INTERIM REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

Posteitaliane

CONTENTS

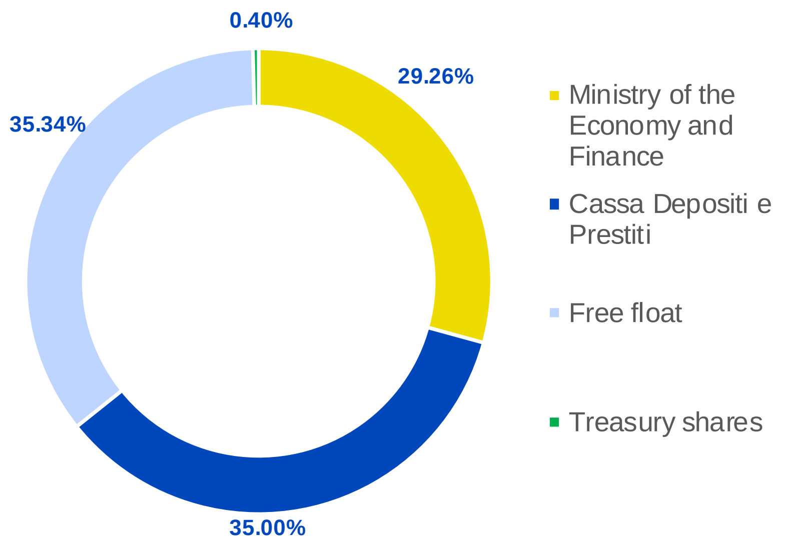
1. INTRODUCTION

The Poste Italiane Group's consolidated interim report for the nine months ended 30 September 2019 has been prepared, on a voluntary basis, in accordance with art. 82-ter of the CONSOB's Regulations for Issuers, "Additional interim financial disclosures". The consistency and correctness of the additional disclosures contained in the document, which has not been audited, is guaranteed, as is comparability of the related information with the corresponding disclosures included in previously published financial reports.

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

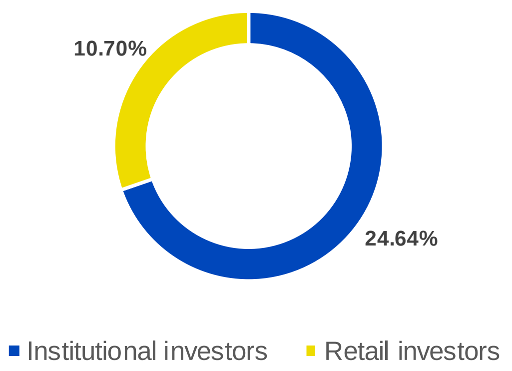
2. OWNERSHIP, GROUP AND ORGANISATIONAL STRUCTURE

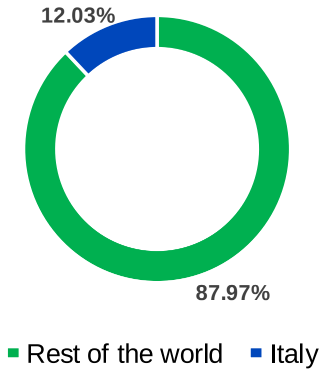
SHAREHOLDER STRUCTURE



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 September 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.

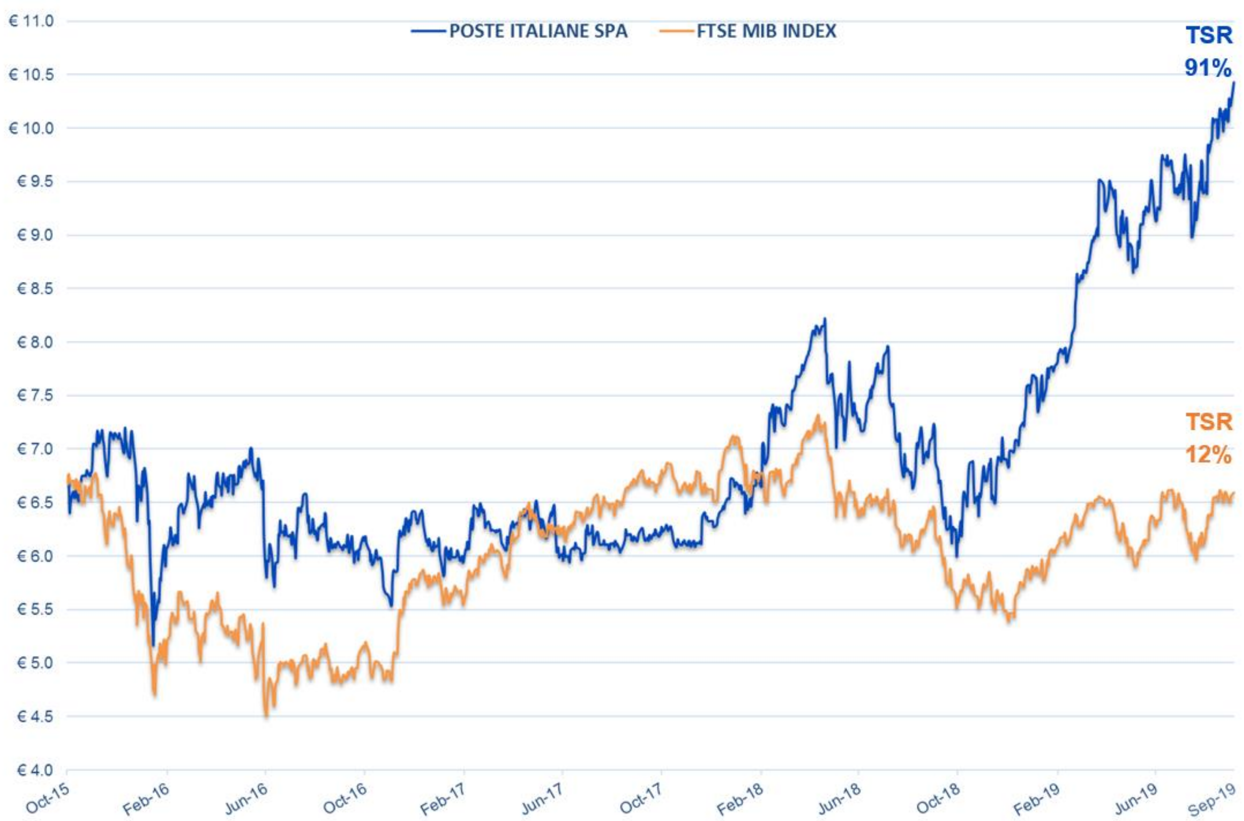
24.64% of investors are institutional and 10.70% are retail, with 12.03% located in Italy and 87.97% in the rest of the world.





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 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. 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 and were made in execution of the buyback authority approved by the Annual General Meeting of shareholders held on 29 May 2018.

SHARE PRICE PERFORMANCE



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.
FTSE MIB INDEX: The Financial Times Stock Exchange Milano Indice di Borsa is the Italian Stock Exchange’s leading equity index.

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]	
Chairman	Carlo Longari
Members	Paolo Casati [5] Massimo Lauro

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 Meeing 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 30 July 2019 for a three-year term and will remain in office until 30 July 2022.

(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

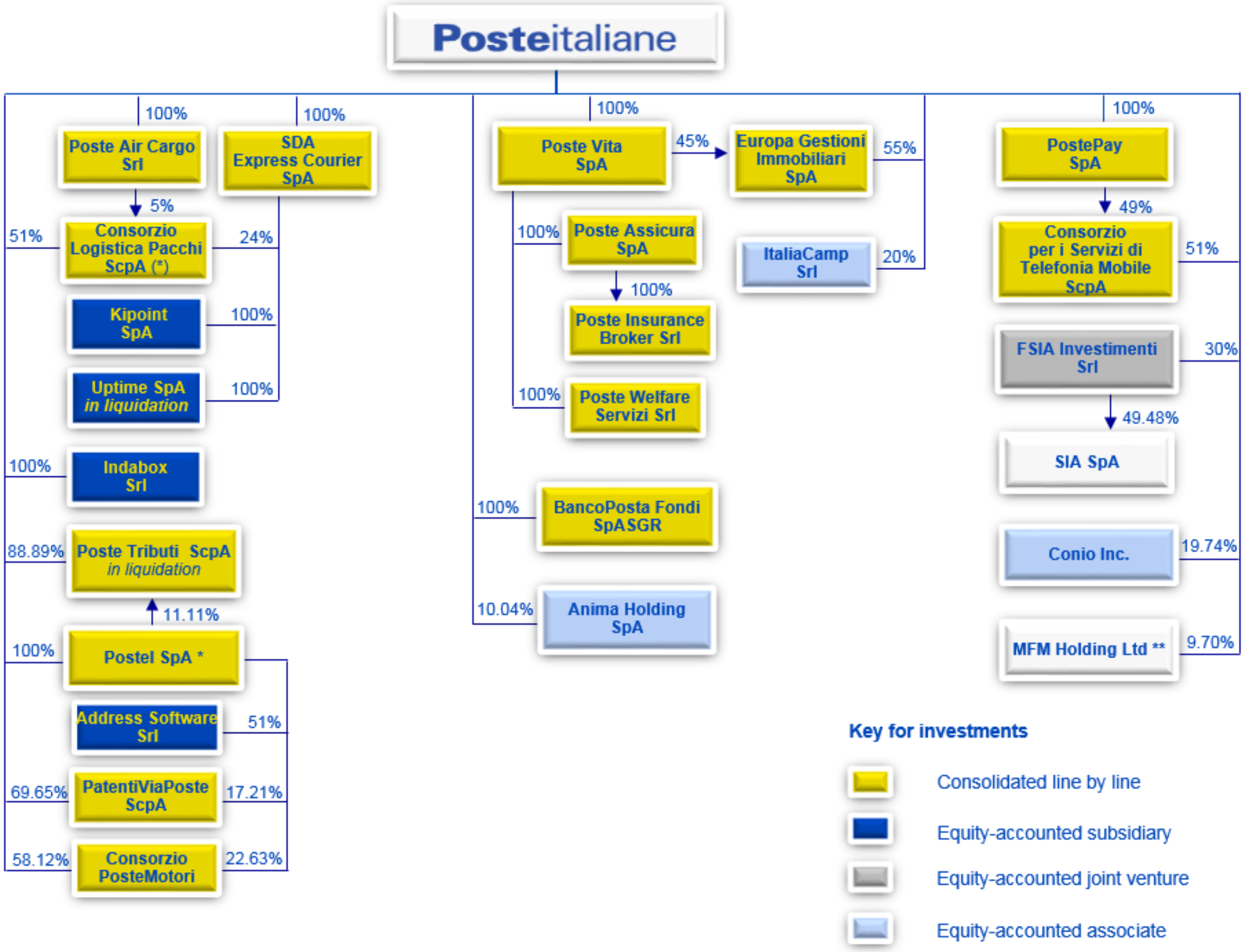
Poste Italiane's Board of Directors met on 9 occasions in the first nine months of 2019 to examine the following principal matters and approve the following resolutions.

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
30 July 2019	Interim report for the six months ended 30 June 2019
	Re-appointment of Poste Italiane's Supervisory Board for 231 purposes
	Revision of the Internal Regulation for the contracting out of works, services and the supply of goods
6 August 2019	Appointment of a new manager responsible for financial reporting
26 September 2019	Revision of the Guidelines for managing transactions with Related and Connected Parties
	New guidelines for handling complaints

STRUCTURE OF THE GROUP AT 30 SEPTEMBER 2019

In line with the strategic guidelines set out in the Deliver 2022 Strategic Plan, the Group's activities are divided into four Strategic Business Units (also referred to as operating segments in Poste Italiane's financial statements): Mail, Parcels and Distribution; Payments, Mobile and Digital; Financial Services; Insurance Services.

These Strategic Business Units are supported by two distribution channels for retail customers, on the one hand, and business and Public Administration customers, on the other. These channels operate alongside a series of corporate functions responsible for policy, governance, controls and the provision of business process support services.



* The remaining 20% of Consorzio Logistica Pacchi ScpA's equity is held by Postel SpA.
** Poste Italiane SpA's investment in MFM Holding Ltd. amounts to 9.70% of the voting shares (10.36% of the ownership rights).

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 receipt of the necessary clearance from the Antitrust Authority and the Bank of Italy, the latter received on 24 October 2019, the transaction can now complete, with completion to be carried out within ten working days of receiving the above clearance.

As a result, FSIA will hold a 57.4% interest in SIA and 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.

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 to boost the efficiency of long-haul logistics operations, in line with the Deliver 2022 Strategic Plan.

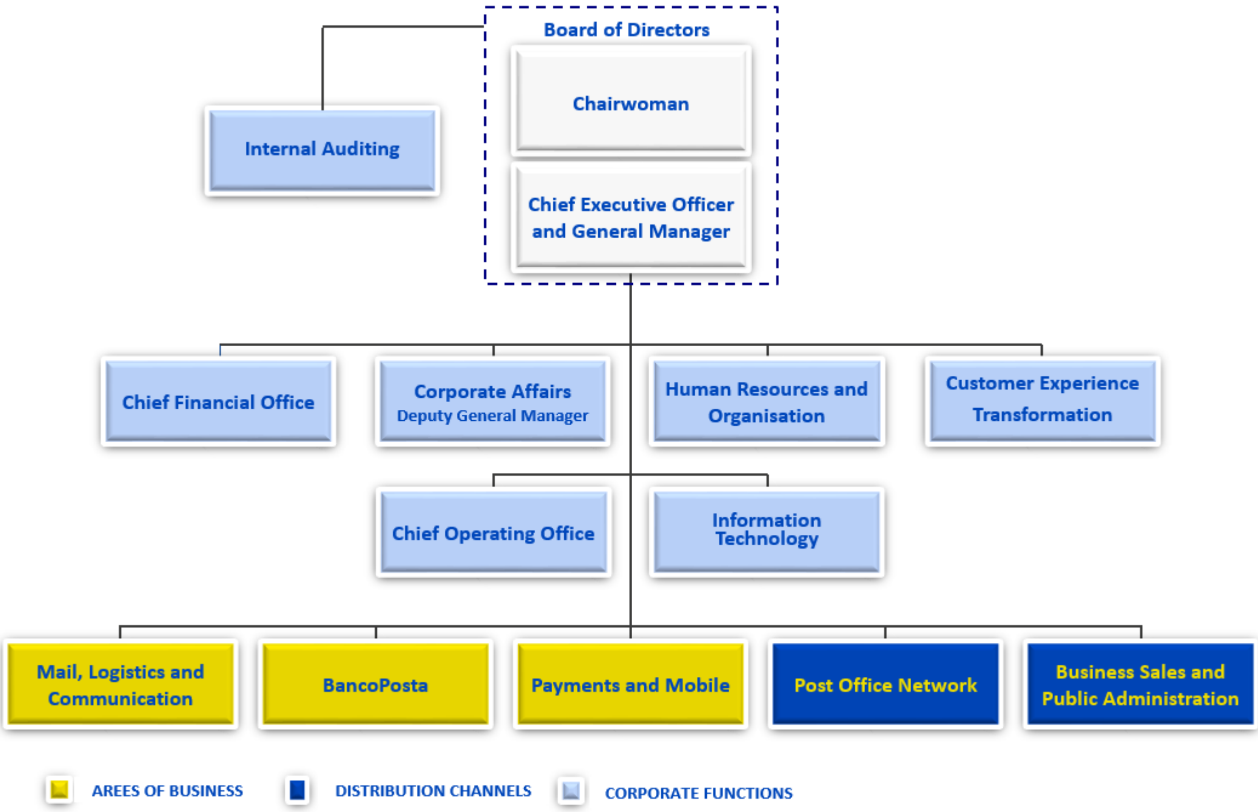
On 20 June 2019, an Extraordinary General Meeting of SDA Express Courier’s shareholders and, on 27 June 2019, the Board of Directors of Poste Italiane approved the partial demerger of the business unit responsible for commercial and customer care activities relating to SDA’s Express Parcel Delivery services 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, following a reorganisation of the sales force and customer care. The demerger 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.

In line with the Company’s strategic plan, on 2 August 2019, Poste Italiane entered into partnership with MFM Investments Ltd. (Moneyfarm), a provider of digital wealth management solutions, with the aim of offering innovative digital investment and wealth management services. The agreement will see Poste Italiane distribute a service for managing Exchange Traded Funds (ETFs) with 7 investment lines, including 2 created exclusively for its own customers. As part of the same partnership, on 9 August, Poste Italiane entered into an agreement with MFM Holding Ltd. (Moneyfarm Holdings) that, by the end of 2019 and subject to receipt of the necessary clearance from the supervisory authorities, will result in the latter’s issue of new shares with a value of approximately €40 million in the form of (convertible preferred) Class C shares to be subscribed for by Poste Italiane, as lead investor, and by Allianz Asset Management GmbH (Moneyfarm Holding’s principal minority shareholder). This agreement has been partially implemented via the subscription of 5,795,651 shares with a total value of €15 million, representing 9.70% of the voting rights (10.36% of the ownership rights).

In connection with the growth strategy for the parcels market set out in the Deliver 2022 Strategic Plan, the airline, Mistral Air, has been restructured with a view to modifying its strategic positioning in order to achieve break-even and align its activities with the Poste Italiane Group’s strategic goals. As a result, the subsidiary has now refocused on its postal logistics business and has withdrawn from all passenger services, accompanied by a resizing of its workforce and reconfiguration of its fleet.
In order to highlight Mistral Air’s new mission, the Company has been rebranded, changing its name to Poste Air Cargo Srl with effect from 1 October 2019.

THE GROUP'S STRATEGIC BUSINESS UNITS

POSTE ITALIANE SPA'S ORGANISATIONAL STRUCTURE



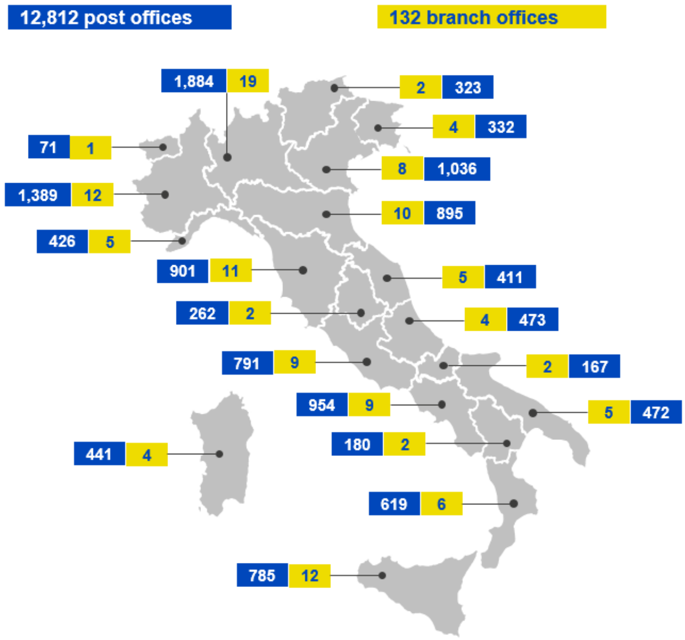
The following organisational initiatives were implemented in the third quarter of 2019:

- the Group's corporate affairs were centralised, with the aim of exploiting intragroup synergies and unifying and integrating management of these activities;
- the Administration and Financial Reporting function now reports directly to the CFO, reflecting the importance of the activities carried out and its central role in preparing the Group's accounts.

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.

LOGISTICS NETWORK

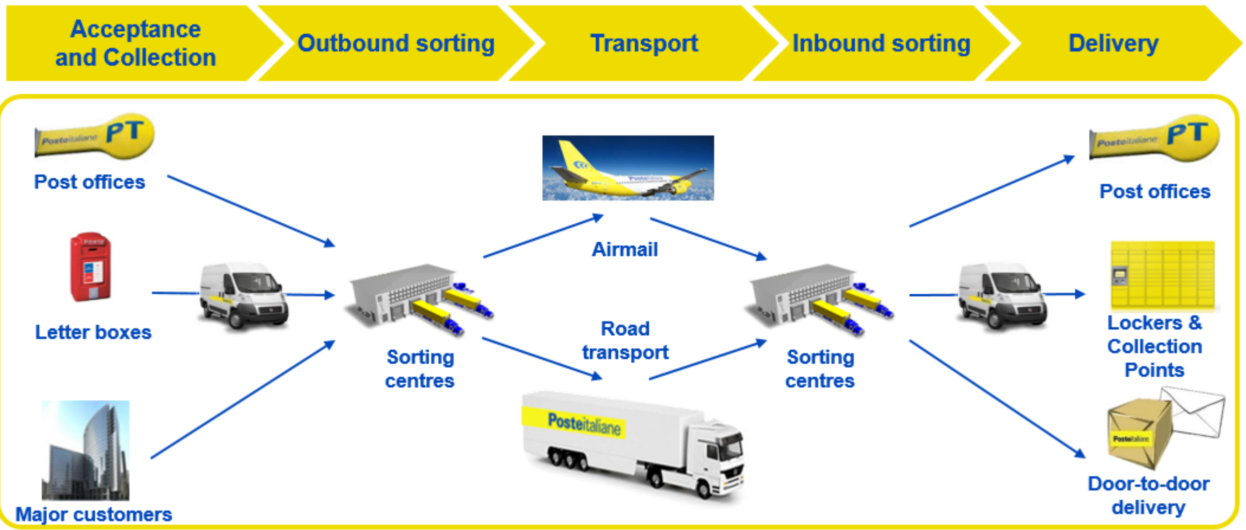
The Group's mail and parcel services are provided via two integrated and synergistic logistics networks, designed to fully leverage all the available assets: the postal logistics network set up to manage mail and that now includes small parcels; and the parcel logistics network which, by taking advantage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

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:

LOGISTICS NETWORK VALUE CHAIN



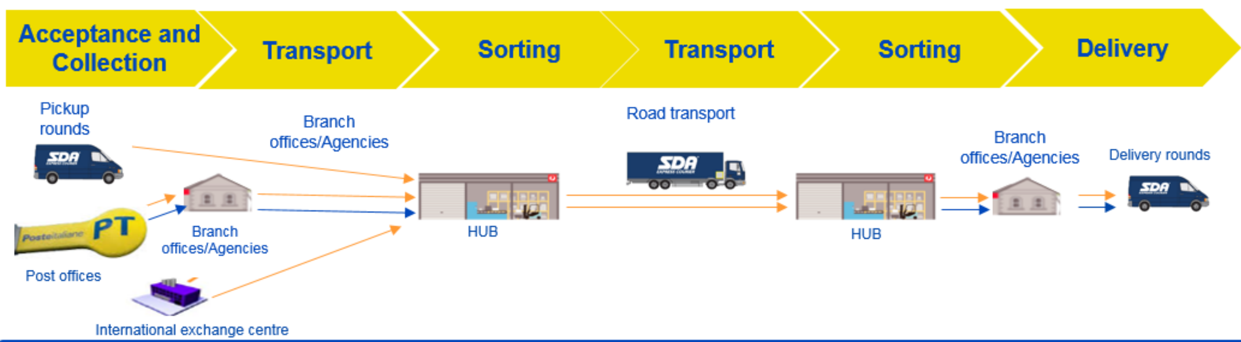
KEY ELEMENTS OF THE POSTAL LOGISTICS NETWORK

ACCEPTANCE/COLLECTION	SORTING	TRANSPORT	DELIVERY
• ~12,800 post offices + letter boxes • ~120 business collection points	• 16 sorting centres • 9 operational centres	• 7 aircraft • ~230 road transport routes throughout Italy	• ~1,580 delivery centres • ~3,500 lockers and collection points (primarily tobacconsists) • over 30,000 postmen and women on permanent and flexible contracts

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:



KEY ELEMENTS OF THE LOGISTICS NETWORK

ACCEPTANCE/COLLECTION	SORTING	TRANSPORT	DELIVERY
• ~ 4,500 pickup rounds • ~12,800 post offices • ~ 87 branch offices/agencies	• 3 automated hubs, 8 mini hubs	• ~650 road transport routes	• ~ 4,500 delivery rounds

CUSTOMER AND BACK OFFICE OPERATIONS

The development of contact centre and back office operations has 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, with particular regard to the handling of financial processes and document management;
- 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.

Over the year, the reorganisation of local areas in line with a Hub and Spoke approach has been 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, has entered service.

3. MACROECONOMIC ENVIRONMENT

The pace of global economic growth eased in the third quarter of 2019, reflecting a slowdown in activity in both advanced and emerging economies. In September 2019, the Organisation for Economic Cooperation and Development (OECD) lowered its outlook for global growth in the current year to +2.9% from +3.2% in May of this year[1].

GDP growth in the United States slowed in the second quarter of the current year, lowering growth in 2019 to 2.3% compared with the 2.9% of 2018. The positive performance of consumer spending was offset by a decline in exports, which have been hit by trade tensions with China. Non-residential investment was more or less stagnant, whilst residential investment fell. The unemployment rate remained at 3.7% in August, well below the long-term figure of 4.2%[2].

The cooling down of the global economy has helped to keep inflation down in the principal economies. Non-energy commodity prices declined due to weaker demand, whilst the Brent oil price rose to US$61 a barrel at 30 September 2019 versus the US$55 of 2 January 2019, reflecting reduced supply from a number of exporting countries. The impact of the terrorist attack on Saudi Arabian refineries in mid-September was mitigated by the release of US oil stocks.

The Chinese economy continued to see a gradual slowdown, which is lasting longer than analysts had originally expected. Annual GDP growth in the second quarter of 2019 slowed from 6.4% in the first quarter to 6.2%, reflecting weak consumer demand, partially offset by an upturn in investment. The pace of growth in industrial output fell to 4.4% in August 2019, the lowest level since 2002. The OECD expects Chinese economic growth to remain above 6.1% in 2019[3], although this is subject to downside risk should the slowdown in industrial output continue in the coming months.

Real GDP growth in the UK has been relatively volatile since the beginning of the year, largely reflecting the impact of preparations for the country's exit from the EU, originally scheduled for 29 March 2019. Real GDP growth was 0.2% in the second quarter (compared with the previous period), after rising to 0.5% in the first quarter. Following the downturn in the second quarter, Moody's updated its "Brexit monitor" report, highlighting the risk of recession should the country fail to reach agreement with the European Union. The UK's exit from the EU with an agreement is still possible but the risk of a no-deal Brexit cannot be excluded.

In the euro area, GDP rose 0.2% in the second quarter of the year[4], down from growth of 0.4% in the first quarter due to the weak performance of net exports (-0.1%) and the decline in manufacturing value added (-0.7%). The slowdown was most evident in Germany (-0.1% compared with +0.4% in the first quarter of 2019), whilst France and Spain saw continued growth with higher, albeit slowing, rates of growth. Composite economic indicators for the coming months point to ongoing economic difficulties: the euro-coin indicator[5] published by the Bank of Italy fell again in September 2019, having declined to 0.16% from the 0.18% of August. This is still, however, in keeping with modest growth in economic activity in the area this year which should, according to September forecasts from the European Central Bank (ECB) and the OECD, come in at around 1.1%.

In September, the ECB decided to further ease monetary policy for a prolonged period of time, introducing a package of measures designed to bring inflation into line with its medium-term target and to ensure that the cost of credit for households and businesses remains low, whilst at the same time limiting any negative impact on the banking system. Favourable credit terms should support economic growth, helping to drive consumer spending and investment.

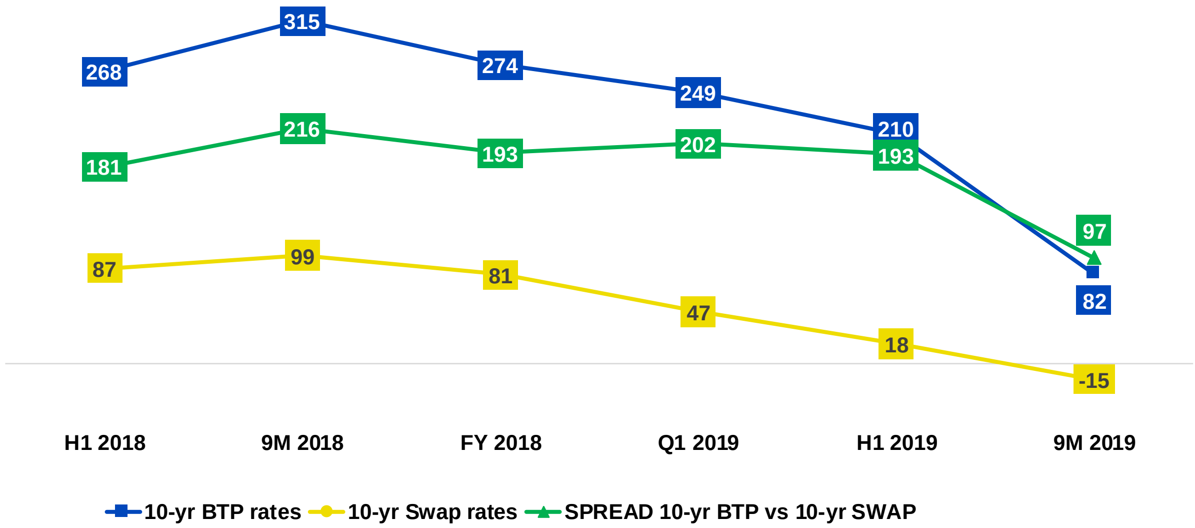
The Italian economy continued to show signs of weakness and, after coming out of technical recession in the first quarter of 2019, appears sluggish. The slowdown in demand in Germany, Italy's most important export market, has continued to have a negative impact on many industrial sectors[6]. Stagnant GDP growth in the second quarter of 2019 reflected robust internal demand (contributing +0.4% to growth), no growth in exports and reduced inventory investment (-0.3%). Internal

[1] Source: Organisation for Economic Cooperation and Development (OECD) Outlook, May 2019.
[2] Source: Prometeia Report, September 2019.
[3] Source: OECD Outlook, 19 September 2019.
[4] Source: ISTAT Eurozone economic outlook, 1 October 2019.
[5] An indicator developed by the Bank of Italy in collaboration with the Centre for Economic Policy Research (CEPR) which provides an indication of the current economic performance of the euro area in terms of quarterly GDP growth shorn of the most variable components (seasonal factors, measurement errors and short-term volatility).
[6] Source: Il Sole 24 Ore, 26 September 2019.

demand was driven by capital investment and investment in transport, whilst consumer spending is in line with the level seen in the previous quarter. Manufacturing remains in difficulty, whilst services have recorded an upturn. According to ISTAT, industrial output fell 0.6% in the third quarter of 2019, but is expected to record a slight increase in the coming quarters (up 0.2% in the fourth quarter and 0.3% in the first quarter of 2020).

The Cabinet meeting of 30 September 2019 approved amendments to the Budget, which will be worth approximately €29 billion in 2020 and envisages additional tax revenue and spending cuts of around €14.4 billion. The deficit is expected to stand at 2.2% of GDP in 2019 and in 2020, before falling to 1.8% in 2021 and 1.4% in 2022. The new European Commission, which will take office in November, will express a final opinion on Italy's proposed Budget for 2020 on 20 November 2019.

The performance of the yields on 10-year BTPs over the last year, registering a decline from 274 bps at 31 December 2018 to 82 bps at 30 September 2019, is shown below.



4. FINANCIAL REVIEW

GROUP OPERATING RESULTS(*)

Based on the strategic guidelines contained in the Deliver 2022 Plan, the Group's operating performance is influenced by two non-recurring items: provisions for voluntary early retirement incentives designed to accelerate the transformation of the Mail, Parcels and Distribution Business Unit and gains on the securities portfolio. In order to present the market with the Group's results from ordinary activities, we have thus included adjusted amounts for the Group's results after stripping out the above non-recurring items.

CONSOLIDATED OPERATING RESULTS

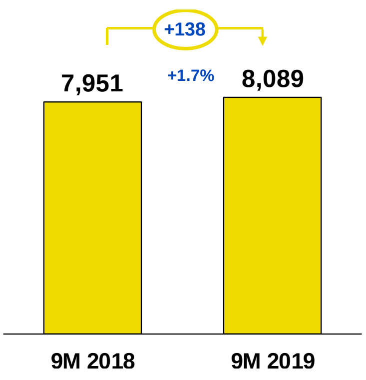
(€m)	9M 2019	9M 2018	INCREASE/(DECREASE)	
EXTERNAL REVENUE	**8,089**	**7,951**	**+138**	**+1.7%**
Adjusted external revenue	***7,807***	***7,531***	***+276***	***+3.7%***
TOTAL COSTS	**6,549**	**6,443**	**+106**	**+1.6%**
EBIT	**1,540**	**1,509**	**+32**	**+2.1%**
Adjusted EBIT	***1,288***	***1,166***	***+122***	***+10.5%***
EBIT margin (%)	**19.0%**	**19.0%**		
NET PROFIT	**1,083**	**1,056**	**+27**	**+2.6%**
Adjusted net profit	***891***	***807***	***+84***	***+10.4%***
EARNINGS PER SHARE	**0.83**	**0.81**	**+0.02**	**+3%**
ROE	**13.3%**	**18.3%**		
CAPEX	**389**	**260**	**+129**	**+50%**
% of revenue	***4.8%***	***3.3%***		

(*) *Adjusted items primarily regard net gains and early retirement incentives. Further details are provided in the section, "Alternative performance indicators" (Section 9).*

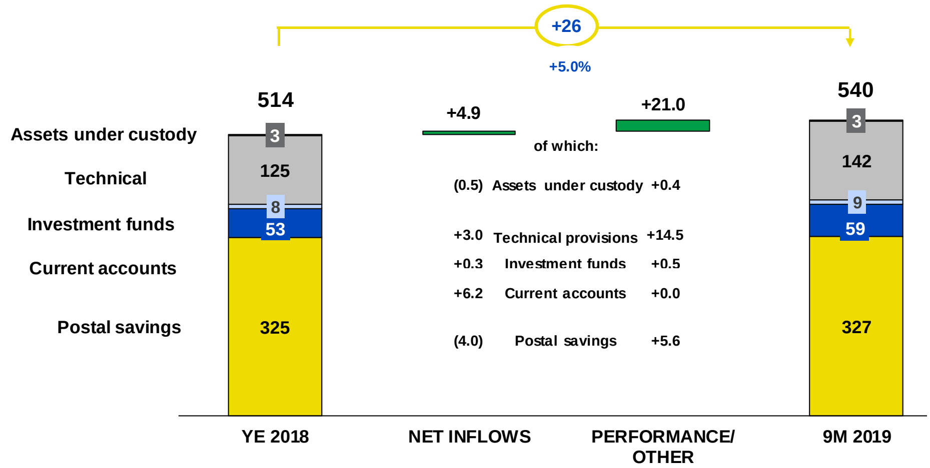
The Group's total reported revenue of €8.1 billion is up €138 million (1.7%) compared with the first nine months of 2018. This reflects the positive contribution of the Insurance Services Strategic Business Unit, which contributed €1,219 million to total revenue, marking an improvement of €171 million (up 16.3% on the same period of 2018), primarily due to the greater volume of assets under management by the Life business and an increase in P&C premium revenue. The increase in revenue also benefitted from the performance of the Payments, Mobile and Digital Strategic Business Unit, which registered an improvement of €43 million (9.8%), increasing from €434 million in 2018 to €477 million.

After adjusting for non-recurring items, including gains of €261 million realised during the first nine months of 2019 (€404 million in the first nine months of 2018), revenue is up €276 million (3.7%).

EXTERNAL REVENUE (€m)



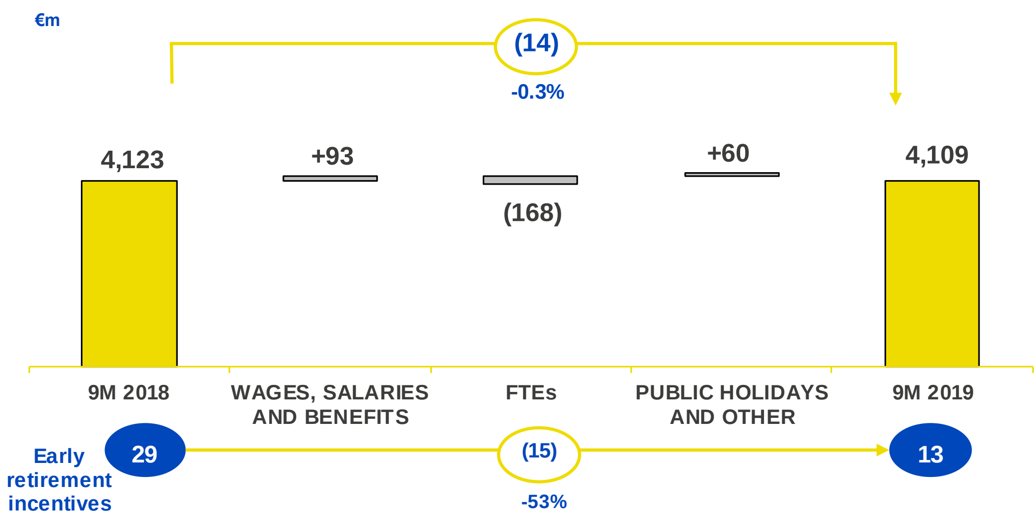
TOTAL FINANCIAL ASSETS (€bn)



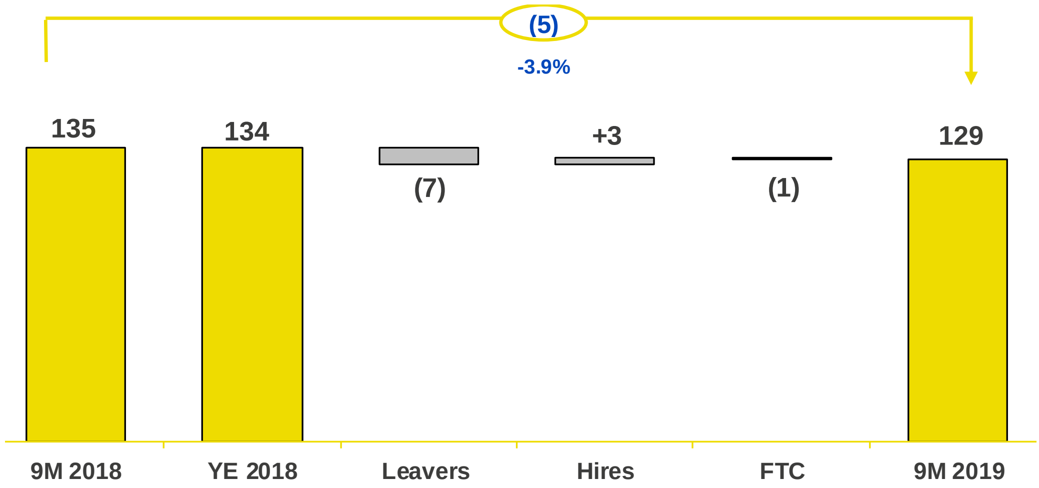
Total financial assets amount to €540 billion, an increase of €26 billion compared with 31 December 2018. This is linked to the positive performance of current account deposits, which have risen by over €6 billion (partly reflecting transitional factors), and the strong performance of the insurance business, thanks to the effects of fair value measurement and the contribution from multiclass products.

Total costs, including depreciation, amortisation and impairments, amount to €6.5 billion, including €4.1 billion in personnel expenses and €1.9 billion in other operating costs.

ORDINARY PERSONNEL EXPENSES

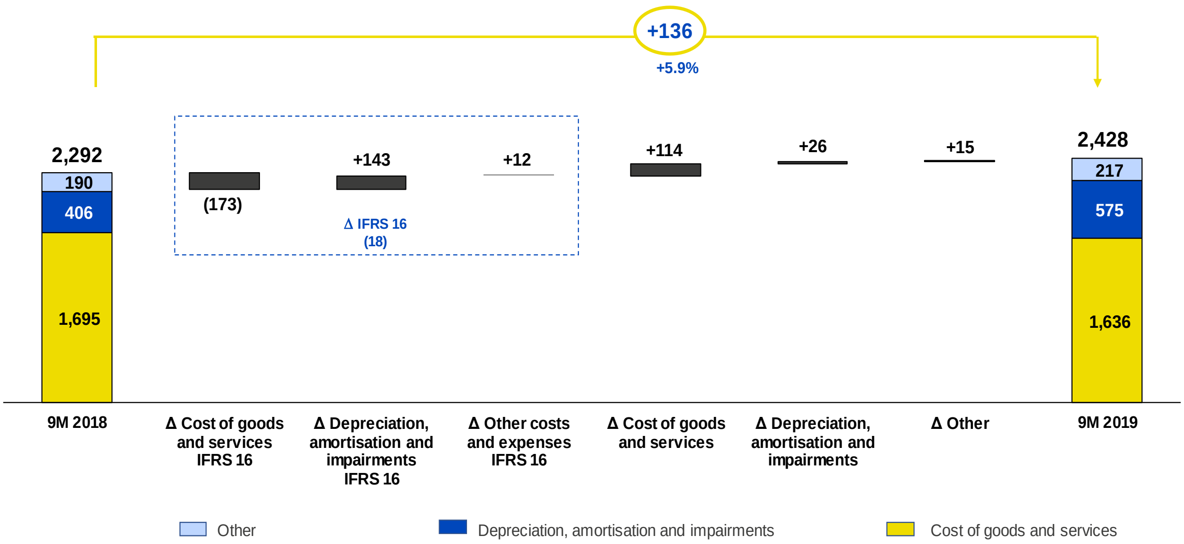


WORKFORCE (in thousands of FTEs)



Personnel expenses are down €14 million (0.3%) compared with the first nine months of 2018, reflecting a reduction in the average workforce employed during the period (over 5,000 fewer FTEs compared with the same period 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). The change in the workforce is in keeping with the guidelines in the Deliver 2022 Strategic Plan and is the result of efficiencies implemented by the Company, above all in the Mail, Parcels and Distribution Business Unit.

OTHER COSTS (€m)

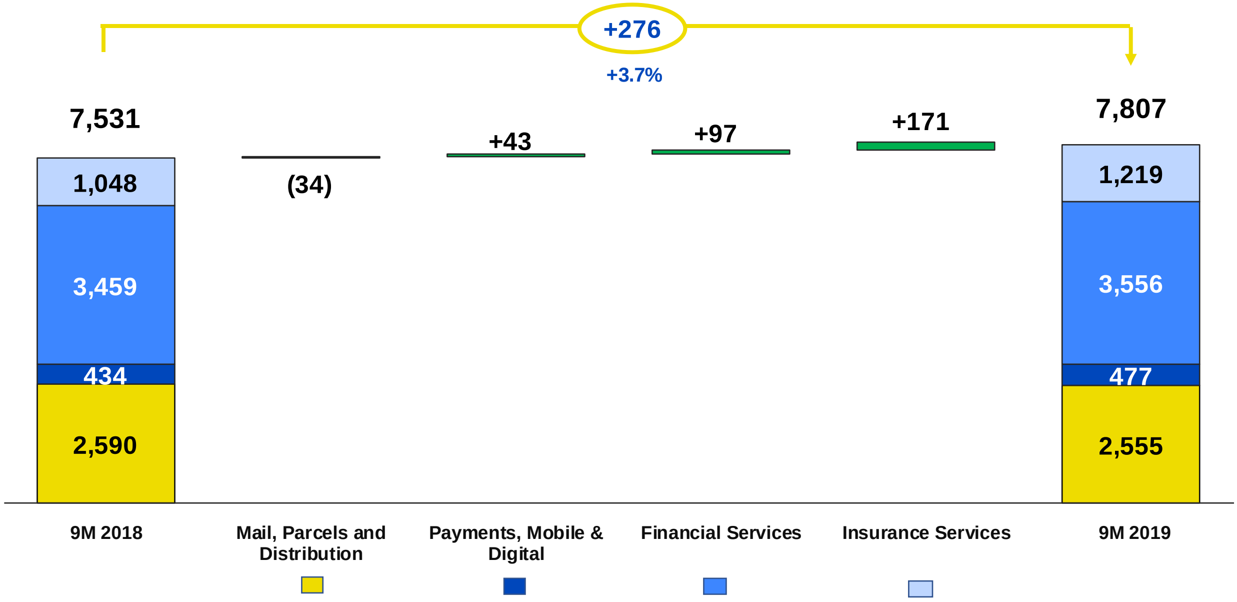


Other costs are up from €2.3 billion in the first nine months of 2018 to €2.4 billion in the same period of 2019 (an increase of €136 million). This primarily reflects a rise in variable costs linked to business growth and above all to expansion of the parcels and digital businesses.

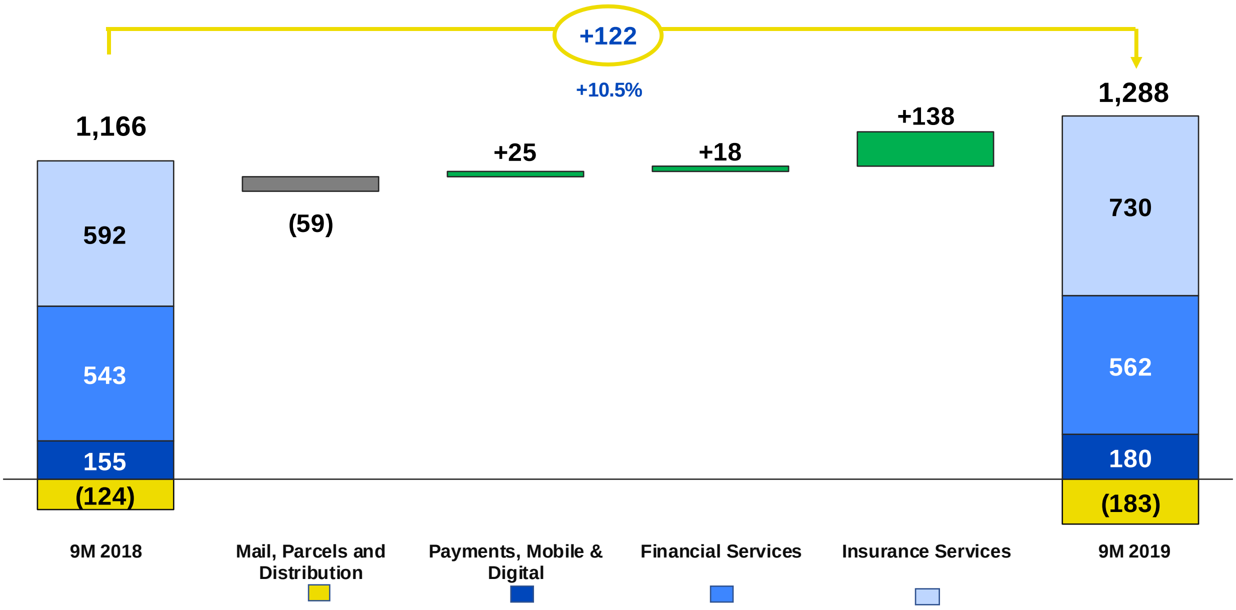
SUMMARY OF OPERATING RESULTS BY STRATEGIC BUSINESS UNIT

Adjusted operating results by Strategic Business Unit are shown below.

ADJUSTED REVENUE



ADJUSTED EBIT



MAIL, PARCELS AND DISTRIBUTION STRATEGIC BUSINESS UNIT

THE POSTAL SERVICES MARKET

The postal services market is going through a period of radical change, largely 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 in the period 2014-2018 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[7], and growth potential remains strong if 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 approximately 35%[8].

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* for 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*.

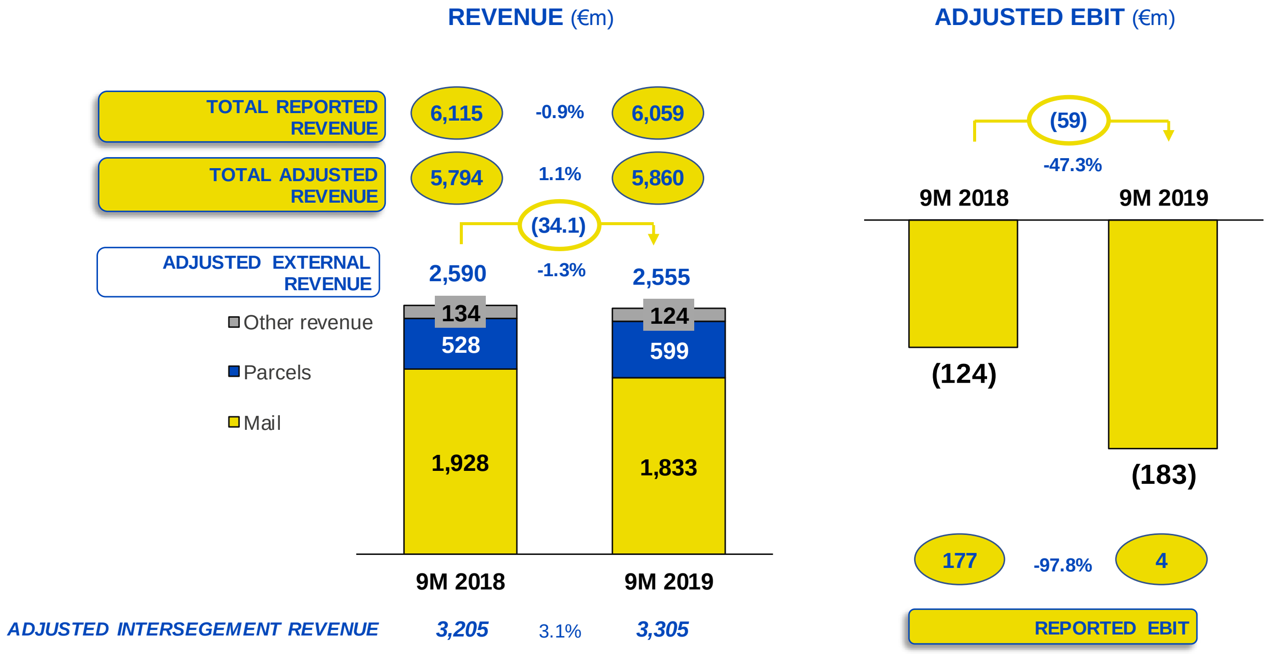
AGCom Resolution 214/19/CONS regarding "Assessment of the net cost of the universal postal service for 2015 and 2016" was published on 2 July 2019. In addition to acknowledging that the cost is unfair, the Resolution quantified the cost of providing the Universal Postal Service in 2015 and 2016, respectively, as €389 million and €356 million, compared with compensation of €329 million and €262 million provided for in the *Contratto di Programma*[9]. On the same date, the regulator announced that it had initiated an assessment of the net cost for 2017 and 2018. On 2 October 2019, Poste Italiane filed a legal challenge before Lazio Regional Administrative Court, contesting the above resolution.

On 22 July 2019, pursuant to EU state aid regulations, the European Commission approved public service compensation for Poste Italiane, relating to subsidised postage rates paid by publishers and non-profit associations and organisations, 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.

In September, AGCom published Resolution 350/19/CONS, marking the conclusion of its survey of parcel delivery providers, conducted with the aim of defining the relevant markets for the purposes of regulation and examining the impact of the growth in e-commerce on the market. The Resolution marks the start of a public consultation on the draft regulatory framework. Given that the survey has found no evidence of market power being held by one or more operators, the regulator proposes to focus regulation on ensuring the transparency of the technical and financial conditions offered to the public, and on the requirements and obligations to be imposed on authorised operators, with the intention of establishing standards capable of keeping pace with growth in the sector.

[7] Source: Polytechnic University of Milan study, 2018.
[8] Source: internal estimate.
[9] 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.

MAIL, PARCELS AND DISTRIBUTION SBU PROFIT OR LOSS



Principal KPIs	9M 2019	9M 2018	Increase/(decrease)	
Mail & Parcels				
Revenue/FTEs (€)	49,093	46,970	2,124	4.5%
Parcels deliverable by postmen/women (m)	37.3	30.2	7	23.8%
Progress of Joint Delivery model rollout[1]	95%	50%		
Number of Delivery Centres	1,579	1,831	(252)	-13.8%
New PuntoPoste network [1] (number of Lockers and alternative collection points)	3,445	417	3,028	726.1%
Distribution				
Number of post offices[1]	12,812	12,812	-	-
Number of customers (m)[1]	35.1	34.9	0.2	0.5%
Daily visitors to post offices (m)[1]	1.37	1.42	(0.05)	-3.4%
Consulting rooms	6,694	6,503	191	2.9%
Poste office stands[2]	459	459	-	-
Postamat ATM network	7,588	7,271	317	4.4%

[1] The figure shown in the 9M 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.

The Mail, Parcels and Distribution Strategic Business Unit reports negative adjusted EBIT of €183 million, marking an increase of approximately €59 million compared with negative EBIT of €124 million for the same period of the previous year, primarily linked to the reduction revenue from traditional letter post.

External revenue is down from €2,590 million in the first nine months of 2018 to €2,555 million, a reduction of 1.3% due, as noted above, to lower revenue from traditional letter post (down €95 million), largely offset by the performance of parcels segment revenue (up €71 million, or 13.5%, on the same period of 2018), where growth in the B2C segment was driven by the expansion of e-commerce.

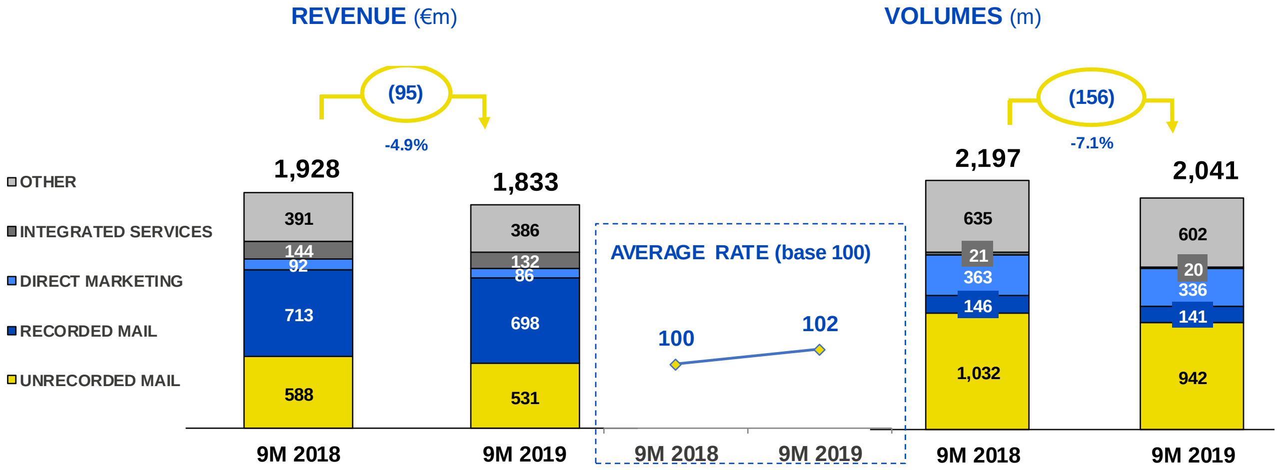
Total costs, including depreciation, amortisation and impairments, amount to of €6,043 million and are up 2% (€125 million) compared with the same period of 2018. This reflects an increase in operating costs (up €90 million), primarily as a result of the growth of the parcels business. The impact of application of the new accounting standard, IFRS 16, was largely offset by reduced operating costs.

Ordinary personnel expenses of €4,023 million are up €14 million compared with the same period 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 4,100 FTEs.

The figure for adjusted EBIT also reflects the contribution of the subsidiary, Poste Air Cargo, which, after its restructuring in line with the objectives in the Deliver 2022 Business Plan, reached break-even point (positive EBIT of €1.3 million in the first nine months of the year, compared with a negative €5.1 million in the same period of 2018) as a result of the decision to focus the company exclusively on its cargo business.

Performance of mail



The performance of the Group's Mail services saw volumes and revenue decrease by 7% (156 million fewer items) and 5% (down €95 million), respectively, compared with the same period of 2018. This essentially reflects the structural decline in demand for traditional postal services as a result of the digitalisation of the economy.

The contraction in volumes of Unrecorded Mail (90 million fewer items, or 9% less than in 2018) led to a fall in revenue of €57 million (10%). 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 rate increases applied from 1 July 2018, which thus partially mitigated the decline in revenue (down €15.1 million, or 2.1%).

Direct Marketing saw a 7% slowdown in volumes (27 million fewer items), which generated a 6% fall in revenue (down €6 million).

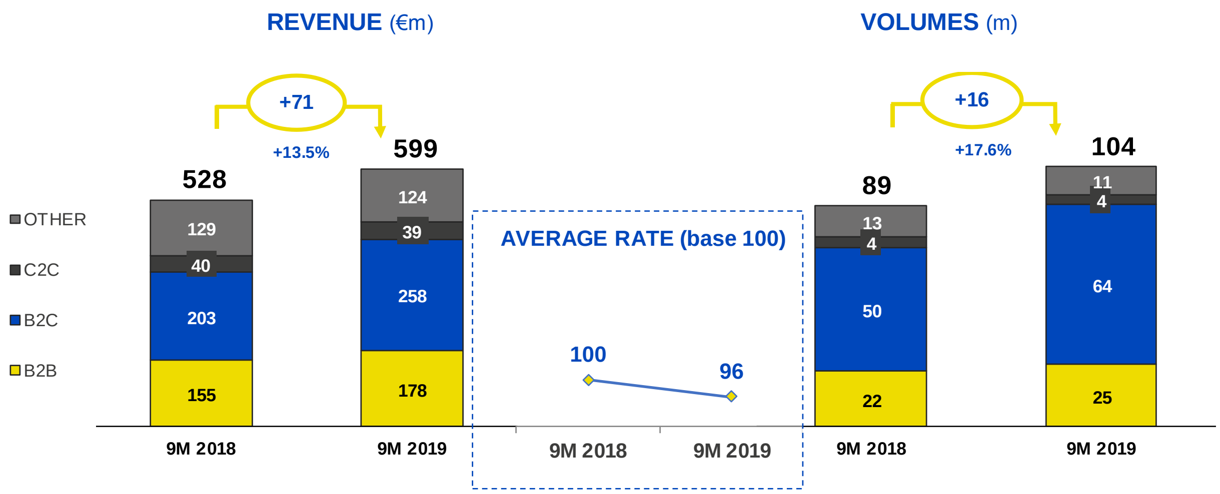
Integrated services registered a decrease in volumes and revenue of 4% and 8%, respectively, compared with the same period of 2018. This was primarily due to a change in Public Administration customers' delivery schedules during the year, which more than compensated for the above-mentioned increase in 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 Mass Printing services provided by the subsidiary, Postel, is down 5% in volume terms (33 million fewer shipments) compared with the first nine months of 2018, due to a decline in the market for printing services. Publisher tariff subsidies (€39 million in the first nine months of 2019 and €40 million in the same period of 2018) are also included in other revenue.

The compensation covering the cost of the Universal Service for the first nine months of 2019, as provided for in the current *Contratto di Programma* (Service Contract) for 2015-2019, amounts to €197 million, in line with the figure for the same period of 2018.

On this subject, as noted in the section on the regulatory environment, on 2 July 2019, AGCom published the Resolution regarding "Assessment of the net cost of the universal postal service for 2015 and 2016".

Performance of parcels



The performance of the Parcels segment saw growth in volumes and revenue of 18% (16 million more items) and 13% (€71 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 €258 million, an increase of 27% compared with 2018, on 64 million items shipped. The B2B segment also grew strongly (3 million more parcels, up 13%, equivalent to a 15% increase in revenue to €23 million).

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 nine months of 2019 is substantially in line with the objectives. Over the last year and a half, the postal network has undergone a profound restructuring, involving changes to 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 9M 2019 versus 9M 2018

Posta 1 Priority

Delivery within:	Target	Result 2018	Result 2019
1 day	80.0%	86.4%	85.7%
2 days	80.0%	93.2%	89.5%
3 days	80.0%	97.6%	96.8%
4 days	98.0%	99.0%	98.8%

Posta 4 Ordinary

Delivery within:	Target	Result 2018	Result 2019
4 days	90.0%	89.1%	87.7%
6 days	98.0%	97.2%	96.4%

Bulk mail

Delivery within:	Target	Result 2018	Result 2019
4 days	90.0%	98.7%	97.5%
6 days	98.0%	99.8%	99.3%

Registered mail

Delivery within:	Target	Result 2018	Result 2019
4 days	90.0%	95.5%	92.8%
6 days	98.0%	98.1%	96.1%

Insured mail

Delivery within:	Target	Result 2018	Result 2019
4 days	90.0%	99.1%	99.6%
6 days	98.0%	99.8%	99.9%

Standard delivery

Delivery within:	Target	Result 2018	Result 2019
4 days	90.0%	96.2%	95.5%

OPERATING REVIEW

The Group is proceeding with its reorganisation of transport, sorting, delivery and customer care, in line with the long-term objectives set out in the Deliver 2022 Plan, with the aim of boosting efficiency, flexibility and quality in order to take advantage of the opportunities arising from the growth of e-commerce.

In terms of transport, the addition of new air connections continues with the aim of meeting growing market demand for the next-day delivery of parcels throughout Italy, focusing above all on Sicily and Sardinia. There are currently 7 air connections, the last of which introduced in July between the airport hub in Brescia and Palermo.

This is being accompanied by efforts, launched in 2019, to improve long-distance road freight. In this regard and in line with the strategy set out in the Deliver 2022 Plan, the Group has entered into partnership with the German digital road-freight-forwarder, sennder GmbH, one of the most innovative and technologically advanced start-ups in the sector. This will involve establishment of a joint venture in Italy with the aim of increasing vehicle saturation and reducing road freight costs. The partnership with sennder GmbH will enable Poste Italiane to offer its freight transport services in both Italy and overseas, benefitting from economies of scale and optimised technologies.

In terms of sorting activities and the automation of production processes**,** the largest parcel sorting plant currently operating in Italy entered service at the Bologna Freight Terminal in July. The new hub is equipped with three integrated automation systems for sorting different types of parcel and has the capacity to process 250,000 parcels a day, equal to approximately 40% of Poste Italiane's operating capacity, as well as boasting advanced safety and energy saving technologies. The Bologna Hub was presented to the international financial community in September, together with an update on the progress made in transforming the mail and parcels business in line with the Deliver 2022 Plan.

Four new Mixed Mail sorting systems for letters have also been installed at the Turin, Bologna, Rome and Naples sorting centres (6 systems have been installed since the project began). This has enabled the Company to eliminate 18% of the old sorting equipment. This project, combined with the introduction of lean production at operational sites, has led to a 7% improvement in the productivity of sorting operations.

The new "Joint Delivery" model, introduced in April 2018, is now in operation across 95% of Italy and enables small parcels to be delivered via the network of postmen and women, introducing afternoon and weekend shifts. The flexibility offered by the Joint Delivery model has also facilitated 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).

Development of the potential of the partnership with Amazon is in line with Poste Italiane's strategy of expanding its logistics offering for online purchases. This is also connected with expansion of the PuntoPoste network for collecting online purchases and sending returns, consisting of 3,500 alternative collection points at the end of September, mainly tobacconists and PuntoPoste lockers, which are in addition to post offices. The progressive rollout of the PuntoPoste network is continuing, with around 4,000 collection points in operation to date.

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 through a post office or the PuntoPoste network.

In addition, in line with developments in the market and the needs of e-shoppers, the Group has embarked on a strategic plan based on partnerships with technologically advanced start-ups, with the aim of ensuring that it can cover all aspects of last-mile logistics and offer innovative, flexible and technologically advanced delivery solutions. In this connection, July saw the Group begin trialling a new scheduled delivery service in the city of Milan. This gives e-shoppers the option of requesting delivery to a chosen address on a certain day and within their chosen delivery window. Again with a view to improving the customer experience of e-shoppers, 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).

OTHER INFORMATION

On 3 October 2018, the Company 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 between 2014 and 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.

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 no further fine would be imposed and that Poste Italiane should continue to offer competing alternative operators a service equivalent to Posta Time. On 3 April 2019, Poste Italiane sent the regulator a documented report confirming the steps taken for compliance purposes.

PAYMENTS, MOBILE AND DIGITAL STRATEGIC BUSINESS UNIT

THE MARKET FOR MOBILE AND DIGITAL PAYMENTS

The latest available figures[10] for the card payments market show that the total value of transactions in the first half of 2019 amounted to €121 billion (up 11% on the same period of 2018). The number of transactions saw faster growth (up 18% compared with the first half of 2018), through the average value of individual transactions for every type of card is down. This reduction indicates increasingly widespread usage, partly due to the progressive extension of the service to segments where use is less intensive. Debit cards, with the value of transactions totalling €62 billion and the number of transactions 1.2 billion in the first half of 2019, account for around half of the value of transactions, confirming that they are the most used form of payment. However, prepaid cards are continuing to register the highest rates of growth (transactions up 24% and the value of transactions up 18% compared with the first six months of 2018).

According to the latest available figures[11], mobile market penetration, in terms of total mobile lines, stands at approximately 173% of the population, with MVNOs accounting for 15%. The total number of lines at 30 June 2019 is 104.3 million, including 22.8 million Machine to Machine (M2M) SIM cards. PosteMobile, with a total market share of approximately 4%, accounts for around 48% of the total customers of mobile virtual network operators.

In terms of the digital market, 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.

REGULATORY ENVIRONMENT

On 23 July 2019, the Bank of Italy issued a measure revising the "Supervisory provisions for payment institutions and card payment providers". The measure has amended the previous measure of 17 May 2016 in accordance with Directive 2015/2366/EU ("PSD2") and the related implementation regulation.

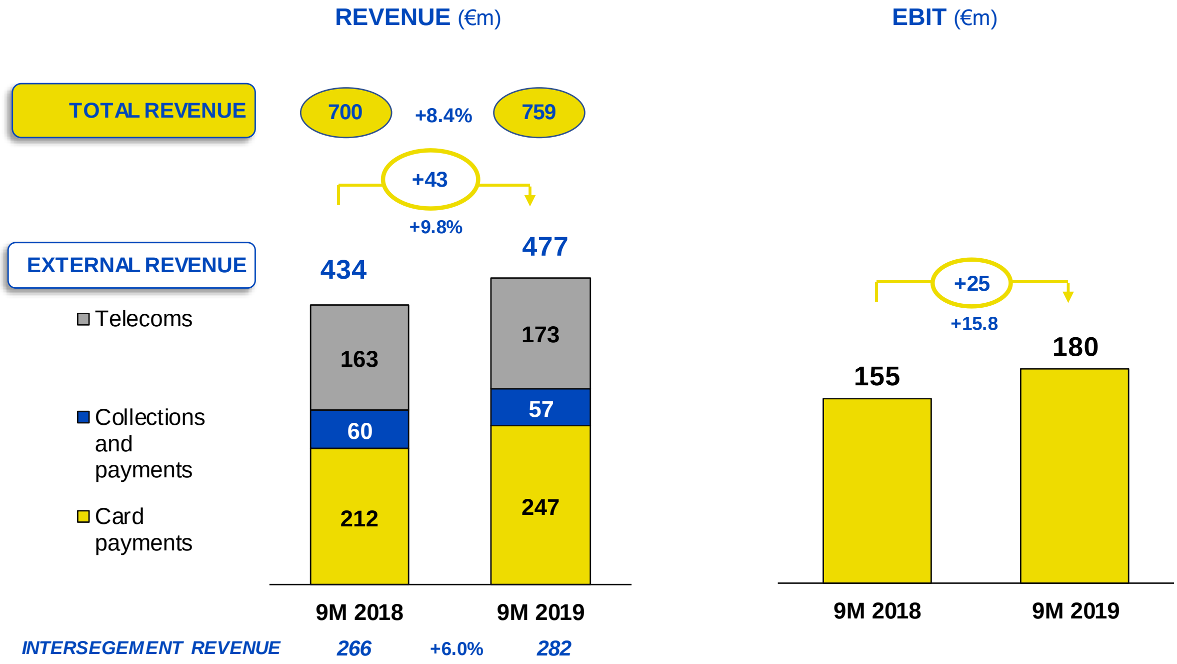
Among other things, the new provisions (i) require institutions to supply additional details regarding their programme of activities to be submitted to the Bank of Italy and have revised the programme in compliance with the new requirements introduced by PSD2; (ii) have extended application, with certain specifications, of the definition of "own funds" – introduced for banks and investment firms by the "Capital Requirements Regulation" – to payment and electronic money institutions;

[10] Source: internal data and estimates based on Bank of Italy figures (information in supervisory reports).
[11] Source: AGCom Communications Observatory no. 3/2019.

(iii) require payment and electronic money institutions to adopt governance policies and procedures for managing security in relation to payment services and the issue of payment cards, systems for preventing and monitoring security and fraud incidents, and procedures for storing, monitoring, tracing and limiting access to confidential data regarding payments; (iv) have revised and added to the content of the disclosures that Italian institutions must submit to the Bank of Italy if they intend to operate overseas; (v) have introduced detailed provisions governing supply of the new payment services envisaged by PSD2, namely payment initiation services (PIS) and account information services (AIS); (vi) aligned the Supervisory Regulations with the new legislation governing requirements relating to the protection of customers' funds introduced by the Consolidated Law on Banking.

On 30 July 2019, the Bank of Italy also published new "Provisions regarding adequate customer checks to combat money laundering and the financing of terrorism". The measure implements the provisions of Legislative Decree 231/2007, as amended by Legislative Decree 90/2017 in order to apply the so-called IV Anti-money Laundering Directive and the Joint Guidelines issued by European supervisory authorities (ESAs) on 26 June 2017, which have simplified and strengthened adequate customer checks and established the factors to be taken into account when assessing the risk of money laundering or the financing of terrorism in relation to ongoing relationships and occasional transactions. The new regulatory requirements will come into effect from 1 January 2020. As regards customers acquired prior to the entry into effect of the provisions, for which the legislation in force prior to Legislative Decree 90/2017 envisaged certain exemptions from the obligation to carry out adequate checks, the Bank of Italy expects any missing data or identification documents to be collected on the first suitable occasion, and in any event no later than 30 June 2020.

PAYMENTS, MOBILE AND DIGITAL SBU PROFIT OR LOSS (*)



(*) Adjusted and reported amounts for the Payments, Mobile and Digital SBU are identical.

Principal KPIs	9M 2019	9M 2018	Increase/(decrease)	
Card payments				
Total value of card transactions (€m)[1]	23,260	19,419	3,841	19.8%
Number of cards (m)[2]	27.6	26.2	1.4	5.3%
of which PostePay cards (m)[3]	20.4	19.0	1.4	7.3%
of which Postepay Evolution cards (m)[4]	7.2	6.3	1.0	15.2%
Payment card transactions (m)	1,037	874	163	18.7%
of which e-commerce transactions (m)	171	142	29	20.1%
Telecoms				
Fixed and mobile PosteMobile SIM cards ('000)[3]	4,502	4,082	420.2	10.3%
Digital				
Customers registered with Poste Italiane's digital channels (web and app) (m)[3]	20.1	17.6	2.5	14.1%
Daily online users (web and app) (m) [5]	1.9	1.4	0.5	37.1%
Digital financial transactions - Consumers (m)	40.6	34.4	6.2	18.0%
App downloads (m)[3]	28.4	21.6	6.8	31.4%
Postepay Digital e-Wallets in issue (m) [3]	4.8	2.8	1.9	67.3%
Electronic identification (m)[3]	3.9	2.6	1.3	51.0%

1 Value of payments made using Postamat and PostePay.

2 Includes PostePay cards and debit cards. The figure shown in the 9M 2018 column refers to 31 December 2018.

3 The figure shown in the 9M 2018 column refers to 31 December 2018.

4 Includes business customers. The figure shown in the 9M 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 €180 million for the first nine months of 2019, an increase of 15.8% compared with the same period of the previous year. This reflects the contribution from card payments, mobile and fixed line telecommunications and the release of provisions made in 2018 as the related tax risks failed to materialise.

Total revenue of €759 million (up 8.4%) benefitted from the above-mentioned positive performance of card payments, which recorded growth of 16.7% (up €35 million from €212 million in the first nine months of 2018 to €247 million), reflecting growth in the number of cards issued and transactions, and of mobile services, which recorded growth of 6% (up €10 million from €163 million in the first nine months of 2018 to €173 million).

At 30 September 2019, there are approximately 20.4 million Postepay cards in circulation (19 million at 31 December 2018), including 7.2 million[12] Postepay Evolution cards, up by over 15% compared with the 6.3 million of 31 December 2018 partly thanks to the integrated offering with PostePay Connect. The total value of Postepay card payment transactions in the first nine months of 2019 is approximately €12.0 billion (€9.2 billion in the same period of 2018, marking an increase of 30%).

Revenue from collection and payment services is €57.1 million, slightly down from the €59.6 million of the first nine months of 2018, primarily due to the reduction in revenue from the processing of tax payments using forms F23/F24.

Acquiring services revenue also grew compared to the same period of the previous year, rising from €5.7 million to €7.8 million (up 38%) thanks to increases in transaction volumes and the number of POS activated.

The performance of the telecommunications business also improved on the previous year (€173 million, an increase of 6%), thanks to the increase in fixed line services revenue due to the strong growth of the customer base (rising from 118,000 lines in December 2018 to 178,000 in September 2019).

Total costs, including depreciation, amortisation and impairments, amount to €579 million and are up 6.2% compared with the same period of 2018, linked to growth of the business. This reflects an increase in variable costs from traffic relating to fixed and mobile telecommunications services and variable costs linked to cards, which are up from €155 million in 2018 to €176 million in 2019, helping to drive up the cost of external goods and services by around 11%. The intersegment costs incurred on the services provided by Poste Italiane's other segments to the card payments and payment services business are up 9% from €289 million in 2018 to €314 million in 2019, and mainly include distribution, information system management, back-office and anti-money laundering activities and postal services.

Key indicators for digital channels show continued growth in the use of such channels by Poste Italiane's customers. The number of consumer customers registered with digital channels (the website and apps) now exceeds 20 million, in part thanks to the increase in the number of PosteID digital identities enabled by the Public Digital Identity System (SPID), which have reached almost 4 million. Users who visit Poste Italiane's digital properties each day, whether web or mobile, now number almost 2 million, with Apps registering the fastest rate of growth. The number of transactions carried out by customers on digital channels exceeds 40 million, with 70% carried out using an App, whilst the value of web and mobile transactions match each other.

September 2019 saw strong growth in the download and use of Apps, thanks in part to the introduction of SCA (Strong Customer Authentication), requiring new methods of access. For the same reason, implementation of the new PSD2 Directive has led to a significant increase in new wallets from July 2019.

OPERATING REVIEW

In addition to Postepay Connect – the offering that combines the Postepay Evolution card with a PosteMobile SIM card – 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. This means that all customers can manage payment and telephone services quickly and intuitively thanks to the Postepay App, transfer data free of charge in real time from one PosteMobile Connect SIM card to another (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 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 925,000 cards are currently being managed.

[12] The figure refers to Postepay Evolution retail cards.

With regard to mobile telephone services, the PosteMobile Casa Internet service was launched on 30 September 2019. This involves the sale of fixed line services together with a Wi-Fi modem with a SIM enabling customers to access the internet.

FINANCIAL SERVICES STRATEGIC BUSINESS UNIT

FINANCIAL MARKET TRENDS

Long-term yields on government securities and sovereign spreads fell sharply in the third quarter of 2019, in both the euro area and the United States.

The yield on ten-year Italian Treasury Notes (BTPs) declined by 193 basis points, falling from 2.74% at the end of 2018 to 0.82% at the end of September 2019, whilst the yield on ten-year German Bunds ended the third quarter well into negative territory, having fallen from 0.24% to -0.57%. The yield on ten-year US government bonds also saw a notable decline, falling 102 basis points with respect to the beginning of the year. The yield reached its lowest point between the end of August and the start of September 2019, when the ten-year yield on US government bonds fell below 1.5%, whilst the yield on German Bunds hit a record low of -0.75%.

Trade tensions between the United States and China and the risk of a no-deal Brexit led to a sharp decline in yields in August. Subsequent action by the Federal Reserve and the European Central Bank, which lowered interest rates in September and expressed a willingness to take further steps to support growth, stabilised yields, although they have remained at levels below those seen in the second quarter of 2019.

Equity markets performed strongly in the first part of the year, before experiencing a series of corrections during the summer and then continuing to climb in September on the back of heightened expectations of fresh stimulus measures by central banks. Over the period under review, the Eurostoxx 50 index gained approximately 19%, whilst the Down Jones rose 15%[13]. Global share prices were supported by a considerable decline in risk-free rates. This support was only very slightly offset by an increase in risk premium in response to an intensification of uncertainty regarding world trade and cuts to the outlook for corporate earnings, probably due to ongoing concerns over global macroeconomic prospects.

Spreads on corporate bonds in the euro area fell. Overall, the spread on non-financial investment grade corporate bonds in the euro area stood at around 80 basis points at 30 September, down approximately 20 basis points compared with the end of 2018. Spreads in the financial sector also declined, falling around 35 basis points with respect to the risk-free rate at the end of 2018 to stand at approximately 80 basis points at 30 September 2019. Whilst both figures remain broadly close to the average levels prevailing since the introduction, in March 2016, of the Corporate Sector Purchase Programme (CSPP), the most recent falls could have been driven by expectations of further monetary policy interventions[14].

BTP-SWAP SPREAD

	9M 2018	FY2018	H1 2019	9M 2019
BTP 10Y	3.15	2.74	2.10	0.82
SWAP 10Y	0.98	0.81	0.18	(0.15)
BTP 15Y	3.31	3.03	2.55	1.37
SWAP 15Y	1.32	1.17	0.49	0.07
BTP 30Y	3.72	3.53	3.09	1.91
SWAP 30Y	1.53	1.38	0.72	0.22

[13] Source: Bloomberg.
[14] Source: ECB Economic Bulletin 6/2019.

BANKING SYSTEM

According to statistics from ABI (the Italian banking association)[15], in September 2019, funding by banks operating in Italy, represented by deposits by resident Italian savers and the issue of bonds, had registered a year-on-year increase of 3.7% to stand at approximately €1,798 billion (up €66 billion compared with the beginning of the year).

This reflects a significant increase in deposits by resident Italian savers (current accounts, certificates of deposit and repurchase agreements) of approximately €69 billion (up 4.7% year on year), offset by a reduction of approximately €2.5 billion in investments in bonds (down 2.3% year on year). The average cost of funding (deposits, bonds and repurchase agreements held by households and non-financial companies) in September 2019 was 0.60% (in line with the previous month). Bank lending is up over the same period: at the end of September 2019, total lending to Italian residents (private sector and the Public Administration) - excluding interbank loans – amounted to approximately €1,698 billion (up 0.9% year on year), thanks above all to growth lending to households (up 2.4% year on year), with increases in both consumer credit and property mortgages.

Doubtful loans, after impairments and provisions made from own funds, are slightly up in absolute terms compared with the end of 2018, even if, as a percentage of total lending, such loans have continued to decline. In August 2019, doubtful loans amounted to around €32 billion (€40.5 billion in August 2018), whilst the ratio with respect to total lending was down to approximately 1.87% (compared with 2.36% in the previous year). The average interest rate on loans to households and companies has remained extremely low: 2.51% in September 2019, well below pre-crisis levels (6.18% at the end of 2007).

PERFORMANCE OF THE WEALTH MANAGEMENT SECTOR[16]

According to the latest data from Assogestioni, total assets under management amounted to approximately €2,209 billion at 30 June 2019, compared with €2,018 billion at the end of December 2018 (up 9.5%). In terms of portfolio management (retail and institutional), assets amounted to approximately €1,120 billion, marking an increase with respect to the end of December 2018 (€1,004 billion, an increase of 11.7%). As regards the management of collective assets (open and closed ended mutual funds), the value of customer assets had risen from approximately €1,014 billion at the end of December 2018 to around €1,089 billion at the end of June 2019 (an increase of 7.3%). Open ended mutual funds alone amount to

[15] ABI Montly Outlook - October 2019.
[16] Assogestioni, online “CUBO” database.

approximately €1,027 billion, up 7.5% from around €955 billion at the end of December 2018, essentially reflecting performance.

In terms of net inflows, the wealth management sector registered a net inflow of €49.2 billion in the first half of 2019, compared with an inflow of €9.8 billion in the same period of the previous year, partly as a result of the transactions involving the Poste Italiane Group.

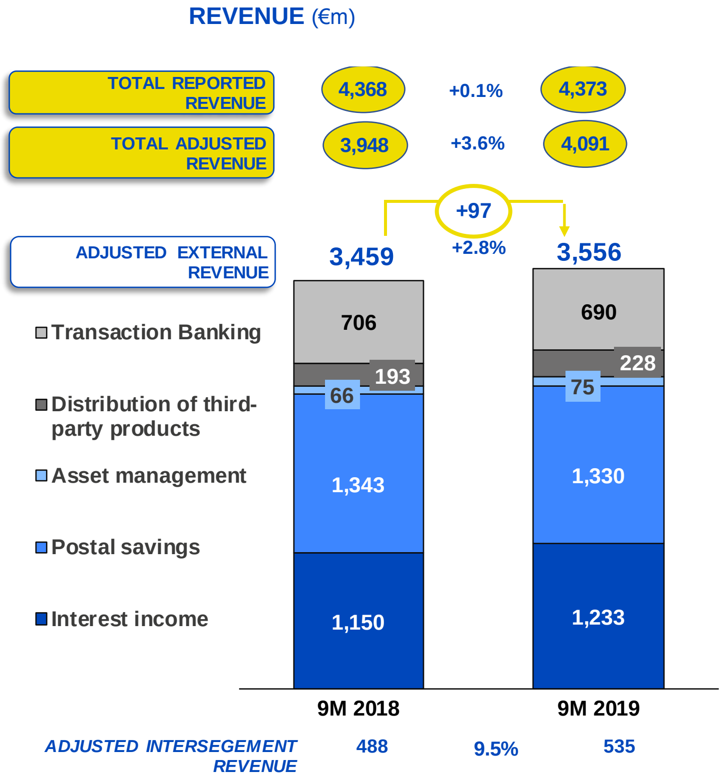
REGULATORY ENVIRONMENT

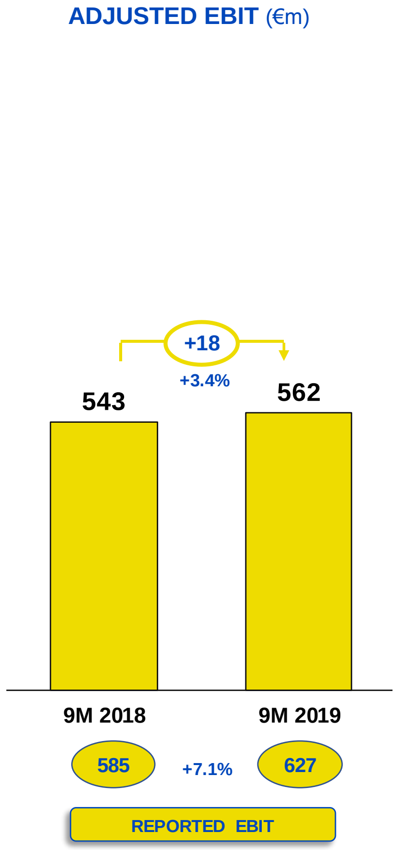
Bank of Italy measure 156 of 18 June 2019 was published in July. This has amended the "Provisions regarding the transparency of transactions and banking services" in implementation of the changes introduced by Directive 2014/92/EU (the Payment Accounts Directive or "PAD") in relation to payment accounts offered to consumers. The changes will come into force from 1 January 2020 and regard, among other things, pre-contractual documentation and the periodic information to be provided. In particular, two new documents must now be provided to customers and drawn up in accordance with the non-modifiable standard format contained in the relevant EU Commission Regulation: the "Fee Information Document" or "FID" and the "Statement of Fees" or "SOF". Poste Italiane has begun the process of complying with the new regulations.

With regard to the requirement for payment services providers (PSPs) to introduce strong authentication systems, enabling customers to make online card payments as provided for in PSD2, in August, the Bank of Italy extended the original deadline of 14 September 2019. The new deadline will be decided on by the European Banking Authority and then announced to the market.

On 23 September 2019, the CONSOB published a consultation document containing amendments to the Regulation on Intermediaries (Resolution 20307) in order to comply with the Insurance Distribution Directive (IDD). This Directive, which has been applied under Italian law since 1 October 2018, has introduced rules governing the distribution of insurance-based investment products. In addition, on the same date, IVASS began consulting on the draft Regulation containing provisions relating to Product Oversight Governance, which will come into effect on 31 March 2020. These provisions require undertakings and intermediaries that design and distribute insurance products to adopt specific processes regarding design, revision, monitoring, audit and distribution procedures for each new insurance product, before the product is distributed to customers, or for an existing insurance product, before making any significant changes.

FINANCIAL SERVICES SBU PROFIT OR LOSS





Principal KPIs	9M 2019	9M 2018	Increase/(decrease)	
Total financial assets (€bn) [1]	540	514	26	5.0%
Net inflows (€m)	4,872	5,954	(1,082)	-18.2%
Unrealised capital gains/(losses) (€m)	2,721	(2,690)	5,411	201.2%
Net gains (€m)	256	379	(123)	-32.6%
Average current account deposits for period (€bn)	62	58	3.5	6.0%
Average return on current accounts excluding capital gains	2.59%	2.61%		
Average postal savings deposits (€bn)	310.8	308.0	2.7	0.9%
Loans and mortgages - volumes lent (€m)	2,678	2,360	318.4	13.5%

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

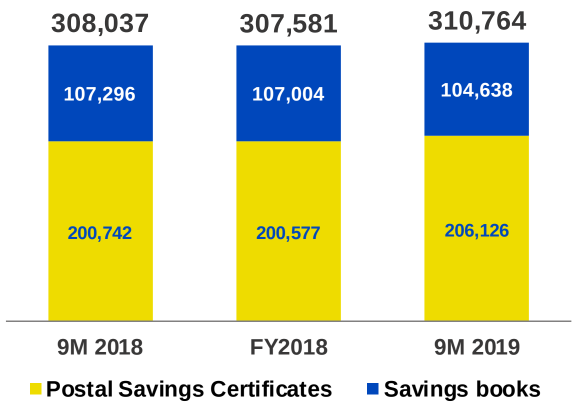
The Financial Services Strategic Business Unit generated adjusted EBIT of €562 million in the first nine months of 2019, an increase of 3.4% (€18 million) compared with the €543 million of the same period of the previous year.

Total adjusted revenue of €4,091 million is up 3.6% (€143 million) compared with the €3,948 million of the same period of 2018. This is largely due to the contribution from interest income, which is up 7.2% (€83 million) compared with the first nine months of 2018, reflecting an increase in current account deposits (up €3.5 billion or 6%). Income from the distribution of third-party financial products also contributed to revenue growth, rising €36 million (18.4%) as a result of the greater volume of retail loans arranged, above all in the form of personal and salary loans. Income from asset management amounts to €75 million (up €8 million or 12.4% compared with the same period of the previous year) and reflects an increase in management and placement fees.

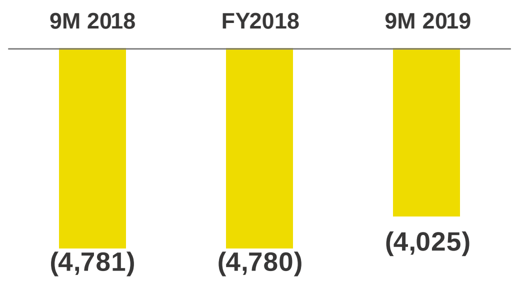
In contrast, transaction banking revenue is down €17 million (2.4%) compared with 2018 due to a reduction in the volume of payment slips processed. Income from the collection of postal savings deposits is also down, registering a reduction of

€13 million (commissions of €1,330 million in the first nine months of the year, compared with €1,343 million in the same period of 2018) and reflecting a decline in upfront fees earned on gross inflows into Interest-bearing Postal Certificates.

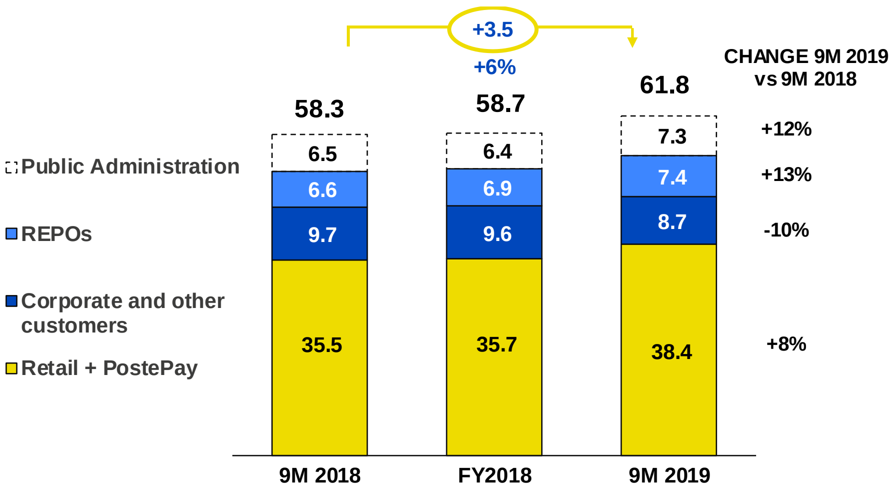
POSTAL SAVINGS
(deposits in €m)



NET POSTAL SAVINGS INFLOWS
(€m)

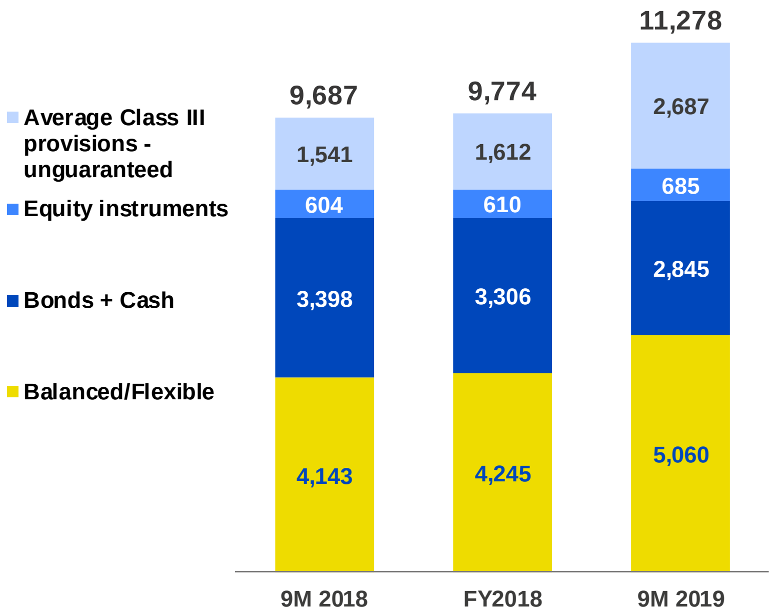


AVERAGE CURRENT ACCOUNT DEPOSITS (€bn)



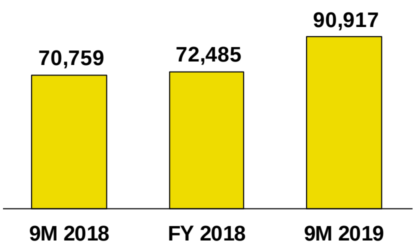
Investments in securities and deposits held at the MEF rose by approximately €3 billion in the first nine months of 2019, in line with the growth in the average duration of deposits.

AVERAGE ASSETS UNDER MANAGEMENT
(€m)

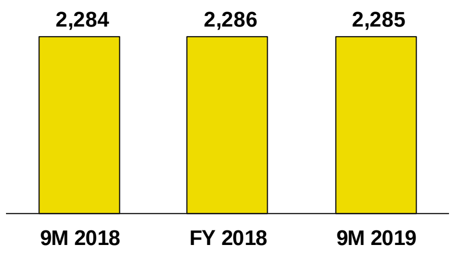


Average assets under management in the first nine months of 2019 is up on the figure for December 2018 (up €1,504 million). The Insurance component is up 74%, driven by the performance of multiclass products, whilst the Funds segment is influenced by the introduction of flexible funds, where the fund manager has greater scope to mitigate market volatility in order to protect investors.

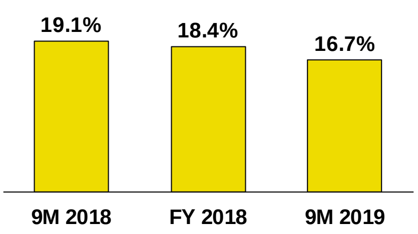
TOTAL ASSETS (€m)



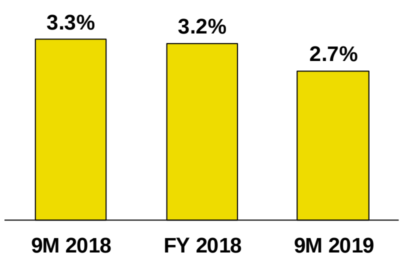
CET1 CAPITAL (€m)



CET1 RATIO



LEVERAGE RATIO



In terms of BancoPosta's capital position, following the positive performance of deposits and the change in market conditions (see Total Assets in 9M 2019), monitoring of the risk profile shows that, from March 2019, the leverage ratio has fallen to approximately 2.7%. The Company will continue to closely monitor Bancoposta's leverage ratio in the last quarter of 2019, taking action, if necessary, to strengthen its capital position.

The CET1 Ratio at 30 September 2019 is 16.7%, compared with the 17.5% of 30 June 2019. The reduction reflects the increase in capital required in relation to credit risk, in turn dependent on the greater amount of collateral provided to counterparties following a deterioration in the mark-to-market value of hedging derivatives.

OPERATING REVIEW

In the first nine months 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 subsequent quarters, on the other hand, in response to a gradual decline in interest rates and a relatively stable credit spread in Italy (the yield on 10-year BTPs reached an all-time low of 0.81% in September), forward sales for settlement in December 2019 and February/March 2020 were concluded. This was done to realise the gains targeted in the Deliver 2022 Plan for the current year and begin the process of realising the gains targeted for 2020.

A number of switch transactions have also been carried out to boost the efficiency of the fixed rate portfolio, involving the substitution of securities with higher average yields.

Finally, 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 5 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.

In terms of postal savings, with the aim of improving the quality and efficiency of the services offered to customers, the Group began the process of providing 24-hour access to services via ATMs, the website and Apps.

A new "PostePremium" model for services offered to customers has been launched with the aim of meeting the full range of customer needs. This entails, among other things, the mapping and allocation of securities portfolios, tailor-made product offerings, assistance with the transfer of assets and property from one generation to another and dedicated customer care for all the products provided and distributed by Poste Italiane.

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

On 20 September 2019, placement of the "BancoPosta Focus Digital 2025" fund began. This fund combines investments in bonds with a portion invested in flexible instruments and equities issued by companies operating in the Information Technology and Robotics sector.

In terms of loans provided to private customers by external partners, a number of promotions have been run for specific categories of customer, type of product or interest rate and/or purpose, supported by advertising campaigns.

Also, in relation to the distribution of third-party products, with regard to the real estate funds marketed in the period between 2002 and 2005, Poste Italiane has taken 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). The Company also launched a further voluntary initiative aimed at protecting the interests of customers who invested in the Obelisco fund, which matured on 31 December 2018. This initiative will come to an end on 6 December 2019.

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 commercial launch of the new *Tesoreria Enti* (Treasury Services) offering for businesses and the Public Administration took place, with the services, provided in partnership with CDP, aimed at towns with less than 5,000 inhabitants. The product offering for business customers has also been expanded.
Finally, in the first nine months of 2019, the board of directors of Cassa Depositi e Prestiti and Poste Italiane approved a committed credit facility of €5 billion for BancoPosta, thus enabling BancoPosta to diversify its sources of funding.

OTHER INFORMATION

BANK OF ITALY

On 23 May 2019, the Bank of Italy began inspections of certain post offices with the aim of verifying fulfilment of the obligations in terms of banking transparency. The process was concluded in July and the related report has yet to be received. 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 the storage of contract documents, the handling of unilateral changes to the terms and conditions offered to customers, the handling of complaints and the application of financial conditions via the related system.
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 proceeded to gather the necessary information and replied to the Bank regarding both issues on 30 September 2019, following approval, at the Bank's request, by the Board of Directors and the Board of Statutory Auditors.
At the date of preparation of this interim 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. Any changes to estimates may take place only following alterations to current practices.

CONSOB

On 31 May 2019, the CONSOB requested information on the disclosures provided to customers *ex ante* (pre-contractual information) and *ex post* (annual statements). Replies 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. On 27 June 2019, the CONSOB requested further clarification regarding the measures adopted in order to ensure compliance with the relevant statutory requirements relating to the experience and expertise of sales personnel. The related reply was submitted on 17 July 2019 and contains details of the training provided in order to maintain and refresh the level of knowledge and expertise, followed by a final test, an assessment of the results of the final test, a description of the results achieved by newly recruited sales personnel entering the workforce in 2018 and 2019, and clarification regarding the specialist support provided for the sales network.
On 7 August 2019, the Company received a request from the CONSOB for data and information on the provision of investment services in the Emilia Romagna, Marche and Umbria regions, and in the Province of Pescara. The Company responded on 18 September 2019 together with, as requested, the names of employees who have held responsibility for the areas concerned since 2016.

EUROPEAN COMMISSION

The Court of the European Union's sentence of 13 September 2013 upheld Poste Italiane SpA's appeal against the European Commission's decision of 16 July 2008 regarding state aid, ordering the latter to pay the related cost. The European Commission subsequently reopened the enquiry, appointing an external expert to check that the levels of interest paid to the Company from 1 January 2005 to 31 December 2007 on deposits held at the Ministry of the Economy and Finance (as per art. 1, paragraph 31, of Law 266 of 23 December 2005 "2006 Budget Law") were in line with the market.
On 2 August 2019, the European Commission established that the return on the deposits held at the Ministry of the Economy and Finance between 2005 and 2007 did not constitute state aid as defined by European legislation.

INSURANCE SERVICES STRATEGIC BUSINESS UNIT

THE INSURANCE SERVICES MARKET

Based on the available official data at the end of August 2019, new business for Life insurance policies, including EU undertakings, amounts to €64.3 billion, slightly down (1.5%) on the same period of 2018. New business for Italian undertakings is, in contrast, up 1% to €55.9 billion.

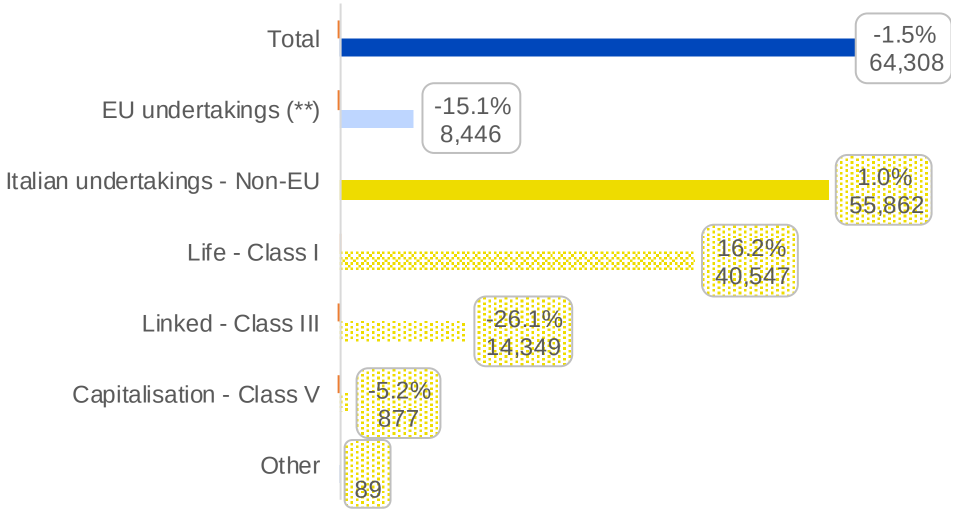
Analysing the figures by class of insurance, Class I premiums amount to €40.5 billion at the end of August 2019, a 16.2% increase on the same period of the previous year. Class III products, on the other hand, record a 26.1% reduction in premiums to €14.3 billion compared with the same period of 2018. The value of new business for capitalisation products (€0.9 billion) remains marginal and is down 5.2%.

Single premiums continued to be the preferred form of payment for policyholders, representing 94.5% of total premiums written and 64.5% 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 approximately €39.2 billion broadly in line (up 0.2%) compared with the same period of 2018.

New Life business (*)

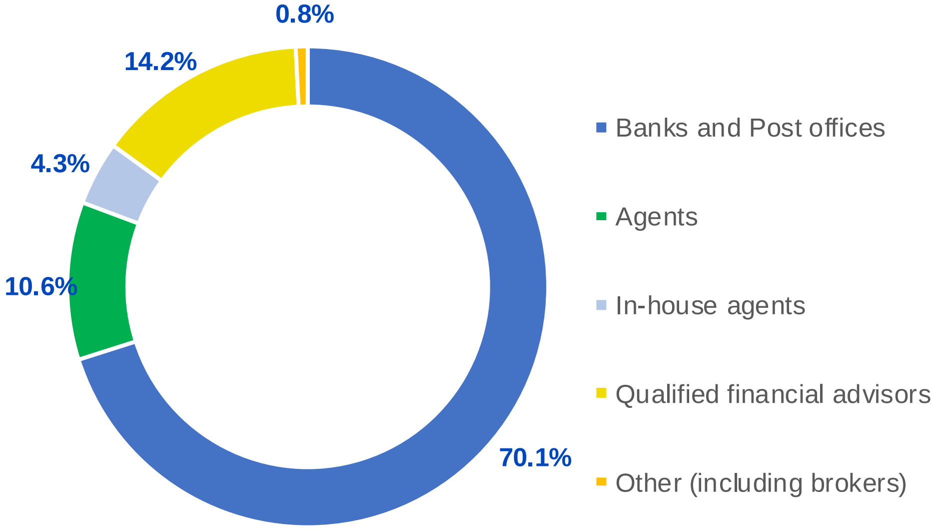
Premiums since the beginning of the year by class/product and % change August 2019 versus August 2018
(figures updated to August 2019 in €m)



(*) 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. The figures refer solely to undertakings taking part in the survey.

New Life business by distribution channel – 2019

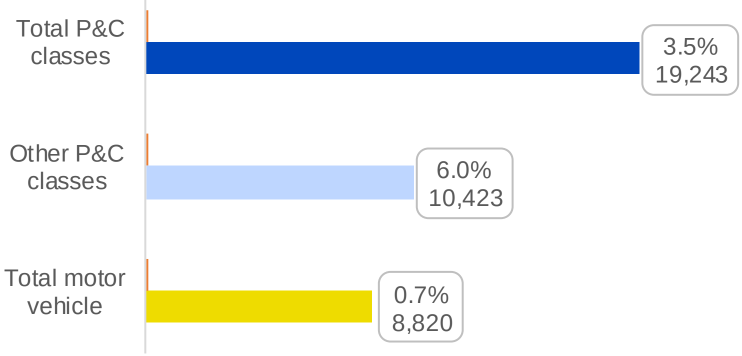


Source: ANIA - figures updated to August 2019

Based on the available official data[17] (source: ANIA), total direct Italian premiums in the P&C insurance market, thus including policies sold by Italian and overseas undertakings, amounted to €19.2 billion at the end of the second quarter of 2019, up 3.5% compared with the same period of 2018. The performance was helped by both the growth in other P&C classes (up 6%), with total premiums amounting to €10.4 billion, and to a lesser extent an improvement in premium revenue from vehicle insurance, which is up 0.7% on the second quarter of 2018 to total €8.8 billion.
In terms of distribution channel, agents continue to lead the way with a market share of 74.5%, although this is slightly down on the figure for the end of the second quarter of 2018 (76%).

P&C premium revenue

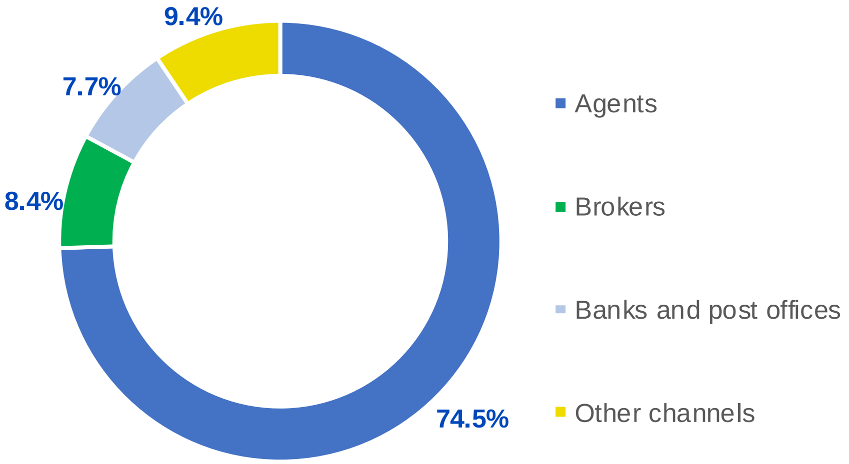
Premiums since the beginning of the year by class and % change June 2019 versus June 2018 (*)
(figures updated to June 2019 in €m)



(*) Source: ANIA – Premiums refer to Italian, non-EU and EU undertakings.

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

Distribution of direct premiums by distribution channel (*) – 2019



Source: ANIA - figures updated to June 2019

(*) Italian undertakings and the Italian subsidiaries of non-EU undertakings operating under the right of establishment.

REGULATORY ENVIRONMENT

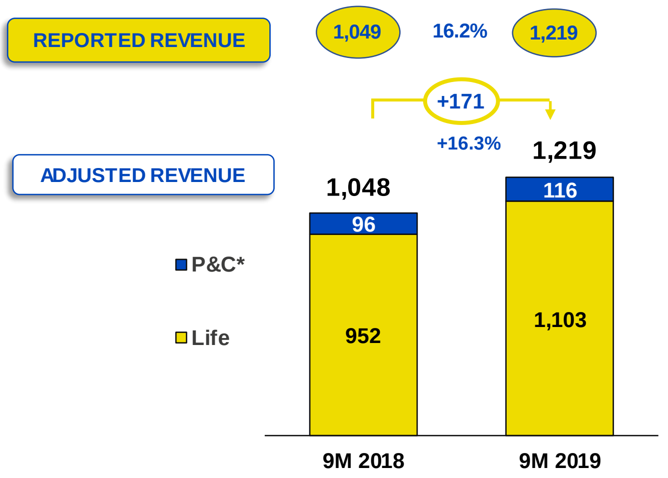
Letter to the Market dated 1 April 2019

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. Poste Vita has taken the steps necessary to comply with the requirements introduced by the new legislation.

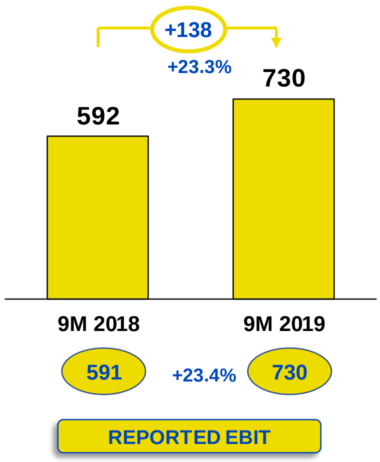
INSURANCE SERVICES SBU PROFIT OR LOSS

REVENUE (€m)



* Includes Poste Welfare Servizi and other revenue

ADJUSTED EBIT (€m)



Principal KPIs	At 30 September 2019	At 31 December 2018	Increase/(decrease)	
Poste Vita Group net technical provisions (€bn)	142.6	125.1	17.5	14.0%
of which Poste Vita SpA	*142.4*	*125.0*	*17.4*	*13.9%*
Life Business	**9M 2019**	**9M 2018**	**Increase/(decrease)**	
GWP - Life (€m)[1]	13,722	12,625	1,096.5	8.7%
of which: Classes I-IV-V	12,245	12,017	227.6	1.9%
of which: Class III	1,477	608	868.9	142.9%
P&C Business	**9M 2019**	**9M 2018**	**Increase/(decrease)**	
GWP - P&C (€m)[1]	186	143	43.3	30.3%
Loss ratio[2]	30.4%	25.8%		
Expenses ratio (confirmed by ANIA)[3]	26.4%	27.2%		
Combined ratio (confirmed by ANIA)[4]	56.8%	53.0%		

[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 €730 million in the first nine months of 2019, up 23.3% on the same period of the previous year (€592 million).

Total revenue is up from €1,049 million in the first nine months of 2018 to €1,219 million (up 16.2%), essentially due to the performance of the Life business, which contributed €1,103 million, whilst the P&C business contributed €108 million.

Net Life revenue is up 15.9% (an increase of €151 million compared with the first nine months of 2018), benefitting primarily from an improvement in the net investment result (up €79 million compared with the previous year), reflecting the greater volume of assets under management, the release of other technical provisions, totalling €60 million, due to the increased profitability of new products for which it is not necessary to make further provisions, and increased revenue from protection products (up €9 million).

Net P&C revenue totals €108 million (up 21.9%), with growth across all lines of business (retail up 8%; Employee Benefits up 163%) and total gross premium revenue amounting to €186 million[18], up 30% on the same period of 2018 (€143 million).

[18] Gross premium revenue for the period amounts to €164 million.

This more than offset the slight decline in the technical performance due to growth in the Employee Benefits business (a Combined Ratio of 99%).

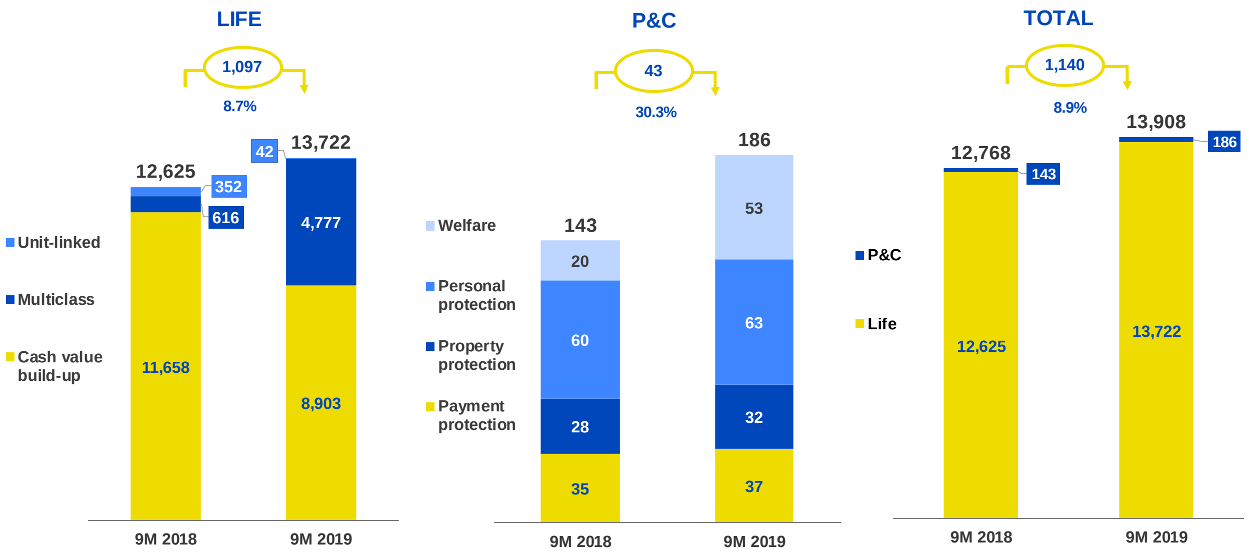
Total costs of €472 million are up €27 million compared with the figure for the same period of 2018. The increase is primarily due to the performance of intersegment costs, essentially linked to fees paid for distribution, collection and maintenance services, which have risen as a result of the growth in business.

Net finance income amounts to €15 million, down on the €50 million of 2018 primarily due to the impact of the cost of Ancillary Own Funds, which was not present in the first nine months of the previous year.

After tax expense for the period (€235 million), the SBU reports net profit of €509 million, up 22% compared with the €418 million of the same period of the previous year.

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

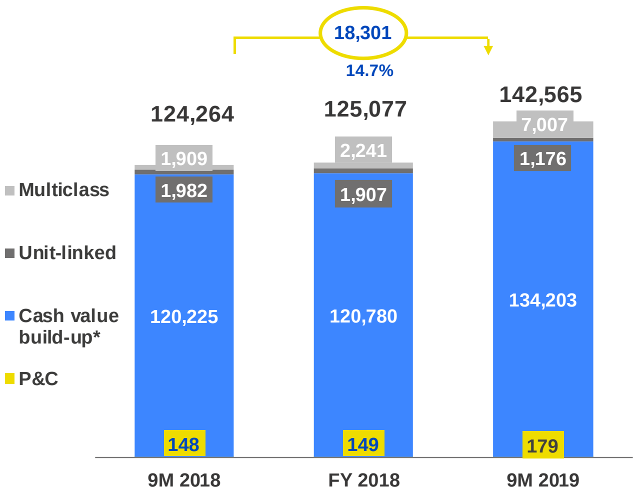
GROSS WRITTEN PREMIUMS (€m)



The Life business generated gross premium revenue of €13.7 billion, up 9% on the same period of 2018, with a significant shift towards multiclass products (up €4.2 billion compared with the same period of the previous year). This led to an increase in sales of Class III products (up approximately €900 million), which in 2019 account for 10.8% of total gross premium revenue, compared with 4.8% in 2018.

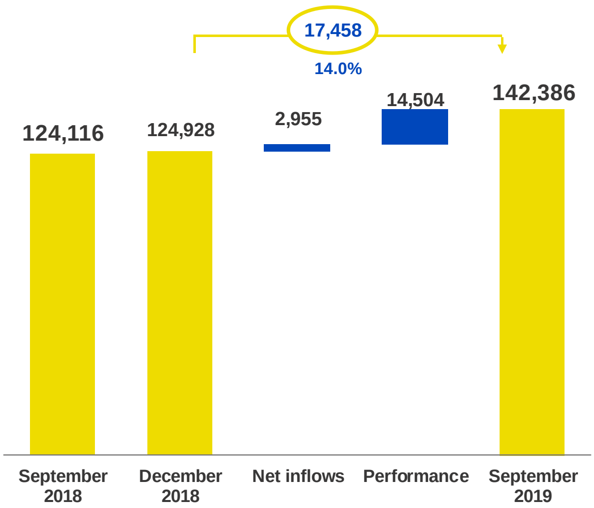
The P&C business recorded gross premium revenue of €186 million, up 30% on the figure for 2018 (an increase of €43 million), with growth across all lines of business: Welfare (up €33 million or 166%), property and personal protection (up €7 million or 8%) and payment protection (up €2 million or 6%).

TECHNICAL PROVISIONS
(€m)



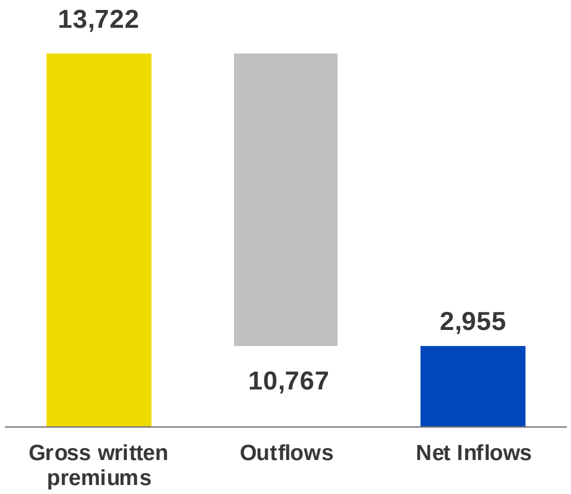
* Includes Protection and Welfare

MOVEMENTS IN TECHNICAL PROVISIONS - LIFE
(€m)



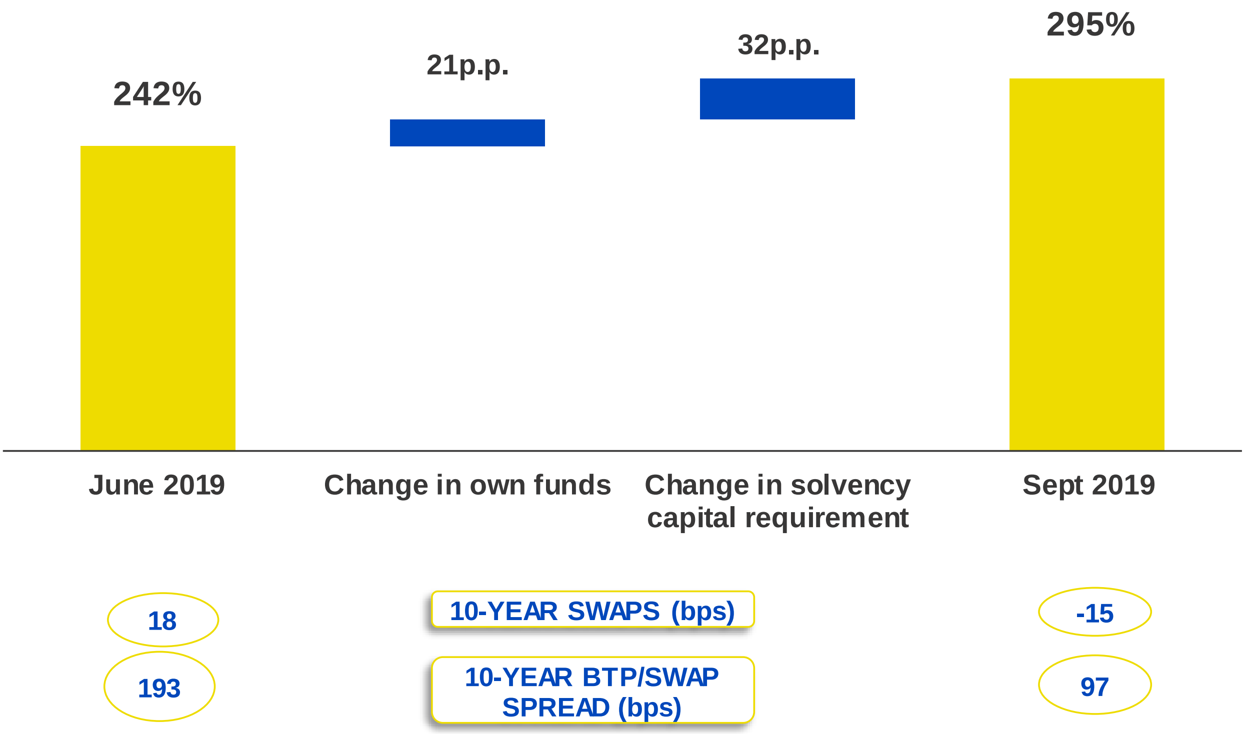
Technical provisions for the Life business amount to €142.6 billion, an increase of €17.5 billion compared with 31 December 2018. This primarily reflects an increase in mathematical provisions (up €4.3 billion) linked to growth in net premium revenue (up €3 billion) and the performance of deferred policyholder liabilities reflecting changes in the fair value of the financial instruments backing the policies issued (up €13.1 billion). Technical provisions for the P&C business, after the portion ceded to reinsurers, amount to €179 million at the end of the period (€209 million before the portion ceded to reinsurers), an increase of 21% compared with the end of 2018 (€148 million; €186 million before the portion ceded to reinsurers).

NET LIFE INFLOWS - 9M 2019
(€m)



	9M 2018	9M 2019	Change in bps
Lapse rate	2.93%	2.92%	-1.43

The Life business generated inflows of €3 billion, down compared with 2018 as a result of an increase in policy expirations during the period (up €4.3 billion compared with the first nine months of the previous year).
The lapse rate is 2.92% in 2019, broadly in line with the figure for 2018 and below the market value, which has remained above 6%.



The Insurance Group's solvency ratio at 30 September 2019 stands at 295%, up from 242% in June 2019 (an increase of 53 percentage points). This reflects favourable market conditions, with the declining spread resulting in gains on investments. It should be noted, however, that the reduction in interest rates (10-year rates down 33 basis points compared with June 2019) results in an increase in the value of the guarantees implicit in the Life portfolio.

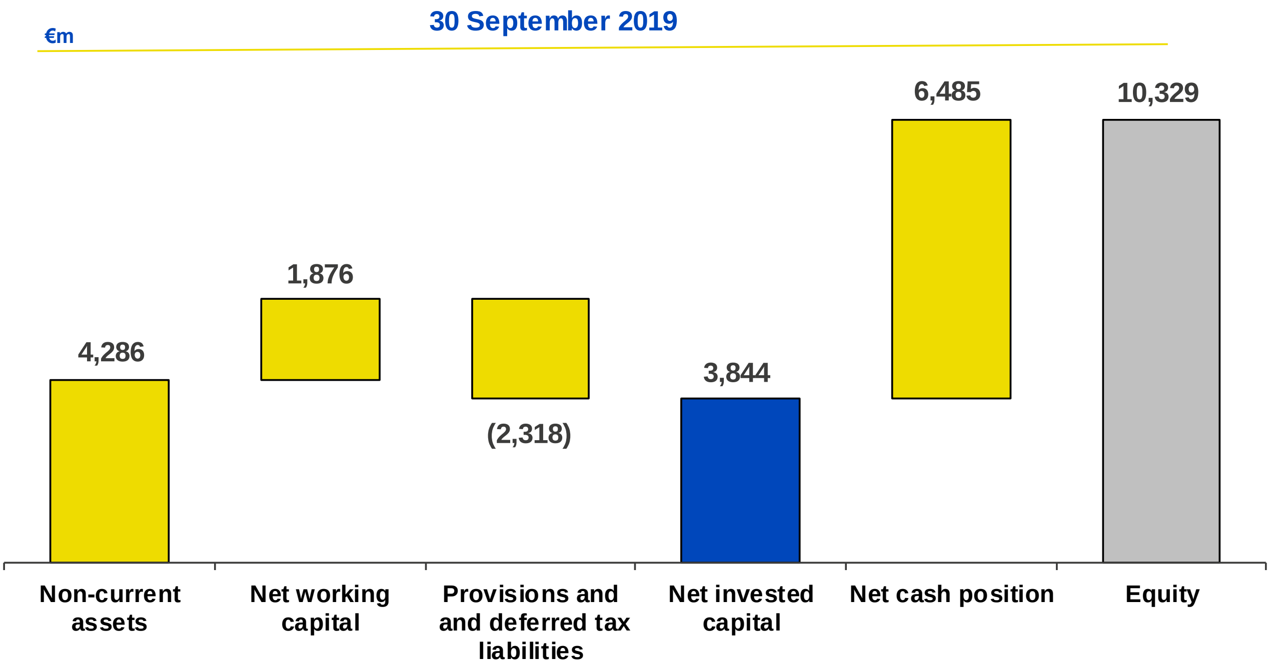
OPERATING REVIEW

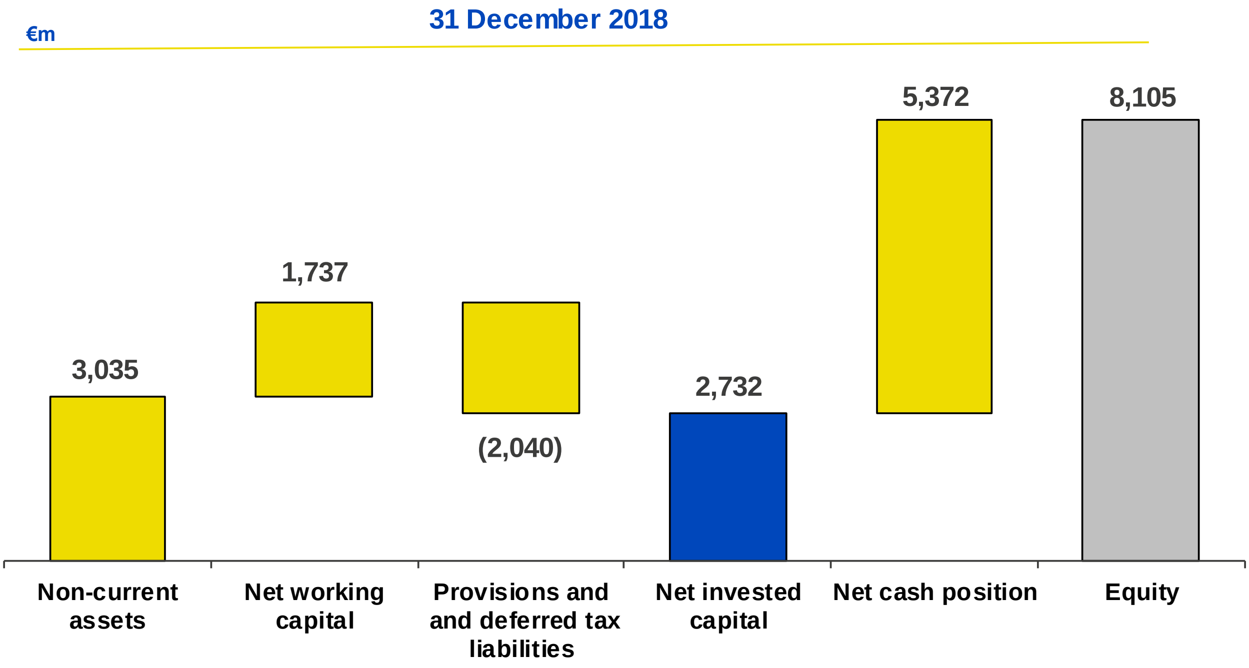
To provide its customers with a wider and fuller range of services, Poste Vita proceeded to develop its multiclass offering in the third quarter of 2019. This offers policyholders a differentiated investment portfolio in keeping with their risk profile, via the offer of dedicated policies, and expansion of the range to include products specifically designed for a more senior target between 59 and 79 years old. In terms of the P&C business, expansion of the offering continues and the Group has begun the process of developing products with a modular structure to best meet the needs of customers. In this regard, the new "Poste Salute" product was launched in July 2019, introducing the first type of modular policy into the Group's offering, accompanied by price repositioning.

With regard to supplementary pensions, the *Postaprevidenza Valore* individual pension plan was expended in July 2019 with the addition of two new investment profiles, Dynamic and Life Cycle, in addition to Guaranteed.

FINANCIAL POSITION AND CASH FLOW

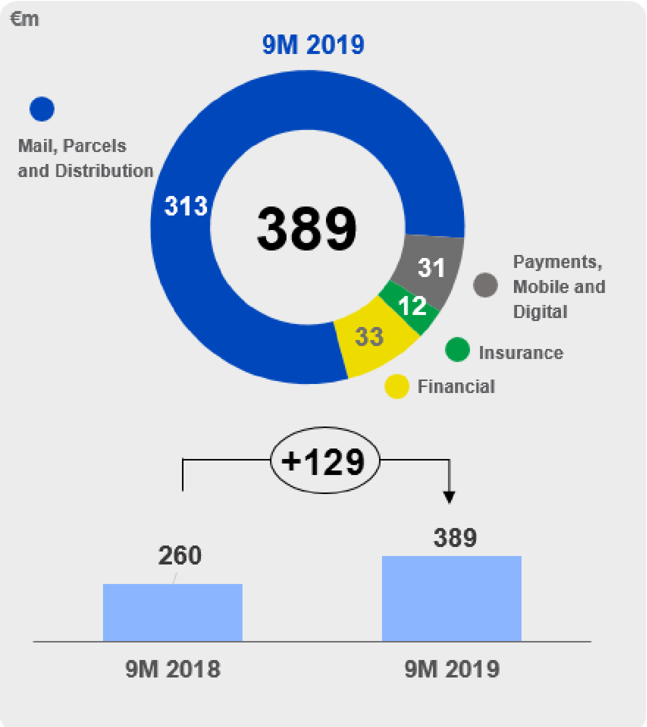
€m	30 September 2019	31 December 2018	INCREASE/ (DECREASE)	
NON-CURRENT ASSETS	4,286	3,035	+1,251	+41%
NET WORKING CAPITAL	1,876	1,737	+139	+8%
GROSS INVESTED CAPITAL	6,162	4,772	+1,390	+29%
PROVISIONS AND OTHER ASSETS/LIABILITIES	(2,318)	(2,040)	(278)	+14%
NET INVESTED CAPITAL	3,844	2,732	+1,112	+41%
EQUITY	10,329	8,105	+2,224	+27%
NET CASH POSITION	(6,485)	(5,372)	(1,113)	+21%
Net debt/(cash) position of the Mail, Parcels and Distribution SBU	*978*	*(1,131)*	+2,109	-186%





The Poste Italiane Group's non-current assets amount to €4,286 million at 30 September 2019, an increase of €1,251 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 €389 million, purchases due to new contracts and modifications and terminations of leases resulting in right-of-use assets of €66 million. Investment was more than offset by depreciation, amortisation and impairments of €575 million, including €166 million in depreciation of right-of-use assets.

The Group's investment in the first nine months of 2019 amounts to €389 million, a 50% increase compared with the first nine months of 2018 (up €129 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 (€313 million) focused on the transformation of the Mail, Parcels and Distribution Strategic Business Unit, where work on the reorganisation of sorting, delivery and transport activities is continuing.

The introduction of lean production into the sorting process, guaranteeing continuous improvements in operating processes, is continuing. In terms of the automation of production processes, the largest parcel sorting plant currently operating in Italy opened in Bologna in July, following investment of €50 million. The Bologna Hub was presented to the international financial community in September, together with an update on the progress made in transforming the mail and parcels business in line with the Deliver 2022 Plan. New Mixed

Mail sorting systems for letters have also been installed at the Turin, Bologna, Rome and Naples sorting centres.

Investment in real estate regarded the upgrade of post offices and the and the creation of new areas for specialist services, whilst, in terms of technology infrastructure, work continued on 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 is also continuing, as is the modernisation of technology infrastructure and consolidation of the Group's Data Centres. In this regard, design of Poste Italiane's unified Disaster Recovery environment for the Turin Data Centre has been completed. Work has also begun on centralisation of the Group's IT, with the aim of fully exploiting the related synergies and ensuring that development is aligned with the Group's strategy.
Improvements to active and passive security and to IT security led to an increase in the supply of passive security systems in the first nine months of 2019 (approximately 730 sites around the country), in addition to completion of the process of implementing physical security measures at 11 postal distribution centres and the start-up of work at 3 sorting centres (Milano Roserio, Verona and Brescia). Work has also begun on the implementation of security systems for 2 distribution centres in order to obtain TAPA - FSR (Transported Asset Protection Association – Facility Security Requirements) certification.

In the Financial Services Strategic Business Unit, total investment amounts to €33 million (€22 million in the same period of 2018) 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. In detail: the launch of 24-hour multi-channel customer access to information about savings certificates and savings books, the addition of a function within the online sales process for savings books and certificates that enables use of the App to carry out transactions and a contract kit for dematerialised certificates to be sent electronically, and the commercial launch of new insurance products for investment and wealth management purposes, integrated with the guided consultancy action plan.

Investment in the Payments, Mobile and Digital Strategic Business Unit amounts to €31 million (€34 million in 2018). 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 customers' signatures and provide digital proof of receipt for legal process.
As part of the Digital Transformation programme, the PFM (Personal Financial Management) function was added to the Postepay App, enabling customers to receive push alerts for incoming and outgoing payments and details of pre-arranged card transactions. The Postepay Evolution and Postepay Evolution Business cards were enabled for online payments via the "tokenisation" service which, from May, enables users to memorise their cards, guaranteeing a greater degree of security as only the information regarding the token, which is unique to each merchant, is memorized and not the data relating to the card. In order to complete the digital payments offering, the Business Simulation service has been available since September, including for Visa cards.
In addition, in line with the regulatory roadmap, on 12 September, the new Strong Customer Authentication solution was released on all digital channels (apps and the website), offering customers a more informed user experience and greater security during the authentication and authorization of payment transactions.

In the Insurance Services Strategic Business Unit, work was carried out on operational and infrastructural improvements to key business support systems at a cost of €12 million. In particular, investment was targeted at the systems used in managing the Life portfolio, whilst a new calculation platform for P&C products was implemented in preparation for the receipt of clearance from the supervisory authority for the use of USPs (unique selling propositions).
The process of insourcing and revamping customer care using the Group's TPA (Third Party Administration) also continued.

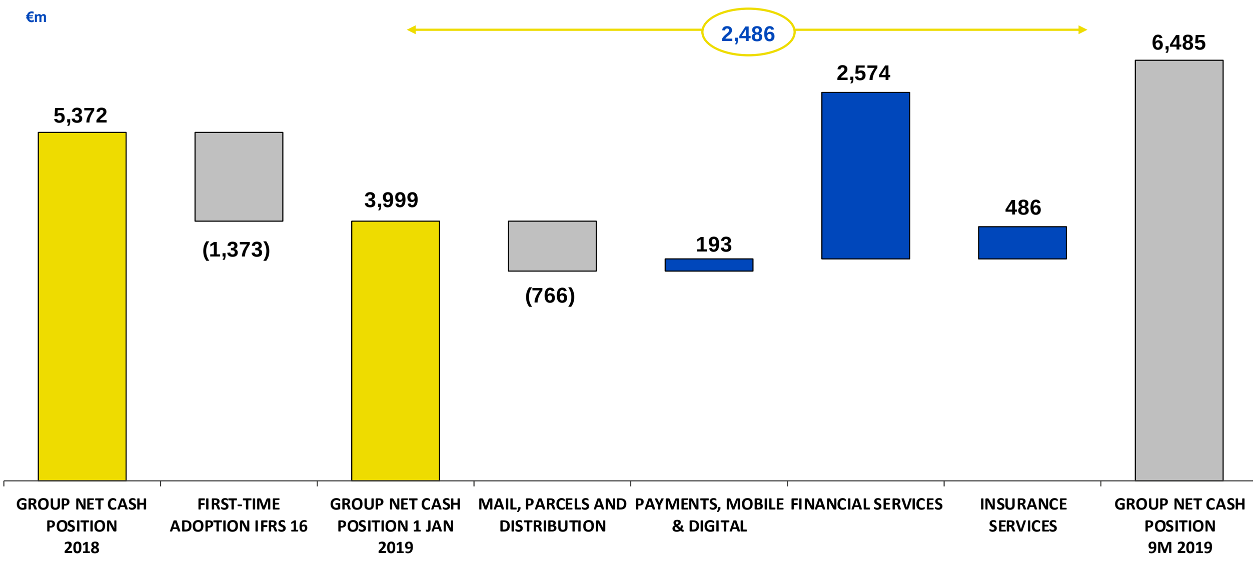
The online flexible benefits platform, providing support for the VIVI WELFARE initiative, was implemented, giving employees the option of voluntarily converting bonuses into benefits or social goods and services (e.g., school or educational fees, care for the elderly and relatives with special needs, health and wellbeing, leisure time and cultural entertainment and training, local public transport, supplementary pensions and the supplementary health fund).

Net working capital amounts to €1,876 million at 30 September 2019, an increase of €139 million compared with the end of 2018. This reflects, among other things, a reduction in payables of €523 million, largely due to amounts payable to personnel as incentives, offset by an increase in net current tax liabilities (€429 million) as a result of tax expense for the first nine months.

Provisions and other assets and liabilities amount to €2,318 million at 30 September 2019, an increase of €278 million. This item includes provisions for risks and charges of €1,127 million (€1,519 million at the end of December 2018), which include the remaining provisions for early retirement incentives, totalling €164 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 €10,329 million at 30 September 2019, an increase of €2,224 million compared with 31 December 2018. The change reflects net profit for the period of €1,083 million, partially offset by the payment of dividends for 2018, totalling €574 million, an increase in the fair value reserve of €1,812 million, reflecting movements in the value of investments classified as FVTOCI, actuarial losses of €82 million on employee termination benefits (*TFR*), an increase of €26 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.

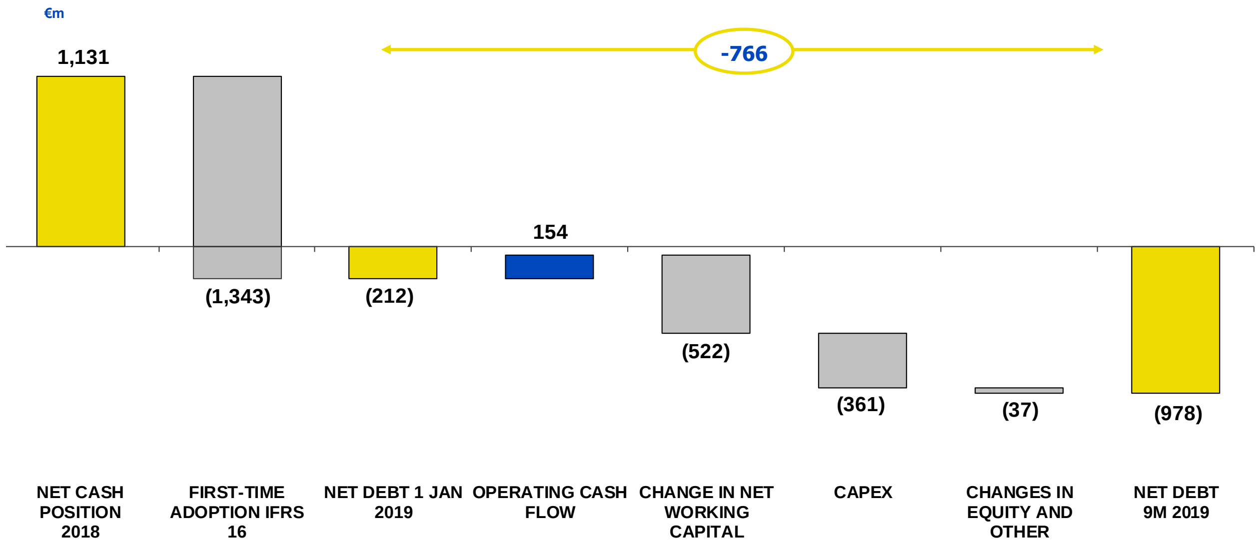
NET CASH POSITION



Total net cash at 30 September 2019 amounts to €6,485 million, up from €5,372 million at 31 December 2018. The increase of €1,113 million during the period primarily reflects the increase in the fair value of investments classified as FVTOCI, the recognition of financial liabilities resulting from the first-time adoption, from 1 January 2019, of the new accounting standard, IFRS 16 (€1,306 million at 30 September 2019) and the payment of dividends for 2018, totalling €574 million.

With regard to the financial instruments held by the Financial Services SBU, the overall movement in fair value during the period has resulted in a gain of approximately €8.7 billion, recognised in the relevant equity reserve in relation to the portion of the portfolio not hedged by fair value hedges (€2.7 billion) and recognised through profit and loss in relation to the hedged portion (€6 billion), increasing the negative balance of fair value hedges. At 30 September 2019, these instruments have a negative balance of €7.6 billion (€1.6 billion at 31 December 2018). In addition, in connection with these hedging transactions, the Parent Company has increased guarantee deposits used as collateral provided to counterparties with whom the Company has entered into asset swaps by approximately €5.8 billion.

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 €2,109 million from net cash of €1,131 million at 31 December 2018 to net debt of €978 million at 30 September 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 September 2019 amount to €1,277 million.

After adjusting for this change, net cash is down from €1,131 million at 31 December 2018 to €299 million at 30 September 2019.

The movement reflects:

- operating profit €154 million, including €528 million in net profit and depreciation and amortisation for the period, offset by €374 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 €522 million;
- an outflow of approximately €361 million for investing activities;
- a net inflow of €87 million from dividends (€661 million in dividends received and €574 million in dividends paid to shareholders – allocated to the Mail, Parcels and Distribution SBU within the scope of the activities carried out by the Parent Company across all the Group's businesses), an outflow of approximately €40 million to finance the purchase of treasury shares and the recognition of net lease liabilities of a further €87 million.

5. 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, to be introduced throughout the country. This marks a major step towards transforming the distribution network from a traditional to a dynamic delivery model, based around customer needs. In addition, as part of the process of modernising its fleet of delivery vehicles, the Group will continue with the introduction of alternative electric 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.

The Unit will also continue with the adoption of new automation technologies to support production processes, with the aim of boosting the efficiency and quality of sorting processes. This process will result in the entry into service of a new parcel sorting centre in Brescia by the end of 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.

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 through the introduction of new integrated products and services.

The promotion of mobile telecommunications services as part of the integrated Postepay Connect offering will continue in the last quarter of the year as part of efforts to exploit the Group's positioning. The bundled offering aims to meet the needs of different targets 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.

As regards Payments, the top-up service for Postepay cards will be extended, giving customers the option of automatically topping up their cards either at a designated time or to maintain a designated amount, using another Postepay card or from their Conto BancoPosta account or even using a payment card issued by another provider. By the end of the year, the Google Pay service will be extended to include Postepay VISA cards and it will be possible to make contactless payments in store using a smartphone. In addition, customers with a Postepay Evolution account will be able to transfer money via Western Union using the Postepay App.

The fixed line offering will continue to focus on single play offerings and the development of new commercial offerings.

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 and the work on the development of digital payments for the Public Administration will continue. New methods of interaction between the Public Administration and the public enabling fully digital payments will be introduced.

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 addition, merchants, above all SMEs, will be offered the *Paga con Postepay* service for instore payments, enabling them to accept payments directly from the customer's Postepay App, without the need for a physical device for accepting cards (POS or Mobile POS). The payment process relies on either geolocation or the scan of a QR code provided by the merchant.

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 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.

As part of the planned digital transformation and acceleration of Poste Italiane's service model, a specific area of the Company's website will be created for customers most likely to use digital channels, with the aim of offering digital wealth management solution in partnership with Moneyfarm.

In terms of the distribution of loan products, the agreements with our banking partners will continue: Intesa Sanpaolo with regard to property mortgages and personal loans and Unicredit for salary loans.

In keeping with the first nine months 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, and potentially offering more attractive returns on investment. In the Non-life segment, the aim is to continue to achieve growth in the welfare and non-vehicle sectors by exploiting unrealised potential, and to complete preparations for the launch of a vehicle insurance offering for employees.

As regards pensions, a multi-strategy Supplementary Pension Fund named *Posta Previdenza Valore* is due to be launched, with three investment strategies: Guaranteed, Life Cycle and Dynamic. In terms of protection products, the new modular product, *Poste Vivere Protetti*, is to be introduced. This is based on an assessment of the real needs of customers in order to come up with a customised solution covering all areas of daily life.

6. OTHER INFORMATION

RISK MANAGEMENT

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

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 September 2019 amounts to €127.6 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, whilst, from June onwards, the trend went into reverse, with the yield on ten-year government bonds amounting to 0.82% by 30 September 2019, down from 2.7% at the end of 2018 and resulting in an increase in unrealised gains[19]. An increase in the spread also has an impact on the Poste Vita group's solvency ratio, which at 30 September 2019 stands at 295%, up from the 211% of December 2018 and 242% at the end of June 2019. Given the performance of the spread and pressure on the solvency ratio, in 2018, the insurance company made 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 limits represented by the available amount, being approximately €1,596 million at 30 September 2019. Moreover, in August 2019, the insurance company was authorised by IVASS to use transitional measures on technical provisions. These measures guarantee a higher degree of solvency, but cannot be taken into account when deciding on dividend policy, as they are considered solely to be a means of strengthening the capital position.
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.

[19] 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 €39,077 million at 30 September 2019, and derivative financial instruments classified as cash flow hedges, on which net fair value losses amount to €51 million. The sensitivity analysis of the portfolio shows that an upward shift of in the spread of 100 bps would reduce fair value by approximately €3,687 million before the related taxation. The fair value of fixed income instruments measured at amortised cost, entirely attributable to BancoPosta and amounting to €26,577 million at 30 September 2019 (a fair value of €26,805 million), would be reduced by approximately €2,930 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 September 2019 amounts to a total of €109,726 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 €8,035 million (€7,980 million would be attributed to deferred liabilities to policyholders under the shadow accounting mechanism*)*.

Risk category	Description
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 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; on 25 October 2019, Moody's published a Credit Opinion confirming its rating of Poste Italiane as Baa3/Stable.

EVENTS AFTER 30 SEPTEMBER 2019

On 3 October 2019, Poste Italiane obtained a €400 million loan from the European Investment Bank (EIB) to fund a number of initiatives including in the Deliver 2022 Plan. The loan will be used to finance the implementation of numerous projects in a range of sectors, with initiatives including the installation of solar panels at certain post offices, digital transformation of the customer experience and the further automation of letter and parcel sorting. The loan, disbursed on 18 October 2018, is subject to a fixed rate of 0.29% and has a term of seven years.

On 28 October 2019, the board of directors of SDA Express Courier approved the company's accounts for the nine months ended 30 September 2019 and called a general meeting of shareholders to deliberate on the action to be taken in accordance with art. 2447 of the Italian Civil Code (capital below the legal minimum). The subsidiary's recapitalisation, which was already referred to in SDA's business plan examined by Poste Italiane's Board of Directors on 20 September 2018, will be completed by the end of 2019.

In view of the Parent Company's financial and operating performance in the first half of 2019 and the outlook and in line with established practice, on 5 November 2019, Poste Italiane's Board of Directors approved payment of an ordinary interim dividend for 2019. The Company has thus prepared the Report and Accounts required by article 2433 *bis* of the Italian Civil Code, showing that the Company's financial position and operating results are such as to permit the distribution. The Independent Auditor has issued on opinion on these documents.
The interim dividend of €0.154 per share, before any applicable withholdings, will be paid from 20 November 2019, with an ex dividend date of 18 November 2019 for coupon number 5 and a record date of 19 November 2019.
Based on the number of shares in circulation at 5 November 2019, amounting to 1,300,852,035, the total value of the interim dividend is €200 million.

Poste Italiane for Small Towns programme

With reference to the programme launched in November 2018, with the aim of benefitting small towns by promoting specific initiatives to support local development, in just under a year, Poste Italiane has met all the goals set at that time. As of 21 October 2019:

- there have been no post office closures;
- a central office now provides dedicated support for small towns;
- 614 new ATMs have been installed in as many towns;
- 5,688 Wi-Fi connections have been installed in 5,051 towns;
- home delivery services and services provided by selected partners have been rolled out in towns without a post office;
- 574 architectural barriers have been removed in 549 towns;
- 3,793 video-surveillance systems have been installed in 1,662 towns;
- treasury services have been launched in towns making such a request;
- 3,751 new post boxes have been installed in 2,383 towns,13 buildings have been donated to town councils for community use; 15 wall paintings have been created to improve the appearance of post offices in suburban areas;
- staff numbers have been increased and opening hours extended at 219 post offices in 211 tourist destinations.

In addition, on 28 October 2019, Poste Italiane organised the second edition of the Mayors of Italy event, with the aim of showing how the commitments made in 2018 have been met and presenting a new and demanding programme of initiatives designed to benefit small towns. The meeting was attended by Italy's Prime Minister, other ministers and government representatives and by approximately 4,000 mayors of small towns.
In addition to continuing to meet the commitments given in 2018, based on the most pressing needs expressed by local communities (no post office closures in small towns, new Postamat ATMs to provide innovative local services, a treasury

service provided together with Cassa Depositi e Prestiti, the installation of video-surveillance systems inside and outside offices, the removal of architectural barriers to improve access to offices, projects designed to make buildings available for community use, additional staff in post offices in tourist areas), the Company has added new initiatives designed to benefit communities:

- financial and digital education programmes in 65% of the schools in small towns;
- free POS payment services for town councils;
- lockers for the receipt of parcels, the payment of bills and PostePay top-ups in small towns;
- the installation of new smart post boxes;
- public information services (traditional by mail and digital);
- philately programmes;
- new low-emission vehicles (cutting emissions by 40%);
- initiatives designed to enhance the artistic and cultural heritage of small towns.

This additional investment in young people, schools, people who are undertrained and the elderly in less densely populated communities confirms the Company's economic and social commitment to supporting and developing small towns.

Further events occurring after the end of the reporting period covered by this interim report are described in other sections of the document and there are no other significant events occurring after 30 September 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 nine months of 2019.

INDUSTRIAL RELATIONS AND WELFARE

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, in May, June, July and October 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.

The reduction in headcount at central and local staff departments is 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. 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 4,452 (3,546 FTEs) staff formerly employed on fixed-term contracts, including 2,640 full-time and 1,812 part-time staff, the proposed conversion of 1,490 staff from part-time to full-time contracts, proposed voluntary redeployment to other parts of the country for 914 people, the recruitment of 900 specialists, the recruitment of 720 new part-time personnel (360 FTEs) for operational sites and post offices and the transfer of 520 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.

On 30 July 2019, an agreement was signed concerning performance-related bonuses for Poste Italiane SpA and the subsidiaries, Poste Vita, Poste Assicura, EGI, BancoPosta Fondi SGR and Postepay. The agreement, which is valid for one year, enables assessment of the contributions made by staff towards the achievement of corporate objectives in 2019. The agreement confirmed the option for employees to allocate all or part of their performance bonus to an open ended supplementary health fund managed by Poste Vita or to Fondo Poste or other supplementary pension funds, or to opt for forms of welfare with a major social impact.

Two agreements for Poste Italiane's non-management personnel were signed in September, regarding the transfer of holiday entitlements under a "Solidarity leave" scheme and the use of hourly parental leave. The first scheme, which will be trialled in 2020, allows employees in certain situations of difficulty, and who have used up all their holiday entitlement, to ask their colleagues to transfer their leave entitlement to them in the form of "Solidarity leave". Employees willing to express their solidarity can voluntarily donate up to three days of holiday and two days of leave in lieu of abolished public holidays. The agreement on parental leave, on the other hand, will involve a trial period between 1 October 2019 and 31 March 2020, during which employees can take hourly leave equal to 1/3 of their working day, in addition to the existing entitlement of half a working day.

Finally, on 2 October 2019, the Company and the unions signed an agreement setting out how the impact on jobs resulting from implementation of Poste Italiane's new sales model for the Small Business channel will be dealt with. The new model, which aims to boost the efficiency of the sales force dedicated to small business customers, envisages that sales advisors will specialize in Financial Services and Mail, Parcels and Distribution. As a result, the existing roles of Corporate Specialist and Corporate Finance Specialist, operating within the Post Office Network function, will be replaced by the role of Small Business Specialist, focusing on Financial Services. At the same time, responsibility for the sale of Mail and Parcel services to small businesses has been transferred to the Business and Public Administration function, where sales are managed by Post and Parcels Specialists. Implementation of the plans will be monitored at national and local level together with the unions.

TAX AND SOCIAL SECURITY DISPUTES

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 nine months of 2019. More detailed information is provided in the financial statements for the year ended 31 December 2018.

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 12 June 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. This judgement became irrevocable on 17 July 2019.

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 €20.8 million at 30 September 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 judgement also found that 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. Postel 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 filed an appearance and a countersuit before the Court.

With regard to other cases pending before the Court of Genoa, the Court issued its judgement on 19 September 2019, though without publishing the reasons. The judgement has partially upheld the appeal brought by Postel against the payment orders notified by INPS, amounting to €4.04 million. Citing the same grounds applied in the previous judgements, the Court has ordered Postel to pay the sum of €0.08 million in the form of contributions for family benefits and confirmed that the company is not required to pay contributions for income support, extraordinary income support and unemployment benefits. Postel awaiting instructions from INPS with regard to how to effect payment of the sum due, reserving the right to request restitution.

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 recent favourable judgement, 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 September 2019 amount to approximately €14.50 million.

7. CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(€m)

ASSETS	at 30 September 2019	at 31 December 2018
Non-current assets		
Property, plant and equipment	1.919	1.945
Investment property	45	48
Intangible assets	545	545
Right-of-use assets	1.283	-
Investments accounted for using the equity method	494	497
Financial assets	197.738	170.922
Trade receivables	5	7
Deferred tax assets	1.119	1.368
Other receivables and assets	3.468	3.469
Technical provisions attributable to reinsurers	64	71
Total	**206.680**	**178.872**
Current assets		
Inventories	141	136
Trade receivables	2.253	2.192
Current tax assets	185	117
Other receivables and assets	1.092	1.111
Financial assets	29.722	19.942
Cash and deposits attributable to BancoPosta	3.703	3.318
Cash and cash equivalents	1.991	3.195
Total	**39.087**	**30.011**
TOTAL ASSETS	**245.767**	**208.883**

LIABILITIES AND EQUITY	at 30 September 2019	at 31 December 2018
Equity		
Share capital	1.306	1.306
Reserves	3.368	1.531
Own shares	(40)	-
Retained earnings	5.695	5.268
Equity attributable to owners of the Parent	**10.329**	**8.105**
Equity attributable to non-controlling interests	-	-
Total	**10.329**	**8.105**
Non-current liabilities		
Technical provisions for insurance business	142.629	125.149
Provisions for risks and charges	575	656
Employee termination benefits	1.194	1.187
Financial liabilities	14.818	7.453
Deferred tax liabilities	1.116	701
Other liabilities	1.279	1.379
Total	**161.611**	**136.525**
Current liabilities		
Provisions for risks and charges	552	863
Trade payables	1.556	1.583
Current tax liabilities	509	12
Other liabilities	1.924	2.319
Financial liabilities	69.286	59.476
Total	**73.827**	**64.253**
TOTAL EQUITY AND LIABILITIES	**245.767**	**208.883**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE PERIOD

(€m)

Third quarter 2019	Third quarter 2018		For the nine months ended 30 September 2019	For the nine months ended 30 September 2018
800	828	Revenue from Mail, Parcels & other	2,555	2,589
171	163	Revenue from Payments, Mobile & Digital	477	470
1,174	1,168	Revenue from Financial Services	3,838	3,844
424	363	Revenue from Insurance Services after movements in technical provisions and other claims expenses	1,219	1,048
3,728	*3,837*	*Insurance premium revenue*	*13,854*	*12,708*
1,273	*939*	*Income from insurance activities*	*4,537*	*2,668*
(4,526)	*(4,400)*	*Net change in technical provisions for insurance business and other claims expenses*	*(17,006)*	*(13,479)*
(51)	*(13)*	*Expenses from insurance activities*	*(166)*	*(850)*
2,568	2,522	**Net operating revenue**	**8,089**	**7,951**
548	569	Cost of goods and services	1,637	1,695
18	6	Expenses from financial activities	53	41
1,289	1,305	Personnel expenses	4,121	4,151
194	133	Depreciation, amortisation and impairments	575	406
(7)	(4)	Capitalised costs and expenses	(21)	(10)
63	54	Other operating costs	150	146
5	3	Impairment loss/(reversal) on debt instruments, receivables and other assets	34	13
459	456	**Operating profit/(loss)**	**1,540**	**1,509**
19	15	Finance costs	59	54
22	31	Finance income	76	85
-	-	Impairment loss/(reversal) on financial instruments	-	-
2	5	Profit/(Loss) on investments accounted for using the equity method	6	13
464	477	**Profit/(Loss) before tax**	**1,563**	**1,552**
144	156	Income tax expense	480	496
320	321	**NET PROFIT FOR THE PERIOD**	**1,083**	**1,056**
320	321	of which, attributable to owners of the Parent	1,083	1,056
-	-	of which, attributable to non-controlling interests	-	-

0.246	**0.246**	**Earnings per share**	**0.833**	**0.809**
0.246	**0.246**	**Diluted earnings per share**	**0.833**	**0.809**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€m)

Third quarter 2019	Third quarter 2018		For the nine months ended 30 September 2019	For the nine months ended 30 September 2018
320	**321**	**Net profit/(loss) for the period**	**1.083**	**1.056**
		Items to be reclassified in the Statement of profit or loss for the period		
		FVOCI debt instruments		
2.651	(854)	Increase/(decrease) in fair value during the period	2.744	(2.510)
(2)	(14)	Transfers to profit or loss	(213)	(395)
		Increase/(Decrease) for expected credit loss	3	(3)
		Cash flow hedges		
61	20	Increase/(decrease) in fair value during the period	122	155
(6)	(8)	Transfers to profit or loss	(86)	(9)
(771)	245	Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the period	(732)	789
-	-	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	-	-
		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	-	-
(52)	(7)	Actuarial gains/(losses) on provisions for employee termination benefits	(115)	-
15	2	Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the period	33	-
-	-	Share of after-tax comprehensive income/(loss) of investees accounted for using equity method	-	-
1.895	**(616)**	**Total other comprehensive income**	**1.755**	**(1.973)**
2.215	**(295)**	**TOTAL COMPREHENSIVE INCOME FOR THE PERIOD**	**2.838**	**(917)**
2.215	(295)	of which, attributable to owners of the Parent	2.838	(917)
-	-	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	-	-	-	-	(2.077)	104	-	1.056	(917)		**(917)**
Dividends paid	-	-	-	-	-	-	-	(549)	(549)	-	**(549)**
Other changes	-		-	210	-	-	-	(210)	-	-	**-**
Balance at 30 September 2018	**1.306**	**-**	**299**	**1.210**	**(473)**	**43**	**2**	**4.913**	**7.300**	**-**	**7.300**
Total comprehensive income for the period	-	-	-	-	405	46	-	354	805	-	**805**
Dividends paid	-	-	-	-	-	-	-	-	-	-	**-**
Other changes	-		-	-	-	-	-	-	-	-	**-**
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	-	-	-	-	1.812	26	(2)	1.001	2.838	-	**2.837**
Dividends paid	-	-	-	-	-	-	-	(574)	(574)	-	**(574)**
Other changes	-	(40)	-		-	-	-		(40)	-	**(40)**
Balance at 30 September 2019	**1.306**	**(40)**	**299**	**1.210**	**1.743**	**115**	**-**	**5.695**	**10.329**	**-**	**10.329**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(€m)

		For the nine months ended 30 September 2019	For the nine months ended 30 September 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		1,083	1,056
Depreciation, amortisation and impairments		575	406
Losses and impairments/(recoveries) on receivables		27	15
(Gains)/Losses on disposals		1	-
(Increase)/decrease in inventories		(6)	(2)
(Increase)/decrease in receivables and other assets		(188)	(592)
Increase/(decrease) in payables and other liabilities		34	118
Movement in provisions for risks and charges		(393)	(402)
Movement in provisions for employee termination benefits and pension plans		(109)	(62)
Differences in accrued finance costs and income (cash correction)		97	(19)
Other changes		(40)	313
Net cash flow generated by/(used in) non-financial operating activities	[a]	1,081	831
Increase/(decrease) in financial liabilities attributable to financial, payment service, card payment and insurance activities		10,660	3,868
Cash generated by/(used for) financial assets attributable to financial, payment service, card payment and insurance activities		(13,879)	(9,427)
(Income)/Expenses and other non-cash components		(3,279)	(1,157)
Increase/(decrease) in net technical provisions for insurance business		6,160	7,162
Cash generated by/(used for) financial assets attributable to financial, payment service, card payment and insurance activities	[b]	(338)	446
Net cash flow from/(for) operating activities	**[c]=[a+b]**	**743**	**1,277**
Investing activities			
Property, plant and equipment, investment property and intangible assets		(389)	(260)
Investments		-	(30)
Other financial assets		(15)	-
Disposals			
Property, plant and equipment, investment property and intangible assets and assets held for sale		1	2
Investments		1	-
Other financial assets		27	169
Net cash flow from/(for) investing activities	**[d]**	**(375)**	**(119)**
Proceeds from/(Repayments of) borrowings		(958)	(978)
(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]**	**(1,572)**	**(1,527)**
Net increase/(decrease) in cash	**[f]=[c+d+e]**	**(1,204)**	**(369)**
Cash and cash equivalents at end of period		**1,991**	**2,059**
Cash and cash equivalents at end of period		**1,991**	**2,059**
Restricted net cash and cash equivalents at the end of period		(821)	(1,088)
Unrestricted net cash and cash equivalents at end of period		**1,170**	**971**

8. DECLARATION OF THE MANAGER RESPONSIBLE FOR FINANCIAL REPORTING

The manager responsible for financial reporting, Alessandro Del Gobbo, declares, pursuant to paragraph 2 of article 154-*bis* of the Consolidated Law on Finance, that the accounting information contained in this interim report for the nine months ended 30 September 2019 is consistent with the underlying accounting records.

9. APPENDIX

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(REPORTED BASIS)

RECLASSIFIED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (€m)	9M 2019	9M 2018	INCREASE/ (DECREASE)		Q3 2019	Q3 2018	INCREASE/ (DECREASE)	
Revenue	**8,089**	**7,951**	**138**	**1.7%**	**2,568**	**2,522**	**46**	**1.8%**
of which:								
Mail, Parcels & Distribution	2,555	2,590	(34)	-1.3%	800	829	(29)	-3.5%
Payments, Mobile and Digital	477	434	43	9.8%	171	154	16	10.6%
Financial Services	3,838	3,879	(42)	-1.1%	1,173	1,175	(2)	-0.1%
of which gross capital gains	*261*	*404*	*(142)*	*-35.3%*	(0)	0	(0)	-
Insurance Services	1,219	1,048	171	16.3%	423	364	60	16.5%
Costs	**5,974**	**6,037**	**(63)**	**-1.0%**	**1,915**	**1,932**	(17)	**-0.9%**
of which:								
Total personnel expenses	4,121	4,151	(30)	-0.7%	1,288	1,305	(17)	-1.3%
of which ordinary personnel expenses	*4,109*	*4,123*	*(14)*	*-0.3%*	1,285	1,297	(12)	*-0.9%*
of which early retirement incentives	*13*	*29*	*(15)*	*-52.8%*	5	9	(5)	*-48.5%*
of which disputes and other extraordinary items	*(1)*	*(0)*	*(1)*	*604.9%*	(2)	(1)	(1)	*135.1%*
Other operating costs	1,853	1,886	(32)	-1.7%	626	626	0	0.0%
EBITDA	**2,115**	**1,915**	**200**	**10.5%**	**653**	**590**	63	**10.7%**
Depreciation, amortisation and impairments	575	406	169	41.5%	194	134	59	44.3%
EBIT	**1,540**	**1,509**	**32**	**2.1%**	**459**	**456**	4	**0.8%**
EBIT margin	**19.0%**	**19.0%**			17.9%	18.1%		
Finance income/(costs)	23	43	(21)	-47.7%	4	21	(17)	-79.3%
Profit before tax	**1,563**	**1,552**	**11**	**0.7%**	**464**	**477**	(13)	**-2.8%**
Income tax expense	480	496	(16)	-3.3%	144	156	(12)	-7.7%
Net profit	**1,083**	**1,056**	**27**	**2.6%**	**320**	**321**	(1)	**-0.4%**
Earnings per share (€)	**0.83**	**0.81**	**0.02**	**3.0%**	**0.25**	**0.25**	(0)	**0.0%**

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

(REPORTED BASIS)

9M 2019 (€m)	Mail, Parcels & Distribution	Payments, Mobile and Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Total revenue	**6,059**	**759**	**4,373**	**1,219**	**(4,321)**	**8,089**
External revenue	2,555	477	3,838	1,219		8,089
Intersegment revenue	3,504	282	535	0	(4,321)	8,642
Total costs	**6,055**	**579**	**3,746**	**490**	**(4,321)**	**6,549**
Total personnel expenses	4,036	24	32	29		4,121
of which ordinary personnel expenses	*4,024*	*24*	*31*	*29*		*4,109*
of which early retirement incentives	*12*	*0*	*1*	*0*		*13*
of which disputes and other extraordinary items	*(1)*	*0*	*0*	*0*		*(1)*
Other operating costs	1,428	221	*142*	63		1,853
Depreciation, amortisation and impairments	538	20	0	17		575
Intersegment costs	54	314	3,571	381	(4,321)	0
EBIT	**4**	**180**	**627**	**730**		**1,540**
EBIT MARGIN	**0.1%**	**23.7%**	**14.3%**	**59.8%**		**19.0%**
Finance income/(costs)	6	6	(4)	15		23
Profit/(Loss) before tax	**10**	**186**	**623**	**744**		**1,563**
Income tax expense	20	51	183	225		480
Net profit	**(10)**	**134**	**440**	**519**		**1,083**

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)	9M 2019	9M 2018	INCREASE/ (DECREASE)		Q3 2019	Q3 2018	INCREASE/ (DECREASE)	
Revenue	**6,059**	**6,115**	**(55)**	**-0.9%**	**1,851**	**1,898**	**(47)**	**-2.5%**
Mail	1,833	1,928	(95)	-4.9%	563	614	(51)	-8.3%
Parcels	599	528	71	13.5%	200	176	24	13.8%
Other revenue	124	134	(10)	-7.6%	37	39	(2)	-5.7%
Intersegment revenue	3,504	3,525	(21)	-0.6%	1,051	1,069	(18)	-1.7%
Costs	**5,517**	**5,561**	**(44)**	**-0.8%**	**1,747**	**1,781**	**(34)**	**-1.9%**
of which:								
Total personnel expenses	4,036	4,029	7	0.2%	1,261	1,269	(8)	-0.6%
of which ordinary personnel expenses	*4,024*	*4,009*	*15*	*0.4%*	1,258	1,262	(3)	*-0.3%*
of which early retirement incentives	*12*	*19*	*(7)*	*-35.2%*	4	8	(3)	*-42.8%*
of which disputes and other extraordinary items	*(1)*	*0*	*(1)*	*-507.9%*	(2)	(1)	(1)	*-159.1%*
Other operating costs	1,428	*1,482*	(54)	-3.6%	470	495	(25)	-5.1%
Intersegment costs	54	51	3	5.6%	17	17	(0)	-2.3%
EBITDA	**542**	**553**	**(11)**	**-2.1%**	**104**	**117**	**(13)**	**-11.3%**
Depreciation, amortisation and impairments	538	376	162	43.0%	181	124	57	46.2%
EBIT	**4**	**177**	**(173)**	**-97.8%**	**(77)**	**(7)**	**(71)**	**-1072.4%**
EBIT margin	**0.1%**	**2.9%**			-4.2%	-0.3%		
Finance income/(costs)	6	(16)	23	138.6%	2	(2)	5	182.8%
Profit before tax	**10**	**161**	**(150)**	**-93.6%**	**(75)**	**(9)**	**(66)**	**-731.0%**
Income tax expense	20	66	(46)	-69.0%	(15)	10	(25)	-248.9%
Net profit	**(10)**	**95**	**(105)**	**-110.7%**	**(60)**	**(19)**	**(41)**	**-216.8%**

STATEMENT OF PROFIT OR LOSS OF THE PAYMENTS, MOBILE AND DIGITAL STRATEGIC BUSINESS UNIT* (€m)	9M 2019	9M 2018	INCREASE/ (DECREASE)		Q3 2019	Q3 2018	INCREASE/ (DECREASE)	
Revenue	**759**	**700**	**59**	**8.4%**	**262**	**240**	**22**	**9.3%**
Card payments	247	212	35	16.7%	86	78	9	11.0%
Other payments	57	60	(2)	-4.1%	20	22	(2)	-7.7%
Telecoms	173	163	10	6.0%	64	54	10	17.4%
Intersegment revenue	282	266	16	6.0%	92	86	6	6.9%
Costs	**559**	**527**	**31**	**6.0%**	**186**	**180**	**7**	**3.8%**
of which:								
Total personnel expenses	24	23	1	**4.0%**	9	7	1	**18.9%**
of which ordinary personnel expenses	*24*	*23*	*1*	*4.0%*	9	7	1	*18.9%*
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	221	216	5	2.3%	86	76	10	13.7%
Intersegment costs	314	289	26	**8.8%**	92	97	(5)	**-5.1%**
EBITDA	**200**	**173**	**27**	**15.7%**	**76**	**60**	**15**	**25.7%**
Depreciation, amortisation and impairments	20	17	3	14.5%	7	6	1	13.5%
EBIT	**180**	**155**	**25**	**15.8%**	**69**	**55**	**15**	**27.0%**
EBIT margin	**23.7%**	22.2%			26.4%	22.7%		
Finance income/(costs)	6	2	4	n.s.	2	2	0	6.7%
Profit before tax	**186**	**157**	**28**	**18.1%**	**71**	**56**	**15**	**26.4%**
Income tax expense	51	40	11	28.2%	20	15	4	28.0%
Net profit	**134**	**117**	**17**	**14.6%**	**51**	**41**	**10**	**25.8%**

* The figures for 9M 2018 and Q3 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)	9M 2019	9M 2018	INCREASE/ (DECREASE)		Q3 2019	Q3 2018	INCREASE/ (DECREASE)	
Revenue	**4,373**	**4,368**	**5**	**0.1%**	**1,336**	**1,325**	**11**	**0.8%**
Gross capital gains	261	404	(142)	-35.3%	0	0	-	-
Interest income	1,233	1,150	83	7.2%	410	403	7	1.7%
Postal savings	1,330	1,343	(13)	-1.0%	432	449	(17)	-3.8%
Transaction banking	711	723	(12)	-1.7%	232	236	(4)	-1.6%
Distribution of third-party products	228	193	36	18.4%	74	64	10	15.1%
Asset management	75	66	8	12.4%	25	22	3	12.9%
Intersegment revenue	535	488	46	9.5%	163	150	13	8.4%
Costs	**3,746**	**3,783**	**(37)**	**-1.0%**	**1,144**	**1,148**	**(4)**	**-0.3%**
of which:								
Total personnel expenses	32	71	(39)	-54.7%	10	21	(11)	-51.2%
of which ordinary personnel expenses	*31*	*63*	*(32)*	-50.4%	10	20	(10)	-49.4%
of which early retirement incentives	*1*	*9*	*(8)*	-86.9%	0	2	(1)	-73.7%
of which disputes and other extraordinary items	*0.0*	*(0.4)*	*0.4*	100.0%	0	(0)	0	100.5%
Other operating costs	*142*	*129*	13	10.2%	51	36	14	40.0%
Intersegment costs	3,571	3,582	(11)	-0.3%	1,083	1,091	(8)	-0.7%
EBITDA	**627**	**585**	**42**	**7.1%**	**192**	**177**	**15**	**8.5%**
Depreciation, amortisation and impairments	0.4	0.2	0.1	58.2%	0	0	(0)	-24.2%
EBIT	**627**	**585**	**42**	**7.1%**	**192**	**177**	**15**	**8.5%**
EBIT margin	**14.3%**	13.4%			14.4%	13.4%		
Finance income/(costs)	(4)	8	(12)	-152.7%	(2)	2	(4)	-214.1%
Profit before tax	**623**	**593**	**30**	**5.0%**	**190**	**179**	**11**	**6.4%**
Income tax expense	183	166	17	10.1%	55	45	10	22.6%
Net profit	**440**	**427**	**13**	**3.0%**	**135**	**134**	**1**	**0.9%**

* The figures for 9M 2018 and Q3 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)	9M 2019	9M 2018	INCREASE/ (DECREASE)		Q3 2019	Q3 2018	INCREASE/ (DECREASE)	
Revenue	**1,219**	**1,049**	**170**	**16.2%**	**423**	**364**	**59**	**16.3%**
Upfront Life	267	264	3	1.2%	73	70	3	4.1%
Net investment result Life	786	707	79	11.2%	303	255	47	18.5%
Technical margin Life	27	18	9	52.4%	4	8	(3)	-46.3%
Change in other technical provisions and other technical costs/income	23	(37)	60	162.9%	5	(3)	9	262.3%
Net Life revenue	**1,103**	**952**	**151**	**15.9%**	**385**	**330**	**55**	**16.8%**
Premium revenue	164	124	40	32.2%	56	43	13	31.0%
Change in technical provisions and claims expenses	(45)	(29)	(17)	-58.6%	(17)	(8)	(9)	-114.9%
Result from reinsurance	(12)	(8)	(5)	-60.4%	(4)	(4)	1	14.0%
Net P&C income (*)	2	1	1	108.0%	1	1	1	112.0%
Net P&C revenue	**108**	**88**	**19**	**21.9%**	**36**	**31**	**5**	**17.0%**
Other operating income	8	8	(0)	-0.7%	2	3	(1)	-27.7%
Intersegment revenue	0	1	(1)	-75.1%	0	0	(0)	-86.0%
Costs	**472**	**446**	**26**	**5.8%**	**142**	**129**	**13**	**10.3%**
of which:								
Total personnel expenses	29	28	1	2.7%	9	9	0	1.6%
of which ordinary personnel expenses	*29*	*28*	*1*	4.7%	9	9	0	1.6%
of which early retirement incentives	*0*	*1*	*(1)*	-100.0%	0	(0)	0	100.0%
of which disputes and other extraordinary items	*0*	*0*	*0*	-	0	0	0	-
Other operating costs	*63*	*59*	4	6.2%	20	18	2	10.8%
Intersegment costs	381	359	22	6.0%	114	103	11	10.9%
of which fees	*360*	*330*	*30*	9.1%	111	100	11	10.5%
EBITDA	**747**	**603**	**144**	**23.8%**	**281**	**235**	**46**	19.6%
Depreciation, amortisation and impairments	17	12	5	41.7%	6	4	2	37.4%
EBIT	**730**	**591**	**139**	**23.4%**	**275**	**231**	**45**	**19.3%**
EBIT margin	**59.8%**	56.3%			65.0%	63.4%		
Finance income/(costs)	15	50	(35)	-70.5%	3	21	(18)	-87.2%
Profit before tax	**744**	**641**	**103**	**16.1%**	**278**	**251**	**27**	**10.6%**
Income tax expense	225	224	1	0.5%	84	86	(2)	-1.9%
Net profit	**519**	**417**	**102**	**24.5%**	**194**	**166**	**28**	**17.0%**

SUMMARY FINANCIAL POSITION

NET INVESTED CAPITAL AND RELATED FUNDING

(€m)	At 30 September 2019	At 31 December 2018	Increase/(decrease)	
Property, plant and equipment and Investment property	1,964	1,993	(29)	-1.5%
Intangible assets	545	545	-	0.0%
Right-of-use assets	1,283	-	1,283	-
Investments	494	497	(3)	-0.6%
Total non-current assets	**4,286**	**3,035**	**1,251**	**41.2%**
Trade receivables, Other receivables and assets and Inventories	6,959	6,914	45	0.7%
Trade payables and other liabilities	(4,759)	(5,282)	523	-9.9%
Current tax assets and liabilities	(324)	105	(429)	-408.6%
Net working capital	**1,876**	**1,737**	**139**	**8.0%**
Gross invested capital	**6,162**	**4,772**	**1,390**	**29.1%**
Provisions for risks and charges	(1,127)	(1,519)	392	-25.8%
Provisions for employee termination benefits	(1,194)	(1,187)	(7)	0.6%
Deferred tax assets/(liabilities)	3	666	(663)	-99.5%
Net invested capital	**3,844**	**2,732**	**1,112**	**40.7%**
Equity	**10,329**	**8,105**	**2,224**	**27.4%**
of which: net profit	*1,083*	*1,399*	(316)	-22.6%
of which: fair value reserve	*1,743*	*(69)*	1,812	-2624.1%
Financial liabilities	84,104	66,929	17,175	25.7%
Technical provisions for the insurance business	142,565	125,076	17,489	14.0%
Financial assets	(227,460)	(190,864)	(36,596)	19.2%
Cash and deposits attributable to BancoPosta	(3,703)	(3,318)	(385)	11.6%
Cash and cash equivalents	(1,991)	(3,195)	1,204	-37.7%
Net cash position	**(6,485)**	**(5,372)**	**(1,113)**	**20.7%**

(€m)

At 30 September 2019	Mail, Parcels & Distribution	Payments, Mobile and Digital	Financial Services	Insurance Services	Adjustments and elimination	Consolidated
Property, plant and equipment and Investment property	1,929	24	-	11	-	1,964
Intangible assets	479	20	-	46	-	545
Right-of-use assets	1,246	14	1	28	(6)	1,283
Investments	1,432	284	208	157	(1,587)	494
Total non-current assets	**5,086**	**342**	**209**	**242**	**(1,593)**	**4,286**
Trade receivables, Other receivables and assets and Inventories	2,787	479	2,815	2,577	(1,699)	6,959
Trade payables and other liabilities	(2,906)	(657)	(2,233)	(662)	1,699	(4,759)
Current tax assets and liabilities	71	(59)	(4)	(332)	-	(324)
Net working capital	**(48)**	**(237)**	**578**	**1,583**	**-**	**1,876**
Gross invested capital	**5,038**	**105**	**787**	**1,825**	**(1,593)**	**6,162**
Provisions for risks and charges	(676)	(9)	(432)	(10)	-	(1,127)
Provisions for employee termination benefits	(1,184)	(3)	(4)	(3)	-	(1,194)
Deferred tax assets/(liabilities)	338	24	(606)	247	-	3
Net invested capital	**3,516**	**117**	**(255)**	**2,059**	**(1,593)**	**3,844**
Equity	**2,538**	**340**	**4,516**	**4,522**	**(1,587)**	**10,329**
of which: net profit	*(10)*	*134*	*440*	*519*	-	*1,083*
of which: fair value reserve	*6*	-	*1,693*	*44*	-	*1,743*
Financial liabilities	3,175	5,463	83,032	400	(7,966)	84,104
Technical provisions for the insurance business	-	-	-	142,565	-	142,565
Financial assets	(1,396)	(5,588)	(83,766)	(144,171)	7,461	(227,460)
Cash and deposits attributable to BancoPosta	-	-	(3,703)	-	-	(3,703)
Cash and cash equivalents	(801)	(98)	(334)	(1,257)	499	(1,991)
Net cash position	**978**	**(223)**	**(4,771)**	**(2,463)**	**(6)**	**(6,485)**

(€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)**

(€m)

Changes 30 September 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	(28)	1	-	(1)	(1)	(29)
Intangible assets	12	(10)	-	(2)	-	-
Right-of-use assets	1,246	14	1	28	(6)	1,283
Investments	(2)	4	(6)	-	1	(3)
Total non-current assets	**1,228**	**9**	**(5)**	**25**	**(6)**	**1,251**
Trade receivables, Other receivables and assets and Inventories	253	97	17	144	(467)	45
Trade payables and other liabilities	353	(155)	(316)	174	468	523
Current tax assets and liabilities	(15)	(56)	(5)	(354)	1	(429)
Net working capital	**591**	**(114)**	**(304)**	**(36)**	**2**	**139**
Gross invested capital	**1,819**	**(105)**	**(309)**	**(11)**	**(4)**	**1,390**
Provisions for risks and charges	304	7	80	1	1	392
Provisions for employee termination benefits	(6)	(1)	1	(1)	(1)	(7)
Deferred tax assets/(liabilities)	(51)	9	(741)	120	(1)	(663)
Net invested capital	**2,066**	**(90)**	**(969)**	**109**	**(5)**	**1,112**
Equity	**(43)**	**97**	**1,605**	**564**	**1**	**2,224**
of which: fair value reserve	*2*	*-*	*1,764*	*45*	*-*	*1,812*
Financial liabilities	1,916	1,156	16,010	(635)	(1,273)	17,175
Technical provisions for the insurance business	-	-	-	17,489	-	17,489
Financial assets	21	(1,491)	(19,188)	(17,626)	1,688	(36,596)
Cash and deposits attributable to BancoPosta	-	-	(385)	-	-	(385)
Cash and cash equivalents	172	148	989	317	(422)	1,204
Net cash position	**2,109**	**(187)**	**(2,574)**	**(455)**	**(6)**	**(1,113)**

NET CASH POSITION OF THE MAIL, PARCELS AND DISTRIBUTION SEGMENT

(€m)

Posizione finanziaria netta ESMA	At 30 September 2019	At 31 December 2018	Increase/(decrease)	
A. Liquidity	**(801)**	**(973)**	**172**	**-17.7%**
B. Current loans and receivables	**(28)**	**(57)**	29	-50.9%
C. Current bank borrowings	1	201	(200)	-99.5%
D. Current lease liabilities	227	-	227	-
E. Current portion of non-current debt	1	-	1	-
F. Other current financial liabilities	12	23	(11)	-47.8%
G. Current financial debt (C+D+E+F)	**241**	**224**	**17**	**7.6%**
H. Current net (cash)/debt (A+B+G)	**(588)**	**(806)**	**218**	**-27.0%**
I. Non-current bank borrowings	173	-	173	-
L. Bond issues	50	50	0	-
M. Non-current lease liabilities	1,050	-	1,050	-
N. Other non-current liabilities	23	27	(4)	-14.8%
O. Non-current financial debt (I+L+M+N)	**1,296**	**77**	**1,219**	**1583.1%**
P. Net (cash)/debt (ESMA guidelines) (H+O)	**708**	**(729)**	**1,437**	**-197.1%**
Non-current financial assets	(582)	(570)	(12)	2.1%
Net (cash)/debt	**126**	**(1,299)**	**1,425**	**-109.7%**
Intersegment loans and receivables and financial liabilities	852	168	684	407.1%
Net (cash)/debt including intersegment transactions	**978**	**(1,131)**	**2,109**	**-186.5%**

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:

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.

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.

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

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.

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

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.

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)	9M 2018	9M 2019	9M 2019 vs 9M 2018
REPORTED REVENUE	**7,951**	**8,089**	**138**
ADJUSTMENTS	**420**	**282**	**(138)**
Gross capital gains	404	261	(142)
Visa (FV measurement under IFRS 9)	17	19	3
Visa - gain on sale of shares	0	1	1
ADJUSTED REVENUE	**7,531**	**7,807**	**276**
REPORTED COSTS	**6,443**	**6,549**	**106**
ADJUSTMENTS	**77**	**30**	**(47)**
Early retirement incentives	29	13	(15)
Provision for real estate funds	24	0	(24)
Capital losses	25	6	(19)
Change in fair value of derivative hedging VISA shares	0	11	11
ADJUSTED COSTS	**6,365**	**6,519**	**154**
REPORTED EBIT	**1,509**	**1,540**	**32**
TOTAL ADJUSTED ITEMS	**(343)**	**(252)**	**91**
ADJUSTED EBIT	**1,166**	**1,288**	**122**
REPORTED PROFIT BEFORE TAX	**1,552**	**1,099**	**(453)**
ADJUSTED PROFIT BEFORE TAX	**1,209**	**847**	**(362)**
REPORTED NET PROFIT	**1,056**	**1,083**	**27**
ADJUSTMENTS	**(249)**	**(192)**	**57**
ADJUSTMENT TO EBIT (AFTER TAXATION)	(249)	(182)	67
POSTE VITA - deferred tax assets	0	(10)	(10)
ADJUSTED NET PROFIT	**807**	**891**	**84**

(€m)	9M 2018	9M 2019	9M 2019 VS 9M 2018
NET PROFIT	**1,056**	**1,083**	**27**
ANNUALISED PROFIT*	*343*	*18*	*(325)*
ANNUALISED NET PROFIT (A)	*1,399*	*1,101*	*(298)*
AVERAGE EQUITY	**7,656**	**8,287**	**630**
ROE	**18.3%**	**13.3%**	**-5.0%**
ANNUALISED ADJUSTMENTS TO NET PROFIT	*(236)*	*148*	*384*
ANNUALISED ADJUSTMENTS TO AVERAGE EQUITY	*(55)*	*(99)*	*(44)*
ADJUSTED ANNUALISED NET PROFIT	**1,163**	**1,249**	**86**
ADJUSTED AVERAGE EQUITY	**7,602**	**8,188**	**587**
ADJUSTED ROE	**15.3%**	**15.3%**	**0.0%**

*Results and equity annualised on the basis of Q4 2018.