount receivable, on 31 October 2018, Invitalia informed Poste Italiane that the Bank of Italy had requested the buyer not to proceed with the reduction of BdM's capital scheduled for 2018, and preparatory to payment of a €40 million tranche of the related consideration. On 16 January 2019 in line with the terms of the agreement, Poste Italiane and Invitalia, acting in good faith, concluded an agreement that resulted in Invitalia's payment of a sum of €20 million on 27 February 2019. The remaining €20 million will be paid from the dividends to be paid by BdM in 2018, 2019 and 2020. Payment of the remaining €30 million is expected to take place between 30 June 2021 and 30 June 2022 once certain conditions have been met.

Financial assets at fair value through other comprehensive income

tab. A5.9 - Movements in financial assets at FVTOCI (€m)

	Fixed income instruments	Equity instruments	Total
Balance at 1 January 2019	532	5	**537**
Purchases	-	-	-
Transfers to equity	-	-	-
Changes in amortised cost	-	-	-
Fair value gains and losses through equity	2	-	2
Changes in fair value through profit or loss	(5)	-	(5)
Changes in cash flow hedges (*)	-	-	-
Effects of sales on profit or loss	-	-	-
Accrued income	5	-	5
Sales, redemptions and settlement of accrued income	(5)	-	(5)
Balance at 30 June 2019	**529**	**5**	**534**

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 interest rate swaps designated as fair value hedges. These instruments are subject to impairments recognised in profit or loss with a matching entry in the relevant equity reserve.

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[52] , whose value at 30 June 2019 is zero.

52 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.

Derivative financial instruments

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

	Six months ended 30 June 2019			
	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total
Balance at 1 January 2019	**(5)**	**(26)**	**-**	**(31)**
Increases/(decreases) (*)	(1)	(2)	-	(4)
Gains/(Losses) through profit or loss (**)	-	-	-	-
Transactions settled (*)	-	6	-	6
Balance at 30 June 2019	**(6)**	**(22)**	**-**	**(29)**
Of which:				
Derivative assets	-	-	-	-
Derivative liabilities	(6)	(22)	-	(29)

* 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 2019, 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 2019, is 1.945%;
- 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.

PAYMENT SERVICES AND CARD PAYMENTS

Financial assets at amortised cost

Financial assets at amortised cost refer solely to financial receivables due to the ring-fenced EMI, amounting to €153 million (€53 million at 31 December 2018).

A6 - INVENTORIES (€141 million)

tab. A6 - Inventories (€m)

Item	Balance at 30 June 2019	Increase / (decrease)	Balance at 31 December 2018
Properties held for sale	123	3	120
Work in progress, semi-finished and finished goods and goods for resale	10	2	8
Raw, ancillary and consumable materials	8	-	8
Total	**141**	**5**	**136**

Properties held for sale refer entirely to the portion of EGI SpA's real estate portfolio to be sold, whose fair value[53] at 30 June 2019 amounts to approximately €285 million.

A7 – TRADE RECEIVABLES (€2,369 million)

tab. A7 - Trade receivables (€m)

Item	Balance at 30 June 2019			Balance at 31 December 2018		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Customers	6	2,253	2,259	7	2,115	2,122
MEF	-	94	94	-	68	68
Subsidiaries, associates and joint ventures	-	2	2	-	4	4
Prepayments to suppliers	-	14	14	-	5	5
Total	**6**	**2,363**	**2,369**	**7**	**2,192**	**2,199**

Receivables due from customers

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

Item	Balance at 30 June 2019			Balance at 31 December 2018		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Ministries and Public Administration entities	-	620	620	-	672	672
Cassa Depositi e Prestiti	-	426	426	-	440	440
Parcel express courier and express parcel services	-	438	438	-	352	352
Overseas counterparties	-	349	349	-	304	304
Unfranked mail delivered and other value added services	18	267	285	17	252	269
Overdrawn current accounts	-	160	160	-	154	154
Amounts due for other BancoPosta services	-	124	124	-	83	83
Property management	-	9	9	-	7	7
Other trade receivables	2	480	482	5	452	457
Provisions for doubtful debts	(14)	(620)	(634)	(14)	(601)	(615)
Total	**6**	**2,253**	**2,259**	**7**	**2,115**	**2,122**

Receivables due from customers, which are broadly in line with 31 December 2018, include amounts due from **ministries and Public Administration entities**, referring to the following:

- €206 million from the provision of integrated notification and mailroom services.
- Compensation for the discounts applied to publishers, due from the *Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria* (Cabinet Office – Publishing department), amounting to €133 million, of which €29 million accruing during the first half and approximately €5 million for 2018 for which provision has not been made in the state budget. At 30 June 2019, these receivables, whilst awaiting approval from the European Commission, include €99 million in subsidiaries for 2017 and 2018 collected and deposited in a non-interest bearing escrow account with the Italian Treasury. On 22 July 2019, pursuant to EU state aid regulations, the European Commission approved public service compensation for the years 2017 to 2019, acknowledging that the level of compensation had not exceeded the amount necessary to cover

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

the net cost incurred by the Company in providing the service. As a result, the Commission concluded that the aid is proportionate and does not constitute overcompensation.

- Reimbursement of the costs associated with the management of property, vehicles and security incurred on behalf of the Ministry for Economic Development, totalling €78 million[54], including €62 million involved in legal action brought by Poste Italiane in order to claim sundry costs resulting from the use of properties. The case has been adjourned until 13 November 2019 when the court will hear the clarification of the pleadings.
- Mail services, totalling €80 million, provided to central and local government entities.
- The payment of pensions and vouchers on behalf of INPS (the National Institute of Social Security), totalling €17 million. In February 2019, having conducted a joint assessment, Poste Italiane and INPS signed an agreement that, among other things, has settled the respective outstanding trade receivables (note B6). These positions were settled in April 2019.

In general, there are delays in collecting amounts due from central and local government entities due primarily to the fact that no provision has been made in the related budgets or to the execution of contracts or agreements[55].

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

Receivables due from the MEF

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

Item	Balance at 30 June 2019	Balance at 31 December 2018
Universal Service compensation	53	31
Publisher tariff and electoral subsidies	1	1
Remuneration of current account deposits	43	39
Payment for delegated services	28	28
Other	2	1
Provision for doubtful debts due from the MEF	(33)	(32)
Total	**94**	**68**

Specifically:

- **Universal Service compensation** includes:

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

Item	Balance at 30 June 2019	Balance at 31 December 2018
First half 2019	22	-
Remaining balances for previous years	31	31
Total	**53**	**31**

[54] See above in the section, "Revenue and receivables due from the State", showing overall exposures to the Ministry for Economic Development (€80 million), including receivables for postal services and other services.

[55] The principal agreement that has expired regards relations with the tax authorities regarding the collection and reporting of payments by payment slip.

Receivables accruing in the first half of 2019 amounted to €131 million, of which €109 million was collected during the period and €22 million was collected in July 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.

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.

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

A8 – OTHER RECEIVABLES AND ASSETS (€4,480 million)

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

Item	Note	Balance at 30 June 2019			Balance at 31 December 2018		
		Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Substitute tax paid		3,384	525	3,909	3,371	549	3,920
Amounts due from social security agencies and pension funds (excl. fixed-term contract settlements)		-	110	110	-	109	109
Receivables relating to fixed-term contract settlements		75	83	158	82	85	167
Amounts restricted by court rulings		-	75	75	-	78	78
Accrued income and prepaid expenses from trading transactions		-	18	18	-	11	11
Tax assets		-	2	2	-	8	8
Sundry receivables		15	241	256	16	317	333
Provisions for doubtful debts due from others		-	(95)	(95)	-	(96)	(96)
Other receivables and assets		3,474	959	4,433	3,469	1,061	4,530
Interest accrued on IRES refund		-	47	47	-	47	47
Interest accrued on IRAP refund		-	-	-	-	3	3
Total		**3,474**	**1,006**	**4,480**	**3,469**	**1,111**	**4,580**

Specifically:

- **Substitute tax paid** refers mainly to:
  - €2,239 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[56];
  - €1,146 million charged to holders of Interest-bearing Postal Certificates and Class III and V insurance policies for stamp duty at 30 June 2019[57]. 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);
  - €431 million relating to advances paid in relation to stamp duty to be paid in virtual form in 2019 and 2020 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 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 €158 million due from staff, from INPS and pension funds. Amounts receivable from INPS

[56] Of the total amount, €325 million, assessed on the basis of provisions at 30 June 2019, has yet to be paid and is accounted for in "Other taxes payable" (tab. B10.3).

[57] 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).

(formerly IPOST), of which approximately €42 million is deemed to collectible in full, consist of six instalments of €6.9 million each, falling due between 30 June 2012 and 31 December 2014. Negotiations are underway with a view to recovering this amount and, in the event of a negative outcome, Poste Italiane will resort to legal action.

- Amounts that **cannot be drawn on due to court rulings** include €62 million in amounts seized and not assigned to creditors, in the process of recovery, and €13 million in amounts stolen from the Parent Company in December 2007 as a result of an attempted fraud and that have remained on deposit with an overseas bank. The latter sum may only be recovered once the legal formalities are completed. The risks associated with collection of these items are taken into account in the provisions for doubtful debts due from others.
- **Accrued interest on IRES refund**, refers to interest accruing up to 30 June 2019 in relation to the tax credit determined by an unreported deduction from the IRES tax base of IRAP paid on labour costs and almost entirely attributable to the Parent Company. With regard to the remaining overall tax credit, amounting to €55 million, two disputes were brought before the Provincial Tax Tribunal of Rome, which upheld Poste Italiane's appeals, ordering the tax authorities in Rome to refund the amounts claimed. The tax authorities 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 has appealed 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.

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

A9 – CASH AND DEPOSITS ATTRIBUTABLE TO BANCOPOSTA (€3,606 million)

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

Item	Balance at 30 June 2019	Balance at 31 December 2018
Cash and cash equivalents in hand	2,849	2,967
Bank deposits	757	351
Total	**3,606**	**3,318**

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 (€1,110 million) and service companies[58] (€1,739 million). Bank deposits include amounts deposited in an account with the Bank of Italy to be used in interbank settlements, totalling €755 million).

[58] Companies that provide cash transportation services whilst awaiting transfer to the Italian Treasury.

A10 – CASH AND CASH EQUIVALENTS (€1,525 million)

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

Item	Balance at 30 June 2019	Balance at 31 December 2018
Bank deposits and amounts held at the Italian Treasury	1,446	1,877
Deposits with the MEF	64	1,306
Cash and cash equivalents in hand	15	12
Total	**1,525**	**3,195**

The balance of cash at 30 June 2019 includes approximately €617 million the use of which is restricted, including €492 million in liquidity covering technical provisions for the insurance business, €99 million deposited by the *Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria* (Cabinet Office – Publishing department) in a non-interest bearing escrow account with the Italian Treasury as advance payment for publisher tariff subsidies due to the Company for 2017 and 2018 (released on 22 July, note A7), €19 million whose use is restricted by court orders related to different disputes and €7 million resulting from the collection of cash on delivery.

EQUITY

B1 – EQUITY (€8,114 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 2019	Changes in equity during first half of 2019	Net profit/(loss) for first half of 2019	Equity at 31 December 2018
Financial statements of Poste Italiane SpA	**5,092**	**(770)**	**403**	**5,459**
- Undistributed profit (loss) of consolidated companies	4,687	-	390	4,297
- Investments accounted for using the equity method	7	-	4	3
- Balance of FV and CFH reserves of investee companies	(8)	17	-	(25)
- Actuarial gains and losses on employee termination benefits of investees	(5)	(1)	-	(4)
- Fees to be amortised attributable to Poste Vita SpA and Poste Assicura SpA	(37)	-	2	(39)
- Effects of contributions and transfers of business units between Group				
SDA Express Courier SpA	2	-	-	2
EGI SpA	(71)	-	-	(71)
Postel SpA	18	-	-	18
- Effects of intercompany transactions (including dividends)	(1,942)	-	(64)	(1,878)
- Elimination of adjustments to value of consolidated companies	578	-	27	551
- Amortisation until 1 January 2004/Impairment of goodwill	(156)	-	-	(156)
- Impairments of disposal groups held for sale	(40)	-	-	(40)
- Other consolidation adjustments	(11)	-	1	(12)
Equity attributable to owners of the Parent	**8,114**	**(754)**	**763**	**8,105**
- Non-controlling interests (excluding net profit/(loss))	-	-	-	-
- Net profit/(loss) attributable to non-controlling interests	-	-	-	-
Equity attributable to non-controlling interests	**-**	**-**	**-**	**-**
TOTAL CONSOLIDATED EQUITY	**8,114**	**(754)**	**763**	**8,105**

At 30 June 2019, earnings per share is €0.587 (€0.563 at 30 June 2018).

B2 – SHARE CAPITAL (€1,306 million)

The share capital of Poste Italiane SpA consists of 1,306,110,000 no-par value ordinary shares. At 30 June 2019, the Parent Company holds 5,257,965 own shares (equal to 0.4026% of the share capital). All the shares in issue are fully subscribed and paid up. No preference shares have been issued.

B3 – SHAREHOLDERS TRANSACTIONS

As resolved at the General Meeting of shareholders held on 28 May 2019, on 26 June 2019, the Parent Company paid dividends totalling €573 million, based on a dividend per share of €0.441.

B4 – RESERVES (€1,435 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 1 January 2019	**299**	**1,210**	**(69)**	**89**	**2**	**1,531**
Increases/(decreases) in fair value during the period	-	-	93	61	-	154
Tax effect of changes in fair value	-	-	(27)	(17)	-	(44)
Transfers to profit or loss	-	-	(211)	(80)	-	(291)
Tax effect of transfers to profit or loss	-	-	60	23	-	83
Increase/(Decrease) for expected credit loss	-	-	3	-	-	3
Gains/(losses) recognised in equity	-	-	(81)	(14)	(1)	(96)
Balance at 30 June 2019	**299**	**1,210**	**(150)**	**75**	**1**	**1,435**

The **fair value reserve** regards changes in the value of financial assets at fair value through other comprehensive income. Fair value gains in the first half of 2019, totalling €93 million, regard:

- a net increase of €64 million in financial assets attributable to the Group's Financial Services;
- a net increase of €27 million in financial assets attributable to the Group's Insurance Services segment;
- a net increase of €2 million in financial assets attributable to the Group's Postal and Business Services segment.

The **cash flow hedge** reserve reflects changes in the fair value of the effective portion of cash flow hedges. In the first half of 2019, fair value gains of €61 million were attributable primarily to the value of BancoPosta RFC's derivative financial instruments.

LIABILITIES

B5 – TECHNICAL PROVISIONS FOR INSURANCE BUSINESS (€134,074 million)

These provisions refer to the contractual obligations of the subsidiaries, Poste Vita SpA and Poste Assicura SpA, in respect of their policyholders.

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

Item	Balance at 30 June 2019	Balance at 31 December 2018
Mathematical provisions	122,362	119,419
Outstanding claims provisions	735	780
Technical provisions where investment risk is transferred to policyholders	2,981	2,652
Other provisions	7,783	2,115
for operating costs	106	108
for deferred liabilities to policyholders	7,677	2,007
Technical provisions for claims	213	183
Total	**134,074**	**125,149**

Specifically, the **provisions for deferred liabilities due to policyholders** include portions of gains and losses attributable to policyholders under the shadow accounting method. At 30 June 2019, 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.
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.

B6 – PROVISIONS FOR RISKS AND CHARGES (€1,370 million)

tab. B6 - Movements in provisions for risks and charges for the six months ended 30 June 2019 (€m)

Item	Balance at 1 January 2019	Provisions	Finance costs	Released to profit or loss	Uses	Balance at 30 June 2019
Provisions for operational risk	423	8	-	(4)	(85)	342
Provisions for disputes with third parties	334	17	-	(11)	(22)	318
Provisions for disputes with staff	64	5	-	-	(10)	59
Provisions for personnel expenses	126	206	-	(3)	(27)	302
Provisions for early retirement incentives	447	-	-	-	(214)	233
Provisions for taxation/social security contributions	18	1	-	-	-	19
Other provisions for risks and charges	107	5	-	(7)	(8)	97
Total	**1,519**	**242**	**-**	**(25)**	**(366)**	**1,370**
Overall analysis of provisions:						
- non-current portion	656					590
- current portion	863					780
	1,519					**1,370**

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 €6 million, reflect the risks linked to the distribution of postal savings products issued in previous years. Uses totalling €85 million include €67 million to cover amounts payable to INPS following the agreement entered into by the parties in February 2019.

- **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 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 €5 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.
- **Provisions for personnel expenses** are made to cover expected liabilities arising in relation to the cost of labour (various bonuses and incentives), with are certain or likely to occur. They have increased by the estimated amount of new liabilities (€206 million), and decreased as a result of past liabilities that failed to materialise (€3 million) and liabilities settled (€27 million).
- **Provisions for early retirement incentives** reflect the estimated costs to be incurred as a result of the Company's binding commitment to pay early retirement incentives on a voluntary basis, under the current redundancy scheme agreed with the labour unions for a determinate number of employees who will leave the Company by 31 December 2020. Provisions totalling €214 million were used during the first half.

B7 – EMPLOYEE TERMINATION BENEFITS (€1,188 million)

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

	Six months ended 30 June 2019
Balance at 1 January	**1,187**
Current service cost	-
Interest component	9
Effect of actuarial (gains)/losses	63
Uses for the period	(71)
Balance at end of period	**1,188**

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 2019	at 31 December 2018
Discount rate	0.65%	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 2019
Mortality	RG48 differentiated by gender
Disability	INPS 1998 differentiated by gender
Rate of employee turnover	Specific table with rates differentiated by length of service. The average length of service for participants corresponds to an annual rate of 0.11%.
Advance rate	1.25% for length of service of at least 8 years
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 (€80,557 million)

tab. B8 - Financial liabilities (€m)

Item	Balance at 30 June 2019			Balance at 31 December 2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Payables deriving from postal current accounts	-	52,304	52,304	-	46,240	46,240
Borrowings	5,823	9,536	15,359	5,654	3,832	9,486
Bonds	49	1	50	50	762	812
Borrowings from financial institutions	5,774	9,535	15,309	5,604	3,070	8,674
Leases	1,127	224	1,351	-	-	-
MEF account, held at the Treasury	-	-	-	-	3,649	3,649
Derivative financial instruments	5,042	110	5,152	1,798	61	1,859
Cash flow hedges	57	72	129	53	58	111
Fair value hedges	4,976	38	5,014	1745	3	1748
Fair value through profit or loss	9	-	9	-	-	-
Other financial liabilities	1	6,390	6,391	1	5,694	5,695
Total	**11,993**	**68,564**	**80,557**	**7,453**	**59,476**	**66,929**

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. Standard negative pledge provisions[59] do apply, however.

Bonds

- 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[60] of this borrowing at 30 June 2019 is €50 million.

A five-year bond issue with a nominal value of €750 million, issued by Poste Vita on 30 May 2014, matured and was repaid in May 2019.

Borrowings from financial institutions

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

Item	Balance at 30 June 2019			Balance at 31 December 2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Repurchase agreements	5,601	9,033	14,634	5,604	2,869	8,473
EIB fixed rate loan maturing 12 March 2026	173	-	173	-	-	-
EIB fixed rate loan maturing 23 March 2019	-	-	-	-	200	200
Other borrowings	-	502	502	-	-	-
Accrued interest expense	-	-	-	-	1	1
Total	**5,774**	**9,535**	**15,309**	**5,604**	**3,070**	**8,674**

[59] 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.

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

Outstanding liabilities for repurchase agreements relate to contracts entered into by the Parent Company with major financial institutions and Central Counterparties. The related liabilities (€14,634 million, with a total nominal value of €14,020 million) include €6,895 million in Long Term Repos and €7,739 million in ordinary borrowing operations, with the resources invested in Italian fixed income government securities and as funding for incremental deposits used as collateral. The fair value[61] of the repurchase agreements in question at 30 June 2019 amounts to €14,666 million.

An EIB loan of €200 million reached maturity and was repaid in March 2019, whilst an EIB credit facility granted in 2016, amounting to €173 million, was used in full. The new loan is subject to a fixed rate of interest of 0.879% and matures in March 2026. At 30 June 2019, the fair value[62] of this loan is €187 million.

The other borrowings regard amounts payable to banks following the delayed delivery of instruments involved in repurchase agreements maturing on 28 June and settled on 1 July 2019.

At 30 June 2019, the following credit facilities are available:

- committed lines of €2,173 million, with €173 million used at 30 June 2019;
- uncommitted lines of credit of €1,782 million, including €909 million that may be used for short-term loans, €161 million in overdraft facilities and €712 million (including €605 million available to the Parent Company), of which guarantees with a value of €262 million have been used in favour of third parties.

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

Finally, the Bank of Italy has granted BancoPosta RFC access to intraday credit in order to fund intraday interbank transactions. Collateral for this credit facility is provided by securities with a nominal value of €652 million, and the facility is unused at 30 June 2019.

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

[62] 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 2019 are described in note A5 – *Financial assets.*

Other financial liabilities

Other financial liabilities have a fair value that approximates to their carrying amount.

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

Item	Balance at 30 June 2019			Balance at 31 December 2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Prepaid cards	-	4,688	4,688	-	4,027	4,027
Domestic and international money transfers	-	652	652	-	688	688
Tax collection and road tax	-	20	20	-	19	19
Guarantee deposits	-	110	110	-	70	70
Cashed cheques	-	138	138	-	243	243
Endorsed cheques	-	179	179	-	163	163
Amounts to be credited to customers	-	104	104	-	220	220
Other amounts payable to third parties	-	128	128	-	145	145
Payables for items in process	-	339	339	-	85	85
Other	1	32	33	1	34	35
Total	**1**	**6,390**	**6,391**	**1**	**5,694**	**5,695**

Other financial liabilities, which are broadly in line with 31 December 2018, include **Amounts payable for guarantee deposits** received from counterparties in repurchase agreements on fixed income instruments (collateral provided by specific Global Master Repurchase Agreements).

B9 – TRADE PAYABLES (€1,521 million)

tab. B9 - Trade payables (€m)

Item	Balance at 30 June 2019	Balance at 31 December 2018
Amounts due to suppliers	1,082	1,192
Contract liabilities	383	365
Amounts due to subidiaries	2	2
Amounts due to associates	6	4
Amounts due to joint ventures	48	20
Total	**1,521**	**1,583**

At 30 June 2019, the balance of trade payables, totalling €1,521 million, is slightly down on the figure at 31 December 2018.

Amounts due to suppliers

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

Item	Balance at 30 June 2019	Balance at 31 December 2018
Italian suppliers	929	1,058
Overseas suppliers	24	24
Overseas counterparties (1)	129	110
Total	**1,082**	**1,192**

(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.

Contract liabilities

tab. B9.2 - Movements in contract liabilities (€m)

Item	Balance at 1 January 2019	Change due to recognition of revenue for period	Other movements	Balance at 30 June 2019
Prepayments and advances from customers	297	-	4	301
Other contract liabilities	39	(25)	35	49
Liabilities for fees to be refunded	26	19	(16)	29
Liabilities for volume discounts	4	-	-	4
Totale	**365**	**(6)**	**24**	**383**

Prepayments and advances from customers

These relate primarily to amounts received from customers, as follows:

tab. B9.2.1 -Prepayments and advances from customers (€m)

Item	Note	Balance at 30 June 2019	Balance at 31 December 2018
Prepayments from overseas suppliers		119	149
Automated franking		38	36
Advances from the Cabinet Office - Publishing and Information department	[tab. A7.1]	99	72
Unfranked mail		20	16
Postage-paid mailing services		7	7
Other services		18	17
Total		**301**	**297**

Other contract liabilities primarily regard Postamat and "Postepay Evolution" card fees collected in advance. **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.

B10 – OTHER LIABILITIES (€3,139 million)

tab. B10 - Other liabilities (€m)

Item	Balance at 30 June 2019			Balance at 31 December 2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Amounts due to staff	20	707	727	12	978	990
Social security payables	34	358	392	33	454	487
Other taxes payable	1,146	626	1,772	1,231	734	1,965
Other amounts due to joint ventures	-	-	-	-	-	-
Sundry payables	92	85	177	93	94	187
Accrued liabilities and deferred income	8	63	71	10	58	68
Total	**1,300**	**1,839**	**3,139**	**1,379**	**2,319**	**3,698**

Amounts due to staff

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

Item	Balance at 30 June 2019			Balance at 31 December 2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Thirteenth and fourteenth month salaries	-	232	232	-	232	232
Incentives	20	312	332	12	626	638
Accrued vacation pay	-	103	103	-	57	57
Other amounts due to staff	-	60	60	-	63	63
Total	**20**	**707**	**727**	**12**	**978**	**990**

Incentives totalling approximately €300 million were paid in the first half of 2019. In addition, at 30 June 2019, provisions for personnel expenses have been made to cover certain amounts due to staff, the amount of which has yet to be determined.

Social security payables

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

Item	Balance at 30 June 2019			Balance at 31 December 2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
INPS	3	266	269	2	347	349
Pension funds	-	72	72	-	88	88
Health funds	-	5	5	-	4	4
INAIL	31	3	34	31	4	35
Other agencies	-	12	12	-	11	11
Total	**34**	**358**	**392**	**33**	**454**	**487**

Other tax liabilities

tab. B10.3 - Other taxes payable (€m)

Item	Balance at 30 June 2019			Balance at 31 December 2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Stamp duty payable	1,146	113	1,259	1,231	11	1,242
Tax due on insurance provisions	-	325	325	-	518	518
Withholding tax on employees' and consultants' salaries	-	61	61	-	106	106
VAT payable	-	57	57	-	31	31
Substitute tax	-	20	20	-	48	48
Withholding tax on postal current accounts	-	5	5	-	3	3
Other taxes due	-	45	45	-	17	17
Total	**1,146**	**626**	**1,772**	**1,231**	**734**	**1,965**

Specifically:

- **Stamp Duty** is shown gross of payments on account. The non-current portion of the stamp duty relates to the amount accrued at 30 June 2019 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 2019			Balance at 31 December 2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Sundry payables attributable to BancoPosta	74	5	79	75	6	81
Guarantee deposits	11	1	12	10	1	11
Other payables	7	79	86	8	87	95
Total	**92**	**85**	**177**	**93**	**94**	**187**

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

REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers (€m)

Item	Note	For the six months ended 30 June 2018		For the six months ended 30 June 2019
Revenue from Mail, Parcels and other	[C1]	**1,755**		**1,761**
of which Revenue from contracts with customers			**1,732**	
recognised at a point in time			279	
recognised over time			1,453	
Revenue from Payments, Mobile and Digital	[C2]	**306**		**307**
of which Revenue from contracts with customers			**306**	
recognised at a point in time			131	
recognised over time			175	
Revenue from Financial Services	[C3]	**2,664**		**2,676**
of which Revenue from contracts with customers			**1,511**	
recognised at a point in time			209	
recognised over time			1,303	
Revenue frome Insurance Services after movements in technical provisions and other claims	[C4]	**795**		**685**
Insurance premium revenue		*10,126*		*8,871*
Income from insurance activities		*3,264*		*1,729*
Movement in technical provisions for insurance business and other claims expenses		*(12,480)*		*(9,078)*
Expenses from insurance activities		*(115)*		*(837)*
of which Revenue from contracts with customers			**5**	
recognised at a point in time			-	
recognised over time			5	
Total		**5,520**		**5,429**

Revenue from contracts with customers breaks down as follows:

- **Revenue from mail, parcel & other revenue**, referring to services provided to customers through retail and business sales channels. Revenue generated through the retail channel is recognised at a point in time given the number of transactions handled through the various sales channels (post offices, call centres and on line) and measured on the basis of the rates applied. Revenue generated through the business channel is generally earned as a result of annual or multi-annual contracts and is recognised over time using the output method determined on the basis of shipments requested and handled. These contracts include elements of variable consideration (primarily volume discounts and penalties linked to the quality of service provided) estimated using the expected value method and recognised as a reduction from revenue.
- **Revenue from payment services, mobile and digital** refers to:
  - Card payments, relating primarily to the cards issued by Postepay and recognised at a point in time when issued (€98 million) and the services linked to them, recognised over time as the service is used by the customer (€33 million).
  - Mobile and fixed line telecommunications services, including: revenue from "standard telecommunications offerings" recognised over time using the output method and based on the traffic offered (voice, text and data) to the customer (€71 million); revenue generated by the fixed line "PosteMobile Casa" offering, recognised over time using the output method and based on the fee charged to the customer (€13 million); revenue in the form of SIM activation fees recognised at a point in time when the SIM card is handed over to the customer (€3 million).
  - Payment services, primarily relating to revenue from the processing of tax payments using forms F23/F24 recognised over time based on the level of service rendered (€25 million).
- **Revenue from financial services**, which breaks down as follows:
  - revenue from placement and intermediation services: these are recognised over time and measured on the basis of the volumes placed, quantified on the basis of commercial agreements with financial

institutions. In terms of payment for the collection of postal savings, the agreement entered into with Cassa Depositi e Prestiti envisages payment of a variable consideration on achieving certain levels of inflows, determined annually on the basis of the volume of inflows and expected redemptions. Certain commercial agreements, entered into with leading financial partners for the placement of loan products, envisage the return of placement fees in the event of early termination or surrender by the customer;

- revenue from current account and related services: these are recognised over time, measured on the basis of the service rendered (including the related services, e.g. bank transfers, securities deposits, etc.) and quantified on the basis of the contract terms and conditions offered to the customer;
- revenue from fees on the processing of payment slips: these are recognised at a point in time given the number of transactions handled by post offices and quantified on the basis of the terms and conditions in the contract of sale.

C1 – REVENUE FROM MAIL, PARCELS AND OTHER REVENUE (€1,755 million)

tab. C1 - Revenue from Mail, Parcels & other (€m)

Item	For the six months ended	For the six months ended
Mail and parcel revenue	1,685	1,676
Other revenue	70	85
Total	**1,755**	**1,761**

tab. C1.1 - Mail and parcel revenue (€m)

Item	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Unfranked mail	548	552
Express parcel and express courier services	331	278
Automated franking by third parties and at post offices	316	346
Overseas mail and parcels	88	90
Integrated services	65	76
Stamps	51	66
Postage-paid mailing services	43	44
Other postal services	83	75
Total market revenue	**1,525**	**1,527**
Universal Service compensation	131	131
Publishing subsidies	29	18
Total	**1,685**	**1,676**

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 (€262 million on an annual basis), is 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[63] 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.

C2 – REVENUE FROM PAYMENT SERVICES, MOBILE AND DIGITAL (€306 million)

tab. C2 - Revenue from Payments, Mobile & Digital

Item	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Mobile	108	109
Cards & Acquiring	161	122
Cards	132	111
Acquiring	1	4
Other fees	28	7
Transaction Banking	37	76
Payment Slips	2	38
Commissions for processing tax payments using forms F23/F24	25	26
Banking & Money Transfers	10	10
Other Transaction Banking	-	2
Totale	**306**	**307**

This item primarily regards revenue from the mobile telecommunications services and card payment and payment services provided by Postepay SpA.

C3 – REVENUE FROM FINANCIAL SERVICES (€2,664 million)

tab. C3 - Revenue from Financial Services (€m)

Item	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Financial services	2,383	2,258
Income from financial activities	281	418
Total	**2,664**	**2,676**

This revenue regards revenue generated by the Parent Company's BancoPosta RFC and the subsidiary, BancoPosta Fondi SGR.

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

tab. C3.1 - Revenue from Financial Services		(€m)
Item	**For the six months ended 30 June 2019**	**For the six months ended 30 June 2018**
Fees for collection of postal savings deposits	898	894
Income from investment of postal current account deposits	823	744
Commissions on payment of bills by payment slip	197	209
Other revenues from current account services	205	183
Distribution of loan products	145	117
Income from delegated services	48	51
Money transfers	10	8
Mutual fund management fees	50	44
Other products and services	7	8
Total	**2,383**	**2,258**

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.

tab. C3.1.1 - Income from investment of postal current account deposits		(€m)
Item	**For the six months ended 30 June 2019**	**For the six months ended 30 June 2018**
Income from investments in securities	776	722
Interest income on financial assets at amortised cost	260	236
Interest income on financial assets at FVTOCI	497	480
Interest expense on asset swaps of financial assets at FVTOCI and at amortised cost	(1)	1
Interest income on repurchase agreements	20	5
Income from deposits held with the MEF	46	22
Remuneration of current account deposits (deposited with the MEF)	46	22
Other income	1	-
Total	**823**	**744**

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 (€m)

Item	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Income from financial assets at FVTOCI	261	400
Realised gains	261	400
Income from equity instruments at FVTPL	18	9
Fair value gains	17	9
Realised gains	1	-
Income from financial assets at FVTPL	-	2
Fair value gains	-	2
Income from financial assets at amortised cost	-	4
Realised gains	-	4
Foreign exchange gains	2	3
Realised gains	2	3
Total	**281**	**418**

C4 – REVENUE FROM INSURANCE SERVICES AFTER MOVEMENTS IN TECHNICAL PROVISIONS AND OTHER CLAIMS EXPENSES (€795 million)

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

Item	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Insurance premium revenue	10,126	8,871
Income from insurance activities	3,264	1,730
Movement in technical provisions for insurance business and other claims expenses	(12,480)	(9,078)
Expenses from insurance activities	(115)	(837)
Total	**795**	**685**

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

tab. C4.1 - Insurance premium revenue (€m)

Item	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Class I	8,931	8,329
Class III	1,044	416
Class IV and V	64	71
Gross life Premiums	**10,039**	**8,816**
Outward reinsurance premiums	(7)	(7)
Net life premiums	**10,032**	**8,809**
P&C premiums	108	82
Outward reinsurance premiums	(15)	(20)
Net P&C premiums	**94**	**62**
Total	**10,126**	**8,871**

The Life business generated gross premium revenue of €10,039 million, up 14% on the first half of 2018, with a significant contribution from Multiclass products. These products made a major contribution to growth in sales of Class III products, accounting for 10.4% of the total.

tab. C4.2 - Income from insurance activities (€m)

Item	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Income from financial assets at amortised cost	2	-
Interest	2	-
Income from financial assets at FVTPL	1,936	310
Interest	203	217
Fair value gains	1,698	75
Realised gains	35	18
Income from financial assets at FVTOCI	1,300	1,394
Interest	1,255	1,234
Realised gains	45	160
Other income	26	25
Total	**3,264**	**1,729**

The increase in income from insurance activities (up €1,535 million compared with the first half of 2018) primarily reflects an increase in income from financial assets at FVTPL, reflecting the positive performance of the financial markets at 30 June 2019, compared with 30 June 2018. These fair value gains have almost entirely been transferred to policyholders.

A breakdown of the movement in technical provisions and other claims expenses, showing the portion ceded to reinsurers, is as follows:

tab. C4.3 - Movement in technical provisions for insurance business and other claims expenses (€m)

Item	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Claims paid	7,671	3,943
Movement in mathematical provisions	2,951	6,097
Movement in outstanding claim provisions	(45)	9
Movement in Other technical provisions	1,554	(667)
Movement in technical provisions w here investment risk is transferred to policyholders	329	(312)
Total movement in technical provisions for insurance business and other claims expenses: Life	**12,459**	**9,070**
Portion ceded to reinsurers: Life	**(6)**	**(4)**
Total movement in technical provisions for insurance business and other claims expenses: P&C	**28**	**21**
Portion ceded to reinsurers: P&C	**(2)**	**(9)**
Total	**12,480**	**9,078**

The movement in technical provisions for the insurance business and other claims expenses primarily reflect:

- claims paid, policies redeemed and the related expenses incurred by Poste Vita SpA during the period;
- the change in mathematical provisions reflecting increased obligations to policyholders;
- the change in technical provisions where investment risk is transferred to policyholders so-called class D.

Expenses from insurance activities break down as follows:

tab. C4.4 - Expenses from insurance activities (€m)

Item	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Expenses from financial assets at FVTPL	58	824
Fair value losses	35	807
Realised losses	23	17
Expenses from financial assets at FVTOCI	32	4
Interest	2	2
Realised losses	30	2
Impairments	10	(6)
Other expenses	15	15
Total	**115**	**837**

The reduction in expenses from insurance activities (down €722 million compared with the first half of 2019) is linked to the positive performance of the financial markets at 30 June 2019, compared with 30 June 2018.

C5 – COST OF GOODS AND SERVICES (€1,089 million)

tab. C5 - Cost of goods and services

(€m)

Item	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Services	989	917
Lease expense	42	148
Raw , ancillary and consumable materials and goods for resale	58	61
Total	**1,089**	**1,126**

The cost of goods and services is down €37 million compared with the first half of 2018, due primarily to a reduction in lease expense (following the application of IFRS 16 – *Leases* from 1 January 2019), partially offset mainly by an increase in variable costs linked to the growth in turnover, above all in the parcels business.

Cost of services

tab. C5.1 - Services

(€m)

Item	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Transport of mail, parcels and forms	324	277
Routine maintenance and technical assistance	117	117
Outsourcing fees and external service charges	109	83
Personnel services	69	69
Energy and w ater	65	60
Mobile telecommunication services for customers	52	47
Credit and debit card fees and charges	47	45
Transport of cash	44	44
Cleaning, w aste disposal and security	36	34
Mail, telegraph and telex	32	29
Telecommunications and data trasmission	25	28
Advertising and promotions	25	25
Electronic document management, printing and enveloping services	12	15
Consultants' fees and legal expenses	9	10
Asset management fees	15	10
Remuneration of Statutory Auditors	1	1
Other	7	23
Total	**989**	**917**

Lease expense

tab. C5.2 - Lease expense

(€m)

Item	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Real estate leases and ancillary costs	4	90
Vehicle leases	1	23
Equipment hire and softw are licences	24	23
Other lease expense	13	12
Total	**42**	**148**

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 2019	For the six months ended 30 June 2018
Consumables, advertising materials and goods for resale		34	33
Fuels and lubricants		25	25
Printing of postage and revenue stamps		3	2
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]	(2)	1
Change in inventories of raw, ancillary and consumable materials	[tab. A6]	-	1
Change in property held for sale	[tab. A6]	(3)	(2)
Total		**58**	**61**

C6 – EXPENSES FROM FINANCIAL ACTIVITIES (€35 million)

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

Item	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Expenses from financial assets at FVTOCI	-	22
Realised losses	-	22
Income from FVTPL financial assets	9	-
Fair value losses	9	-
Expenses from financial assets at amortised cost	6	3
Realised losses	6	3
Expenses from fair value hedges	2	1
Fair value losses	2	1
Interest expense	18	8
Interest on customers' deposits	4	3
Interest expense on repurchase agreements	5	4
Interest due to MEF	3	1
Other interest expense and similar charges	6	-
Other expenses	-	1
Total	**35**	**35**

Expenses from financial activities are in line with the first half of 2018. The lower value of realised losses on financial assets at FVTOCI in the first half of 2018 (€22 million) have been offset by increases in interest expense (€10 million) and in fair value losses (€9 million) on forward sales of the Class C Visa shares (note A5).

C7 – PERSONNEL EXPENSES (€2,832 million)

tab. C7 - Personnel expenses (€m)

Item	Note	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Wages and salaries		2,093	2,108
Social security contributions		600	598
Provisions for employee termination benefits: supplementary pension funds and INPS		126	128
Agency staff		7	3
Remuneration and expenses paid to Directors		1	1
Early retirement incentives		8	19
Net provisions (reversals) for disputes with staff	[tab. B6]	3	3
Amounts recovered from staff due to disputes		(3)	(2)
Share-based payments		6	2
Other personnel expenses/(cost recoveries)		(9)	(14)
Total		**2,832**	**2,846**

Personnel expenses are down €14 million compared with the first half of 2018, reflecting a reduction in the average workforce employed during the period, which more than offset the increase in the per capita cost linked to the full entry into force of the latest collective labour agreement (for 2016-2018).

Cost recoveries 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 2019	Number of employees (*) Average For the six months ended 30 June 2018
Executives	673	701
Middle managers	15,184	15,551
Operational staff	105,075	110,181
Back-office staff	1,505	602
Total employees on permanent contracts	**122,437**	**127,035**

Taking account of staff on flexible contracts, the total average number of full-time equivalent staff in the period is 129,880 (135,284 in the first half of 2018).

C8 – DEPRECIATION, AMORTISATION AND IMPAIRMENTS (€381 million)

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

Item	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Property, plant and equipment	159	164
Properties used in operations	57	57
Plant and machinery	37	37
Industrial and commercial equipment	4	4
Leasehold improvements	17	16
Other assets	44	50
Impairments/recoveries/adjustments of property, plant and equipment	(3)	(2)
Depreciation of investment property	2	2
Amortisation of right-of-use assets	109	-
Properties used in operations	74	-
Corporate fleet	30	-
Vehicles for personal use	2	-
Other assets	3	-
Amortisation and impairments of intangible assets	114	108
Industrial patents and intellectual property rights,concessions, lincenses, trademarks and similar rights	112	106
Other	2	2
Total	**381**	**272**

Depreciation, amortisation and impairments are up €109 million compared with the first half of 2018, entirely due to depreciation of right-of-use assets (IFRS 16).

C9 – CAPITALISED COSTS AND EXPENSES (€14 million)

tab. C9 - Increases relating to assets under construction (€m)

Item	Note	For the six months ended	For the six months ended
Property, plant and machinery	**[A1]**	**1**	**-**
per Costo del lavoro		1	-
Intangible assets	**[A3]**	**13**	**6**
Cost of goods and services		4	6
Personnel expenses		8	-
per Ammortamenti		1	-
Total		**14**	**6**

C10 – OTHER OPERATING COSTS (€87 million)

tab. C10 - Other operating costs (€m)

Item	Note	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Operational risk events		14	25
Thefts		2	2
Loss of BancoPosta assets, net of recoveries		1	1
Other operating losses of BancoPosta		11	22
Net provisions for risks and charges made/(released)		8	10
for disputes with third parties	[tab. B6]	6	(13)
for non-recurring charges	[tab. B6]	4	21
for other risks and charges	[tab. B6]	(2)	2
Losses		1	1
Municipal property tax, urban waste tax and other taxes and duties		39	38
Other recurring expenses		25	19
Total		**87**	**93**

The reduction of €6 million in other operating costs is primarily due to a reduction in provisions for operational risk events and the charges and operating losses incurred by BancoPosta RFC, partially offset by net provisions for disputes (net releases of €13 million in the first half of 2018).

C11 – IMPAIRMENT LOSSES/ (REVERSALS OF IMPAIRMENT LOSSES) ON DEBT INSTRUMENTS, RECEIVABLES AND OTHER ASSETS (€29 million)

tab. C11 - Impairment losses/(Reversals of impairment losses) on debt instruments, receivables and other asse (€m)

Item	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Net provisions and losses on receivables and other assets (uses of provisions)	23	13
Provisions (reversal of provisions) for receivables due from customers	20	14
Provisions (reversal of provisions) for receivables due from the MEF	-	(1)
Provisions (reversal of provisions) for sundry receivables	3	-
Impairment/(reversal) on financial assets at FVTOCI	3	(3)
Impairment/(reversal) on financial assets at amortised cost	3	-
Total	**29**	**10**

The increase of €19 million compared with the first half of 2018 primarily reflects an increase in credit losses on trade receivables and adjustments to the value of debt instruments at FVTOCI.

C12 – 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. C12.1 - Finance income (€m)

Item	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Income from financial assets at FVTOCI	20	20
Interest	20	20
Accrued differentials on fair value hedges	(5)	(5)
Realised gains	5	5
Income from amortised cost financial assets	27	28
Income from financial assets at FVTPL	2	-
Other finance income	4	3
Finance income on discounted receivables	3	3
Other	1	-
Foreign exchange gains	1	3
Total	**54**	**54**

Finance costs

tab. C12.2 - Finance costs (€m)

Item	Note	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Finance costs on financial liabilities		26	25
on bonds		10	24
on borrowings from financial institutions		1	-
on leases		14	-
on derivative financial instruments		1	1
Finance costs on provisions for employee termination benefits and pension plans	[tab. B7]	9	11
Finance costs on provisions for risks	[tab. B6]	-	1
Other finance costs		3	1
Foreign exchange losses		2	2
Total		**40**	**40**

Finance costs on bonds are down €14 million, following the repayment, in June 2018, of bonds with a nominal value of €750 million issued by the Parent Company on 18 June 2013.

C13 – INCOME TAX EXPENSE (€336 million)

This item breaks down as follows:

tab. C13 - Income tax expense (€m)

Item	For the six months ended 30 June 2019			For the six months ended 30 June 2018		
	IRES	IRAP	Total	IRES	IRAP	Total
Current tax expense	272	73	345	151	39	190
Deferred tax income	23	4	27	(101)	2	(99)
Deferred tax expense	(28)	(8)	(36)	249	-	249
Total	**267**	**69**	**336**	**299**	**41**	**340**

Current income tax expense has risen significantly compared with the same periopd of the previous year, but the increase is offset in full by a reduction in deferred tax income and expense. At 30 June 2018, Poste Vita had recognised a loss under Italian GAAP in its separate financial statements, whilst the reporting package prepared under IFRS for the purposes of the Group's consolidation reported a profit. These results resulted solely in the recognition of deferred taxes.

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 2019		
	IRES	IRAP	Total
	Assets/ (Liabilities)	Assets/ (Liabilities)	
Balance at 1 January	**83**	**22**	**105**
Payment of	1	8	9
payments on account for the current year	-	4	4
balance payable for the previous year	1	4	5
IRAP refund claimed	-	(8)	(8)
Provisions to profit or loss	(272)	(73)	(345)
Provisions to equity	1	3	4
Other	5	1	6
Balance at end of period	**(183)**	**(47)**	**(230)**
of which:			
Current tax assets	81	30	**111**
Current tax liabilities	(264)	(77)	**(341)**

At 30 June 2019, current tax assets do not include payments on account of IRES for 2019 made by the Parent Company and the companies participating in the tax consolidation arrangement, with settlement of outstanding amounts on 1 July 2019.

Current tax assets at 30 June 2019 also include:

- the substitute tax of €32 million paid by the Parent Company in 2018 in order to obtain tax relief, pursuant to art. 15, paragraph 10 of Law Decree 185 of 2008, on the increase in the value of the goodwill and other intangible assets relating to acquisition of the investment in FSIA Investimenti Srl. By paying this substitute tax, the Parent Company can deduct tax amortisation of the revalued amounts from its tax bases from the second tax period following the one in which the substitute tax was paid.
- the remaining IRES credit of €8 million to be recovered on the unreported partial deduction of IRAP paid from IRES, which is the subject of claims submitted in accordance with art. 6 of Law Decree 185 of 29

November 2008 and art. 2 of Law Decree 201 of 6 December 2011 (further information on amounts receivable in relation to interest due on the refund is provided in note A8).

Deferred tax assets and liabilities

tab. C13.2 - Deferred taxes (€m)

Item	Balance at 30 June 2019	Balance at 31 December 2018
Deferred tax assets	1,475	1,368
Deferred tax liabilities	(747)	(701)
Total	**728**	**667**

The nominal tax rate for IRES is 24%, whilst the Group's average statutory rate for IRAP, calculated at 31 December 2018, was 5.91%[64]. 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 2019	For the year ended 31 December 2018
Balance at 1 January	**667**	**(160)**
Net income/(expenses) recognised in profit or loss	9	223
Net income/(expenses) recognised in equity	53	604
Balance at end of period	**728**	**667**

At 30 June 2019, deferred tax assets and liabilities recognised directly in equity are as follows:

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

	Increases/(decreases) in equity	
Item	For the six months ended 30 June 2019	For the year ended 31 December 2018
Fair value reserve for FVTOCI financial assets	33	669
Cash flow hedge reserve for hedging instruments	6	(60)
Actuarial gains /(losses) on employee termination benefits	14	(5)
Total	**53**	**604**

[64] 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).

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 subsequent organisational changes, 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 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 carried out by PostePay SpA and the mobile telecommunications services.

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 condensed consolidated interim financial statements.

The following results, which are shown separately in accordance with the management view and with applicable accounting standards, should be read in light of the integration of the services offered by the distribution network within the businesses allocated to all four identified operating segments, also considering the obligation to carry out the Universal Postal Service.

(€m)

For the six months ended 30 June 2019	Mail, Parcel & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Net external revenue from ordinary activities	1,755	306	2,664	795	-	5,520
Net intersegment revenue from ordinary activities	2,453	191	372	-	(3,015)	1
Net revenue from ordinary activities	**4,208**	**497**	**3,036**	**795**	**(3,015)**	**5,521**
Operating profit/(loss)	**81**	**111**	**435**	**454**	**-**	**1,081**
Finance income/(costs)	(21)	-	(1)	36	-	14
(Impairment loss)/reversal on debt instruments, receivables and other assets	-	-	-	-	-	-
Profit/(Loss) on investments accounted for using the equity method	-	4	-	-	-	4
Intersegment finance income/(costs)	25	-	(1)	(24)	-	-
Income tax expense	(35)	(32)	(128)	(141)	-	(336)
Profit/(loss) for the period	**50**	**83**	**305**	**325**	**-**	**763**
External revenue from contracts with customers	**1,732**	**306**	**1,512**	**5**	**-**	**3,555**
Recognition at a point in time	279	131	209	-		619
Recognition over time	1,453	175	1,303	5		2,936

For the six months ended 30 June 2018	Mail, Parcel & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and	Total
						(€m)
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

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 2019, 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

Impact of related party transactions on the financial position at 30 June 2019 (€m)

Name	Balance at 30 June 2019						
	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	-
Associates							
Anima Holding Group	-	-	-	-	-	6	-
Related parties external to the Group							
MEF	9,487	241	5	64	4	21	8
Cassa Depositi e Prestiti Group	5,205	426	-	-	-	1	-
Enel Group	-	38	-	-	-	5	-
Eni Group	-	6	-	-	-	6	-
Equitalia Group	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	38	-
Montepaschi Group	108	7	-	-	109	-	-
Other related parties external to the Group	49	27	-	-	4	15	51
Provision for doubtful debts owing from external related parties	(26)	(39)	(1)	-	-	-	-
Total	**14,823**	**706**	**4**	**64**	**117**	**94**	**59**

At 30 June 2019, 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 €68 million (€70 million at 31 December 2018).

Impact of related party transactions on the financial position at 31 December 2018 (€m)

Name	Balance at 31 December 2018						
	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	-	4	-	-	-	20	-
Associates							
Anima Holding Group	-	-	-	-	-	4	-
Telma Sapienza Scarl	-	-	-	-	-	-	-
Other SDA group associates	-	-	-	-	-	-	-
Related parties external to the Group							
MEF	5,930	199	9	1,306	3,653	44	8
Cassa Depositi e Prestiti Group	5,087	441	-	-	-	2	-
Enel Group	-	27	-	-	-	4	-
Eni Group	-	5	-	-	-	11	-
Equitalia Group	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	42	-
Montepaschi Group	44	4	-	-	337	-	-
Other related parties external to the Group	69	20	-	-	-	21	66
Provision for doubtful debts owing from external related parties	(25)	(39)	(1)	-	-	-	-
Total	**11,105**	**661**	**8**	**1,306**	**3,990**	**150**	**75**

Impact of related party transactions on profit or loss for the six months ended 30 June 2019 (€m)

Name	Six months ended 30 June 2019													
	Revenue					Costs								
						Capital expenditure		Current expenditure						
	Revenue from Mail, Parcels & 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	Losses and impairment losses/(Reverseals of impairment losses) on debt instruments,	Finance costs	Losses and impairment losses/(Reverseals of impairment losses) on financial assets
Subsidiaries														
Kipoint SpA	-	-	-	-	-	-	-	1	-	-	-	-	-	-
Associates														
Anima Holding Group	2	-		-	-	-	-	12	-	-	-	-	-	-
Related parties external to the Group														
MEF	178	25	75	-	-	-	-	1	-	1	3	-	-	-
Cassa Depositi e Prestiti Group	1	-	935	8	-	-	-	3	-	-	-	-	-	-
Enel Group	25	1	2	-	-	-	-	-	-	-	-	-	-	-
Eni Group	9	-	1	-	-	-	-	33	-	-	-	-	-	-
Equitalia Group	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	-	3	15	-	-	-	-	-	-
Montepaschi Group	8	-	-	-	-	-	-	-	-	-	-	-	-	-
Other related parties external to the Group	27	-	-	-	-	-	-	22	23	1	-	-	-	-
Total	**250**	**26**	**1,013**	**8**	**-**	**-**	**3**	**87**	**23**	**2**	**3**	**-**	**-**	**-**

At 30 June 2019, 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 €1 million.

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, Parcels & 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 losses/ (Reversals of impairment losses) on debt instruments,	Finance costs
Subsidiaries													
Address Softw are Srl	-	-	-	-	-	-	-	-	-	-	-		-
Kipoint SpA	-	-	-	-	-	-	-	1	-	-	-		-
Joint ventures													
FSIA Group	-	-	-	-	-	-	1	15	-	-	-		
Associates													
Gruppo Anima Holding	1	-	-	-	-	-	-	3	-	-	-		-
Altre collegate del gruppo SDA	-	-	-	-	-	-	-	-	-	-	-		-
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	-	-		-
Totale	**249**	**30**	**979**	**8**	**-**	**1**	**6**	**93**	**21**	**4**	**1**		**-**

- 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.
- 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 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

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 2019			**Balance at 31 December 2018**		
Assets and liabilities						
Financial assets	212,963	14,844	7.0	190,864	11,105	5.8
Trade receivables	2,369	706	29.8	2,199	661	30.1
Other receivables and assets	4,480	4	0.1	4,580	8	0.2
Cash and cash equivalents	1,525	64	4.2	3,195	1,306	40.9
Non-current assets and disposal groups held for sale			n.a.			n.a.
Provisions for risks and charges	1,370	68	5.0	1,519	70	4.6
Financial liabilities	80,557	117	0.1	66,929	3,990	6.0
Trade payables	1,521	94	6.2	1,583	150	9.5
Other liabilities	3,139	59	1.9	3,698	75	2.0
Liabilities related to assets held for sale	-		n.a.	64,253		n.a.
	Six months ended 30 June 2019			**Six months ended 30 June 2018**		
Profit or loss						
Revenue from Mail, Parcel & other	1,755	250	14.2	1,761	249	14.1
Revenue from Payments, Mobile & Digital	306	26	8.5	307	30	9.8
Revenue from Financial Services	2,664	1,013	38.0	2,676	979	36.6
Revenue frome Insurance Services after movements in technical provisions and other claims expenses	795	8	1.0	685	8	1.2
Cost of goods and services	1,089	87	8.0	1,126	93	8.3
Expenses from financial activities	35	3	8.6	35	1	2.9
Personnel expenses	2,832	23	0.8	2,846	21	0.7
Other operating costs	87	1	1.1	93	4	4.3
Finance costs	40	-	n.a.	40	-	n.a.
Finance income	54	-	n.a.	54	-	n.a.
Cash flows						
Net cash flow from/(for) operating activities	(482)	(7,752)	n.a.	851	(7,616)	n.a.
Net cash flow from/(for) investing activities	(207)	19	n.a.	(16)	134	n.a.
Net cash flow from/(for) financing activities and shareholder transactions	(981)	(364)	37.1	(1,560)	(406)	26.0

Key management personnel

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

Remuneration of key management personnel		(€000)
Item	**Six months ended 30 June 2019**	**Six months ended 30 June 2018**
Remuneration to be paid in short/medium term	7,351	6,857
Post-employment benefits	237	230
Other benefits to be paid in longer term	842	257
Termination benefits	854	-
Share-based payments	3,104	1,174
Total	**12,388**	**8,518**

Remuneration of Statutory Auditors

(€000)

Name	Six months ended 30 June 2019	Six months ended 30 June 2018
Remuneration	632	646
Expenses	13	29
Total	**645**	**675**

The remuneration paid to members of the Parent Company's Supervisory Board amounts to approximately €41 million for the first half of 2019. 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 31 December 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.

Other related party disclosures

No related party transactions as defined by art. 5, paragraph 8 of the "Related Party Transactions Regulations" - CONSOB Resolution 17221 of 12 March 2010, as amended, were concluded in the first six months of 2019.

6. RISK MANAGEMENT

INTRODUCTION

This section provides a brief review of items in the statement of financial position and statement of profit or loss 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*.

FINANCIAL RISK

Responsibility for coordinating and managing BancoPosta RFC's investment and hedging strategies has been assigned to BancoPosta Fondi SpA SGR from 1 January 2019.

Poste Italiane SpA's financial activities, including treasury management, short- and medium-term funding transactions, including capital market transactions, and extraordinary and subsidised finance are the responsibility of the Parent Company's Administration, Finance and Control function.

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.

- **Poste Italiane SpA**'s financial transactions primarily relate to BancoPosta's operations, asset financing and liquidity investment.

  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[65], 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. Management of the relationship between the structure of deposits and investments is handled through an appropriate Asset & Liability Management system.

  Following the positive performance of deposits and the change in market conditions, from March onwards, the process of monitoring the risk profile indicated that there had been a decline in the leverage ratio to below the threshold set in the Risk Appetite Framework (RAF). At 30 June 2019, the leverage ratio stands at approximately 2.87% (3% being the minimum level required by the regulations). The Company will assess BancoPosta's capital position at the end of the year and, if necessary, will consider action to strengthen its capital position in order to return the indicator to the target level set 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

[65] The funds resulting from postal current account deposits by private customers must be invested in euro area government securities, whilst up to 50% of the deposits may be invested in other securities guaranteed by the Italian government.

and unit-linked policies. Other investments in financial instruments regard investment of the insurance company's free capital.

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

Index-linked and unit-linked products, relating to Class III insurance products, regard policies where the premium is invested in Italian government securities and mutual investment funds. In the case of index-linked policies issued, the company assumes sole liability for solvency risk associated with the instruments in which premiums are invested, in the past providing a guaranteed minimum return only when called for by contract. The company continuously monitors changes in the risk profile of individual products, focusing especially on the risk linked to the insolvency of issuers.

Fair value interest rate risk

This is the risk that the value of a financial instrument fluctuates as a result of movements in market interest rates.

This refers to the effects of changes in interest rates on the price of fixed rate financial instruments or variable rate financial instruments converted to fixed rate via cash flow hedges and, to a lesser degree, the effects of changes in interest rates on the fixed components of variable 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:

- fixed income government bonds held by Poste Vita SpA, totalling €83,187 million, almost entirely used to cover Class I and V policies linked to separately managed funds;
- €16,988 million in non-government debt instruments held by Poste Vita SpA, used mainly to meet obligations towards policyholders in relation to separately managed accounts;
- €34,879 million in fixed income government bonds held by BancoPosta RFC, which consist of: fixed rate bonds amounting to €14,634 million; variable rate bonds converted into fixed rate bonds via interest rate swaps designated as cash flow hedges, totalling €2,442 million, inflation-linked securities amounting to €2,123 million, and fixed or variable rate bonds converted to variable rate positions via fair value hedges amounting to €15,680 million (including €11,558 million in forward starts).

Within the context of **financial assets at fair value through profit or loss**, fair value interest rate risk concerns a portion of the fixed rate investments of Poste Vita SpA, totalling €1,076 million, the exposure to mutual investment funds, totalling €793 million, and bonds issued by CDP SpA with a fair value of €21 million.

Within the context of **derivative financial instruments**, the risk in question primarily concerns:

- forward sales of government bonds with a nominal value of €330 million and forward purchases of government bonds with a nominal value of €565 million, classified as cash flow hedges and entered into during the first half by BancoPosta RFC, in addition to a derivative entered into by the Parent Company with the aim of hedging the cash flows on a variable rate bond totalling €50 million;
- forward sales of government bonds with a nominal value of €1,458 million, classified as fair value hedges and entered into during the first half by Poste Vita SpA.

At 30 June 2019, with reference to the interest rate risk exposure determined by the average duration of the portfolios, the duration of BancoPosta's overall investments 5.6. On the other hand, with respect to Class I and Class V policies sold by Poste Vita SpA, the duration of the matching assets 6.74, whilst the duration of the liabilities is 9.57. The financial instruments intended to cover the technical provisions for Class III policies have maturities that match those of the liabilities.

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.

The performance of the Group's portfolio in the period under review is as follows[66]:

(i) a net increase of approximately €1.8 billion in the fair value of BancoPosta RFC's *financial assets at fair value through other comprehensive income* (a nominal value of approximately €31 billion), with €1.7 billion recognised in profit or loss in relation to the hedged portion and €0.1 billion recognised in the relevant equity reserve in relation to the portion of the portfolio not hedged by fair value hedges;

(ii) a net increase of approximately €4.1 billion in the Poste Vita group's *financial assets at fair value through other comprehensive income* (a nominal value of the fixed income instruments of approximately €94 billion), almost entirely passed on to policyholders and recognised in specific technical provisions under the shadow accounting mechanism.

[66] The sensitivity analysis used the swap rate curve and the BTP curve (a 10-year swap rate of 18 bps and a spread between BTPs and the 10-year swap rate of 192 bps).

An analysis of sensitivity to spread risk has been conducted at 30 June 2019, limited to the most significant positions in the portfolios of both the Parent Company and the Poste Vita group.

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 2019 of €35,408 million and derivative financial instruments, classified as cash flow hedges, on which net fair value losses amount to €9 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 €3,149 million before the related taxation (including €3,141 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 2019 amount to €25,242 million and have a fair value of €23,521 million, would be reduced in fair value by approximately €2,436 million 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 €102,239 million at 30 June 2019 and consist of €100,374 million in financial assets at fair value through other comprehensive income, €1,890 million in financial assets at fair value through profit or loss and derivative financial instruments on which fair value losses total €25 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 €6,996 million. Of this change, €6,945 million would be attributed to deferred liabilities due to policyholders under the shadow accounting method[67], €0.7 million would be recognised in the company's profit or loss and €50 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, the fair value of fixed income instruments measured at amortised cost attributable to the Poste Vita group, which at 30 June 2019 amount to €1,497 million and have a fair value of €1,667 million, would be reduced by approximately €102 million, with the change not reflected in the accounts.

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.

[67] 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.

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 €10,786 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 €7,236 million;
- fixed income government bonds held by the Parent Company and swapped into variable rate through fair value hedges, with a total nominal amount of €4,895 million (including €3,705 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);
- receivables of €5,248 million reflecting collateral posted to secure liabilities arising in relation to derivative financial instruments.

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 PI/BP treasury account.

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.

Financial assets

With regard to the **financial assets** exposed to this risk, the Poste Italiane Group's exposure at 30 June 2019 by rating is as follows:

- the gross carrying amount of financial assets at amortised cost, totalling €40,454 million[68]; all the financial instruments included in this category are allocated to stage 1 and the associated rating in almost all cases is between A+ and BBB-; the gross carrying amount includes €24,140 million in fixed income instruments, €14,823 million in receivables and €1,491 in loans;
- the gross carrying amount of financial assets at fair value through other comprehensive income, totalling €126,435 million[69]; financial assets of €126,348 million are allocated to stage 1, with the remaining €87 million in stage 2. The ratings associated with these financial assets are primarily between A+ and BBB-.

Movements in ECLs

At 30 June 2019, expected credit losses on financial instruments amount to €53 million. The net increase of €6 million primarily relates to impairment losses on fixed income instruments held by BancoPosta RFC, after reversals reflecting the progressive maturity of instruments and following sales during the period.

[68] The value of instruments at amortised cost at 30 June 2019 is €43,533 million and takes into account: the positive impact of hedges, amounting to €2,612 million, instruments not exposed to credit risk, totalling €503 million, and the negative impact of accumulated ECLs at the reporting date, amounting to €36 million.

[69] The fair value is €135,813 million at 30 June 2019.

Trade receivables

The gross carrying amount of trade receivables subject to credit losses amounts to €3,036 million. Expected credit loss provisions for trade receivables amount to €667 million and include €414 million relating to private customers, €151 million to Public Administration entities, €33 million to amounts due from the MEF and €15 million to overseas postal operators. The remaining provisions cover overdue interest.

The gross carrying amount of items evaluated individually is €2,042 million, with expected credit loss provisions totalling €462 million, whilst the gross carrying amount of receivables assessed using a simplified matrix amounts to €994 million, with expected credit loss provisions totalling €205 million.

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.

This risk also applies to lease liabilities recognised under IFRS 16, as described in section 3.4 *Impact of first-time adoption of IFRS 16 at 30 June 2019* in note 3.

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 €31,399 million, including €29,016 million used to cover Class I policies, €2,376 million used to cover Class III policies and a remaining amount representing investment of the company's free capital;
- equity instruments held by Poste Vita SpA, totalling €162 million, held to cover Class I and Class III products;
- 32,059 Visa Incorporated preference shares held by BancoPosta RFC, amounting to €62 million; 28,810 shares have been sold in a forward transaction with a settlement date of March 2021; the fair value of the forward sale has decreased by €9 million (see note A5 for more details).

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 2019, cash flow inflation risk relates to inflation-linked government securities not subject to cash flow hedges or fair value hedges. These securities are primarily held by Poste Vita SpA (a nominal value of €9,360 million) and BancoPosta RFC (a nominal value of €1,875 million).

OTHER RISKS

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 subsidiary, Poste Vita SpA, and mutual funds managed by BancoPosta Fondi SpA SGR). 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 Parent Company continues to monitor the situation, assessing the potential impact on the provisions for risks and charges accounted for in the financial statements. At 30 June 2019, 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 whose performance is not in line with expectations, was revised. It should be remembered that, 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. All the provisions made to cover the cost of this initiative were used 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. This initiative, the aim of which was to allow each investor to recover the difference between the amount they invested at the time of subscription, after 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", was launched on 24 September 2018 and came to a conclusion on 7 December 2018. On 28 February 2019, Poste Italiane's Board of Directors extended this initiative, giving investors in the Europa Immobiliare 1 fund a second chance to take advantage of the offer if they had not done so earlier. The initiative was launched on 23 May 2019 and was concluded on 13 July 2019.

The Obelisco Real Estate Fund, placed by Poste Italiane in December 2005 and managed by InvestiRE SGR SpA, had an original maturity date at the end of December 2015. This was later extended for a further 3 years and the fund matured on 31 December 2018. On 28 December 2018, the management company announced that it had completed the process of selling the properties held by the fund and proceeded to cancel the fund's units quoted in the MIV market managed by Borsa Italiana SpA. On 16 July 2019, the management company announced that the fund's final liquidation report had been approved and confirmed that, given that the liquidation proceeds amounted to zero, there would be no distribution of either income or capital. Poste Italiane is considering a new initiative aimed at protecting the interests of customers who invested in the Obelisco fund.

7. DETERMINATION OF FAIR VALUE

7.1 Fair value measurement techniques

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 2018 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.

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 (Composite Bloomberg Bond Trader).

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 of yield curves based on the specific issuer's quoted bond prices.

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

- **Straight bonds**: these are measured by discounting their future cash flows using as input a yield curve reflecting the spread applicable to the issuer's credit risk;
- **Structured bonds**: measurement is based on a building blocks approach, where the structured product is broken down into its basic components: the bond component and the option component. The bond component is measured by discounting cash flows to present value in line with the approach applicable to straight bonds, as defined above. The option component - which considering the features of the bonds included in the portfolio of the Poste Italiane Group relates to interest rate risk - is measured in accordance with a standard closed form expression as with classical option valuation models with underlyings exposed to such risks.
- **Borrowings**: these are measured by discounting their future cash flows using as input a yield curve reflecting the spread applicable to the credit risk.

- **Repurchase agreements**: are valued using discounted cash flow techniques involving the computation of future contractual cash flows. Repos may also be used for collateral and in such cases fair value need not be adjusted for the counterparty'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

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.

7.2 Fair value hierarchy

The following table shows an analysis of financial instruments measured at fair value at 30 June 2019, classified by level in the fair value hierarchy.

Fair value hierarchy (€m)

Item	At 30 June 2019				At 31 December 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Financial assets at FVTOCI	126,590	9,223	5	135,818	119,159	8,591	5	127,755
Equity instruments	-	-	5	5	-	-	5	5
Fixed income instruments	126,590	8,693	-	135,283	119,159	8,066	-	127,225
Structured bonds	-	-	-	-	-	-	-	-
Other investments	-	530	-	530	-	525	-	525
Financial assets at FVTPL	2,124	28,171	3,218	33,513	1,091	26,074	2,662	29,827
Receivables	-	-	-	-	-	8	59	67
Equity instruments	162	-	62	224	165	5	46	216
Fixed income instruments	938	138	-	1,076	671	900	-	1,571
Other investments	1,024	28,033	3,156	32,213	255	25,161	2,557	27,973
Derivative financial instruments	-	99	-	99	-	413	-	413
Total	**128,714**	**37,493**	**3,223**	**169,430**	**120,250**	**35,078**	**2,667**	**157,995**

Transfers between levels 1 and 2, relating entirely to the Poste Vita insurance group, are shown below:

Net transfers between Level 1 and 2 at 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	**(53)**	**53**	**324**	**(324)**
Financial assets at FVTOCI				
Equity instruments	-	-	-	-
Fixed income instruments	(53)	53	131	(131)
Other investments	-	-	-	-
Financial assets at FVTPL				
Receivables	-	-	-	-
Equity instruments	-	-	-	-
Fixed income instruments	-	-	1	(1)
Other investments	-	-	192	(192)
(Net transfers betw een Level 1 and 2)	**(53)**	**53**	**324**	**(324)**

Reclassifications from level 1 to level 2, totalling €53 million, regard financial instruments whose value, at 30 June 2019, 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, totalling €324 million, on the other hand, regard financial instruments whose value, at 30 June 2019, 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 1 January 2019	**5**	**2,662**	**-**	**2,667**
Purchases/Issues	-	651	-	651
Sales/Extinguishment of initial accruals	-	(153)	-	(153)
Redemptions	-	-	-	-
Movements in fair value through profit or loss	-	58	-	58
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 2019	**5**	**3,218**	**-**	**3,223**

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.

8. 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 2019.

TAX DISPUTES

In November 2011, the tax authorities notified **EGI SpA** of three notices of assessment for the years 2006, 2007 and 2008, resulting in the identification of the same irregularity in each of the three years. This concerned the application, for the purposes of IRES, of art. 11, paragraph 2 of Law 413/1991 to properties of historical and artistic interest owned by EGI and leased by it to third parties.

On 30 January 2019, the company's board of directors approved the decision to settle the dispute in return for concessions, in accordance with art. 6 of Law Decree 119/2018, converted into Law 136 of 2018, resulting in payment of a tax charge of €0.367 million, paid on 19 April 2019. The documentation certifying settlement of the dispute and containing the related request for a stay of the proceedings was lodged with the Tax Section of the Supreme Court of Cassation on 15 May 2019.

Between 2009 and 2011, the Regional Tax Office for Large Taxpayers (*Agenzia delle Entrate - Direzione Regionale del Lazio - Ufficio Grandi Contribuenti*) notified **Poste Vita SpA** of a number of alleged violations of the VAT regulations in the 2004, 2005 and 2006 tax years, resulting in fines of approximately €2.3 million for the alleged failure to pay VAT on invoices for service commissions. With regard to these disputes, currently pending before the Supreme Court of Cassation, the company, bearing in mind the Court's by now consistent approach with regard to such matters, decided to take advantage of the option granted by Law Decree 119 of 23 October 2018. This involved settlement of the existing disputes in return for concessions via the payment of a sum amounting to €0.35 million, equal to 15% of the total penalties imposed in relation to the three alleged violations. Considering that the decision to turn down the request for a settlement may be notified to the company at any time up to 31 July 2020 and that the case will be discharged if a request for a hearing is not presented by 31 December 2020, the company has deemed it appropriate to continue to reflect the likely outcome to the dispute in determining provisions for risks and charges.

With reference to **Postel**, an audit regarding income tax and withholding tax came to an end on 8 October 2015, with delivery of a tax audit report, contesting the right to deduct VAT and the deductibility of IRAP, in relation to the alleged failure to pay social security contributions for employees and/or contractors used by a supplier between 2010 and 2014. With regard to the 2014 tax year, on 19 April 2019, the tax authorities requested the payment of additional VAT, IRES, IRAP and withholdings amounting to a total of approximately €0.25 million, plus penalties and interest. Postel filed appeal against the claim on 10 June 2019, at the same time provisionally paying a sum equal to approximately half the tax claimed. A date for the appeal hearing has yet to be scheduled.

In November 2018, **Consorzio Postemotori** received notice of an order issued by the Criminal Court in Rome and of a precautionary seizure regarding the consortium, amounting to €4.6 million. This was accompanied by precautionary measures concerning both the people under investigation and real property. On 8 March 2019, the consortium was notified of the Court of Rome decree regarding the scheduling of the preliminary hearing and the corresponding indictment request issued by the Public Prosecutor on 27 February 2019. On 13 May

2019, the Court, having reviewed the evidence, ruled that there was insufficient evidence to proceed against the current Executive Director and revoked the precautionary seizure previously ordered.

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** a number of notices of adjustment, some of which have resulted in payment orders, for a total amount payable of €20.3 million at 30 June 2019. 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 company has failed to pay. The grounds for the payment orders were immediately challenged, 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.

Again, with regard to Postel, in relation to a number of cases 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. In judgements dated 28 December 2018, the Court of Appeal in Genoa confirmed in full the judgements at first instance, rejecting INPS's appeals. INPS has lodged an appeal before the Supreme Court of Cassation, notified to Postel on 28 June 2019. The company will appear before the Court.

Other 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 May 2009 to September 2018. Taking into account the favourable judgement at first instance, the reasons given for the judgement and the latest appeals brought by INPS, Postel has adjusted its provisions for risks and charges. Provisions recognised in the financial statements at 30 June 2019 amount to approximately €14 million.

PRINCIPAL PROCEEDINGS PENDING AND RELATIONS WITH THE AUTHORITIES

Autorità Garante della Concorrenza e del Mercato (AGCM - the Antitrust Authority)

On 3 October 2018, **Poste Italiane** proceeded to pay the fine of €23 million plus interest imposed by the *Autorità Garante della Concorrenza e del Mercato* (AGCM - the Antitrust Authority) following its ruling, in January 2018, that Poste Italiane had abused its dominant market position in the period from 2014 to 2017, as per art. 102 of the TFEU. This did not constitute acceptance or admission of liability in relation to the alleged misconduct and does not affect the Company's right to defend its position through the appropriate channels. At 31 December 2018, the provisions made in 2017 had been used in full.

As a result, on 4 March 2019, the AGCM notified the Company that it was satisfied that the actions taken by Poste Italiane to remedy the earlier issues had been effective and that the Company was in compliance with the regulations, ruling therefore that: (i) no further fine would be imposed; (ii) Poste Italiane can continue to offer competing alternative operators a service equivalent to Posta Time; (iii) Poste Italiane, within 30 days of notice of the ruling, must inform the regulator in writing of the degree to which the Posta Time equivalent service has been extended. On 3 April 2019, Poste Italiane sent the authority a report confirming the actions taken in order to comply.

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

Law Decree 201 of 6 December 2011, converted into Law 214 of 22 December 2011, transferred responsibility for regulation and supervision of the postal sector to the Italian Communications Authority (AGCom).

Following transposition into Italian law of the third European postal services directive (Directive 2008/6/CE), the so-called "net avoided cost" method has been applied in quantifying the cost of the universal service"[70]. In this regard:

- AGCom Resolution 214/19/CONS regarding "Assessment of the net cost of the universal postal service for 2015 and 2016" was published on 2 July 2019. In addition to acknowledging that the cost is unfair, the Resolution quantified the cost of providing the Universal Postal Service in 2015 and 2016, respectively, as €389 million and €356 million, compared with compensation of €329 million and €262 million provided for in the *Contratto di Programma*. It should be noted that AGCom did not establish a Compensation Fund for 2015 and 2016, so it has not been possible to recover the difference between compensation provided by the state and the costs quantified by AGCom. On the same date, the regulator announced that it had initiated an assessment of the net cost for 2017 and 2018.
- To complete the picture, it should be remembered that, on 6 September 2017, AGCom published Resolution 298/17/CONS regarding "Assessment of the net cost of the universal postal service for 2013 and 2014", which, in addition to acknowledging that the cost is unfair, quantified the cost of providing the Universal Postal Service in 2013 and 2014, respectively, as €393 million and €409 million, compared with compensation of €343 million and €336 million provided for in the *Contratto di Programma*. Again, no Compensation Fund was established for 2013 and 2014 and, on 6 November 2017, Poste Italiane filed a legal challenge before Lazio Regional Administrative Court (the case is still pending).

Bank of Italy

On 23 May 2019, the Bank of Italy began an inspection of approximately 25 post offices with the aim of verifying fulfilment of the obligations in terms of banking transparency, including an assessment of the related rules, procedures and controls.

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70 This method defines the cost incurred as the difference between the net operating cost incurred by a designated universal service provider when subject to universal service obligations and the net operating cost without such obligations.

The inspection, whilst being conducted at local level, regards matters covered in previous checks carried out by the Bank in 2015 at the Company's headquarters and primarily connected with aspects such as: (i) the storage of contract documents; (ii) the handling of unilateral changes to the terms and conditions offered to customers; (iii) the handling of complaints and the application of financial conditions via the related system.

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.

On 20 June 2019, the Bank of Italy requested BancoPosta to ensure that the procedures used in handling complaints regarding Interest-bearing Postal Certificates were fit for purpose. The Bank also requested information on the fraudulent use of payment instruments. The Company has initiated the process of gathering the necessary information in order to provide the required responses within the agreed deadlines. At the date of preparation of this half-year report, the Company does not believe it necessary to revisit its approach to handling complaints regarding Interest-bearing Postal Certificates or, as a result, to modify estimates of the related provisions for risks and charges at 30 June 2019. Any changes to estimates may take place only following agreement with the Bank of Italy on any alterations to the procedures currently used.

CONSOB

On 12 February 2019, the CONSOB requested further clarification regarding the measured adopted to ensure compliance with the rules of conduct for dealing with customers with reference to: i) the provision of advice on insurance investment products; ii) obligations regarding Product Governance and the incentive scheme for network personnel in relation to the distribution of insurance investment products. The above information was provided in a specific response submitted to the regulator on 15 February 2019.

Later, on 18 April 2019, the CONSOB requested further clarification regarding the notes submitted by BancoPosta between September 2018 and February 2019 and the "Report on the conduct of investment services and activities" relating to: (i) concerns regarding compliance with the above legislation; (ii) aspects where there is a need for precise clarification in order assess compliance with industry regulations; (iii) updates on matters for which information on initiatives in progress was previously provided.

The above information was provided in a specific response submitted to the regulator on 3 June 2019.

On 23 May 2019, the CONSOB requested additional information on the closed-end real estate fund, "Obelisco", which matured on 31 December 2018, and any initiatives to be adopted by Poste Italiane in order to protect investors, similar to the action taken with regard to the closed-end real estate funds, "IRS" and "Europa Immobiliare 1". The Company responded on 16 June 2019.

Finally, on 31 May 2019, the CONSOB requested information and an update relating to *ex ante* and *ex post* disclosures to customers. Notes replying to the regulator were sent on 1 July (with regard to ex ante disclosures) and on 22 July 2019 (with regard to ex post disclosures).

9. 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[71] in the first half of 2019.

10. 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[72] in the first half of 2019.

11. 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 2019.

12. ADDITIONAL INFORMATION

ANALYSIS OF NET DEBT/(CASH)

The following table provides an analysis of the Poste Italiane Group's net debt/(cash) at 30 June 2019.

[71] 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.

[72] 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.

Poste Italiane Group

Net debt/(cash) at 30 June 2019

(€m)

Balance at 30 June 2019	Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Eliminations	Consolidated amount	*of which, related parties*
Financial liabilities	**3,132**	**5,151**	**79,356**	**332**	**(7,414)**	**80,557**	
Postal current accounts	-	-	52,989	-	(685)	52,304	-
Bonds	50	-	-	-	-	50	-
Borrowings from financial institutions	675	-	14,634	-	-	15,309	-
Other borrowings	-	-	-	-	-	-	-
Leases	1,321	1	(1)	30	-	1,351	8
MEF account, held at the Treasury	-	-		-	-		
Derivative financial instruments	29	-	5,098	25	-	5,152	-
Other financial liabilities	10	4,689	1,669	24	-	6,391	109
Intersegment financial liabilities	1,047	461	4,967	253	(6,728)	-	-
Technical provisions for insurance business	**-**	**-**	**-**	**134,074**	**-**	**134,074**	**-**
Financial assets	**(1,388)**	**(5,009)**	**(77,716)**	**(135,571)**	**6,721**	**(212,963)**	
Financial assets at amortised cost	(68)	(153)	(41,793)	(1,519)	-	(43,533)	(14,292)
Financial assets at FVTOCI	(535)	-	(34,910)	(100,373)	-	(135,818)	(530)
Financial assets at FVTPL	-	-	(62)	(33,451)	-	(33,513)	(21)
Derivative financial instruments	-	-	(99)	-	-	(99)	(1)
Intersegment financial assets	(785)	(4,856)	(852)	(228)	6,721	-	-
Technical provisions attributable to reinsurers	**-**	**-**	**-**	**(71)**	**-**	**(71)**	**-**
Net financial liabilities/(assets)	**1,744**	**142**	**1,640**	**(1,236)**	**(692)**	**1,597**	
Cash and deposits attributable to BancoPosta	**-**	**-**	**(3,606)**	**-**	**-**	**(3,606)**	**-**
Cash and cash equivalents	**(980)**	**(273)**	**(84)**	**(873)**	**686**	**(1,524)**	**(64)**
Net debt/(cash)	**764**	**(131)**	**(2,050)**	**(2,109)**	**(7)**	**(3,534)**	

Net debt/(cash) at 31 December 2018

Balance at 31 December 2018	Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Eliminations	Consolidated amount	*of which, related parties*
Financial liabilities	**1,259**	**4,307**	**67,022**	**1,034**	**(6,693)**	**66,929**	
Postal current accounts	-	-	47,160	-	(920)	46,240	-
Bonds	50	-	-	762	-	812	-
Borrowings from financial institutions	201	-	8,473	-	-	8,674	*308*
Other borrowings	-	-	-	-	-	-	-
Leases	-	-	-	-	-	-	-
MEF account, held at the Treasury	-	-	3,649	-	-	3,649	*3,649*
Derivative financial instruments	30	-	1,829	-	-	1,859	*20*
Other financial liabilities	20	4,027	1,634	14	-	5,695	*13*
Intersegment financial liabilities	958	280	4,277	258	(5,773)	-	-
Technical provisions for insurance business	**-**	**-**	**-**	**125,148**	**-**	**125,148**	**-**
Financial assets	**(1,417)**	**(4,097)**	**(64,578)**	**(126,545)**	**5,773**	**(190,864)**	
Financial assets at amortised cost	(90)	(53)	(31,221)	(1,506)	-	(32,869)	*(10,530)*
Financial assets at FVTOCI	(537)	-	(32,071)	(95,146)	-	(127,755)	*(525)*
Financial assets at FVTPL	-	-	(58)	(29,769)	-	(29,827)	*(21)*
Derivative financial instruments	-	-	(368)	(45)	-	(413)	*(29)*
Intersegment financial assets	(790)	(4,044)	(860)	(79)	5,773	-	-
Technical provisions for insurance business	-	-	-	(71)	-	(71)	-
Net financial liabilities/(assets)	**(158)**	**210**	**2,444**	**(434)**	**(921)**	**1,141**	
Cash and deposits attributable to BancoPosta	**-**	**-**	**(3,318)**	**-**	**-**	**(3,318)**	**-**
Cash and cash equivalents	**(973)**	**(246)**	**(1,323)**	**(1,574)**	**921**	**(3,195)**	***(1,306)***
Net debt/(cash)	**(1,131)**	**(36)**	**(2,197)**	**(2,008)**	**-**	**(5,372)**	

Total net cash at 30 June 2019 amounts to €3,534 million, down from €5,372 million at 31 December 2018. The reduction of €1,838 million during the period primarily reflects the recognition of financial liabilities resulting from the first-time adoption, from 1 January 2019, of the new accounting standard, IFRS 16 (€1,351 million at 30 June 2019).

An analysis of the net funds of the Mail, Parcels and Distribution segment at 30 June 2019, in accordance with ESMA recommendation 319/2013, is provided below:

Net (cash)/debt position in accordance with ESMA guidelines (€m)

	at 30 June 2019	at 31 December 2018
A. Liquidity	**(980)**	**(973)**
B. Current loans and receivables	**(35)**	**(57)**
C. Current bank borrowings	502	201
D. Current lease liabilities	219	-
E. Current portion of non-current debt	1	-
F. Other current financial liabilities	13	23
G. Current financial debt (C+D+E+F)	**735**	**224**
H. Current net debt/(cash) (A+B+G)	**(280)**	**(806)**
I. Non-current bank borrowings	173	-
L. Bond issues	50	50
M. Non-current lease liabilities	1,101	-
N. Other non-current liabilities	25	27
O. Non-current financial debt (I+L+M+N)	**1,349**	**77**
P. Net debt/(cash) (ESMA guidelines) (H+O)	**1,069**	**(729)**
Non-current financial assets	(568)	(570)
Net debt/(cash)	**501**	**(1,299)**
Intersegment loans and receivables and financial liabilities	263	168
Net debt/(cash) including intersegment transactions	**764**	**(1,131)**

EXPOSURE TO SOVEREIGN DEBT

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 at 30 June 2019 is shown in the table below.

Poste Italiane Group - Exposure to sovereign debt (€m)

Item	At 30 June 2019			At 31 December 2018		
	Nominal value	Carrying amount	Fair Value	Nominal value	Carrying amount	Fair Value
Italy	**125,674**	**138,659**	**137,246**	**125,501**	**130,596**	**129,231**
Financial assets at amortised cost	17,458	22,042	20,629	17,934	19,778	18,413
Financial assets at FVTOCI	108,164	116,562	116,562	106,745	109,995	109,995
Financial assets at FVTPL	52	55	55	822	823	823
Non-current assets and disposal groups held for sale	-	-	-	-	-	-
Austria	-	-	-	15	15	15
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	-	-	-	15	15	15
Financial assets at FVTPL	-	-	-	-	-	-
Belgium	**97**	**114**	**114**	**89**	**92**	**92**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	97	114	114	89	92	92
Financial assets at FVTPL	-	-	-	-	-	-
Finland	**-**	**-**	**-**	**15**	**15**	**15**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	-	-	-	15	15	15
Financial assets at FVTPL	-	-	-	-	-	-
France	**151**	**202**	**202**	**151**	**173**	**173**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	151	202	202	151	173	173
Financial assets at FVTPL	-	-	-	-	-	-
Germany	**37**	**47**	**47**	**49**	**57**	**57**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	35	45	45	47	56	56
Financial assets at FVTPL	2	2	2	2	1	1
Ireland	**10**	**12**	**12**	**10**	**11**	**11**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	10	12	12	10	11	11
Financial assets at FVTPL	-	-	-	-	-	-
Spain	**1,170**	**1,792**	**1,793**	**1,167**	**1,440**	**1,440**
Financial assets at amortised cost	3	3	4	3	3	3
Financial assets at FVTOCI	1,167	1,789	1,789	1,164	1,437	1,437
Financial assets at FVTPL	-	-	-	-	-	-
Slovenia	**3**	**3**	**3**	**-**	**-**	**-**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	3	3	3	-	-	-
Financial assets at FVTPL	-	-	-	-	-	-
USA	**1**	**1**	**1**	**1**	**1**	**1**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	1	1	1	1	1	1
Financial assets at FVTPL	-	-	-	-	-	-
Other Countries	**20**	**20**	**20**	**-**	**-**	**-**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	20	20	20	-	-	-
Financial assets at FVTPL	-	-	-	-	-	-
Total	**127,163**	**140,850**	**139,438**	**126,997**	**132,399**	**131,034**

UNCONSOLIDATED STRUCTURED ENTITIES

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

Nature of the involvement in the unconsolidated structured entity and nature of the risk

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.

The company's investments in the funds in question are reported at fair value through profit or loss (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. The entities primarily regard open-end harmonised funds that invest in a mix of assets, such as corporate bonds, government bonds and equities, and closed-end real estate funds that invest in property and property rights.

Certain details are provided below.

ISIN - Name	Nature of entity	% investment	NAV	(€m) Maximum loss exposure*
LU1379774190 - Multiflex- Diversified Dis - Cm	Open-end harmonised UCITS	100	5,846	744
LU1407712014 - Multiflex - Global Optimal Multi Asset Fund	Open-end harmonised UCITS	100	4,908	251
LU1407712287 - Multiflex - Strategic Insurance Distribution	Open-end harmonised UCITS	100	4,645	274
LU1407711800 - Multiflex - Dynamic Multi Asset Fund	Open-end harmonised UCITS	100	4,182	199
LU1193254122 - Multiflex- Global Fund - Asset Global Fund (Pimco Multi Asset)	Open-end harmonised UCITS	100	4,048	366
LU1500341752 - Multiflex-Dynamic Lt M/A-Cm	Open-end harmonised UCITS	100	558	30
LU1500341240 - Multiflex-Lt Optimal M/A-Cm	Open-end harmonised UCITS	100	558	38
LU1808838863 - Multiflex-Olympium Opt Ma-Cm	Open-end harmonised UCITS	100	573	35
LU1808839242 - Multiflex-Olymp Insurn Ma-Cm	Open-end harmonised UCITS	100	571	53
IT0004937691 - Tages Platinum Growth	Non-harmonised fund of hedge funds	100	438	37
LU1500341166 - Multiflex Olympium Dynamic - Multiasset Fund	Open-end harmonised UCITS	100	303	15
IT0005174450 - Fondo Diamond Eurozone Office Ubs	Closed-end alternative real estate investment funds	100	205	77
QU0006738052 - Prima EU Private Debt Opportunity Fund	Open-end harmonised UCITS	100	216	31
IT0005212193 - Diamond Italian Properties	Closed-end alternative real estate investment funds	100	161	50
QU0006738854 - Prima Credit Opportunity Fund	Open-end harmonised UCITS	100	126	49
QU0006745081 - Prima Real Estate Europe Fund I	Open-end harmonised UCITS	100	106	26
IT0005210387 - Diamond Eurozone Retail Property Fund	Closed-end alternative real estate investment funds	100	100	25
QU0006744795 - Prima European Direct Lending 1 Fund	Open-end harmonised UCITS	100	100	30
IT0005215113 - Fondo Cbre Diamond	Closed-end alternative real estate investment funds	100	99	33
LU1081427665 - Shopping Property Fund 2	Closed-end harmonised fund	64	87	22
LU1581282842 - Indaco Sicav Sif - Indaco CIFC US Loan	Open-end harmonised UCITS	100	82	30
IT0005210593 - Diamond Other Sector Italia OTHER SECTOR ITALIA	Closed-end alternative real estate investment funds	100	69	18
IT0005247819 - Fondo Diamond Value Added Properties	Closed-end alternative real estate investment funds	100	55	14
QU0006742476 - Prima Global Equity Prtners Fund	Open-end harmonised UCITS	100	42	21
IT0004597396 - Advance Capital Energy Fund	Closed-end non-harmonised fund of funds	86	26	13

The table below shows the types of financial instrument in which the funds invest and the main markets of reference at 30 June 2019.

	(€m)
Asset class	**Fair Value**
Financial instruments	
Corporate bonds	11,437
Government bonds	10,892
Other investments net of liabilities	2,689
Equity instruments	2,330
Cash	939
Derivatives	
Swaps	26
Futures	(48)
Forwards	(160)
Total	**28,105**

	(€m)
Market traded on and UCITS	**Fair Value**
Germany (Frankfurt, Berlin, Munich)	4,649
Dublin	2,413
New York	2,292
Trace	2,240
London	1,534
Parigi	1,533
Euronext	1,458
Tokyo	704
Singapore	472
Euromtf	430
Luxembourg	355
Eurotlx	366
Hong Kong	152
Other	8,257
Funds	1,249
Total	**28,104**

SHARE-BASED PAYMENT ARRANGEMENTS

LONG-TERM INCENTIVE SCHEME: PHANTOM STOCK PLAN

The Annual General Meeting of Poste Italiane SpA's shareholders held on 24 May 2016 approved the information circular for the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan", prepared in accordance with art 84-bis of the Regulations for Issuers. The LTIP, set up in line with market practices, aims to link a portion of the variable component of remuneration to the achievement of earnings targets and the creation of sustainable shareholder value over the long term.

Determination of fair value and effects on profit or loss

An independent expert, external to the Group, was appointed to measure the value of the stocks and this was done using Monte Carlo simulations.

First Cycle 2016-2018

The First Cycle of the "Phantom Stock LTIP", awarded in 2016 (2016-2018), vested in 2018. The final number of phantom stocks awarded under the Plan totals 414,609, including 139,604 stocks subject to a one-year retention period. The cash value of the stocks granted in June 2019 is approximately €2 million. The cost recognised for the first half of 2019 is approximately €0.6 million, whilst the liability recognised in amounts due to staff is approximately €1 million.

Second Cycle 2017-2019

At 30 June 2019, the total number of phantom stocks awarded to the 50 Beneficiaries of the Second Cycle of the Plan amount to 565,219. The cost recognised for the first half of 2019 is approximately €2 million, whilst the liability recognised in amounts due to staff is approximately €5 million.

Third Cycle 2018-2020

At 30 June 2019, the total number of phantom stocks awarded to the 72 Beneficiaries of the Third Cycle of the Plan amount to 665,569. The cost recognised for the first half of 2019 is approximately €2 million, whilst the liability recognised in amounts due to staff is approximately €3 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 2019 totals 220,470. 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 to approximately €2 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 2019 totals 276,744. The liability recognised amounts to approximately €2 million, whilst the cost for the period is approximately €0.7 million.

INFORMATION ON INVESTMENTS

List of investments consolidated on a line-by-line basis (€000)

Name (Registered office)	% interest	Share capital	Net profit / (loss) for the period	Equity
BancoPosta Fondi SpA SGR (Rome)	100.00%	12,000	7,562	45,529
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	424	238,077
Mistral Air Srl (Rome) (**)	100.00%	1,000	202	1,030
PatentiViaPoste ScpA (Rome)	86.86%	120	-	124
Postepay SpA (Rome)	100.00%	7,561	78,942	288,415
Poste Tributi ScpA (Rome) (*)(**)	100.00%	2,325	-	(1,786)
Poste Vita SpA (Rome) (*)	100.00%	1,216,608	296,268	4,172,301
Poste Assicura SpA (Rome) (*)	100.00%	25,000	26,028	168,407
Postel SpA (Rome)	100.00%	20,400	442	84,237
SDA Express Courier SpA (Rome) (**)	100.00%	10,000	(20,896)	1,577
Poste Welfare Servizi Srl (Rome)	100.00%	16	1,157	11,923
Poste Insurance Broker Srl	100.00%	600	-	600

(*) 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 2019 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	Net profit / (loss) for the year
Address Software Srl (Rome)	Subsidiary	287	51.00%	1,019	456	563	524	36
Anima Holding SpA (Milan) (a)	Associate	207,470	10.04%	2,238,950	1,074,862	1,164,088	240,352 (*)	27,403
Conio Inc. (San Francisco)	Associate	488	19.94%	2,204	608	1,596	66	(600)
FSIA Investimenti Srl (Milan) (b)	Joint venture	283,246	30.00%	1,004,572	63,073	941,499	7,738 (**)	7,293
Indabox Srl (Rome)	Subsidiary	925	100.00%	-	152	171	56	(143)
ItaliaCamp Srl (Rome) (c)	Associate	85	20.00%	1,985	1,038	947	2,325	311
Kipoint SpA (Rome)	Subsidiary	915	100.00%	3,659	2,744	915	2,569	80
Uptime SpA - in liquidation (Rome) (d)	Subsidiary	-	100.00%	771	4,702	(3,931)	-	(598)
Other SDA Express Courier associates	Associate	4						

a. Data derived from the latest consolidated interim accounts for the period ended 31 March 2019 approved by the company's board of directors.

b. Data derived from the latest consolidated interim accounts for the period ended 31 March 2019 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.

c. Data derived from the accounts for the period ended 31 December 2018, the latest approved by the company.

d. Data derived from the accounts for the period ended 31 December 2017, the latest approved by the company.

(*) The amount includes commissions, interest income and other similar income.

(**) The amount includes the amount 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 2019	Balance at 31 December 2018
Post office savings books	103,024	105,771
Interest-bearing Postal Certificates	222,364	219,512
Cassa Depositi e Prestiti	159,500	154,231
MEF	62,864	65,281
Total	**325,388**	**325,283**

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 €8,963 million at 30 June 2019.

COMMITMENTS

The Group's purchase commitments break down as follows.

Commitments (€m)

Item	Balance at 30 June 2019	Balance at 31 December 2018
Property leases and other lease arrangements	-	780
Purchases of property, plant and equipment	162	95
Purchases of intangible assets	78	29
Total	**240**	**904**

At 30 June 2019, has given commitments to purchase electricity, with a total value of €24.5 million, on regulated forward markets in the second half of 2019 and in 2020. At 30 June 2019, the corresponding market value is €23.2 million.

GUARANTEES

Unsecured guarantees issued by the Group are as follows:

Guarantees (€m)

Item	Balance at 30 June 2019	Balance at 31 December 2018
Sureties and other guarantees issued:		
by banks/insurance companies in the interests of Group companies in favour of third parties	264	283
by the Group in its own interests in favour of third parties	55	21
Total	**319**	**304**

THIRD-PARTY ASSETS

Third-party assets held by Group companies are shown below. This type of asset refers solely to the Parent Company, Poste Italiane SpA.

Third-party assets (€m)

Item	Balance at 30 June 2019	Balance at 31 December 2018
Bonds subscribed by customers held at third-party banks	4,486	3,093
Total	**4,486**	**3,093**

ASSETS IN THE PROCESS OF ALLOCATION

At 30 June 2019, the Parent Company has paid a total of €97 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.

13. ATTESTATION OF THE MANAGER RESPONSIBLE FOR FINANCIAL REPORTING AND INDIPENDENT AUDITORS' REPORT

Attestation of the condensed consolidated interim financial statements for the six months ended 30 June 2019 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 2019 to 30 June 2019.

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 2019:

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, 30 July 2019

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 2019 pwc

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 2019, 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.

PricewaterhouseCoopers SpA

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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 30 June 2019 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, 1st August 2019

PricewaterhouseCoopers SpA

Signed by

Corrado Testori
(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.