DELIVERING RESPONSIBLE GROWTH

ANNUAL REPORT

2018

Posteitaliane

DELIVERING RESPONSIBLE GROWTH

ANNUAL REPORT

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SUMMARY

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REPORT ON OPERATIONS 2018

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Statement from the Chairwoman and the Chief Executive Officer

Maria Bianca Farina
Chairwoman

Matteo Del Fante
Chief Executive Officer

Dear Shareholders,

Just one year on from finalising our "Deliver 2022" Strategic Plan, we are proud to present the first Integrated Report of Poste Italiane Group. The Integrated Report is the first tangible result of a new way of doing business that involves the entire organisation.

Sustainability has a key, aggregating role in this process. For Poste Italiane, being sustainable means, above all, defining a single Group strategy which brings together financial and operating objectives within a clear vision of environmental, social and governance issues (the so-called "ESG" - *Environmental, Social and Governance*). In this regard, the main goal of the "Deliver 2022" plan announced in February 2018 is to maximise the value of Italy's largest distribution network, responding to the changing needs of customers and taking advantage of the growth opportunities offered by digital transformation. The Group plans to invest a total of €2.8 billion over the life of the Plan in strategic opportunities that will enable us to achieve financial results based on realistic expectations, with a limited execution risk. The Group has already reached a number of goals in various business areas in relation to the delivery of the plan. Examples of the Group's significant achievements refer to the agreement with trade unions regarding the innovative new delivery model (the "Joint Delivery Model"), which involves afternoon and weekend deliveries, as well as the partnerships with Amazon and other major operators. Further important elements of this process include the creation of the Payments, Mobile and Digital division, which acts as a competence centre to support the implementation of the Group's digital strategy, and the establishment of PostePay SpA, the biggest Electronic Money Institution in Italy. Finally, with regard to financial services, important steps in delivery of the plan include the three-year distribution agreement with Intesa Sanpaolo, the loan distribution agreement with Unicredit, the agreements with ANIMA designed to strengthen our partnership in the asset management sector, and the agreement with Generali Real Estate, which will enable both groups to leverage their respective expertise and experience in the property sector and focus on the search for co-investment opportunities in the leading categories of the real estate sector in Italy and Europe.

We believe that the integration of sustainability targets within the Group's business processes is necessary in order to deliver sustainable performance over time, reduce the risk profile and act in line with the principles of integrity and transparency. For this reason, the sustainability strategy of the Poste Italiane Group, drawn up throughout the year, consists of elements that are in line with our business objectives. This means that they will help drive the Company's success and further enhance the value of our distinctive competences. This strategy is backed up by a system of Sustainability Policies that now play a leading role in the group's internal regulations, setting out general principles, future goals and operating processes in priority non-financial areas for the Company and for our stakeholders, such as integrity and transparency, human rights, occupational health and safety, corporate citizenship, the environment and the responsible management of financial assets.

Operational aspects of the policies adopted are contained in the ESG Strategic Plan, made of the sustainability goals that the Group has drawn up in keeping with the business strategy set out in the "Deliver 2022" plan and with our social and environmental development ambitions at the international level. The goals contained in the ESG Strategic Plan consist of concrete commitments to be delivered on within established time-scales. These refer to the six key pillars identified on the basis of Poste Italiane's contribution to the 17 United Nations Sustainable Development Goals.

Starting from this strategy, the integration process of ESG principles within the organisation has involved the transformation of a series of business processes. A key part of this process was the incorporation of these principles within the Internal Control and Risk management system and planning processes, enabling the Group to clearly comprehend the risks that could influence our ability to deliver on our business goals, thanks to a well-defined process for assessing, measuring and managing non-financial risks.

Partly on the basis of the results of this process, we have been able to strengthen or introduce new ESG procedures within the various areas of the Group.

Integrity, ethics and transparency represent the key values around which Poste Italiane has built its identity. These basic principles form the basis for the way we conduct our business which, by its nature, depends on creating trust and on the responsible management of relations with all our stakeholders. For this reason, we have effectively boosted our Anti-corruption System, becoming the first Italian company in the financial and communications sector to obtain the ISO 37001:2016 certification.

The sustainable management principles adopted by the Company are not only applied within the organisation, but are also promoted on the outside and in its commercial relations. In this sense, Poste Italiane works with suppliers who share the same values and who meet specific sustainability requirements: acceptance of the ethical guidelines and behavioural standards defined in the Code of Ethics, Poste Italiane Group's Integrated Policy and the Group policy for the protection of human rights is a tangible proof of the commitment made by the Company.

The inclusion of the Principles for Responsible Investment ("PRI") and the Principles for Sustainable Insurance ("PSI") in the Group's investment and insurance policies enables us to better understand the risks and opportunities associated with financial transactions and, therefore, to develop innovative solutions that can benefit the performance of the business, build trust, create value for our customers and contribute to the country's sustainable development.

Again, with regard to external relations, we have decided to reconfirm our support for local communities by establishing 10 commitments to small towns. We have promised 3,000 mayors that we will implement practical solutions for the development of their areas, aimed at guaranteeing the continuity and availability of services, access to infrastructure, digital transformation, security and the transfer of expertise.

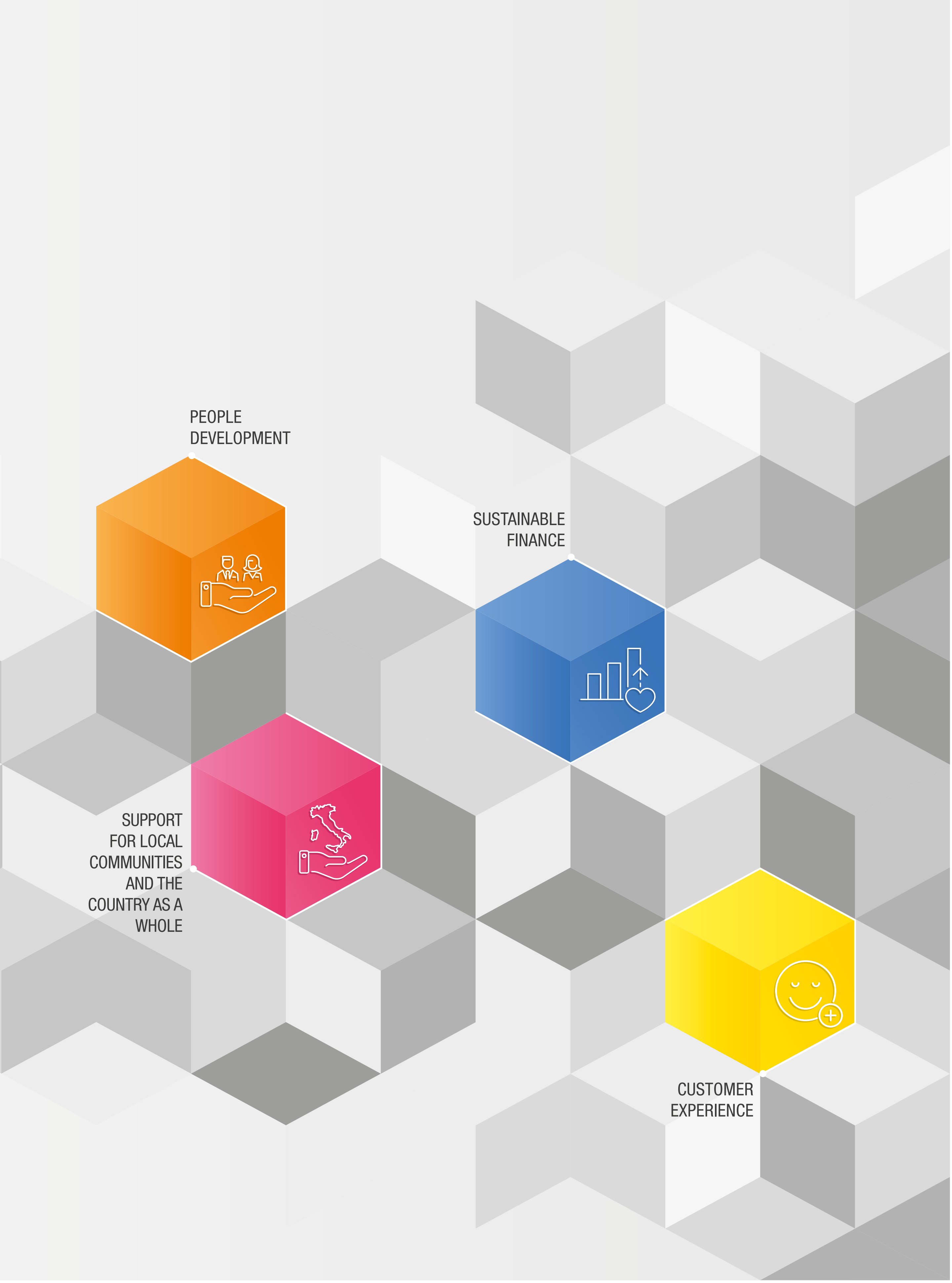
Turning to environmental concerns, given the size of our organisation and of our geographical footprint, we are aware of the impact that our activities can have on the environment. For this reason, in addition to disseminating a culture of environmental protection, we have launched a series of initiatives designed to make our real estate assets and logistics activities more green-friendly, by, for instance, promoting the efficient management of our energy consumptions and the use of alternative energy sources.

None of this, however, would be possible without our most precious resource: our people. This is why we believe it is indispensable to ensure the wellbeing of all our employees, by offering them continuous training, career development and equal opportunities as they progress through their working lives, and by valuing diversity. We have long introduced programmes designed to improve the work-life balance of our employees, and this year, in order to boost this commitment, we have launched new corporate welfare plans intended to boost employee satisfaction by responding to their specific needs and aspirations.

In conclusion, we can look backwards with proud at the results achieved so far and look forwards with confidence in our ability to deliver in the future, aware that only through a constant, real commitment to achieving common goals and by promoting the values that we share with our stakeholders, will we be able to grow together and rise to the sustainable development challenges to come.

We hope you enjoy reading the Report.


INTEGRITY
AND TRANSPARENCY
DECARBONISATION OF REAL ESTATE
FACILITIES AND LOGISTICS


PEOPLE DEVELOPMENT
SUSTAINABLE FINANCE
SUPPORT FOR LOCAL COMMUNITIES AND THE COUNTRY AS A WHOLE
CUSTOMER EXPERIENCE

Presentation of Poste Italiane Group's first Integrated Report

For Poste Italiane, publishing an Integrated Report means reporting to stakeholders on how the Group is implementing an "integrated approach" that runs throughout the organisation, and that leads to decisions and actions designed to create value over the short, medium and long term.

The Group has made an ongoing commitment to its stakeholders to implement strategic decisions that will result in the creation of value that can be shared with local communities, taking into account all the forms of "capital" needed to achieve this objective. The careful management of this capital – not only financial, but also human, physical, structural, intellectual, social and natural – has enabled us to play a leading role in the last 150 years in sectors that are of strategic importance for the country.

Through concise and synthetized information disclosure, the Integrated Report describes how the organisation's strategy, governance, business model, future outlook and performances contribute to the creation of value.

In addition to the description of the Group's business model, its governance and risk management model, the Report shows the contribution made by each element towards achieving the business objectives, in terms of both qualitative information and specific performance indicators.

In order to complement the disclosure on the Group's value creation process, the document also presents a study of Poste Italiane Group's impact on the country's economy.

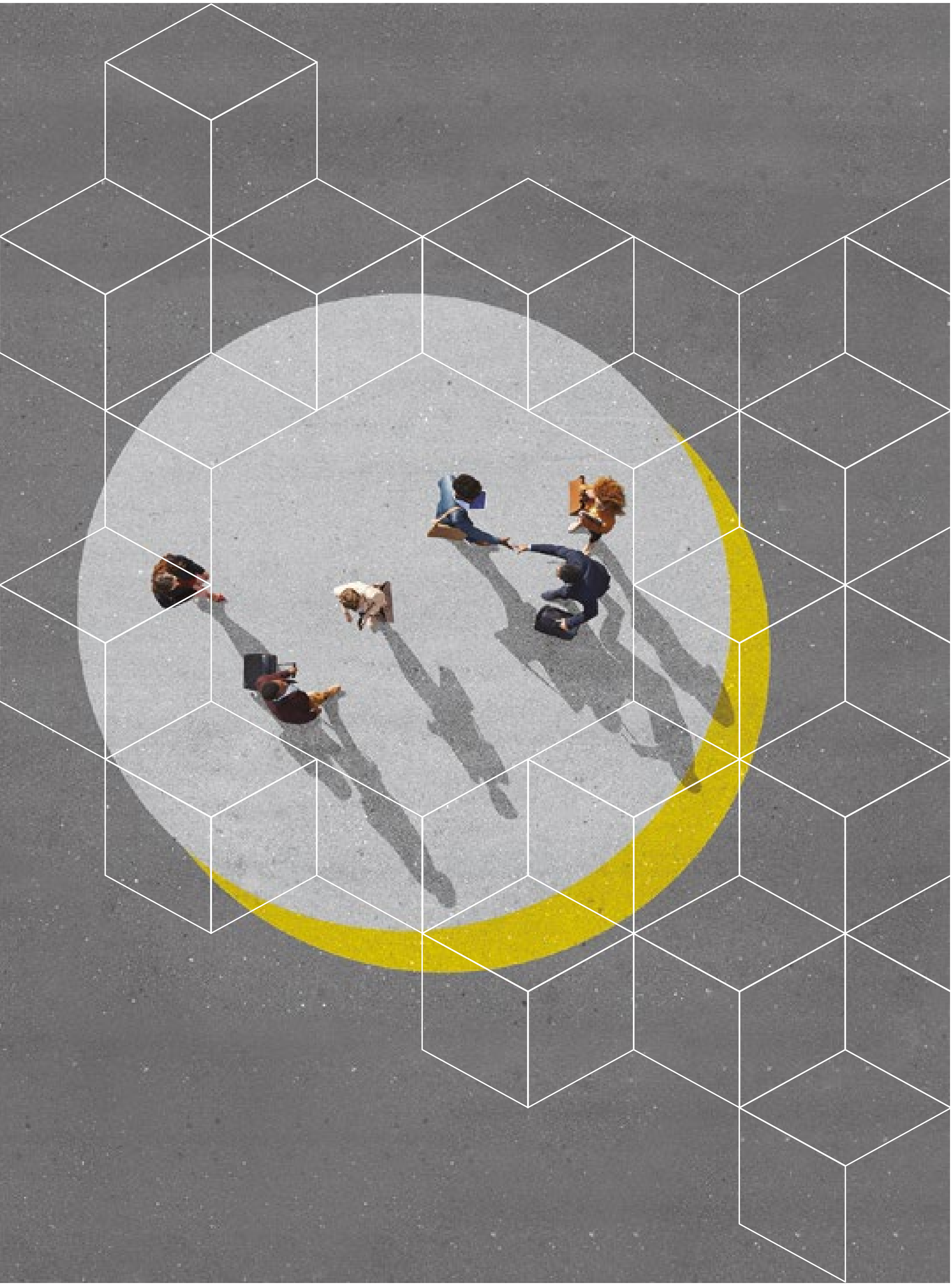
In terms of the methodology applied, the 2018 Integrated Report has been drafted on the basis of the main international reporting standards, which in addition to the accounting standards in force, also include the Framework for Integrated Reporting published by the International Integrated Reporting Council (IIRC) and the reporting standards contained in the "GRI Sustainability Reporting Standards" issued by the GRI – Global Reporting Initiative, with the related supplement for the Financial Services sector. The reporting process also meets the compliance requirements (including the provisions of Legislative Decree 254/16), external communication and the Group's ranking in the main international sustainability indices.

This Annual Report includes the following documents: the Report on Operations, which constitutes Poste Italiane's Integrated Report, Poste Italiane Group's consolidated financial statements, Poste Italiane's separate financial statements which include BancoPosta RFC's separate report, the related attestations provided in accordance with art.154-*bis*, paragraph 5 of Legislative Decree 58/1998, and the reports of the Board of Statutory Auditors and the Independent Auditor on the year ended 31 December 2018. The Report also includes the "Report on Corporate Governance and ownership structures", published on the Company's website in the Governance section, and which accounts for an integral part of this Annual Report. Reference should be made to this latter document for all further information on aspects relating to corporate governance.

From this reporting period, amounts shown in millions of euros have been rounded, with the result that the sum of the rounded figures does not always tally with the rounded total.

To facilitate the identification of non-financial information, the "Introduction" paragraph of the chapter "Consolidated non-financial statement" includes a detailed table which links the scopes of Legislative decree 254/16 with the paragraphs contained in the Consolidated non-financial statement section.

The sections of the document where information on the Company's non-financial is provided can be easily identified with the following infographic: NFS



1. Presentation of the Organisation

The Group's organisation and operating segments

NFS

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.

Corporate actions during the year

On 13 February 2018, the deed for the merger of PosteTutela SpA (a wholly owned subsidiary of Poste Italiane SpA) with and into Poste Italiane was executed. The transaction was effective for legal purposes from 1 March 2018, and for accounting and tax purposes from 1 January 2018. PosteTutela SpA is the company that, among other things, is responsible for organising, coordinating and managing the transport of cash and valuables for all the Group's offices and post offices throughout Italy.

On 6 March 2018, Poste Italiane SpA and Anima Holding SpA, together with Poste Vita SpA, BancoPosta Fondi SpA SGR and Anima SpA SGR, to the extent of their respective responsibilities, signed implementing agreements designed to redefine and strengthen their partnership in the asset management sector, in accordance with the general terms of the preliminary agreement dated 21 December 2017.

The transaction envisaged, among other things, the partial spin-off, to Anima SpA SGR, of management of the assets underlying Poste Vita SpA's Class I insurance products (totalling over €70 billion), previously carried out by BancoPosta Fondi SpA SGR. The new agree ments also restructured the existing partnership, extending it for a duration of 15 years. The transaction was effective from 1 November 2018, following receipt of the necessary clearance from the supervisory authority.

As provided for in the above implementing agreements, as part of the transaction, Poste Italiane thus transferred all its shares in Anima SGR resulting from the transaction to Anima Holding for the price of €120 million.

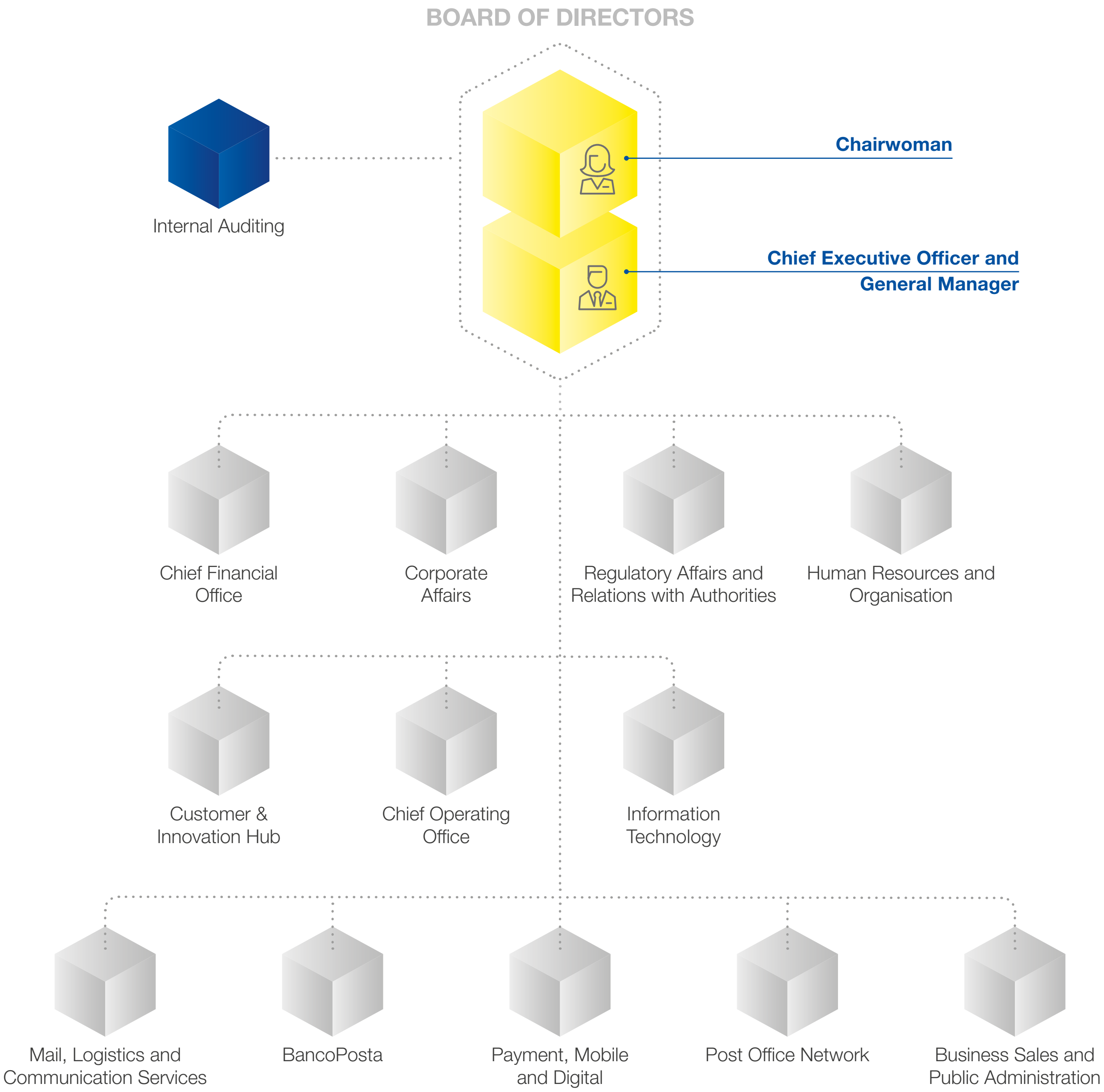
In addition, on 12 April 2018, Poste Italiane subscribed for its share of the rights issue carried out by Anima Holding SpA, amounting to a total of approximately €30 million. This enabled the Company to retain its 10.04% interest in Anima Holding SpA.

With the aim of more effectively driving growth in the payment services market and strengthening the service offering for retail, business and Public Administration customers, Poste Italiane has combined the Group's expertise and competencies in the field of mobile and digital payments in one specialist entity. Following receipt of the necessary approvals, the initiative was implemented via the contribution in kind, to PosteMobile SpA, of the Group's card payments and payment services business, following its removal from the ring-fence that applies to BancoPosta RFC. This was followed by PosteMobile's establishment of a separate ring-fenced entity through which it is able to operate as a "hybrid" electronic money institution ("EMI"), whilst also continuing to operate as a mobile virtual network operator.

The transaction as a whole was effective from 1 October 2018.

From the same date, Poste Mobile SpA changed its name to PostePay SpA, becoming Italy's largest digital payments platform. The new company, operating in synergy with Italy's most widespread distribution network, represented by the post offices network, will enable Poste Italiane to consolidate its role as a driving force behind the country's development and innovation.

Poste Italiane's organisational structure



In keeping with objective in the "Deliver 2022" plan to maximise the value of Italy's largest distribution network, Poste Italiane has begun the process of streamlining and simplifying the Group's organisational model, with the aim of strengthening the operating model and making it more efficient.

In this regard, the main initiatives made related to the following:

- A restructuring of BancoPosta, with the primary aim of strengthening the intermediary's role in leading product development and distribution, in collaboration with other Group companies, and in managing the sales network so as to ensure greater coordination, increased efficiency and more effective commercial management. In addition, in line with the relevant strategic guidelines, from 1 January 2019, BancoPosta Fondi SGR has become the Poste Italiane Group's competence centre for the management of financial investments. For this purpose, the company has been assigned responsibility for managing the portfolio of government securities in which the deposits of BancoPosta's customers are deposited. The portfolio has a value of approximately €53 billion. At the same time, the Investment Management Coordination function was closed.
- The reorganisation of the card payments and payment services business, with the establishment of an electronic money institution (EMI), following the business's removal from the ring-fence that applies to BancoPosta RFC and its transfer to PosteMobile, then renamed PostePay.

- The launch of a growth strategy involving the adoption of an increasingly customer-centric commercial approach, whilst at the same fully exploiting the specific characteristics of the different sales channels and the various types of product and service on offer. This has led to redefinition of the criteria for assigning responsibility for corporate customer segments between the Business and Public Administration and the Post Office Network functions, focusing the latter on small business and retail customers and giving the Business and Public Administration function responsibility for the other segments. In order to take advantage of the particular nature of Business and Public Administration customers, a Financial Sales Coordination function has been set up within BancoPosta, whilst the Business and Public Administration function now includes unit specialising in the sale of express delivery and parcels services.
- Simplification of the geographical structure of the Post Office Network, Mail, Logistics and Communication, Human Resources and Organisation and Chief financial Office functions, by combining and rationalising the existing structure in order to create six macro areas in place of the previous nine, and revamping the organisational structure with the aim of making the related processes more effective and efficient. Similarly, during the year, the geographical structure of the Information Technology and Real Estate and the Security and Safety functions was cut to six areas. These initiatives represent the first step in implementing a new geographical model supported by more streamlined and effective processes, which will be extended to all the staff and business support functions.
- Enhancement of the role played by information systems in driving business growth through the introduction of new technologies and the Group's digital transformation.
- The creation of a Customer & Innovation Hub function to provide a greater focus on innovation and on the design of the multichannel user experience to get closer to understanding what customers really want.
- Continuation of the process of centralising back office activities within the Chief Operating Office and the function's reorganisation with the aim of boosting the effectiveness and efficiency of operating processes.
- Implementation of the Group's new organisational model in relation to efforts to combat money laundering and the financing of terrorism. This has led to centralisation of the processes involved in managing, coordinating and implementing the related strategies and policies, creating a Group Anti-money Laundering function that also provides outsourcing services to Group companies subject to the related statutory requirements.

Multichannel commercial strategy

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

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

Further organisational units within Group companies provide further support for commercial initiatives.

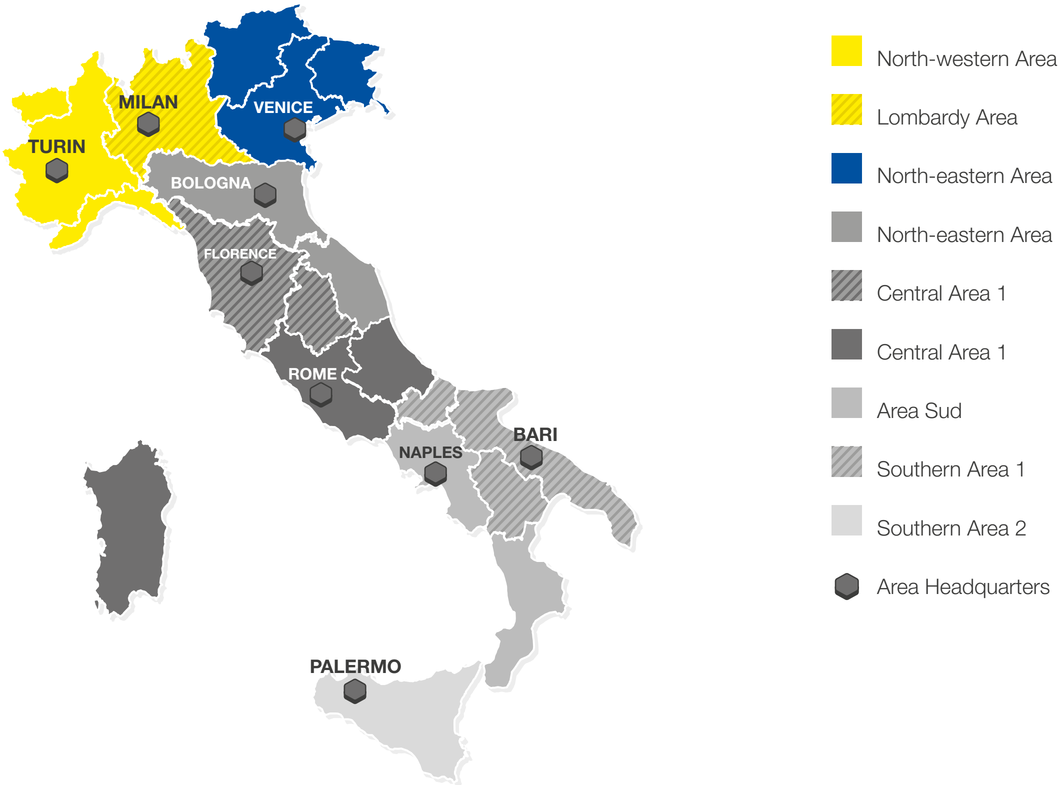
The Post Office Network function manages the commercial front end for the Private Customer and SME segments and is in charge of the post office network and area and branch offices covering the entire country.

	At 31 December 2018		At 31 December 2017	
	Number	Workforce	Number	Workforce
Post Office Network - Macro Areas	6	854	9	1,319
Branch Offices	132	3,715	132	3,591
Post offices	12,812	55,231	12,822	56,765

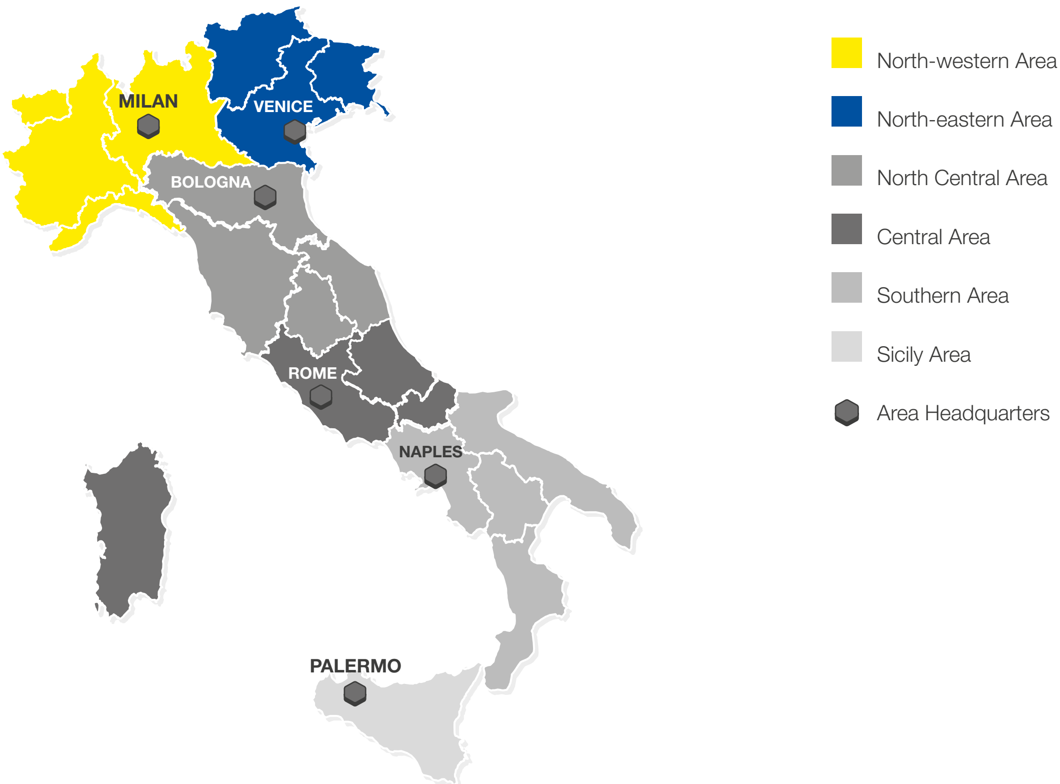
All workforce data is shown in full-time equivalent terms.

Changes in the workforce in the macro areas into which the Post Office Network function is divided reflect the above organisational initiatives which, in addition to simplifying the geographical structure, have resulted in the transfer of the sales force specialising in the Medium-sized Business segment to the Business and Public Administration function. The number of Specialist Mobile Consultants has been boosted at branch office level.

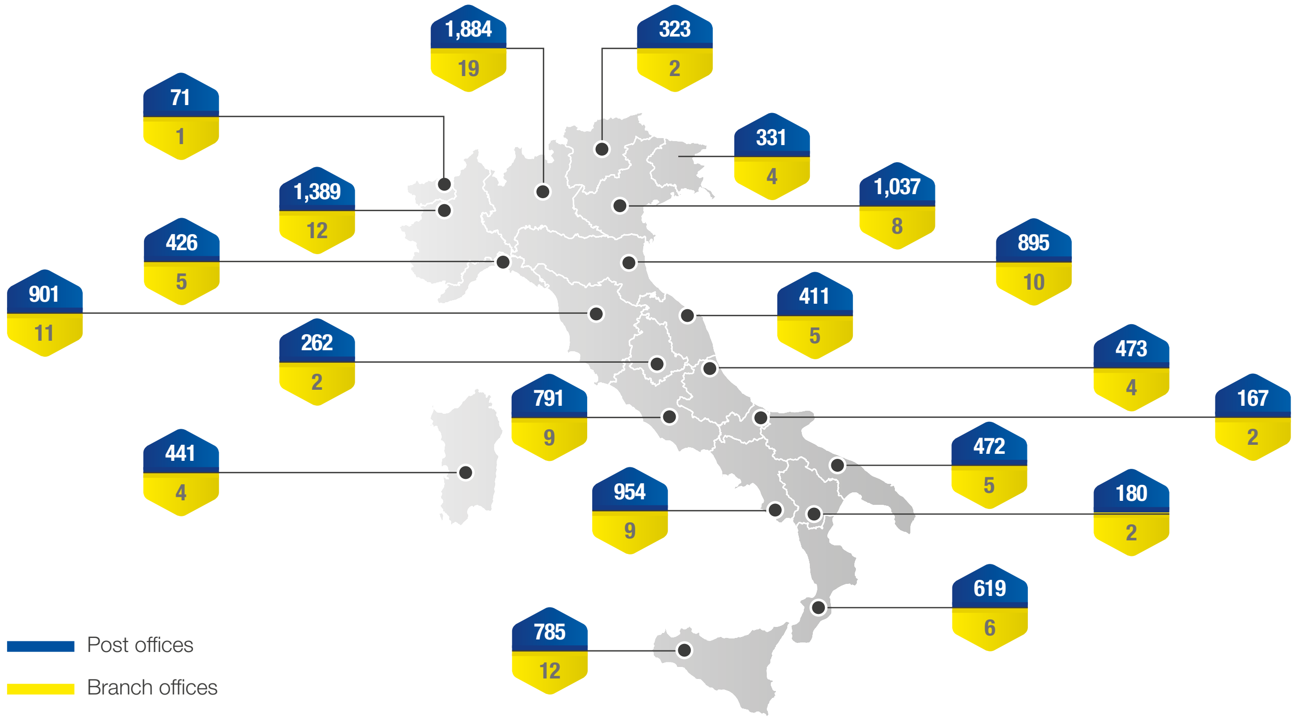
POST OFFICE NETWORK MACRO AREAS 2017



POST OFFICE NETWORK MACRO AREAS 2018

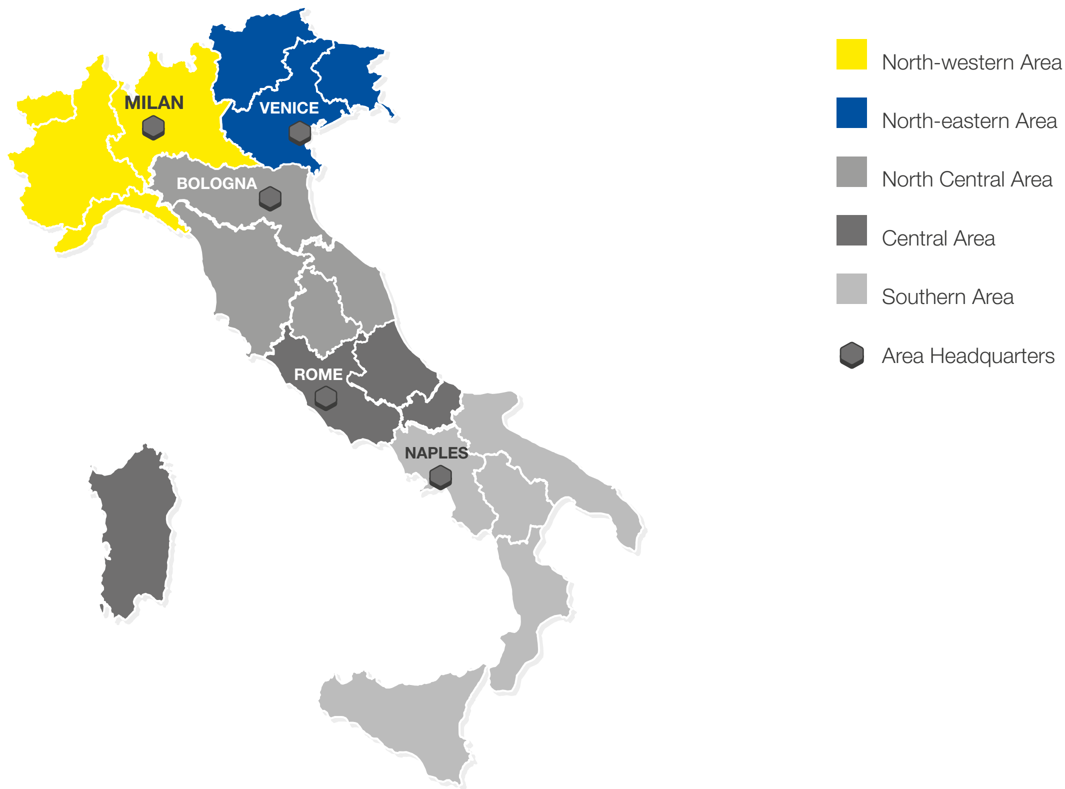


POST OFFICES BRANCH OFFICES



The **Business and Public Administration** function is responsible for distribution and sale of the Group's products and services to large and medium-sized enterprises and the Public Administration and central and local government level. It has a geographical structure consisting of 5 areas for Business Customers and 1 area serving the Central Public Administration Centrale and based in Rome.

BUSINESS AND PUBLIC ADMINISTRATION



The **digital Web and App channels** provides access to online services for 17.6 million retail and business users (15 million at 31 December 2017) and operating as both direct sales and after-sales channels.

Numerous new functions were added to the Web and App channels for end users in 2018 and, in line with the digital transformation process, work continued on improving the Group's online offering.

A single Customer Care and Back Office unit operating at Group level was created in 2018, partly by reorganising the geographical structure of operations based on a hub and spoke model.

One Contact Center (retail e business)

	Postal	Financial	Post office	B & PA	Digital	Insur.	Mobile	Parcels
Care	✓	✓	✓	✓	✓	✓	✓	✓
Complaints	✓	✓	✓	✓	✓	✓	✓	✓

- Increased levels of service and reduced average response time
- Reduced average handling time for complaints

One Back Office

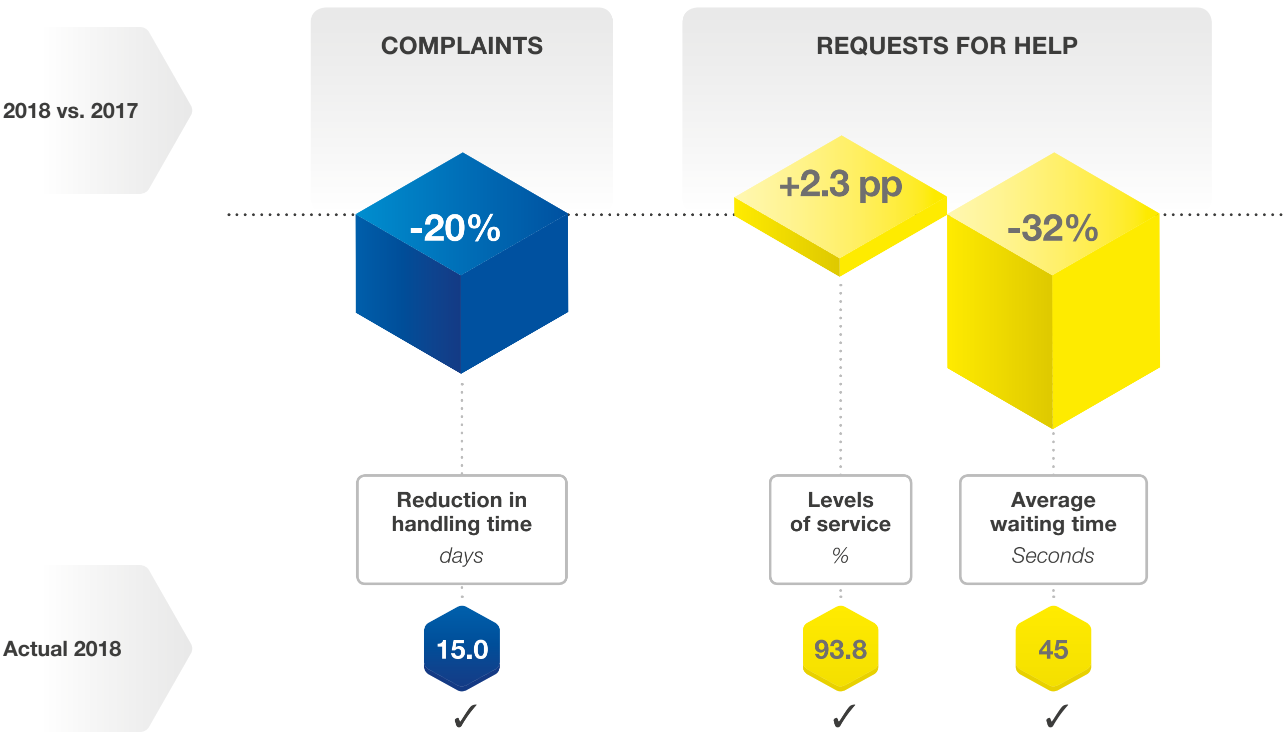
Financial			Postal		
BP	EMI	BP PO	RI	NIS	Videocoding
✓	✓	✓	✓	✓	✓

Vertical silos

- Reduced backlogs and improved processing times

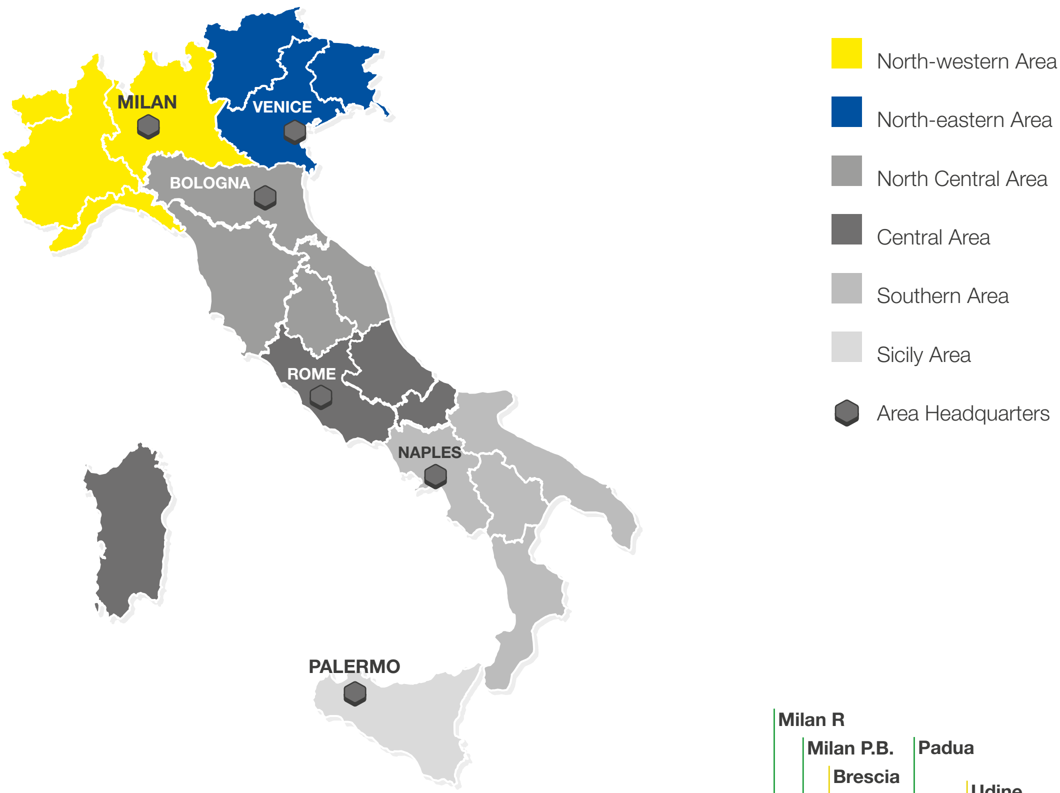
This new model has led to improved levels of service (calculated as the ratio of calls answered to calls received) and has cut average response times and the average time needed to handle complaints.

CUSTOMER CARE PERFORMANCE 2018 (VS. 2017)

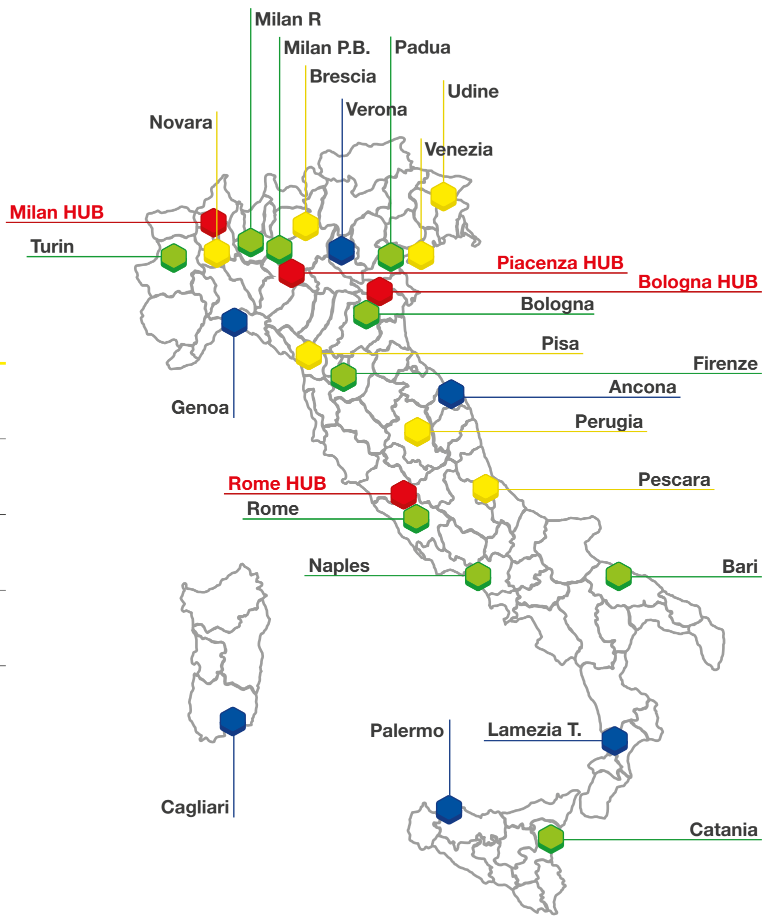


Poste Italiane's logistics network

MACRO AREAS FOR LOGISTICS



STRUCTURE OF THE LOGISTICS NETWORK



Key

(green)	10	Multi-product sorting centres (for both standard and express products)
(blue)	6	Specialist sorting centres (primarily for express products)
(yellow)	7	**Priority Centres** with low levels of mechanisation
(red)	4	**SDA HUBs**

The **Mail, Logistics and Communication** function is responsible for all letter post and parcel services at Group level[1].

The logistics process[2] is locally organised on two levels, the first of which deals with coordination and is represented by Area Logistics Offices responsible for one or more regions, whilst the second is operational and includes sorting and distribution centres (Delivery Offices).

	At 31 December 2018		At 31 December 2017	
	Number	Workforce	Number	Workforce
Logistic Network - Macro Areas*	6	1,056	9	1,095
Sorting Centres	16	6,802	16	7,470
Priority Centres	7	734	7	803
Logistic Delivery Centres	1	52	-	-
Logistics support	2	187	2	225
Delivery Offices**	1,793	35,730	2,051	38,105
Total	**1,825**	**44,561**	**2,085**	**47,698**

All workforce data refer to permanent staff and are shown in full-time equivalent terms.
n/s: not significant
* Logistics Network - Macro Areas , whilst coinciding georaphically with the Post Office Network - Macro Areas, from 2018 have their own, separate organisations in terms of processes and competences.
** Delivery staff include 26,716 postmen and women and delivery supervisors (28,635 at 31 December 2017).

The progressive rollout of the new “Joint delivery” model began in 2018. The new model aims to align the delivery network with expected changes in demand for letter post and parcel services and with the changing needs of customers. The new model, which is expected to be fully up and running before the end of 2019, enables parcels to be delivered via the network of postmen and women, introducing afternoon and weekend deliveries.

Implementation of the new delivery model was supported by a review of the processes and equipment used to support delivery activities. Major changes were introduced in terms of automation and an innovative approach to calculating the logarithms used to plan the routes for postmen and women and to allocate the mix of letters and parcels among both personnel and vehicles. The related development, testing and trials was handled internally and the new system is currently being scaled up and rolled out.

The flexibility offered by the “Joint delivery” model will enable Poste Italiane to fully exploit its physical infrastructure in response to the growth of e-commerce and the needs of customers throughout Italy.

1. The following Group companies report to the Mail, Logistics and Communication function: Postel, SDA Express Courier, Consorzio Logistica Pacchi and Mistral Air.
2. The logistics process covers receipt, collection, transport, sorting and delivery.

The contribution of Poste Italiane to Italy's economic development

Poste Italiane is now the largest logistics operator in Italy, and is a leading player in the financial, insurance and payment services. The Company plays a vital role in Italy, and makes a substantial contribution to the production chain and the national economy. By investing and operating with the actors in its value chain, Poste Italiane produces wealth and employment through its own businesses, and also generates externalities by activating a local supply chain.

In order to fully present how the Company, through its strategy and business model, creates shared value for the community and its stakeholders, by responding to their needs and contributing to the social and environmental development of the country, Poste Italiane has drawn up a model that estimates the economic impacts generated on the community, by adding "direct" impacts (those closely linked to the Company's economic activities), "indirect" impacts (those deriving from the purchase of intermediate goods from Italian suppliers) and "induced" impacts (those deriving from the purchase of intermediate goods from Italian suppliers). In particular:

- GDP has been estimated as the difference between the value of production and the intermediate costs of production;
- employment corresponds with jobs supported by Poste Italiane's economic activity;
- earned income is based on the salaries and wages paid to workers employed in the economy thanks to the activities carried out by Poste Italiane in the country;
- the tax contribution takes into account the total taxes paid to national and local Public Administrations.

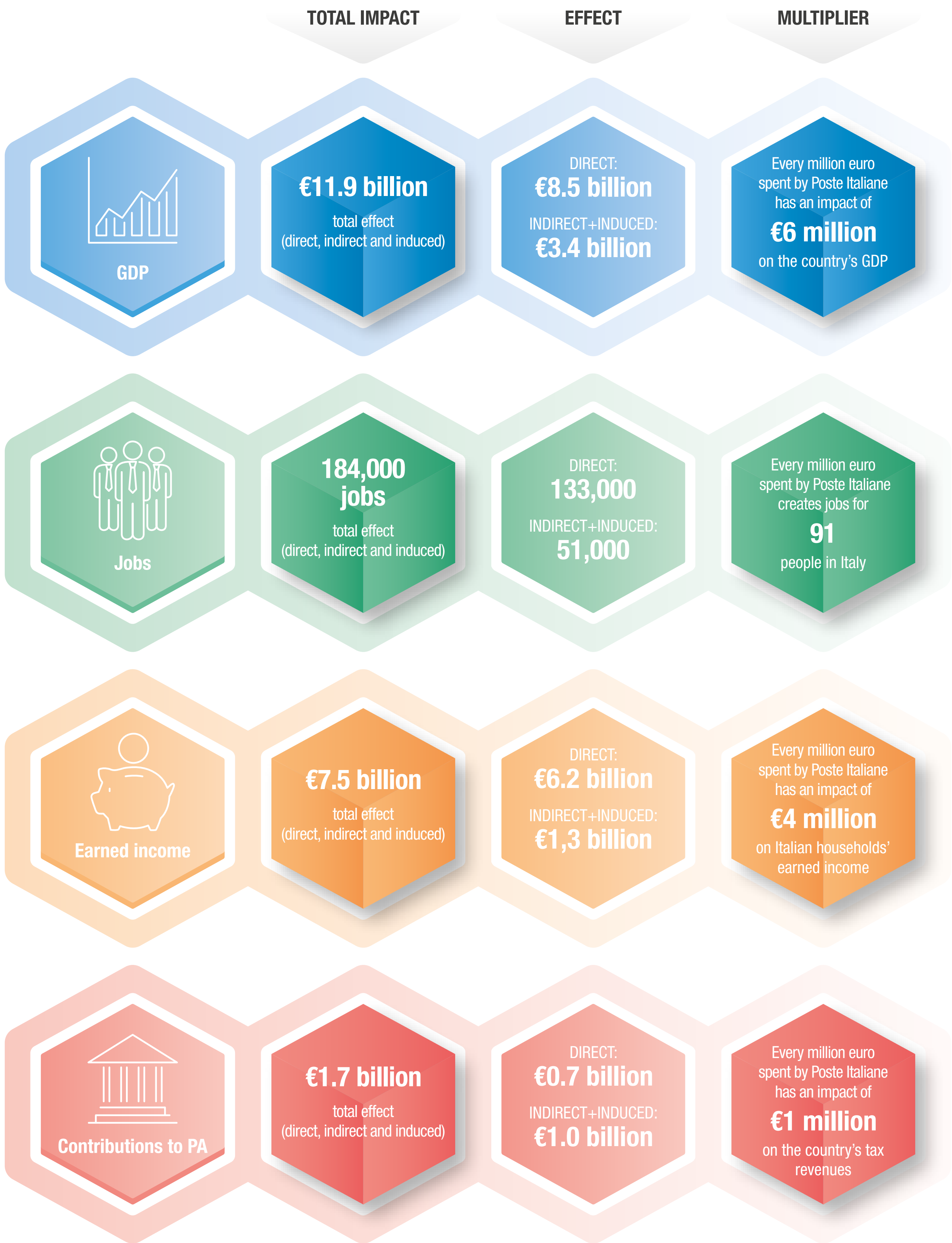
To estimate the results of the Company's economic activity, an "Input-Output" analysis was conducted using multipliers based on statistics and data made available by ISTAT (Italy's Office for National Statistics) and the Ministry of the Economy and Finance. The multipliers show the effects on GDP, taxation, employment and earned income resulting from changes in spending on goods and services in a specific industrial sectors. These effects are the result of intersectoral dependencies present in an economic system, due to which changes in the conditions in one sector of the economy lead to further impacts on related sectors and on the economic system and society as a whole. The multipliers were applied to the "basic" figures obtained internally by the Group. Within cautionary approach, the model does not include the impacts generated by investing activities. A future goal is to be able to also estimate the impact of this activity, creating a specific model for this purpose.

The impacts generated by the Group's operations

In addition to generating direct impacts through its business activities, Poste Italiane also generates indirect impacts by promoting the development of other firms involved in the provision of the goods and services needed to make its products, and directly stimulates households consumption for those families whose income derives from family members employed by the Group and its suppliers.

THE PROCESS OF CREATING POSTE ITALIANE'S ECONOMIC VALUE

In 2018, the Group's operations carried out to produce and deliver goods and services through the use of productive factors had direct, indirect and induced impacts on the Italian economy amounting to approximately €12 billion in terms of GDP and €2 billion in terms of tax revenue. It may also be estimated that a total of approximately 184,000 workers are involved along the production chain. The use of this workforce entails the distribution of income to workers, which amounted to €8 billion in 2018.



A significant indicator of the Company's impact on the Italian economy is the so-called multiplier, a factor that shows the leverage effect generated by spending on purchases from local suppliers. According to estimates, €1 million spent by Poste Italiane is able to generate an impact on the economy of €6 million in terms of GDP, €1 million in tax revenues and €4 million in earned income, creating over 90 jobs.

The impacts generated by the Group's investment

Poste Italiane generates impacts along its entire value chain, both "upstream" through procurement from local suppliers, and "downstream" through investments in Italian companies. By doing so, the Company is able to sustain Italy's economic development by financially supporting local companies, as well as the State through investments in corporate and government bonds.

Supporting both public and private actors, Poste Italiane contributes to the development of the entire national economy. Even though this is unquantifiable at the moment given the need for reliable macroeconomic data that are currently unavailable, it is easy to grasp the extent of this in terms of the consequences generated for the nation's economic system. Therefore, the data presented in the previous paragraph show a prudential impact that Poste Italiane has on the national economic fabric.

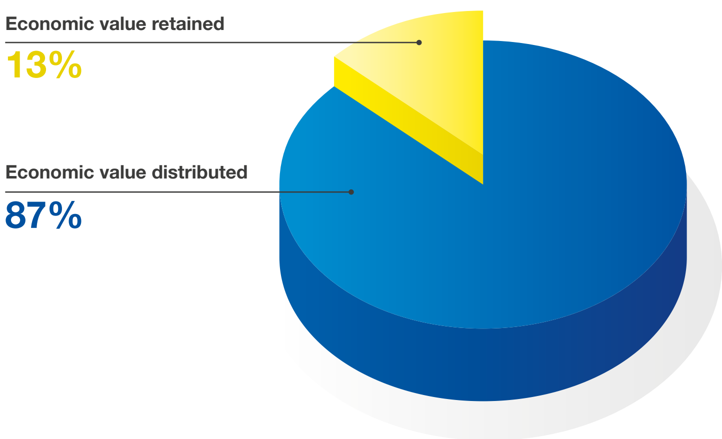
The economic value generated and distributed by the Poste Italiane Group

Poste Italiane provides information showing the quantification of the wealth produced by the Company and the related impact on the main categories of stakeholders it deals with in its business activities. The analysis, carried out in accordance with the requirements of GRI Standard 201-1, provides an overview of the economic value generated by the Company and the distribution of the value created to its stakeholders, such as suppliers, employees, investors, the Public Administration (PA) and its shareholders.

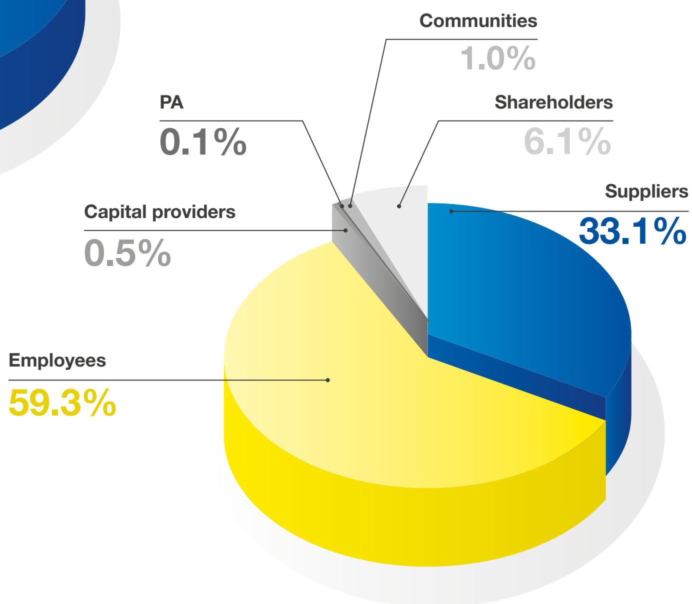
More than 87% of the wealth produced by the Company was distributed to its stakeholders. In particular, employees and suppliers are among the stakeholder categories that benefit most from the wealth produced by the Company, accounting respectively for 59% and 33% of the total value distributed.

The economic value generated in 2018 amounts to **€10.8** billion, of which **87% was distributed** to its stakeholders

DISTRIBUTION OF ECONOMIC VALUE GENERATED



BREAKDOWN OF ECONOMIC VALUE DISTRIBUTED



2. External environment, risks and opportunities

Material topics of Poste Italiane

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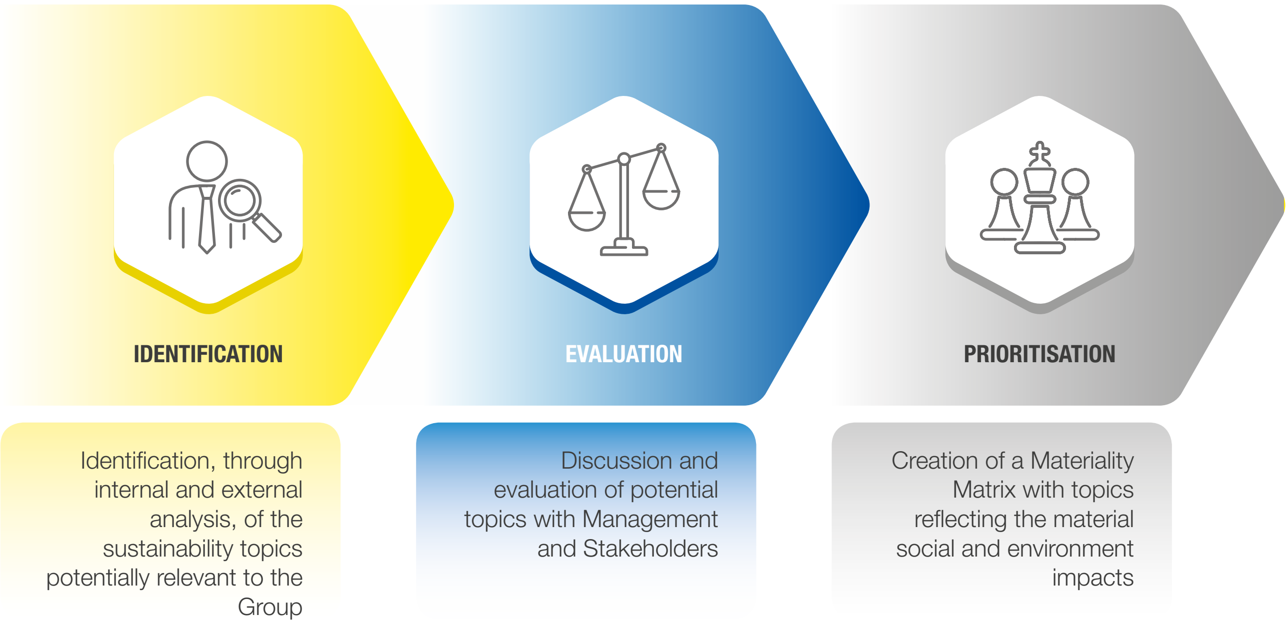
Poste Italiane has adopted a "materiality analysis" process, structured in accordance with Legislative Decree 254/16 and the reporting standards adopted, for a better understanding of the non-financial topics that may entail risks and opportunities to achieve its business objectives. This process has led to the identification of the economic, social and environmental "material" topics that may have a substantial impact on the decision-making processes of the Group's stakeholders, and which play a decisive role in defining the Group's strategy, taking into account its structure, the reach of the network served and the diversification of the market sectors it operates in.

The process to define Poste Italiane's material topics was divided into three main phases and carried out in accordance with the GRI Standards guidelines:



In order to identify the potentially relevant sector-related topics and to guide Poste Italiane through its materiality analysis, the Company carried out both an internal and an external analysis which included inputs from various sources, including the Group's strategic plan and risk management model, the outcomes of stakeholder engagement activities, trend analysis of the Group's various sectors of operation, and the views of investors.

The relevance of the topics identified was defined thanks to the direct involvement of internal and external stakeholders in specific listening and engagement initiatives. The outcomes of the activities carried out, which led to identification of the material topics and their positioning within the materiality matrix, were presented to Poste Italiane's Audit, Risk and Sustainability Committee at a specially arranged meeting. This matrix is a revision of the version included in the Consolidated Non-financial Statement published in 2017.

Stakeholder engagement

Listening to the requirements of the main stakeholders played a key role for the Company in drawing up its sustainability strategy.

In line with the Group's identity and the principles of its Code of Ethics, building and developing relationships of trust with stakeholders is of paramount importance in the process of generating and sharing value for Poste Italiane and for stakeholders themselves, with a view to continuity and reconciliation of both parties' interests. As well as helping to affirm Poste Italiane's credibility in the social context in which it operates, this also allows consideration of the possible non-financial impacts the Company's activities may have, taking all necessary measures to prevent and minimise any negative impacts, whilst generating positive ones.

As a starting point, the Company carefully mapped the categories of stakeholder it relates with during the course of its activities, identifying those stakeholders who may affect the achievement of strategic objectives and those who may be significantly affected by them. This mapping was carried out in accordance with the international AA1000-Stakeholder Engagement Standard (SES). As a result of this activity, seven macro-categories of stakeholder were identified: shareholders and investors, local communities (trade associations, media, academia), customers (consumer associations), the Public Sector and the authorities (regulators, Fondimpresa), suppliers (business partners), personnel (Poste Italiane people, labour unions) and the environment.

The following table shows the stakeholder macro-categories identified, with a brief description of engagement and communication methods provided for each category.

POSTE ITALIANE'S STAKEHOLDER ENGAGEMENT METHODS

STAKEHOLDER CATEGORY	PRINCIPAL ENGAGEMENT METHODS
Shareholders and investors	Shareholders' meetings; Corporate Governance Report; financial relations and periodic presentations; road shows and dedicated meetings; the Company's corporate website; press releases
Customers	Customer experience systems; periodic customer satisfaction surveys
Staff	Internal communication tools (intranet, newsletters, mailshots, etc.); internal and external events for staff; periodic meetings; first- and second-level bargaining; periodic staff satisfaction surveys
Suppliers and business partners	Dedicated meetings
The Public Sector and authorities	Conferences; dedicated meetings; corporate communication; periodic communications; organisation of events
Local communities	Community projects; partnerships; press releases; sponsorships; donations; dialogue with local authorities; contacts during the launch of relevant projects, publication of documents, interviews, events
The environment	Press releases; dedicated events; partnerships; collaborations; conferences

The Company is committed to ensuring structured and systematic dialogue with its stakeholders via various tools operating on a continuous basis to share ideas that may be used to create shared value. Among these, the Multi-stakeholder Forum provides an important opportunity for direct discussion between the Company and its stakeholders, thus allowing the Company to better understand the external environment and acquire key elements to consolidate the foundations of its sustainability strategy.

The annual Forum, which took place for the second time in 2018, involves plenary and dedicated group sessions during which stakeholders are asked to give their opinions and assessments regarding sustainability issues of potential relevance for Poste Italiane previously identified through internal and external analysis. Each stakeholder group is asked to share its opinion on each issue and its degree of relevance, expressed in terms of stakeholders' perception of the influence it generates in their relations with Poste Italiane.

In addition, during the specific sessions, the various stakeholder groups are asked to select among the sustainability issues those they would prioritize, to provide the reasons that motivated their choice to the other participants, with a view to sharing possible development scenarios that may affect Poste Italiane's management of the selected issues.

The observations that emerged during the 2018 Multi-stakeholder Forum

Thanks to the listening activities described above, Poste Italiane was able to get a clear idea of external parties' needs with respect to its operations, and of available possibilities to create social and environmental benefits by taking advantage of their operational capabilities. The issues most discussed during the working sessions and the main observations of the stakeholders involved in the engagement process include the following.

Customer focus. The importance of customer focus for a company like Poste was confirmed. This may be achieved through the organisation of loyalty initiatives, dedicated to a wide range of users and aimed at maintaining trust in the Company and its reputation.

Paying attention to staff. The role of employees was discussed in the context of issues relating to the promotion of corporate welfare and occupational health and safety, which is a key priority for Poste Italiane given that the Company employs more than 134,000 people. The Forum gave rise to some insights regarding the adoption of good health and safety practices, which are not limited to the workplace and may also be extended to the private sphere and, therefore, to the entire social fabric.

Safeguarding diversity. The participants recognised Poste Italiane's role as a cultural promoter regarding diversity issues, and appreciated the Company's virtuous model in this area. Stakeholders stressed the need to extend non-discriminatory principles and behaviours to all discrimination factors, by incorporating as many elements of diversity as possible into their models and policies regarding the safeguarding of diversity and human rights. In addition, participants encouraged the Company to deliver more training activities on diversity issues and to ensure alignment to relevant international guidelines and conventions in its practices.

Service Quality. The stakeholders focused on improving the efficiency of services management, especially the public services offered by Poste Italiane. In this respect, attention was also paid to the importance of proper cyber security risk management.

Social role in local communities. The importance of this issue is justified by the many roles Poste Italiane plays in local communities as an economic and social actor. In particular, the participants encouraged the Company to continue its aggregation and socialisation initiatives for the benefit of the social fabric, emphasising their appreciation of Poste Italiane's constant dialogue with local authorities and third sector organisations.

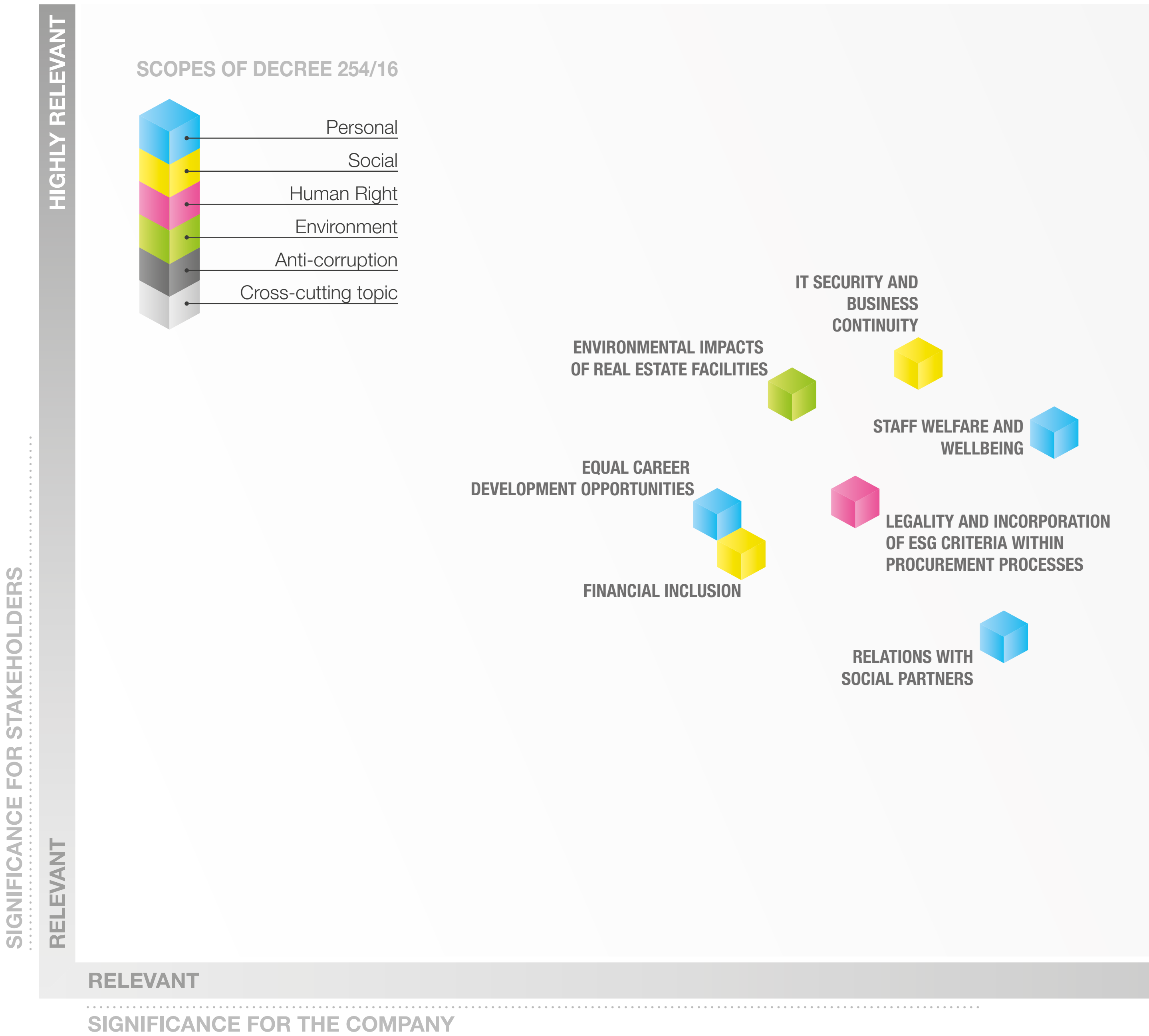
Reduction of environmental impact. With particular reference to waste management, participants recommended the Company adopts tailor-made measures for specific business activities, especially those that enable more efficient optimisation of waste management.

Incorporation of ESG criteria into the Company's businesses. This issue was dealt with in a cross-cutting way in comparison to the many sustainability issues taken into consideration during the Forum, and particularly regarded the Company's two core businesses: investment and insurance services. Stakeholders believe that taking on a proactive role in this area is an effective competitive advantage tool that requires specific skills for incorporating ESG criteria within the Company's core business and ongoing relations with other companies.

The materiality matrix

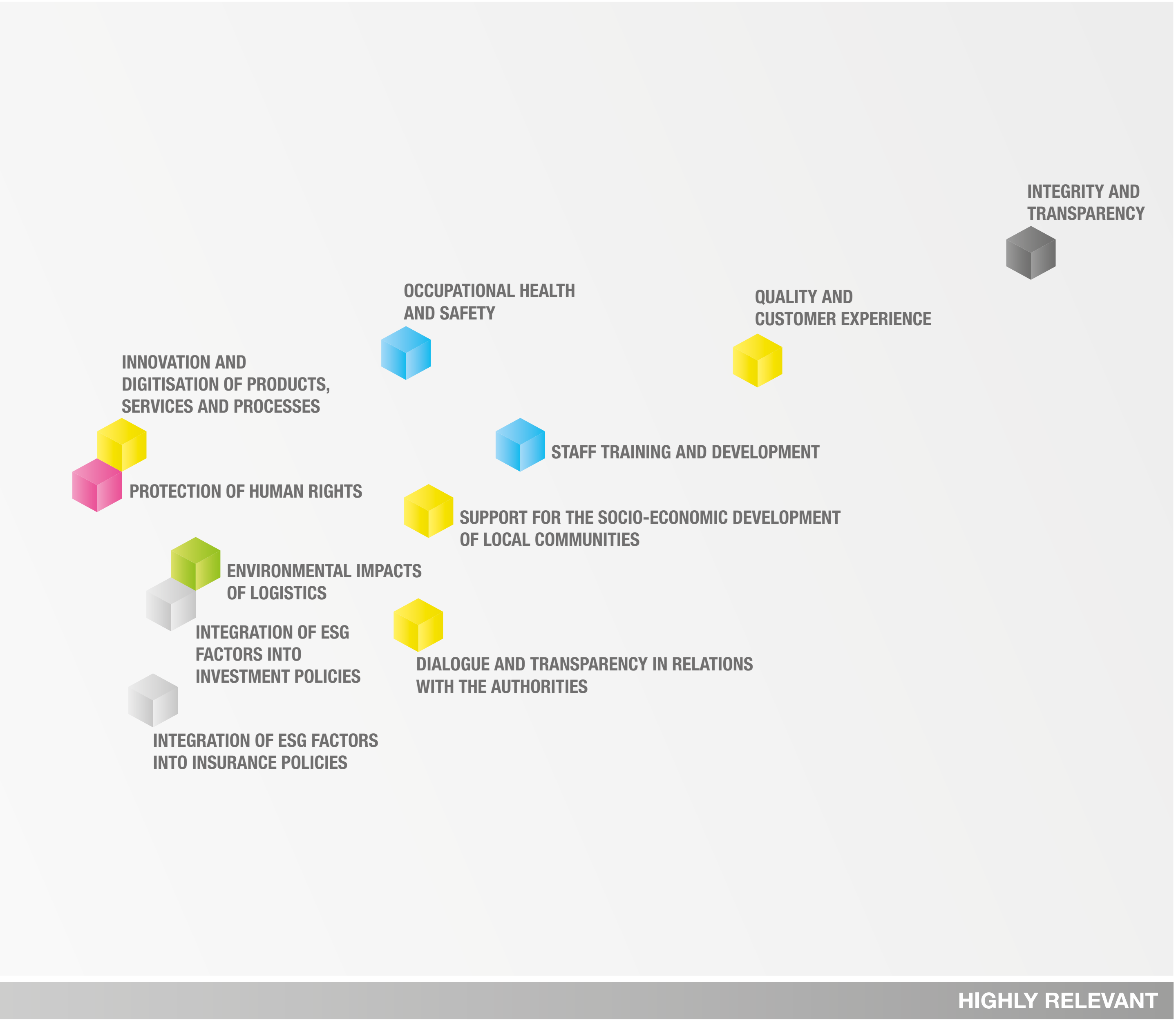
The following materiality matrix provides a graphic representation of the most relevant issues to the Company, with the exception of topics "Economic and Financial Sustainability" and "Corporate Governance" which are dealt with in the Report on Operations and in the Report on Corporate Governance and the Ownership Structure.

POSTE ITALIANE GROUP'S MATERIALITY MATRIX



The topics reported are key to understand the Company's business activities, their performances and their economic, social and environmental impacts.

The impacts relating to the material topics identified are entirely generated by the organisation, with the exception of the "environmental impacts of logistics" and "occupational health and safety" topics, which also derive from the activities of suppliers who work on a significant portion of the Group's operations on behalf of Poste Italiane.



DESCRIPTION OF MATERIAL TOPICS

Material topics	What this means for Poste Italiane
Integrity and transparency	Prepare appropriate internal control measures and spread a corporate culture within the organisation based on integrity, professional ethics and honesty in order to build trusting relationships with its stakeholders and conduct its activities correctly and transparently in every single operation, especially in combating active and passive corruption.
Quality and customer experience	Respect implementation deadlines and procedures for activities (level of service and performance) and provide customers with a quality experience that goes beyond making use of a traditional product or service. In addition, build a relationship of trust by activating customer engagement channels to be always informed on customers' expectations, needs and satisfaction regarding products and services offered, and the correct management of complaints.
Staff training and development	Guarantee our staff ongoing development of their knowledge and skills and the opportunity to reach their full potential through training courses aimed at ensuring growth and strengthening of know-how in line with the needs they and the market have expressed, also with a view to better managing business and organisational changes.
Support for the socio-economic development of local communities	Contribute to Italy's socio-economic wellbeing through direct, indirect and induced impacts in local areas (e.g. in terms of GDP and employment), and initiate or support social activities that respond to the needs expressed by society, including those identified through dialogue and collaboration with the third sector.
Dialogue and transparency in relations with the authorities	Promote systematic and transparent dialogue with national and local authorities, based on a quest for shared solutions that enables responding to communities' social needs, positively affecting the social fabric in the areas in which the Company operates and, at the same time, increasing competitiveness and business continuity.
Occupational health and safety	Safeguard our people's health, safety and psychophysical integrity, also in terms of workplace quality, and foster the development of a robust in-company culture in compliance with the highest national and international standards in this regard.
Environmental impacts of logistics	Monitor the environmental impacts of logistics activities and promote a process of change aimed at safeguarding the environment by adopting lower-impact solutions regarding the provision of postal and logistics services, including: the use of hybrid/electric vehicles, rationalisation of distances travelled, correct waste management, and development of recharging infrastructure for customers' vehicles.
Integration of ESG factors into investment policies	Incorporate ESG aspects within the investment process in order to better manage non-financial risks and consider new investment opportunities that also support sustainable development and a low-carbon future.
Integration of ESG factors into insurance policies	Incorporate ESG aspects within insurance policies, insurance product development strategies and customer communications.
Innovation and digitisation of products, services and processes	Contribute to the modernisation of Italy and digital and technological evolution through the development of new products and services and the adoption of digital technologies to be incorporated into products, services and business processes, in order to be ready to respond to changes in scenario, new customer needs and opportunities offered by social and environmental changes.
Protection of human rights	Guarantee the protection of human rights and the promotion of non-discriminatory behaviours within the Group, including through compliance with recognised standards, incorporation of the risk of violation within the Group's risk assessment model, and valorisation of diversity elements (in terms of differences in age, gender, knowledge and experience) which foster the development of a "corporate culture" and a response to new challenges and market opportunities.
Staff welfare and wellbeing	Provide staff with modern, flexible working tools and models that respond to specific personal needs and ensure work-life balance (e.g. agile working initiatives, improved maternity and paternity arrangements, the provision of benefits in the field of healthcare, etc.).
Relations with social partners	Consider dialogue with staff and labour union representatives as essential in finding shared solutions relating to issues that can have significant impacts on the organisation, the business and above all human capital, a vital corporate asset for the Company.
IT security and business continuity	Guarantee the privacy of customers data, protect intellectual property and provide an effective management system for IT security and cyber security in order to ensure business continuity, protect the information assets of the Company, customers and other stakeholders, and the security of transactions.
Legality and incorporation of ESG criteria within procurement processes	Procurement processes based on pre-contractual and contractual behaviours aimed at achieving complete respect of legality and transparency, and adoption of selection, assessment and monitoring criteria to measure the social and environmental performance of suppliers, in order to guarantee high levels of functionality and quality for supplies and mitigate ESG risks.
Environmental impacts of real estate facilities	Spread a culture of respect for the environment and adopt concrete solutions for the efficient management of energy resources, water resources and waste, from a circular economy standpoint. For example, procurement of renewable energy, installation of renewable energy production plants, building efficiency projects, organisation of separate waste collection, etc.
Financial inclusion	Extend the financial products and services offering to traditionally excluded categories, in order to guarantee access to services that are essential for economic livelihoods, and make the customer purchasing experience more aware via financial education initiatives, especially with regard to savings, investment, payments, pensions and insurance.
Equal career development opportunities	Ensure equal opportunities in the development of individual careers, by promoting career development paths for all employees regardless of their personal characteristics (age, gender, sexual orientation, disability, ethnic origin, nationality, political opinions and religious beliefs) in accordance with the principles of impartiality and non-discrimination.

With a view to continually incorporating sustainability aspects into the Company's strategy and organisation, each material topic was also analysed, by determining the possible emergence of associated risks, the stakeholders potentially involved, the potential impact on stakeholders and Poste Italiane, and the main management methods implemented by the Company.

NON-FINANCIAL RISKS ASSOCIATED WITH MATERIAL TOPICS AND MANAGEMENT METHODS

TOPIC	RISK EVENTS	STAKEHOLDERS	POTENTIAL IMPACT ON POSTE ITALIANE	POTENTIAL IMPACT ON STAKEHOLDERS	MAIN MANAGEMENT METHODS
Integrity and transparency	Behaviours adverse to proper business management standards	Staff; suppliers and business partners; financial community; customers Independent regulatory and/ or supervisory authorities	▪ Strategic ▪ Reputational ▪ Non-compliance with regulations	▪ Economic	▪ Strengthening of Company initiatives regarding specific issues (e.g. anti-corruption, the environment, ISO 37001, etc.)
Quality and customer experience	Deterioration in the levels of quality provided and increases in the number of complaints	Customers; independent regulatory and/ or supervisory authorities; financial community	▪ Economic ▪ Strategic ▪ Reputational ▪ Operational	▪ Quality of service ▪ Economic	▪ Strengthening of Company initiatives regarding specific issues (e.g. quality) ▪ Improvement of products and services ▪ Development of customer assistance model ▪ Complaints management
Staff training and development	Inadequate staff quality	Customers; our Poste Italiane people	▪ Strategic	▪ Human rights	▪ Strengthening of annual training plan ▪ Promotion of communication, training and information initiatives to increase engagement
Support for the socio-economic development of local communities	Tensions with local communities due to redefinition of the business model	Local authorities	▪ Strategic ▪ Reputational	▪ Quality of service ▪ Economic	▪ Constant structured dialogue with bodies and authorities and agreed local community engagement initiatives
Dialogue and transparency in relations with the authorities	Failure to take into account authorities' expectations	Independent regulatory and/ or supervisory authorities; European and international authorities; national authorities; consumer and trade associations	▪ Strategic ▪ Reputational	▪ Economic	▪ Constant structured dialogue with bodies and authorities and agreed local community engagement initiatives
Occupational health and safety	Accidents / workplace injuries involving employees or contractors	Our Poste Italiane people	▪ Economic ▪ Strategic ▪ Reputational ▪ Operational	▪ Health and safety	▪ Analysis and optimisation of occupational health and safety organisational models ▪ Extension of production models to operational sites (e.g. lean manufacturing) ▪ Support for the implementation and certification of OSMSs in the production units of Poste Italiane SpA and other Group companies
Environmental impacts of logistics	Environmental externalities of logistics activities (e.g. production of polluting emissions)	Suppliers and business partners; the environment	▪ ESG	▪ Health and safety	▪ Making the Postal, Communications and Logistics fleet "green", partly with the aim of increasing load capacity ▪ Redesign and development of the delivery network (e.g. increase in the number of afternoon delivery lines, introduction of deliveries to lockers, post offices and third-party networks)
Integration of ESG factors into investment policies	Lack of perception of the overall risk of operations and loss of business opportunities	Financial community; customers	▪ Financial and insurance ▪ ESG	▪ Economic ▪ Human rights	▪ Management of risks and opportunities relating to ESG factors within traditional investment processes

TOPIC	RISK EVENTS	STAKEHOLDERS	POTENTIAL IMPACT ON POSTE ITALIANE	POTENTIAL IMPACT ON STAKEHOLDERS	MAIN MANAGEMENT METHODS
Integration of ESG factors into insurance policies	Lack of perception of the overall risk of operations and loss of business opportunities	Financial community; customers	▪ Financial and insurance ▪ ESG	▪ Economic ▪ Human rights	▪ Management of risks and opportunities relating to ESG factors within traditional insurance processes
Innovation and digitisation of products, services and processes	Insufficient innovation capacity in multi-channel, customer experience and digital areas	Financial community; customers	▪ Strategic	▪ Quality of service ▪ Economic	▪ Specific organisational responsibility for digital development ▪ Launch of "digital" initiatives (e.g. "DilloaPosteltaliane" web panel platform)
Protection of human rights	Possible discrimination against Poste Italiane employees (e.g. gender, age, political or sexual orientation, marital status, etc.)	Our Poste Italiane people	▪ Strategic ▪ Reputational ▪ ESG	▪ Human rights	▪ Introduction of oversight measures for the protection of human rights
Staff welfare and wellbeing	Inadequate planning and/or implementation of staff welfare and wellbeing programmes	Our Poste Italiane people	▪ Strategic ▪ ESG	▪ Health and safety ▪ Quality of life, wellbeing	▪ Identification of possible training initiatives to create "culture" for all staff ▪ Staff engagement programmes (e.g. "employee engagement programme", activation of a welfare platform, an absenteeism competence centre, etc.) ▪ Incentivisation of the use of remote working tools
Relations with social partners	Labour union disputes	Labour unions; non-recognised workers' organisations; financial community	▪ Economic ▪ Strategic ▪ Operational ▪ Reputational	▪ Economic ▪ Health and safety ▪ Human rights ▪ Quality of life, wellbeing	▪ Implementation of restructuring projects in compliance with the regulatory framework (National Collective Labour Contract and laws), which is characterised by governable social impacts ▪ Management of staff in line with legal requirements, policies and Company procedures
IT security and business continuity	Increase in malfunctions relating to technological infrastructure	Our Poste Italiane people; the media	▪ Economic ▪ Strategic ▪ Reputational	▪ Quality of service ▪ Economic	▪ Personal data protection, cyber security and business continuity actions
Legality and incorporation of ESG within the procurement process	Behaviour of suppliers not in line with Poste Italiane's sustainability policies	Suppliers and business partners	▪ Strategic ▪ Operational ▪ Reputational ▪ ESG	▪ Health and safety ▪ Human rights	▪ Passive cycle digitisation ▪ Centralisation of Group companies' procurement activities within a corporate function ▪ Supplier Qualification Committee
Environmental impacts of real estate facilities	Increased emissions from real estate management (e.g. energy management, waste management, etc.)	The environment; our Poste Italiane people	▪ Economic ▪ Strategic ▪ Reputational ▪ ESG	▪ Health and safety	▪ Adoption of energy efficiency solutions for real estate assets and use of renewables
Financial inclusion	Insufficient consideration regarding access to financial services by specific customer categories (e.g. the elderly, foreigners, etc.)	Financial community; customers	▪ Strategic ▪ ESG	▪ Economic	▪ Incorporation of ESG criteria within the operations assessment process ▪ Constant structured dialogue with bodies and authorities and agreed local community engagement initiatives ▪ Structured dialogue with consumer associations

TOPIC	RISK EVENTS	STAKEHOLDERS	POTENTIAL IMPACT ON POSTE ITALIANE	POTENTIAL IMPACT ON STAKEHOLDERS	MAIN MANAGEMENT METHODS
Equal career development opportunities	Lack of transparency in communication and application of objective drivers in employees' career paths	Our Poste Italiane people	■ Strategic ■ Reputational	■ Human rights ■ Quality of life, wellbeing	■ Introduction of oversight measures for the protection of human rights

As part of the sustainability development path, a methodology for assessing ESG issues was applied, with reference to the identification, assessment, management and monitoring of the two main risks connected with "climate change" and "human rights". This led to:

- definition of ESG impact and probability metrics relating to climate change and human rights;
- revision of the risk model with inclusion of the ESG category;
- pre-mapping of ESG issues relating to climate change and human rights, including by examining the catalogue of corporate risks already identified in other areas;
- identification and assessment of risks relating to climate change and human rights, and accompanying information (e.g. causes, consequences, etc.);
- incorporation of sustainability indicators into monitoring and reporting activities.

Poste Italiane's commitment to ensuring respect for human rights - promoted in the context of its own activities as well as in the context of activities entrusted to third parties or conducted with partners - is enshrined in the "Group policy for the protection of human rights", which illustrates the Group-wide structured approach in the protection of human rights. In addition to defining the monitoring and management principles of risks and opportunities relating to all forms of human rights through systematic application at every organisational and functional level within the Company, the Policy also includes Poste Italiane's commitment to pursuing socially responsible investment and management activities.

In this regard, the Group's risk management model provides for identification of corporate activities and organisational areas in which a human rights violation risk might occur, by applying risk assessment procedures. In particular, the risks associated with human rights[3] have been identified and analysed by considering various drivers - in relation to Poste Italiane (employees) and third parties (suppliers, sub-suppliers, customers, local communities, the financial community) - which are shown below. In addition, Poste Italiane provides for specific mitigation measures to respond to the risks identified and associated with each driver.

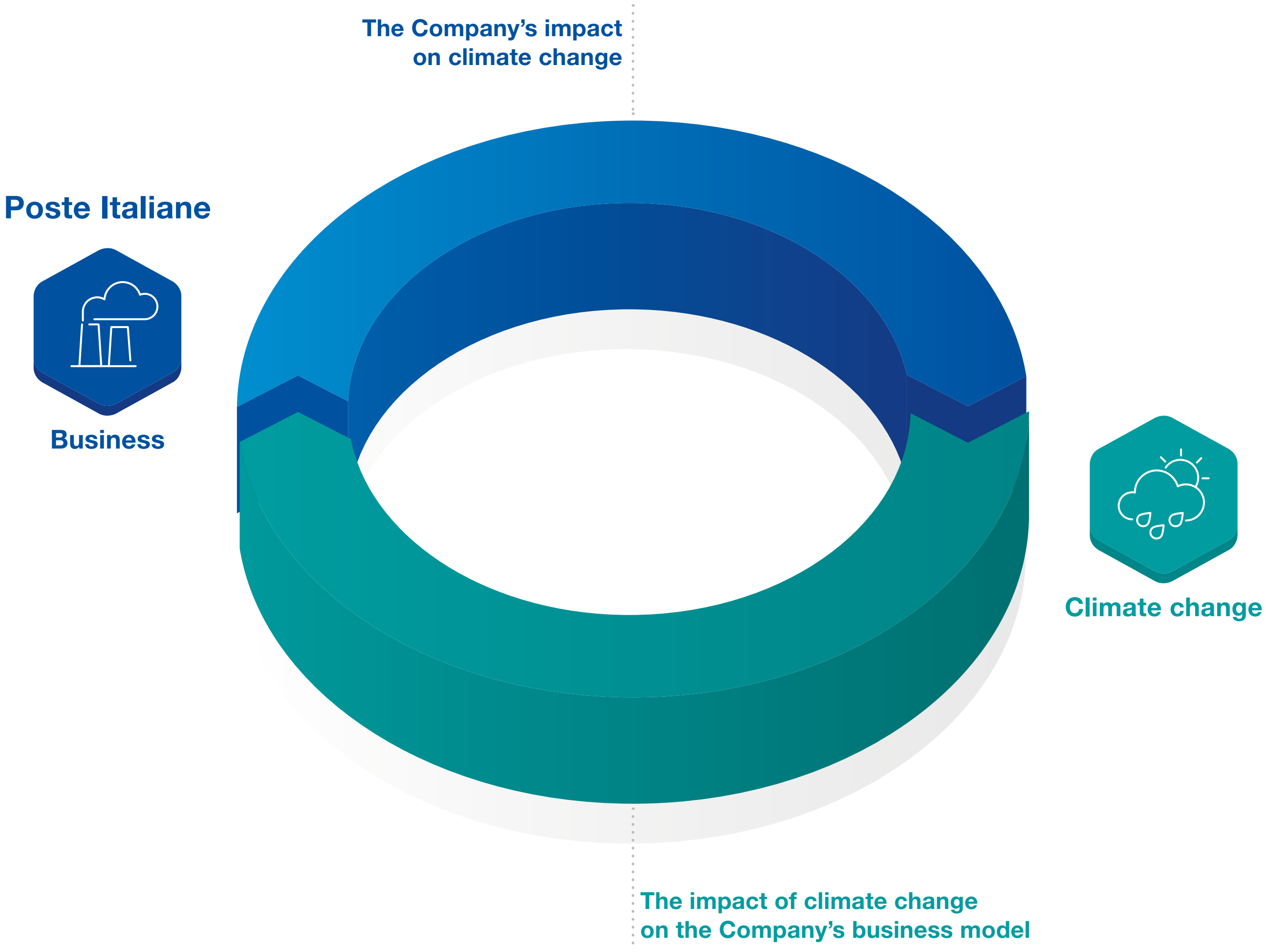
3. Risks that might have an impact on respect for human rights; these are intrinsic to all human beings, regardless of their nationality, residence, gender, nationality or ethnic origin, colour, religion, language or any other status.

DRIVERS AND ACTIONS ASSOCIATED WITH "HUMAN RIGHTS" RISKS

RISK DRIVERS	MAIN MANAGEMENT METHODS
1. Dignity and respect	■ Group Code of Ethics ■ 231 Model ■ Whistleblowing guidelines ■ Whistleblowing portal
2. Freedom of association and protection of the right to organise **3. Freedom of association and collective bargaining**	■ Constant preventive dialogue with social partners ■ Dissemination of national agreements at local level ■ Study and monitoring of regulatory and doctrinal developments in the field of labour law
4. Discrimination	■ Group Code of Ethics ■ Equal opportunities initiatives (e.g. percentage of women in positions of responsibility) ■ Initiatives to protect workers (e.g. violence against women)
5. Salary conditions and working hours	■ Signing of new employment contract which provides for remuneration negotiated with the labour unions and uniform conditions for all workers ■ Supplementary pension schemes ■ Welfare platform ■ Group Code of Ethics ■ Incentive and reward schemes ■ Due diligence regarding suppliers ■ Social policies ■ In addition to the ethical and social principles set out in the Code of Ethics, formal acceptance of anti-corruption and human rights principles by the Group's suppliers, subcontractors and partners
6. Training	■ Training initiatives and individual training plans for Poste Italiane employees, regarding both processes and products ■ Training and skills development courses, processes and services ■ Gathering feedback from training sessions to optimise the offering ■ Promotion of communication, training and information initiatives to increase engagement
7. Occupational health and safety	■ Occupational health and safety and environmental competence and responsibility plans ■ Communication plan and actions ■ Dissemination and updating of knowledge/techniques and regulations as well as behavioural standards ■ Monitoring of accidents and analysis of their causes ■ Specific audits at suppliers' premises to verify the conditions declared in the contract ■ Development of occupational health and safety supervision (achievement of 18001 certification, implementation of the "Integrated Management System", etc.) ■ Health and Safety portal for the management of occupational health and safety issues, as well as references to the main new legislation and case law regarding this matter
8. Data protection	■ Consent management ■ Compliance relating to application of the General Data Protection Regulation (GDPR) and personal data protection legislation ■ Actions in the area of personal data protection (e.g. personal data protection assessment, adaptation plan for European Privacy Seal certification, etc.) ■ Communication with the Italian Data Protection Authority in order to provide information and clarifications ■ Definition and standardisation of contractual requirements for compliance with data protection regulations

Regarding environmental issues, as a nationwide actor Poste Italiane Group recognises that creation of value for all its stakeholders and affirmation of its role as the largest Italian company in the services sector, must go hand in hand with the long-term environmental sustainability of its activities. Therefore, Poste Italiane has the responsibility to commit to playing a distinctive role in the creation of sustainable value for the local communities it operates in, of which environmental protection and paying attention to climate change are key dimensions.

Climate change threatens the basic aspects of people's lives around the world, such as access to water, food, care, land use and natural resources. However, also on the business front, it is important to identify the potential economic impacts arising from climate change.



Therefore, Poste Italiane Group has adopted an "Group policy on Environmental Sustainability" and - reinforcing what has already been stated in the Code of Ethics - undertakes to prevent, manage and, where possible, reduce the direct and indirect environmental impacts generated by its activities, as well as to take environmental impacts into account in the development of products and services (including investment and insurance products, etc.) and to turn the concern about climate change into opportunities and significant mitigation initiatives. The commitment is to promote responsible resource management in order to reduce the Group's ecological footprint and to assess the impact of its economic activity on the environment from a circular economy standpoint.

In this regard, Poste Italiane has provided for identification of corporate activities and organisational areas in which climate change risks might occur. In particular, the risks associated with climate change[4] have been identified and analysed by considering various drivers - attributable to two macro-areas (transition risks and physical risks) - which are illustrated below. In addition, Poste Italiane provides for specific mitigation measures to respond to the risks identified and associated with each driver.

4. The risks associated with climate change (e.g. extreme weather events, rising temperatures, sea level rise, etc.) that have an impact on Poste Italiane's businesses (indirect impact), as well as the risks associated with Poste Italiane's activities and operations that affect climate change (direct impact).

DRIVERS AND ACTIONS ASSOCIATED WITH CLIMATE CHANGE RISKS

	RISK DRIVERS	MAIN RISK MANAGEMENT ACTIONS AND TOOLS
Transition risks	**1. Regulatory developments**	■ Constant preventive monitoring of possible changes to regulations ■ Collaboration with policy makers to represent the need for clear and stable regulations ■ Participation in specific training courses and workshops
	2. Technological developments	■ Investment in new low-emission technologies (e.g. green fleet, installation of recharging points at Poste Italiane sites to power the electric vehicle fleet, installation of LED lighting) ■ Development and dissemination of the digitisation process - regarding processes and procedures as well as products and services - to help reduce pressures on the environment
	3. Market scenario	■ Development of existing products and services with alternatives that take ESG criteria into account (e.g. investment, insurance) ■ Products and services offering that incorporates high ethical standards and environmental criteria (e.g. development of insurance solutions that, on the one hand, encourage the adoption of sustainable and responsible behaviours by policyholders and, on the other, help to mitigate ESG risks) ■ Investment in sectors that contribute to the Sustainable Development Goals (SDGs), which are disseminated at international level by the United Nations (e.g. investment in bonds classified as "Green", "Social" and "Sustainable" in line with the standards and principles defined by the International Capital Market Association). ■ Use of energy sources that do not use fossil fuels (e.g. solar energy from photovoltaic panels on buildings) ■ Reduction of energy consumption (e.g. replacement of neon lamps and use of LEDs), in order to cope with potential sudden changes in energy prices
	4. Reputation	■ Monitoring of reputational risks via management tools ■ Dialogue with investors and analysts, with a focus on climate change issues ■ Participation in climate-related working groups and initiatives, partly with a view to defining sectoral benchmarks and/or helping to draw up guidelines ■ Investment in data transparency and accuracy ■ Dialogue and collaboration with national and international bodies and associations regarding the definition and adoption of models, policies and strategies aimed at combating climate change
Physical risks	**5. Extreme weather conditions**	■ Adoption of business continuity plans ■ Taking action to prevent physical damage to structures ■ Dialogue with local institutions (e.g. Civil Protection, Civil Defence) regarding coordination of emergency and rehabilitation activities ■ Communication with the responsible organisations and with international protection and defence bodies (e.g. participation in drills or other initiatives, etc.)

3. Strategy and business model

Incorporating sustainability within Poste Italiane's Strategy

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To be sustainable for Poste Italiane means defining a clear strategy on ESG issues and structurally incorporating them within the strategic objectives set in the "Deliver 2022 Plan"[5]. Over the period of the plan, the Company has envisaged €2.8 billion of investment in strategic assets, in order to achieve financial objectives based on realistic assumptions, with limited execution risk.

DELIVER 2022 STRATEGIC PLAN

Mail, parcels and distribution

The Mail, Parcels and Distribution segment has been reorganised to serve the growth of e-commerce. In order to increase the market share of Parcel delivery, the Company reached an agreement with labour unions regarding an innovative delivery operating model ("Joint Delivery Model"), which provides for afternoon and weekend deliveries. Furthermore, the partnership signed with Amazon in June 2018 marks another fundamental step in the implementation of the plan. Finally, investments will be made in new sorting and automation technologies to support the development of the division. In this context, Poste Italiane has also signed a framework collaboration agreement with the Italian Tobacconists' Federation, which provides for tobacconists operating as pick-up points for mail and parcels.

FINANCIAL OBJECTIVES	OPERATING OBJECTIVES
■ Revenue: €3.5 billion (2017: €3.6 billion), with an increase in revenue from the Parcels segment, and easing of the decline in the Mail segment. ■ Parcels segment: €1.2 billion (2017: €0.7 billion). ■ EBIT: operating break-even expected (down €0.1 billion).	■ Implementation of the new delivery operating model. ■ Parcels delivered by postmen and women: over 100 million (2017: 35 million). ■ B2C parcels market share: 40% (2017: 30%). ■ CAPEX to support the transformation: approximately €0.5 billion in the period 2018-2022.

Payments, mobile and digital

From October 2018, the Payments, Mobile and Digital segment, together with PostePay, has been authorised by the Bank of Italy to operate as an Electronic Money Institution in line with the Plan's objectives. Operating as an internal fintech, it will enable full advantage to be taken of the growing convergence between market segments. This division will also serve as a competence centre for the implementation of the Group's digital strategy.

FINANCIAL OBJECTIVES	OPERATING OBJECTIVES
■ Revenue: €0.8 billion (2017: €0.6 billion). ■ Payment card revenue: €0.4 billion (2017: €0.2 billion). ■ EBITDA: €0.2 billion (2017: €0.2 billion), with CAGR of 1%.	■ Total expected PostePay portfolio of 18.3 million cards issued. ■ Expected card transactions as CAGR up 12%, to reach €1.6 billion.

5. The financial and operating objectives shown in the tables refer to 2022.

Financial services

Regarding Financial Services, the model focuses on the distribution of third-party products without credit risk, controlled by a distribution platform. The model aims at promoting sustainable growth, through a more efficient allocation of capital and a wider range of products. Important steps in the implementation of the Plan include the renewal of the postal savings agreement signed at the end of 2017 with Cassa Depositi e Prestiti, the three-year distribution agreement signed in April 2018 with Intesa Sanpaolo, the agreement with Unicredit regarding the distribution of loans, and reaching in March 2018 a series of agreements with the Anima Group regarding closer cooperation for savings management services.

FINANCIAL OBJECTIVES

- Revenue: €4.9 billion (2017: €5.0 million), maintaining stable turnover and, at the same time, reducing the importance of capital gains (down to zero in 2022, from over €0.5 billion in 2017).
- EBIT: €0.7 billion (2017: €0.6 billion).
- Common Equity Tier 1 Capital: 19%.

OPERATING OBJECTIVES

- Total financial assets: a rise to €581 billion from €506 billion in 2017, in line with market growth and increased penetration of life products and mutual funds.
- Customers followed by a dedicated consultant: 45-55% (2017: 7%).

Insurance services

In its Insurance Services, Poste Italiane aims to maintain its leadership in the life sector by rebalancing its customer portfolios and shifting from traditional life policies to unit-linked products. The objective is also to achieve significant growth in non-life insurance and private pension plans.

FINANCIAL OBJECTIVES

- Revenue: €1.9 billion (2017: €1.5 billion).
- EBIT: €0.9 billion (2017: €0.8 billion).
- Net profit: 4% CAGR in the period 2017-2022.
- Solvency ratio: 203%.

OPERATING OBJECTIVES

- Gross premium revenue: €20.7 billion (2017: €20.3 billion).
- Distribution of non-life policies: over 2 million new contracts per year (2017: 0.4 million) as a result of a distribution model that completes the insurance product offering.

The need to adopt a sustainable approach is even clearer in the current context where the social and environmental impacts of activities carried out are increasingly evident and extend beyond local borders. Against this backdrop, Poste Italiane intends to develop its own sustainability initiatives in order to support and move forward the Sustainable Development Goals, by structurally incorporating elements of sustainability within corporate policies, processes and long-term strategy. The starting point for the success and effectiveness of this ambition is the process undertaken which - through the involvement of all organisational areas and listening to stakeholders - enables identification and review of strategic guidelines for the management of non-financial issues, with a view to achieving continuous improvement.

The importance that Poste Italiane attaches to these issues is borne out by the 2019 incentive scheme, which provides for the assignment of a sustainability goal - in addition to the objectives traditionally assigned to the Chief Executive Officer and General Manager - to all key management personnel, the Head of BancoPosta, the Head of Internal Auditing and the heads of the various functions. Moreover, sustainability objectives are monitored monthly using the Balanced Score Card (BSC) tool, and analysed as part of the Group's risk management process using a specific Group GRC (Governance, Risk & Compliance) platform.

Poste Italiane's Sustainability Strategy

The Group's sustainability strategy involves a system of sustainability policies and an ESG Strategic Plan in line with the Group's business strategy and ambitions, and with national and international social and environmental development targets.

General principles, qualitative objectives and management methods are incorporated within Group policies that govern the topics identified in the materiality analysis and the areas required by Legislative Decree 254/2016, while specific objectives and targets - quantitative and qualitative - are contained in the ESG Strategic Plan.

The Group's Sustainability Policies

The incorporation of sustainability within the Company's regulatory system has led to the definition of the following policies.

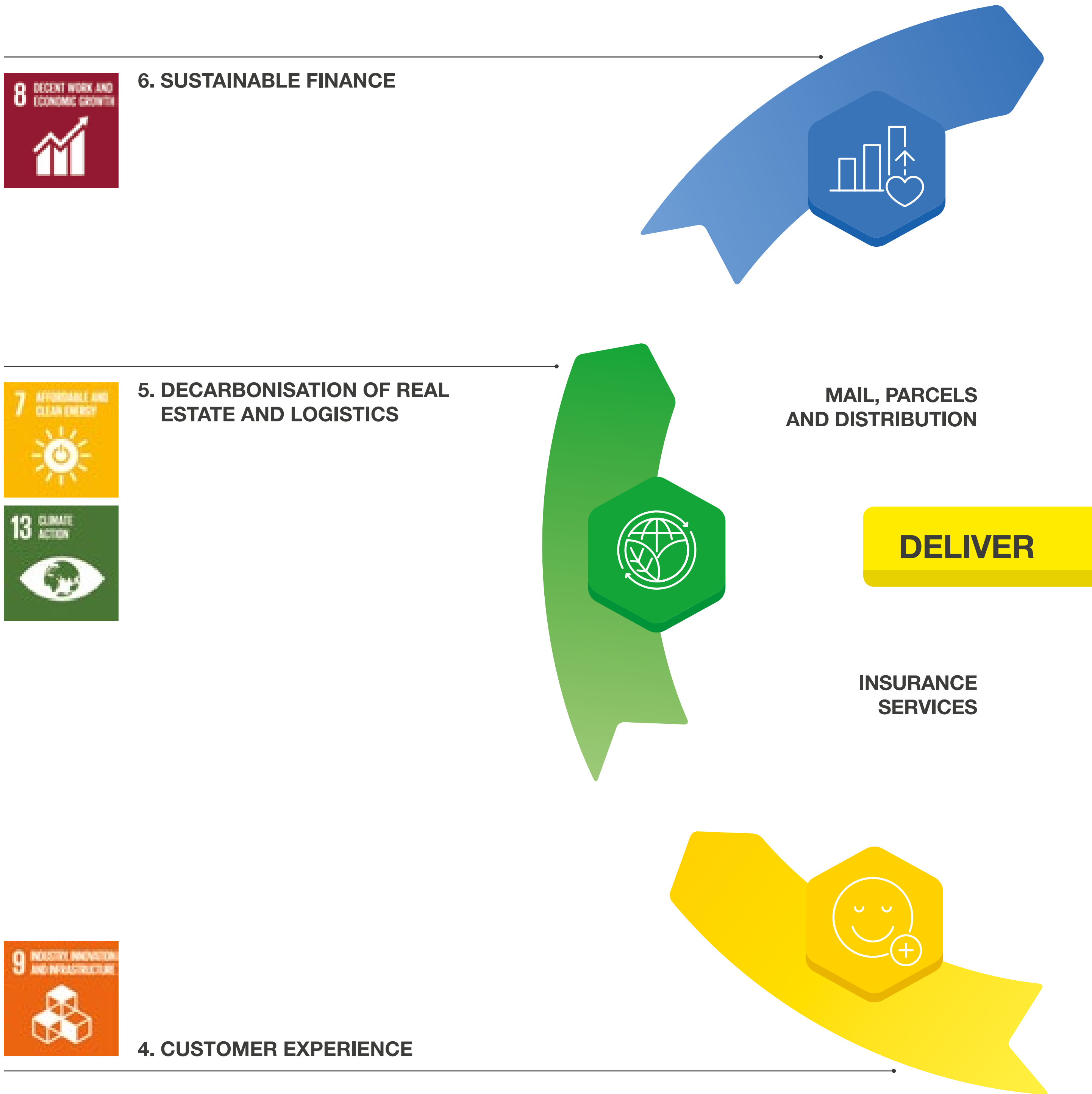
SUSTAINABILITY POLICIES ADOPTED BY POSTE ITALIANE

POSTE ITALIANE GROUP POLICIES	POLICY OBJECTIVES
Integrated Policy	The policy contains a commitment to promptly comply with current regulations and general principles to be observed in the areas of quality management (UNI EN ISO 9001:2015), occupational health and safety (BS OHSAS 18001:2007), prevention of corruption (ISO 37001:2016), and management of data security and information systems (ISO/IEC 27001:2013 and ISO/IEC 20000:2011 respectively).
Tax Strategy	The strategy is arranged as a set of principles and rules aimed at promoting dissemination of the values of honesty, fairness and compliance with tax regulations, thereby encouraging the development of collaborative and transparent conduct towards the tax authorities and third parties, in order to minimise any substantial impact in terms of either tax or reputational risk.
Diversity Policy of Poste Italiane's administrative and control bodies	The document sets out recommendations regarding aspects of diversity of the members of the Board of Directors and of the Board of Statutory Auditors, such as age, gender, ethnicity, geographical origin, training and professional experience.
Group policy for the protection of human rights	The policy sets out a clear approach to the issue of human rights, which is broader than legal requirements and enables monitoring and management of risks and opportunities relating to all forms of human rights, and also confirms the Group's commitment to pursuing socially responsible investment and management activities.
Group policy on occupational health and safety	The policy sets out the principles and methods implemented by the Group to protect and promote the physical and mental wellbeing of people through prevention, a culture of safety and implementation of management systems.
Group policy on community initiatives	The policy contains a commitment to respond to the social needs of local communities and the country as a whole with integrity and transparency, in accordance with procedures that aim to ensure the effectiveness of supported initiatives, while avoiding any potential conflict of interest.
Group policy on environmental sustainability	The policy sets out the general principles, objectives and methods for managing the Group's environmental impact and confirms Poste Italiane's commitment to promoting efficient use of natural resources and focusing on seeking innovative solutions to protect the environment in its value chain.
Responsible investment policy of the Poste Vita Group	In its responsible investment policy, Poste Vita sets out principles that enable inclusion of ESG elements in the management of its investment activities, making a positive contribution to the impact issuers in its financial portfolios have on the community, and concrete adherence to principles and guidelines recognised at national and international level regarding the incorporation of sustainability criteria within traditional investment processes.
Responsible insurance policy of the Poste Vita Group	In its responsible insurance policy, Poste Vita defines principles that enable inclusion of ESG aspects in the management of its insurance activities, and concrete adherence to principles and guidelines recognised at national and international level regarding the incorporation of sustainability criteria within traditional insurance processes.
BancoPosta Fondi SpA's SGR responsible investment policy	In its responsible investment policy, BancoPosta Fondi SGR sets out principles that enable inclusion of ESG elements in the management of its investment activities, making a positive contribution to the impact counterparties in its financial portfolios have on the community, and concrete adherence to recognised principles and guidelines.

The Group's Environmental Social and Governance (ESG) Strategic Plan

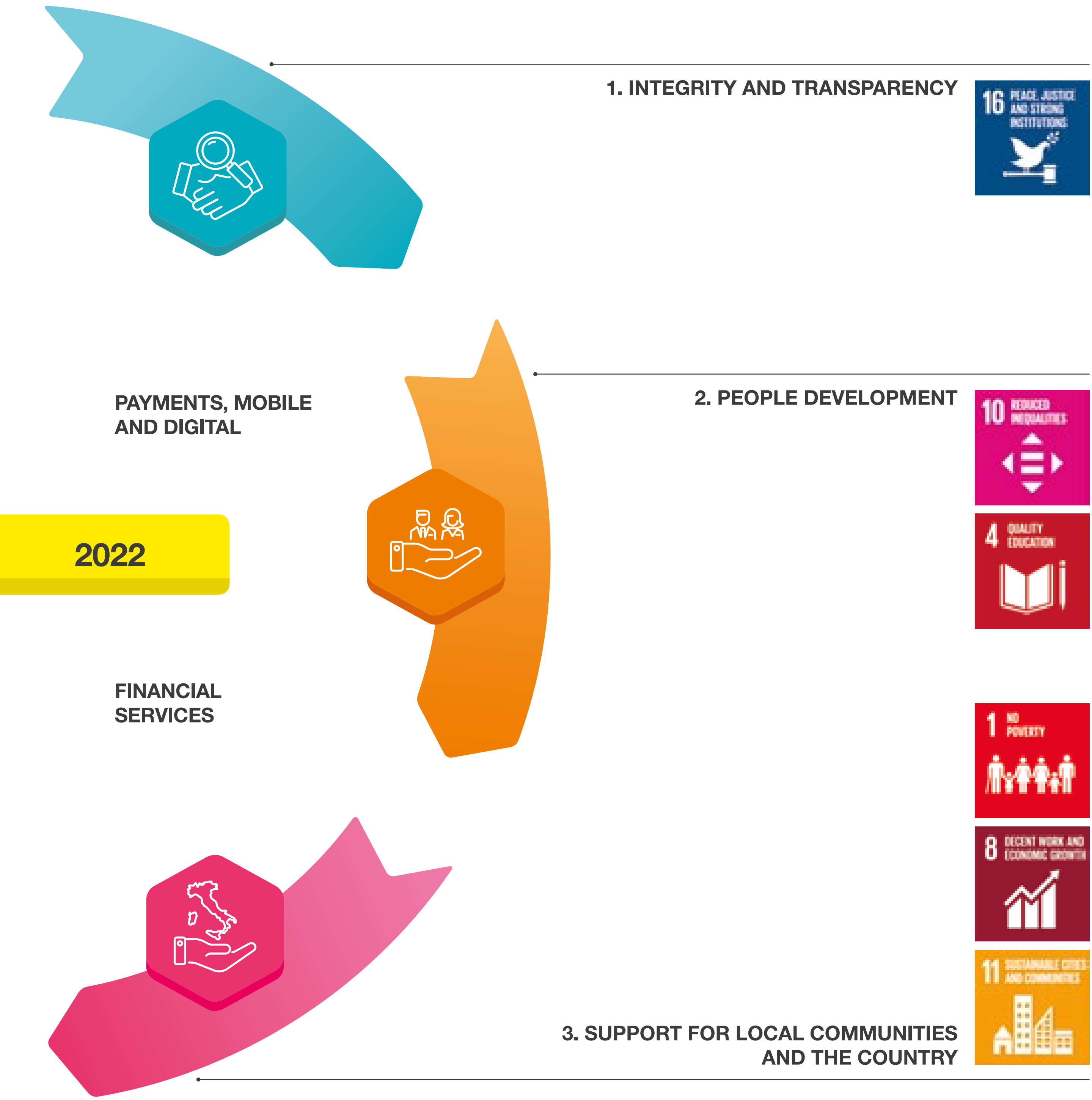
Poste Italiane's ESG Strategic Plan is based on six key sustainability pillars in the ESG areas. Each pillar includes specific actions and objectives the Company is committed to achieving relating to the proper management of material topics. These have been identified by taking into account the targets the United Nations has defined at global level in the Sustainable Development Goals, and the contribution Poste Italiane can make to achieving them through its operations.

THE PILLARS OF POSTE ITALIANE'S ESG STRATEGIC PLAN THAT SUPPORT THE DELIVER 2022 PLAN



The actions and objectives included in the Plan are the outcome of a structured process that has led the Company's management to define the key stages to be achieved in the coming years, in line with the timeframe covered by the business strategy set out in the "Deliver 2022 Plan". With a view to creating shared value, these stages have been identified taking into account the opinions expressed by stakeholders during engagement activities.

Reference should be made to the section on “Performance” in which the objectives, management methods and key performances achieved in the pillars of the Group's ESG Strategic Plan are dealt with.



Poste Italiane Group's sustainability strategy is also reflected in its active participation in national and international networks and associations that aim to promote development and ongoing discussions on sustainability issues, as well as in the Company voluntary participation in the sustainability assessments conducted by ethics rating agencies.

Signatory of: PRI Principles for Responsible Investment	**Principles for Responsible Investment (PRI):** the PRIs are a set of six principles that set out the main actions to be taken by investors and provide specific tools (e.g. frameworks, guidelines) aimed at incorporating environmental, social and governance (ESG) factors within traditional investment policies
PSI Principles for Sustainable Insurance	**Principles for Sustainable Insurance (PSI):** the PSIs are a voluntary initiative, supported by the United Nations, aimed at addressing risks and opportunities relating to ESG issues in the insurance sector. Launched in 2012, the PSIs are aligned with and complement the principles of the UN Global Compact
SODALITAS	**Sodalitas:** established in 1995 on the initiative of Assolombarda, this foundation was the first organisation to promote corporate sustainability in Italy, by contributing to the development of the role of companies as social as well as economic players, and putting the strengths of corporate culture at the service of civil society. A unique organisation in Italy, it brings together the commitment of more than 100 leading companies and a group of volunteer managers, and is a reference point for companies that consider sustainability to be a vital strategic dimension. It has gained respect as a partner of European institutions for implementing the sustainability agenda in Italy, and stands out for its ability to implement multi-stakeholder initiatives for generating shared social value
Anima per il sociale nei valori d'impresa	**Anima per il Sociale:** an association that brings together a group of managers and companies with the mission of spreading the culture of corporate social responsibility and sustainability among local companies, at an economic, social and environmental level. The partnership enables the Group to access the association's network - consisting of large companies, associations, non-profit organisations, bodies and authorities - in order to keep up to date through monitoring, communication and training activities and by participating in Corporate Social Responsibility initiatives and events

CSR Manager Network	**CSR Manager:** a network made up of professionals working in all kinds of organisations (companies, business foundations, trade bodies, the Public Administration, non-profit entities) who manage social, environmental and sustainability issues relating to business activities. This network of association provides the opportunity to participate in conferences held, access documents and studies prepared by the network and share best practices with the other members
Valore D	**Valore D:** founded in 2009, this is the first association of companies to promote women's diversity, talent and leadership in support of greater gender balance within its 150 member organisations. This collaboration enables Poste Italiane, as a supporting member since 2012, to actively participate in programmes and workshops organised by the association, as well as to take part in benchmarks and the sharing of best practices regarding the issues of diversity management, achievement of work-life balance and welfare
Fondazione ASPHI Onlus	**ASPHI:** an organisation that has been promoting the integration of disabled people in schools, employment and companies via the use of ICT technology for over 30 years. The collaboration with Poste Italiane has been consolidated over several years, in relation to participation in programmes for the inclusion and enhancement of disabled people in corporate environments

Poste Italiane's business model

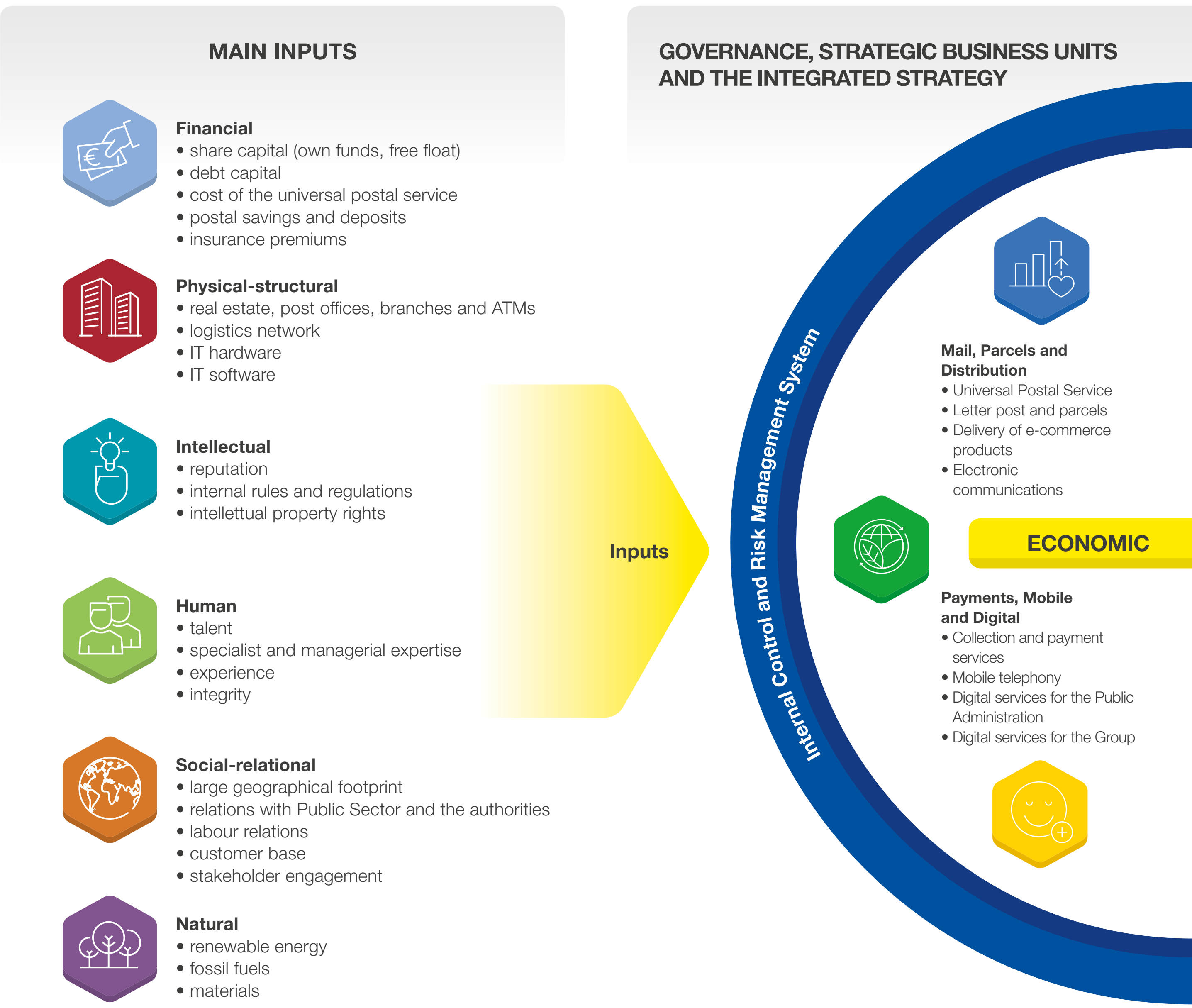
NFS

Over the years, Poste Italiane has shown its ability to transform its operational structures and services by adapting to market needs, and in some cases anticipating them, through continuous investment in technology and know-how.

The latest expression of this ability is the Deliver 2022 Strategic Plan, which aims to maximise the value of what amounts to the largest distribution network in Italy, by responding to the changing needs of customers and grasping new business opportunities on the path towards digitisation. Announced at the end of February 2018, the plan will enable full capitalisation of the unique strengths of Poste Italiane's network, which has more than 12,800 post offices nationwide, by establishing:

- financial objectives based on realistic hypothesis/assumptions, with low execution risk;
- a corporate transformation plan;

THE VALUE CREATION PROCESS AT POSTE ITALIANE



- a priority focus on the evolution of customer needs;
- sustainable growth in dividends, in line with improvement in the Group's operating performance.

The engine driving this process of value creation over time is the distinctive business model the Company has adopted to achieve the targets the Group has set itself for each operating sector, with the ESG objectives in the Integrated Strategic Plan. In particular, as previously mentioned, Poste Italiane operates as an integrated industrial group via Strategic Business Units specialising in activities that share the Group's multi-channel distribution network and uniform governance.

The following diagram illustrates the interaction between strategy, business model and forms of financial and non-financial capital that characterises Poste Italiane's value creation process over time.

The main forms of capital Poste Italiane uses to create value over time

Although the capital on which Poste Italiane's business is based is heterogeneous, it has characteristics that enable it be specifically determined and measured through performance indicators. The following table illustrates the characteristics of each form, and refers to the sections of this document in which a more detailed description is provided.

CAPITAL	DESCRIPTION	KEY MEASUREMENT INDICATORS	REFERENCES TO SECTIONS IN THE ANNUAL REPORT
Financial	Sources of financing and ways of using financial resources	■ Equity and liabilities ■ 201-1 Direct economic value generated and distributed ■ Business continuity plan resources ■ FS 11 Percentage of assets subject to positive and negative environmental or social screening regarding social/environmental aspects	■ Consolidated financial position and cash flow ■ IT security and business continuity ■ Incorporation of ESG criteria within investment policies ■ Incorporation of ESG criteria within insurance policies ■ Indicators tables
Physical-structural	Structures, equipment and infrastructure that have an impact on efficiency and effectiveness	■ Percentage of tenders conducted on the basis of environmental and social criteria ■ FS 14 Initiatives to improve access to financial services for disadvantaged people ■ Digital services numbers ■ Dematerialisation of procedures and corresponding transactions ■ Corporate fleet data ■ Aircraft fleet data	■ Legality and incorporation of ESG criteria within the procurement process ■ Financial inclusion ■ Innovation and digitisation of products, services and processes ■ Environmental impacts of real estate facilities ■ Environmental impacts of logistics ■ Indicators tables
Intellectual	Intellectual property, procedural/ organisational system, reputation	■ GRI 205 Anti-corruption ■ GRI 418 Customer Privacy ■ Business continuity plan resources ■ Digital services numbers ■ Number of contacts handled	■ Working with transparency and integrity ■ IT security and business continuity ■ Innovation and digitisation of products, services and processes ■ Indicators tables
Human	Staff knowledge and skills	■ Training on anti-corruption procedures and policies ■ GRI 401 Employment ■ GRI 402 Labour/Management Relations ■ GRI 403 Occupational Health and Safety ■ GRI 404 Training and Education	■ Working with transparency and integrity ■ Protection of human rights ■ Equal career development opportunities ■ Relations with social partners ■ Occupational health and safety ■ Staff training and development ■ Staff welfare and wellbeing ■ Indicators tables
Social-relational	Partnerships and stakeholder engagement	■ Settlements ■ Community initiatives ■ Contributions to philanthropic and/or corporate citizenship activities ■ New customers in the categories most at risk of financial exclusion as a percentage of total new acquisitions ■ Initiatives to improve access to financial services for disadvantaged people ■ Customer experience in post offices ■ Customer complaints by type ■ Customer satisfaction	■ Protection of human rights ■ Supporting the socio-economic development of local communities ■ Transparent dialogue with authorities ■ Financial inclusion ■ Quality and customer experience ■ Indicators tables
Natural	Natural resources and ecosystem services	■ GRI 301 Materials ■ GRI 302 Energy ■ GRI 303 Water ■ GRI 305 Emissions ■ GRI 306 Effluents and Waste	■ Environmental impacts of real estate facilities ■ Environmental impacts of logistics ■ Indicators tables

The Strategic Business Units

In order to implement Poste Italiane's strategic vision, each of the Strategic Business Units - which have seen gradual and constant reorganisation of their operating divisions over time - has specific objectives which, viewed as a whole, enable strengthening of the growth and sustainability of all of the Poste Italiane Group's businesses.

Mail, Parcels and Distribution

The Mail, Parcels and Distribution business is at the heart of Poste Italiane's operations. Poste Italiane plans and manages commercial products and services relating to mail, integrated services, parcels, express couriers and logistics solutions, and the integrated logistics chain, which involves management of the entire process including acceptance, collection, sorting, transport, delivery and returns procedures, partly through the services provided by its subsidiaries (Postel, SDA and Mistral Air). The logistics chain, which is integrated at local level, breaks down into two levels: coordination and operations. The coordination level is managed by six logistics areas, each covering a regional or multi-regional area which are responsible for ensuring that the end-to-end logistics process for all products and services is carried out correctly. At operational level, each logistics macro-area consists of Sorting Centres and Distribution Centres. These centres provide specialised deliveries, value-added services, messaging services, delivery of undelivered items and acceptance for large customers

Payments, Mobile and Digital

The Payments, Mobile and Digital (PMD) segment – which was set up with the aim of creating a single offering centre for retail, business and Public Administration customers, by pooling Poste Italiane Group's distinctive expertise in these areas - aims to provide centralised oversight of payment services, as well as being the centre of expertise for supporting implementation of the Group's digital strategy. The segment includes collection and payment services for BancoPosta's assets (outsourced), and payment card products and services provided by PosteMobile (renamed PostePay from 1 October 2018), which over the years has gained experience in the digital field and in supporting mobile banking and mobile payments. The PMD segment is also responsible for extracting value from the equity investment in SIA

Financial Services

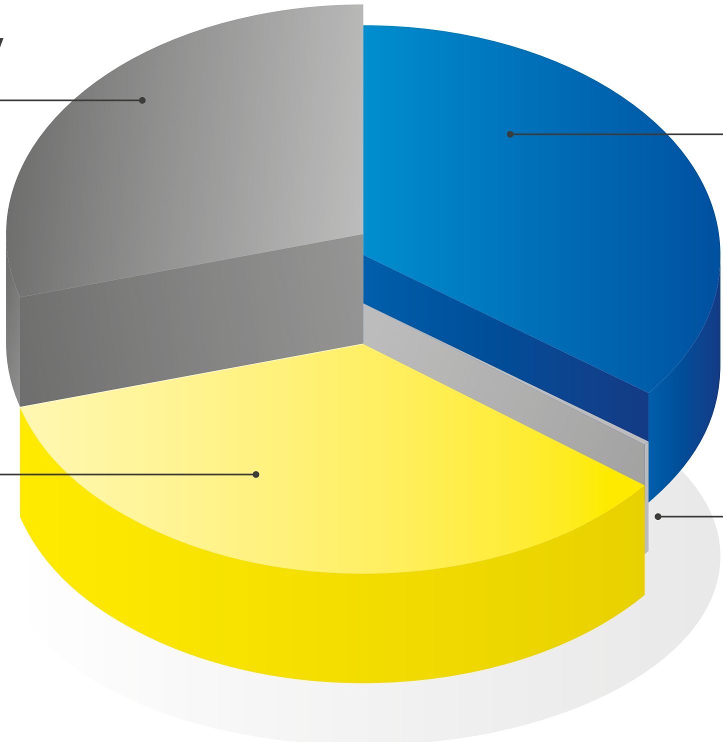
Poste Italiane provides financial services based on a service model that focuses on the distribution of third-party products in the absence credit risk, provided via a specific distribution platform. The Company aims to achieve sustainable growth, based on efficient capital allocation and a wide range of products. Important steps in this area include the renewal of the postal savings agreement signed at the end of 2017 with Cassa depositi e prestiti, the three-year distribution agreement signed in April 2018 with Intesa Sanpaolo, the agreement with Unicredit regarding the distribution of loans, and the conclusion in March 2018 of a series of agreements with the Anima Group regarding closer cooperation for asset management services. The services provided by BancoPosta, Poste Vita and BancoPosta Fondi SGR regard: product development; management of cash/deposits from proven public customers and the related investments; postal savings products; collection and payment services; the placement and distribution of financial and insurance products; card payments

Insurance Services

Insurance services are managed by the PosteVita insurance group, which includes the parent PosteVita (a life insurance company), its subsidiary PosteAssicura (a property and non-life insurance company), and Poste Welfare Servizi (a company that provides assistance services to its customers regarding the management of health funds, and data acquisition and validation services). Insurance services are distributed by BancoPosta, via Poste Italiane's distribution network. Business processes are focused on developing and managing insurance products and services for customers. These processes consist of activities relating to "product development and reinsurance", including: the assessment of customer demand; the creation and development of products, in coordination with BancoPosta; reinsurance; activities relating to the underwriting and management of policies; underwriting; operational management; the handling of information requests and complaints; financial management

4. Governance and integrated risk management model

Shareholder structure



In the period between 4 and 15 February 2019, Poste Italiane purchased 5,257,965 own shares at an average price of €7.608, making a total cost of approximately €40 million. The purchases were made in execution of the buyback authority approved by the Annual General Meeting of shareholders held on 29 May 2018. The buybacks are part of a programme whose launch was announced to the market on 1 February 2019, pursuant to art. 144-*bis* of CONSOB Regulation 11971/1999.

Share buybacks are carried out with the aim of creating a stock of treasury shares of up to €50 million, equal to approximately 7 million shares or less than 1% of the share capital, partly to service any future staff incentive plans.

Poste Italiane's shares are listed on the Mercato Telematico Azionario (the MTA, an electronic stock exchange) organised and managed by Borsa Italiana SpA. The Company is controlled by the Ministry of the Economy and Finance (MEF), which holds 64.26% of the share capital, including a direct 29.26% interest and an indirect 35% interest through Cassa depositi e prestiti SpA (CDP), itself controlled by the MEF.

Management and Supervisory Bodies

BOARD OF DIRECTORS[1]

Chairwoman
Maria Bianca Farina

Chief Executive Officer and General Manager
Matteo Del Fante

Directors
Giovanni Azzone
Carlo Cerami
Antonella Guglielmetti
Francesca Isgrò
Mimi Kung
Roberto Rao
Roberto Rossi

BOARD OF STATUTORY AUDITORS[2]

Chairman
Mauro Lonardo

Auditors
Alessia Bastiani
Maurizio Bastoni

Alternates
Marina Colletta
Antonio Santi
Ermanno Sgaravato

SUPERVISORY BOARD[3]

Chairwoman
Nadia Fontana

Members
Paolo Casati[4]
Carlo Longari

MAGISTRATE APPOINTED BY THE ITALIAN COURT OF AUDITORS TO AUDIT POSTE ITALIANE

Francesco Petronio

INDEPENDENT AUDITOR

PricewaterhouseCoopers SpA

AUDIT, RISK AND SUSTAINABILITY COMMITTEE[5]

Antonella Guglielmetti (Chairwoman)
Giovanni Azzone
Francesca Isgrò
Roberto Rossi

REMUNERATION COMMITTEE[5]

Carlo Cerami (Chairman)
Giovanni Azzone
Roberto Rossi

NOMINATIONS AND CORPORATE GOVERNANCE COMMITTEE[5]

Roberto Rao (Chairman)
Antonella Guglielmetti
Mimi Kung

RELATED AND CONNECTED PARTIES COMMITTEE[5]

Francesca Isgrò (Chairwoman)
Carlo Cerami
Mimi Kung
Roberto Rao

1. The Board of Directors was elected by the Annual General Meeting held on 27 April 2017 to serve for a period of three years, and will remain in office until the Annual General Meeting's approval of the financial statements for the year ended 31 December 2019.
2. The Board of Statutory Auditors was elected by the Ordinary General Meeting of 24 May 2016 to serve for a period of three years and will remain in office until the General Meeting's approval of the financial statements for the year ended 31 December 2018. On 30 January 2017, the Alternate Auditor, Andrea Bonechi, resigned from his position with immediate effect. As a result, the Annual General Meeting of 27 April 2017 elected Antonio Santi to serve as an Alternate Auditor.
3. The Supervisory Board was appointed by the Board of Directors' meeting of 24 May 2016 for a three-year term. Carlo Longari was appointed by the Board of Directors' meeting of 7 November 2018 to replace Giulia Bongiorno, who resigned on 12 March 2018.
4. The only internal member, Head of Poste Italiane SpA's Internal Auditing.
5. Committee members were appointed by the Board of Directors' meeting of 28 April 2017. At the meeting of 19 February 2018, the Board of Directors renamed the Nominations Committee and the Audit and Risk Committee the Nominations and Corporate Governance Committee and the Audit, Risk and Sustainability Committee, respectively.

The corporate governance structure reflects the recommendations in the Corporate Governance Code for listed companies published by Borsa Italiana, the provisions of Legislative Decree 58 of 24 February 1998 (the Consolidated Law on Finance), where applicable, the Supervisory Standards issued by the Bank of Italy and applicable to Poste Italiane in view of the unbundled activities conducted by BancoPosta RFC (Patrimonio destinato BancoPosta), and the legislation applicable to electronic money institutions as regards the activities carried out by Poste Italiane in implementation of the agreements entered into with PostePay – the ring-fenced EMI.

Poste Italiane has adopted a "traditional" governance model, separating the roles of the Board of Directors and the Board of Statutory Auditors. The Company's accounts are audited by an independent firm of auditors.

Poste Italiane's financial management is overseen by the Italian Court of Auditors (Law 259 of 21 March 1958); the relevant controls are conducted by a Magistrate appointed by the Court of Auditors, who attends meetings of the Board of Directors and the Board of Statutory Auditors.

The Board of Directors and Board of Statutory Auditors are elected and dismissed by the **General Meeting of shareholders,** which is also responsible for engaging the independent auditor and determining the related fees. The General Meeting also approves the annual financial statements, amendments to the Company's By-laws and transactions of a non-recurring nature, such as rights issues, mergers and demergers in cases where the law does not grant the relevant authority to the Board of Directors.

The Board of Directors consists of nine members (eight non-executives and one executive) and normally meets once a month to examine the operating performance and vote on resolutions regarding the results of operations, proposals relating to the organisational structure and transactions of strategic importance. The Board met 14 times in 2018. Of the nine members of the Board, seven meet the requirements to qualify as independent in accordance with the Corporate Governance Code for listed companies and eight qualify as independent in accordance with the independence requirements in the Consolidated Law on Finance and the By-laws.

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

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

The **Chief Executive Officer and General Manager**, to whom all first-level departments report (except for the Internal Auditing function, which reports directly to the Board of Directors under the supervision – designed to act as a link with the Board of Directors – of the Chairwoman), has full powers for the administration of the Company, unless otherwise provided for by law and the Company's By-laws and with the exception of the powers reserved to the Board of Directors. The Chief Executive Officer is also the Company's legal representative within the scope of the powers delegated to him.

The **Board of Statutory Auditors** in office has three standing members and three alternates. The Board verifies compliance with the law, the Company's By-laws and with correct corporate governance principles, also verifying the adequacy of the organisational structure and administrative and accounting systems adopted by the Company and their functionality. The Board of Statutory Auditors met 36 times during the year.

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

The **audit firm** PricewaterhouseCoopers SpA has been appointed to audit the Company's accounts for the period 2011-2019. The appointment was made in conformity with Legislative Decree 39/2010 ("Implementation of Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts"). In view of the approaching expiry of nine-year engagement as the independent auditor (the financial statements for the year ended 31 December 2019), the Company, in line with the provisions of Legislative Decree 39/2010, as amended by Legislative Decree 135/2016, under the responsibility and supervision of the Board of Statutory Auditors, in 2018 began the process of selecting a new single audit firm for the Group for the nine-year period 2020-2028. The tender procedure was completed in the first three months of 2019, providing the basis for the Board of Statutory Auditors' reasoned proposal for the choice of the new independent auditor to be submitted to the Annual General Meeting of 28 May 2019.

With regard to the governance system adopted by BancoPosta RFC, the rules governing the organisation, management and control of BancoPosta's operations are contained in the specific BancoPosta RFC Regulation.

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

Poste Italiane's Board of Directors met on 14 occasions in 2018 to examine the following principal matters and approve the following resolutions.

DATE	PRINCIPAL RESOLUTIONS
25 January 2018	Proposed changes to BancoPosta RFC: Injection of fresh capital by Poste Italiane into BancoPosta RFC to boost leverage ratio
	Proposed changes to BancoPosta RFC (removal from the ring-fence of the "payment services and card payments" unit); Changes to the subsidiary, PosteMobile: (A) authorisation to establish a separate ring-fenced card payments and payment services entity, (B) the transformation of this entity into a hybrid electronic money institution ("EMI"); Grant of authority to begin the process of applying for authorisation from the Bank of Italy.
	Participation in Anima Holding SpA's rights issue
19 February 2018	Preliminary results for 2017, proposed dividend
26 February 2018	Approval of the Deliver 2022 Strategic Plan
29 March 2018	The Company's financial statements for the year ended 31 December 2017 and the consolidated financial statements for the same period
	Proposed appropriation of earnings
19 April 2018	Revision of the Group's Code of Ethics
	Revision of the Whistleblowing Guidelines
	Data Protection Guidelines (GDPR)
27 April 2018	Authorisation to purchase and dispose of treasury shares
9 May 2018	Interim report for the three months ended 31 March 2018
29 May 2018	Long-term contract with Amazon for postal delivery services (parcels)
28 June 2018	Revision of the 231 Model
1 August 2018	Interim report for the six months ended 30 June 2018
	Revision of the Group Anti-Money Laundering Guidelines and appointment of the Head of the Group Anti-Money Laundering function.
	Sustainability Guidelines "The ESG (Enviromental Social and Governance) precess within the Poste Italiane Group".
	Guidelines for application of the independence requirements for members of the Board of Directors.
20 September 2018	Report and analysis concerning completion of the planned IT upgrade provided for in the EMI authorisation and subsequent submission to the Bank of Italy of the extract from the minutes of the Board meeting, mas requested by the Bank for the purposes of registering PosteMobile SpA as an EMI.
	Revision of SDA Express Courier's business plan and authorisation for the company's recapitalisation, amounting to a total of €50 million.
18 October 2018	Arrangement of committed revolving credit facilities of up to €2 billion with a maximum term of 36 months.
	Amendment of Poste Italiane's Financial Management Guidelines.
	Approval of the planned outsourcing of "BancoPosta's Financial Management" from BancoPosta to BancoFondi SGR.

DATE	PRINCIPAL RESOLUTIONS
7 November 2018	Interim report for the three months ended 30 September 2018
	Transaction designed to strengthen the capital of the subsidiuary, Poste Vita
	Approval of the application for Poste Italiane SpA's participation in the Collaborative Compliance regime established by Legislative Decree 128/2015 and approval of the Poste Italiane Group's Tax Strategy
	Approval of the Poste Italiane Group's Integrated Policy
	Approval of the new Guidelines for managing transactions with Related and Connected Parties
13 December 2018	Supplementary agreement relating to the contract for the sale of Banca del Mezzogiorno – MedioCredito Centrale SpA signed on 8 February 2017 by Poste Italiane and Invitalia
	Approval of the human rights policy
	Approval of the Unified Security Document: IT Risk Report for 2018
	Renewal of the two-year agreement for 2019-2020 between the MEF and Poste Italiane, governing the return on the investment of current account deposits by Public Administration entities

Poste Italiane's integrated internal control and risk management system

NFS

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

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

This system is at the heart of Poste Italiane's corporate governance[6] allowing the Board of Directors to pursue its priority goal of creating value over the medium to long term whilst being able to determine the nature and level of risk that is compatible with the Company's business objectives.

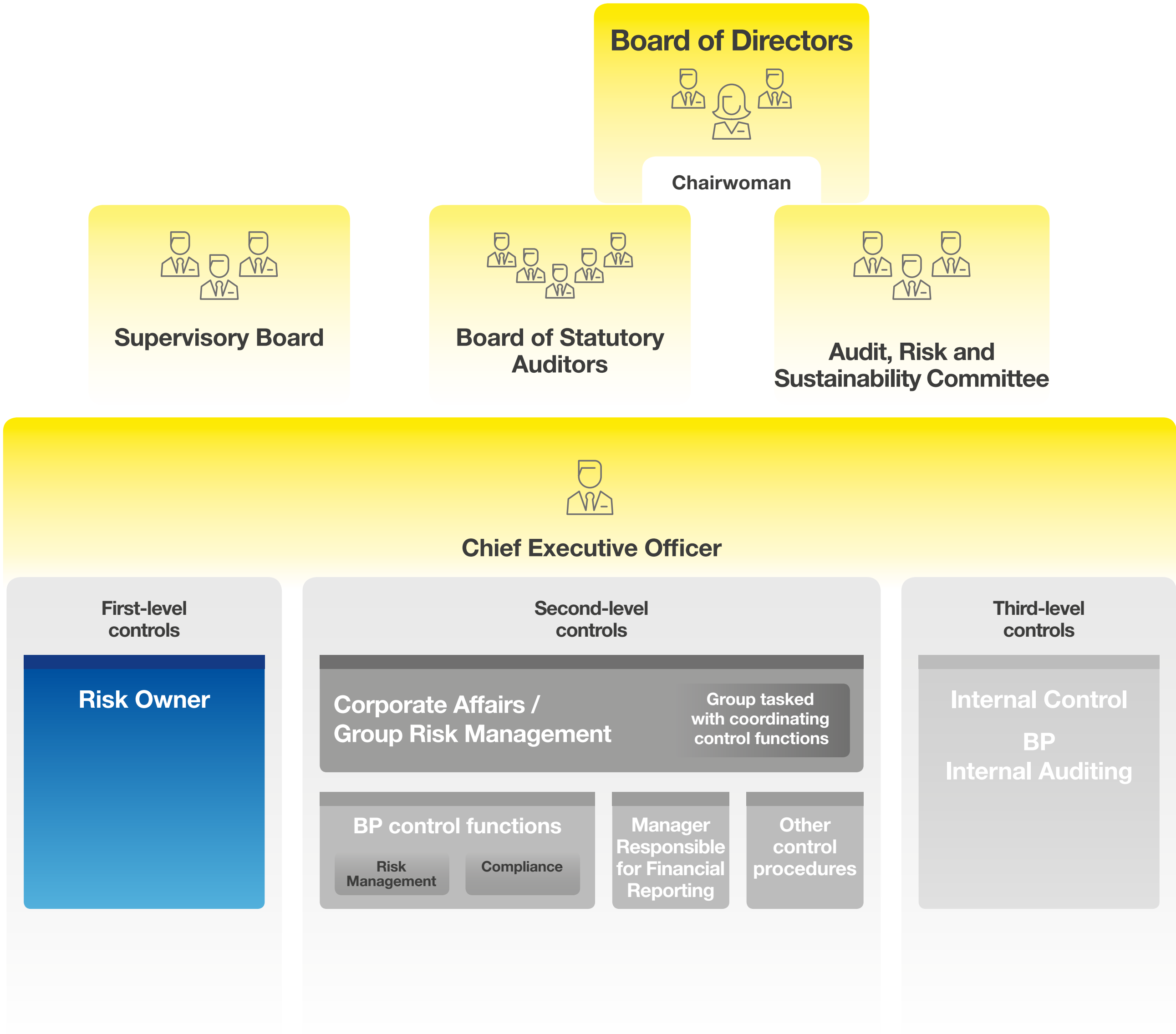
For this reason, the Company has proceeded to adopt an SCIGR that is integrated with both the system's internal and external environments. On the one hand, its components must be coordinated and interdependent with each other whilst, on the other, the overall system has to be integrated into the general organisational, administrative and accounting structures.

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

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

6. Further details of Poste Italiane's corporate governance system are provided in the Report on Corporate Governance and Ownership Structures for 2018.

POSTE ITALIANE'S INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM



Risk management and risk assessment

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

The main risks associated with the activities of the Poste Italiane Group are shown below.

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

The process for managing **financial risk** is regulated and overseen by supervisory authorities (the Bank of Italy and IVASS, the insurance industry regulator) and is the responsibility of the Risk Management units belonging to the various business units, coordinated by the function responsible for coordinating risk governance at Group level.

Financial risk primarily relates to the operations of BancoPosta RFC and PostePay's ring-fenced EMI (the active management of the liquidity deriving from postal current account deposits, and of collections and payments carried out in the name of and on behalf of third parties), asset financing and the investment of liquidity and, as regards the Poste Vita Insurance Group, investments designed to cover contractual obligations to policyholders.

Insurance risks derive from the stipulation of insurance contracts and the terms and conditions contained therein (technical bases adopted, premium calculation, the terms and conditions of cash surrender, etc.). In technical terms, mortality is one of the main risk factors for Poste Vita SpA, i.e. any risk associated with the uncertainty of a policyholder's life expectancy, alongside the risk associated with surrenders.

The main forms of financial risks to which the 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 between Italian and German government securities, which influences the fair value of the Group's holdings of Italian government securities, the nominal value of these securities at 31 December 2018 amounts to €126 billion (€148 billion in terms of total bond holdings)[7]. At the end of 2018, the spread on ten-year government bonds was 250 bps. The yield on 10-year Treasury Notes (BTPs), which at the beginning of the year stood at 2%, had risen to 2.74% by the end of the year, with a peak of 3.70% in October 2018. At 31 December 2018, the securities portfolio (BancoPosta RFC's securities had a nominal value of €51 billion) registered fair value losses of approximately €1.7 billion. However, trading in securities from the beginning of the year resulted in gains of €379 million, in line with the targets for 2018. During 2018, the Group completed forward sales with settlement in 2019 (advance execution with an impact on gains in 2019) and forward purchases of securities providing higher yields than expected in the Strategic Plan, with a resulting positive impact on the portfolio's profitability. Again, with regard to a widening of the spread, it should be noted that changes in BancoPosta RFC's fair value reserve are not taken into account when computing capital requirements. An increase in the spread also has an impact on Poste Vita's solvency ratio, which at 31 December 2018 is 211%, down from the 279% reported in December 2017. Given the performance of the spread and pressure on the solvency ratio, in 2018, the insurance company examined and implemented measures to support its solvency ratio, including the use of so-called ancillary own funds (AOFs), represented by unfunded capital instruments in the form of unsecured guarantees or commitments that may be included in the computation of own funds. The transaction designed to strengthen the company's capital position through the use of AOFs was formalised in November 2018 with Poste Italiane's signature of an unconditional, irrevocable commitment letter with a five-year term. The letter commits the Parent Company, merely at the request of the subsidiary, to subscribe for ordinary shares to be issued in future by Poste Vita, amounting to up to €1,750 million. Following clearance from IVASS, the commitment letter signed by the Parent Company in the subsidiary's favour can be 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 €1,000 million at 31 December 2018. This has had a positive impact on the solvency ratio of approximately 24 percentage points
Price	This is the risk that the value of a financial instrument fluctuates as a result of market price movements, deriving from factors specific to the individual instrument or the issuer, and factors that influence all instruments traded on the market
Credit	This is the risk of default of one of the counterparties to which there is an exposure. In relation to revenue and receivables due from the state and from central and local government entities, regulated by statute and specific agreements or contracts, prompt and full payment of the amounts due is dependent on availability of the necessary funds in the state budget or in the budgets of the related public sector entities
Liquidity	This is the risk that the Poste Italiane Group is unable to meet its obligations deriving from financial instruments due to its inability to raise sufficient funds or to effectively sell assets in the market (market liquidity risk), or at market conditions (funding liquidity risk). The Poste Italiane Group applies a financial policy based on diversification of the various forms of short-term and long-term borrowings and counterparties, the availability of significant lines of credit in terms of amounts and the number of banks, 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

7. The indicated amounts do not take into account the nominal value of forward purchases and sales of securities with a total nominal value of approximately €3 billion.

RISK CATEGORY	DESCRIPTION
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
Downgrade of the Italian Republic	This is the risk of a downgrade of the Italian Republic, to which Poste Italiane is indirectly exposed. Poste Italiane's rating is closely linked with the sovereign rating and, based on the methods currently used by the rating agencies, further downgrades of Italy could have a similar impact on Poste Italiane's ratings. In addition, any new downgrade of Italy, above all a downgrade to below investment grade, could cause a further widening of the spread between the yields on Italian and German government bonds, leading to the effects described in the "Spread risk" category

Incorporating risk management and sustainability within Poste Italiane's strategy

In 2018, Poste Italiane developed a framework with the priority goal of integrating ESG (Environmental, Social and Governance) principles into its strategy, governance and business processes. Poste Italiane has for some time now been working on a plan to, on the one hand, improve awareness and understanding of reputation risk and, on the other, integrate sustainability into all aspects of its strategy. This process if closely linked to decisions taken in response to changes in the operating environment, such as the additional disclosures required by investors, regulatory changes and the growing attention paid by stakeholders. This has required Poste Italiane to go beyond the current statutory requirements, developing specific cross-segment guidelines and drawing up an inclusive, open and transparent sustainability action plan, capable of supporting delivery of the Company's strategy and giving shared value to all its distinctive features.

In August 2018, Poste Italiane's Board of Directors, prior receiving opinion from the Audit, Risk and Sustainability Committee, approved the ESG Guidelines, which describe the activities carried out by the Poste Italiane Group with regard to sustainability issues. These include the uniform, consistent, cross-functional integration of the principles on which the concept of sustain-ability is based into the Group's various activities, the permanent, transparent and proactive involvement of stakeholders and oversight of the associated reputational risk.

The ESG Guidelines provide for, among other things, the establishment of a Cross-functional Sustainability Group (*Gruppo Interfunzionale di Sosteniblità* "GIS"), made up of representatives from central functions and from Group companies, who contribute to implementation of the sustainability strategy and are responsible for achievement of the goals included in the ESG Strategic Plan, given their roles as managers of the people, tools and know-how needed to proceed with the related implementation.

Implementation of this process enables the Group to pursue the following key objectives:

- to identify and engage with stakeholders in all phases of the process, with the aim of ensuring widespread, shared and close participation on the ESG goals integrated into the Group's strategy;
- to identify material topics in order to enable the Poste Italiane Group to adopt a Sustainable Development Policy in line with the related scenario analysis and the expectations of key stakeholders;
- to identify business and reputational risks, with particular attention to ESG risks (those of a social nature, including risks relating to human rights, and the environmental risks connected with climate change);
- to implement the actions decided and agreed on through coordination of the various functions involved;
- to use the available tools and models for monitoring sustainability initiatives, and the related indices measuring the Group's performance, to be implemented within the Group's GRC (Governance, Risk & Compliance) platform;
- to provide integrated reporting, above all for investors, illustrating how the organisation's strategy, governance, performance and outlook are enabling it to create value over the short, medium and long term;
- to promote the dissemination of a corporate culture increasingly based around the concept of sustainable development, by drawing up specific policies and appropriate communication campaigns targeting both external and internal stakeholders.

The level of integration of sustainability strategies within the organisational structure is an indicator of the robustness of a business's corporate governance processes, resulting in an understanding of how non-financial factors are managed.

Poste Italiane ranks in the "Top Ten" in the Integrated Governance Index for 2018.

In 2018, Poste Italiane was eleventh in the Integrated Governance Index (IGI) out of 47 companies, obtaining the tenth best score and this entering the "Top Ten". Poste Italiane was awarded almost 65% of the available points, placing the Company above average in the overall sample (54.5%). Moreover, at industry level, Poste Italiane ranks third, scoring just below the second ranked company and again above the average (56.2%).

The IGI is the result of the new Integrated Governance Survey and is drawn up with the involvement of Italy's top 100 companies by stock market capitalisation. The IGI takes a snapshot of companies' governance infrastructure and processes in order to gauge how they manage non-financial factors and assesses the level of companies' understanding and analysis of integrated governance.

5. Performance

Macroeconomic environment

The international macroeconomic environment was positive in 2018, despite a weakening of global growth. The economic cycle reached its peak at the beginning of 2018, with the pace of growth gradually dropping off over the rest of the year. The OECD, in its Interim Economic Outlook for November 2018, predicted global growth of 3.7%, in line with the figure for 2017, but lowered estimates for 2019 to 3.5% from the 3.7% predicted in September. The OECD also highlighted how performance was uneven among the various countries, noting that economic activity in the euro are had slowed more than expected[8].

The slowdown in growth resulted in an easing of commodity prices. After sharp increases in the third quarter ($82.69 a barrel on 28 September), the oil price fell to $54.15 by the end of the year. The agreement reached by OPEC and Russia at the beginning of December, reducing output, probably avoided a further fall in prices, but may not be sufficient to bring prices back towards $80, given that world demand is expected to be weak[9].

Trade tensions are having an impact on global trade. The uncertainty caused by US protectionism has dampened enthusiasm among economic operators and risks slowing investment, with a resulting impact on growth and jobs.

The impact of the trade tensions on the **United States** has been limited and the rate of growth continues to be one of the highest among the advanced economies, partly due to fiscal stimulus. Trend GDP growth in the third quarter was 3.5% per year, even if this was down from the 4.2% of the previous quarter. The trade deficit, however, continued to widen, with exports down 3.5% and imports up 9.1%, figures that have served to strengthen the current administration's protectionist policies. The Federal Reserve, having raised interest rates in December, increasing the FED Funds rate from 2.25% to 2.5%, dampened expectations of further rate rises in 2019 in view of the low rate of inflation. Investors expect strong growth in 2019, though the pace is expected to ease slightly[10].

Against a backdrop provided by the general slowdown in Europe, the **UK** economy continued to grow. Unemployment was stable at approximately 4%, helping to support consumer spending, despite rising inflation, whilst net exports made a positive contribution to GDP thanks to the weakness of sterling. The outcome of the Brexit process remains uncertain[11], as does the related impact on the economy and on relations with Europe.

China ended 2018 with average growth of 6.6%, after the 6.8% of 2017. Trend growth was slightly down in the last quarter compared with the previous quarter (6.4% and 6.5%, respectively). Signs of a slowdown are confirmed by the most recent figures for industrial output. Investment was slightly up, on the other hand, probably reflecting the new economic policy designed to boost public investment, above all at local level. The country is responding to trade tariffs with expansionary fiscal policies that have raised household disposable income and thus boosted internal consumption[12].

After forging ahead in 2017, the **euro area** is slowing more than expected. Annual growth in 2018 was 1.8%, compared with 2.5% in 2017. The trade surplus declined as European businesses proved highly sensitive to the prospects for the international market. Germany, above all, slowed, leading the government to cut its growth estimate for 2019 from 1.8% to 1%. On the supply side, manufacturing saw a slowdown in growth, with reduced order books also having an impact on services. The €-coin indicator[13] in December continued to reflect a worsening of business and consumer confidence, falling for the second month running from 0.47 in November to 0.42. A further decline in confidence could remove support for domestic consumption, which has so far remained solid, which would add to weak overseas demand. Following the end of

8. Source: OECD, Interim Economic Outlook, November 2018.
9. Source: https://finanza-mercati.ilsole24ore.com/quotazione-petrolio-brent-wti.
10. Source: Prometeia, Economic Outlook - December 2018; Il Sole 24 ore (October and December 2018)
11. Source: Prometeia, Economic Outlook - December 2018; Il Sole 24 (November 2018)
12. Source: Prometeia, Economic Outlook - December 2018; Il Sole 24 (January 2019).
13. 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).

Quantitative Easing, the ECB would find itself in the difficult situation of trying to normalise monetary policy in a decelerating economy[14].

Italy, like Germany, is slowing more than other European countries. Figures from ISTAT show that GDP was down 0.1% in the fourth quarter of 2018, resulting in an "acquired" growth rate of 0.9% for 2018[15]. Uncertainty had a negative impact on household spending and on business investment. The weakening economic cycle has particularly hit the manufacturing sector, where automobile production fell by almost 20%, whilst the production of intermediate goods was down 5.3%. This phase could continue into early 2019, whilst the expansionary effects of the economic measures approved by the government in December 2018 are expected to be seen in the second part of 2019[16].

The market for European government bonds in 2018 reflected the progressive slowdown in the euro area's economy. The yield on 10-year Bunds reached a peak of 0.80% on 8 February, before closing the year at 0.24%. In contrast, the yield on BTPs was affected by the political uncertainty surrounding the new government: the ten-year spread between BTPs and Bunds began the year at 163 bps, before falling to a low of 114 bps on 24 April. In the second part of 2018, the spread rose to 327 bps, before then falling in the last weeks of the year. At the end of 2018, the ten-year spread stood at 250 bps. The yield on ten-year BTPs, which had begun the year at 2%, closed 2018 at 2.74%, after reaching a peak of 3.80%.

Group financial review

Consolidated operating results

€m	2017	2018	Increase/(decrease)	
EXTERNAL REVENUE	10,629	10,864	+236	+2%
TOTAL OPERATING COSTS	9,506	9,366	(140)	-1%
EBIT *EBIT Margin %*	1,123 *10.6%*	1,499 *13.8%*	+376	+34%
NET PROFIT *EPS (€/SHARE)*	689 *0.53*	1,399 *1.07*	+709	+103%
ROE	10%	18%		
CAPEX *% of revenues*	467 *4.4%*	538 *5.0%*	+71	+15%

14. Source: Prometeia, Economic Outlook - December 2018; Il Sole 24 (January 2019).
15. "Acquired" GDP growth is the annual growth rate that would be obtained if growth in the other quarters of the year was zero.
16. Source: ISTAT, "GDP and public debt" – March 2018; ISTAT, "Quarterly economic performance" – March 2019; Il Sole 24 (January 2019).

EBIT amounts to €1,499 million, marking an increase of 34% compared with the previous year (€1,123 million), primarily due to revenue growth in almost all the Group's operating segments and a reduction in operating costs.

A particularly significant contributions came from the Financial Services Strategic Business Unit, where EBIT is up 33% from €646 million in 2017 to €859 million in 2018, and from the Payments, Mobile and Digital Strategic Business Unit, where EBIT is up 5% from €194 million in 2017 to €204 million in 2018.

Profit for the year is up €709 million, partly reflecting deferred tax income at Poste Vita (€385 million). Capital expenditure rose significantly in order to support the transformation of the Company and the individual businesses.

Reclassified consolidated statement of profit or loss

Increase/(decrease)		4° quarter 2017	4° quarter 2018	Results of operations for the year ended 31 December (€m)	Year 2018	Year 2017	Increase/(decrease)	
6.5%	**178**	**2,735**	**2,913**	**Total revenue**	**10,864**	**10,629**	**236**	**2.2%**
				of which:				
2.1%	20	971	991	Mail, Parcels & Distribution	3,580	3,632	(51)	-1.4%
5.5%	8	150	158	Payments, Mobile and Digital*	592	532	61	11.4%
12.6%	150	1,192	1,342	Financial Services*	5,221	5,010	211	4.2%
-0.2%	(1)	423	422	Insurance Services	1,470	1,456	15	1.0%
3.9%	**103**	**2,656**	**2,759**	**Total costs**	**8,796**	**8,961**	**(165)**	**-1.8%**
				of which:				
7.3%	134	1,852	1,986	Total personnel expenses	6,137	6,093	45	0.7%
2.3%	32	1,364	1,396	of which personnel expenses	5,519	5,593	(75)	-1.3%
21.0%	102	488	590	of which early retirement incentives	619	500	119	23.9%
-3.9%	(32)	804	773	Other operating costs	2,659	2,868	(209)	-7.3%
94.8%	**75**	**79**	**154**	**EBITDA**	**2,068**	**1,668**	**400**	**24.0%**
23.2%	31	133	164	Depreciation, amortisation and impairments	570	545	24	4.5%
81.6%	**44**	**(54)**	**(10)**	**EBIT**	**1,499**	**1,123**	**376**	**33.5%**
	1.6%	**-2.0%**	**-0.3%**	**EBIT Margin**	**13.8%**	**10.6%**	**3.2%**	
-457.3%	(66)	14	(52)	Finance income/(costs) and profit/(loss)	(8)	(55)	47	85.0%
-56.4%	**(22)**	**(39)**	**(62)**	**Profit before tax**	**1,490**	**1,067**	**423**	**39.6%**
n/s	(400)	(5)	(404)	Income tax expense	92	378	(286)	-75.8%
n/s	**377**	**(35)**	**343**	**Net profit**	**1,399**	**689**	**709**	**102.9%**
-	**0.26**	**-**	**0.26**	**Earnings per share**	**1.07**	**0.53**	**0.54**	**102.9%**

n/s: not significant

* The figures for 2018 and 2017 have been reclassified in accordance with the reorganisation following from the transfer of BancoPosta RFC's card payments and payment services unit (the Financial Services segment) to the newly established PostePay SpA (the Payments, Mobile and Digital segment) with effect from 1 October 2018.

Group Workforce	2018	2017	Increase/(decrease)	
Average worforce expressed in full-time equivalent terms	134,360	138,040	(3,680)	-2.7%
Ordinary unit cost of labour (€000)	41.1	40.8	0.3	0.7%

Group capital expenditure (€m)	2018	2017	Increase/(decrease)	
Group capital expenditure	538.2	467.4	70.8	15.1%
of which:				
Mail, Parcels & Distribution	416.0	380.0	36.0	9.5%
Payments, Mobile and Digital	52.5	41.9	10.6	25.4%
Financial Services	44.8	30.4	14.3	47.1%
Insurance Services	24.9	15.1	9.9	65.5%

Financial position (€m)	2018	2017	Increase/(decrease)	
Non-current assets	3,035	3,077	(42)	-1.4%
Net working capital	1,737	1,452	285	19.6%
Gross invested capital	4,772	4,529	243	5.4%
Sundry provisions and other assets/liabilities	(2,039)	(2,546)	507	-19.9%
Net invested capital	2,732	1,983	749	37.8%
Equity	8,105	7,550	555	7.4%
Net funds	(5,372)	(5,567)	195	-3.5%
Net funds of the Mail, Parcels & Distribution segment	(1,131)	(1,335)	204	-15.3%

The Group's total revenue of €10.9 billion is up €236 million (2.2%) compared with the previous year.

In detail, total revenue from Mail, Parcels and Distribution services amounts to €3,580 million, a reduction of 1.4% compared with 2017. This reflects a decrease in traditional letter post and in other revenue, partly offset by the performance of parcels, where volumes were up 12.6% from 113 million items in 2017 to 127 million in 2018, resulting in a 9.8% increase in revenue from €693 million to €761 million.

The Payments, Mobile and Digital segment contributed €592 million to total revenue, an increase of 11.4% compared with 2017. This reflects a good performance from card payments, where revenue is up from €238 million in 2017 to €291 million.

Total revenue from Financial Services amounts to €5,221 million, marking growth of 4.2% compared with the €5,010 million of the previous year. Alongside an improvement in the interest margin, the improvement reflects a 16.6% increase in commission income on the collection of postal savings deposits, reflecting the mechanisms established in the new agreement with Cassa depositi e prestiti, as well as a positive contribution from asset management. The result also reflects a reduction in realised gains, in line with the Group's new strategy of reducing the dependence of its results on non-recurring items, and a decrease in revenue due to the sale of Banca del Mezzogiorno–MCC, completed on 7 August 2017.

The Insurance Services segment contributed €1,470 million to total revenue, an increase of €15 million despite a reduction in gross premium revenue compared with the previous year (a decline of €3.7 billion). The improvement reflects the increase in the net investment result which, in contrast, benefitted from the greater volume of assets under management, and a positive contribution from the Non-life business.

As anticipated, total costs are down from the €9 billion of 2017 to €8.8 billion, a reduction of 1.8%. This primarily reflects a reduction in other operating costs, amounting to €2,659 million after a 7.3% reduction compared with the €2,868 million of 2017. This reflects higher provisions for risks and charges in 2017, for the most part linked to the operational risk associated with the Company's sale of units in real estate funds in the period between 2002 and 2005.

Personnel expenses of €6,137 million (€6,093 million in 2017) reflect a reduction of €75 million in the ordinary component, linked to a decrease in the average workforce (approximately 3,700 fewer FTEs compared with 2017) and an increase in the cost of early retirement incentives, which is up from €500 million in 2017 to €619 million in 2018, primarily due to provisions for early retirement schemes, totalling approximately €136 million, which will cover the cost of further early retirement initiatives for personnel meeting the related requirements in the next 5 years under existing legislation (such as, for example, the Solidarity Fund and art. 4 of the Fornero Law).

Depreciation, amortisation and impairments amount to €570 million (up 4.5% compared with 2017).

Net finance costs of €8 million compare with the figure of €55 million for 2017, which reflected the impairment loss of €82 million on the Contingent Convertible Notes issued by Alitalia in 2014, and the impairment loss of €12 million on the Atlante fund.

Income tax expense of €92 million (€378 million in 2017) benefitted from the positive impact of deferred tax income of €385 million recognised by Poste Vita on temporary differences resulting the application of paragraph 1-*bis* of art. 111 of the Consolidated Law on Income Tax (introduced by art. 38, paragraph 13-*bis* of Law Decree 78 of 31 May 2010). This legislation provides for a partial exemption (based on a specific percentage deduction) of the movement in the obligatory technical provisions relating to the Life business from taxation, whereas the full amount of such movements was previously included in the tax base for the purposes of IRES. In Poste Vita's case, the percentage deduction is 98.5%.

The company, in common with other leading players in the sector, has begun a review of its internal processes and developed and implemented appropriate information systems to support the correct assessment and recognition of the above deferred tax assets.

Net Profit for 2018 amounts to €1,399 million (€689 million for 2017).

Consolidated financial position and cash flow

at 31 December (€m)	2018	2017	Increase/(decrease)	
Property, plant and equipment and Investment property	1,993	2,053	(60)	-2.9%
Intangible assets	545	516	29	5.6%
Investments accounted for using the equity method	497	508	(11)	-2.2%
Total non-current assets	**3,035**	**3,077**	**(42)**	**-1.4%**
Trade receivables, Other receivables and assets and Inventories	6,914	6,170	744	12.1%
Trade payables and other liabilities	(5,282)	(4,788)	(494)	10.3%
Current tax assets and liabilities	105	70	35	50.0%
Net working capital	**1,737**	**1,452**	**285**	**19.6%**
Gross invested capital	**4,772**	**4,529**	**243**	**5.4%**
Provisions for risks and charges	(1,519)	(1,595)	76	-4.8%
Provisions for employee termination benefits	(1,187)	(1,274)	87	-6.8%
Deferred tax assets/(liabilities)	666	323	343	106.2%
Net invested capital	**2,732**	**1,983**	**749**	**37.8%**
Equity	**8,105**	**7,550**	**555**	**7.4%**
of which: net profit	*1,399*	*689*	*709*	*102.9%*
of which: fair value reserve	*(69)*	*371*	*(440)*	*-118.6%*
Financial liabilities	66,929	63,244	3,685	5.8%
Technical provisions for the insurance business	125,076	123,579	1,497	1.2%
Financial assets	(190,864)	(186,766)	(4,098)	2.2%
Cash and deposits attributable to BancoPosta	(3,318)	(3,196)	(122)	3.8%
Cash and cash equivalent	(3,195)	(2,428)	(767)	31.6%
Net funds	**(5,372)**	**(5,567)**	**195**	**-3.5%**

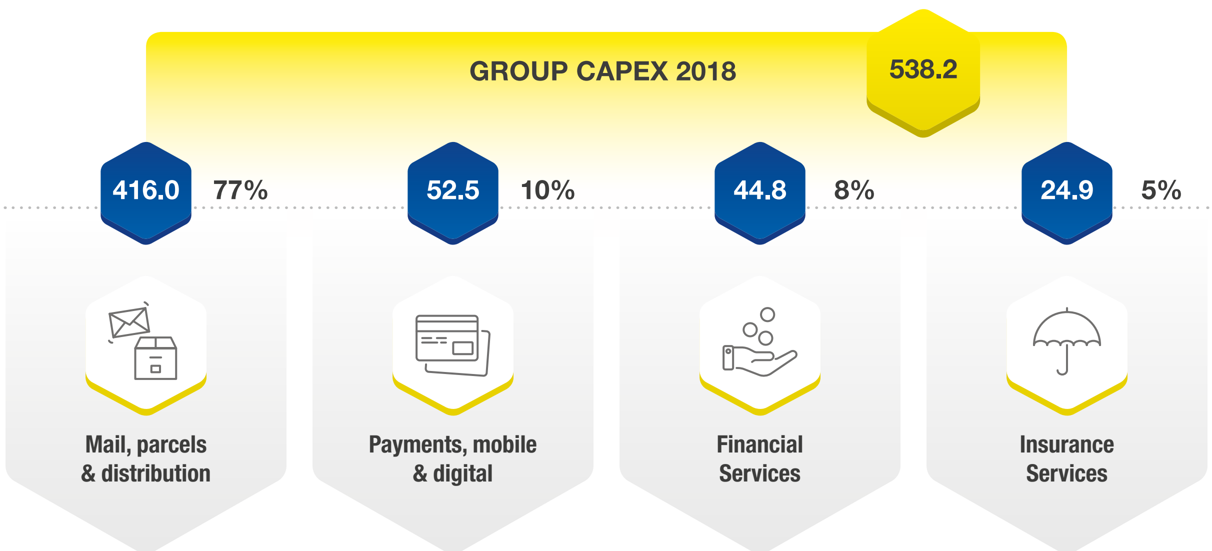
at 31 December 2018 (€m)	Mail, Parcels & Distribution	Payments, Mobile and Digital	Financial Services	Insurance Services	Adjustments and elimination	Total
Property, plant and equipment and Investment property	1,957	23	-	12	1	1,993
Intangible assets	467	30	-	48	-	545
Investments accounted for using the equity method	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
Total current assets	**(639)**	**(123)**	**882**	**1,619**	**(2)**	**1,737**
Net working 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*	-	*1,399*
of which: fair value reserve	*4*	-	*(72)*	*(1)*	-	*(69)*
Financial liabilities	1,259	4,307	67,022	1,034	(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 equivalent	(973)	(246)	(1,323)	(1,574)	921	(3,195)
Net debt/(funds)	**(1,131)**	**(36)**	**(2,197)**	**(2,008)**	**-**	**(5,372)**

at 31 December 2017 (€m)	Mail, Parcels & Distribution	Payments, Mobile and Digital	Financial Services	Insurance Services	Adjustments and elimination	Total
Property, plant and equipment and Investment property	2,025	18	1	9	-	2,053
Intangible assets	440	33	-	43	-	516
Investments accounted for using the equity method	1,294	286	222	157	(1,451)	508
Total non-current assets	**3,759**	**337**	**223**	**209**	**(1,451)**	**3,077**
Trade receivables, Other receivables and assets and Inventories	2,352	115	2,454	1,972	(723)	6,170
Trade payables and other liabilities	(2,892)	(171)	(1,526)	(781)	582	(4,788)
Current tax assets and liabilities	77	3	(1)	(9)	-	70
Net working capital	**(463)**	**(53)**	**927**	**1,182**	**(141)**	**1,452**
Gross invested capital	**3,296**	**284**	**1,150**	**1,391**	**(1,592)**	**4,529**
Provisions for risks and charges	(1,031)	(21)	(532)	(11)	-	(1,595)
Provisions for employee termination benefits	(1,253)	(3)	(16)	(3)	1	(1,274)
Deferred tax assets/(liabilities)	388	10	94	(170)	1	323
Net invested capital	**1,400**	**270**	**696**	**1,207**	**(1,590)**	**1,983**
Equity	**2,735**	**325**	**2,702**	**3,378**	**(1,590)**	**7,550**
of which: net profit	*(502)*	*146*	*499*	*546*	-	*689*
of which: fair value reserve	*12*	-	*180*	*179*	-	*371*
Financial liabilities	2,249	3,249	62,274	1,017	(5,545)	63,244
Technical provisions for the insurance business	-	-	-	123,579	-	123,579
Financial assets	(1,587)	(3,283)	(60,688)	(125,860)	4,652	(186,766)
Cash and deposits attributable to BancoPosta	-	-	(3,196)	-	-	(3,196)
Cash and cash equivalent	(1,997)	(21)	(396)	(907)	893	(2,428)
Net debt/(funds)	**(1,335)**	**(55)**	**(2,006)**	**(2,171)**	**-**	**(5,567)**

Changes 31 December 2018 vs.31 December 2017 (€m)	Mail, Parcels and Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and elimination	Total
Property, plant and equipment and Investment property	(68)	5	(1)	3	1	(60)
Intangible assets	27	(3)	-	5	-	29
Investments accounted for using the equity method	140	(6)	(8)	-	(137)	(11)
Total non-current assets	**99**	**(4)**	**(9)**	**8**	**(136)**	**(42)**
Trade receivables, Other receivables and assets and Inventories	182	267	344	461	(509)	744
Trade payables and other liabilities	(367)	(331)	(391)	(55)	649	(494)
Current tax assets and liabilities	9	(6)	2	31	(1)	35
Net working capital	**(176)**	**(70)**	**(45)**	**437**	**139**	**285**
Gross invested capital	**(77)**	**(74)**	**(54)**	**445**	**3**	**243**
'Provisions for risks and charges	51	5	20	-	(1)	76
Provisions for employee termination benefits	75	1	11	1	-	87
Deferred tax assets/(liabilities)	1	5	41	297	-	343
Net invested capital	**50**	**(63)**	**18**	**743**	**2**	**749**
Equity	**(154)**	**(82)**	**209**	**580**	**2**	**555**
of which: net profit	*130*	*7*	*118*	*455*	-	*709*
of which: fair value reserve	*(8)*	-	*(252)*	*(180)*	-	*(440)*
Financial liabilities	(990)	1,058	4,748	17	(1,148)	3,685
Technical provisions for the insurance business	-	-	-	1,497	-	1,497
Financial assets	170	(814)	(3,890)	(685)	1,121	(4,098)
Cash and deposits attributable to BancoPosta	-	-	(122)	-	-	(122)
Cash and cash equivalent	1,024	(225)	(927)	(667)	28	(767)
Net debt/(funds)	**204**	**19**	**(191)**	**163**	**-**	**195**

The Poste Italiane Group's **non-current assets** amount to €3,035 million at 31 December 2018, a reduction of €42 million compared with the figure at the end of 2017. This figure reflects investment of €538 million – offset by depreciation, amortisation and impairments, totalling €570 million – and the Parent Company's subscription, in April 2018, for shares issued by Anima Holding SpA as a result of its rights issue, amounting to €30 million. Further movements regard impairment losses of approximately €40 million recognised following impairment tests.

The Group's **investment** amounted to €538 million in 2018, an increase of 15% compared with 2017 (up €71 million).



In line with the investment programme for the period 2018-2022, designed to support delivery of the Strategic Plan, around 25% of the Group's investment (€133 million) focused on the transformation process and almost entirely regarded the **Mail, Parcels and Distribution Strategic Business Unit**.

Approximately €50 million was invested in the modernisation of technology infrastructure and in consolidating the Group's Data Centre infrastructure, whilst over €40 million was invested in new sorting equipment at the Bologna and Milan Peschiera Borromeo sorting centres, the automation of the hubs and in the lean program, which aims to automate Parcels and Mail operations. Approximately €10 million was invested in the rollout of the new "Joint delivery" model, which began in April and involved the reorganisation of 350 delivery centres, and around €7 million in the installation of LED lighting to replace fluorescent lighting in 1,032 buildings.

As part of the process of modernising its vehicle fleet, the Group is progressively introducing alternative electric delivery vehicles (3-wheeled vehicles). This will improve occupational safety and extend the process, launched in recent years, of adopting eco-friendly forms of transport, involving the introduction of a fleet of 4-wheeled electric vehicles.

Approximately 33% of investment (€178 million) regarded work on real estate, physical security and information technology, with aim of guaranteeing business continuity in the post office network, at head offices and delivery offices. This investment also focused primarily on the **Mail, Parcels and Distribution Strategic Business Unit**.

As part of IT-related initiatives, investment in the optimisation of the applications and systems used in supplying services. This included the "Cloud" project, which aims to migrate and transform the technology platforms used by the Mail, Parcels and Distribution segment to Cloud infrastructure.

Investment in ICT was allocated to the Strategic Business Units who made requests, although the Group's service model assigns responsibility for coordinating all the Group's investment for every Business Unit to a central department within Poste Italiane.

Around 14% of investment (€75 million) was spent on developing and/or defending the business and related to all the Business Units. The main items of expenditure included the development of letter post services, upgraded applications for the Electronic Postman platform, with the introduction of functions enabling delivery to alternative addresses or delivery points, investment in the start-up of PostePay, fixed and mobile telecommunications offerings, postal savings, retail loan products and development of the offerings marketed by Poste Vita and Poste Assicura.

Approximately 28% of investment focused on projects needed to meet legal requirements (€152 million). In the **Mail, Parcels and Distribution Strategic Business Unit**, approximately €70 million was invested in improving safety for employees in accordance with the related legislation (Legislative Decree 81/08) and approximately €20 million was spent on IT security, the GDPR and anti-money laundering. In the **Financial Services** Strategic Business Unit, around €27 million was spent on IT Risk, on the MiFID 2 regulations (3 January 2018) and the new IDD - Insurance Distribution Directive (1 October 2018).

Investment in the **Payments, Mobile and Digital** and **insurance Services** units also focused on the upgrade of systems to comply with the introduction of new regulations, such as Electronic Invoicing and, in the case of the Poste Vita Group, the GDPR (EU/679/2016).

Net working capital amounts to €1,737 million at 31 December 2018, an increase of €285 million compared with the end of 2017. This reflects an increase in receivables of €740 million, mainly due to an increase in payments on account of withholding tax and substitute tax on capital gains on Life insurance policies.

Provisions for risks and charges total €1,513 million (€1,595 million at the end of December 2017) and include provisions for early retirement incentives of €444 million, to cover the liabilities that Poste Italiane will incur, 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 operational risk, reflecting adjustments 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.

The €343 million increase in net deferred tax assets/(liabilities) primarily reflects the recognition of deferred tax assets of €385 million on the non-deductible movement in the obligatory technical provisions relating to the Life business and the net positive effect on taxation of fair value losses taken to reserves. These losses primarily reflect positive and/or negative movements in the value of investments classified in the new FVTOCI category (a net positive effect on deferred tax assets and liabilities of €121 million).

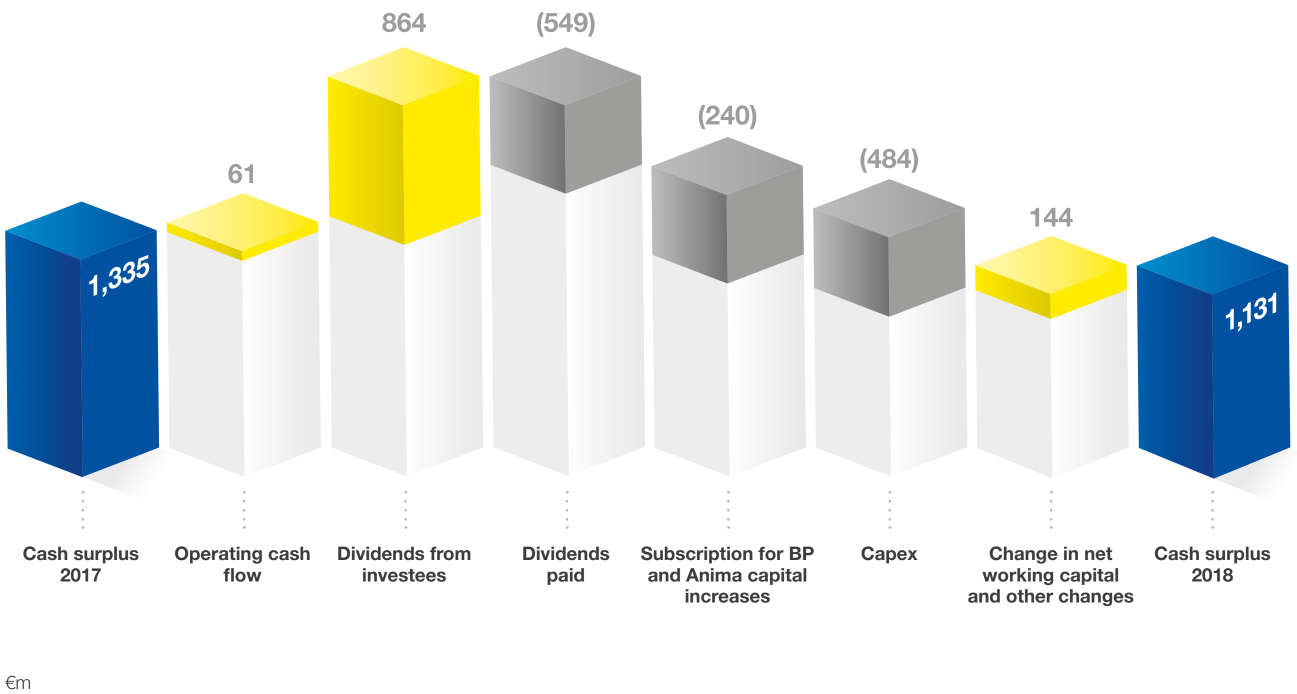
Equity amounts to €8,105 million at 31 December 2018, an increase of €555 million compared with 31 December 2017. The change primarily reflects net profit for the year of €1,399 million, partly offset by the payment of dividends totalling €549 million from net profit for 2017, a reduction of €440 million in the fair value reserve (including the positive effect of €1,233 million resulting from the transition to IFRS 9), reflecting movements (positive and/or negative) in the value of investments classified in the new FVTOCI category, and an increase of €150 million in the cash flow hedge reserve.

Total **net funds** at 31 December 2018 amount to €5,372 million, down from the figure at 31 December 2017 (when net funds totalled €5,567 million). The change during the period reflects the increase in net working capital and a reduction in the fair value of investments classified as FVTOCI, which is not reflected in the change in technical provisions for the insurance business (as these investments are primarily held by BancoPosta RFC).

With reference to the sale of the 100% interest in Banca del Mezzogiorno–Mediocredito Centrale SpA ("BdM") to the *Agenzia nazionale per l'attrazione degli investimenti e lo sviluppo d'impresa* (Invitalia) in 2017, on 31 October 2018, Invitalia informed Poste Italiane that the Bank of Italy had requested the buyer not to proceed with the reduction of BdM's capital scheduled for 2018, and preparatory to payment of a €40 million tranche of the related consideration. In line with the terms of the agreement, Poste Italiane and Invitalia, acting in good faith, have concluded an agreement that entails: i) Invitalia's payment of a sum of €20 million, which took place in February 2019; ii) payment of the remaining €20 million from the dividends to be paid by BdM in 2018, 2019 and 2020, taking into account the supervisory instructions and recommendations from the Bank of Italy. The remaining portion of the price, totalling €30 million, will be paid by June 2022 in accordance with the contract. Impairment losses of €20 million have been recognised on these receivables, following the prudent application of the measurement criteria in IFRS 9.

Analysis of the net debt/(funds) of the Mail, Parcels and Distribution Strategic Business Unit in accordance with ESMA guidelines

Net funds attributable to the Mail, Parcels and Distribution Strategic Business Unit at 31 December 2017, amounting to €845 million, have been adjusted to take into account a financial receivable of €490 million, following the reclassification of the investments in FSIA and Anima Holding, in the Payments, Mobile and Digital and Financial Services segments, respectively, which are now accounted for using the equity method. Net funds at 31 December 2018, before the above reclassification, amount to €611 million (taking into account the further €30 million incurred by the Parent Company in order to subscribe for the new shares issued by Anima Holding in 2018, in addition to the above €490 million).



The net funds attributable to the Mail, Parcels and Distribution Strategic Business Unit are down €204 million, from €1,335 million at 31 December 2017 to €1,131 million at 31 December 2018.

(€m)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
A. Liquidity	**(973)**	**(1,997)**	**1,024**	**-51.3%**
B. Current loans and receivables	**(57)**	**(245)**	**188**	**-76.7%**
C. Current bank borrowings	201	201	-	n/s
D. Current portion of non-current debt	-	763	(763)	-100.0%
E. Other current financial liabilities	23	82	(59)	-72.0%
F. Current financial debt (C+D+E)	**224**	**1,046**	**(822)**	**-78.6%**
G. Current net (funds)/debt (A+B+F)	**(806)**	**(1,196)**	**390**	**-32.6%**
H. Non-current bank borrowings	-	200	(200)	-100.0%
I. Bond issues	50	49	1	2.0%
J. Other non-current liabilities	27	36	(9)	-25.0%
K. Non-current financial debt (H+I+J)	**77**	**285**	**(208)**	**-73.0%**
L. Net (funds)/debt (ESMA guidelines) (G+K)	**(729)**	**(911)**	**182**	**-20.0%**
Non-current financial assets	(570)	(585)	15	-2.6%
Net (funds)/debt	**(1,299)**	**(1,496)**	**197**	**-13.2%**
Intersegment loans and receivables and financial liabilities	168	161	7	4.3%
Industrial net (funds)/debt after adjusting for intersegment transactions	**(1,131)**	**(1,335)**	**204**	**-15.3%**

This reflects:

- operating profit of €61 million (including €156 million in net profit and depreciation and amortisation and €95 million reflecting the change in provisions for risks and charges and for employee termination benefits or TFR);
- a net inflow from the change in equity, totalling €75 million, primarily due to net dividends of €315 million, (dividends received of €864 million, after dividends paid to shareholders of €549 million), net of the fresh capital injected into BancoPosta RFC, amounting to €210 million, and into Anima Holding SpA, totalling €30 million;
- an outflow of €484 million for investing activities;
- a net inflow from the change in net working capital and other transactions, totalling €144 million, primarily due to the gain of €120 million realised on the sale of shares in Anima SGR to Anima Holding.

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

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

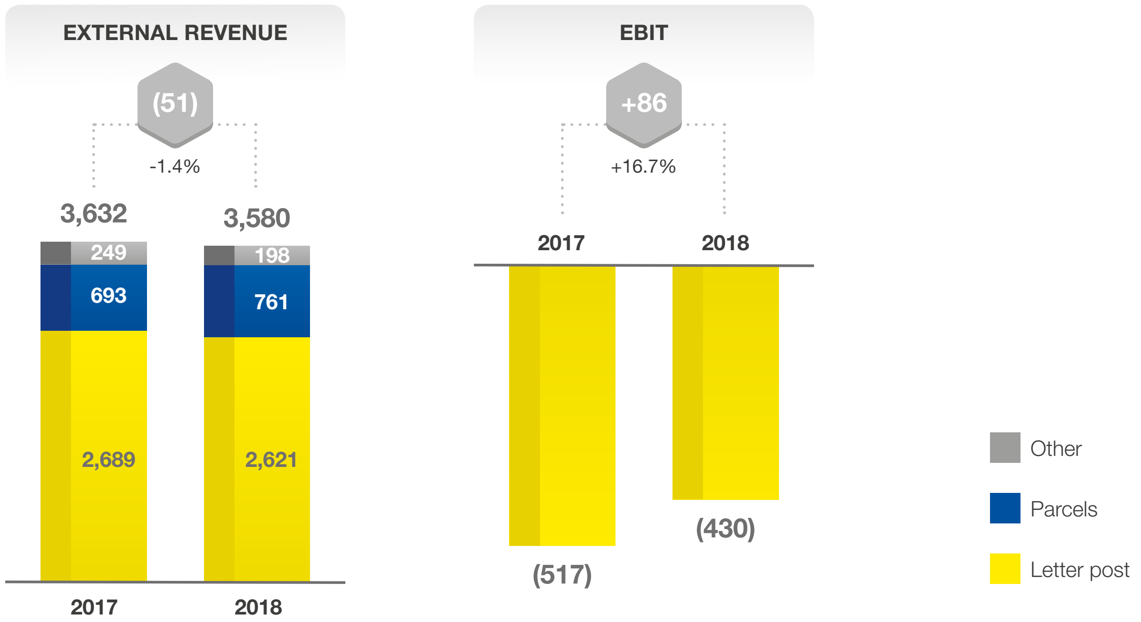
Another EIB loan of €200 million reached maturity and was repaid in April 2018.

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

Non-current financial assets include BTPs with a total value of €532 million (a nominal value of €500 million).

Operating results by Strategic Business Unit

MAIL, PARCELS & DISTRIBUTION

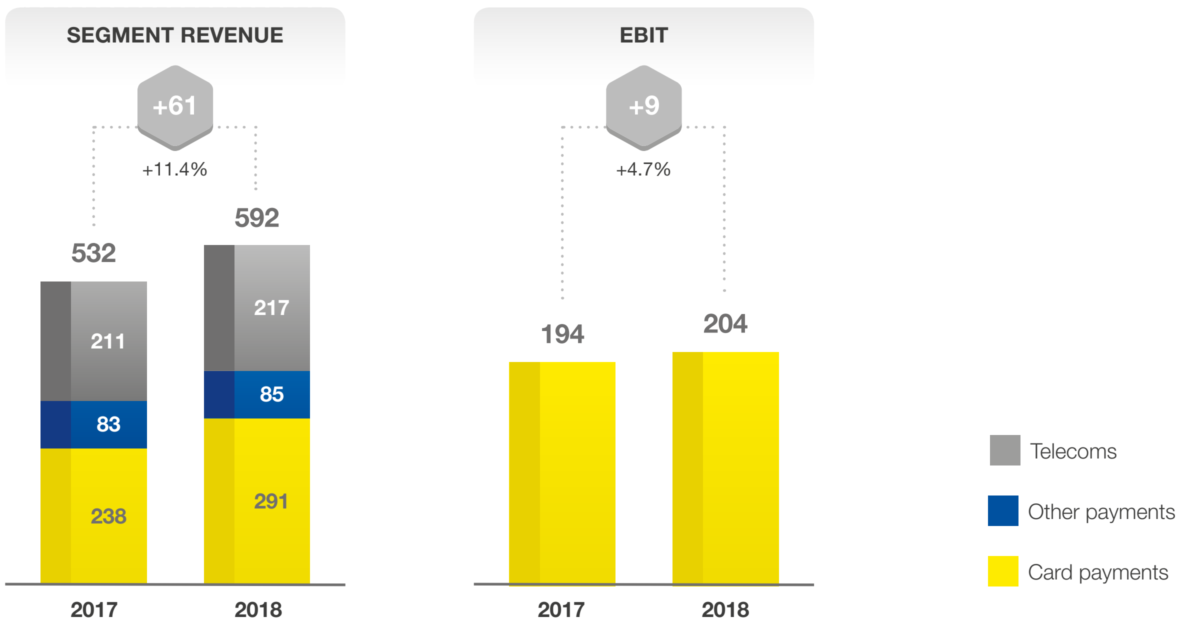


(€m)

Whilst registering a 3% decline, the Mail business recorded an improvement with respect to historical trends and the reduction was offset by growth in the Parcels business (up 10%), in line with the objectives set in the Deliver 2022 Plan.

EBIT, though negative, has improved thanks partly to process efficiencies following the introduction of the new delivery model, the cost efficiency drive and economies of scale generated by the increase in volumes, which has cut the average unit cost.

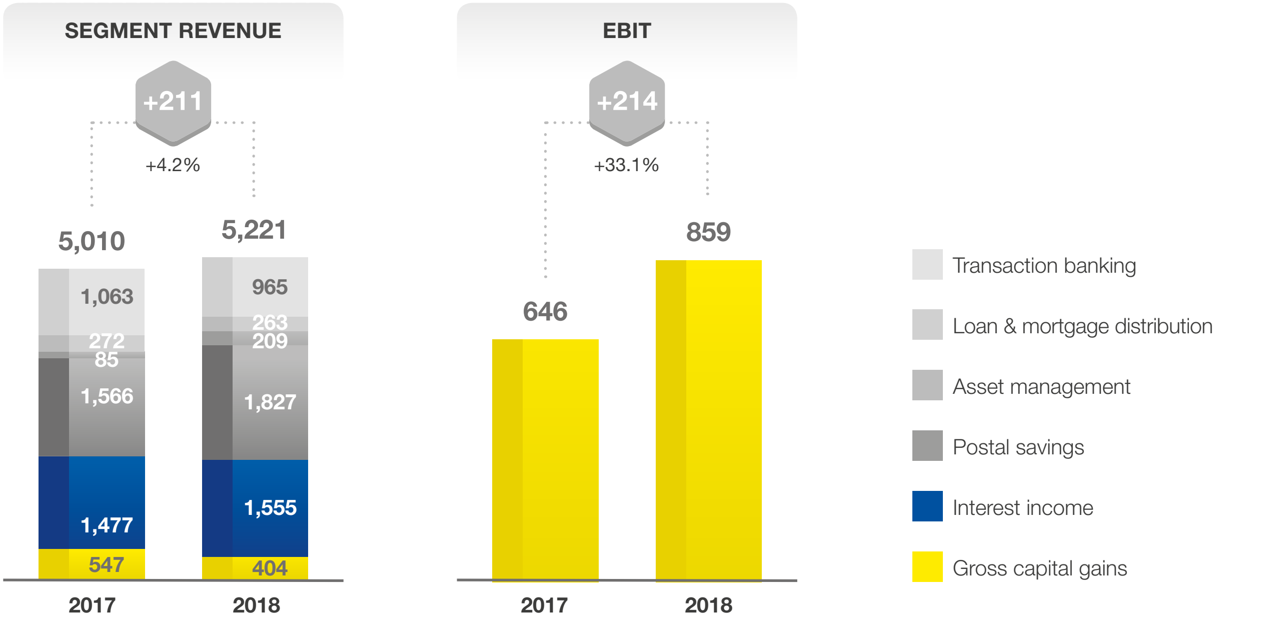
PAYMENTS, MOBILE & DIGITAL



(€m)

Card payments recorded a 22% increase in revenue, thanks to the contribution from PostePay Evolution. Revenue from the Mobile business are also up (3%), having benefitted from the good performance of fixed line services.

FINANCIAL SERVICES

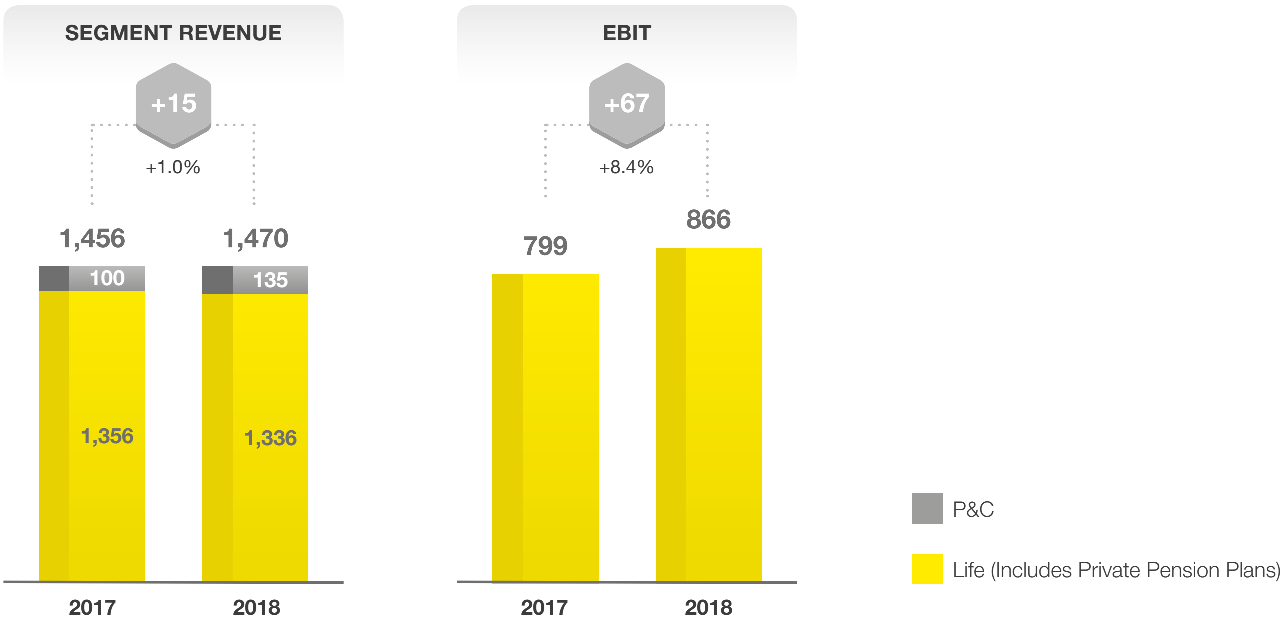


(€m)

Revenue from Financial Services is up 4%, reflecting a good performance from Postal Savings, and the positive contribution from assets management linked to the stronger partnership with the Anima group.

Gross gains realised, amounting to €404 million compared with the €547 million of 2017, are in line with the objective in the Deliver 2022 Plan to reduce the dependence of the segment's results on non-recurring items.

INSURANCE SERVICES



(€m)

EBIT is up 8.4% to €866 million, compared with €799 million for 2017. The Non-life business performed well during the year.

2018 (€m)	Mail, Parcels & Distribution	Payments, Mobile and Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Total revenue	**8,210**	**952**	**5,871**	**1,472**	**(5,641)**	**10,864**
External revenue	3,580	592	5,221	1,470	-	10,864
Intersegment revenue	4,630	360	649	2	(5,641)	-
Total costs	**8,641**	**748**	**5,011**	**606**	**(5,641)**	**9,365**
Total personnel expenses	5,989	31	80	38	-	6,137
of which personnel expenses	*5,381*	*31*	*70*	*37*	-	*5,519*
of which early retirement incentives	*608*	-	*10*	*1*	-	*619*
Other operating costs	2,056	304	214	84	-	2,659
Depreciation, amortisation and impairments	528	24	0	17	-	570
Intersegment costs	67	390	4,718	467	(5,641)	-
EBIT	**(430)**	**204**	**859**	**866**	**-**	**1,499**
EBIT MARGIN	**-5.2%**	**21.4%**	**14.6%**	**58.8%**		**13.8%**
Finance income/(costs)	(31)	4	(32)	51	-	(8)
Profit/(Loss) before tax	**(462)**	**208**	**827**	**917**	**-**	**1.490**
Income tax expense	(89)	55	210	(84)	-	92
Net profit	**(372)**	**153**	**617**	**1,001**	**-**	**1,399**

Mail, Parcels and Distribution Services

The postal services market

The postal services market is going through a period of radical change, primarily linked to the digital transformation of the economy, which has influenced the volume of letters and parcels in circulation. The ongoing decline in traditional mail, 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.

As part of the strategy designed to promote the digital single market and with the aim facilitating the shipment of parcels within the European market and drive the development of e-commerce, Regulation (EU) 2018/644 was approved on 4 March 2018.

The regulation supplements the measures contained in Directive 97/67/CE[17] regarding cross-border parcel delivery services and, for the purposes of implementation, establishes a minimum level of regulatory oversight. The role of Italy's national regulator (the Autorità per le Garanzie nelle Comunicazioni or AGCom) has been confirmed, and it has given specific responsibilities with a view to surveying the market and obtaining information on the providers of parcel delivery services currently operating in the market.

In this context, in view of the expected growth in online shopping and the development of new organisational and business models in post services markets, and considering the above measures in the EU regulation designed to standardise the conditions applicable to cross-border services, AGCom has issued **Resolution 399/18/CONS** of 25 July 2018. This launched a market survey of parcel delivery services in order to assess the outlook for competition and the impact of existing regulation, as well as to identify potential remedies designed to restore competition in order to protect users.

17. Directive 97/67/CE defines common rules for the development of the internal market for postal services within the EU and for the improvement of service quality.

Legislative and regulatory environment

The regulator issued Resolution **77/18/CONS** on 20 February 2018, setting out the regulations governing the issue of special licences to provide postal services relating to legal process and the notification of violations of the Highway Code. Poste Italiane's exclusive right to provide these services was eliminated with effect from 10 September 2017 by Law 124/2017. This licence is subject to meeting a series of requirements (e.g. reliability, professionalism and integrity) and satisfying certain universal service obligations covering the security, quality, continuity, availability and provision of the services.

The Ministry for Economic Development Decree, setting out procedures for the issue of the special individual licenses, was published in September 2018. Law 205 of 27 December 2017 (the 2018 Budget Law) and Law 145 of 30 December 2018 (the 2019 Budget Law) introduced changes to text of Law 890 of 20 November 1982, regarding the delivery of legal process and notifications of violations of the Highway Code by post.

Finally, according to the new regulatory framework governing these services, in Resolution **600/18/CONS** of 12 December 2018, the regulator has set out measures and the related procedures for the payment of compensation for legal process and violations of the Highway Code.

In Resolution **266/18/CONS**, dated 6 June 2018, AGCom has fixed new, higher basic rates for the universal postal services provided to publishers[18] (for shipments in excess of 2,000 copies) with effect from 1 July 2018. However, subsidised rates paid by publishers and non-profit associations and organisations are unchanged. This will ensure continued provision of a service of general economic interest, the aim of which is to make information available to end users.

In Resolution **453/18/CONS**, effective from 1 October 2018, the regulator then extended the new basic rates to shipments of less than 2,000 and approved the special prices proposed by Poste Italiane for such shipments.

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

The 2019 Budget Law has provided funding of €54.9 million for 2019 and, with respect to future years, has made provisions of €54.3 million for 2020 and €54.6 million for 2021.

Within the constraints imposed by AGCom Resolution **728/13/CONS** in order to protect consumers, from 3 July 2018, Poste Italiane has introduced new rates for certain universal services. The increases meet the need to maintain high standards of quality, enabling a partial recovery of the costs incurred in guaranteeing the universal postal service throughout the country. On 3 September 2018, the consumer associations, CODACONS and *Associazione Articolo* 32-97, lodged a challenge against the rate rises before the Lazio Regional Administrative Court. The hearing on the merits of the challenge has yet to be scheduled.

With Resolution **571/18/CONS**, published on 11 February 2019, AGCom has launched a public consultation on the assessment of the net cost of providing the Universal Postal Service in 2015 and 2016, with the estimated costs of providing the service amounting to €378 million for 2015 and €355 million for 2016, compared with revenue of €279 million and €262 million recognised by Poste Italiane. Interested parties have 45 days from publication of the Resolution in which to send their contributions to the consultation. The above figures may be adjusted by the regulator in its final decision following closure of the consultation.

In Resolution **452/18/CONS**, AGCom has introduced a “price test” in order to assess the effective replicability of bulk mail service offerings with a value in excess of €500 thousand. These services are carried out by Poste Italiane on behalf of major private customers or offered by the Company when bidding for contracts in public tenders. Replicability is measured in terms of the position of a postal operator who, in order to offer a complete delivery service, must use Poste Italiane's network in the areas in which it does not have a direct presence. The test aims to ensure compliance with the principle of non-discrimination and reduce the potential for Poste Italiane's competitors to suffer from margin squeeze[19].

18. Pursuant to Legislative Decree 261 of 1999, deliveries of books, catalogues, newspapers, periodicals and similar publications fall within the scope of the Universal Postal Service.
19. This is a form of anti-competitive behaviour designed to block entry to or exclude competitors from a market. It occurs when the difference between the price at which a vertically integrated provider sells a certain essential product or service – when that provider also has a dominant market position – and the downstream price is negative or insufficient to cover the competitors' costs.

Contratto di Programma (Service Contract)

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

The current *Contratto di Programma* (Service Contract) for 2015-2019 was signed by the parties on 15 December 2015 and is effective from 1 January 2016 to 31 December 2019.

Poste Italiane has begun talks with the interested parties with a view to reaching agreement on a new *Contratto di Programma*.

Mail, Parcels and Distribution segment profit or loss

Increase/(decrease)		4°quarter 2017	4°quarter 2018	Results of operations (€m)	Year 2018	Year 2017	Increase/(decrease)	
-3.4%	(25)	718	694	Mail	2,621	2,689	(68)	-2.5%
22.1%	42	191	233	Parcels	761	693	68	9.8%
4.1%	2	61	63	Other revenue	198	249	(51)	-20.6%
5.1%	54	1,051	1,105	Intersegment revenue	4,630	4,497	133	3.0%
3.6%	**74**	**2,022**	**2,096**	**Total revenue**	**8,210**	**8,129**	**82**	**1.0%**
8.2%	148	1,813	1,961	Personnel expenses	5,989	5,922	67	1.1%
3.3%	44	1,328	1,372	of which personnel expenses	5,381	5,430	(49)	-0.9%
21.5%	104	485	589	of which early retirement incentives	608	492	116	23.6%
-1.3%	(7)	582	574	Other operating costs	2,056	2,154	(98)	-4.6%
1.2%	0	16	16	Intersegment costs	67	64	3	4.2%
5.8%	**141**	**2,410**	**2,551**	**Total costs**	**8,112**	**8,141**	**(28)**	**-0.3%**
-17.2%	**(67)**	**(388)**	**(455)**	**EBITDA**	**98**	**(12)**	**110**	**917.9%**
23.9%	29	123	152	Depreciation, amortisation and impairments	528	505	24	4.7%
-18.8%	**(96)**	**(511)**	**(608)**	**EBIT**	**(430)**	**(517)**	**86**	**16.7%**
	-3.7%	**-25.3%**	**-29.0%**	**EBIT MARGIN**	**-5.2%**	**-6.4%**	**1.1%**	
-661.9%	(13)	(2)	(15)	Finance income/(costs)	(31)	(112)	81	72.2%
-21.3%	**(109)**	**(513)**	**(622)**	**Profit/(Loss) before tax**	**(462)**	**(629)**	**167**	**26.6%**
-36.6%	(42)	(114)	(155)	Income tax expense	(89)	(127)	38	29.8%
-16.9%	**(67)**	**(400)**	**(467)**	**Net profit**	**(372)**	**(502)**	**129**	**25.8%**

KPIs for the Mail, Parcels & Distribution segment	2018	2017	Increase/(decrease)	
Mail & Parcels				
Mail volumes (m)	2,951	3,124	(173)	-5.5%
Parcel volumes (m)	127	113	14	12.6%
Revenue/FTEs (€)	62,143	60,065	2,078	3.5%
Number of delivery centres	1,793	2,051	(258)	-12.6%
Vehicle load factor*	80%	78%		
Overall fleet size** ('000)	27.1	29.2	(2)	-7.4%
Progress of Joint Delivery model rollout	50%	n/a		
New PuntoPoste network (number of Lockers and alternative collection points)	417	5	412	n/s
Distibution				
Post offices	12,812	12,822	(10)	-0.1%
Customers (m)	34.9	34.4	0.5	1.5%
Customer visits to post offices / daily average (m)	1.42	1.45	(0.03)	-2.1%
Consulting rooms	6,509	6,482	27	0.4%
Stands promoting PosteMobile products and services	341	341	-	-
Poste office stands***	118	118	-	-
Postamat ATM network	7,282	7,257	25	0.3%

* Ratio of the load capacity used and the total load capacity of vehicles.
** Number of vehicles used in delivery operations.
*** 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 EBIT of €430 million, an improvement of €86 million compared with negative EBIT of €517 million for the previous year.

External revenue is down from €3,632 million to €3,580 million, a decline of 1.4% due to lower revenue from traditional letter post (down €68 million) and a fall in other revenue (down €51 million). Among other things, this includes the revenue generated by the airline, Mistral Air, which in 2018 progressively withdrew from the passenger transport market to focus exclusively on its cargo business. On the other hand, revenue from the parcels segment grew 9.8% (up €68 million compared with 2017), especially in the B2C segment, thanks to the ongoing expansion of e-commerce.

Total costs of €8,112 million are down compared with 2017 (a decline of €28 million), reflecting a reduction in other operating costs (down €98 million). This is primarily linked to a reduction in variable costs at the airline, Mistral Air, as a result of its previously mentioned withdrawal from the passenger transport market, at Postel due to a decline in the volume of printing, and a decrease in other costs following the release of provisions for disputes with third parties, as the related liabilities for which provision had been made in previous years failed to materialise.

Ordinary personnel expenses are down €49 million, reflecting a decrease in the average workforce. In contrast, provisions for early retirement incentives are up €116 million, in relation to the Company's decision to accelerate generational turnover through voluntary early retirement for employees who are close to retirement.

Net finance costs of €31 million represent a 72.2% improvement compared with the previous year, when the figure was impacted by the impairment loss (€82 million) on the Contingent Convertible Notes issued by Midco (the company that owns 51% of Alitalia SAI).

Performance analysis

Mail

	Volumes (m)				Revenue (€m)			
	2018	2017	Increase/(decrease)		2018	2017	Increase/(decrease)	
Unrecorded Mail	1,347	1,381	(34)	-2.5%	775	811	(35)	-4.4%
Recorded Mail	203	199	4	2.1%	997	982	15	1.5%
Direct Marketing	503	545	(42)	-7.7%	127	142	(15)	-10.8%
Integrated services	27	29	(1)	-4.0%	188	203	(15)	-7.6%
Other*	870	970	(100)	-10.3%	273	289	(16)	-5.7%
Universal Service Obligation (USO) compensation**	-	-	-	-	262	262	-	-
Total Mail attributable to the Group	**2,951**	**3,124**	**(173)**	**-5.5%**	**2,621**	**2,689**	**(68)**	**-2.5%**

* Includes services for publishers, multi-channel services, printing, document management, other basic services. This item also includes tariff subsidies relate to external revenue earned on products and services discounted in accordance with the law.
** Universal Service compensation also includes compensation relating to the standard parcels service.

The performance of the Group's Mail services saw volumes and revenue decrease by 5.5% (173 million fewer items) and 2.5% (down €68 million), respectively, compared with 2017. This essentially reflects the structural decline in demand for traditional postal services as a result of the digitalisation of the economy.

In detail, the contraction in volumes of Unrecorded Mail (34 million fewer items, or 2.5% less than in the previous year) led to a fall in revenue of €35 million (4.4%).

The Recorded Mail segment registered an increase in volumes and revenue of 2.1% (4 million more items), and 1.5% (up €15 million), respectively, compared with 2017. This primarily reflects growth in inbound international registered mail relating to the shipment of small objects linked to the development of e-commerce.

Direct Marketing volumes are down 7.7% (42 million fewer items), due to customers rationalising their mail spend. This slow-down led to a contraction in revenue of 10.8% (€15 million).

Integrated Services registered an increase in volumes and revenue of 4.0% and 7.6%, respectively, compared with the previous year. This was primarily due to the positive contribution from the Integrated Notification Service provided to the Municipality of Milan, to which the Company currently only provides delivery services for legal process.

Finally, other revenue that includes, among other things, revenue from the Printing services provided by the subsidiary, Postel, is down 10.3% in volume terms (100 million fewer shipments) and 5.7% in revenue terms (down €16 million) compared with 2017, due to a decline in the market for printing services. Publisher tariff subsidies amount to approximately €61 million and are also included in other revenue (€43 million in 2017).

The compensation partially covering the cost of the Universal Service for 2018, as provided for in the 2015-2019 Service Contract in force, amounts to €262 million.

Parcels

	Volumes (m)				Revenue (€m)			
	2018	2017	Increase/(decrease)		2018	2017	Increase/(decrease)	
B2B	31	29	2	7.5%	219	207	11	5.4%
B2C	74	58	16	27.0%	301	236	66	27.8%
C2C	6	6	(0)	-2.9%	57	59	(2)	-2.6%
Other*	17	20	(3)	-17.0%	184	191	(7)	-3.7%
Total Parcels	**127**	**113**	**14**	**12.6%**	**761**	**693**	**68**	**9.8%**

* This item includes international parcels, partnerships with logistics operators, dedicated services, integrated logistics and other revenue.

The performance of the Parcels segment saw growth in volumes and revenue of 12.6% (14.2 million more items) and 9.8% (€68.2 million), respectively, compared with 2017. 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 €301 million, an increase of 27.8% compared with 2017, on 74 million items shipped. The B2B segment, which in 2017 was adversely affected by industrial action at the subsidiary, SDA, in September and October, registered growth in both volumes and revenue of 7.5% (2 million more items) and 5.4% (€11 million), respectively.

Operating review

Following agreement with the labour unions, the progressive rollout of the new "Joint delivery" model began in April. The new model, which aims to keep pace with the development of e-commerce and changing customer needs, enables parcels to be delivered via the network of postmen and women, introducing afternoon and weekend shifts.

The flexibility offered by the "Joint delivery" model also played a role in the conclusion of an agreement with Amazon in June, covering the delivery of products throughout Italy. Thanks to this partnership, which will have a duration of three years, renewable for a further two, the Group will help to drive the development of e-commerce in Italy.

Progressive expansion of the new PuntoPoste network, providing 417 points for collecting online purchases and sending returns and prefranked or prepaid parcels, began during the year. The new PuntoPoste network offers customers 328 lockers (automated kiosks equipped with touchscreens, barcode readers and mini-printers) located in the self-service areas of a number of post offices and in high footfall locations such as supermarkets, shopping centres, fuel stations and 89 alternative collection points to meet the growing need for readily accessible service points and flexible opening hours. Major progress was made in this sense with the conclusion of a framework cooperation agreement between Poste Italiane and the Federation of Italian Tobacconists, which enables tobacconists' shops to join the PuntoPoste network.

Work continued during the period on improving sorting processes through the introduction of automation. This included the installation of new mail sorting systems at the Bologna and Milano Peschiera Borromeo sorting centres and the reorganisation, on a lean manufacturing basis, of 7 sites in the sorting office network (Turin, Padua, Bologna, Bari, Naples, Florence and Rome, with the introduction, for example, of new equipment designed to make operations and workstations safer and more ergonomic).

In addition, as part of the process of modernising its vehicle fleet, the Group is progressively introducing alternative electric delivery vehicles (3-wheeled vehicles). This will improve occupational safety and extend the process, launched in recent years, of adopting eco-friendly forms of transport, involving the introduction of a fleet of 4-wheeled electric vehicles.

The quality of the Universal Postal Service

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, together with those regarding ordinary mail reported by the independent body.

			Performance	
	Delivered within	Target	2018	2017
Posta 1 - Priority*	1 day	80.0%	85.9%	n/a
Posta 1 - Priority*	2 days	80.0%	92.3%	n/a
Posta 1 - Priority*	1 day	80.0%	n/a	82.2%
Posta 1 - Priority	4 days	98.0%	98.9%	99.1%
Posta 4 - Ordinary	4 days	90.0%	87.6%	91.4%
Posta 4 - Ordinary	6 days	98.0%	96.5%	97.1%
Bulk mail	4 days	90.0%	98.5%	96.7%
Bulk mail	6 days	98.0%	99.7%	99.6%
Registered mail	4 days	90.0%	95.0%	95.1%
Registered mail	6 days	98.0%	97.9%	98.0%
Insured mail	4 days	90.0%	99.3%	99.6%
Insured mail	6 days	98.0%	99.8%	99.9%
Standard parcels	4 days	90.0%	95.1%	92.2%

* The figure for 2018 has been calculated as J1 in unregulated municipalities and J2 in regulated municipalities, following the introduction of the new alternate day delivery model in regulated areas. The figure for 2017 is based on J1 at national level, without distinguishing between regulated and unregulated municipalities.

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 as per art. 102 of the TFEU. This does not constitute acceptance or admission of liability in relation to the alleged misconduct and does not affect the Company's right to defend its position through the appropriate channels. At 31 December 2018, the provisions made in 2017 have been used in full.

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

In November 2018, **Consorzio Postemotori** received notice of an order issued by the Criminal Court in Rome and of the precautionary seizure of a BancoPosta current account in the consortium's name, amounting to €4.6 million. This was accompanied by precautionary measures concerning both the people under investigation and real property. In response, the consortium's management board declared itself in full agreement with the considerations and conclusions contained in two independent expert opinions, one of which regarded the public law aspects of the concession under which the consortium provides its services to the Ministry of Infrastructure and Transport (management and registration of payments due from users in return for the services provided by the Department of Land Transportation) and the other the related tax aspects. The former concluded that the concession's legal framework and, in particular, the payments due to the consortium, are in compliance with the legislation governing service concessions, without identifying any critical issues or illegality regarding the payments due or the billing of those payments. The latter judged the risk of potential tax liabilities for the consortium as a result of the charges brought by the Public Prosecutor to be remote.

Payments, Mobile and Digital

The market for mobile and digital payments

The card payments market again registered growth in 2018, continuing the trend seen in 2017. The latest available figures show that the total value of transactions stood at €160 billion in September 2018 (up 6.5% compared with the same period of the previous year), despite a reduction in the average value of individual transactions for every type of card. This reduction indicates increasingly widespread usage, partly due to the progressive extension of the service to segments where use is less intensive. Prepaid cards saw the sharpest growth in terms of both value and the number of transactions (up 24% and 30%, respectively, compared with the same period of the previous year). Credit cards, on the other hand, were again the second most used form of payment after debit cards, generating transactions worth €50 billion in approximately 700 million transactions (up 12% compared with the same period of the previous year) and resulting in an increase in the average spend[20].

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. The average time spent on the internet is 6 hours a day, including 2 hours primarily spent on social media.

Digitalisation is also a growing priority for the Public Administration. The SPID, the Public Digital ID system aims to provide citizens with a single system for logging in to access all the online services provided by the Public Administration. The system enables access to over 4,300 online services provided by approximately 4,000 participating central and local government entities, including INPS, the tax authority, municipal authorities and universities[21]. In 2018, the number of people registering for the SPID digital identities provided by Poste Italiane rose by around 700,000, with highs of over 5,000 registrations a day coinciding with tax deadlines.

In July 2018, the process of pre-notification of the SPID to the European Commission, begun on 24 November 2017, was completed in accordance with the requirements of eIDAS (electronic IDentification Authentication and Signature) regulation. Following pre-notification, Italy is the second European country, after Germany, to opt for reciprocal recognition of its national digital identity system and the first to pre-notify a system that involves the private sector.

According to the latest available figures[22], **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 September 2018 amounts to 103 million, including approximately 20 million Machine to Machine (M2M) SIM cards. In terms of market share, PosteMobile, with a total market share of approximately 4%, accounts for approximately 47% of the total customers of mobile virtual network operators[23].

2018 has seen a strengthening of competition in the sector as a result of the launch of the new operator, Iliad, followed, at the end of June, by the entry of Ho.Mobile, Vodafone's second brand. Against this backdrop, PosteMobile was the only operator to increase its market share, thanks to its defensive segmented marketing and pricing strategies, which enabled it to stop customers switching and prevent SIM cards from remaining unused.

The growth of the Internet of Things (IoT) market[24] also strengthened in 2018, with revenue expected to rise by up to 11% by 2025.

Regulatory environment

Legislative Decree 218 of 15 December 2017 has transposed the EU's Payment Services Directive (EU 2015/2366 or PSD2) into Italian law. This was followed, in March 2018, by publication of Delegated Regulation (EU) 2018/389, supplementing PSD2 and defining the requirements to be met by payment service providers (PSPs) in terms of the implementation of specific security measures. Poste Italiane has planned the necessary technology upgrades to ensure compliance with the new statutory requirements, which will come into effect from 14 September 2019.

20. Source: Bank of Italy – Data based on supervisory reports, back up by internal and external data provider estimates.
21. Source: www.spid.gov.it
22. Source: AGCom Communications Observatory no. 4/2018.
23. Source: AGCom Communications Observatory no. 4/2018.
24. The Internet of Things (IoT) is the expression used to define all electronic equipment and devices, other than personal computers, that are connected to the Internet. These include fitness sensors, cars, radios and air-conditioning systems, but also electrical applicances, lighting, video cameras and shipping containers.

The new text of the Digital Administration Code (DAC), as amended by Legislative Decree 217 of 13 December 2017, came into effect on 27 January 2018. The aim of the revision of the DAC is to ensure that citizens have the right to access their data, documents and services in digital form. Extension of the DAC to include public service providers, as part of the application process, produces a series of effects and will require changes to the way that digital services are provided.

The related providers will also, in relation to public interest services, be required to accept payments in electronic form – including via the use of mobile phone credits – using the platform made available by AgID.

On 17 September 2018, the European Banking Authority (EBA) published a document concerning Guidelines on reporting requirements for fraud data. The guidelines require payment service providers to supply detailed information on frauds linked to the various forms of payment to their respective supervisory authorities, who are then required to share aggregated data with the EBA and the ECB.

On 4 December 2018, the EBA published Guidelines regarding the technical standards regulating strong customer authentication and common and secure open standards of communication in accordance with Delegated Regulation (EU) 2018/389, which has supplemented Directive (UE) 2015/2366 (the PSD2) - "Final report. Guidelines on the conditions to benefit from an exemption from the contingency mechanism under Article 33 (6) of Regulation (EU) 2018/389 (RTS on SCA & CSC)". The Guidelines sets out the conditions that account servicing payment service providers (ASPSPs) must meet in order to be exempted from the obligation to prepare contingency measures under article 33 of Regulation (EU) 2018/389 regarding the strong customer authentication and common and secure open standards of communication. The EBA has encouraged ASPSPs to begin testing and implementing their interfaces ahead of the September 2019 deadline and the Bank of Italy has already notified, in a consultation document, its intention to apply the guidelines in full. The bank has announced that they will apply to banks, Poste Italiane SpA as regards Bancoposta's operations, payment service providers, electronic money institutions and financial intermediaries authorised to provide payment services.

Payments, Mobile and Digital segment profit or loss*

		4°quarter			Year			
Increase/(decrease)		2017	2018	Results of operations (€m)	2018	2017	Increase/(decrease)	
20.1%	13	66	79	Card payments	291	238	53	22.3%
-6.9%	(2)	27	25	Other payments	85	83	2	2.9%
-5.4%	(3)	57	54	Telecoms	217	211	5	2.6%
5.5%	5	89	94	Intersegment revenue	360	361	(1)	-0.3%
5.5%	**13**	**239**	**252**	**Total revenue**	**952**	**892**	**60**	**6.7%**
-11.4%	(1)	9	8	Personnel expenses	31	31	(0)	-0.9%
-11.4%	*(1)*	*9*	*8*	*of which personnel expenses*	*31*	*31*	*(0)*	*-0.9%*
-	-	-	-	*of which early retirement incentives*	-	-	-	-
13.3%	10	78	89	Other operating costs	304	281	23	8.2%
7.3%	7	94	101	Intersegment costs	390	363	27	7.3%
9.0%	**16**	**181**	**197**	**Total costs**	**725**	**675**	**49**	**7.3%**
-5.4%	**(3)**	**58**	**55**	**EBITDA**	**227**	**217**	**10**	**4.8%**
10.9%	1	6	6	Depreciation, amortisation and impairments	24	22	1	6.1%
-7.3%	**(4)**	**52**	**48**	**EBIT**	**204**	**194**	**9**	**4.7%**
	-2.6%	**21.8%**	**19.1%**	**EBIT MARGIN**	**21.4%**	**21.8%**	**-0.4%**	
68.3%	1	1	2	Finance income/(costs)	4	7	(3)	-38.3%
-5.3%	**(3)**	**53**	**51**	**Profit/(Loss) before tax**	**208**	**201**	**6**	**3.2%**
-0.6%	(0)	14	14	Income tax expense	55	55	(1)	-1.1%
-7.0%	**(3)**	**39**	**36**	**Net profit**	**153**	**146**	**7**	**4.8%**

* The figures for 2018 and 2017 have been reclassified in accordance with the reorganisation following from the transfer of BancoPosta RFC's card payments and payment services unit (the Financial Services segment) to the newly established PostePay SpA (the Payments, Mobile and Digital segment) with effect from 1 October 2018.

KPIs for the Payments, Mobile & Digital segment	2018	2017	Increase/(decrease)	
Number of cards in issue (m)*	26.6	25.2	1.4	5.7%
of which Postepay cards stock(m)	19.0	17.7	1.3	7.6%
of which Postepay Evolution cards stock (m)**	6.3	4.7	1.6	33.0%
Payment card transactions (m)	1,100	932	167.7	18.0%
of which e-commerce transactions (m)	202	165	36.9	22.4%
Total value of card transactions (€m)	28,147	23,879	4,268	17.9%
Postepay Digital e-Wallets in issue (m)	2.8	1.7	1.1	64.0%
Registered online users (m)	17.6	15.0	2.6	17.7%
App downloads (m)	21.6	15.0	6.6	44.0%
Daily online users (web and app) (m)	1.5	1.3	0.2	13.8%
Electronic identification (m)	2.6	1.8	0.7	39.8%
Digital financial transactions - Consumers (m)	47.9	39.4	8.6	21.7%
New PosteMobile lines ('000)	1,094	1,123	(28.7)	-2.6%

* The figure includes Postepay and Postamat cards and Credit Cards.
** The figure includes business customers.

The Payments, Mobile and Digital segment reports EBIT of €204 million for 2018, an increase of 4.7% compared with the previous year.

Total revenue of €952 million (up 6.7%) benefitted from the positive performance of card payments, which recorded growth of 22.3% (€53 million), and a 2.6% increase in mobile revenue (up €5.4 million).

Card payments also includes revenue from acquiring services, which doubled compared with 2017, rising from €3.6 million to €7.5 million (an increase of 109%) thanks to growth in the value of transactions due to an increase in prepaid cards.

At 31 December 2018, there are approximately 19 million Postepay cards in circulation (17.7 million in 2017), including 6.3 million Postepay Evolution cards, an increase of 33.0% compared with 31 December 2017.

Revenue from other payments totals approximately €85 million (up 2.9% compared with 2017) and reflects the positive performance of revenue from bank transfers (up 56% compared with 2017) and from the processing of tax payments using forms F23/F24 (up 1.6%), which offset the reduction in revenue from international transfers (down 14% compared with 2017).

The reduction in mobile service revenue, after taking into account intersegment items (down €6.4 million), reflects a decline in revenue from product sales, offset by an increase in fixed line revenue (up €13.8 million), due to strong growth in the PosteMobile Casa customer base, which is up from 42,000 lines in 2017 to 118,000 in 2018.

The segment's total costs amount to €725 million, an increase of 7.3% compared with 2017 and in line with the growth in revenue. Intersegment costs are up 7.3% and primarily include the cost of distribution, IT management, back office, customer care activities involved in monitoring fraud and customer communication services provided by other segments within Poste Italiane to the card payments and payment services business.

After income tax expense for the year (€55 million), the segment's net profit amounts to €153 million, up 4.8% on 2017.

Operating review

In order to effectively respond to changes in the market and the entry into effect of the European Payment Services Directive (PSD2), in 2018, the Group embarked on a strategy designed to expand PosteMobile's operations, including through the creation of a new Payments, Mobile and Digital Strategic Business Unit and the launch of operations typical of an electronic money institution ("EMI"), following the company's transformation into a hybrid EMI.

Following the transfer, pursuant to art. 2558 of the Italian Civil Code, of BancoPosta's payment services unit to PosteMobile, following its removal from BancoPosta RFC's ring-fence, PosteMobile was renamed PostePay and operates, in its role as a hybrid EMI, as a payment service provider and as a card issuer, following the creation of a specific ring-fenced entity.

PostePay aims to be the largest digital payments platform in Italy, operating in synergy with Italy's most widespread distribution network, made up of post offices, in order to enable the Poste Italiane Group to consolidate its role as a driver of the country's development and innovation. PostePay forms part of Poste Italiane's digital transformation in response to a changing competitive scenario in the payments sector, designed to take advantage of the opportunities offered by market deregulation and the changes in progress.

The first product to be launched by PostePay SpA, from November 2018, was Postepay Connect, the integrated solution that exploits the synergies between connectivity and digital payments. Postepay Connect combines the advantages of Postepay Evolution and PosteMobile SIM cards in order to offer an integrated digital experience via its Postepay App. The product brings together payment services and telecommunications services in a single offer with an annual charge. It provides services designed for the community represented by Postepay Connect customers, such as: the real-time transfer free of charge of data (G2G) from PosteMobile Connect SIM card to another PosteMobile Connect SIM card; money transfers between two Postepay accounts (p2p); the purchase of extra data using the Postepay App with the cost debited automatically to a Postepay Evolution account; automatic renewal of the card and the SIM debited to a Postepay Evolution account.

As regards collections, partly in response to development of the PagoPA platform, made available by the Digital Italy Agency (AgID), enabling the progressive digitalisation of payments to Public Administration entities, work was carried out in 2018 on reengineering the payment slip product. In this regard, from October 2018, payment slips are now integrated into payment notices from Public Administration entities and can be used to effect payments through either physical (post offices) or digital channels. This development marks an important milestone in the digital transformation, which envisages the development of services making it easier to make payments to the Public Administration.

In response to changes in the competitive scenario in the mobile market, the Group has further enhanced its customer acquisition strategy in 2018, revising price plans, in terms of both line rental and service charges, and launching specific promotions designed to build customer loyalty, stop customers switching and prevent SIM cards from remaining unused in an attempt to safeguard the quality of acquisitions.

In terms of fixed line services, the PosteMobile Casa offering consolidated its competitive position in its target market, launching cross-selling promotions with other products marketed by Poste Italiane.

Work on boosting the Internet of Things (IoT) offering proceeded with the launch, for consumers, of the *PosteMobile Qui* solution, an App that allows the user to locate their pet.

In compliance with Law Decree 4 of 28 January 2019, Poste Italiane will handle applications for the citizen's basic income through our widespread network of over 12,800 post offices, and will issue the cards necessary in order to access the related financial benefits.

This will be carried out in implementation of the service previously assigned to Poste Italiane by article 81, paragraph 35.b) of Law Decree 112 of 25 June 2008, regarding the *Carta Acquisti* (Social Card). The service will be provided on the same financial terms and conditions as for the Social Card and will involve the issue of the same number of electronic cards needed to distribute the benefit.

Financial Services

Financial market trends[25]

After a particularly positive 2017, 2018 was marked by a high degree of equity market volatility. Having seen the S&P reach an all-time high at the end of September 2018, on the back of strong growth in the domestic economy and improved corporate earnings, in part thanks to the tax reform introduced at the end of 2017, US markets then proceeded to give up the gains accumulated since the beginning of the year. This reflected fears that a worsening of trade tensions with China and Europe could have a negative influence on the global economy and on corporate earnings. 2018 ended with the S&P 500 down 6.24% and the Euro Stoxx 50 off 14.34%. The FTSE MIB closed the year down 16.15%.

The market for European government bonds was impacted by the progressive slowdown in the euro area's economy in 2018. The yield on 10-year *Bunds* reached a peak of 0.80% on 8 February, before closing the year at 0.24%. In contrast, the yield on BTPs was affected by the political uncertainty surrounding the new government: the ten-year spread between BTPs and Bunds began the year at 163 bps, before falling to a low of 114 bps on 24 April. In the second part of 2018, the spread rose to 327 bps, before then falling in the last weeks of the year. At the end of 2018, the ten-year spread stood at 250 bps. The yield on ten-year BTPs, which had begun the year at 2%, closed 2018 at 2.74%, after reaching a peak of 3.80%.

BTP SPREAD OVER *BUND* 10 YEARS

This performance was reflected in management of the securities portfolio. By the beginning of the year, all the gains necessary to complete the process of stabilising revenue in 2018 had been achieve in line with the Plan target for 2018, and a series of forward sales of government securities were carried with settlement at the beginning of 2019. In the second half of the year, management of the portfolio focused on purchases of securities maturing towards the end of 2018, in addition to those maturing in early 2019 and securities to replace those sold for settlement at the beginning of 2019. All the purchases achieved yields that were higher than expected and above those available until May 2018. Yields towards the higher end of the BTP curve also benefitted from deposits from Public Administration customers, which were deposited with the Ministry of the Economy and Finance. The return on these deposits was significantly higher in the second half of 2018 than in the first half.

25. Source: Bloomberg.

The euro progressively weakened over 2018, reflecting the slowdown of the euro area economy and the fact that the US economy continued to see solid growth ahead of expectations. In this scenario, the euro declined from approximately US$1.20 to the euro to US$1.15.

Banking system[26]

Funding by banks operating in Italy in 2018, represented by deposits by resident Italian savers (current accounts, certificates of deposit and repurchase agreements) and bond issues, was stable overall. Estimates from ABI (the Italian banking association) indicate that total funding in December 2018 amounted to approximately €1,732 billion, registering a year-on-year increase of 0.2%. As in previous years, this is due to a year-on-year increase in deposits by resident Italian savers of approximately €38 billion in absolute terms (up 2.6% on December 2017), which more or less offset a sharp decline in bond issues, amounting to approximately €34 billion (a year-on-year reduction of 12.3%). The cost of bank funding (deposits, bonds and repurchase agreements) progressively eased from the beginning of 2018, declining from 0.69% in January to 0.61% in December. Bank lending rose consistently over the year: according to estimates from ABI for December 2018, total lending to Italian residents (private sector and the Public Administration) - excluding interbank loans – amounted to approximately €1,720 billion, presenting a year-on-year increase of 1.92%. Household loans also rose, recording a 2.7% year-on-year increase as at December 2018.

Doubtful loans within the banking system, after impairments and provisions made from own funds, amounted to approximately €29 billion in December 2018, sharply down compared with the figure for December 2017 (€64 billion). In percentage terms, doubtful loans have fallen from 3.70% of total lending in December 2017 to 1.72% in December 2018. The average interest rate applied to household loans (current account overdrafts and revolving credit) continued to fall, declining to 4.53% in December 2018 (5.0% in December 2017).

Regulatory environment

On 3 January 2018, the new Directive 2014/65/EU (so-called “MiFID2”) came into effect throughout the European Union. Together with MiFIR - Markets in financial instruments regulation (Regulation (EU) 600/2014), the Directive has amended the previous regulations. The new regulations have increased the efficiency and transparency of financial markets, boosting protections for investors and strengthening certain organisational requirements and rules for intermediaries.

During 2018, the platform used to support the consultancy service was further enhanced and developed, with initiatives designed to add new functions and strengthen interactions with customers.

On 16 May 2018, the decree implementing Directive (EU) 2016/97 on insurance distribution (the “IDD”) as published, before coming into effect on 1 October 2018. This legislation regulates the distribution of insurance contracts and brings into line the rules governing insurance broking with those applicable to investment services, reforming the various models and systems designed to protect customers. Application of the legislation, which will affect the processes involved in product governance, customer profiling, assessment of whether or not the recommended product meets the customer’s needs and the provision of information is the subject of a specific cross-functional project at Group level. In particular, Class I insurance-based investment products have been included in the “MiFID” consulting service, resulting in changes to the contract governing the provision of investment services, in the product governance process and in the scope of investment services.

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

On 9 July 2018, the Ministry of the Economy and Finance published Circular 22 of 15 June 2018, regarding the application of PSD2 (the Payment Services Directive) by the Public Administration (PA) who use treasury or cash management services provided by a bank or by Poste Italiane. The aim is to identify, with regard to the application of PSD2, the statutory requirements applicable to the PA, the specific nature of the treasury (or cash) management services, the aspects that might have an impact on the relationship between the PA and the treasurer/cash management provider, and the accounting solutions enabling the correct application of the new legislation.

26. Source: ABI, Monthly Outlook – February 2019

On 13 December 2018, the European banking Authority (EBA) published a "Consultation Paper. EBA draft guidelines on ICT and security risk management" and began a public consultation in accordance with EU Directive 2366/2015 (PSD2). This requires the Authority to draw up guidelines for the definition, implementation and audit of the security measures that payment service providers must adopt in order to manage operational and IT security risks. The consultation is due to come to an end on 13 March 2019.

On 19 December 2018, the Bank of Italy, in implementing the guidelines issued by the EBA on "Governance arrangements and product oversight for retail banking products", dated 22 March 2016, published a Directive amending the provisions regarding "Transparency of banking and financial transactions and services. Fairness in dealings between intermediaries and customers" (issued by the Bank of Italy on 29 July 2009, as amended). This Directive sets out the procedures for governing and reviewing banking and financial products, detailing the organisational measures that intermediaries are required to adopt in order to monitor and audit products for retail customers falling within the scope of Title VI of the Consolidated Law on Banking. The new regulations will only apply to products developed and offered on the market from 1 January 2019.

Financial Services segment profit or loss*

		4°quarter			Year			
Increase/(decrease)		2017	2018	Results of operations (€m)	2018	2017	Increase/(decrease)	
-100%	(10)	10	-	Gross capital gains	404	547	(143)	-26.2%
8.4%	31	373	404	Interest income	1,555	1,477	78	5.3%
22.6%	89	394	483	Postal savings	1,827	1,566	261	16.6%
-26.7%	(88)	330	242	*Transaction banking*	965	1,063	(98)	-9.2%
10.8%	7	63	70	Distribution of third-party products	263	272	(9)	-3.4%
592.2%	122	21	142	Asset management	209	85	123	144.5%
-3.4%	(6)	166	161	Intersegment revenue	649	695	(46)	-6.6%
10.7%	**145**	**1,358**	**1,503**	**Total revenue**	**5,871**	**5,705**	**165**	**2.9%**
-58.9%	(12)	20	8	Personnel expenses	80	103	(24)	-23.0%
-57.6%	*(10)*	*18*	*8*	*of which personnel expenses*	*70*	*97*	*(27)*	*-27.7%*
-71.5%	*(1)*	*2*	*1*	*of which early retirement incentives*	*10*	*6*	*3*	*48.0%*
-31.3%	(39)	124	85	Other operating costs	214	349	(135)	-38.7%
229.5%	0	0	0	Depreciation, amortisation and impairments	0	1	(0)	-54.6%
4.9%	53	1,082	1,135	Intersegment costs	4,718	4,607	111	2.4%
0.2%	**2**	**1,226**	**1,228**	**Total costs**	**5,011**	**5,060**	**(49)**	**-1.0%**
108.0%	**142**	**132**	**274**	**EBIT**	**859**	**646**	**214**	**33.1%**
	8.5%	**9.7%**	**18.3%**	**EBIT MARGIN**	**14.6%**	**11.3%**	**3.3%**	
n/s	(41)	1	(40)	Finance income/(costs)	(32)	6	(38)	-641.0%
75.9%	**101**	**133**	**234**	**Profit/(Loss) before tax**	**827**	**651**	**176**	**27.0%**
774.3%	39	5	44	Income tax expense	210	152	58	38.0%
48.3%	**62**	**128**	**190**	**Net profit**	**617**	**499**	**118**	**23.6%**

n/s: not significant

* The figures for 2018 and 2017 have been reclassified in accordance with the reorganisation following from the transfer of BancoPosta RFC's card payments and payment services unit (the Financial Services segment) to the newly established PostePay SpA (the Payments, Mobile and Digital segment) with effect from 1 October 2018.

KPIs for the Financial Services segment	31 December 2018	31 December 2017	Increase/(decrease)	
TFA - Total Financial Assets1 (€bn)	513,8	509,9	3,9	0.8%
of which				
Postal Savings	325,3	322,9	2,4	0.7%
Interest-bearing postal certificates	*219,5*	*214,3*	*5,2*	*2.4%*
Postal Saving Books	*105,8*	*108,6*	*(2,8)*	*-2.6%*
Current Accounts	52,8	51,9	1,0	1.8%
Technical provisions for Life insurance business	125,0	123,5	1,5	1.2%
Mutual funds	8,1	8,0	0,1	1.2%
Assets under custody	2,7	3,6	(1,0)	-26.2%
CET1 Capital (€m)	2,286	2,059	226,8	11.0%
CET1 Ratio	18.4%	16.9%	1.5%	
Leverage Ratio	3.2%	3.1%	0.1%	

* Include asset management (bonds, government securities, equity instruments, certificates, etc.).

	2018	2017	Increase/(decrease)	
Net inflows* (€m)	1,568	3,286	(1,718)	-52.3%
Average postal savings (€bn)	307,6	305,6	2,0	0.6%
Average current account deposits** (bn)	58,7	55,5	3,1	5.6%
Loans and mortgages - volumes lent (€m)	3,143	2,642	501	19.0%
Product sales (m)	8,4	8,0	0,3	4.1%
Fees per client*** (€)	235	222	13,0	5.9%
Average return excluding capital gains	2.62%	2.64%	-0.02%	
Net capital gains (€m)	379	532	(153)	-28.8%
Unrealised capital gains (€m)	(1,687)	1,615	(3,302)	-204.5%

* Net inflows include asset management (bonds, government securities, equity instruments, certificates, etc.).
** The figure does not include Poste Italiane's own liquidity.
*** The figure includes revenue from financial and insurance services.

The Financial Services Strategic Business Unit generated EBIT of €859 million in 2018, an increase of 33.1% compared with the previous year (€646 million).

Total revenue of €5,871 million is up 2.9% on the €5,705 million of 2017, reflecting the good performance of postal savings (up 16.6% or €261 million), partly reflecting the mechanisms established in the new agreement with Cassa depositi e prestiti, applied from 1 January 2018, the performance of interest earned on the investment of current account deposits, which is up €78 million (up 5.3% compared with 2017) as a result of an increase in deposits during the period (up from €55.0 billion in 2017 to €58.7 billion in 2018), and the positive contribution from asset management (up €123 million), linked to the partnership between Poste Italiane and Anima Holding.

Gross gains during the period total €404 million, compared with €547 million in 2017, in line with the goal set in the Deliver 2022 Plan of reducing the dependence on non-recurring items.

Transaction banking revenue is down 9.2% from €1,063 million in 2017 to €965 million, primarily due to the sale of shares in Mastercard during 2017 for €91 million and a downturn in the volume of payment slips processed.

The modest reduction in income from the distribution of third-party financial products, amounting to €263 million in 2018 compared with €272 million in 2017 (down 3.4%), is primarily due to the loss of revenue linked to the sale of BDM-MCC on 7 August 2017. Despite adoption of the new accounting standard, IFRS 15, as a result of which fees to be passed on to partners, following the early repayment of loans, are to be accounted for as a direct reduction in revenue from 1 January 2018, this category of revenue is up as a result of the increased volume of loans and salary loans arranged in 2018.

The segment's total costs €5,011 million are down €49 million (1.0%) compared with the previous year, primarily due to a decrease in other operating costs (down €135 million or 38.7%), partially offset by an increase in intersegment costs of

€111 million (up 2.4%). The change in other operating costs is above all due to a reduction in net provisions for risks and charges compared with 2017, relating to potential liabilities resulting from the sale of investment products in the period between 2003 and 2005 whose performance was not in line with customers' expectations. Personnel expenses are also down, declining from €103 million to €80 million (a decrease of 23.0%), reflecting the sale of BdM and the reorganisation of BancoPosta from 1 October 2018.

After net finance costs, broadly relating to the impairment loss recognised on the investment in Anima Holding at 31 December 2018, following the conduct of an impairment test, and income tax expense, the segment ended 2018 with net profit of €617 million, up 23.6% (€118 million) on the €499 million of 2017.

Operating review

In line with the Deliver 2022 Plan, commercial initiatives in 2018 were designed to enhance the offering of postal savings products, and develop the distribution of financial, insurance, consumer credit and corporate loan products and services.

In terms of **Postal Savings**, the new agreement between Poste Italiane and Cassa depositi e prestiti for the three-year period 2018-2020, signed in December 2017, came into effect in 2018. On the one hand, the intention is to consolidate the role played by Interest-bearing Postal Certificates and Savings Books in the Italian savings market and, on the other, to launch a new and expanded range of products and services, partly thanks investment in technology, advertising, promotions and training. As a result, the offering was enlarged in 2018, in terms of both the type of product and returns. Training was provided to personnel responsible for promoting Interest-bearing Postal Certificates and Savings Books to the public and a number of promotional and communication campaigns were launched. Further steps were also taken in 2018 to improve the customer experience, taking better account of customer needs, including through both digital inclusion initiatives and a multi-channel approach. In December 2018, the BancoPosta App was expanded with new functions relating to the management of Interest-bearing Postal Certificates and Savings Books, making it possible to manage Postal Savings products in one place together with the other products and services offered by BancoPosta. The activities carried out during the year resulted in an increase in net inflows with respect to the previous year.

With regard to the distribution of financial products, On 11 April 2018, Poste Italiane and Intesa Sanpaolo signed a three-year framework agreement for the distribution of specific products and services offered by the two groups. Under this agreement, and with particular regard to asset management, Poste Italiane's network has begun to distribute BancoPosta Orizzonte Reddito, a mutual investment fund created as a result of the partnership between BancoPosta Fondi SGR and Eurizon Capital SGR, a wholly owned subsidiary of Intesa Sanpaolo.

In terms of loans, at the end of July 2018, the offer of property mortgages provided by Intesa San Paolo solely to employees of Poste Italiane was launched. The offer of mortgages, in order to purchase property or to replace or refinance an existing mortgage, was extended to all customer in October 2018.

With regard to the real estate funds marketed in the period between 2002 and 2005, on 19 February 2018, Poste Italiane SpA's Board of Directors approved an initiative designed to protect customers of the Europa Immobiliare 1 fund. On 28 March 2018, the manager of the fund, Vegagest SGR, announced to the market that it had provisionally suspended the resolution approving the final liquidation financial statements and, in June 2018, approved the partial repayment to quotaholders of 50% of the final liquidation value. Poste Italiane's Board of Directors subsequently reviewed the above initiative designed to protect customers, with the resulting impact on risks and charges at 31 December 2018 of approximately €17 million.

On 29 January 2019, Vegagest SGR announced to investors that it was to pay a further return of €98.78 per quota. Payment took place on 6 February 2019.

With regard to asset management, the Group launched 8 new mutual investment funds in 2018, 6 of which resulting from the partnership with Anima SGR.

In terms of loans provided by partners (to private and corporate customers), a number of promotions were run during the year for specific categories of borrower, supported by advertising campaigns.

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, low-cost alternative.

With regard to insurance products, bearing in mind the introduction of the IDD regulation from 1 October 2018, the range of products was strengthened and improved in terms of its ability to meet customer needs, cover and pricing. In the Life segment, the offering of Class I products was restructured and new products were launched. One of these offers investors the option of making flexible payments and to receive periodic returns, whilst another is a multiclass policy combining the capital guarantees typical of Class I products with the opportunity to invest in an internal insurance fund offering various levels of risk. In the Protection segment, new products were launched and the offering was reviewed. In addition, a new Protection and Pensions platform was launched to provide advice on insurance products.

Other information

Bank of Italy

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

Following an inspection of a sample of post offices that was completed in December 2017, relating to efforts to combat money laundering and the financing of terrorism, in May 2018, the Bank of Italy invited BancoPosta to provide a report, updated to 30 September 2018, on the progress made in implementing all the initiatives undertaken in this regard. The report in question, containing a list of the initiatives implemented as of the above date and those to be taken in future, together with the related time-scale, was sent to the Bank of Italy on 29 October 2018, after having been presented to Poste Italiane's Board of Directors on 18 October 2018.

CONSOB

The changes made to the related procedures and IT systems, and the further initiatives planned for 2018 in order to implement the MiFID II Directive, were the subject of a specific report to the CONSOB in March 2018.

In July and August, two requests were received from the CONSOB: the first, dated 27 July, was also sent to other intermediaries and regarded an in-depth assessment of the key issues relating to implementation and application of MiFID II; the second, dated 13 August, contained a request for a meeting with the aim of obtaining greater details on the provision of investment services. During this meeting, held at the CONSOB in September 2018, additional information was provided with respect to the information previously made available, and the related implementation plan was presented, in line with the details submitted to the regulator in the Tableau de Bord on Compliance at 30 June 2018, supplemented with further guidance based on evidence emerging during the process. Finally, during the above meeting, the CONSOB requested further details on specific issues, later formalised in writing, to which the Group gave a full and timely response.

Insurance Services

The insurance services market

Based on the available official data, at 31 December 2018[27], new business for Life insurance policies, including EU undertakings, amounts to €99.2 billion (including €14 billion relating to undertakings operating on a freedom of establishment basis), slightly down (1.2%) compared with 2017. New business for Italian undertakings is up 3.8% to €85.5 billion, whilst EU undertakings operating in Italy have registered a 24.2% decline in new business to approximately €14 billion.

Class I premiums amount to €54.2 billion, an increase of 8.6% compared with the previous year, confirming that this is the leading class. Class III products, on the other hand, recorded a 4.5% reduction in premiums to €26.8 billion compared with 2017.

Single premiums continued to be the preferred form of payment for policyholders, representing 93.5% of total premiums written and 61.6% of policies by number.

With regard, finally, to distribution channel, around 70% of new business was obtained through banks and post offices in 2018, with premium revenue of €57.3 billion up 4.2% compared with 2017.

NEW BUSINESS FOR INDIVIDUAL LIFE POLICIES BY CLASS*

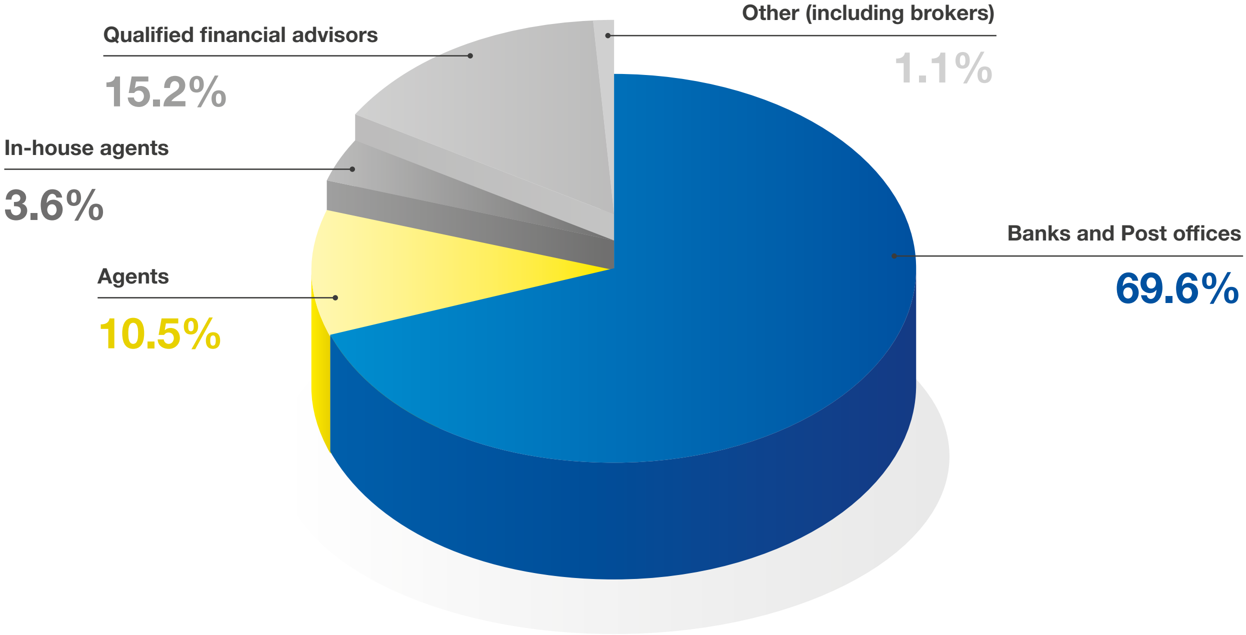
(updated to December 2018 in €m)

Premiums by class/product	Premiums since beginning of year	% change 2018 vs 2017
Life - Class I	55,624	8.4%
Capitalisation - Class V	2,141	1.4%
Linked - Class III	26,755	-4.5%
of which: unit-linked	*26,755*	*-4.5%*
of which: index-linked	-	-
Medical - Class IV	50	60.8%
Open-end pension funds - Class VI	892	4.9%
Italian insurers - non-EU	**85,462**	**3.8%**
EU insurers**	**13,698**	**-24.2%**
Total	**99,160**	**-1.2%**

* 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.

27. ANIA Newsletter on new Life business (February 2019).

NEW LIFE BUSINESS BY DISTRIBUTION CHANNEL



Source: ANIA - figures updated to December 2018

Based on the available official data[28] total direct Italian premiums in the Non-life insurance market, thus including policies sold by Italian and overseas undertakings, amounted to €26.2 billion at the end of the third quarter of 2018, slightly up compared with 2017 (2.4%). This marks the sixth consecutive quarter reversing the negative trend seen over the previous five years. The performance was helped by both the slight increase in premium revenue from vehicle insurance and further growth in other Non-life classes.

In terms of distribution channel, agents continue to lead the way with a market share of 75.7%.

DIRECT NON-LIFE PREMIUMS BY CLASS*

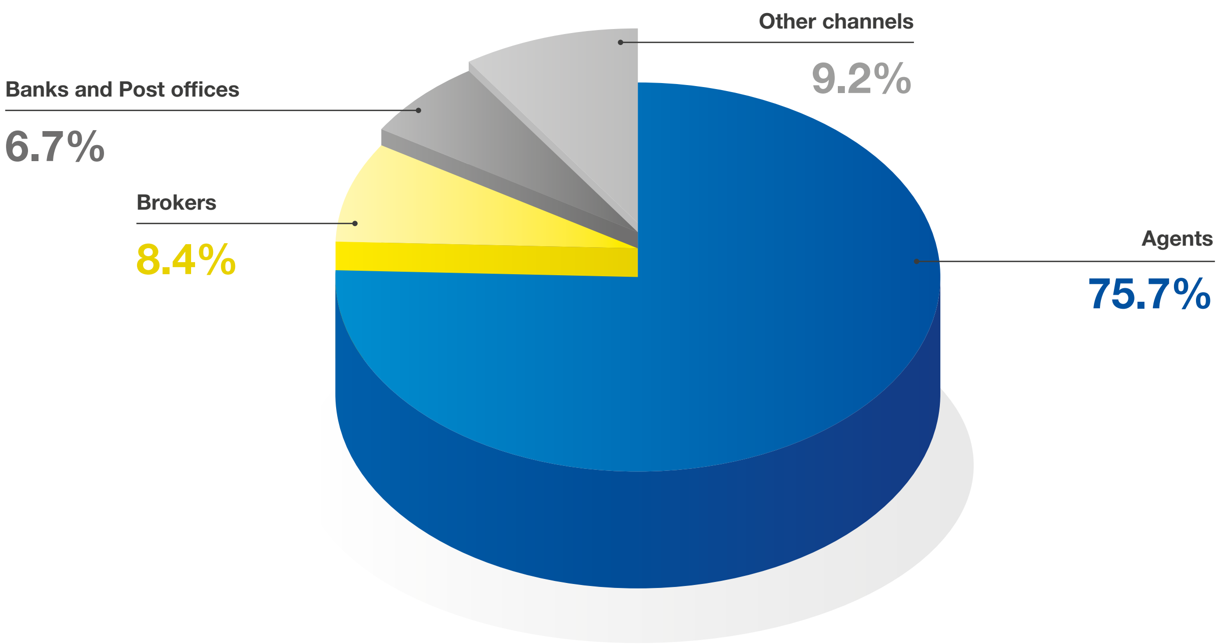
(updated to September 2018 in €m)

Premiums by class**	Premiums since beginning of year	% change 2018 vs 2017
Land vehicle insurance	10,221	0.5%
Land vehicle hull insurance	2,319	5.7%
Total motor vehicle sector	**12,540**	**1.4%**
Other Non-life classes	13,636	3.2%
Total Non-life classes	**26,176**	**2.4%**

* Source: ANIA
** Premiums refer to Italian and non-EU undertakings and EU undertakings

28. ANIA Newsletter on quarterly Non-life premiums (November 2018).

DISTRIBUTION OF DIRECT PREMIUMS BY DISTRIBUTION CHANNEL[29]



Source: ANIA - figures updated to September 2018

Regulatory environment

On 3 July 2018, IVASS issued Regulation 38, containing provisions regarding the corporate governance system for both undertakings and groups. The new regulations implement the EIOPA guidelines on corporate governance and, where compatible with the new primary regulations, also apply the following:

- ISVAP Regulation 20 of 26 March 2008, containing provisions regarding internal controls, risk management, compliance and outsourcing;
- ISVAP Regulation 39 of 9 June 2011, relating to remuneration policies; and
- ISVAP Circular 574/2005, regarding passive reinsurance.

The provisions in the Regulation should be interpreted alongside the Letter to the Market dated 5 July 2018, in which the regulator puts forward the first concrete attempt to apply the principle of proportionality, in line with the Solvency II standards, which call for prudential provisions to be applied on the basis of the risk profile of the undertaking, determined with respect to the nature, significance and complexity of its business risks.

In addition, on 2 August 2018, the regulator issued IVASS Regulation 42, setting out the disclosures to be included in solvency and financial condition reports ("SFCRs") by undertakings and groups. The Regulation also establishes that the disclosures must be subject to an external audit by independent or statutory auditors and sets out the form that the audits must take. The above Regulation primarily aims to boost the confidence of potential users of the reports with regard to the quality and reliability of a major part of the disclosures contained in an SFCR.

On 12 February 2019, IVASS published Regulation 43 concerning implementation of the provisions regarding the temporary suspension of short-term losses on securities, introduced by law Decree 119 of 23 October 2018, converted into Law 136 of 17 December 2018. The legislation allows a temporary exemption from the regulations provided for in the Italian Civil Code and has been introduced in response to financial market volatility in 2018.

For the purposes of preparing statutory financial statements under local GAAP in 2018, an undertaking that elects to take advantage of this option must measure its current securities on the basis of the value at the time of initial recognition, as presented in its financial statements for 2017 or, in the case of securities not held at 31 December 2017, at purchase cost, with the exception of permanent losses.

29. Italian undertakings and subsidiaries of non-EU undertakings.

Insurance Services segment profit or loss

Increase/(decrease)		4°quarter 2017	4°quarter 2018	Results of operations (€m)	Year 2018	Year 2017	Increase/(decrease)	
-14.1%	(13)	90	78	Upfront Life	341	422	(81)	-19.2%
-7.5%	(24)	328	303	Net investment result Life	1.011	993	18	1.8%
n.s.	12	1	12	Technical margin Life	30	14	16	112.5%
62.5%	15	(25)	(9)	Change in other technical provisions and other technical costs/income	(46)	(73)	27	37.1%
-2.6%	**(10)**	**394**	**384**	**Net Life revenue**	**1,336**	**1,356**	**(20)**	**-1.5%**
29.2%	10	34	44	Premium revenue	168	131	37	28.4%
262.1%	(5)	(2)	(7)	Change in technical provisions and claims expenses	(35)	(29)	(6)	-20.3%
90.4%	2	(3)	(0)	Result from reinsurance	(8)	(8)	0	4.2%
30.5%	1	(3)	(2)	Net Non-life income*	(1)	(4)	3	67.0%
31.9%	**8**	**27**	**35**	**Net Non-life revenue**	**123**	**89**	**34**	**38.5%**
26.3%	1	3	3	Other operating income	11	11	1	6.2%
74.3%	0	0	0	Intersegment revenue	2	1	1	-91.7%
-0.2%	**(1)**	**423**	**423**	**Total revenue**	**1,472**	**1,457**	**15**	**1.1%**
-6.1%	(1)	10	10	Personnel expenses	38	36	1	4.0%
-2.8%	*(0)*	*9*	*9*	*of which personnel expenses*	*37*	*35*	*1*	*4.2%*
-42.2%	*(0)*	*1*	*0*	*of which early retirement incentives*	*1*	*1*	*(0)*	*-0.6%*
25.6%	5	20	25	Other operating costs	84	84	0	0.1%
19.3%	1	4	5	Depreciation, amortisation and impairments	17	17	(0)	-1.1%
-6.7%	(8)	115	108	Intersegment costs	467	519	(53)	-10.2%
-4.5%	*(5)*	*107*	*102*	*of which fees*	*431*	*483*	*(52)*	*-10.7%*
-1.6%	**(2)**	**150**	**147**	**Total costs**	**606**	**657**	**(51)**	**-7.8%**
0.6%	**2**	**274**	**275**	**EBIT**	**866**	**799**	**67**	**8.4%**
	0.5%	**64.6%**	**65.1%**	**EBIT MARGIN**	**58.8%**	**54.9%**	**4.0%**	
-95.7%	(13)	14	1	Finance income/(costs)	51	44	7	14.8%
-4.0%	**(11)**	**287**	**276**	**Profit/(Loss) before tax**	**917**	**843**	**73**	**8.7%**
-445.2%	(397)	89	(308)	Income tax expense	(84)	297	(382)	-128.3%
194.9%	**386**	**198**	**584**	**Net profit**	**1,001**	**546**	**455**	**83.3%**

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

KPIs for the Insurance Services segment	31 December 2018	31 December 2017	Increase/(decrease)	
Group Net technical provisions (€bn)	125.1	123.6	1.5	1.2%
of which Poste Vita SpA	*125.0*	*123.5*	*1.5*	*1.2%*

	2018	2017	Increase/(decrease)	
GWP - Life (€m)*	16,610	20,263	(3,653)	-18.0%
GWP - P&C (€m)*	187	141	46	32.6%
Combined ratio (confirmed by ANIA)	52.5%	56.4%	-3.9%	
Loss ratio	23.8%	24.5%	-0.7%	
Expenses ratio (confirmed by ANIA)	28.8%	31.9%	-3.2%	

* Includes gross premium revenue before the premium reserve and outward reinsurance premiums.

The Insurance Services Strategic Business Unit generated EBIT of €866 million in 2018, an increase of 8.4% compared with the previous year (€799 million).

Total revenue amounts to €1,472 million (€1,457 million in 2017), essentially reflecting the performance of the Life business, which contributed €1,336 million, whilst the contribution from the Non-life business is €123 million.

Net Life revenue is down 1.5% from €1,356 million in 2017 to €1,336 million in 2018, primarily due to a reduction in gross premium revenue of compared with the previous year (down €3.7 billion). This resulted in a reduction in upfront fees of €81 million, partially offset by an increase of €18 million in the net investment result which, on the other hand, benefitted from the greater volume of assets under management.

Net Non-life revenue is up 38.5% compared with the previous year (an increase of €34 million), driven by the growth of the business, with total gross premium revenue amounting to €187 million, a 33% increase compared with 2017 (€141 million). This was accompanied by a positive technical performance as a result of a reduced volume of claims with respect to the growth in sales.

Total costs of €606 million are down €51 million compared with 2017. They primarily consist of intersegment costs, amounting to €467 million (€519 million in 2017), mainly regarding fees paid for distribution, collection and maintenance services, totalling €431 million. This figure is down from the €483 million of the previous year, reflecting the reduction in gross premium revenue.

Net finance income amounts to €51 million, marking a 14.8% (€7 million) increase compared with the previous year, when the impairment loss of €12 million on the investment of in the Atlante fund weighed.

Net profit of €1,001 million is higher than the pre-tax result (€917 million) and compared with the previous year (€546 million, up 83.3%). This reflects the positive impact in 2018 of deferred tax income on the non-deductible change in technical provisions, amounting to €385 million. This reflects application of paragraph 1-*bis* of art. 111 of the Consolidated Law on Income Tax (introduced by art. 38, paragraph 13-*bis* of Law Decree 78 of 31 May 2010). This legislation provides for a partial exemption (based on a specific percentage deduction) of the movement in the obligatory technical provisions relating to the Life business from taxation, whereas the full amount of such movements was previously included in the tax base for the purposes of IRES. In Poste Vita's case, the percentage deduction is 98.5%.

In keeping with its strategic objectives, in 2018, the Poste Vita insurance group primarily focused its efforts on:

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

The performance of premium revenue at the **Life business** is shown below:

Poste Vita SpA	2018	2017	Increase/(decrease)	
Gross premium revenue	**16,610**	**20,263**	**(3,653)**	**-18.0%**
Class I	15,870	19,726	(3,856)	-19.5%
*of which traditional with-profits products**	*14,143*	*18,468*	*(4,324)*	*-23.4%*
of which pension products	*1,095*	*1,075*	*21*	*1.9%*
of which multiclass products (Class I portion)	*631*	*184*	*447*	*243.5%*
Class III	740	537	203	37.8%
of which unit-linked products	*383*	*358*	*24*	*6.8%*
of which multiclass products (Class III portion)	*357*	*179*	*179*	*99.9%*
Claims paid	**10,884**	**10,829**	**54**	**0.5%**
of which expirations	*5,804*	*6,339*	*(535)*	*-8.4%*
of which surrenders	*3,398*	*2,973*	*425*	*14.3%*
Surrender rate	2.98%	2.89%	0.09%	
Net premium revenue	**5,726**	**9,434**	**(3,708)**	**-39.3%**
Technical provisions	**124,966**	**123,490**	**1,476**	**1.2%**

* Includes Protection and Class V products.

Management of the **Non-life business** was also along the lines set out in the business plan, seeking to meet the new needs of customers in the areas of welfare and health insurance, expanding the offering and enhancing the model for network support. Poste Assicura's premium revenue of €187 million is a significant improvement on the previous year (up 33%). The performance was driven by all segments and above all welfare, where premium revenue rose from €5 million in 2017 to €25 million.

Technical provisions for the Non-life business, before the portion ceded to reinsurers, amount to €183 million at the end of the period, up 16% compared with the end of 2017 (€160 million).

Other information

The increase in the spread during the year had a negative impact on the market value of the securities held by Poste Vita, offset in the Group's IFRS financial statements by changes in technical provisions. In the financial statements prepared under Local GAAP, the company took advantage of the option granted by IVAS Regulation 43/2019 and suspended losses of approximately €450 million on securities held in current assets. As mentioned above, statutory net profit of approximately €580 million also benefitted from the recognition of deferred tax income on the partial deductibility of the movement in the obligatory technical provisions relating to the Life business, totalling approximately €385 million, which improved the Solvency Ratio by around 8-10 percentage points.

The Solvency Ratio at 31 December stands at 211%, down from 279% in December 2017.

Given the performance of the spread and pressure on the solvency ratio, in 2018, the insurance company examined and implemented measures to support its solvency ratio, including the use of so-called ancillary own funds (AOFs), represented by unfunded capital instruments in the form of unsecured guarantees or commitments that may be included in the computation of own funds.

The transaction designed to strengthen the company's capital position through the use of AOFs was formalised in November 2018 with Poste Italiane's signature of an unconditional, irrevocable commitment letter with a five-year term. The letter commits the Parent Company, merely at the request of the subsidiary, to subscribe for ordinary shares to be issued in future by Poste Vita, amounting to up to €1,750 million.

Following clearance from IVASS, the commitment letter signed by the Parent Company in the subsidiary's favour can be 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 €1,000 million at 31 December 2018. This has had a positive impact on the solvency ratio of approximately 24 percentage points.

It should be noted that, in view of the maturity, in May 2019, of a subordinated security with a nominal value of €750 million, currently included in Tier 2 capital, if the Solvency Capital Requirement were at least equal to the amount registered at the end of December 2018, in June 2019 the full amount of the commitment, totalling €1,750 million, could be included in the computation of the company's supervisory capital.

Financial review for Poste Italiane SpA

Operating results of Poste Italiane SpA

(€m)	2018	2017	Increase/(decrease)	
Revenue from sales and services	8,419	8,060	359	4.5%
Other income from financial activities	418	646	(228)	-35.3%
Other operating income	452	584	(132)	-22.6%
Total revenue	**9,289**	**9,290**	**(1)**	**0.0%**
Personnel expenses	5,934	5,865	69	1.2%
*of which personnel expenses**	*5,317*	*5,374*	*(57)*	*-1.1%*
of which early retirement incentives	*617*	*491*	*126*	*25.7%*
Other operating costs	2,103	2,165	(62)	-2.9%
Total costs	**8,037**	**8,030**	**7**	**0.1%**
EBITDA	**1,252**	**1,260**	**(8)**	**-0.6%**
Depreciation, amortisation and impairments	474	480	(6)	-1.3%
EBIT	**778**	**780**	**(2)**	**-0.3%**
EBIT MARGIN	**8.4%**	**8.4%**	**(0)**	**-0.2%**
Finance income/(costs)	(45)	(107)	62	-57.9%
Profit/(Loss) before tax	**733**	**673**	**60**	**8.9%**
Income tax expense	149	56	93	166.1%
Net profit	**584**	**617**	**(33)**	**-5.3%**

* Includes the item “Capitalised costs and expenses”.

Poste Italiane SpA’s total revenue amounts to €9,289 million for 2018, broadly in line with the previous year (€9,290 million in 2017). This reflects a good performance from revenue from sales and services (up €359 million), which benefitted from a strong performance from financial services, a reduction in other income from financial activities (down €228 million or 35.3%), in line with the Group’s new strategy of reducing its dependence on non-recurring gains, and a decrease in other operating income, which is down from €584 million in 2017 to €452 million, reflecting a reduction in dividends from subsidiaries.

Total costs are also in line with 2017, having risen from €8,030 million in 2017 to €8,037 million. In detail, personnel expenses of €5,934 million (€5.865 million in 2017) reflect an overall reduction of €57 million in the ordinary component, linked to a decrease in the average workforce and an increase in the cost of early retirement incentives, which is up from €491 million in 2017 to €617 million in 2018, primarily due to provisions for early retirement schemes, totalling approximately €136 million, which will cover the cost of further early retirement initiatives for personnel meeting the related requirements in the next 5 years under existing legislation (such as, for example, the Solidarity Fund and art. 4 of the Fornero Law).

Other operating costs of €2,103 million are down 2.9% compared with the €2,165 million of 2017. This reflects higher provisions for risks and charges in 2017, for the most part linked to the operational risk associated with the Company’s sale of units in real estate funds in the period between 2002 and 2005.

Income tax expense is up from €56 million for 2017 to €149 million for 2018. The total effective tax rate for 2018 is 20.3%, reflecting an IRES tax rate of 15.24% and an IRAP rate of 5.06%. The difference in the effective IRES tax rate compared with the statutory rate (24%) is primarily due to the fact that 95% of the dividends received from a number of subsidiaries and the realised gain on investments was exempt from taxation, under the participation exemption. In 2017, the Parent Company received more dividends from investees, which had a greater impact on the tax rate.

Poste Italiane SpA’s net profit for the year ended 31 December 2018 is €584 million (€617 million in 2017).

Financial position and cash flow of Poste Italiane SpA

(€m)	at 31 December 2018	at 31 December 2017	Increase/(decrease)	
Property, plant and equipment and Investment property	1,882	1,964	(82)	-4.2%
Intangible assets	448	385	63	16.4%
Investments	2,198	2,081	117	5.6%
Non-current assets	**4,528**	**4,430**	**98**	**2.2%**
Trade receivables and other receivables and assets	4,415	4,061	354	8.7%
Trade payables and other liabilities	(4,602)	(3,988)	(614)	15.4%
Current tax assets and liabilities	82	71	11	15.5%
Net working capital	**(105)**	**144**	**(249)**	**-172.9%**
Gross invested capital	**4,423**	**4,574**	**(151)**	**-3.3%**
Provisions for risks and charges	(1,431)	(1,538)	107	-7.0%
Provisions for employee termination benefits	(1,158)	(1,244)	86	-6.9%
Deferred tax assets/(liabilities)	487	447	40	8.9%
Net invested capital	**2,321**	**2,239**	**82**	**3.7%**
Equity	**5,459**	**5,512**	**(53)**	**-1.0%**
of which: net profit	*584*	*617*	*(33)*	*-5.3%*
of which: fair value reserve	*(68)*	*191*	*(259)*	*-135.6%*
Financial liabilities	67,154	63,208	3,946	6.2%
Financial assets	(64,846)	(61,246)	(3,600)	5.9%
Cash and deposits attributable to BancoPosta	(3,318)	(3,196)	(122)	3.8%
Cash and cash equivalent	(2,128)	(2,039)	(89)	4.4%
Net (funds)/debt	**(3,138)**	**(3,273)**	**135**	**-4.1%**

Poste Italiane SpA's net invested capital amounts to €2,321 million at 31 December 2018 (€2,239 million at 31 December 2017).

Non-current assets of €4,528 million are up €98 million compared with the end of 2017, essentially following the subscription for new shares issued by PosteMobile (from 1 October, renamed PostePay), amounting to €140 million, via the contribution of the card payments and payment services business unit following its prior removal from the BancoPosta RFC's ring-fence. The balance also reflects impairment losses on investments, totalling €121 million, based on the impairment tests carried out and the injection of €90 million in fresh capital into SDA Express Courier to cover losses incurred through to 31 December 2017 and 30 June 2018 and to recapitalise the company, as authorised by Poste Italiane's Board of Directors on 25 January 2018 and 20 September 2018. The balance also includes the subscription for the new shares issued by Anima Holding, totalling €30 million.

Net working capital at 31 December 2018 amounts to a negative €105 million, a reduction of €249 million compared with the end of 2017, primarily due to the amount payable to Poste Vita (€114 million) as a result of Poste Italiane's role as the consolidating entity for the tax consolidation arrangement, and to the amount payable to PostePay (€72 million). This represents the difference between the carrying amounts of the assets and liabilities of the card payments and payment services business unit contributed to PostePay from 1 October 2018, which will be settled by Poste Italiane in early 2019.

Provisions for risks and charges amount to €1,431 million (€1,538 million at the end of December 2017) and primarily take into account provisions for early retirement incentives of €444 million, to cover the liabilities that Poste Italiane will incur, 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 operational risk, reflecting adjustments 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 €5,459 million, a reduction of €53 million. The decrease primarily reflects the payment of dividends totalling €549 million and a reduction in the fair value reserve of €259 million (including the positive effect of €1,372 million resulting from the transition to IFRS 9), reflecting movements (positive and/or negative) in the value of investments classified in the new FVTOCI category. These reductions were partially offset by net profit for the year of €584 million and an increase in the cash flow hedge reserve of €150 million.

Poste Italiane SpA's net (funds)/debt in accordance with ESMA guidelines

(€m)	At 31 December 2018	At 31 December 2017	Increase/(decrease)	
A. Liquidity	**(875)**	**(1,885)**	**1,010**	**-53.6%**
B. Current loans and receivables	**(168)**	**(363)**	**195**	**-53.7%**
C. Current bank borrowings	200	200	-	-
D. Current portion of non-current debt	-	763	(763)	-100.0%
E. Other current financial liabilities	118	106	12	11.3%
F. Current financial debt (C+D+E)	**318**	**1,069**	**(751)**	**-70.3%**
G. Current net (funds)/debt (A+B+F)	**(725)**	**(1,179)**	**454**	**-38.5%**
H. Non-current bank borrowings	-	200	(200)	-100.0%
I. Bond issues	50	50	0	0.0%
J. Other non-current financial liabilities	27	36	(9)	-25.0%
K. Non-current financial debt (H+I+J)	**77**	**286**	**(209)**	**-73.1%**
L. Net (funds)/debt (ESMA guidelines) (G+K)	**(648)**	**(893)**	**245**	**-27.4%**
Non-current financial assets	(815)	(835)	20	-2.4%
Industrial net(funds)/debt outside the ring-fence	**(1,463)**	**(1,728)**	**265**	**-15.3%**
Intersegment loans and receivables and financial liabilities	829	718	111	15.5%
Industrial net (funds)/debt outside the ring-fence after adjusting for intersegment transactions	**(634)**	**(1,010)**	**376**	**-37.2%**

BancoPosta RFC Management review

Corporate Governance at BancoPosta RFC

With regard to BancoPosta RFC's governance, the rules governing the organisation, management and control of BancoPosta's operations are contained in the specific BancoPosta RFC Regulation approved by the Extraordinary General Meeting of 14 April 2011 and recently amended by the Extraordinary General Meeting of 29 May 2018. Following the issue by the Bank of Italy on 27 May 2014 of an update to the prudential supervisory regulations for banks, the corporate governance regulations for banks are applied to BancoPosta RFC (Part One, Title IV, Chapter I "Corporate governance" of Circular 285). Further information regarding the corporate governance structure is provided in Poste Italiane's "Report on Corporate Governance and the Ownership Structure", approved by the Board of Directors and published in the "Governance" section of the Company's website.

The operating model, organisational structure and the associated responsibilities assigned to the various functions are set out in BancoPosta RFC Regulation approved by Poste Italiane's Board of Directors and last revised on 31 January 2019.

In compliance with the regulations for the sector, the BancoPosta function is responsible for coordination of the Group company, BancoPosta Fondi SGR.

On 25 January 2018, Poste Italiane SpA's Board of Directors approved the removal from BancoPosta RFC's ring-fence of the assets and liabilities attributable to the card payments and payments services business unit and their subsequent transfer to the Group company, PosteMobile, in order to enable the latter to operate as a hybrid electronic money institution ("EMI"). Following the receipt of clearance from the Bank of Italy, the Extraordinary General Meeting of Poste Italiane's shareholders held on 29 May 2018 approved the proposed removal, from the ring-fence that applies to BancoPosta RFC. On 26 September 2018, PosteMobile was entered into the Register of Electronic Money Institutions set up by article 114 – *quater* of the Consolidated Law on Banking. From 1 October 2018, Poste Mobile assumed its new name of "PostePay" and began operating as an intermediary specialising in mobile and digital payments.

Following on from the Board of Directors' resolution of 25 January 2018 and the subsequent Extraordinary General Meeting of Poste Italiane SpA's shareholders, on 27 September 2018, Poste Italiane injected €210 million of fresh capital of into BancoPosta RFC.

BancoPosta RFC financial review

Key performance indicators	2018	2017
CET 1 CAPITAL*	2,286	2,059
CET 1 RATIO**	18%	17%
ROA***	0.82%	0.87%
ROE****	26%	28%
Net interest income / Net interest and other banking income*****	27%	26%
Operating expenses / Net interest and other banking income******	84%	83%

* CET 1 Capital includes the initial equity reserve and non-distributable revenue reserves (Tier 1 capital), taking into account the transitional regime (Regulation 2017/2395 EU).
** The CET 1 Ratio represents the adequacy of Tier 1 capital in terms of Pillar 1 capital requirements (operational, credit, counterparty and market risks).
*** Return On Assets. Represents the ratio of profit for the period and total assets.
**** Return On Equity. Represents the ratio of profit for the period and equity after deducting profit for the period and the valuation reserves.
***** Represents the contribution from net interest income as a ratio of net interest and other banking income.
****** Cost/income ratio.

The above indicators reflect the particular nature of BancoPosta RFC and the fact that amounts payable to Poste Italiane functions are classified in "Administrative expenses". These indicators should not, therefore, be considered in absolute terms or in comparison with the market, but only over time.

Operating results

€m)	2018	2017	Increase/(decrease)	
Interest and similar income	1,556	1,477	79	5.3%
Interest and similar expense	(29)	(29)	-	-
Net interest income	**1,527**	**1,448**	**79**	**5.5%**
Fee and commission income	3,861	3,629	232	6.4%
Fee and commission expense	(140)	(65)	(75)	115.4%
Net fee and commission income	**3,721**	**3,564**	**157**	**4.4%**
Dividends and similar income	1	1	-	-
Profits/(Losses) on trading	6	2	4	200.0%
Fair value adjustments in hedge accounting	(2)	2	(4)	-200.0%
Profit/(Loss) from sale of financial assets/liabilities	379	624	(245)	-39.3%
Profit/(Losses) on financial assets and liabilities measured at fair value through profit or loss	9	-	9	-
Net operating income	**5,641**	**5,641**	**-**	**-**
Administrative expenses	(4,686)	(4,616)	(70)	1.5%
Other operating income/(expenses)	(31)	(58)	27	-46.6%
Net operating expenses	**(4,717)**	**(4,674)**	**(43)**	**0.9%**
Operating profit/(loss)	**924**	**967**	**(43)**	**-4.4%**
Net provisions for risks and charges	**(72)**	**(182)**	**110**	**-60.4%**
Net losses /recoveries on impairment of loans and advances	(22)	(15)	(7)	46.7%
Income/(Loss) before tax from continuing operations	**830**	**770**	**60**	**7.8%**
Taxes on income from continuing operations	(233)	(185)	(48)	25.9%
Net profit	**597**	**585**	**12**	**2.1%**

BancoPosta RFC's performance in 2018 resulted in net profit of €597 million, an increase of 2.1% compared with the previous year (up €12 million).

The interest margin amounts to €1,527 million, an improvement of 5.5% (€79 million). This reflects returns on investment linked to the volume of funds raised through postal current account deposits and repurchase agreements, and the return earned on interest-bearing deposits at the MEF, which as a whole generated interest income of €1,556 million, up 5.3% on the €1,477 million of the previous year (up €79 million). Interest expense, on the other hand, mainly regards interest paid to current account holders, interest on repurchase agreements and interest on deposits used as security for derivative transactions, amounting to €29 million, in line with the previous year.

Net fee and commission income amounts to €3,721 million, an increase of 4.4% (€157 million) compared with 2017. This reflects fee and commission income of €3,861 million (up 6.4% or €232 million compared with 2017), after benefitting primarily from the collection of Post Savings on behalf of Cassa depositi e prestiti, due to the strong performance of this service (the related fees are up from €1,566 million in 2017 to €1,827 million) and reflecting the mechanisms provided for in the new agreement that came into effect from 1 January 2018.

Fee and commission expense is up from €65 million in 2017 to €140 million, essentially as a result of trading relations relating to the provision of payment and card payment services provided under a service arrangement with PostePay from 1 October 2018.

The net profit from the sale of financial assets, amounting to €379 million, is down 39.3% compared with the €624 million of the previous year, reflecting reduced gains realised, in keeping with the strategy in the Deliver 2022 Plan to progressively reduce the dependence on non-recurring income. 2017 benefitted from €91 million in income generated by the sale of Class B Mastercard Incorporated shares.

The net profit on assets and liabilities measured at fair value through profit or loss, totalling €9 million, includes the overall change in the fair value of Visa Incorporated shares reclassified as a result of the application of IFRS 9 from 1 January 2018.

Net interest and other banking income, after the increase in the interest margin and in net fee and commission income and the reduction in the net profit from the sale of financial assets, amounts to €5,641 million, in line with the figure for 2017.

Net operating expenses, which include personnel expenses of €82 million, other administrative expenses of €4,604 million and other operating costs in the form of operating losses resulting from withdrawals that customers claim not to have made, totalling €31 million, amount to a total of €4,717 million, slightly up on the €4,674 million of the previous year (up €43 million). The increase in this item is above all linked to the costs incurred as a result of the services provided to BancoPosta RFC by Poste Italiane functions (up €89 million), reflecting the growth of the business and the reorganisation process that has resulted in the centralisation of operations within Poste Italiane. These costs are partially offset by a reduction in personnel expenses, service costs and sundry expenses (down €46 million).

Provisions for risks and charges of €72 million primarily relate to operational risks linked to the distribution of Post Savings products, the distribution of real estate funds whose performance was not in line with customers' expectations, and the fees to be passed on to financial partners in relation to the sale of loan products. The reduction of €110 million in this item is primarily linked to a reduction in net provisions for liabilities resulting from the distribution of real estate funds.

Net credit losses amount to €22 million for 2018, compared with €15 million for the previous year.

Income tax expense for 2018 amounts to €233 million (€185 million in 2017, an increase of 25.9%). The resulting net profit totals €597 million.

BancoPosta RFC's workforce

	Number of employees*			
	Average for the year ended 31 December		At 31 December	
Permanent workforce	**2018**	**2017**	**2018**	**2017**
Executives	48	55	34	53
Middle managers	426	479	333	474
Operational staff	869	1,194	96	1,131
Total	**1,343**	**1,728**	**463**	**1,658**
Flexible workforce	**2018**	**2017**	**2018**	**2017**
Fixed-term contracts	-	2	-	2
Total	**-**	**2**	**-**	**2**
Total permanent and flexible workforce	**1,343**	**1,730**	**463**	**1,660**

* Shown in full-time equivalent terms.

At 31 December 2018, the BancoPosta function has 11 second-level functions, including 4 Marketing functions: Affluent, Business and Public Administration, Place Marketing and Mass Market and Small Business; 1 Sales function: Financial Sales Coordination; 3 Staff functions: Administration and Outsourcing Governance, HR Business Partner BancoPosta and Planning, Control and Data Analysis; 3 Control functions: Compliance, Internal Auditing and Risk Management. 2018 witnessed a number of organisational and corporate changes with the BancoPosta function, designed to focus on the intermediary's role in overseeing product development and distribution, in collaboration with Group companies, and in managing the sales network. In this context, in compliance with regulations for the related sector, BancoPosta has assumed responsibility for the coordination of BancoPosta Fondi SGR (the Group's asset management arm).

This reorganisation has been accompanied by a restructuring of the card payments and payment services business unit, which, following its removal from BancoPosta RFC's ring-fence, has been transferred to a ring-fenced entity that will operate as an electronic money institution at PostePay. This was accompanied by the centralisation of back-office functions and responsibility for managing the risks relating to money laundering and the financing of terrorism within Poste Italiane.

Financial position and cash flow

Statement of financial position

Assets (€m)	at 31 December 2018	at 31 December 2017	Increase/(decrease)	
Cash and cash equivalents	3,328	3,217	111	3.5%
Financial assets measured at fair value through profit or loss	58	-	58	-
Financial assets measured at fair value through other comprehensive income	32,040	39,140	(7,100)	-18.1%
Financial assets measured at amortised cost	33,743	22,014	11,729	53.3%
Hedging derivatives	368	395	(27)	-6.8%
Tax assets	507	406	101	24.9%
Other assets	2,445	2,063	382	18.5%
Total assets	**72,489**	**67,235**	**5,254**	**7.8%**

Liabilities and equity (€m)	at 31 December 2018	at 31 December 2017	Increase/(decrease)	
Financial liabilities measured at amortised cost	64,203	59,636	4,567	7.7%
Hedging derivatives	1,829	1,637	192	11.7%
Tax liabilities	372	308	64	20.8%
Other liabilities	2,692	2,335	357	15.3%
Employee termination benefits	3	17	(14)	-82.4%
Provisions for risks and charges	511	543	(32)	-5.9%
Valuation reserves	15	115	(100)	-87.0%
Reserves	2,267	2,059	208	10.1%
Profit/(Loss) for the year	597	585	12	2.1%
Total liabilities and equity	**72,489**	**67,235**	**5,254**	**7.8%**

Assets are represented by cash and cash equivalents, financial assets and hedging derivatives, tax assets and other assets.

With regard to financial assets, from 1 January 2018, the Poste Italiane Group has adopted IFRS 9 *Financial Instruments*, electing not to restate comparatives for prior periods.

Cash and cash equivalents amount to €3,328 million (€3,217 million at 31 December 2017) and includes cash at post office counters and companies that provide cash transportation services, totalling €2,980 million, and cash deposited with the Bank of Italy to settle interbank transactions, totalling €348 million.

Financial assets measured at fair value through profit or loss, amounting to €58 million at 31 December 2018, regard Visa Incorporated shares not listed on a regulated market, totalling €50 million, and the amount receivable on the sale of a Visa Europe Limited share to Visa Incorporated in 2016, payment of which was deferred for three years from the date of the sale. At 31 December 2017, the fair value of the above shares, classified in "Available-for-sale financial assets", was €41 million. The increase in value (€9 million) has been recognised in profit or loss in the item, "Profit/(Losses) on financial assets and liabilities measured at fair value through profit or loss".

Financial assets measured at fair value through other comprehensive income amount to €32,040 million and include Italian government securities. The change compared with 2017 (€39,140 million) primarily reflects: (i) the impact of first-time adoption of IFRS 9 and the reallocation of securities based on the identified business models, which, at 1 January 2018, resulted in a balance of €34,832 million (down €4,308 million); (ii) fair value losses at 31 December 2018 of €1,562 million; (iii) the overall negative impact of movements in securities during the year as a result of purchases, sales and repayments.

Financial assets measured at amortised cost amount to €33,743 million (€22,014 million at 31 December 2017) and relate to investments in securities issued by the Italian government and those guaranteed by the Italian government, totalling €22,872 million (€12,912 million at 31 December 2017) and sundry receivables of €10,871 million (€9,102 million at 31 December 2017).

With regard to financial assets represented by investments in Italian government securities and securities guaranteed by the Italian government, the increase primarily reflects: (i) the impact of the above first-time adoption of IFRS 9 and the reallocation of securities based on the identified business models, which, at 1 January 2018, resulted in a balance of €19,094 million (up €6,182 million); (ii) and the overall positive impact of movements in securities during the year as a result of purchases, sales and repayments.

With regard to financial assets represented by sundry receivables, these primarily include: (i) amounts deposited with the MEF, totalling €7,233 million (€6,390 million at 31 December 2017); (ii) guarantee deposits of €1,652 million (€1,179 million at 31 December 2017); (iii) receivables relating to the balance of amounts resulting from the processing of payments to and from third parties via Poste Italiane, totalling €843 million (€732 million at 31 December 2017); (iv) trade receivables of €875 million (€774 million at 31 December 2017); (v) repurchase agreements of €251 million (not present at 31 December 2017).

Hedging derivatives amount to €368 million, down from €395 million at 31 December 2017.

Other assets of €2,445 million (€2,063 million at 31 December 2017) essentially relate to tax assets following the payment of tax withholdings and items in progress that will be settled after the end of the reporting period.

The principal liabilities are represented by financial liabilities measured at amortised cost, hedging derivatives, tax liabilities, other liabilities and provisions.

Financial liabilities measured at amortised cost total €64,203 million (€59,636 million at 31 December 2017) and include: (i) amounts due to customers, totalling €58,218 million (€53,686 million at 31 December 2017), primarily regarding current account deposits and other forms of deposit, repurchase agreements and advances from the MEF to meet cash requirements; (ii) amounts due to banks, totalling €5,985 million (€5,949 million at 31 December 2017) relating to current account deposits and repurchase agreements. The increase in this item is primarily linked to repurchase agreements and to the positive movement in current account deposits and other forms of deposit (money orders and cheques).

Hedging derivatives are up from €1,637 million at 31 December 2017 to €1,829 million (an increase of 11.7%).

Other liabilities amount to €2,692 million (€2,335 million at 31 December 2017) and primarily include tax liabilities in the form of tax withholdings, items in progress that will be settled after the end of the reporting period and amounts payable to other Poste Italiane functions for services provided to BancoPosta regulated by specific operating guidelines.

The provisions for employee termination benefits (*TFR*) amount to €3 million at 31 December 2018, compared with €17 million at the end of 2017 (down €14 million). The movement reflects the reorganisation that took place in 2018 and the centralisation of certain operations within Poste Italiane, as described earlier in this document.

Provisions for risks and charges, amounting to €511million at 31 December 2018, compared with €543 million at 31 December 2017 (a reduction of €32 million), include provisions made in relation to disputes and charges relating to personnel, customers and third parties in general, and various liabilities deriving from obligations assumed. The movement in this item reflects a combination of new provisions, uses and other movements during the year, as described in specific sections of the notes to the financial statements.

BancoPosta RFC's equity at 31 December 2018 amounts to €2,879 million (€2,759 million at 31 December 2017) and includes: (i) the BancoPosta RFC reserve, totalling €1,210 million, including €1,000 million relating to BancoPosta RFC's initial reserve and the €210 million capital injection on 27 September 2018, following the shareholder resolution of 29 May 2018; (ii) retained earnings of €1,057 million; (iii) valuation reserves of €15 million (primarily reflecting the value of the fair value reserve); (iv) net profit for 2018, amounting to €597 million.

BancoPosta RFC's internal control and risk management system

Internal control system

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

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

- the Group Code of Ethics;
- implementation of the Organisational Model required by Legislative Decree 231/2001 and the related corporate procedures;
- the system for delegating powers to function heads in accordance with their responsibilities;
- the organisational structure of BancoPosta, as reflected in organisational charts, service orders, organisational notices and procedures determining the roles and responsibilities of the various functions;
- the "General Guidelines governing the process of contracting out BancoPosta's corporate functions to Poste Italiane and/or third parties", governing the process of outsourcing BancoPosta RFC's operations to Poste Italiane functions in terms of decision-making processes, the minimum content of operating guidelines, levels of services, information flows and control procedures, and the process of outsourcing BancoPosta functions to third parties, identifying the related operational phases and the roles and responsibilities of the various bodies and functions involved in the process;
- the Guidelines in the Internal Control and Risk Management System (also "SCIGR"), describing the roles and duties of BancoPosta RFC's control functions, and the procedures for coordinating and ensuring the exchange of information between these functions and Poste Italiane's control functions and the flow of information to corporate bodies.

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

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

In compliance with the regulatory requirements contained in the Bank of Italy's Supervisory Standards and the CONSOB regulation governing the controls to which BancoPosta is subject, in early 2019 BancoPosta's Internal Auditing function prepared its Annual Report for 2018, the purpose of which is to provide information to the various corporate bodies on the completeness, adequacy, functionality and reliability of the overall system of controls, with specific regard to processes, procedures, information systems and mechanisms applied in the oversight of BancoPosta's activities. The Report was prepared on the basis of the findings of the audit activities carried out by the function and set out in the Audit Plan for 2018. The report contains information on the outcomes of the audit of the services contracted out by BancoPosta to Poste Italiane functions under operating guidelines and the activities outsourced to providers external to the Company.

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

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

Internal Auditing has also drawn up the Annual (2019) and Multi-year (2019-2021) Audit Plan, based on a risk assessment process designed to ensure adequate coverage of BancoPosta's Business Process Model, including risks, changing aspects of the business, regulatory issues and BancoPosta RFC's organisational structures. This Plan has been presented to the Board of Statutory Auditors and submitted for the attention of the Board of Directors.

Risk management system

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

During 2018, the Risk Appetite Framework was revised. The annual report for 2017 and the programme of activities for 2018 were submitted to the Board of Statutory Auditors, the Audit, Risk and Sustainability Committee and the Board of Directors, as were the ICAAP (Internal Capital Adequacy Assessment Process) report and the Public Risk Report for 2017. These bodies also received quarterly reports on the performance of the effective risk profile versus the determined risk appetite. The principal types of risk to which BancoPosta RFC is exposed in the course of its ordinary activities are described below:

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

In terms of the evolution of significant risks, the first five months of 2018 witnessed a slight decline in the yields on Italian government securities, resulting in an increase in fair value gains. From the end of May, the trend went into reverse and the yields on 10-year Treasury Notes (BTPs) began to rise. This was reflected in unrealised gains, which returned to lower levels, below those seen at the beginning of 2018. The spread between BTPs and German Bunds ended the year higher than at the end of 2017 (around 250 basis points) and, compared with unrealised gains of €1,615 million in 2017, unrealised losses amount to €1,687 million in 2018.

In terms of Bancoposta's capital structure, following the positive performance of postal current account deposits, in 2018, the process of monitoring the risk profile indicated that, from March, there had been a decline in the leverage ratio to below the threshold set in the Risk Appetite Framework (RAF). The contribution of fresh capital of €210 million by Poste Italiane on 27 September 2018, in execution of the Board of Directors resolution of 25 January 2018 and the shareholder resolution of 29 May 2019, helped to rebalance the leverage ratio, which at 31 December 2018 stands at 3.2% (3% being the minimum level required by the regulations). The CET 1 ratio for 2018 is 18%, compared with 17% in 2017, confirming the strength of the entity's balance sheet, which was further boosted by the above contribution of fresh capital.

As in the previous year, in 2018, in terms of economic value, BancoPosta RFC was exposed to falling rates. The entity of the exposure, measured using an internal model, remained below 10% of supervisory capital, thus well within the risk appetite framework for the year.

In terms of operational risk, with regard to real estate funds sold in the period between 2002 and 2005, which have given rise to a number of complaints and disputes, Poste Italiane continues to closely monitor market developments and the related initiatives put in place in order to protect its customers, in order to assess any impact on provisions for risks and charges in the financial statements.

Details of the various areas of risk and the methods used for their measurement and prevention are provided in other sections of the Annual Report for the year ended 31 December 2018.

BancoPosta RFC events after 31 December 2018

Following the receipt of clearance from the Bank of Italy on 18 December 2018, the outsourcing of BancoPosta's financial management service to BancoPosta Fondi SGR, a Poste Italiane Group company, was effective from 1 January 2019. BancoPosta Fondi SGR is a specialist, regulated intermediary, with specific expertise in asset management and set up to act as a competence centre for the management of financial investments. Financial management, which under Bank of Italy regulations is defined as an "Important Operational Function", was previously carried out, under internal operating guidelines, by a function within Poste Italiane. At the same time, again from 1 January 2019, BancoPosta Fondi SGR outsourced its Internal Audit and Risk Management to BancoPosta, designed to achieve an overall strengthening of the controls conducted by the audit departments involved.

Other events after the end of the reporting period are described in other sections of the Annual Report for 2018 and there are no further material events occurring after 31 December 2018 to report.

Outlook for BancoPosta RFC

In 2019, BancoPosta RFC will continue to implement the strategic objectives in Poste Italiane's Deliver 2022 Plan, in line with its continued commitment to leveraging its customer base, distribution network and brand.

Postal Savings will continue to be governed by the three-year agreement entered into with Cassa depositi e prestiti in December 2017, effective from 2018.

In addition, expansion of the range of financial products will continue with the aim of better responding to the different needs of customers.

Finally, the strategy of actively managing the securities portfolio will aim to stabilise the overall return.

Other information

Related party transactions

Information on transactions between BancoPosta and its related parties is provided in Poste Italiane Financial Statements for the year ended 31 December 2018 (BancoPosta RFC's Separate Report, Part H of the notes).

Separate financial statements

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

Intersegment transactions

Intersegment transactions between BancoPosta and Poste Italiane functions outside the ring-fence are set out in Poste Italiane Financial Statements for the year ended 31 December 2018 (BancoPosta RFC's Separate Report, Part A of the notes).

Objectives, management methods and key performances achieved in the pillars of the Group's ESG Strategic Plan

Poste Italiane intends to promote complete and effective disclosure of its ESG performances, which are strongly linked to the ESG Strategic Plan. The ESG Group Strategy is based on six key pillars relating to the 20 material topics.

STRATEGIC PILLAR
INTEGRITY AND TRANSPARENCY
PEOPLE DEVELOPMENT
SUPPORTING LOCAL COMMUNITIES AND THE COUNTRY AS A WHOLE
CUSTOMER EXPERIENCE
DECARBONISATION OF REAL ESTATE FACILITIES AND LOGISTICS
SUSTAINABLE FINANCE

The following tables show the targets set by the company and the SDGs impacted, while the icons in each paragraph heading indicate the types of capital described.

	SDG	RELEVANT TOPIC
	16	Integrity and transparency
		Legality and incorporation of ESG criteria within procurement processes
	3, 4, 10	Staff training and development
		Staff welfare and wellbeing
		Relations with social partners
		Occupational health and safety
		Protection of human rights
		Equal career development opportunities
	1, 8, 11	Support for the socio-economic development of local communities
		Dialogue and transparency in relations with the authorities
		Financial inclusion
	9	Quality and customer experience
		Innovation and digitisation of products, services and processes
		IT security and business continuity
	7, 13	Environmental impacts of logistics
		Environmental impacts of real estate facilities
	8	Integration of ESG factors into investment policies
		Integration of ESG factors into insurance policies

INTEGRITY AND TRANSPARENCY

Open and **transparent** contracts

First company in the **financial and communications** sectors to obtain the **anti-corruption certification**

Best performance for **brand image** and **reputation**


Integrated Group Procurement Model
Highest legality rating score
WE HAVE A RESPONSIBILITY TO ENSURE CORRECT AND TRANSPARENT CONDUCT IN DEALINGS WITH OUR STAKEHOLDERS.

Integrity and trasparency

MAIN TYPES OF CAPITAL	OBJECTIVES	TARGETS	OUTCOMES
Human	Certify the main Group companies in accordance with ISO 37001 standard	100% of significant Group companies certified to ISO 37001 by 2022	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Intellectual	Increase staff training on the Group's ethical principles (including respect for human rights)	100% of Group employees involved by 2022	
Physical-structural	Verify ESG aspects in the supplier qualification process	100% of suppliers belonging to significant product categories qualified according to ESG criteria by 2022	
	Carry out sustainability audits (ESGs) along the supply chain	100% of the Group's qualified suppliers subject to sustainability audits by 2022	

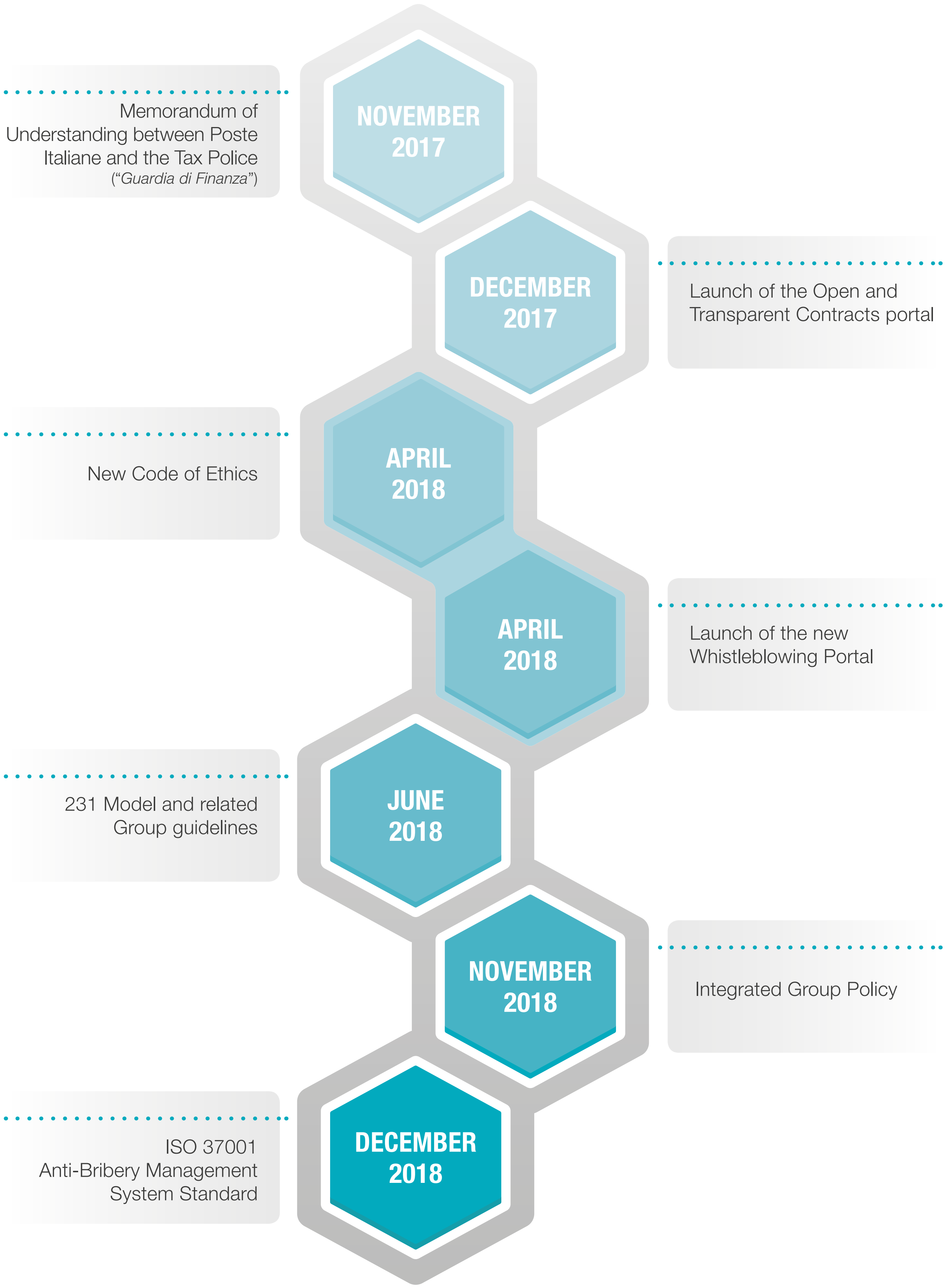
Working with transparency and integrity NFS

MAIN RELATED TYPES OF CAPITAL

Ethics and transparency constitute the highest values of Poste Italiane's corporate identity. These fundamental principles guide the way in which the Company implements its business activities, which is, by its nature, is based on trust, as well as the management of relations with all its stakeholders.

Therefore, the Company recognises the strategic importance of compliance with internal and external regulations and codes of conduct, as well as respect for rules and absolute fairness, without any conflict between corporate and personal interests.

STAGES IN THE INTEGRITY AND TRANSPARENCY PROCESS



In continuation of the initiatives already undertaken in 2017, such as the signing of the Memorandum of Understanding between Poste Italiane and the Tax Police (Guardia di Finanza), aimed at combating business and financial crime, and the launch of the Open and Transparent Contracts portal, regarding the prevention of criminal infiltration of contracts and the fight against undeclared employment. Several initiatives were implemented in 2018 to promote transparency in all areas and towards all stakeholder categories. In particular, the Board of Directors of Poste Italiane SpA approved the new Code of Ethics, which is applicable to the entire Group and aimed at directors and employees, as well as at all stakeholder categories. The new Code of Ethics has been revised in order to update and expand the fundamental principles that inspire the culture and conduct of directors, supervisory bodies, management, employees and everyone who works - on a permanent or temporary basis - to pursue the Poste Italiane Group's objectives. Moreover, the general criteria of conduct the Company recognises and adopts in carrying out its activities and in its engagement with stakeholders have been affirmed, with a focus on specific provisions relating to conflict of interest, anti-corruption, anti-money laundering and anti-terrorism, as well as safeguarding health, safety, the environment and privacy.

The Code of Ethics establishes principles and rules of conduct such as legality, impartiality and fairness, respect for and enhancement of people, transparency, thoroughness and confidentiality, as well as quality, diligence and professionalism. The Code also requires the parties concerned to refrain from activities - even on an occasional basis - that may generate a conflict with the Group's interests or may interfere with the ability to make decisions consistent with the Company's objectives. To this end, Poste Italiane has set up a system for reporting and managing conflicts of interest. The Company also intends to promote the dissemination of ethical principles and social responsibility among parties located within the Group's value chain.

Moreover, the Company disseminates its Code of Ethics at all levels within the organisation, so that the parties concerned may comply with its content, and every possible tool to promote its full application may be prepared.

In addition to the general principles of conduct, the guidelines set out in Poste Italiane's Code of Ethics particularly refer to the protection of:

- workers' rights and dignity;
- corporate assets and data processing;
- workplaces.

The Ethics Committee, whose functions are carried out by the Whistleblowing Committee, is responsible for receiving and managing reports that are handled via the new Whistleblowing Portal, as well as for providing support to the functions and corporate bodies responsible for investigating alleged violations of the Code of Ethics.

In November 2018, in order to make its commitment to legality and transparency effective, Poste Italiane adopted an Integrated Management System with the primary aim of ensuring uniform governance of the systems implemented at Company level, whilst guaranteeing quality, occupational health and safety, data security, and prevention of corruption across all corporate processes and activities.

In April 2018, as part of its internal audit and risk management system, in line with existing national and international best practices and the reference regulatory framework, Poste Italiane revised the "Internal System for Reporting Violations" (whistleblowing) guidelines, which are aimed at regulating the internal system for reporting - including anonymously - actions or events relating to violations of the internal and/or external rules governing Poste Italiane's activities (including the Code of Ethics), as well as the reporting of unlawful or fraudulent conduct that may directly or indirectly cause economic and financial harm, or damage to the Company's image.

In June 2018, Poste Italiane revised its 231 Model in order to add content following legislative initiatives that introduced new categories of alleged offences, including regulatory amendments regarding the criminal liability of entities, and incorporating changes in best practices and the reference guidelines.

In November 2018, the Board of Directors of Poste Italiane approved the Integrated Management Policy that reflects and documents the commitment made to all Company's stakeholders, to improve its performance and, at the same time, build and develop trusting relationships with them, as part of a process of generating and sharing value for the Company as well as for the communities in which it operates, with a view to achieving continuity and reconciliation of the related interests.

Poste Italiane the first company in the financial and communications sector to obtain anti-corruption certification

The 2018 integrity and transparency process was marked by a significant commitment to strengthening the Anti-Bribery Management System, adopted on a voluntary basis in accordance with ISO 37001:2016 Anti-Bribery Management System standard. The actions undertaken include attribution to the Group Risk Management Function within Corporate Affairs of the "Corruption Prevention Compliance Function", which has the appropriate competence, status, authority and independence to exercise its role of supervising the planning and implementation of the Anti-Bribery Management System. The process concluded positively with Poste Italiane SpA's achievement of Anti-Bribery Certification, via concrete implementation of the integrity and transparency principles that will enable the Company to specifically respond to the challenges of the Deliver 2022 Plan and the expectations of stakeholders, whilst taking advantage of the opportunities arising from the innovations and transformation process underway. Concrete implementation of these principles in all business contexts gives the Company leadership in the national arena and is a model for inspiring contributions to Italy's development and wellbeing.
Poste Italiane was the first Italian company in the financial and communications sector to obtain the Anti-Bribery Certification, which concerns the planning, guidance, supervision and coordination of postal and financial services. In committing itself to obtaining a voluntary certification to reduce these risks, the Company has shown a high degree of responsibility towards the market and all stakeholders in general.

In 2018, Poste Italiane's commitment to integrity, the prevention of corruption and compliance with legislation was rewarded by the absence during the year of proceedings relating to established corruption cases and sanctions regarding anti-trust/anti-competitive practices.

In order to prevent and suppress fraud and any other business or financial offence and to ensure the authenticity of people's physical and digital identities, internet access is provided to the "Identity Check", an initiative that enables reporting of relevant information. Thanks to the agreement with the Tax Police (Guardia di Finanza), Poste Italiane will also make its computer assets available to verify and protect citizens' digital identities by setting up a task force to study new criminal scenarios.

As evidence of the degree of attention Poste Italiane pays to the correct management of its businesses, the Company has applied for and obtained renewal of its legality rating for a two-year period. It was awarded the top score, which has only been given to 6% of the applicant companies. The legality rating tool, which applies to Italian companies, was introduced in 2012 to promote and introduce the principles of ethical conduct into the business environment by granting an "award", which indicates the legality compliance level of the companies that have applied for it. On attribution of the rating, advantages in the granting of public funding are linked to facilitation of access to bank lending.

In 2018, Poste Italiane renewed its "**legality rating**", obtaining the **top score**, which ranked it among the **6%** of companies achieving such recognition

The Group invests in training and information activities for its staff to guarantee dissemination of a culture of integrity and transparency throughout the value chain. In order to ensure that its employees are aware of anti-corruption issues, Poste Italiane implements a compulsory e-learning and classroom training programme for all staff on anti-corruption principles and, in particular, on reporting mechanisms and any significant changes to anti-corruption legislation and/or the adopted regulatory system. In addition, the Group's general and specific anti-corruption principles are also communicated to its stakeholders through the Code of Ethics. In line with its human rights policy, Poste Italiane's objective is to increase its integrity training offering by providing in-house workshops to the entire workforce on specific issues, such as human rights.

Poste Italiane, highest performing brand in terms of image and reputation

In 2018, Poste Italiane entered the Brand Finance Global 500 2019 international ranking, with the best performance in terms of image and reputation among Italian companies, ranking among the small number of brands that boast a triple A rating ("extremely strong").
Of the nine Italian brands that entered the Global 500 2019, Poste Italiane was the best-performing company (up 47%), due in particular to the improved appraisal of the insurance sector, the innovation and dynamism of new payment solutions such as PostePay, and the consequent good growth prospects. The Group soared 88 positions, rising from 370th in the previous edition to its current 282nd place.
The brand strength index of Brand Finance, a world leader in brand valuation and strategic consulting, measures image and reputation effectiveness as compared with competitors and analyses the management and direct and indirect investment that affect a brand, the return on image and the financial return with respect to turnover.

Legality and incorporation of ESG criteria within the procurement process

NFS

MAIN RELATED TYPES OF CAPITAL

For the Poste Italiane Group, promoting responsible supply chain management is primarily synonymous with the sustainability, functionality and traceability of procurement. The Company bases its procurement processes on pre-contractual and contractual relations geared towards full compliance with legality and transparency, by monitoring compliance with current regulations and corporate directives regarding aspects such as quality, worker protection and environmental standards, starting from supplier qualification procedures.

The path mapped out in the procurement process also includes ESG issues, involving investigation of suppliers' possession of specific requirements via sustainability audits (e.g. respect for their employees' working conditions, etc.).

Poste Italiane guarantees equal opportunities to all suppliers, and the opportunity to compete in contract awarding procedures. Suppliers involved in contract awarding procedures are required to comply with the EU and Italian legislation on competition, refraining from anti-competitive or unethical conduct that is contrary to the rules that safeguard competition. The Poste Italiane Group requires its suppliers - including any subcontractors, and their partners - to formally accept the guiding ethical and social principles and obligations regarding conduct set out in the Code of Ethics, the Poste Italiane Group's Integrated Policy and the Human Rights Protection Policy, which, as of January 2019, became an integral part of the contractual relationship.

In this context, the Group intends to strengthen governance and oversight of procurement processes, and continue the development of the project relating to the digitisation of internal processes in order to simplify and speed them up and reap environmental benefits, as well as strengthening the principles of transparency and impartiality in the processes of awarding works, service and supply contracts. With a view to making business processes and competitiveness more effective, Poste Italiane is committed to promoting the adoption of selection, assessment and monitoring criteria for suppliers in order to measure their social and environmental performance and mitigate any ESG risks

INTEGRATED GROUP PROCUREMENT MODEL

Code of Public Contracts

- The qualification system, set up following publication of a specific notice for each product or service category and governed by specific documentation, limited to the open categories, can be accessed by all economic operators meeting the established requirements for participation
- In order rationalise the processes involved, the Qualification System is also used by Group companies

SUPPLIER REGISTER

Internal Regulations for Procurement Procedures of Works Services and Suppliers Procurement

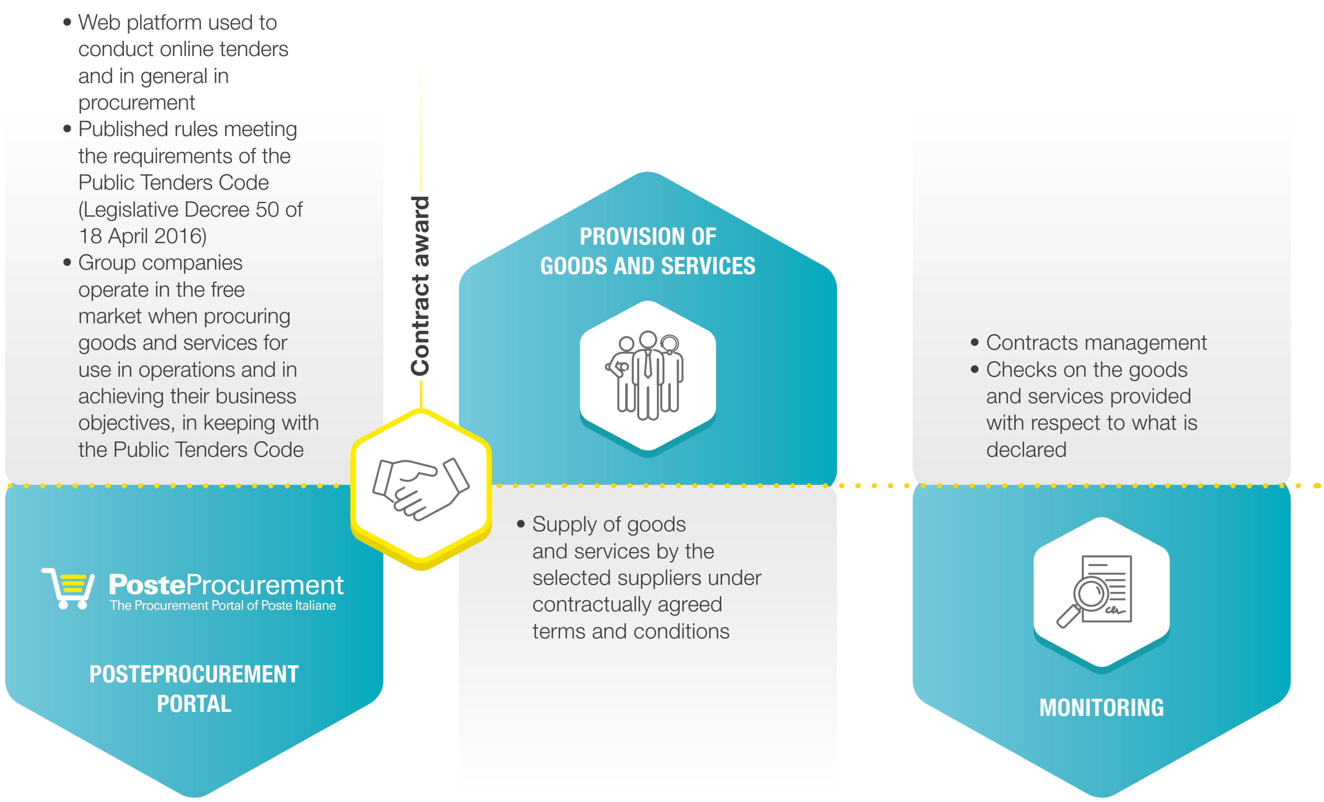
SUPPLIER QUALIFICATION

- The supplier register provides the Group with a range of economic operators capable of meeting Poste Italiane's requirements and enables it to adopt certain and transparent selection criteria when procuring goods, services and works

In 2018, Poste Italiane SpA revised and updated its internal procedures which govern the procurement process, regarding contracts that are subject to the Public Contracts Code as well as those excluded from its scope of application. These procedures, together with the Internal Regulations for the Award of Works, Service and Supply Contract Procedures and the Public Contracts Code, if applicable, constitute the main governance and regulatory oversight of the Parent Company's contract awards. Specific Procurement Regulations were subsequently approved by the respective Boards of Directors of the main Group companies, which implement the principles and content of the Corporate Regulations. In order to ensure objectivity and transparency in the procurement phase, the procedures regarding the composition and appointment of tendering committees and assessment teams have also been redefined, with particular reference to the introduction of drawing lots and rotation as a criterion for identifying a portion of their members, as set out in the operational directive "Composition and appointment of tendering committees and assessment teams".

In 2018, the process of centralising Group companies' procurement activities in the Corporate function continued. This led to centralisation of the procurement of PostePay and the PosteVita Group, with the aim of implementing an integrated Group procurement model and strengthening procurement risk oversight.

In recent years, the Parent Company's procurement has been marked by constant, large-scale use of competitive procedures that guarantee competitive advantages for the Company and ensure impartiality, transparency and equal collaboration opportunities for suppliers. Contract awarding procedures are also managed via the Procurement Portal ("Poste-procurement"), the internet platform used for all procurement activities as well as for management of the Supplier Register. This IT system was set up to ensure efficient and integrated management of the entire procurement process, as well as to encourage and improve collaboration with suppliers, whilst meeting the requirements of confidentiality, authenticity, competitiveness, integrity and data sharing availability.



Centralisation of Group companies' procurement activities within a corporate function

Supplier qualification procedures

In line with current legislation (art. 134 of the current Public Contracts Code), and In order to provide the Group with a pool of business operators who meet Poste Italiane requirements, as well as to adopt clear and transparent selection criteria in the procedures regarding the procurement of goods, services and works, the Company established its own Supplier Register in 2006. The aim is to simplify contract awarding procedures, while at the same time ensuring uniform standards among the selected suppliers in each product area, and transparency towards the market.

Training and management regarding the Register is governed by the Supplier Register Regulations which regulate the Supplier Register Qualification System, as well as by the Qualification System Regulations which regulate the system and the qualification procedure for each specific product category. For each product category, the Supplier Register may be accessed at any time by submitting a request accompanied by the necessary documentation.

All suppliers seeking qualification for the Supplier Register are required to meet general requirements (moral and professional suitability), as well as specific business, financial, technical and organisational requirements. In addition, in its relations with suppliers of works, services and supplies, Poste Italiane operates on the basis of standard contractual clauses that may be revised in accordance with any new regulatory provisions and any special needs expressed by an internal customer. The adoption of uniform contractual standards thereby provides a timely means of speeding up the process, keeping contracting timeframes to a minimum and, above all, improving the oversight of data on the various matters involved.

In 2018, the Company Qualification Committee was set up to share information and assign responsibilities in accordance with Poste Italiane's general regulatory framework and its ethical, sustainability and innovation values. This Committee oversees the entire process of qualification, updating and monitoring of qualified business operators.

During the year, planning and implementation activities were carried out regarding the product segments (new and expiring) in accordance with the precepts of the New Supplier Register Regulations. Moreover, management of the new qualification process and the transition process was started in order to ensure the coexistence of the old qualification system until the new segments have been populated in accordance with the provisions of the Supplier Qualification Guidelines.

Finally, among the policies described in the Internal Regulations for the Award of Works, Service and Supply Contract Procedures, pursuant to Law no. 190/2012 as amended and supplemented entitled "Provisions regarding the prevention and repression of corruption and illegality in the Public Administration", Poste Italiane periodically publishes on its website, in a section freely available to all citizens, information regarding the contract awarding procedures identified by the relevant legislation, in accordance with the procedures established therein.

The "Open and Transparent Contracts" portal is another key element of this approach.

The Vendor Rating system

With regard to the IT Services product category, the Company set up a Vendor Rating (VR) system to monitor the behaviour of business operators in the tender procedure participation phases, and in the subsequent execution and management phases of the contracts awarded. This system will be extended to all qualifying segments in 2019.

The Vendor Rating Index (VRI) is a tool Poste Italiane has adopted for overall assessment of suppliers with regard to aspects relating to the levels of quality provided by the Company in the supply of goods and/or services. The VRI assessment is carried out at six-month intervals, with the overall results expressed on a scale from 0 to 100, and corresponding qualitative assessment brackets suppliers. The VR system is based on a structured methodology with three areas of interest: administrative, commercial and technical, for each of which the corresponding quality is assessed. The evaluation is carried out by individual supply and by supplier.

Selection of suppliers

On the basis of the procurement requests prepared by the requesting departments, Poste Italiane then proceeds to the selection of suppliers (which in the case of procedures arising from the Supplier Register, takes place among qualified operators), and, subsequently, to the signing of the contract with the identified supplier.

For some time now, the Group has paid special attention to the social and environmental aspects of its supply chain management, in the belief that the development of transparent and long-lasting relationships with suppliers, and paying utmost attention to quality, safety and respect for the environment in the procurement process, are useful principles for constantly improving the service offered to its customers, as well as for pursuing a public interest objective for Italy's entire economic system.

In its relations with suppliers of works, services and supplies, Poste Italiane operates on the basis of standard contractual clauses which may be revised in the light of regulatory provisions or adapted to meet specific internal requirements. In particular, the main clauses cover the following: the regularity of supplier's social security contributions and remuneration; compliance with labour regulations (Legislative Decree 276/03 as amended and supplemented, Public Contracts Code); the applicability of Collective Labour Agreements; absence of breaches of occupational safety regulations (Legislative Decree 81/2008 as amended and supplemented); absence of environmental offences (Legislative Decree no. 152 of 3 April 2006, as amended and supplemented).

Additional specific health and safety measures have been introduced into works contracts, whose assessments and measurements are contained in the Safety and Coordination Plans (SCP) and the specific Operational Safety Plans (OSP). As evidence of Poste Italiane's commitment to occupational health and safety, the Group has established and provided for possible termination of supply contracts in the event of a breach of one or more aspects of the relevant safety documentation.

The Group intends to promote the adoption of ethical standards of conduct by its suppliers, also by encouraging the attainment of certifications, such as quality (ISO 9001), environmental (ISO 14001), social (SA 8000) and occupational health and safety certifications (OHSAS 18001).

In continuity with previous years, Poste Italiane has implemented the criteria set out in Green Public Procurement (GPP) in order to combine sustainability in terms of reducing environmental impacts and cost rationalisation. In this regard, the Company has incorporated into its contracts, via special provisions within the specifications and/or with specific tendering methods, the ministerial guidelines that establish the minimum criteria for a contract to be considered "green", in application of the provisions of art. 34 of the Public Contracts Code ("Energy and environmental sustainability criteria").

In confirmation of the importance Poste Italiane attributes to the social and environmental aspects of its supply chain, some concrete examples of strengthening aspects relating to sustainability may be highlighted.

Cleaning and sanitation

For this product category, assignments are carried out in accordance with Green Public Procurement, which requires the adoption of the "Minimum Environmental Criteria" or "MEC" contained in Ministerial Decree 24/05/2012, and respecting the figure of 15% provided by the Ministerial Decree relating to the awarding of specific scores for beneficial "green procurement" techniques (e.g. dosing systems and cleaning techniques; electrical equipment and machinery bearing information about the brand, model and power capacity, and specification of the energy consumption and noise level for each device; a separate waste collection plan; vehicles used for low environmental impact transport; and Ecolabel products and consumables).

In 2018, all 10 cleaning and sanitation service contracts were awarded in compliance with the MEC.

Catering

In order to guarantee the provision of a Company catering service with a "reduced environmental impact", which in terms of processes and content is characterised by respect for all aspects of environmental, economic and social sustainability, Poste Italiane has granted a concession for catering services operating within its real estate facilities in compliance with Green Public Procurement principles.

In implementation of the "Minimum Environmental Criteria" set out in the Decrees of the Ministry of the Environment, Poste Italiane rewards the supply of foodstuffs in excess of the minimum quantities prescribed by the MEC, by purchasing sustainable products (BIO, PGI, PDO, sustainable fishing, etc.) for meals provided in company canteens at some local sites. In this context, local suppliers who guarantee certified products are potentially involved in the supply chain of food products for canteens and bars.

Currently, all 12 contracts active nationwide are "green".

Logistics

Regarding procurement for the main services (full rent fleet, transport services, etc.), an environmental-sustainability score is awarded during tendering procedures based on the emission category of vehicles used for services, with a high score given to bids that provide for categories with lower CO_2 emissions.

Works

The Supplier Register for Works categories - as well as being organised into product categories that are specific to the type of work (civil and industrial buildings, water and heating plants, plants, etc.) - provides for a qualification system for business operators according to the type of contract, for regional areas, or for Area Offices (corresponding to regions or groups of regions), which have primary or secondary headquarters in the area of registration, or which have carried out major contracts in the relevant local area.

In the context of works contracts, specifically those relating to construction and plant works characterised by moderately priced services to be implemented in buildings or on sites located nationwide, this system encourages the presence of local labour, as well as the supply of preferably locally-sourced materials, with a view to reducing procurement costs by optimising the environmentally-sustainable aspects of the system (reduction of travelling times and distances, and the resulting CO_2 emissions).

For the same purpose, Poste Italiane subdivides works into lots by geographical area limited to large metropolitan areas (e.g. Rome, Catania, Palermo and Naples) and/or two or more provinces.

Another example of a localised supply chain is the one used for works contracts to be implemented in the two main islands, Sardinia and Sicily, where requests arising from the Register are preferably addressed only to regional suppliers.

Clothing

With regard to the supply of clothing and footwear, in drawing up the award procedures, utmost attention is paid to the "green" requirements of the outfits to be provided to delivery staff.

With reference to footwear, "recyclability of the outer packaging" is a requirement for the product offered, while with regard to postmen and women's uniforms, the focus is on ensuring the fabric used for packaging has Oeko-Tex or Ecolabel certification. This certification guarantees that the fabric's packaging process does not contain or give off substances that are harmful to human health, and certifies products with a reduced environmental impact.

With regard to organisational controls in terms of checking, assessing and monitoring parties and counterparties, the Group Risk Management function in the Corporate Affairs function carries out activities to identify all the operational and reputational details needed to verify the relative reliability and integrity of corporate, financial and asset analyses of companies and representatives, and analysis of existing relations with Poste Italiane.

The purpose of this analysis of parties and counterparties is to limit the risks deriving from transactions with third parties; to guarantee adequate rotation of suppliers; and to minimise losses deriving from non-payment of receivables.

Boosting prevention of illegal activities, via integrated analysis of information within and beyond Poste Italiane, enables detection of direct and indirect relations that highlight possible critical issues. Therefore, combating fraudulent activities is implemented via a process of continuous monitoring of the degree of exposure to fraud risk and risk factors, through gathering and analysis of reports and signs of potential offences, examination of processes, and adoption of adequate and increasingly rigorous governance and supervisory measures for fraud prevention.

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PEOPLE DEVELOPMENT
Supporting active parenting
Inclusive corporate culture
Care for people development and training
Promoting people's well-being


Safeguarding the health and safety of employees
WE HAVE A RESPONSIBILITY TO PROVIDE OUR PEOPLE WITH THE BEST POSSIBLE DEVELOPMENT OPPORTUNITIES.

People development

MAIN TYPES OF CAPITAL	OBJECTIVES	TARGETS	OUTCOMES
Social-relational Human	Provide continuous training to all Group employees	20 million training hours provided by 2022	
	Expand the scope of the workforce involved in the performance appraisal system	90% of employees participating in the performance appraisal system by 2022	
	Increase the quota of middle managers and white-collar staff involved in the MLAB development plans (Managerial LAB for the enhancement of middle managers who have further growth potential) and POP (Professional Guidance Programme which identifies and develops talented young people)	20% of middle managers and 25% of white-collar staff with respect to the total number of middle managers and white-collar staff meeting the access criteria for these programmes by 2022	
	Increase employee satisfaction	50% Poste Italiane Group employees claiming to be "satisfied" during "employee engagement" surveys by 2022	
	Reduce the rate of absenteeism due to sickness	Rate of absenteeism due to sickness of 3.49 by 2020	
	Promote membership of the Welfare platform	15% conversion rate of Group employees' performance-related bonuses by 2022	
	Reduce the number of Group employees' occupational injuries	790 fewer events in the Mail, Communication and Logistics segment compared with the 2017 figure by 2021	
	Reduce the occupational injury frequency rate for Group employees	down 8% compared with the 2017 seriousness rate by 2021	
	Reduce the occupational injury seriousness rate for Group employees	down 8% compared with the 2017 seriousness rate by 2021	
	Reduce Poste Italiane SpA's work-related stress levels	Reduction of the risk of 40 homogeneous groups from "medium-high" to "not relevant" by 2020	
	Certify the main Group companies in accordance with the BS OHSAS 18001 standard	100% of Group production units certified to BS OHSAS 18001 by 2021	
	Increase women's involvement in staff development plans	4% more women compared with the average of the two-year period 2016-2018 by 2022	

Protection of human rights

NFS

MAIN RELATED TYPES OF CAPITAL

A company like Poste Italiane, which plays a key role in Italy, operates across a value chain that involves a significant number of actors, which includes individuals, organisations, authorities and businesses. Consequently, in addition to complying with the regulations it is subject to, Poste Italiane is committed to taking on ever greater responsibility in safeguarding the wellbeing of the people who work in and for the Company, and those who collaborate with it or merely live in the communities where it operates, in order to foster the development of a "corporate culture" and a response to new challenges and market opportunities.

Therefore, respect for human rights - as an essential prerequisite for building societies founded on the principles of equality, solidarity and the protection of civil, political, social, economic and cultural rights and the so-called third-generation rights (right to self-determination, peace, development and environmental protection) - is an essential priority for Poste Italiane in conducting its business and a fundamental requirement for the development of a working environment based on loyalty and fairness.

Indeed, in its Code of Ethics the Group highlights its responsibility to protect workers by combating any form of discrimination or harassment, and promotes the inclusion and protection of diversity among its employees, in the belief that cooperation between people with different cultures, perspectives and experiences is a vital element in the acquisition and sharing of new skills, and for the gratification of individuals as contributors to the entire corporate system. This approach also includes Poste Italiane Group's Declaration, drawn up in accordance with the "Framework Agreement on Harassment and Violence in the Workplace" in November 2018, in which the Company establishes its duty to cooperate in maintaining a working environment where everyone's dignity is respected and interpersonal relations are encouraged, based on the principles of equality and mutual fairness, and all forms of harassment or violence in the workplace are condemned.

93% of employees are on **permanent contracts**

Poste Italiane's commitment to supporting equal opportunities and victims of gender-based violence

Aware of the key role women play within and outside the Company, Poste Italiane has been at the forefront of women's efforts to ensure equal opportunities and combat gender-based violence for years. Taking advantage of its nationwide presence, the Company is a key interlocutor for the main organisations and authorities engaged in supporting the many victims of violence through the implementation of dedicated initiatives aimed at reintegrating victims leaving anti-violence centres within the labour market and the community.

Contributing to the implementation of these initiatives provides Poste Italiane with a strategic opportunity to promote a corporate culture that is increasingly focused on valuing the presence of women, which in turn helps to consolidate a collective culture in local communities that are increasingly aware of this issue.

Regarding the initiatives Poste Italiane is involved in, for several years the Company has been working with the Equal Opportunities Department of the Cabinet Office on the active promotion of the 1522 anti-violence and stalking telephone number across its network of post offices. The 24/7 toll-free number, managed by Telefono Rosa's Helpline, offers support to victims of violence and stalking through specialised operators who, in addition to providing useful information, direct victims to the main public and private social and health services in their local areas.

In addition to implementing compensatory leave for victims of gender-based violence - a protection measure established by art. 24 of Legislative Decree no. 80 of 15 June 2015 - which is provided for in the collective labour agreement, Poste Italiane has carried out specific activities aimed at increasing and disseminating knowledge on the matter among its employees. Specifically, the Company has actively carried out dissemination initiatives, informing and raising awareness of local entities regarding the relevant legislative provisions on gender-based violence.

With a view to sharing and discussing the issue with the main national and local authorities and associations involved in projects relating to the reintegration of women victims of violence within the labour market, on 23 November 2018, Poste Italiane, in collaboration with the Equal Opportunities Department of the Cabinet Office, wished to dedicate the Eighth Confindustria Corporate Culture Week event to the theme of combating gender-based violence. The meeting enabled presentation of the main support tools and methods provided for by the activation of projects aimed at creating financial independence pathways, a key element in supporting the reintegration of victims of violence within the social fabric.

With the aim of defining, structuring and developing a clear approach to the issue, in December 2018 Poste Italiane adopted the "Poste Italiane Group Policy on the Protection of Human Rights". This reinforces what is already set out in the Code of Ethics and substantiates the commitment based on international standards, principles, guidelines and recommendations, including the Universal Declaration of Human Rights and subsequent international conventions on civil and political rights; the economic, social and cultural rights of the International Labour Organization; the UN Guiding Principles for Business and Human Rights of 2011; and the United Nations 2030 Agenda along with the 17 Sustainable Development Goals.

The Group-wide human rights policy is intended to be a manifesto of the Company's commitment to further align its business processes to the main international standards and best practices on human rights, actively disseminate the principles enshrined in it, and periodically report on the human rights protection performance achieved in terms of management and monitoring methods, identified risks, and management and mitigation actions

The document describes the attention the Group pays to human rights, focusing on certain stakeholder categories such as its own workers, suppliers and business partners, local communities, customers, migrants, children, disabled people, and victims of discrimination and any form of violence.

The Policy sets out the commitment to prevent and reject all kinds of discrimination and violence and forced or child labour, and also reaffirms the Company's interest in promoting personal wellbeing on the basis of the following principles and management guidelines:

- respect for the rights of Group employees, suppliers and business partners; safeguarding the dignity, freedom and equality of human beings; protection of labour, working conditions and labour union freedoms; protection of health and safety and guaranteed professional and cultural development through the implementation of specific training initiatives;
- support for the rights of local communities; provision of own products and services to different groups of people, including those group categories that may not have direct access to them; support for initiatives and projects aimed at spreading cultural values and collaboration with central and local government authorities, the third sector and local communities in order to address and satisfy social needs arising from disadvantaged and vulnerable situations;
- respect for customers' rights: confidentiality of personal data and information.

In order to identify, prevent and mitigate the risks of human rights violations, Poste Italiane verifies the effectiveness of the approach adopted with dedicated tools. In line with this approach, Poste Italiane subscribes to the "Equal Opportunities and Equality at Work Charter", a declaration of intent voluntarily signed by companies of all sizes regarding the dissemination of a corporate culture and the adoption of inclusive human resources policies, free from discrimination and prejudice and designed to enhance talent in all its diversity. The Charter provides a framework of reference values for the implementation of commitments aimed at creating a work environment characterised by pluralism and inclusion, which ensures equal opportunities for everyone and recognition of each one's potential and skills, thereby helping to promote equity and social cohesion and at the same time the Company's competitive growth and success.

As evidence of the Group's ongoing commitment on the protection of human rights and the enhancement of diversity, in 2018 Poste Italiane signed a Memorandum of Understanding with the Ministry of Equal Opportunities, aimed at promoting the cooperation between the two parties to carry out more effective and common communication, awareness and dissemination actions in order to:

- promote initiatives aimed at the protection and full affirmation of human rights, as well as preventing and combating all forms of exploitation of human beings and people trafficking;
- promote full implementation of policies regarding equal opportunities between men and women, with particular reference to work-life-balance and career issues;
- prevent and combat sexual and gender-based violence, stalking and any other form of violence against and abuse of women and children;
- prevent and eliminate all forms of discrimination directly or indirectly based on gender, racial or ethnic origin, religion or beliefs, age, sexual orientation and gender identity.

In affirming and respecting the rights of people associated with the so-called "social" dimension of corporate sustainability, in addition to promoting the protection of human rights, the Company acknowledges diversity as one of its greatest assets, and therefore commits to promoting it in all its forms and expressions across all levels of the organisation.

45% of middle and senior women managers in 2018.

44.4 % of the Parent Company's **Board of Directors** are **women**

Indeed, nowadays it is essential for Poste Italiane to affirm and respect this value in order to ensure the fair and responsible management of its activities. As evidence of the primary importance the Group attributes to this issue, the Diversity Policy of Poste Italiane SpA's administrative and supervisory bodies is the document in which the Parent Company states its commitment to adopt such approach.

The document, which was approved by the Board of Directors in 2018, identifies qualitative and quantitative composition criteria, aimed at effectively fulfilling the duties and responsibilities entrusted to management, partly through the presence of people who ensure sufficient diversity in terms of perspectives and skills, which are necessary to have a good grasp of current business, risks and long-term opportunities relating to the Company's activities. In defining its diversity criteria, the Board of Directors has taken into account the nature and complexity of the Company's business, the social and environmental context in which it operates, the experience the Board has gained with regard to its own activities and operating methods and those of its internal committees, as well as the findings of the self-assessment processes conducted in recent years.

In addition to the requirements of professionalism, honourableness and independence and the incompatibility and/or forfeiture criteria provided for by law, regulatory provisions and the Company's By-laws, the Policy addresses issues relating to age and seniority, gender, geographical origin and international experience (for further details see the "Report on Corporate Governance and the Ownership Structure").

Every year, with the support of a specialised firm, the Board of Directors carries out a Board Review, which consists in a self-assessment procedure that involves conducting interviews - including through the use of specific questionnaires -

with individual directors, as well as with the statutory auditors and the secretary of the Board of Directors. The appointed firm issues a final report, to be examined and shared with the Board of Directors in its entirety. In this regard, the Board Review findings for 2018 relating to composition showed that gender diversity is adequately enhanced, and is in line with the relevant legal provisions and recent practical developments. The same assessment also showed that the overall mix of Directors' profiles, skills and experience is suitable, and that the skills present are balanced to ensure effective performance of the role on the Board and on Committees.

Diversity issues in the composition of the Board of Directors, specifically in terms of gender quotas and diversity policies, was also analysed as part of the induction given to Poste Italiane's governing and supervisory bodies in October 2018.

Equal career development opportunities

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MAIN RELATED TYPES OF CAPITAL

Poste Italiane is constantly engaged in the creation of a collaborative and trusting working environment, within which people are one of the greatest resources adding value to the corporate system.

In its Code of Ethics, the Group pays great attention to the fair management and growth of the intellectual potential of its human resources, in line with the criteria of merit and performance achieved, ensuring equal treatment and condemning any form of discrimination. In this regard, people are selected on the basis of their professionalism and skills with respect to the Company's needs, regardless of their personal characteristics - age, gender, sexual orientation, disability, ethnic origin, nationality, political opinions and religious beliefs - in accordance with the principle of impartiality.

The development and enhancement of people's distinctive skills, in all their forms and expressions and at different levels across the organisation account for the key strategic engine supporting the growth of the Group's business.

The enhancement of diversity is an enabling factor for the involvement and engagement of people to achieve corporate objectives. In addition, increasing awareness in the management of diversity creates a competitive advantage for the Company and shared social value.

In the Payments, Mobile and Digital segment, **27%** of **employees** are **under 30**

Therefore, the Group's objective is to promote the spread of an inclusive corporate culture with a view to reducing situations of personal vulnerability, and supporting balanced organisational models that promote dialogue, and the emergence and enhancement of diversity

Supporting maternity and paternity

The "Maam" initiative launched by Poste Italiane in 2015 consists of a digital programme aimed at strengthening the skills relating to the procreative experience of motherhood, which may also be useful at the time of returning to work. From 2018, the programme was also extended to fathers.

The initiative is part of a broader framework of cultural awareness actions regarding the importance of the presence of women in the workforce and support for active parenting, accompanied by the dissemination and communication of good business practices aimed at supporting women's leadership. Registration to MAAM is aimed at both women who take maternity leave and newly parents (mothers and fathers) of children aged from 0 to 3 years, as well as managers whose staff members are involved in the initiative.

Voluntary registration is envisaged for the MAAM digital programme and the MAAM manager platform, which provides for direct communication between managers and staff on maternity leave, in order to facilitate an effective return to work.

The programme is also supported by a community of participants who share experiences, emotions and reflections on the process of returning to work and motherhood.

In 2018, the Company extended the "**Maam Project**" to **fathers and new parents** of children from 0-3 years of age

MAAM is designed to help share a cultural model at all levels which is geared towards the inclusion of women in the workplace, and encouraging active parenting for both parents.

Developing women's leadership

In collaboration with the Association *Valore D*[30], Poste Italiane has participated in managerial training, skill building and role modelling in support of issues relating to gender balance and inter-company mentorship projects, in order to promote the professional development of women towards managerial roles.

In 2018, the Group also signed the "Manifesto for women's employment" promoted by *Valore D*. The Manifesto, signed by more than 120 companies at national level, highlights existing good practices within organisations and enables commitment to developing women's talents via clear and measurable objectives, performance indicators and periodic monitoring.

There are nine concrete commitments and positive actions to promote women's talents and leadership, including increasing women's presence in the Company, career pathways, and parenting support policies relating to leave and flexible working methods to facilitate work-life balance.

Therefore, the Manifesto provides a concrete tool for valuing "diversity" - as a key resource for growth, productivity and innovation at all levels - which sets out concrete measures to enhance key aspects of the female workforce within the Company.

The attention posed to age management

Poste Italiane took part in "*Talenti Senza Età*" (Talent has no age limit) listening initiative, a survey conducted by *Valore D* in collaboration with the Catholic University of Milan, designed to investigate on the working conditions of women and men over 50 and to promote coherent development, management and learning policies.

Furthermore, the Company continued the Participation in the European project "Innov'age in the Postal Sector", aimed at raising awareness of the age management in the postal sector.

Enhancement of disabled staff

The Company continued the implementation of *Nave Scuola* (The School Ship), the training project aimed at improving the professional inclusion of staff with hearing difficulties through the delivery of computer literacy and behavioural courses, with a view to facilitating communication between colleagues.

Supporting vulnerability

The "PosteHelp" project is aimed at offering a network of services and support initiatives to colleagues suffering from serious diseases. The project breaks down into: corporate volunteering to support basic needs, coaching sessions by in-house professionals, and guidance and support activities to identify more accredited treatment centres for specific diseases nationwide. The project was launched in the pilot regions of Lombardy, Lazio, Campania and Sicily.

30. Valore D is the first association of companies that promotes gender balance and an inclusive culture for the growth of businesses and the nation. Founded in 2009 through the joint efforts of 12 virtuous companies: AstraZeneca, Enel, GE Oil&Gas, Johnson&Johnson, Ikea, Intesa Sanpaolo, Luxottica, McKinsey & Company, Microsoft, Standard&Poor's, UniCredit and Vodafone.

Staff training and development

NFS

MAIN RELATED TYPES OF CAPITAL

In the light of increasing innovation, continuous technological and regulatory developments and business needs, Poste Italiane attributes a key role to the ongoing development of knowledge and skills as part of the process of enhancing and enabling people's growth. The Group's focus on promoting full potential is underpinned by the principle of excellence based on recognition of merit, respect for corporate values and application of the leadership model at all organisational levels. Therefore, the Company offers fair and transparent tools and methodologies that in their application take account of the diverse nature of the various business areas and functions.

As mentioned in the Code of Ethics, the Group protects, acknowledges and rewards each person's contribution, and is committed to offering equal employment and career advancement opportunities to all employees, which are key elements in maintaining staff satisfaction.

The Group's objective is to create a virtuous company in which everyone may access a path of professional enrichment, competence and experience

In this regard, the Company is committed on a daily basis to ensuring constant adaptation, consolidation and development of professional and managerial skills, and to drawing up succession plans to cover "critical" positions, in order to incentivise operational excellence and achieve the objectives set out in the "Deliver 2022" Strategic Plan. The Strategic Plan envisages around 20 million training hours by 2022, of which around 6.5 million dedicated to staff working in the financial sector, in order to ensure development of skills in line with market trends, customer needs and regulations.

Therefore, training and development play an enabling role in promoting the growth of staff know-how, developing talent that gives the entire Group a real competitive edge, and supporting a culture of change.

Regarding the training activities carried out to consolidate and transfer skills among employees, Poste Italiane SpA has adopted a specific staff training procedure ("Training Procedure and Operational Training"). The procedure defines the operating mechanisms and organisational ownership regarding training and operational training activities, based on specific criteria designed to guarantee the effectiveness, efficiency and compliance of the expected outcomes, also introducing significant organisational and control measures. On the basis of the guidelines drawn up by the Parent Company, the subsidiaries implement the procedure, adapting it to their size and their organisational and operational context, in order to develop and extend the organisation's knowledge and capitalise on the Company's experience.

In accordance with the new businesses and changes in the corporate context - together with the business lines - the Corporate University defines a specific managerial structure focused on the training needs of staff operating in the various functions, also relying on the training focal points of the business functions operating nationwide.

Specifically, through an annual online survey which involves all corporate functions the Company identifies the training needs that make up the annual Training Plan, which breaks down into three areas: managerial training; specialised technical training; compulsory and compliance training. Starting from an analysis of the above-mentioned regulatory requirements, the Corporate University identifies the appropriate methods to implement training activities, which may be in-class (in-house or external teaching) or through e-learning.

Training initiatives are differentiated on the basis of specific roles and training and educational needs.

Average of **19%** more training provided to middle managers in the **two-year period 2017-2018**

Diversified skills development within the Poste Italiane Group

Mail, Parcels and Distribution

In the logistics sector, training activities dedicated to postmen continued and new ones were launched to support the radical transformation of logistics processes. Such transformative process is strongly linked to the implementation and dissemination of lean production methods and tools, and aims at supporting the development of a service culture based on continuous improvement.
In addition, with a view to transforming the sales network in terms of customer relationship management, various training plans were implemented, with a special focus on the regulatory compliance requirements of the financial and insurance world, via the certification of Poste Italiane's training system to meet MiFID II-ESMA requirements, with the aim of monitoring and developing skills and continuously assessing the related development needs.

Financial Services

With regard to specialised technical and managerial training, several courses were planned, including the course "Business Continuity Management" and the project "*Ascoltiamoci*" (Let's Listen), consisting in a structured dialogue between the Company functions BancoPosta and Private Customers.

Insurance Services

PosteVita focuses on the continuous evolution of the product offer and on the implementation of new distribution practices to offer greater guarantees to customers. In this context, training plays a crucial role in keeping in line with regulatory and socio-economic developments. No longer limited to technical and regulatory content, training is designed to integrate all new products and services, as well as an equal number of relational skills and abilities to take customers' needs into account. Interactive workshops and specific case studies are envisaged, in order to place maximum emphasis on interaction and dialogue with customers.
In addition, Poste Vita has planned two projects for the development and enhancement of human capital: "Executive Master in Insurance & Finance EMIF ", a top-level, specialised two-year master's programme aimed at talented young people in core areas of the Company; and "Key Competence", aimed at mapping the specialised technical skills of professionals involved in the definition and management of insurance products, and also to fill training gaps.

Payments, Mobile and Digital

With particular reference to PostePay, specialised technical training courses were provided on issues relating to cyber security, innovation in technological infrastructure and telecommunications, acquisition of certifications in the Service Management area, development of big data management and processing skills, and new Management Control applications.
In October 2018, the Company implemented a Change Management plan. The first phase of the Plan involved setting up training classrooms, with the aim of facilitating mutual knowledge among people from the Payments, Mobile and Digital segment, laying the foundations for sharing of mutual professional experiences and fostering engagement and team spirit. The formats used involved two types of workshop - video-making and storytelling - with the aim of improving interpersonal communication and relational skills, key elements of the integration process.

Continuous performance improvement

Training has a significant impact on the level of individuals' knowledge and skills to support the development of operational performance, professional development, and compliance or alignment of behaviour with corporate values. In order to assess the quality of training, participants are asked to fill in satisfaction questionnaires, which are structured to measure staff satisfaction levels regarding the organisation, teaching, logistics, etc.. Periodic surveys are also envisaged regarding the state of progress of the training plan in terms of hours, participation, topics, trends and information flows shared with reference corporate and control functions. The effectiveness and efficiency of training initiatives are monitored by means of specific indicators (e.g. course pass rate, absence rate).

To support human resource development policies, Poste Italiane uses the Development System as a basic architecture to manage roles, skills and development paths within the organisation, which is divided into three main macro-processes that pursue specific goals:

90% of staff receive **assessments** on the outcomes and development of their careers

- **Scouting:** aimed at identifying individual potential and the most qualified staff. The characteristics and criteria for accessing the scouting processes envisaged by Poste Italiane are specific and differentiated according to the target population, and the level of professional maturity revealed by the participants.

- **Management planning:** aimed at identifying development priorities with a view to succession and the reduction of "managerial risk". Poste Italiane periodically reviews the managerial development planning process through review meetings between the Human Resources and Organisation Function and the department heads.
- **Development:** aimed at supporting the individual growth of staff members and accelerating their professional development. The development actions comprise a set of structured and coordinated interventions designed to support people on their growth path in terms of corporate needs, based on the findings of scouting and planning processes.

The various types of assessment of potential continued, with regard to:

- Knowledge, evaluation process and mapping of competences and skills aimed at strengthening those resulting to be weaker from the assessment outcomes;
- Professional Guidance (POP), dedicated to young members of staff and aimed at identifying the best performers in whom to invest development, by recognising so-called young talent;
- Managerial Potential (MLAB), dedicated to the more mature workforce, aimed at identifying key people to perform middle management roles. Participants in the programme are periodically involved in surveys that monitor the degree of satisfaction and perceived usefulness of the development initiative, and gather feedback and suggestions to improve the proposed activities.

The Management Review and Succession Planning processes, activated respectively to map the managerial population and identify possible successors, supported the definition of succession plans for first and second level organisational positions.

Performance Management was conducted to ensure that people's performance was geared towards the Company's objectives, including for 2018. An "extended appraisal" (so-called 180°) was activated for the Group's entire managerial workforce which, with respect to the managerial behaviour manifested by the appraisee, enabled gathering of different points of view (boss, colleagues, appraisee). Among other things, the Performance Management system enables gathering of opinions, degree of satisfaction, appreciation and level of sharing of the appraisal received by the workforce involved. In addition, to support people on their growth path in terms of corporate needs, a Mentoring programme was activated, which involved internal staff in the roles of both mentor and mentee. The programme's degree of efficiency and satisfaction was assessed via a web community dedicated to participants and an ad hoc survey.

For 2018-2019, the Key Professional programme was launched for a number of corporate functions and was aimed at enhancing the distinctive skills of professionals through a dedicated development path.

Staff welfare and wellbeing

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MAIN RELATED TYPES OF CAPITAL

As well as leading to better working and living conditions, increasing people's wellbeing is a prerequisite for greater loyalty, which translates into increased productive value and self-efficacy at both individual and collective levels. The principles underlying the Company's welfare policies are outlined below:

Within the Poste Italiane Group people have always been a vital resource, comprising the key element that enshrines our real competitive advantage. Consequently, the wellbeing of workers is one of the key ethical principles of the Group, which strives daily to promote a healthy, beneficial working environment free of prejudice, whilst respecting the personality and dignity of each person.

The central importance of our people has led the Company to pay increasing attention to aspects relating to motivation, organisational wellbeing and the creation of a collaborative and participatory environment. In this context, corporate welfare plans have been developed, with the aim of increasing worker satisfaction and strengthening the social security system, via a variety of services provided by the Company.

In the planning and development phase of the welfare plan, Poste Italiane promotes an increasingly intergenerational approach, associated, where possible, with analyses relating to gender, age, professional characteristics and the family status of the people involved in the initiatives. The "age pyramid" is particularly important, as people's age group affects their actual needs and consequently the types of services the Company shall provide.

Through an intergenerational vision, the Group's welfare strategy aims to guarantee the central importance of people and their needs, engagement with local communities and social organisations, paying attention to families and social inclusion

Commitment to achieving these objectives is the outcome of the many modern and flexible tools and working models designed to respond to specific personal needs and to ensure the work-life balance that the Poste Italiane Group has created for its employees.

Work-life balance

With a view to achieving work-life balance, the Group provides many initiatives for its employees and their families.

The Company's crèche service is available at the Rome and Bologna offices, and, via a reciprocal agreement, in Milan. Poste Italiane has provided for a contribution based on the type of working hours chosen and/or families' income status, amounting on average to 50% of the monthly fee, thereby guaranteeing reduced rates to access the service.

In addition to offering financial benefits, the Company crèche provides employees with a flexible and distinctive educational service.

Employees' children who are disabled also benefit from 15-day residential holidays, with a dedicated assistant provided for each child. The cost is fully borne by the Company, and families accompanying children are offered packages at reduced rates.

In response to the growing demand from employees for flexibility and work-life balance, a teleworking service is available. This is aimed at people with objective care needs for themselves or their families (e.g. pre- and post-natal periods; resumption of service after a long illness, injury or leave; disabled people; employees who need to care for elderly parents or children). Employees taking advantage of teleworking may choose to work from home, whilst guaranteeing their presence at the Company one or more times per week.

In addition, employees and their families have access to special agreements and conditions regarding products and services. Welfare payments are also provided to support employees with special needs, arising from serious personal and/or family situations or from serious natural disasters.

In line with the Company's objective of ensuring work-life balance and promoting the social values of aggregation and inclusion, Poste Italiane is committed to creating opportunities for practising sport, as a key tool for strengthening relationships. With this in mind, the Company has decided to set up its own national football team, as a starting point for promoting sports values among its employees.

Health and prevention

Since 2018, Poste Italiane Group employees have been able to benefit from supplementary healthcare. In the "Basic" version, the cost is entirely borne by the Company, while the "Plus" version requires employees to bear additional costs. In both versions, by paying an extra contribution, employees may have the assistance extended to cover their families. Health services may be provided either by employees' own physicians/healthcare facilities, or by a network of affiliated healthcare facilities. Regarding healthcare, the Company contributes to the financing of the Supplementary Healthcare Fund and other supplementary funds, so that services supplementary to the National Health Service may be recognised.

Regarding supplementary pension contributions, the Company contributes to the financing of Fondoposte for non-managerial staff, and to the PREVINDAI Supplementary Pension Fund for managers, so that pension benefits supplementary to the Compulsory Pension may be recognised.

In addition, once again in 2018 the Group provided awareness-raising activities relating to prevention and appropriate lifestyle issues, combined with the provision of specialist services free of charge or at favourable rates at the Company's headquarters, all of which are part of the Health Plan project.

The Welfare Platform

In July 2018, Poste Italiane signed an agreement with the labour unions regarding the performance-related bonus, which, on a voluntary basis, allows employees to opt to transfer the entire amount of their bonus or a portion thereof to cover the cost of welfare goods and services with a social impact, in addition to those already provided for (supplementary pension). These may include, for example, education and training expenses, care expenses for the elderly and/or dependent family members, transport expenses, etc..
By virtue of the tax and social security benefits provided for by current legislation, transfer of such amounts will be tax-free for employees.
An IT platform will be used to implement the initiative, via which employees will be able to substitute their performance-related bonus with welfare goods and services. In line with the corporate strategies relating to paying increasing attention to motivation and organisational atmosphere aspects, the aim of the welfare project is to enhance personal and family wellbeing, enable staff to access a wide range of customisable services, and strengthen safeguards that supplement public welfare (e.g. welfare, healthcare, education, children's education, support for vulnerable people and assistance), and, in general, to enhance purchasing power thanks to the tax and social security opportunities provided for by law. The value of the Company welfare platform lies in being able to manage the various generational needs of the workforce in an integrated way, monitoring their level of satisfaction and recruitment, creating forms of continuous, multi-channel and user-friendly interaction, and having a personalised welfare "portfolio" in line with differing lifestyles.
The platform will be implemented by applying of all Poste Italiane Group's expertise and technological assets.

Culture and education

In order to involve the graduate and undergraduate children of employees, Poste Italiane provided various initiatives, including: Push to Open, a platform for interactively involving students in the choice of their educational/vocational path, with the active participation of parents; Talent Days, a meeting with young people regarding employment ; and annual and summer scholarships for trips abroad, reserved for deserving children of employees, and supported entirely by the Company.

As a natural partner of the Public Sector in the development of services for citizens, the Company also continues to participate in "Work experience champions", a Ministry of Education, Universities and Research project involving large Italian and multinational companies. The Company has signed a special protocol regarding this matter with the Ministry of Education, Universities and Research, identifying seven work experience paths, grouped into five areas (retail customers and large enterprises marketing, logistics and delivery, management functions, financial education, and customer experience), which enable secondary school students to learn about the postal world and the key business processes.

Relations with social partners

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MAIN RELATED TYPES OF CAPITAL

Promoting constant dialogue with workers' representatives is a priority for the Group, which is committed to ensuring the wellbeing of its workers and protection of their rights, both under normal operating conditions and in the event of significant organisational changes.

The quality of labour union relations enables fostering of a positive corporate atmosphere and finding appropriate solutions for issues that may have a significant impact on the organisation, on business and, in particular, on human capital, a fundamental asset for the Company.

Indeed, in its Code of Ethics the Group sets out the reference principles of fairness, impartiality and independence for the promotion of our relations with the labour unions.

Moreover, Poste Italiane guarantees and safeguards the right and freedom of association and collective bargaining, in accordance with current legislation, and adopts an open attitude towards labour unions' organisational activities.

In this regard, the Group envisages the sharing and signing of specific agreements with the labour unions, regarding matters expressly provided for in the National Collective Labour Agreement, as well as other matters relating to the achievement of objectives outlined in the Strategic Plan that have repercussions for staff in terms of legislation and/or organisational changes

Dialogue with the social partners is managed via periodic meetings with the labour unions.

In order to ensure compliance with the law, Poste Italiane stipulates agreements with labour unions in the interest of its employees, in accordance with the bargaining procedures set out in the National Collective Labour Agreement and the Consolidated Law on Representation.

In the event of significant organisational changes (reorganisation and/or restructuring and/or corporate transformation processes) that have social consequences with repercussions on working conditions (e.g. collective redundancy schemes), the Group refers to national collective bargaining, which provides a specific procedure for dialogue between the Company and the national labour unions signing the National Collective Labour Contract.

During 2018, various opportunities for dialogue with the labour unions enabled the signing of several agreements, the most significant of which are described below.

100% of employees covered by collective bargaining agreements

Reorganisation of delivery activities

In line with sharing activities with the labour unions, on 8 February 2018 a draft agreement was signed regarding reorganisation of delivery activities. The new arrangements include:

- an alternate day delivery model for the areas covered by the existing regulatory framework (AGCom Resolution 395/15/CONS), where a basic service operating on alternate days will be in place. In the case of business opportunities linked to specific commercial agreements, such as the distribution of newspapers in certain areas, temporary business arrangements will be adopted;
- a Joint Delivery model for the remaining areas, in which mail delivery will be in the form of a basic service and a business service for the daily door-to-door delivery of products under Service Level Agreements.

This operational and organisational reorganisation, which began in 2018 and continued in 2019, is divided into four phases, the first of which began on 16 April 2018 and ended on 22 October 2018. At the end of this first implementation step, the Parties verified the actions carried out at both national and local level. Moreover, with the agreement of 8 February 2018, the Parties also defined procedures for managing surplus staff resulting from this reorganisation process, excluding recourse to collective redundancy procedures pursuant to Law 223/91.

Active labour policies

The Group's commitment to establishing relations aimed at ensuring its workers' wellbeing and protection of their rights has been expressed by signing four agreements regarding labour policies.

On 13 June 2018, the Parties reached an agreement which identified methods and criteria for managing workforce trends in the three-year period 2018-2020. In particular, during the period in question, hiring of 6,000 new staff was envisaged, compared with a number of voluntary redundancies regarding employees on permanent contracts amounting to at least 15,000 staff.

The managerial and organisational levers required to meet the Company's needs were identified in the following areas:

- hiring employees with fixed-term contracts on permanent contracts;
- recruitment from external markets, mainly through professional apprenticeship contracts;
- conversion from part-time to full-time contracts;
- job rotation.

On 19 June 2018, in line with previous agreements regarding this matter, two agreements were signed which provide for the strengthening of the contractual status of staff formerly employed on fixed-term contracts and temporary staff subsequent to a favourable court decision - not yet final - regarding their re-employment/entry into service, who work for the Company and have not benefited from similar previous agreements; and the recruitment on fixed-term contracts of delivery agency staff who are unemployed or are the beneficiaries of income support as a result of the total or partial insourcing of Poste Italiane's delivery activities.

On 31 July 2018, an agreement was signed to award performance-related bonuses to employees of Poste Italiane SpA, PosteVita SpA, Poste Assicura SpA, EGI SpA and BancoPosta Fondi SGR. The agreement, which has a one year validity, allows to further emphasise the contribution made by staff towards the achievement of corporate objectives in 2018.

The agreement confirmed the option for employees to allocate all or part of their performance bonus to Fondo Poste or other supplementary pension funds.

The state of progress of the actions and objectives set out in the signed agreements is guaranteed by periodic audits, and also thanks to specific Monitoring Committees. Any reported incidents and emerging areas of conflict regarding anomalies noted by the labour unions at the local level are also assessed during these processes.

Participatory organizations with mixed composition (members from Poste Italiane and Trade Unions)

Together with the labour unions, Poste Italiane has set up joint bilateral bodies at national level regarding issues that are also relevant in terms of sustainability, including:

- **Comitato per l'Attuazione dei Principi di Parità di Trattamento e Uguaglianza di Opportunità (Committee for the Implementation of the Principles of Equal Treatment and Equal Opportunities)**, with the objective of "implementing and strengthening a culture that pays attention to diversity, including gender diversity, through positive actions aimed at creating examples of good practice within the Group and removing obstacles that actually prevent achievement of equal opportunities". In this context, the Committee will address issues relating to the integration and inclusion of disabled people, as well as those regarding other factors of discrimination.

- ***Ente Bilaterale per la Formazione e Riqualificazione Professionale* (Bilateral Agency for Staff Training and Retraining)**, through which the Parties jointly promote activities in the field of training and retraining, with regard to the provisions of the Consolidated Law on Occupational Health and Safety, and also with reference to any processes of reorganisation/restructuring/transformation of the Company, or the introduction of technological innovations. In 2018, in continuation of its activities, the Body supported the development, presentation and activation of various projects through a technical investigation initiative, as well as the signing of agreements that have enabled the Company to access funding from Fondimpresa and the Fondo di Solidarietà (Solidarity Fund) for income support, employment and professional retraining regarding Poste Italiane Group staff. In accordance with the provisions of art. 5 of the current National Collective Labour Contract, the Body received updated information on the activities of the European Social Dialogue Committee for the Postal Sector.

- **Organismi Paritetici per la Salute e la Sicurezza sui Luoghi di Lavoro (Joint Bodies for Occupational Health and Safety)** also continued activities relating to the uniform and correct application of the guidelines regarding occupational health and safety, in particular concerning issues relating to the new work-related stress risk assessment criteria with the aim of "implementing measures to improve occupational health and safety". At the end of 2018, the Osservatorio Paritetico sulla Sanità Integrativa (**Joint Observatory on Supplementary Healthcare**) was set up, with the role of proposing and monitoring the services offered by the Supplementary Healthcare Fund.

Occupational health and safety

NFS

MAIN RELATED TYPES OF CAPITAL

Protecting our employees' health and safety in the workplace is of utmost importance for Poste Italiane. Therefore, in its activities the Group respecst the highest international standards and the specific rules and regulations regarding the postal sector, via an approach based on continuous improvement.

Indeed, staff wellbeing is not only a moral principle, but also the key to successful individual and corporate performance.

The Company deems the assessment and prevention occupational health and safety risks to be fundamental principles, which all employees should be inspired by in carrying out their daily activities.

From this perspective, safety is a culture that characterises the actions of the Company as a whole, with the aim of engaging all employees in the process of constant awareness and involvement in management processes.

This overall vision translates into a corporate strategy focused on pursuing the highest levels of protection and security for workers, through the planning and implementation of actions aimed at ensuring effective management of occupational health and safety in all stages of the value chain.

Therefore, in accordance with corporate values, the Group is committed to:

- consolidating a safety culture, by promoting awareness on the issue and encouraging the continuous involvement by everyone working within the Group, especially at local operating centres (Distribution Centres and post offices) and within the relative coordination departments;
- preserving people's physical and moral integrity, starting with the reduction of injuries, especially in the logistics and delivery segment;
- promoting continuous improvement of management systems through the planning and implementation of initiatives, in line with the principles set out in the Group's Policy, regarding the constant monitoring of performance and the periodic review of setting new objectives.

As regards health and safety, Poste Italiane aims to consolidate a safety culture in the Company, preserve the physical and moral integrity of its employees, and promote continuous improvement of the management systems adopted

The ongoing monitoring of injuries contributed, also in 2018, to the implementation of various initiatives on prevention and on occupational health and safety of the workforce and the workplace. In this regard, the prevention programmes and information and awareness campaigns, as well as the occupational safety management systems, which have for some time been adopted in line with current legislation, confirm the belief that an effective model enables systematic management of occupational health and safety.

Approximately 8,300 injuries in 2018, almost **400 less** than in 2016 (approximately 8,700)

The commitment to occupational health and safety in the logistics sector

Given the company's focus on health and safety issues, which are particularly sensitive for the logistics and delivery sector, specific activities have been planned to consolidate the wealth of knowledge and skills regarding the matter and to raise awareness of the role it plays, including:

- introduction of Lean Manufacturing principles in plants, a philosophy that aims to minimise waste until it is eliminated. This objective is achieved by introducing new automated load handling systems (AGV - automated guided vehicles), and restructuring of real estate in all the departments that comprise the logistics network, which are initiatives that enable a reduction in injuries and improvement in terms of occupational health and safety;
- constant risk assessment and updating of Risk Assessment Documents, following the reorganisation initiatives underway, primarily in the delivery sector;
- training on the use of vehicles provided to around 2,000 staff by the Traffic Police;
- introduction of around 300 new three-wheeled vehicles in the corporate fleet to replace motorcycles.

In 2018, with the aim of strengthening oversight of occupational health and safety, Poste Italiane SpA obtained certification of the Occupational Health and Safety Management System, in compliance with the BS OHSAS 18001 standard, adopted by the "Strutture central e le loro dipendenze territoriali" (Central facilities and their local branches) production units.

In this context, some Group companies have also adopted management systems that guarantee correct and uniform management of these issues, and have implemented an effective certified Occupational Health and Safety Management System, in compliance with the relevant international standard, involving central and local facilities and identifying roles and responsibilities in the implementation of requirements. In addition to ensuring timely compliance with any regulatory changes and updates and effective and transparent communication of any information that might be useful for prevention purposes, this management model guarantees alignment between innovations and changes in work processes in terms of occupational health and safety objectives.

With reference to future lines, the Group has set itself the objective of extending the process of certification by an external body to all the production units of the Parent Company and the remaining subsidiaries.

The Company policy regarding occupational health and safety comprises the following key principles and objectives:

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

Starting with the Group's Integrated Policy and Health and Safety Policy, each employer has approved the policy for its production unit, making it available to all workers. All Group companies that have adopted management systems provide for periodic assessment and auditing, in order to ensure compliance with the requirements of the reference standards, and that they are correctly implemented and kept active. In addition to these systems for monitoring and reporting any anomalies, operational checks are carried out at delivery centres and post offices, aimed at assessing overall status in terms of infrastructure safety, plant engineering and work processes, as well as raising awareness among staff working at sites; and control measures are in place aimed at analysing and assessing the occupational health and safety compliance status of the sites, with particular reference to aspects regarding plant and infrastructure.


SUPPORT FOR LOCAL COMMUNITIES AND THE COUNTRY AS A WHOLE
Valori Ritrovati
More than 1,000 employees involved in corporate volunteering activities
Over 1,000 "mobile" consultants to provide services in remote areas


5 years of
"Il Risparmio che
fa Scuola"
Promoting the
socio-economic
inclusion of small
municipalities
WE HAVE A RESPONSIBILITY TO INVEST IN LOCAL COMMUNITIES
TO HELP DRIVE THE COUNTRY'S DEVELOPMENT.

Supporting local communities and the country as a whole

MAIN TYPES OF CAPITAL	OBJECTIVES	TARGETS	OUTCOMES
Physical-structural	Increase the Group's support for socio-cultural initiatives that benefit the community	60% increase in investment in the community to promote socio-cultural initiatives by 2019	
	Provide basic services, including in small municipalities without a post office	Provide 254 small municipalities without a post office with ATMs and postal services via the network of tobacconists and home delivery by postmen and women by 2019	
Social-relational	Increase the number of post offices in small municipalities with free Wi-Fi customers	5,007 more post offices equipped with free Wi-Fi by 2020	
	Allow Company-owned spaces in "disadvantaged" areas to be used for social activities	Use of 8 Company-owned buildings granted to communities by 2020	
	Eliminate architectural barriers in post offices	80% fewer architectural barriers by 2020	
	Certify the financial advisory service and the skills of people operating in accordance with the ISO 22222 standard	100% of finance consultants ISO 22222 certified by 2022	
	Continue financial education and inclusion projects	20 financial education events by 2022	

Supporting the socio-economic development of local communities

NFS

MAIN RELATED TYPES OF CAPITAL

Supporting the needs of the community is the foundation of the Group's values and corporate mission. The Company has always accompanied the local communities where it is present on a daily basis towards modernisation and digitisation processes, thereby promoting the wellbeing of citizens and socio-economic development.

Poste Italiane systematically promotes activity programmes nationwide relating to social inclusion issues that have a positive impact and bring benefits to the community through its extensive network of post offices and through the engagement of corporate volunteers and/or the financing of specific EU projects via donations and sponsorships. As part of its initiatives to support the community, the Company pays particular attention to the most vulnerable categories of people who experience hardship due to their physical, mental, family, economic, ethnic and social conditions.

The Company's inclusive approach is reflected in constant listening activities and dialogue with citizens, authorities and third sector associations, at local and national level, in a continuous process of reconciling relative and legitimate interests.

In line with the increasing integration of sustainability into the Company's businesses, Poste Italiane intends to strengthen its role in supporting the needs of local communities, through activities that can have a real social and economic impact on local areas, always based on the operating logic of assessing social needs.

The Group's objective is to play a key role in the development of Italy's economic system as a whole and to seek constant integration between the needs of the community and its business objectives, by identifying projects and initiatives that respond to shared interests and generate a concrete and measurable impact on the community

This approach, which is reflected in the creation of shared value for the Company and its stakeholders, represents an opportunity for Poste Italiane to combine competitiveness with the creation of long-term social value.

At the beginning of 2019, the Company adopted the Poste Italiane Group policy on community initiatives, which defines the Company strategy within the scope of its actions to support the socio-economic development of local areas, with specific reference to the United Nations Sustainable Development Goals. The Policy describes the main areas of intervention of its initiatives, including: facilitating access and inclusion for those categories more at risk of exclusion by offering dedicated products and services; promoting culture and education by implementing initiatives aimed at fostering cultural values and the right to education; and encouraging economic sustainability and social connection through collaboration with central and local authorities, the third sector and local communities in order to meet the needs of the most disadvantaged people.

In line with the Group's reference values, interventions on behalf of the community are carried out in accordance with transparent and accountable criteria, as well as formalised procedures aimed at avoiding any personal or corporate conflict of interest.

Poste Italiane has also adopted a specific procedure that governs corporate processes relating to sponsorship and donation initiatives. The procedure governs the corporate processes relating to the means of implementing sponsorship activities and donations to partners, bodies, associations and local authorities operating in local areas. Such contributions, as also specified in the Integrated Policy of the Poste Italiane Group, may not be used to conceal acts of corruption. Indeed, before making contributions, the Company conducts a due diligence process based on the relevance of the initiatives, the reputation of the potential partner, their alignment with corporate objectives and their expected benefits. After making contributions, the Company constantly assesses the compliance of supported initiatives with contractual provisions and the due performance of activities, and also carries out specific checks on the proper fulfilment of contractual obligations. Sponsorship and donation requests are assessed by the Sponsorship and Donation Committee.

Moreover, with a view to monitoring the impacts of the initiatives implemented, with reference to the classification and measurement standard of the London Benchmarking Group (LBG) model, Poste Italiane identifies specific performance indicators to measure the benefits of initiatives for both business and the community.

During 2018, Poste Italiane developed and managed a series of initiatives aimed at promoting environmental sustainability, economic solidarity and social inclusion, the most significant of which are described below.

10 Impegni a favore delle Comunità nei Piccoli Comuni (10 Commitments to Support Communities In Small Municipalities)

In collaboration with the main local authorities and administrators, the Group has defined specific initiatives to benefit communities through the "10 Impegni a favore delle comunità nei Piccoli Comuni" . From 2019, the initiative provides for implementation of a series of concrete commitments to support local municipalities with fewer than 5,000 inhabitants through dedicated investment, services and opportunities. Taking advantage of the increasing efficiency of the 12,824 post offices and the Company's digital spaces, which over 3 million people access every day, the initiative has the dual objective of finalising and improving the customer experience of services provided to citizens, and promoting specific initiatives to support local development, in order to have a positive impact on the social fabric, encourage economic and social growth in Italy and, at the same time, boost the Company's strategic presence in local areas. The planned commitments, as set out in the initiative manifesto, include:

- **Open post offices:** In line with the provisions of its Business Plan, Poste Italiane confirms its commitment to no longer close its post offices in municipalities with fewer than 5,000 inhabitants, thereby supporting the growth and development of local areas, in agreement with local authorities and public bodies.
- **Central office dedicated to the needs of the community:** Establishment of a central office at Poste Italiane's headquarters dedicated to supporting the specific needs of small municipalities via a toll-free number, which administrators may call to request information and promote initiatives.
- **New ATMs:** Installation of 254 ATMs in small municipalities without a post office in order to facilitate access to financial services in local areas, and the possibility for 3,542 small municipalities without ATMs but with a post office to request installation of an ATM.
- **Home deliveries by postmen and the agreement with tobacconists:** Provision of the main postal services through the network of tobacconists and home deliveries by postmen with no surcharges on post office rates, thanks to the agreement between Post Italiane and the Italian Tobacconists Federation.
- **Free Wi-Fi at all Post Offices in small municipalities:** Extension of Wi-Fi to all small municipalities not covered by the service.
- **The "Treasury" service in collaboration with CDP:** Thanks to the partnership agreement signed between Cassa depositi e prestiti and Poste Italiane regarding provision of treasury services to small municipalities, the initiative provides for two main activities: management of "cash advances" by CDP in the event of temporary liquidity shortages, and management by Poste Italiane of all collection/payment activities and budget checks, through a team of qualified and dedicated staff; and the availability of a post office for activities requiring "physical presence" and access to the entire post office network for collection activities.
- **Increased security inside and outside post offices:** Expansion of video-surveillance services inside and outside post offices, in agreement with police forces, to strengthen the security of citizens in local areas.

- **Removal of architectural barriers in the Post Offices of more than 1,000 municipalities:** Demolition of 80% of architectural barriers in the 1,379 Post Offices of small municipalities by 2020.
- **Social solidarity real estate projectse:** Provision, free of charge, of Company-owned land and buildings in small municipalities for social and public interest purposes to benefit the community. The commitment also includes a plan to refurbish and decorate post offices by creating murals on their external walls, as well as renovation of mail boxes in the most disadvantaged areas of small municipalities.
- **Stepping up service in the post offices of tourist municipalities:** Expansion of post offices' coverage on the basis of registered tourist flows, by increasing their staff numbers in tourist centres.

"*Valori Ritrovati*" (Recovered Values): anonymous and abandoned parcels given to those most in need

On the occasion of the 33rd International Volunteer Day, on 5 December 2018 Poste Italiane presented the "Valori Ritrovati" initiative, at the Citadel of Charity of Rome's diocesan Caritas. The aim of the initiative was to give the contents of parcels that had not been picked up or delivered - so-called "anonymous" or "abandoned" parcels - to the neediest families through the distribution channels of the "Solidarity Emporium", the emporium chain that provides free basic necessities to needy families.

Taking advantage of the circular economy principle of re-using goods, "Valori Ritrovati" is an example of a concrete and effective solution that preserves value rather than destroying it. Moreover, the collaboration with one of the main local charities strengthens the Company's presence as a promotor of local development via social inclusion and solidarity initiatives. In addition to the social value, the project has a strong inclusive footprint as it enables needy families to receive goods (for example, clothing, toys, small electrical household appliances, household utensils) that they would not normally have been able to buy.

In support of the initiative, the network of Poste Italiane volunteers participated in the implementation of distribution, storage and administrative activities relating to management of the parcels. In this regard, the first group of Poste Italiane volunteers was established at the Solidarity Emporium in Rome in November 2018, to whom a training session was dedicated in January 2019.

With the aim of generating a positive local impact and at the same time raise awareness on the issue of solidarity and reuse, during 2019 the Company plans to activate the initiative at the Solidarity Emporium in Perugia and Pescara, and to carry out the first "solidarity" auction. In particular, for goods classified as of high value and/or unsuitable or needed to support the beneficiaries of the Solidarity Emporium, the contents of the parcels will be sold at local markets, on dedicated online websites and at "solidarity" auctions. The use of alternative channels to the Solidarity Emporium is designed to top up the Solidarity Fund, which is aimed at funding the return to work of people who have lost their jobs.

Il Volontariato d'Impresa (Corporate volunteering)

During 2018, as part of the "*Volontariato d'Impresa*" project, which includes more than 1,000 employees, Poste Italiane redefined its processes and development and management methods on the basis of three key aspects:

- the need to create a structured dialogue and interaction procedure with third sector entities that enables the planning and launch of new volunteering projects promoted and co-designed by Poste Italiane;
- boosting and developing the volunteering community, by strengthening identity, and planning and providing dedicated training activities;
- promoting local initiatives relating to the planning of shared social services (including in collaboration with associations and local authorities), with the participation of Poste Italiane volunteers and the support of the corporate functions involved.

To support the achievement of these criteria, Poste Italiane has designed a Company volunteering operating model (in terms of processes, criteria and support tools), regarding the accreditation phase for not-for-profit organisations, presentation and ratification of projects, recruitment and hiring of volunteers, and internal and external communication.

More than 1,000 employees participated in **Corporate volunteering** in 2018

The Cresco Awards: the partnership with Sodalitas to promote sustainable cities

On 24 October 2018, within the 35th Annual Assembly of ANCI (*Associazione Nazionale Comuni Italiani* - National Association of Italian Municipalities) at the Rimini Trade Fair, Poste Italiane participated in the award ceremony of the 2018 Cresco Awards. This event, which gives recognition to the initiatives of Italian municipalities that are most effective in supporting the sustainable development of local areas, is promoted by the Sodalitas Foundation in collaboration with ANCI. With the Cresco Award, Sodalitas aims to link up the companies and municipalities working on sustainability in local areas, taking the Sustainable Development Goals of the 2030 Agenda drawn up by the United Nations as a reference point.

Among the initiative's 15 partner companies, Poste Italiane received the "Digital development of small municipalities" award, as a result of its initiatives to support the municipalities of Canosa Sannita (province of Chieti), the municipality of Guardia Sanframondi (province of Benevento) and the municipality of Sovizzo (province of Vicenza).

Poste Italiane receives award for its **initiatives to support the digital development of small towns** at the 2018 Cresco Awards

Poste Italiane offers the winning municipalities its professional and planning experience, and activates consulting sessions to guide the pre-selected local authorities in implementing actions. To ensure the success of the project, the Company will use its own managers and corporate volunteers.

The P.A.I.N.T. project

Based on the fundamental values of proximity and the Company's social role, the P.A.I.N.T. project (*Poste e Artisti Insieme nel Territorio* – Poste Italiane and Artists Together in Local Communities), a local initiative regarding the refurbishment and decoration of post offices, was launched. In line with Poste Italiane's role and its proximity to local areas and citizens, through this project the Group aims to enhance its presence in Italy's social fabric, in order to make the Company's predilection for local communities and innovation more concrete and visible. The initiative envisages the creation of murals on the outside walls of post offices throughout Italy, thereby turning them into landmarks for neighbourhoods and citizens. Through online contests involving street artists from all over Italy, the Company identified the best sketches for 21 murals, which were painted by the end of 2018. The "*10 impegni a favore delle comunità nei Piccoli Comuni*" is the reference framework for the second phase of the project which, as part of the initiatives relating to the renovation of real estate, provides for identification of 20 post offices in small municipalities that will have murals painted on their walls by the end of 2019.

21 *murales* created in 2018 as part of the **P.A.I.N.T. project**

Social engagement

Poste Italiane is sensitive to social initiatives and the willingness of our employees to take an active part in social change. According to the principle of social engagement, the Company has joined the National Food Collection Day organised by the Banco Alimentare Onlus (not-for-profit Food Bank), which enables people to donate part of their shopping expenditure to those in need. Poste Italiane has made 162 Company vehicles available for the transport of donated food items. Employees participated both as drivers and as volunteers at Emporium.

Transparent dialogue with Authorities

NFS

MAIN RELATED TYPES OF CAPITAL

The role and nature of Poste Italiane's activities require constant dialogue with national and international institutions, as well as with the Regions and local authorities.

In accordance with the principles of fairness, professionalism, collaboration and transparency set out in the Code of Ethics, the Group actively cooperates with authorities (regulatory, supervisory and judicial) and public institutions in order to identify solutions to support the needs of the community, as well as promoting the development of local areas and at the same time the competitive growth of the Company.

Indeed, taking into account its mission, widespread presence and the context in which it operates, Poste Italiane has always fostered positive interaction with public decision-makers, by maintaining constant, structured relations with authorities and institutions through a systematic and transparent dialogue, and promoting effective and correct cooperation, in strict compliance with legal provisions and regulatory measures.

These dialogue initiatives are based on a quest for shared solutions that enable a response to the social needs of the community, having a positive impact on the social fabric in the areas where the Company operates and, at the same time, increasing competitiveness and promoting business continuity

This institutional dialogue takes place mainly through direct relations with the various institutional representatives, in order to promote knowledge of the Company's activities and to prevent application problems deriving from the choices made by public decision-makers, with a view to achieving positive collaboration.

Regarding relations connected with legislative issues, the relationship with public decision-makers is aimed at promoting knowledge of a wider range of assessment elements, which enable analysis of the impact and possible consequences of a given law, and optimum representation of proposals to change existing legislation.

The natural synergy between the Group's mission and the authorities makes it possible to establish strategic agreements and partnerships in the interests of the community, which allow for implementation of investment and initiatives typically aimed at identifying bids relating to innovative integrated services, promotion of the postal network's nationwide presence that facilitates prompt sharing of planning schemes, and preparation of local teams focused on specific issues[31].

During 2018, the Company also carried out specific dialogue and collaboration initiatives with Regions and local authorities that led to the signing and implementation of specific agreements, including:

- the Agreement between Poste Italiane and the Autonomous Province of Trento regarding the determination and financing of a public service obligation in addition to the universal postal service in the Autonomous Province;
- implementation of the Memorandum of Understanding between Poste Italiane, the Piedmont Region and ANCI Piedmont, regarding the provision of innovative services to citizens in municipalities in Piedmont, with a special focus on small municipalities;
- implementation of the Agreement between Poste Italiane and the Autonomous Province of Bolzano, signed in 2017, to determine the operating costs of the delivery service within the provincial boundaries to be borne by the Autonomous Province, and to determine and finance public service obligations in addition to the universal postal service.

The Group also embarked upon specific dialogue initiatives prior to the signing - expected in 2019 - of the Memorandum of Understanding between Post Italiane, the Lazio Region and ANCI Lazio, aimed at identifying forms of collaboration for offering services in addition to the universal postal service to municipalities in Lazio with fewer than 5,000 inhabitants.

Among the main local institutions and regulatory and supervisory bodies the Company with which the Company interacts are: the Communications Regulator (*Autorità per le Garanzie delle Comunicazioni* - AGCom), the Ministry of Economic Development (*Ministero per lo Sviluppo Economico* - MISE), the Ministry of Economy and Finance (*Ministero dell'Economica e delle Finanze* - MEF), the Ministry of Foreign Affairs and International Cooperation (*Ministero per gli Affari Esteri e della Cooperazione Internazionale* - MAE) and the European Policies Department of the Cabinet Office. At European and international level, the Group also maintains relations with the European Parliament, the European Commission, the Universal Postal Union (UPU), PostEurope, the European Centre of Employers and Enterprises providing Public services (CEEP), the International Post Corporation (IPC) and other institutions and associations in the sectors in which it operates.

31. In 2018, Poste Italiane's support for trade associations amounted to approximately €3.6 million.

To support the achievement of these objectives, the Group is engaged in activities relating to the coordination, representation and monitoring of the political agenda at European and international level within the main bodies mentioned above, and the release of information for regulatory purposes at national, European and international level, as well as the formulation of proposals for amendments and additions to the reference regulatory framework.

Within the international postal organisations, the Group is also actively involved in initiatives aimed at promoting sustainable development. In particular, the Group participates in the EMMS (Environmental Monitoring and Measurement System) programme promoted by the International Post Corporation, a cooperative association comprising 23 postal operators that handle approximately 80% of global traffic volumes. The initiative was launched in 2008 with the aim of monitoring CO_2 emissions and assessing the sustainability of the participants' activities, in order to reduce the impact of postal activities on the environment. The programme currently has 20 participating operators (in addition to 17 of the 23 members of IPC, operators from Brazil and South Africa) who last year delivered 250 million items and managed a total area of approximately 51,640 km^2 of proprietary buildings, a fleet of 643 thousand vehicles and approximately 1,782,000 people.

In 2018, the group of participants reported a 29.7% decrease in CO_2 emissions produced compared to the 2008 reference figure, falling from 8,360 tonnes to 6,111 tonnes of CO_2, with overall savings of more than €1,7 million thanks to the reduction in fuel costs and energy consumption since the launch of the programme. The excellent results achieved confirm postal operators' commitment to reducing environmental impact and bear witness to their growing professionalism and expertise in this area, making EMMS the sector's first sustainability programme to be based on sharing best practices and a concrete sustainable development model. Participation in the OSCAR (Online Solution for Carbon Analysis and Reporting) project launched by the Universal Postal Union (UPU, a United Nations agency specialising in the postal sector) continued in 2018. This is a simplified procedure for reporting polluting emissions produced by the activities of operators in the 192 UPU member countries, which applies the principles established by the GreenHouse Gas Inventory Standard for the Postal Sector. The Poste Italiane Group contributes to this monitoring activity, reporting its emissions on an annual basis. In 2018 the Company confirmed its ranking in the medium-high range of performance in terms of environmental sustainability, contributing to the objective of reducing direct emissions by a further 2,000 tonnes of CO_2 compared with the previous year.

With specific reference to the Mail, Parcels and Distribution segment, the Group aims to:

- guarantee access to SGEIs - services of general economic interest (e.g. the universal postal service, publishing - access to information, various services for citizens), with the aim of ensuring end users' access to information.
- guarantee fulfilment of the legal/regulatory obligations imposed on the Company regarding the provision of universal and non-universal services (e.g. in terms of quality performance, obligations relating to provision of information to customers, definition of the *Contratto di Programma* (Service Agreement) between the Company and the State, organisation of post offices, verification of the cost of the universal service, regulation of alternate-day mail delivery, etc.).
- handle requests from AGCom (Communications Regulator) regarding the regulation and supervision of the postal sector (e.g. requests for information, sanctions proceedings, etc.) and AgID (Digital Italy Agency), in relation to the activities of the Payment, Mobile and Digital segment.

An additional monitoring tool used by the Company refers to the periodic listening activities with representatives of institutions and local authorities, whose requests are shared in terms of their impact on business decisions.

In addition to promoting relations with the above institutions, the Group pays particular attention to dialogue with consumer associations, both at national and local level. In this regard, Poste Italiane has signed a Framework Agreement with 20 associations, with the aim of constantly improving the quality of products and services and generating constructive and transparent dialogue between the parties. In order to facilitate achievement of the set objectives, the Company set up the "*Cantiere Consumatori*" (Construction site for consumers). With regard to corporate initiatives that have a significant impact on customers, this permanent working and advisory group - consisting of a spokesperson from each association and Poste Italiane representatives - identifies the best solutions to reconcile reciprocal needs.

As part of the activities of *Cantiere Consumatori* - where Poste Italiane's products and services are presented to the associations in advance to gather suggestions and comments - several meetings were held to present the new Joint Delivery model, the Sustainability Report, the update of the Public System for Digital Identity Management (SPID) service, the initiative to protect customers who had invested in real estate funds in previous years, the changes made to post offices in the summer period and changes to the Quality Charter.

Financial inclusion

NFS

MAIN RELATED TYPES OF CAPITAL

By taking advantage of its proximity to local communities and the network's nationwide reach, the Company has always provided support to traditionally excluded sectors of the population who, due to specific personal or physical conditions, have no direct access to the basic products and services required for their economic livelihoods and social wellbeing.

With this in mind, as specified in the Company's policy regarding the protection of human rights, Poste Italiane undertakes to promote the right to access and inclusion by developing products and services that respond to social needs, including those of people living in internal and peripheral areas or deprived and disadvantaged areas, as well as the promotion and planning of financial education initiatives, especially regarding savings, investment, payments, social security and insurance.

In this regard, the Group's objective is to influence the socio-economic support of communities and provide a more informed purchasing experience, while at the same time promoting the creation of economic value for the Company and the restoration of social value for local areas, in line with its corporate mission and Poste Italiane Group policy on community initiatives

Poste Italiane monitors its actions and its range of products and services through continuous and structured dialogue initiatives, such as the annual dialogue organised with key stakeholders in order to monitor the needs of communities and, in particular, of its beneficiaries and the relative level of satisfaction with the products and services offered.

Based on principles of professionalism, reliability, and ethics, Poste Italiane provides offerings dedicated to all the categories of customers it serves, in accordance with specific needs.

In order to strengthen the Company's proximity to the various customer groups, the Group is constantly seeking innovative solutions for the products and services it offers, partly thanks to its nationwide reach.

In this regard, in line with the evolution of the customer advisory service model, the Company intends to propose a new post office concept, for example, by assigning a consultant dedicated to a customer's specific financial needs, and providing tools to encourage dialogue with customers based on their priorities.

With particular reference to senior citizens, the Company is developing services and dedicated communication approaches in the new spaces inside post offices, such as the promotion of digital literacy through reception services and technological support, helping customers to deal with paperwork and fill in forms, and information initiatives using specific, legible procedures. Staff training for this purpose is very important, with particular attention paid to the sales network, in order to ensure constant updating of their knowledge and skills and best meet customers' needs.

In addition to supporting financial inclusion projects already launched during 2018, the Group has developed specific initiatives dedicated to traditionally excluded sectors of the population, aimed at promoting social inclusion and cultural integration.

Around **1,000 "mobile" consultants** dedicated to covering the **remotest areas**

Socio-economic inclusion in small municipalities

Among the 10 commitments of the programme dedicated to the communities of small municipalities, by 2020 Poste Italiane plans to demolish over 80% of the architectural barriers in the 1,379 post offices located in small municipalities, as well as the installation of new ATMs to facilitate services in local areas through automatic withdrawals in the 254 small municipalities that do not have a post office. A few months after sharing the programme with the mayors of the municipalities affected by the initiative, the Company has activated all the necessary procedures, and the first installations of Postamat ATMs will take place in April 2019.

200 more ATMs installed in **small municipalities** in order to promote financial inclusion

Social solidarity real estate projects

As part of its 10 commitments to communities in small municipalities, by of 2019 the Company has undertaken to make available land and buildings it owns in local areas with fewer than 5,000 inhabitants for social and public interest purposes to benefit the community. Specifically, 12 buildings were identified in small municipalities in the regions of Lombardy, Campania, Sicily, Friuli-Venezia Giulia, Emilia Romagna, Tuscany and Marche.

A part of the programme dedicated to small municipalities is the Treasury service offered by Poste Italiane in partnership with Cassa depositi e prestiti. In light of the new regulations introduced in 2017 regarding this matter, this service was created with the aim of providing small municipalities with a response to the phenomenon of "neglected tenders" arising from lower participation by the banking system in treasury calls for tender, especially those relating to small and/or remote municipalities. Since the end of 2018, 19 municipalities have opted to use Poste Italiane's Treasury service and the Company has received more than 60 requests for proposals. Moreover, Poste Italiane is in contact with more than 750 municipalities that have expressed an interest in the treasury service, and whose service is due to terminate in the near future.

Post offices with Italian Sign Language staff and ATMs for blind and visually impaired people

The focus on disabled people results in incorporation of their needs within the Company's project activities, through which Poste Italiane provides specific tools, technologies and dedicated staff to help them with their financial inclusion.

With this in mind, in line with its diversity inclusion and enhancement policies, the Company has developed a trial initiative aimed at hiring deaf people who are fluent in sign language, to work at special counters for deaf customers in post offices in large cities. As well as offering real employment and the opportunity to develop professional skills, the project aims to provide deaf citizens with a local, accessible and personalised service based on their needs.

The Group has also planned a series of initiatives aimed at promoting the involvement of deaf colleagues and their participation in the life of the Company. Among these initiatives, with the "Progetto LIS – *Laboratori musicali inclusivi*" (Italian Sign Language Project - Inclusive Music Workshops), Poste Italiane has planned the launch of a music workshop aimed at facilitating the learning of sign language.

The project is divided into two distinct types of activity:

- activation of a multidisciplinary training course aimed at counter staff who wish to acquire basic skills to communicate with deaf customers, consisting of classroom sessions (30 hours) and a workshop;
- participation in a choir including voices and the *Mani Bianche* Association made up of employees of the Poste Italiane Group who wish to join and their families, as well as all deaf and hearing people, adolescents and adults, who are involved with the not-for-profit *Mani Bianche* Rome Association.

Over 6,000 ATM equipped with voice guidance in 2018 up 1,038 on 2016 (5,269)

The Company also provides for the use of Italian Sign Language interpreters to translate the most relevant messages and news items on digital communication channels into sign language, and to support training activities or management interviews with deaf colleagues.

Finally, with a view to inclusion, all ATMs installed nationwide are equipped with keyboards for blind and visually impaired people. ATMs include a guidance system with a series of contrasting graphic maps that can be activated from the screen, and the use of complete voice guidance using headphones that can be inserted into a special jack.

Initiatives for foreign citizens

With a view to extending its range of services to foreign citizens and at the same time promoting the socio-economic inclusion of foreign communities in Italy, Poste Italiane has set up multi-ethnic post offices nationwide. Post offices dedicated to foreign citizens - multi-ethnic or mono-ethnic depending on local requirements - are located in areas with a high concentration of foreign citizens or in busy areas, such as near railway stations.

More than 3 million customers were served in the 27 multi-ethnic post offices that currently active during the year. In addition, in line with previous years, more than 5 million transactions were carried out in 2018. In line with the numerous initiatives to support the inclusion of the most disadvantaged sectors of the population, the Company plans to set up additional multi-ethnic post offices.

In addition, in order to support "new Italians", Poste Italiane offers a fund transfer service through the MoneyGram electronic system, which enables foreigners to send remittances to their countries of origin. Via MoneyGram, money can be sent and received worldwide, including over 200 countries and territories. The system provides for "real-time" money transmission, with the amount sent available within a few minutes of the transfer request.

Initiatives to support inclusion within Post Offices

In line with the Company's Code of Ethics and Principles of Good Conduct, all post office staff give priority at counters to customers with motor and visual disabilities, expectant mothers and parents with newborn infants.
In order to support the application of this principle, courtesy notices are displayed in all post offices to encourage such behaviour.

The financial inclusion of senior citizens, young people and minors

"*Mese dei Nonni*" (Grandparents Month), a commercial initiative dedicated to the needs of customers over 65 (senior citizens) in its third edition since 2017, provides an integrated and diversified products and services offering, in accordance with the various Group businesses. The initiative, which is implemented through a single, dedicated communication plan for the entire Poste Italiane Group, provides for a selection of products and ad hoc services, some of which are special offers, including insurance (*Postaprotezione Infortuni Senior Più, Postafuturo Da Grande, Poste Amici a 4 Zampe*), mobile (*PosteMobile Casa, Piano Creami Extra*), financial (*Quinto BancoPosta Pensionati*, PostePay Evolution, special offers for Bancoposta products) and mail (offerings linked to postal savings and the over 70 payment slip).

During 2018, the setup phase of the "Silver Economy" Programme designed for senior citizens was also completed, with the aim of managing all the Group's actions dedicated to this important segment of the population in a single synergistic framework.

3rd edition of the initiative ***"Mese dei Nonni"*** dedicated to **senior citizen customers**

The long-term programme will be implemented from early 2019, entailing several courses of action:

- involvement of start-ups and industry observers to identify needs and bring senior citizens closer to new technologies by getting them to take part in the innovation process;
- home delivery/neighbourhood services through the network of postmen and post offices;
- financial and computer literacy events at post offices;
- development of new dedicated offerings;
- dedicated commercial initiatives (*Mese dei Nonni*).

Financial literacy

"*Il Risparmio che fa scuola*" (savings education project) is one of the most successful initiatives implemented by the Company in the field of financial education in recent years, which is part of the "National Strategy for Financial Education".

Established in December 2014 by the first Memorandum of Understanding signed by Post Italiane, Cassa depositi e prestiti and the Ministry of Education, Universities and Research (MIUR), on the occasion of the 94th World Savings Day, the initiative was developed with the aim of spreading a savings culture in schools and educating young people to save. The project provides for the schools involved to implement specific project activities regarding financial education, independently and in collaboration with their local communities. Through dialogue sessions within dedicated workshops, multimedia courses, and games, etc., children are taught about the value of savings as a means for making progress and achieving wellbeing, and its usefulness as a tool for personal growth and also as a key element in building active and responsible citizenship, which is necessary for the development and social cohesion of local areas.

During the first phase of the project, which took place in the three-year period 2014-2017, over 4,000 children took part in the 18 days of training on financial education.

In December 2017, the partners renewed the agreement for five years and a new educational project was developed, for students and teachers at all levels, with a wider variety of activities and educational initiatives, aimed at involving 1 million students by the end of the fifth year.

The new edition of "*Il Risparmio che fa scuola*" promotes Economic Citizenship by focusing on the issue of multidimensional savings as a key value and tool to promote progress and support individual development and of the entire community as well.

The course is divided into three thematic modules:

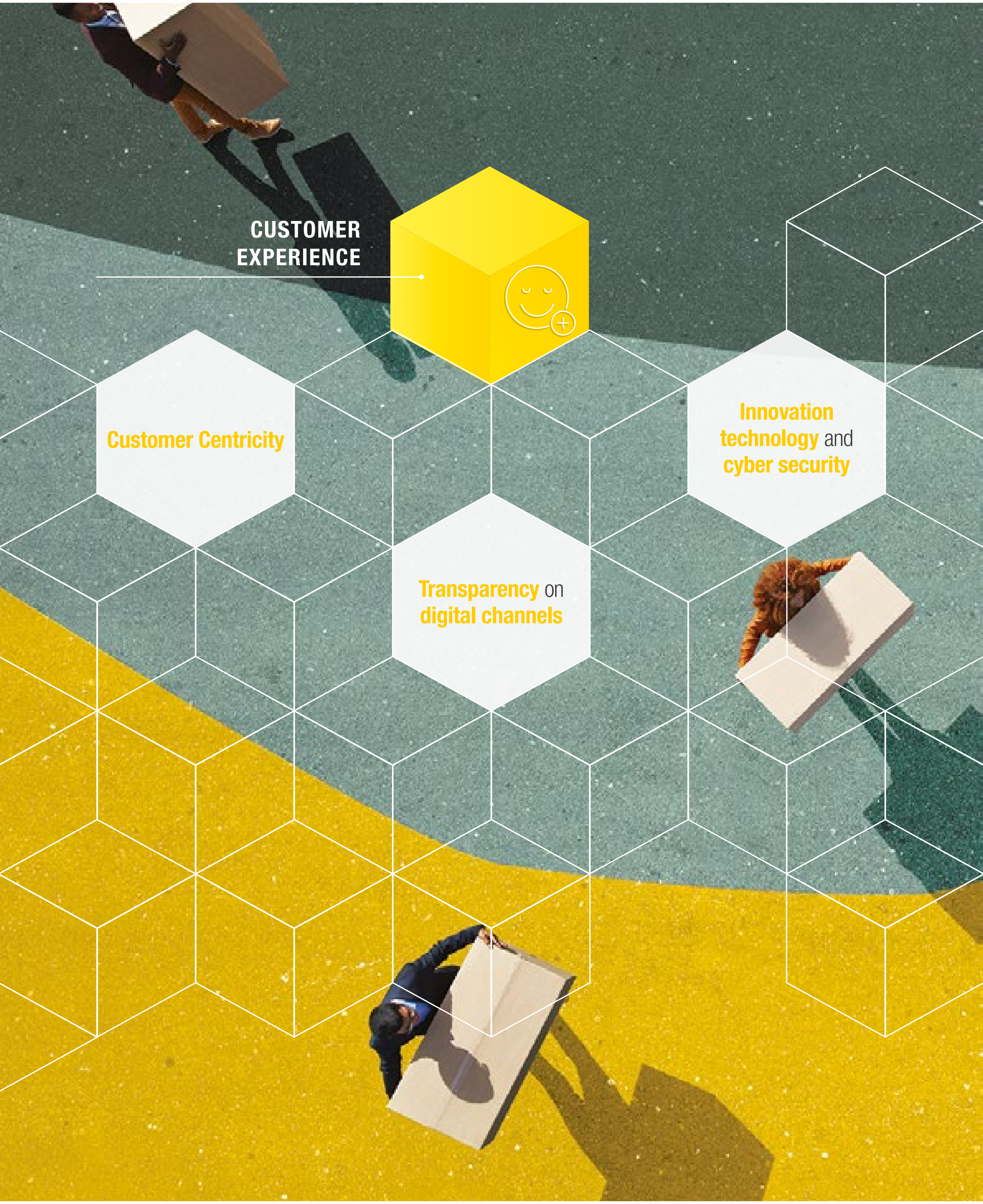
- Saving: teaches how to manage financial, energy and natural resources etc. responsibly in order to generate economic and social progress;
- Sharing: stresses the importance of entrusting savings to financial institutions so that, when pooled and invested, they result in economic benefits for the community and become a means to promote the country's development;
- Quality of life: broadly encompasses savings goals, highlighting the fact that responsible behaviour is a priority for the entire planet and involves the global community.

The **5 years** of "*Il Risparmio che fa scuola*" (savings education project):

19,900 Schools involved
1,000,000 Students
39,500 Kits sent
346 Events at schools

Moreover, in order to guide the participating classes along the educational path, the project provides teachers with specific e-learning training tools regarding saving, including a free 25-hours training course about "*Il Risparmio Dinamico e Multidimensionale e la Cittadinanza Economica*" (Dynamic, multidimensional saving and Economic Citizenship), at the end of which a certificate is issued for the skills acquired. By 2022, more than 130 events are expected to have taken place, including workshop activities, interactive lessons and dialogue sessions regarding the subject. This renewal also provides for new forms of ad hoc involvement aimed at strengthening active learning, such as through the support of entertainers and games to encourage young people to learn.

In continuity with the initiatives promoted in recent years aimed at increasing people's knowledge and skills relating to financial, insurance and social security matters - an objective of significant social and institutional value as an enabling factor in making informed choices in a constantly changing economic context - the Company plans to launch the project "*Educazione Finanziaria*" (Financial Education) project, which, in collaboration with the competent functions, aims to draw up an action plan to support the growth of knowledge and customers and citizens' financial culture.


CUSTOMER
EXPERIENCE
Customer Centricity
Innovation
technology and
cyber security
Transparency on
digital channels


Over 1,000 "mobile" consultants to provide services in remote areas
Ensuring protection of personal data
WE HAVE THE RESPONSIBILITY TO PROVIDE AN INCREASINGLY EFFICIENT AND WIDESPREAD SERVICE.

Customer experience

MAIN TYPES OF CAPITAL	OBJECTIVES	TARGETS	OUTCOMES
Physical-structural	Improve average complaint handling time	average of 15 days needed for handling complaints by 2020	
	Increase customer satisfaction	up 4% by 2022	
	Develop the service model by assigning a dedicated consultant to customers	13,000 dedicated consultants operating across the sales network by 2022	
Intellectual	Promote knowledge and skills development within the sales network	6.5 million training hours provided to employees operating in the sales network by 2022	
	Reduce paper consumption due to the dematerialisation of sales operations	30 million less pages consumed by the end of 2019	
Financial	Provide post offices with dematerialised operating procedures	100% of post offices provided with dematerialised operating procedures by the end of 2019	
	Engage Poste Italiane customers and employees via web platforms	30,000 customers and 6,000 employees involved in the web panel platform “Dillo a Poste Italiane” by the end of 2019	
	Certify privacy protection in the Group's areas of business	20% of the Group’s business areas certified by 2022	
Social-relational	Develop the digital services offered through the adoption of blockchain technology	Launch of 4 pilot projects based on blockchain technology by the end of 2019	

Quality and Customer Experience

NFS

MAIN RELATED TYPES OF CAPITAL

A core element of the Group’s strategy is a total commitment to constantly improving the quality of the products and services it provides to its customers.

Poste Italiane deems it fundamental to base relations with its customers on striving for maximum transparency and fairness, with a constant commitment to meeting their expectations. In this regard, the Code of Ethics lays down that Group companies must base their relations with customers on competence, professionalism, courtesy, transparency, fairness and impartiality. These values and principles guide the essential rules of the conduct with customers, ensuring fruitful and lasting relationships and providing comprehensive and accurate information on products and services, with a view to enabling informed choices and avoid creating inaccurate expectations.

To this end, Poste Italiane avows its utmost attention to customers and, with regard to its activities, sets itself the dual objective of guaranteeing an excellent quality experience and, at the same time, establishing a relationship of trust with customers that goes beyond merely using a traditional product or service

The punctual monitoring of the quality delivered and perceived by customers, in both relational and transactional terms, is the tool the Company uses to optimise its operational activities, thereby ensuring the provision of products and services with high quality standards.

Improvement of approximately 81% in ***customer experience*** results for 2018 (**up 3%**), compared to the figure of approximately 79% in 2017

In this context, the recognised value attributed to customer satisfaction is demonstrated by the Company’s desire to provide a customer experience objective for all beneficiaries of the “Management By Objectives” (MBO) programme. In particular, in 2018 the Company decided to assign the “Poste Italiane Group Customer Experience” indicator to the Chief Executive Officer, the Internal Audit function and all staff functions, in line with the previous year. This indicator monitors the quality perceived by customers regarding Poste Italiane Group's most important products, services and channels.

The focus on satisfying customers' needs is demonstrated by the significant number of staff employed in the quality area. In particular, in the Mail, Parcels and Distribution segment, the Company organisation employs around 1,200 professionals spread across the local and central levels, who carry out targeted measurement, prevention and improvement activities, supporting daily operational management and guiding the actions to be taken to achieve the Company's objectives.

The presidium dedicated to oversee Poste Italiane's corporate reliability, which operates within the second control level, monitors the Company's processes and reliability in order to strengthen operational and commercial processes with respect to the service levels set out in the quality and performance indicators, with the ultimate objective of improving the Company's reputation and image.

The primary attention paid to quality is expressed in the Integrated Group Policy which, with reference to quality issues, documents the Company's commitment to the continuous incorporation of quality within the Company's development strategy, so that all the processes that contribute to the design, development and implementation of a product or service are mapped within quality management systems.

The Poste Italiane Group deems it fundamental to base its relations with its customers on striving for maximum transparency and fairness, with a constant commitment to meeting their expectations. Therefore, the Group's Integrated Policy regarding quality requires Group companies - within the scope of their autonomy and independence - to implement the Policy, adapting it to their own size and organisational and operational context, as well as to specific applicable regulations (for example, in the Financial and Insurance services segments).

In order to achieve the maximum effectiveness and efficiency of processes, activities and resources, Poste Italiane has decided to adopt an Integrated Management System that brings together the significant aspects of all the management systems currently in place, in order to align business processes and make the widespread distribution of business procedures increasingly flexible. Specifically, Poste Italiane SpA has implemented an effective Quality Management System, in compliance with the UNI EN ISO 9001:2015 standard, with which it undertakes to carry out its activities through the adoption of the following principles:

- maintain adequate service quality, in particular by ensuring efficiency and continuity of service in accordance with the specific requirements;
- maintain the adequacy of the services offered to customers;
- respect time and optimise the cost/quality ratio of products and services.

The Quality Management System aims at ensuring that the products and services provided meet customer expectations and applicable mandatory requirements, as well as enabling continuous improvement of performance to enhance the Company's competitive position in the market. Indeed, the System is a fundamental tool for defining the rules and limits applicable to quality control at all levels. Any anomalies are duly recorded and reported thanks to specific audits and periodic checks.

The level of **customer experience** satisfaction in post offices rose from **8.4** in 2016 to **8.7** in 2018

The management model regarding the quality of services and products offered starts from a dialogue with customers, allowing the Company to connect with customers in order to identify and better meet needs over time. This attention is characterised by:

- definition and monitoring of quality indicators provided, published in periodic reports shared with top management (e.g. waiting times at post offices through the queue manager tool, which enables real-time intervention thanks to an alert system; customers served within 7.5 minutes, punctual delivery, customer care service levels, etc.);
- an approach aimed at protecting and satisfying customers, measured by the Net Promoter Score (NPS), which measures the propensity to recommend the Company, carried out twice a year regarding the performance of the Business Units (BancoPosta; Posta Comunicazione e Logistica (Mail, Communication and Logistics) and Poste Vita). These are CATI (Computer-Assisted Telephone Interviewing) surveys, conducted by an external research institute with customer samples representative of the target universe. In 2018, the Group further refined the model by spontaneously seeking out customers' opinions at several postal, financial and insurance services touch points. Once a year, the NPS is also measured for the most representative competitors of the Poste Italiane Group's four businesses;
- monitoring of satisfaction and gathering of opinions and suggestions to identify opportunities for improvement thanks to the Customer Effort Score (CES) indicator, applied to the channels (post offices, call centres and the web), which makes it possible to analyse whether the Company solves problems quickly and easily;
- adequate complaints handling, which for the Company is a fundamental and decisive activity of contact and dialogue with customers, with a view to identifying and resolving the causes of the inconvenience and implementing the necessary corrective measures to improve business processes.

With a view to overcoming the main problems and improving the quality provided to customers, a "Customer Centricity" initiative was set up in the Financial Services area, organised around twelve primary sites (e.g. commercial Front End development, definition of single Customer Relationship Management, customer assistance, etc.).

In the Payment, Mobile and Digital segment, a "Qualità PostePay" (PostePay Quality) programme was also defined, aimed at critically rethinking processes and systems on the basis of reports received and launching activities sites that redesign processes from a customer perspective.

"Dillo a Poste Italiane" (Tell Poste Italiane about it) - customers and employees, two sides of the same coin bearing witness to the customer-centric innovation path the Company has embarked on

The central importance of customers for Poste Italiane is reflected in its continuous engagement, as can be seen in the "Dillo a Poste Italiane" programme, the online panel community through which the Group directly involves its customers and employees in the design of digital products, services and solutions. The initiative is part of the innovation process undertaken by the Group, whereby it intends to actively involve its customers and employees so that they can become co-protagonists in the creation of new products and services, and help the Company to continue improving its current products and services.

Invited customers joining the initiative will participate in surveys, forums and discussion groups regarding Poste Italiane Group products and services via the online platform www.dilloaposteitaliane.it. It will also be possible to establish a direct link between customers and Poste Italiane managers through periodic web chats on specific topics.
Listening activities could be launched by Poste Italiane, Banco Posta and PostePay, as promoters of the initiative. For this reason, various brands have been created - "Dillo a Poste Italiane", "Dillo a Banco Posta" and "Dillo a Poste Pay" - to personalise the individual initiatives aimed at customers according to the Function or Group company that launches them.

The "Dillo a Poste Italiane" panel platform will be an excellent tool to support businesses in designing new products and services as, via access to the back-end features of the platform, the Functions and Group companies will have a set of detailed information regarding customers and individual search activities, and will be able to view the results in real time while searches are being made.
With a view to valuing the contribution of customers and in the interests of maximum transparency regarding the results of the initiatives, customers will be able to view what the Group has achieved thanks to their contribution in the "Our projects" section of the www.dilloaposteitaliane.it website.
To date, the initiative has been aimed exclusively at customers, with the objective of also extending it to staff by the end of first half of 2019, selected from among those who have direct customer relations and who can share with the Company the needs and wishes of customers they deal with on a daily basis.

For companies in the Insurance segment, the Group has designed and implemented customer care actions by providing outbound telephone campaigns and sending messages to track operations relating to core processes (e.g. claims, complaints, etc.) and customer loyalty. With regard to the Payment, Mobile and Digital segment, among the activities aimed at improving the management of processes relating to the use of payment products and services, Poste Italiane has set up a permanent " Cantiere Qualità e Conformità" (Quality and Compliance) working group.

In this context, fundamental importance is given to complaints and other requests through which customers express their dissatisfaction, as their correct and timely assessment and management is a useful indicator of service levels. This element contributes to the assessment and management of operational and reputational risks, especially non-compliance and conduct risks. Top management are notified about the progress of complaints on a weekly and monthly basis through specific reporting systems. In this regard, all Group companies have implemented specific procedures that set out principles and rules for handling complaints, which are approved and periodically reviewed by the respective boards of directors.

The commitment to quality, expressed in terms of compliance with the timeframes and methods for carrying out activities, is also confirmed by the signing of a Framework Agreement with 20 consumer associations in April 2018. This has led to the creation of a single organisational structure to centralise the strengthening of complaints management, with a view to achieving an effective dialogue with consumers and quick and easy settlement of disputes. In addition, from a customer centricity standpoint, a function is responsible for defining Group guidelines regarding the design of a multichannel user experience and for implementing control systems that enable identification of any critical issues and deployment of proactive actions to retain customers and minimise defections.

Transparency on digital channels

Poste Italiane participated in the Italian edition of the Webranking by Comprend 2018-2019 survey, promoted by Lundquist. The research subjected the Company (together with 110 other Italian listed companies among those with the highest capitalisation) to a transparency test, with the aim of measuring the gap between the information presented by companies and stakeholders' requests. Webranking 2018 ranks Poste Italiane among the "Best Improvers", moving up 16 places from 28th in 2017 to 12th in 2018 (a score of 72 out of 100). The result achieved is in line with Poste Italiane's growing commitment to implementing transparent management systems and communication channels, within an overall system of improving corporate governance. Poste Italiane's website is a fundamental communication tool for guaranteeing stakeholders - including suppliers, partners and customers, as well as investors and financial communities - greater disclosure and transparency of information[32]. During 2018, Poste Italiane continued to expand its corporate website, posteitaliane.it, with a view to presenting its activities and business results, as well as the Company's strategic vision and the attention it pays to legality and social responsibility issues.

Best Climber
ITALY
WEBRANKING BY COMPREND
2018 - 2019

Innovation and digitisation of products, services and processes

NFS

MAIN RELATED TYPES OF CAPITAL

In a rapidly evolving market that requires continuous business development, Poste Italiane's ability to compete is expressed through innovation - the key to identifying, interpreting and promoting change in order to foster a culture of innovation and the development of new products. Given the complexity and variety of the sectors in which the Company operates, the challenge is to exploit the opportunities offered by new technologies and the substantial amount of data available, so as to be ready to respond to changing scenarios, new customer requirements, and the opportunities offered by social and environmental changes. Moreover, technological evolution entails the acquisition of increasingly advanced cyber security protection systems, aimed at protecting personal data, tangible and intangible assets and intellectual property.

Therefore, digitisation becomes an essential tool for promptly responding to the many external stimuli, and for implementing an effective strategy at all levels of the organisation.
It can also create positive externalities for society by reducing environmental impacts and promoting social inclusion through new ways of accessing information, products and services.

In 2018 **88% of procedures were dematerialised**

32. In particular, the "Investors", "Governance" and "Transparent contracts" sections contain all the relevant information relating to financial reporting, the composition of corporate bodies, governance systems and corporate strategies, as well as detailed information on the procedures for awarding works and services contracts, with a view to maximising free competition in the marketplace.

Poste Italiane's image on social networks

2018 marked a significant development in the communication activities through Poste Italiane's Linkedin channel, placing the Company ranked second in the "Talent Awards - Best Employer Brand with 10,000 + Employees on LinkedIn", which rewards brands that have managed to make the best use of the platform for "employer branding" purposes, by reaching and involving their target thanks to sharing impactful and engaging content.

Social media are also used to provide support and information to customers, through a simple user experience that fits in well with consumers' daily habits. In 2018, over 650,000 interactions and assistance requests were handled via Poste Italiane's social media, thus guaranteeing a high level of response in terms of promptness, as well as the ratio of responses to the number of requests. Thanks to these activities, in 2018 - coming in just after the leading Italian telcos - Poste Italiane was firmly positioned among the Top 10 Italian companies in the "socially devoted" ranking, devised by SocialBakers, one of the world's leading companies for social media monitoring solutions.

In this regard, starting in 2015, Poste Italiane embarked on an important transformation process involving the entire Group, which has several objectives: placing the customer increasingly at the centre of strategies; enhancing the post office network in synergy with digital channels; developing multichannel access and use methods; strengthening Poste Italiane's role as a key stakeholder for the Public Administration and encouraging the inclusion and development of the digital economy.

The distinguishing features of this process include the presence of a dedicated business area (Payment, Mobile and Digital), which serves as a competence centre to support the implementation of the Group's digital strategy, and PostePay, the largest Electronic Money Institution in Italy, which has integrated the telecommunications services previously provided by PosteMobile with its card payments and payment services business. PostePay aims to enhance Poste Italiane's distribution channels through a "hybrid" model, which combines the largest and most widespread physical network in Italy and the digital world, and to create new channels, products and integrated services, especially regarding acquiring, e-commerce and mobile and digital payments.

Thanks to this strategy, innovative digital solutions have already been implemented in the Group's various Strategic Business Units. These include, for example, the digital collection of undelivered registered mail, the electronic postman, the digital evolution of postal savings services, the PosteID digital identity service enabled by the Public Digital Identity System (SPID - Sistema Pubblico d'Identità Digitale), and the Postepay Connect service, the first integrated product in the payments and mobile field that, through a single app, enables users to manage their telephone and payment services in an intuitive and secure way.

Poste Italiane has also introduced digital innovations regarding processes. For example, the Group has implemented the first "fully digital" sales process for a financial product in the postal savings sector: the "Libretto Dematerializzato" (Dematerialised Savings Book). This innovation enables customers to apply for a dematerialised *Libretto Nominativo Ordinario (Ordinary Nominative Book)* or *Libretto Smart (Smart Book)*, as an alternative to the traditional paper version, including the possibility of accessing digital services thanks to the BancoPosta app, and the possibility of managing their expenses directly within the app thanks to the Personal Financial Management (PFM) solution. At the same time, investment was made in the automation of parcel sorting, shipping and tracking processes, and logistics innovation projects financed by the European Commission were launched.

In 2018 **650,000 requests received via social media**

Finally, in support of the Company's digital transformation process, Poste Italiane has defined specific principles in the digital field within IT Vision 2022, with the aim of promoting digitisation, increasing productivity and simplifying operations. The application of these principles - envisaged for all new projects - translates, for example, into the adoption of specific solutions to support the digital revolution, such as the use of native cloud applications; the integration of robotics and bots (software that, by accessing the internet, is able to perform the most varied tasks completely independently); the creation of applications available on the move; and the adoption of advanced analytics and the Internet of Things (IoT).

Poste Italiane's investment in innovation

In line with Poste Italiane's focus on integrating the physical and digital channels, the Group has expanded its collaboration with Microsoft to support its Digital Transformation Plan and joined the global Hyperledger consortium, which brings together over 260 operators from various industrial sectors worldwide.
The collaboration with Microsoft aims to develop the customer experience, by adopting a Customer Relationship Management (CRM) cloud platform. The project focuses on the amalgamation of the CRM platform for the Strategic Business Units and retail operations, and is in line with the Group's wider Strategic Plan to maximise the value of Italy's largest distribution network to achieve sustainable growth. Thanks to the strategic partnership with Microsoft, which primarily relies on the flexibility of the cloud platform, Poste Italiane will have a constantly updated overview of its customers and ongoing activities, in order to optimise the experience and offer increasingly integrated services.
Membership of the Hyperledger global consortium, however, is aimed at developing an open source standard for blockchain and other types of Distributed Ledger Technologies (DLT). At a time when digital evolution is rapidly enabling new services, data security is becoming increasingly important. In this context, blockchain is able to provide an effective response to the issues of security, transparency, interoperability and privacy, and Poste Italiane is committed to making it user-friendly, and having it serve Italy's economic system.

IT security and business continuity

NFS

MAIN RELATED TYPES OF CAPITAL

With a view to safeguarding business and achieving strategic and operational objectives, the Group considers it strategically important to guarantee the protection of the information assets of the Company, and of its customers and other stakeholders, and to ensure the security of transactions.

For the Company, as well as being a fundamental value, this is a commitment to guarantee high levels of security in the selection and use of its IT systems in order to protect customers and citizens and combat cybercrime.Therefore, at organisational level, a single hub has been created to monitor the risks relating to information security and information systems.

As evidence of the specific attention paid to this issue, the Group's objective is to pursue ongoing research and subsequent dissemination of advanced technological solutions in order to address IT risks and promote technological innovation

Ensuring adequate levels of confidentiality, integrity and availability of data, information and services provided to customers requires increasingly advanced protection systems to safeguard personal data, tangible and intangible assets and intellectual property. Consequently, in line with business needs, Poste Italiane has developed and adopted a specific IT security framework that, starting from the objectives defined in the IT Security Policy, provides specific methodologies regarding the IT risk analysis, cross-cutting interventions and technological projects needed to ensure the proper functioning of the security platforms, "Security by Design" activities and cross-cutting security technological infrastructures. The framework is completed by integrated management of information flows deriving from the various IT security structures and an Integrated Management System for IT Quality and Security that incorporates the aspects highlighted by international standards and postal sector benchmarks. Adoption of this framework guarantees an adequate level of performance of the security measures and appropriate resilience of business services, as well as enabling information flows to the fed to internal audit bodies and/or the relevant Authorities.

Security agreement between Poste Italiane and the Postal Police

In April 2018, an agreement was signed between the CEO of Poste Italiane, the Chief of Police and the Director General of Public Security. The historic collaborative relationship between the Postal and Communications Police, a special branch of the State Police, and Poste Italiane has enabled achievement of excellent results over the years. However, it has also required adaptation to the rapid evolution of the activities and services offered by Poste Italiane, especially regarding e-commerce payment systems, as well as financial and insurance services, which has entailed stepping up the control and upgrading of both physical and IT security structures. The new agreement particularly regards the prevention and repression of offences involving products and production processes relating to the services offered by the Poste Italiane Group, surveillance activities at post offices during scheduled payment periods, and the creation of task forces to study new computer fraud scenarios, as well as new cyber security tools. Indeed, special attention will be paid to protecting users and raising awareness of the use and management of financial services, especially on the internet. Poste Italiane and the Postal Police have the common goal of reducing risks and offences, such as the misuse of credit cards, phishing, hacking, computer fraud and other kinds of fraud.

Regarding the management and monitoring of IT security activities, a Management System for activities and implementation of dedicated platforms is envisaged, such as "PPS Web", consisting of modules for the governance, assessment and reporting of IT security risk, "NEMESI", a Big Data Analysis platform used to identify anomalous or risky behaviour, and "MASM", a Mobile Security platform used to monitor the availability and operation of official and unofficial Poste Italiane apps.

In order to establish a single Group-wide control unit for all activities and responsibilities relating to privacy, a dedicated function was set up last year, with the task of ensuring the correct application of personal data protection principles and rules. The unit is also responsible for ensuring compliance with personal data protection legislation, with specific reference to the innovations introduced with the entry into force of the General Data Protection Regulation (GDPR).

In 2018 **47%** fewer **IT security breaches and cyber security incidents (around 16)** compared with 2017 **(around 30)**

Personal data protection

With a view to achieving uniform management of personal data and compliance with recent regulatory requirements in this regard, the Group has adopted a corporate regulatory system consisting of the Privacy Guidelines, to ensure that management complies with legal provisions, and the Personal Data Protection Management System Guidelines, designed to ensure a uniform personal data management system at Group level, which complies with the provisions of the European General Data Protection Regulation (GDPR) and current Italian legislation. In detail, the Guidelines illustrate the Company's privacy model, the principles of Privacy by Design and Privacy by Default, which respectively establish the incorporation of privacy from the design stage and the guarantee by default, as well as the main processes adopted by the Poste Italiane Group and the related responsibilities regarding the effective management of personal data protection risk.

In particular, the fundamental value of this protection is expressed in the Poste Italiane Group's privacy policy.

The Poste Italiane Group considers personal data protection to be a fundamental value that every Group company must adhere to in its daily activities

In order to ensure effective fulfilment of the obligations provided by the GDPR and guarantee continuous improvement of the management system, a Privacy Framework has been drawn up that identifies the main relevant thematic areas and the organisational and technical controls implemented. The Framework enables continuous assessment and verification of the levels of maturity achieved to be carried out.

Moreover, senior management has appointed the Poste Italiane Group's Data Protection Officer, a role introduced by the GDPR, who is an expert on privacy matters, with the task of promoting compliance with the law and verifying the effectiveness of personal data protection measures.

The Computer Emergency Response Team (CERT) and business continuity

In order to ensure that cyber security and data protection activities are monitored at Group level, as early as 2013 the Company created the Computer Emergency Response Team (CERT), consisting of a team of IT security experts.

Specifically, CERT deals with prevention, analysis and protection from cyber threats, in order to increase the Company's defence capabilities and awareness, to promote and disseminate knowledge and awareness of cyber security at national level. With a view to sharing and exchanging knowledge in the field of cyber security, CERT has the task of coordinating all activities in response to computer emergencies, and maintaining relations with other public and private institutions in order to protect its own computer networks and those of the national system.

CERT's services and activities are aimed at guiding the security management of the data held and processed by the Company, in order to reduce - within acceptable limits - the risk of breaching the confidentiality, integrity and availability of data, so as to avoid possible negative consequences in terms of economic and image damage.

47% fewer IT security incidents compared with 2017

In November 2018, a strategic initiative was launched to define Poste Italiane's Crisis Management and Business Continuity Management model (CM/BCM model), with the aim of strengthening the organisation's resilience, namely its ability to anticipate, prepare for, respond to and adapt to change and sudden setbacks. In this respect, a new model will be developed and applied that will include all the Group services affected by such potential scenarios in line with business requirements, reference standards, current regulations, guidelines and industry best practices.

€4 million more invested in **Business Continuity** projects

Altair, a portal to raise the cyber security awareness of Poste Italiane's staff

As part of CERT's activities, Altair, the portal designed to raise Poste Italiane's employees' awareness of cyber security issues, has been set up. This portal aims to be a reference point for raising awareness on cybersecurity issues, not only for experts in the field, but above all for a wider public, by using language and content designed to meet the needs of both types of user.
Altair ranges from more specific topics, such as new malware, spam or cyber-espionage campaign reports, to daily cyber and hi-tech news. The portal provides updates on scheduled training events, in-depth educational content on cyber security issues, guides and useful links to raise users' IT awareness while they are surfing the web.


DECARBONISATION OF REAL ESTATE FACILITIES AND LOGISTICS
Efficient management of resources in a circular economy perspective
96% of electricity derived from renewable sources
Green fleet


Innovative solutions to promote the transition to a low-carbon economy
Commitment to protect the environment and the climate
WE HAVE A RESPONSIBILITY TO MAKE MINDFUL USE OF OUR PLANET'S RESOURCES AND TO REDUCE OUR ENVIRONMENTAL FOOTPRINT.

Decarbonisation of real estate and logistics

MAIN TYPES OF CAPITAL	OBJECTIVES	TARGETS	OUTCOMES
Natural	Increase the number of electric vehicles used for Mail, Communication and Logistics services	70% more electric vehicles in the fleet by 2020	7
Physical-structural	Increase the share of "green" vehicles (electric, electric hybrid, natural gas and LPG) used for Mail, Communication and Logistics services	17% of the fleet consisting of "green" vehicles by 2020	13
	Reduce the total number of kilometres travelled by increasing First Time Delivery Success	90% of parcels delivered on first attempt by the end of 2019	
	Reduce the Group's total energy consumption from non-renewable sources	7.5 GWh less electricity from non-renewable sources consumed by buildings by 2022	
	Reduce the Group's total energy consumption from renewable sources	32.8 GWh less total electricity consumed by buildings by 2022	
	Reduce the Group's total direct GHG emissions (Scope 1)	2,584 less tCO_2e emitted by buildings' direct energy consumption by 2022	
	Reduce the Group's total indirect GHG emissions (Scope 2)	9,132 less tCO_2e emitted by buildings' indirect energy consumption by 2022	
	Certify Corporate processes in accordance with ISO 14001 and ISO 50001	100% of Corporate processes ISO 14001 and ISO 50001 certified by the end of 2019	

Environmental impacts of real estate facilities

NFS

MAIN RELATED TYPES OF CAPITAL

Environmental protection is a priority that Poste Italiane Group has established in its Code of Ethics, in which it recognises the importance of safeguarding the environment as a primary asset, undertakes to promote rational use of resources within its structures, and focuses on seeking innovative solutions to ensure a reduction in the direct and indirect environmental impacts generated by its activities.

The Company's objective is to spread an environmental protection culture, whilst systematically drawing up sectoral action plans regarding the efficient management of energy resources, water resources and waste, from a circular economy perspective, in order to reduce its ecological footprint

Therefore, the quality of products and services also entails implementation of self-regulatory environmental and energy tools, in accordance with applicable laws and regulations, and also with Italian, European and international sustainable development goals.

In terms of organisation, a single central Function is tasked with overseeing the areas of environmental responsibility relating to real estate assets, including ensuring compliance with current regulations regarding energy use, monitoring and measurement of consumption, identifying areas where savings can be made, and defining efficiency improvement projects and consumption reduction objectives.

In order to raise awareness of the impact that the daily actions of the people who work permanently or temporarily at Group companies have on the environment, in early 2019 the Company adopted an Group policy on environmental sustainability with a view to sharing with customers, civil society and stakeholders in general, the commitments it has undertaken - in addition to the principles - to respect the rules and instruments it intends to adopt to ensure compliance with international regulations and standards.

Therefore, the Policy's objective is to prevent, manage and, where possible, reduce the environmental impacts generated by the Company's operational activities, in particular, from the use of buildings and logistics and transport activities, whether carried out directly or through suppliers and partners.

The Company's approach to environmental sustainability is inspired by these principles: efficient use of natural resources; innovation to support a low-carbon economy; prevention and reduction of environmental impact, through analysis of potential environmental risks, reduction in the amount of waste produced and the elimination of waste; and promotion of an environmental culture, through the Company's corporate voluntary network and collaboration with environmental associations.

This document sets out the three main areas of intervention identified by Poste Italiane regarding which projects and activities are launched to provide an effective response to the needs most felt by the community, taking into account the objectives of the major national and international public and private institutions, with particular reference to the United Nations and the Sustainable Development Goals. Specifically, the Group's environmental priorities include:

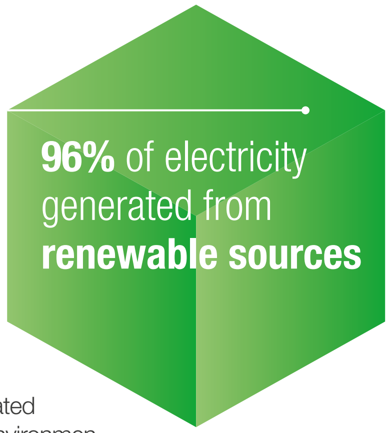
- **reduction of the environmental impact of its operating activities:** optimisation of energy consumption, reduction of atmospheric emissions from buildings and those linked to logistical activities and staff mobility, reduction of material consumption, and correct waste management and reduction of water consumption;
- **incorporation of environmental aspects into the products and services offered:** implementation of digitisation processes regarding the goods and services offered, and assessment of environmental risks and opportunities relating to investment choices and the management of insurance activities;
- **raising the awareness of employees and third parties regarding the environmental culture:** involvement of employees in programmes and initiatives aimed at safeguarding the natural environment and ecology, support for environmental heritage protection and recovery initiatives, dialogue and collaboration with national and international bodies and associations in order to combat climate change and inefficient consumption of resources, and assessment of risks and environmental management methods adopted by counterparties.

The Group has adopted a Management System in compliance with current legislation and national and international best practices. Postel SpA e SDA SpA have obtained UNI EN ISO 14001 certification for their environmental management system. The system consists of internal environmental management rules that are implemented to ensure punctual identification of the most significant environmental impacts and adoption of the most effective management and mitigation measures, through a structured performance monitoring system involving audits and periodic checks.

In line with the provisions of the law, the two Group companies have adopted these environmental policies:

- **Postel SpA's Quality and Environment Policy**, aimed at ensuring compliance with environmental legal requirements, sets out the objectives underlying its business conduct, namely respect for the environment, including pollution prevention and other specific commitments (responsible use of resources, protection of biodiversity) relevant to its operating context; incorporation of the requirements of the Management System within business processes, taking into account the post-delivery impacts of a product or service at the design stage, in order to completely manage the product's life cycle; definition of objectives compatible with strategic guidelines and the business context.
- **SDA SpA's Quality, Environment and Occupational Health and Safety Policy**, which contains the principles that govern and ensure proper management of environmental issues: direct and permanent engagement of senior managers in the management of the Integrated System; protection and prevention, in terms of optimising the use of resources and minimising environmental impacts; a constant quest for a sustainable procurement system.

With stakeholder engagement activities and a monitoring system - which involves various tools, including monthly checks on the state of progress of consumption and benchmark analyses carried out for homogeneous groups of buildings - the Group identifies and analyses the range of risks associated with the most significant environmental aspects and sets objectives for monitoring, limiting and optimising its performance.



In order to ensure oversight of consumption and reduce environmental impacts and costs, the Group has contracted a supplier for electricity and another one for gas, so as to have a systematic basis of consumption for the individual utilities for each month of supply.

In 2018, the energy use optimisation plan continued, including introduction of initiatives aimed at reducing waste by installing and activating energy consumption meters that enable monitoring of trends, analysis of consumption, taking measurements at the most energy-intensive sites, and correctly setting temperatures and operating times for cooling and heating systems. In this regard, Poste Italiane has already planned an energy management system for 2019, which will be gradually extended to the entire Group.

From an environmental responsibility perspective, the Group considers energy efficiency to be one of the main elements for combining economic growth and sustainable development.

In this context, The Group's strategy involves these courses of action:

- **Renewable energy sources.** In order to promote renewable energy sources, Poste Italiane has focused on the distribution of integrated photovoltaic systems in buildings, thereby creating infrastructure aimed at reducing dependence on fossil fuels. With a view to reducing the withdrawal of electricity from the national grid, as well as the overall costs of supply and payment for the expected tariff increases, the Group has planned to increase its own self-production facilities by installing photovoltaic panels on its buildings.

- **Smart buildings.** Minimise the environmental impacts of the Group's buildings with regard to energy use, water consumption, waste and consumption of raw materials, through implementation of specific measures that strictly depend on preventive analysis and constant monitoring systems. In this regard, in compliance with the obligations set out in Legislative Decree 102/2014, which provides for the promotion and improvement of energy efficiency, the Group carries out continuous energy audits, through a system for monitoring the withdrawal of electricity, based on a network of meters connected to a central data collection system that generates a report on energy consumption at each site, thus enabling identification of sites that are critical in terms of high consumption. The energy audits must be drawn up by Energy Management Experts (EGE- Esperti in Gestione dell'Energia) who are certified in accordance with UNI CEI 11339:2009. Consequently, a certification process for internal staff has been launched. The Company has embarked on a process of incorporating specific smart building initiatives within its environmental impact strategic priorities. With this in mind, Poste Italiane has selected specific technological solutions regarding building automation, energy management and space management equipment within the Group's national network of buildings. Furthermore, with the aim of monitoring its own energy consumption, identifying possible areas for improvement and planning the relative reduction, the Group intends to acquire a special control system regarding computerisation of the electricity and gas bills relating to the energy consumption of its buildings. In addition to providing a tool to support management of the process of checking electricity and gas bills relating to contracts with external suppliers, this platform will enable verification of historical consumption trends and market rates.

- **Energy efficiencies at Sorting Centres.** The purpose of this initiative is to extend an energy supervision, control and monitoring platform to the Poste Italiane Group's most energy-intensive buildings. The main objective is to reduce electricity and gas withdrawals in order to offset expected tariff increases and reduce overall procurement costs. The current Building Management System (BMS) for Sorting Centres will be complemented with indoor and outdoor temperature meters for the various zones. This will enable preparation of a monitoring and management system for refrigeration systems and thermal power plants, based on optimised algorithms which, by recording the temperatures and thermal responses of an individual building in terms of its thermal inertia, will be able to determine the most appropriate time for switching systems on and off in order to guarantee a comfortable level with the lowest possible consumption. It is also planned to create a network to measure the gas consumption of the most energy-intensive sites, which will enable determination and regulation of consumption via a more rational use of thermal energy, and thereby elimination of waste.

- **Increase the production and energy efficiency of delivery.** The Mail, Parcels and Distribution segment has implemented several actions aimed at affecting production and energy efficiency. For example, SDA SpA is building new structures with a lower energy impact equipped with local generation of photovoltaic power to meet daytime requirements. The mail delivery segment is gradually replacing endothermic vehicles with electric delivery vehicles, installing new, more efficient and less energy-intensive parcel and mail sorting lines, drawing up "good energy-saving practices" and procedures, and providing specific environmental communications to all suppliers.

- **LED lighting.** Once again in 2018, Poste Italiane specifically invested in smart technologies, focusing on the gradual installation of LED (Light Emitting Diode) lighting fixtures to replace fluorescent lamps, in line with the provisions of the relative project launched in May 2017. The four-year project involving preliminary intervention in more than 2,000 buildings, aims to significantly reduce electricity consumption and the related emissions, and save on maintenance costs. The estimated figures based on initial forecast investment of approximately €14 million, add up to expected savings of more than 32 GWh per year, thanks to the replacement of over 250,000 old lighting fixtures, and a reduction in CO_2 emissions of 11,000 tonnes per year.

- **Encouraging virtuous behaviour.** The behaviour of our Group's people can have a major impact on energy saving. With this in mind, communication and awareness campaigns have been activated for all staff to guide them towards virtuous behaviour. In this regard, Poste Italiane continued to participate in the "M'illumino di meno" (I use less light) and "Earth Hour" awareness initiatives. The first is a campaign to promote energy saving and sustainable lifestyles. "Earth Hour", on the other hand, is an international campaign promoted in Italy by the World Wildlife Fund (WWF), which consists in turning off the lights for one hour, from 8:30 pm to 9:30 pm worldwide. The two initiatives, which are similar and occur around the same time of year, constitute a real "green month" focusing on the environment. The element they have in common is switching off or dimming lights in buildings nationwide, a symbolic gesture that provides an opportunity to create virtuous behaviours to be implemented within and beyond the Company.

Environmental impacts of logistics

NFS

MAIN RELATED TYPES OF CAPITAL

The Poste Italiane Group, which is deployed nationwide, recognises its responsibility to play a distinctive role in creating sustainable value for the communities in which it operates, where the environmental dimension is of primary importance.

Given the potential effect it may have on the reduction of environmental impacts, in providing its postal and logistics services the Company must take environmental sustainability into account by adopting lower-impact solutions.

Indeed, the rational use of natural resources in compliance with ethical principles and social responsibility, and the focus on finding innovative environmental protection solutions, are the priorities the Poste Italiane Group has defined in its Code of Ethics, which sets out the fundamental principles that inspire us to achieve the best environmental performance.

In the light of technological developments, increasing innovation and constant regulatory changes in the postal sector, Poste Italiane intends to increasingly focus on continually renewing its fleet with more environmentally friendly vehicles, rationalising distances travelled, proper waste management, developing infrastructure for recharging customers' vehicles, and to demand that external transport providers meet minimum environmental requirements

In order to guarantee a clear and uniform managerial approach to environmental issues, the Poste Italiane Group has adopted a policy that sets out the Company's commitment to mitigating the environmental impact of its key business processes, and encourages the development of green transport solutions for logistics activities and staff mobility, partly by providing staff with a corporate fleet of hybrid and electric vehicles (for further details see the section on "Environmental impacts of real estate facilities").

In line with the Company's approach to give priority to the efficient use of renewables and the rationalisation of energy consumption from fossil fuels, in 2018 the two main corporate strategies that brought benefits in terms of environmental sustainability were the new "Joint Delivery" model and the plan relating to the green development of the corporate fleet.

Specifically, Poste Italiane has decided to radically overhaul its delivery network and operating model through implementation of the new delivery model, which provides for a transition from a single network (operating only in the morning from Monday to Friday) to a structure with two networks that differ in terms of delivery methods and type of product.

The new model provides for:

a. a so-called "basic service" network, dedicated to traditional postal products to be delivered more than one day after mailing (> J+1), which operates from Monday to Friday and is designed to reach each customer once every two days (with the exception of the cities of Rome, Milan and Naples, where daily deliveries will continue);

b. a so-called "business service" network, dedicated to postal products to be delivered on the day after mailing (J+1) and parcels, which operates from Monday to Saturday (and also on Sundays and public holidays at times of peak demand), with delivery scheduled later than for the basic service (late morning or afternoon).

This new operating model, characterised by a change in delivery frequency, leads to a reduction in the number of kilometres travelled and a need for fewer vehicles.

In terms of transport strategy, the Group's strong commitment to improving its environmental performance may be traced back to the introduction in the 2000s of 4-wheel vehicles powered by natural gas, which affected 15% of the fleet, followed by the introduction of the "Free Duck" (electric quadricycles) and the full rent supply of 4-wheel vehicles powered by alternative fuels (cars and vans powered by natural gas, LPG/hybrid cars and electric vans).

In line with the leading European operators, in order to position its network of postmen in the parcel deliveries market generated by online sales, in 2018 Poste Italiane planned a new mix for its last-mile fleet (currently comprising 27,500 vehicles, of which approximately 13,000 are mopeds) through the introduction of 3-wheeled vehicles to replace 2-wheeled vehicles.

345 fully
electric-powered
tricycles

These new types of vehicle are ideal for:

- increasing the load capacity compared to mopeds, whilst continuing to be agile in operations that involve frequent starting and stopping and moving through city traffic;
- improving occupational safety conditions compared to mopeds, thanks to the greater stability of the vehicle, which can reduce the risk of falling/skidding, and elimination of stands, which are linked to the risk of overturning/falling off a motorcycle;

- by using electrically powered models, operating in city areas subject to traffic restrictions and in the event of traffic jams, while at the same time enhancing the "ecological mobility" process, already previously embarked on with the introduction of electric quadricycles to the fleet.

Postmen move around on electric tricycles, to make urban parcel delivery environmentally-friendly, easy and safe

In 2018, the Company's focus on the sustainability and safety of mail and parcel delivery will be stepped up by increasing the green share of the last-mile fleet.
Poste Italiane travels using clean energy thanks to the nationwide introduction of 345 three-wheeled motorcycles powered by electricity, which is part of an extensive plan to renew the fleet of vehicles for postmen. The new motorcycles are completely electric-powered, with a capacity of 4 kW that guarantees a maximum speed in line with the limits imposed by the Highway Code in towns and cities, and energy self-sufficiency that enables postmen to complete their daily delivery round with a single charge. The special shape of the three-wheeled vehicle also increases its stability and safety for the driver, and allows for installation of a special trunk that increases the number of parcels and letters that may be transported: up to 210 litres, compared with 76 for traditional motorcycles.

Finally, with a view to identifying suppliers and partners who may represent risks in terms of environmental protection, further proof of the Company's commitment to environmental sustainability was demonstrated during the year by a review of tender specifications with reference to third-party companies that provide transport services to the Company. Specifically, in addition to meeting all the requirements imposed by current legislation, Poste Italiane requires its suppliers to submit a quarterly report on the numbers of kilometres travelled and litres of fuel consumed. The Company also conducts technical checks on vehicles from third-party companies that carry out transport activities, in order, in the event of unsatisfactory assessments, to plan appropriate actions to be taken.

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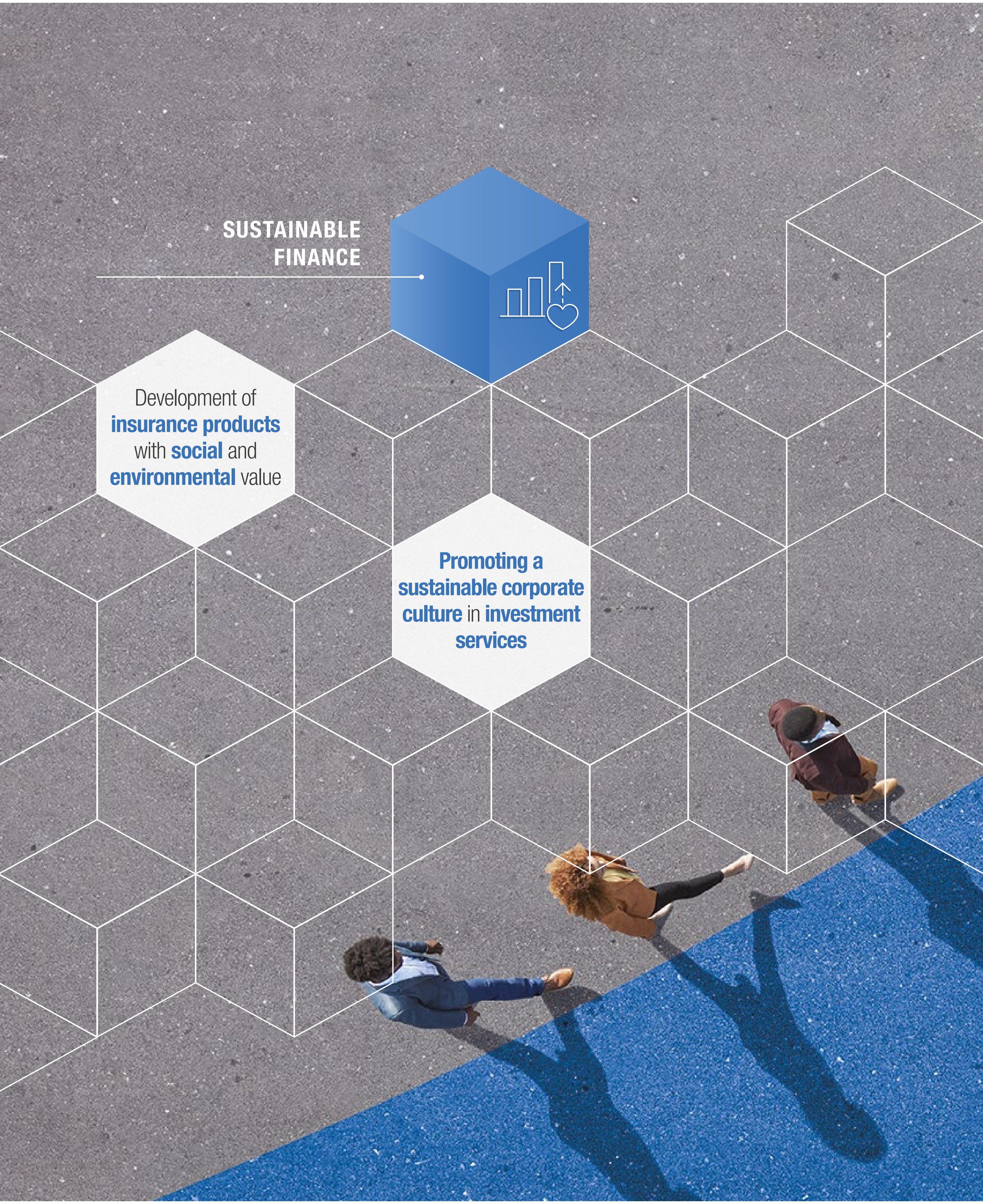
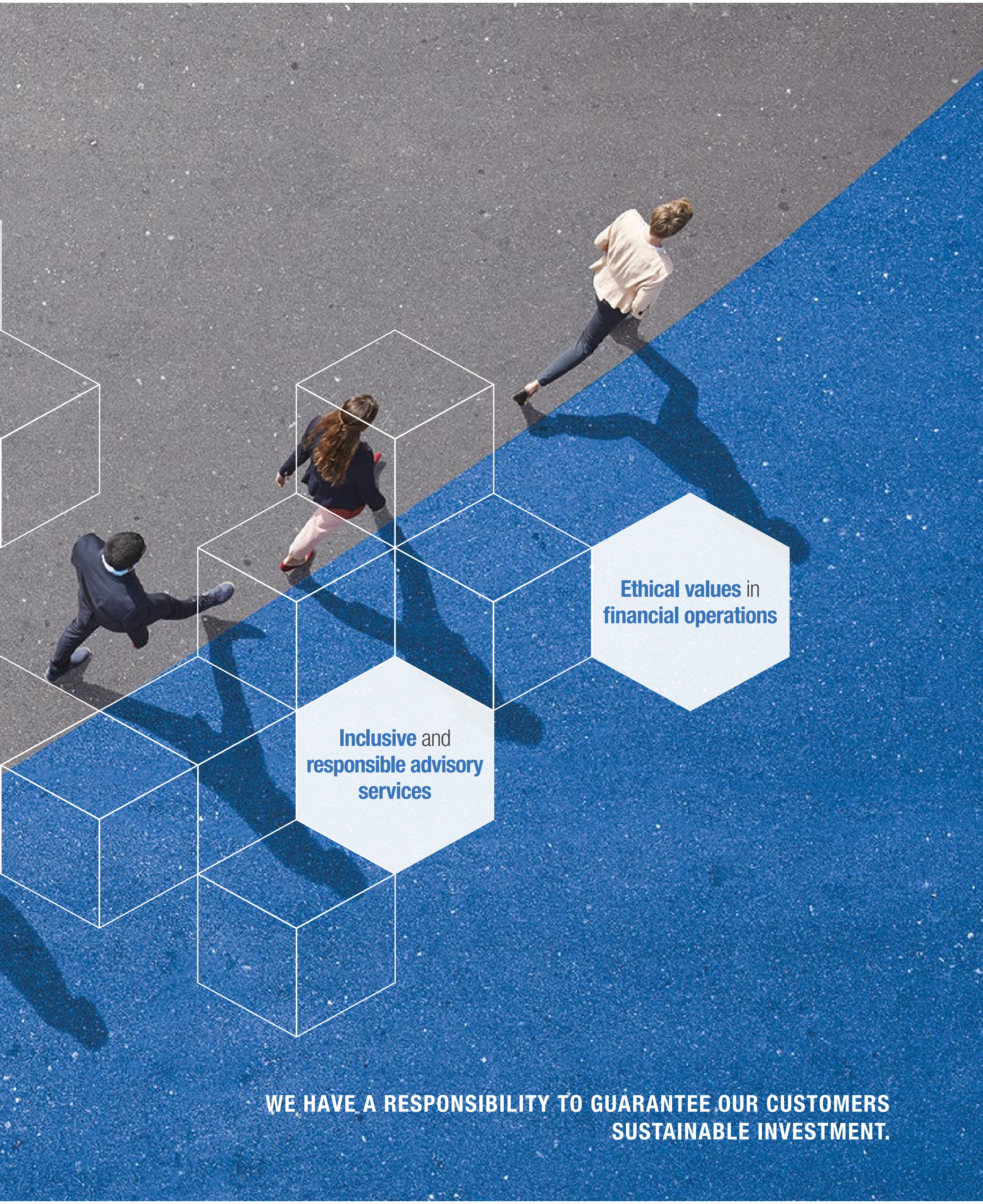

SUSTAINABLE FINANCE
Development of **insurance products** with **social** and **environmental** value
Promoting a sustainable corporate culture in **investment services**


Ethical values in financial operations
Inclusive and responsible advisory services
WE HAVE A RESPONSIBILITY TO GUARANTEE OUR CUSTOMERS SUSTAINABLE INVESTMENT.

Sustainable finance

MAIN TYPES OF CAPITAL	OBJECTIVES	TARGETS	OUTCOMES
Financial	Monitor the ESG ratings of the issuers present in directly managed portfolios	100% of issuers monitored with respect to ESG issues by 2019	SDG 8
	Request third-party managers to adopt Poste Vita's Responsible Investment Policy	100% of third-party managers involved by 2019	

Incorporation of ESG criteria within investment policies

NFS

MAIN RELATED TYPES OF CAPITAL

The incorporation of environmental, social and governance (ESG) criteria into traditional investment processes forms one of the cornerstones of the Company's sustainability policies. By implementing effective investment processes, the financial segment can help protect society, promote innovation and support economic growth, making an important contribution to the country's sustainable development. As part of the strategy adopted by the Poste Italiane Group in order to pursue its sustainability objectives, the incorporation of ESG principles into the investment processes used by Poste Vita and BancoPosta Fondi SGR is of particular significance.

Poste Vita and BancoPosta Fondi SGR have signed up to the United Nations Principles for Responsible Investments (PRI), making a formal commitment to incorporate ESG criteria in their assessment and decision-making investment processes, and to apply such criteria in relations with counterparties. This decision results from the strong belief that integrating environmental, social and governance criteria within its investment processes is key to achieving sustainable performances over time, reducing the portfolio's risk profile and acting in accordance with the principles of integrity and transparency.

Responsible investment principles, goals and management criteria have been formalised within the Responsible Investment Policy adopted by the Poste Vita Group, following approval by the company's Board of Directors, and by BancoPosta Fondi SGR

Poste Vita and BancoPosta Fondi SGR sign up to the Principles for Responsible Investment

Signatory of:

PRI Principles for Responsible Investment

With the aim of positively influencing management of the investment portfolio and, at the same time, providing a response to the social and environment al needs of society, the Policy has established a general principle requiring the systematic assessment of investment transactions that also takes into account the environmental, social and governance profiles of the corporate or government issuers of the assets included in financial portfolios and of the related managers. In addition, the policy specifies the sectors excluded from the range of potential investments as they violate the basic humanitarian principles defined in the United Nations Conventions (anti-personnel mines, cluster bombs, spent uranium, biological weapons, chemical weapons, invisible fragmentation weapons, blinding laser weapons, incendiary devices and white phosphorus). The Policy also envisages the establishment of structured processes for effectively managing and monitoring the approach adopted through specific principles, activities, roles and instruments.

In 2019, another Group company with responsibility for investments, BancoPosta Fondi SGR, will compete the process of adopting its own responsible investment policy.

Monitoring the ESG profiles of the investment portfolio

With the aim of adopting specific measures enabling the Group to monitor the exposure of the investment portfolios to non-financial risks, the Poste Vita Group and BancoPosta Fondi SGR appointed VigeoEiris, an international social and environmental rating agency to conduct and assessment of the ESG aspects of their portfolio in relation to both direct and indirect investments in order to evaluate the level social responsibility. The assessment, carried out in accordance with universally accepted standards and conventions issued by international bodies regarding human rights, workers' rights and environmental protection (such as the UN, the OECD and the ILO), covered corporate issuers of both equity instruments and bonds, and ultimately measured their ability to manage stakeholder relations. The assessment process ended with the assignment of a final ESG score (between 0 and 100) to each company.
The weighted average score of the portfolios assessed was 49/100 in relation to the assets managed by the Poste Vita Group and 48/100 for those managed by BancoPosta Fondi SGR for corporate issuers. This result was higher than the ESG score of a benchmark of MSCI World ETF shares, used for comparison, of 38/100 at the same date.

Incorporation of ESG criteria within insurance policies

NFS

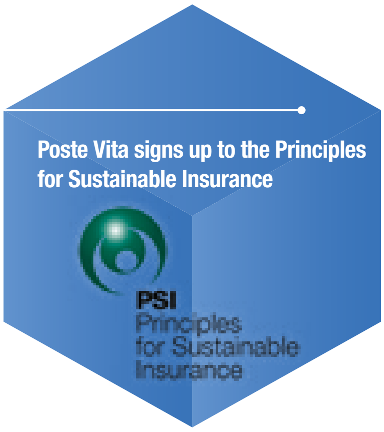
MAIN RELATED TYPES OF CAPITAL

By implementing effective risk prevention processes, the insurance segment can help to protect society, promote innovation and support economic growth, making an important contribution to the country's sustainable development.

Poste Vita has signed up to the Principles for Sustainable Insurance promoted by the United Nations, with the aim of becoming one of the leading proponents of a sustainability culture in the insurance sector.

By adopting the PSI, Poste Italiane has confirmed the Group's goal of assessing ESG risks and opportunities, developing innovative insurance solutions and helping to drive business performance. This approach translates into a competitive advantage, into the ability to create value over the long term and into an improved perception of the Group among all its stakeholders.

With the aim of formalising this commitment and aligning its business model with the sustainable development goals, Poste Vita adopted a Responsible Insurance Policy, a document that describes the approach the company intends to take in managing the risks and opportunities connected with environmental, social and governance factors within traditional insurance processes



In order to ensure a consistent approach to risk management at the company, the Policy has established a principle requiring the systematic assessment of economic, social and environmental issues that may have an impact on people and, therefore, on the company's long-term business. This process enables the company to adequately mitigate potential threats and identify new business opportunities that could lead to the development of sustainable insurance products of high social and environmental value. The Policy also envisages the establishment of structured processes for effectively managing and monitoring the approach adopted through specific principles, activities, roles and tools.

Insurance products with social and environmental value

In developing its offering of insurance services, Poste Vita targets, whenever sustainable, more vulnerable social categories, such as the young, the elderly and people with particular diseases. Among its individual pension plans, *Postaprevidenza Valore* is the form of supplementary pension fund with the highest number of members in Italy (975,000 customers registered at the end of 2018). As known, the projected pensions gap of younger generations – the difference between the expected basic pension and the last salary from employment, in other words how much will be needed to maintain a person's standard of living – is high. In this context, Italian lawmakers, in reshaping pensions legislation, have introduced measures designed to drive the development of supplementary pensions. In this regard, *Postaprevidenza Valore* represents, for a significant portion of the population, an important way of topping of their basic pension.

Another area in which the Group plays an important role refers to the so-called "pure risk" products. In view of the significance of the so-called "mortality gap within households", being the difference between the available resources and those needed to maintain an adequate standard of living for people close to the insured person in the event of the latter's death, *Affetti Protetti* is a Life insurance policy that aims to protect the other family members. At the end of 2018, around 191,000 policies had been sold with an average capital per policyholder of €93,000 and an average annual premium of €144.

Given the aging of the Italian population, with the aim of providing concrete support to cope with the difficulties associated with ageing, Poste Vita has developed its product *"Sempre Presente"*, which guarantees the policyholder income if they lose their independence. This provides financial support enabling them to meet the cost of the necessary care without weighing on those nearest to them. Approximately 16,600 policies were sold in 2018, with a guaranteed average payout of €622 and an annual premium of €369.

Posta protezione dal Mondo is the policy for foreign citizens legally residing in Italy, offering a single product that guarantees financial support in the event of injury and the need for care, meaning that the insured person can rest easy during their stay in Italy. The product meets the needs of people who, finding themselves living in a country that is not their own, wish to protect themselves and their family and receive concrete support at times of need. In particular, it offers the policyholder round-the-clock protection in the event of a workplace injury or for an injury incurred in their free time. *Posta protezione dal Mondo* provides simple cover (injury resulting in serious permanent disability rated higher than 60%, death from injury, care packages designed specifically for the target) at an accessible price (€60 per year). The policy helps to create greater social integration, offering protection through an insurance product that is accessible to everyone.

Finally, in developing property protection products, the company is considering the introduction of guarantees providing customers with a valid way of transferring the risk relating to natural events, such as weather events or natural catastrophes that might be caused by climate change. Where possible and technically feasible, the company valorises environmental risk mitigations measures, which contribute to increasing the resilience of properties (including energy efficiency systems,) covered by the policy, thus making them more "insurable". With the aim of providing concrete support to people living in areas at risk from catastrophic events, Poste Assicura has recently broadened its range of products and services, offering the *Casa 360* policy that pays out in the event of damage, in addition to offering traditional protection against fire and weather events (including those linked to climate change), and against earthquake damage and collapse due to any other cause. The product, at the customer's request, includes an electronic device that enables the property owner to monitor house conditions constantly and 24-hour assistance. The policy allows the customer to choose the type of coverage and guarantees based on their needs. This product is highly inclusive, as the cost of protection against earthquake damage or collapse is the same in areas with both a high and low risk of earthquake; such feature increases possibility of coverage where most needed. Approximately 23,000 policies were sold in 2018.

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THE GOALS SET WITHIN THE ENVIRONMENTAL SOCIAL AND GOVERNANCE STRATEGIC PLAN

- Increase staff training on the Group's ethical principles (including respect for human rights)
- Verify ESG aspects in the supplier qualification process
- Certify the main Group companies in accordance with ISO 37001 standard
- Promote membership of the Welfare platform
- Carry out sustainability audits (ESGs) along the supply chain
- Increase the quota of middle managers and white-collar staff involved in the MLAB development plans and POP
- Reduce the rate of absenteeism due to sickness
- Reduce the number of Group employees' occupational injuries
- Provide continuous training to all Group employees
- Expand the scope of the workforce involved in the performance appraisal system
- Increase employee satisfaction
- Increase the Group's support for socio-cultural initiatives that benefit the community
- Provide basic services, including in small municipalities without a post office
- Reduce the occupational injury frequency rate for Group employees
- Reduce the occupational injury seriousness rate for Group employees
- Reduce Poste Italiane SpA's work-related stress levels
- Increase the number of post offices in small municipalities with free Wi-Fi customers
- Certify the main Group companies in accordance with the BS OHSAS 18001 standard
- Increase women's involvement in staff development plans
- Allow Company-owned spaces in "disadvantaged" areas to be used for social activities
- Eliminate architectural barriers in post offices
- Certify the financial advisory service and the skills of people operating in accordance with the ISO 22222 standard
- Continue financial education and inclusion projects


Improve average complaint handling time
Promote knowledge and skills development within the sales network
Increase customer satisfaction
Develop the service model by assigning a dedicated consultant to customers
Reduce paper consumption due to the dematerialisation of sales operations
Provide post offices with dematerialised operating procedures
Engage Poste Italiane customers and employees via web platforms
Certify privacy protection in the Group’s areas of business
Develop the digital services offered through the adoption of blockchain technology
Increase the number of electric vehicles used for Mail, Communication and Logistics services
Request the adoption of Poste Vita’s Responsible Investment Policy by third party asset managers
Increase the share of “green” vehicles (electric, electric hybrid, natural gas and LPG) used for Mail, Communication and Logistics services
Reduce the total number of kilometres travelled by increasing First Time Delivery Success
Reduce the Group’s total energy consumption from non-renewable sources
Monitor the ESG rating of the issuers present in the indirectly managed portfolios
Reduce the Group’s total energy consumption from renewable sources
Reduce the Group’s total direct GHG emissions (Scope 1)
Reduce the Group’s total indirect GHG emissions (Scope 2)
Certify Corporate processes in accordance with ISO 14001 and ISO 50001

Indicators tables

The following tables show the indicators required by the Global Reporting Initiative standards, together with other indicators that Poste Italiane believes important in order to illustrate its performance. The indicators are presented on the basis of the six pillars of the Group's ESG Strategic Plan.

[GRI 102-7] WIDESPREAD PRESENCE*

	2016		2017		2018	
	No.	Personnel	No.	Personnel	No.	Personnel
Operating Area Managers	6	26	6	25	6	26
Branch offices	62	780	62	784	64	730
Total	**68**	**806**	**68**	**809**	**70**	**756**

* The figures refer to the Group company, SDA SpA.

[GRI 102-7] WIDESPREAD PRESENCE*

	2016		2017		2018	
	No.	Personnel	No.	Personnel	No.	Personnel
Local Operating Centres	12	621	12	552	10	519

* The figures refer to the Group company, Postel SpA.

[GRI 201-1] ECONOMIC VALUE GENERATED, DISTRIBUTED AND WITHHELD

Economic value generated (€m)	2016	2017	2018
Economic value generated by the Group	10,776	10,726	10,863

Economic value distributed (€m)	2016	2017	2018
Economic value distributed to stakeholders	9,917	9,828	9,418
- Suppliers	3,082	2,992	3,118
- Personnel	5,808	5,682	5,584
- Lenders	73	153	43
- Public Administration	507	447	92
- Community	3	5	5
- Shareholders*	444	549	576

* The amount refers to the dividend to be proposed to the Annual General Meeting of 28 May 2019.

Economic value retained (€m)	2016	2017	2018
Economic value retained within the Group	859	898	1,445

Integrity and transparency

[GRI 205-1] COMPANIES ASSESSED FOR RISKS RELATED TO CORRUPTION* AND PERCENTAGE** OF OPERATIONS AUDITED FOR RISKS RELATED TO CORRUPTION

	2016	2017	2018
Total number of Group companies assessed for risks related to corruption	17	18	18
Total number of Group companies	26	25	25
Percentage of Group companies assessed for risks related to corruption	65	72	72
Percentage of operations audited for risk of corruption***			
High coverage	67	94	68
Medium coverage	33	3	19
Low coverage	-	3	13

* Assessment of Group companies for risks related corruption was conducted as part of the survey carried out in drawing up the Organisational, Management and Control Model required by Legislative Decree 231/2001.
** Coverage represents the overall percentage of operations audited.
*** The figures refer to Poste Italiane SpA.

[GRI 205-3] REPORTS MANAGED BY THE WHISTLEBLOWING COMMITTEE

	2016	2017	2018
Reports handled	282	290	230
of which relating to corruption	23	23	7
of which confirmed	1	-	-

SPECIFIC TRAINING ON PROCEDURES AND POLICIES OF ANTI-CORRUPTION*

	2016	2017	2018
Total employees	99,963	56,052	40,060
of which:			
Executives	179	261	471
Middle managers	12,441	6,726	6,383
Operational staff	87,343	49,065	33,206

* In 2018, the online training course on anti-corruption and the Law Decree n. 231/2001 (Italian law concerning the administrative responsability of corporate bodies related to crimes committed in the company's interest), entitled "Law Decree n. 231/2001 - Our behavior and law provisions regarding corporate liability" was provided during two training campaigns addresset to all employees working in Poste Italiane. To this regard, a total number of 1,376 employees participated to both training initiatives.

EXISTING TENDERS WHICH INCORPORATE SPECIFIC ENVIRONMENTAL CRITERIA*

	2016	2017	2018
Percentage of suppliers selected on the basis of environmental criteria	30.8	40.4	34.1

* The assessment regards tender processes for amounts above the EU threshold that include specific environmental criteria in the subject, in the technical specifications or in the participation and/or assessment criteria (e.g. ISO 14001, ISO 50001, hybrid/electric vehicles, low-environmental impact vehicles, Minimum Environmental Criteria, the use of recycled materials in supplies, etc.). The figures refer to Poste Italiane SpA.

EXISTING TENDERS WHICH INCORPORATE SPECIFIC SOCIAL CRITERIA*

	2016	2017	2018
Percentage of suppliers selected on the basis of social criteria	42.3	39.4	45.5

* The assessment regards tender processes for amounts above the EU threshold that include specific social criteria in the subject, in the technical specifications or in the participation and/or assessment criteria (e.g. SA8000, OHSAS 18001, etc.). The figures refer to Poste Italiane SpA.

People development

[GRI 412-1] OPERATIONS SUBJECT TO HUMAN RIGHTS REVIEWS

	2016	2017	2018
Group companies			
Number of Group companies subject to human rights reviews	26	25	25
Total number of Group companies	26	25	25
Total percentage of Group companies subject to human rights reviews	100	100	100

POSTE ITALIANE'S WORKFORCE IN NUMBERS

	Average for the year ended 31 December			At 31 December		
Permanent workforce	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**
Executives	733	732	690	748	699	672
Middle managers	16,113	15,859	15,582	15,807	15,481	15,192
Operational staff	119,772	114,767	109,879	115,947	111,251	106,801
Total workforce on permanent contracts	**136,658**	**131,358**	**126,151**	**132,502**	**127,431**	**122,665**
Apprenticeships	32	12	21	23	4	134
Total permanent workforce	**136,690**	**131,370**	**126,172**	**132,525**	**127,435**	**122,799**
Flexible workforce						
Agency staff	11	27	169	3	50	315
Fixed-term contracts	4,545	6,643	8,019	4,211	9,070	9,224
Total flexible workforce	**4,556**	**6,670**	**8,188**	**4,214**	**9,120**	**9,539**
Total permanent and flexible workforce	**141,246**	**138,040**	**134,360**	**136,739**	**136,555**	**132,338**

[GRI 102-8] NUMBER OF PERSONNEL BY CONTRACT TYPE AND GENDER, BY STRATEGIC BUSINESS UNIT*

	2016			2017			2018		
Contract type	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Permanent**	**61,916**	**70,609**	**132,525**	**58,812**	**68,623**	**127,435**	**55,980**	**66,819**	**122,799**
of which:									
Mail, Parcels and Distribution	60,529	69,150	129,679	57,600	67,304	124,904	55,256	66,122	121,378
Financial Services***	1,011	1,135	2,146	782	946	1,729	252	258	510
Insurance Services	255	234	489	276	253	529	276	273	549
Payments, Mobile and Digital***	121	90	211	154	119	273	197	165	362
Flexible****	**2,539**	**1,675**	**4,214**	**5,436**	**3,684**	**9,120**	**5,681**	**3,858**	**9,539**
of which:									
Mail, Parcels and Distribution	2,523	1,659	4,182	5,434	3,677	9,111	5,680	3,857	9,537
Financial Services	12	13	25	1	1	2	0	0	0
Insurance Services	1	2	3	0	6	6	1	1	2
Payments, Mobile and Digital	3	1	4	1	0	1	0	0	0
Total	**64,455**	**72,284**	**136,739**	**64,248**	**72,307**	**136,555**	**61,661**	**70,677**	**132,338**

* The figures are shown in Full Time Equivalent (FTE) terms.
** Includes permanent staff and apprenticeships.
*** 2018 witnessed a number of major organisational and corporate changes within the BancoPosta function, accompanied by a restructuring of the card payments and payment services business unit and the centralisation of back-office activities.
**** Includes fixed-term and agency staff.

[GRI 102-8] NUMBER OF PERSONNEL BY TYPE OF EMPLOYMENT AND GENDER, BY STRATEGIC BUSINESS UNIT*

	2016			2017			2018		
Contract type	Men	Women	Total	Men	Women	Total	Men	Women	Total
Full-time	**62,686**	**68,102**	**130,788**	**62,557**	**68,256**	**130,813**	**60,166**	**66,748**	**126,914**
of which:									
Mail, Parcels and Distribution	61,301	66,702	128,003	61,357	67,000	128,357	59,441	66,076	125,517
Financial Services	1,005	1,079	2,084	770	884	1,654	251	246	497
Insurance Services	256	232	488	275	254	529	277	265	542
Payments, Mobile and Digital	124	89	213	155	118	273	197	161	358
Part-time	**3,280**	**7,084**	**10,364**	**3,133**	**6,828**	**9,961**	**2,737**	**6,507**	**9,244**
of which:									
Mail, Parcels and Distribution	3,251	6,973	10,224	3,111	6,723	9,834	2,736	6,471	9,207
Financial Services	29	103	132	21	96	117	1	18	19
Insurance Services	0	6	6	1	8	9	0	12	12
Payments, Mobile and Digital	0	2	2	0	1	1	0	6	6
Total	**65,966**	**75,186**	**141,152**	**65,690**	**75,084**	**140,774**	**62,903**	**73,255**	**136,158**

* The figures refer to the headcount.

[GRI 405-1] COMPOSITION AND BREAKDOWN OF POSTE ITALIANE SPA BOARD OF DIRECTORS BY GENDER AND AGE*

	2016			2017			2018		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Board of Directors	**5**	**4**	**9**	**5**	**4**	**9**	**5**	**4**	**9**
< 30 years old	-	-	-	-	-	-	-	-	-
30 – 50 years old	2	2	4	2	2	4	-	2	2
> 50 years old	3	2	4	3	2	5	5	2	7
Board of Directors (%)	**55.6**	**44.4**	**100**	**55.6**	**44.4**	**100**	**55.6**	**44.4**	**100**
< 30 years old	-	-	-	-	-	-	-	-	-
30 – 50 years old	40	50	44.4	40	50	44.4	-	50	22.2
> 50 years old	60	50	55.6	60	50	55.6	100	50	77.8

* The figures refer to the headcount.

[GRI 405-1] CLASSIFICATION OF EMPLOYEE BY CATEGORY, GENDER AND AGE GROUP*

	2016			2017			2018		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Executives	**565**	**189**	**754**	**527**	**182**	**709**	**506**	**167**	**673**
< 30 years old (%)	-	-	-	-	-	-	-	-	-
30 – 50 years old (%)	38.6	40.2	39.0	35.3	37.4	35.8	36.2	40.1	37.1
> 50 years old (%)	61.4	59.8	61.0	64.7	62.6	64.2	63.8	59.9	62.9
Middle managers	**8,608**	**7,210**	**15,819**	**8,381**	**7,109**	**15,490**	**8,154**	**7,045**	**15,199**
< 30 years old (%)	0.2	0.2	0.2	0.3	0.2	0.3	0.3	0.3	0.3
30 – 50 years old (%)	36.4	37.9	37.1	37.0	38.8	37.9	37.3	39.4	38.3
> 50 years old (%)	63.4	61.9	62.7	62.7	60.9	61.9	62.4	60.4	61.4
Operational staff	**55,282**	**64,884**	**120,166**	**55,340**	**65,016**	**120,356**	**53,001**	**63,465**	**116,466**
< 30 years old (%)	6.0	3.6	4.7	7.9	4.5	6.0	7.8	4.4	6.0
30 – 50 years old (%)	40.3	48.0	44.5	41.2	47.2	44.4	42.5	46.3	44.6
> 50 years old (%)	53.8	48.4	50.9	50.9	48.3	49.5	49.7	49.3	49.5
Total	**64,455**	**72,284**	**136,739**	**64,248**	**72,307**	**136,555**	**61,661**	**70,677**	**132,338**

* The figures are shown in Full Time Equivalent (FTE) terms for both permanent and flexible personnel.

[GRI 405-1] NUMBER OF PERSONNEL BY OTHER DIVERSITY INDICATORS

	2016			2017			2018		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Personnel with disabilities	4,540	2,656	7,196	4,353	2,549	6,902	4,126	2,420	6,546

DISTRIBUTION OF EMPLOYEES BY EDUCATIONAL QUALIFICATION*

	2016	2017	2018
University degree (%)	11.7	12.2	12.9
High School Diploma (%)	70.6	70.8	70.8
Middle School certificate (%)	17.5	16.8	16.1
Elementary School certificate (%)	0.2	0.2	0.1
Total (%)	**100**	**100**	**100**

* The percentages have been calculated for permanent Full Time Equivalent (FTE) staff only.

DIVERSITY

Women in the workforce by category (%)*	2018
Management positions	30.3
Top management positions**	19.7
Junior management positions***	32.1
Revenue-generating functions****	31.4

* The percentages regard the presence of women in formally designated organisational roles within Poste Italiane and Group companies.
** Includes first and second level staff within Poste Italiane, the chief executive officers and general managers of the main Group companies and staff reporting directly to them.
*** Includes managers other than Top Management.
**** Includes organisational roles within the Post Office Network and Business and Public Administration functions.

[GRI 404-3] PERCENTAGE OF EMPLOYEES WHO RECEIVE REGULAR PERFORMANCE APPRAISALS, BY GENDER AND CATEGORY*

	2016			2017			2018		
Category	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Executives (%)	90	93	91	90	98	92	92	97	93
Middle managers (%)	100	100	100	97	98	97	98	98	98
Operational staff (%)	82	87	84	91	93	92	87	91	89
Total (%)	**84**	**88**	**86**	**92**	**94**	**93**	**88**	**91**	**90**

* The figures do not include figures for Mistral Air, as it is not possible to compare like-for-like categories as the related contract is different. The figures do not include approximately 3,500 – 4,000 personnel (the average for the year) who cannot be assessed due to a lengthy absence from work (over 6 months). These staff are, however, included in the process of assigning annual objectives for the coming year.

NUMBER OF PARTICIPANTS IN DEVELOPMENT PROGRAMMES

Development programme	**2016**	**2017**	**2018**
Development of young talents *(POP)*	356	299	309
Enhancement of middle managers under development *(MLAB)**	132	160	118
Skills Assessment	-	468	171
Mentoring	-	-	109
Hackathon	-	-	310
Total	**531**	**945**	**1017**

* The reduction of 26% in 2018 reflects a delay in launching the programme, which began at the end of the first quarter, following a review of the programme and the related methodology and technology (MLAB is managed by a software programme installed in 2018).

[GRI 404-1] AVERAGE HOURS OF TRAINING FOR EMPLOYEES BY GENDER AND CATEGORY

	2016			2017			2018		
Category	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Executives	30	36	32	27	29	28	26	27	26
Middle managers	40	45	42	52	64	57	60	77	68
Operational staff	17	21	19	21	27	24	16	22	20
Total workforce	**20**	**22**	**21**	**24**	**30**	**27**	**22**	**28**	**25**

HOURS BY TYPE OF TRAINING*

Type of training	**2016**	**2017**	**2018**
Management	83,600	42,000	77,200
Technical – specialist	1,262,000	1,452,000	966,700
Compliance	1,610,500	2,360,000	2,357,000
Total	**2,956,100**	**3,854,000**	**3,400,900**

* The figures have been rounded in line with the figures reported last year.

TRAINING PROGRAMMES AND CAREER DEVELOPMENT

Training and development programmes	2018
Full Time Equivalents (FTEs)	132,338
Average hours of training and development	25.85
Total expenditure on training and development programmes (€)	6,322,559
Average expenditure on training and development programmes (€)	0.54
Percentage of positions filled through internal hiring (%)	72

[401-2] BENEFITS PROVIDED TO FULL-TIME EMPLOYEES THAT ARE NOT PROVIDED TO TEMPORARY OR PART-TIME EMPLOYEE

	2016				2017				2018			
	Permanent contracts		Flexible contracts		Permanent contracts		Flexible contracts		Permanent contracts		Flexible contracts	
Financial benefits	part-time	full-time	part-time	full-time	part-time	full-time	part-time	full-time	part-time	full-time	part-time	full-time
Life insurance		✓*		✓*		✓*		✓*		✓*		✓*
Health care		✓*		✓*		✓*		✓*	✓*	✓		✓*
Disability and invalidity insurance		✓*		✓*		✓*		✓*		✓*		✓*
Parental leave	✓**	✓**	✓**	✓**	✓**	✓**	✓**	✓**	✓**	✓**	✓**	✓**
Pension	✓**	✓	✓**	✓	✓**	✓	✓**	✓	✓**	✓	✓**	✓

* This refers to executives.
** This refers to non-executive personnel.

WORKFORCE TRENDS

	2016	2017	2018
Total turnover rate (%)*	4.80	4.60	4.80
Voluntary turnover rate (%)	4.30	3.70	4.20
Average cost of FTEs hired (€)**	-	-	34,900

* The turnover rate was calculated on the basis of the number of FTEs leaving the Group as a proportion of the total workforce for year n-1. The turnover rate, calculated on the basis of the number of FTEs leaving the Group as a proportion of the total workforce for year n, is 4.9 for 2016, 4.8 for 2017 and 5.0 for 2018. The voluntary turnover rate, showing the number of FTEs who voluntarily left during year as a proportion of the total workforce for year n, is 4.5 for 2016, 4.0 for 2017 and 4.4 for 2018.

** The average per capita annual cost of new hires regards all types of contract (permanent, flexible and executives). The per capita cost takes into account the following components: fixed pay, additional remuneration (performance-related bonus, overtime, various forms of compensation, etc.) plus contributions and employee termination benefits payable on the first two components. The per capita cost is determined using the average per capita cost for each category of employee joining the Company (the standard cost). Fixed-term personnel and agency staff are assumed as a rule to have been hired in 2018. The average cost for FTEs hired refers to the Parent Company. The figure for SDA is €28,765.77 and for Postel is €39,947.00.

DISPUTES*

	2016	2017	2018
Disputes with employees	1,023	1,167	956

* Over the last three years, the number of disputes increased by approximately 12% in 2017 and fell by around 18% in 2018. In greater detail, in terms of “contractual matters”, disputes registered a light increase in 2017 and a significant reduction in 2018, with the number of disputes totalling 81 in 2016 and 92 in 2017, before falling to 26 in 2018, a reduction reflecting a decline in the number of fixed-term contract disputes following the entry into force of new legislation. As regards “workplace issues”, on the other hand, the number of disputes rose from 775 in 2016 to 939 in 2017, before falling to 788 in 2018. The reduction in the last year reflects a significant decline in disputes regarding demotions, tasks assigned beyond a worker’s pay grade, union rights and other pay-related matters. Finally, disputes over the “termination of employment” are down from 167 in 2016 to 136 in 2017 and 142 in 2018. In the last, the number of disputes has risen by approximately 4% compared with the previous year.

[GRI 403-2] TYPE OF INJURY, INJURY RATE, LOST DAY RATE, OCCUPATIONAL DISEASE RATE, ABSENTEE RATE AND WORK-RELATED FATALITIES AT THE GROUP*

	2016			2017			2018		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Injuries	**4,186**	**4,549**	**8,735**	**4,080**	**4,402**	**8,482**	**4,000**	**4,349**	**8,349**
of which:									
at work	3,514	3,632	7,146	3,456	3,492	6,948	3,431	3,385	6,816
whilst travelling	672	917	1,589	624	910	1,534	569	964	1,533
Fatalities	**3**	**1**	**4**	**4**	**4**	**8**	**7**	**2**	**9**
of which:									
at work	1	0	1	1	2	3	5	1	6
whilst travelling	2	1	3	3	2	5	2	1	3
Cases of occupational disease	9	12	21	14	10	24	5	7	12
Injury rate**	n/a	n/a	34.97	n/a	n/a	34.89	36.84	33.14	34.90
Lost day rate***	n/a	n/a	1.19	n/a	n/a	1.18	1.24	1.12	1.18
Occupational disease rate****	n/a	n/a	0.10	n/a	n/a	0.12	0.05	0.07	0.06
Absentee rate*****	4.33	4.71	4.53	4.36	4.82	4.61	4.60	5.14	4.89

* Compared with the previous year, the number of injuries includes injuries at Mistral Air.
** The number of injuries at work divided by the number of hours worked multiplied by 1,000,000. The rate is calculated for permanent and flexible personnel.
*** The number of days of absence from work divided by the number of hours worked multiplied by 1,000. the rate is calculated for permanent and flexible personnel.
**** The number of cases of occupational diseases divided by the number of hours worked multiplied by 1,000,000.
***** The number of days of absence due to illness or injury divided by the number of days worked multiplied by 100. The rate is only calculated for permanent personnel and does not include executives. The target set for 2018 is 5.

	2016			2017			2018		
Injuries by type	Men	Women	Total	Men	Women	Total	Men	Women	Total
Falls from a motorcycle	1,105	600	1,705	1,119	641	1,760	978	571	1,549
Accident involving a Company vehicle	434	410	844	390	344	734	340	305	645
Hit by a car	12	16	28	12	18	30	20	20	40
Accident with a private vehicle	21	26	47	32	31	63	32	36	68
Fall and/or awkward movement	744	1,376	2,120	847	1,338	2,185	1,047	1,394	2,441
Phisical attacks	241	299	540	269	275	544	276	335	611
Manual load handling	224	152	376	175	144	319	182	116	298
Robbery	140	197	337	72	144	216	96	111	207
Crushing/bruising	508	448	956	429	440	869	169	165	334
Other causes	85	108	193	111	117	228	291	332	623
Total	**3,514**	**3,632**	**7,147**	**3,456**	**3,492**	**6,948**	**3,431**	**3,385**	**6,816**

Support for local communities and the country as a whole

[GRI 203-1] CORPORATE GIVING AND/OR CORPORATE CITIZENSHIP INITIATIVES*

By type of activity	2018	%
Charitable Donations* (€000)	146.5	3
Community investments** (€000)	1,400.4	26
Commercial initiatives*** (€000)	3,860.2	71
Total	**5,407.1**	**100**
By purpose		
Commercial initiatives (€000)	3,860.2	71
Social and cultural initiatives (€000)	1,546.9	29
of which:		
Art, culture and education (€000)	806.5	15
Wellbeing and social inclusion (€000)	450.5	8
Training and knowledge development (€000)	289.9	5

* Donations: one-off disbursements made to support charitable organisations.

** Investment in communities: spending on medium- to long-term initiatives supporting communities in collaboration with non-profit organisations and local authorities.

*** Commercial initiatives: business initiatives that benefit the community (e.g. sponsorship, occasional donations of the Company's property and other assets. The figures refer solely to spending on support for the community and do not include, for example, expenses linked to advertising and/or marketing initiatives relating to commercial initiatives).

SETTLEMENTS

	2016	2017	2018
Settlements discussed regarding retail postal products	**678**	**831**	795
of which settled (%)	88	84	89
Settlements discussed regarding business postal products	**37**	**94**	98
of which settled (%)	68	88	88
Settlements discussed regarding BancoPosta products	**352**	**370**	553
of which settled (%)	51	49	43
Settlements discussed regarding PosteMobile products	**17**	**38**	53
of which settled (%)	71	61	85
Settlements discussed regarding IRS real estate fund (no. of applications)*	**n.a**	**35**	-
of which settled (%)	n.a	100	-
Total settlements discussed	**1,084**	**1,368**	**1,499**
of which settled (%)	75	75	72

* Settlements discussed regarding IRS real estate fund only relate to 2017. As a result, there is no figure for 2018. The same protections and conciliation procedures have been adopted with regard to the Europa Immobiliare 1 fund as used for the IRS fund. In 2018, 47 applications for conciliation were received sand these will be processed in 2019. The related figures will thus be reported in 2019.

[FS14] ATMs FOR INCLUSION

ATM	2016	2017	2018
ATMs equipped with touchpads for the visually impaired and the blind	7,249	7,257	7,279
of which:			
ATM with voice guidance	5,269	5,847	6,307
Total	**7,249**	**7,257**	**7,279**

[FS14] POST OFFICES FOR CULTURAL INTEGRATION

Post offices	2016	2017	2018
Mono-ethnic	2	2	2
Multi-ethnic	21	25	25
Number of customers served	2,751,153	3,311,214	3,297,724
Total transactions carried out	**5,379,679**	**5,503,076**	**5,518,522**

NEW CUSTOMERS IN THE CATEGORIES MOST AT RISK OF FINANCIAL EXCLUSION AS A PERCENTAGE OF TOTAL NEW ACQUISITIONS

New retail current accounts openings	2016	2017	2018
Percentage of young current account holders (under 35)	24.6	25.4	24.9
Percentage of senior current account holders (under 35)	24	24.4	23.8
Percentage of current account holders who are "new Italians"	16.5	17.6	17.9
New standard Postepay cards*			
Percentage of young current holders (under 35)	39.1	38	35.7
Percentage of senior current account holders (under 35)	6.4	7	7.6
Percentage of current account holders who are "new Italians"	12.4	12.6	12.3
New Postepay Evolution cards*			
Percentage of young current account holders (under 35)	44.4	45.9	46.4
Percentage of senior current account holders (under 35)	5.3	5.5	5.6
Percentage of current account holders who are "new Italians"	19.6	20.6	22.1

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

Customer experience

CUSTOMERS' EXPERIENCE IN POST OFFICES

	2016	2017	2018
Average waiting time in Post Offices* (minutes)	8.61	8.97	9.57
Customer served within 15 minutes (%)	82.9	81.9	80.6
Customer satisfaction with waiting times (1-10)	7.9	8	8
Customer satisfaction with overall post office experience**	8.4	8.7	8.7

* Average waiting times were measured at approximately 3,000 post offices.
** Source: Barometro 2018, a survey conducted each year, with the aim of analysing post office customer profiles, including the frequency of visits, perceived waiting times and the customer experience. The survey involved 5,062 face-to-face interviews with visitors to 514 post offices throughout Italy.

CUSTOMER COMPLAINTS BY TYPE*

Post offices	2016	2017	2018
Complaints received	9,880	10,096	10,323
Average response time (days)	n/a	32	21
Letter post			
Complaints received	96,177	89,681	89,596
Average response time (days)	22	34	20
Parcels			
Complaints received	92,300	122,580	108,372
Average response time (days)	21	14	17
Financial Services**			
Complaints received	60,961	76,107	96,410
Average response time (days)	35	21	9
Insurance Services			
Complaints received	3,658	2,577	2,975
Average response time (days)	16	16	12
Investigations initiated by the Insurance Regulator (no.)	299	169	169
Poste Mobile			
Mobile telephone complaints received	141,356	33,098	16,045
Average response time (days)	12	3	4
Fixed line complaints received	n/a	469	939
Average response time (days)	n/a	6	10

* The figures on complaints relate to open cases requiring back-office intervention.
** Despite the increase in complaints regarding financial services in 2018, the average response time has improved (a reduction of 26 days compared with 2016), accompanied by a 15% reduction in the ratio of fraudulent transactions to total genuine transactions compared with 2017.

NUMBER OF CONTACTS HANDLED

Contact Centre	2016	2017	2018
Number of contacts handled (m)	21	26	24

CUSTOMER SATISFACTION*

Satisfied customers	2016	2017	2018
Satisfied customers following Customer Experience surveys (%)	81.3	79.1	81.4
Coverage (%)	100	100	100

* The customer experience for the various Business Units is measured twice a year (June and November) by an external research company using Net Promoter Score (NPS) surveys to measure the degree to which customers would recommend Poste Italiane's products and services.
In terms of channels, the indicator used is the Customer Effort Score (CES), which records the ease of access to services.
The customer samples involved in the customer experience surveys represent the related universe.
The Business Units involved in the customer experience surveys are: BancoPosta (Consumer, SME and Large Customers); Mail, Communication and Logistics (SMEs and Large Customers); Poste Vita (Consumer). The sales and customer care channels involved regard the Post Office channel and the Contact Centre.
The target set for 2018 is +0.1 compared with 2017.
In terms of the method used to measure customer satisfaction, the surveys use a scale of 1 to 10 to measure satisfaction. The percentages shown include customers who have answered 7-8 and 9-10 in the surveys carried out.
Scores of 9-10 in the NPS/CES surveys reflect customers who are "promotors" (NPS) and "enthusiasts" (CES).

DIGITAL SERVICES IN NUMBERS

	2016	2017	2018
Customers registered on Poste Italiane's digital channels (websites and apps) (millions)	12.5	15	17.6
Digital identities issued (millions)	0.6	1.8	2.6
Postepay apps downloaded (millions)	4.4	6.1	8.5
Bancaposta apps downloaded (millions)	2.1	3	4.1
Post Office apps downloaded* (millions)	0.8	1.8	3.1
PosteID apps downloaded* (millions)	0.7	1.4	2.5
PosteMobile apps downloaded** (millions)	2	2.7	3.4
Transactions carried out via consumer digital channels (websites and apps)*** (millions)	33.2	39.3	47.9

RESOURCES INVESTED IN BUSINESS CONTINUITY PLAN*

	2016	2017	2018
Investments** (€m)	4,1	3,6	7,8
Drills***	4	5	4
People involved	180	180	180
Mainframe services (open services being processed) covered by disaster recovery plans (%)	100	100	100

* The figures refer to Poste Italiane SpA (the financial and insurance services segments), PostePay SpA and BancoPosta Fondi SpA SGR.
** The increase in investments is in line with the Company's strategy and the importance given to Business Continuity Management projects.
*** Drills, which are conducted every quarter, involved all the applications hosted by Poste Italiane's central mainframe system, in addition to applications hosted in OPEN environments included within the scope of Bancoposta's financial services.

DEMATERIALISATION OF PROCEDURES AND CORRESPONDING TRANSACTIONS

	2016		2017		2018	
Type of procedure *	**No. of pro-cedures**	**% dematerialised**	**No. of pro-cedures**	**% dematerialised**	**No. of pro-cedures**	**% dematerialised**
Certificates	819	89	1,289	94	1,643	92
Current accounts	705	84	417	86	359	93
Savings Books	417	78	674	93	773	94
Postepay Evolution	-	-	1,227	91	1,715	97
Life insurance policies	-	-	274	70	540	79
MiFID	1,270	96	2,571	96	3,292	83
Poste Mobile	22	44	815	70	955	78
Total procedures **	**3,233**	**89**	**7,267**	**90**	**9,277**	**88**

* Figures in thousands.
** the increase in dematerialised procedures is linked to the greater number of enabled post offices. The total number of dematerialised procedures in 2018 is up 28% compared with 2017.

Corresponding transactions	**2016**	**2017**	**2018**
Total transactions (millions)	28	31.5	33.5
Total electronic transactions (millions)	27	30.3	32.4
Dematerialised transactions (%)	96.4	96.2	96.7

[GRI 418-1] PRIVACY VIOLATIONS AND DATA LEAKS

	2016	**2017**	**2018**
Total number of complaints received regarding violations of privacy	12	6	22
of which:			
complaints received from third parties and recognised by the organisation	12	6	22
complaints received from regulatory bodies	-	-	-
breaches, data theft and leaks of customer data identified*	-	-	205

* The figure relates to 204 cases relating to Consorzio PatentiviaPoste (which acts as the Data Supervisor for the Ministry of Infrastructure and Transport) and in 1 case to Poste Vita.

IT SECURITY AND CYBERSECURITY BREACHES

IT incidents and breaches	**2016**	**2017**	**2018**
Total number of IT security breaches/cybersecurity incidents	17	30	16
Total number of IT security breaches involving customers' data	7	4	9
Total amount of fines /penalties paid in relation to IT security breaches or other IT security incidents (€)	-	24,000	-

Decarbonisation of real estate facilities and logistics

[GRI 301-1] MATERIALS USED BY WEIGHT OR VOLUME

Type of material/raw material	2016	2017	2018
Renewables	**30,915,815**	**31,675,191**	**29,862,153**
Paper (kg)	26,661,159	24,887,148	23,739,303
Cardboard (kg)	1,083,744	1,799,060	2,303,294
Wood (kg)	3,170,912	4,988,983	3,819,556
Non-Renewables	**1,891,608**	**2,500,949**	**2,205,485**
Plastic (kg)	1,563,211	2,147,694	1,793,553
Ink/toner (kg)	97,108	87,749	59,784
Glues (kg)	5,457	5,149	6,465
Other* (kg)	225,832	260,357	345,683
Total	**32,807,423**	**34,176,140**	**32,067,638**

* "Other" contains the following materials: labels, bags and seals, parcel string and security pouches.

[GRI 302-1] INTERNAL GROUP ENERGY CONSUMPTION*

	2016	2017	2018
Consumption of fuel from non-renewable sources (GJ)	**2,688,782**	**2,816,874**	**1,963,646**
of which:			
LPG (GJ)	9,997	35,056	31,381
Diesel (GJ)	534,357	846,051	807,178
Natural gas (GJ)	671,062	657,874	624,541
Jet fuel** (GJ)	919,688	1,104,614	343,341
Petrol (GJ)	553,678	173,279	157,205
Consumption of energy from non-renewable sources (GJ)	**112,342**	**106,337**	**93,603**
of which:			
Thermal energy (district heating) (GJ)	17,531	22,960	20,862
Electricity supplied by the National Grid (GJ)	94,811	83,377	72,741
Consumption of energy from renewable sources (GJ)	**1,791,787**	**1,812,423**	**1,742,370**
of which:			
Self-produced photovoltaic electricity (GJ)	4,779	7,057	5,907
Certified guarantee of origin electricity (GJ)	1,787,008	1,805,366	1,736,463
Total energy consumption (GJ)	**4,592,911**	**4,735,634**	**3,799,619**
of which:			
from renewable sources (GJ)	1,791,787	1,812,423	1,742,370
from non-renewable sources (GJ)	2,801,124	2,923,211	2,057,249

* Includes energy consumed by real estate and in road transport logistics and passenger transportation (only for the two-year period 2016-2017) and airmail. Source of factors used in conversion to GJ: IPC Guidelines.

** The reduction in Jet fuel consumption in 2018 is linked to Mistral Air's progressive withdrawal from the passenger transport market to focus exclusively on its cargo business.

[GRI 302-2] EXTERNAL GROUP ENERGY CONSUMPTION

	2016	2017	2018
Total external Group energy consumption * (GJ)	**2,369,374**	**2,214,578**	**1,774,660**
of which:			
Diesel (GJ)	1,861,003	1,675,733	1,395,456
LPG	-	-	113
Jet fuel (GJ)	508,371	538,845	379,090

* The target set for 2018 is 1,767,112 GJ (490,865 MWh) for total energy from renewable sources (internal and external) and 4,726,766 GJ (1,406,008 MWh) for total energy from non-renewable sources (internal and external).

[GRI 303-1] WATER WITHDRAWALS BY SOURCE*

	2016	2017	2018
Water withdrawals (m^3)**	**2,375,889**	**1,938,726**	**1,758,341**
of which:			
Ground water (m^3)	-	-	1,230
Municipal water supplies or other public or private water utilities (m3)	2,375,889	1,938,726	1,757,111

* Water withdrawals in the three-year period differ from the amounts reported in the Non-financial Statement for 2017 as a result of the change in scope.
** The target set for 2018 is 1,783,628 cubic metres.

[GRI 305-1] TOTAL DIRECT GHG EMISSIONS (SCOPE 1); [GRI 305-2] TOTAL INDIRECT GHG EMISSIONS (SCOPE 2); [GRI 305-3] TOTAL OTHER INDIRECT GHG EMISSIONS (SCOPE 3)*

	2016	2017	2018
Direct emissions - Scope 1 (tCO_2 e)**	**183,338**	**196,573**	**134,540**
of which:			
LPG (tCO_2e)	493	2,123	1,914
Diesel (tCO_2e)	37,616	59,296	57,154
Natural gas (tCO_2e)	43,007	43,582	40,384
Jet fuel (tCO_2e)	66,861	80,498	25,020
Petrol (tCO_2e)	35,361	11,074	10,068
Indirect emissions - Scope 2 (tCO_2 e)***	**11,562**	**10,647**	**9,266**
of which:			
Thermal energy	1,806	2,286	1,972
Electricity	9,756	8,361	7,294
Indirect emissions - Scope 3 (tCO_2 e)****	**167,962**	**156,712**	**133,323**
of which:			
Diesel (tCO_2 e)	131,004	117,444	98,808
LPG	-	-	6,889
Jet fuel (tCO_2 e)	36,958	39,268	27,626

* Compared with the previous year, in order ensure a continuous improvement in reporting, the different types of emissions are shown in CO_2 equivalent throughout the three years and no longer in CO_2, in line with GRI requirements.
** The emission factors used to convert fuels into CO_2e: LPG for 2016 1.22 kg CO_2e/l (source DEFRA 2016), for 2017 1.50 kg CO_2e/l (source DEFRA 2017) and for 2018 1.51 kg CO_2e/l (source DEFRA 2018). Diesel for 2016 2.61 kg CO_2e/l (source DEFRA 2016), for 2017 2.60 kg CO_2e/l (source DEFRA 2017) and for 2018 2.63 kg CO_2e/l (source DEFRA 2018). Natural gas for 2016 2.02 kg CO_2e/m3 (source DEFRA 2016), for 2017 2.09 kg CO_2e/m3 (source DEFRA 2017) and for 2018 2.04 kg CO_2e/m3 (source DEFRA 2018). Petrol for 2016 2.19 kg $CO2_e$/l (source DEFRA 2016), for 2017 2.19 kg CO_2e/l (source DEFRA 2017) and 2018 2.2 kg CO_2e/l (source DEFRA 2018). The target set for 2018 is 172,984 tCO_2e
*** Poste Italiane acquires renewable energy guarantee of origin certificates for approximately 95% of its electricity consumption. The GRI Sustainability Reporting Standards envisage two calculation methods for Scope 2 emissions – the location-based method and the market-based method. The market-based method (the method used by Poste Italiane) is based on CO_2 emissions emitted by the energy suppliers from which, via a contract, the organisation purchases electricity (in this case renewable energy guarantee of origin certificates), and for the remaining 5%, emission factors from the national electricity grid (the

emission factor for 2016 was 0.37045 kg of CO_2e/kWh, source: ISPRA data for 2016; the emission factor the two-year period 2017/2018 is 0.361 kg of CO_2e/kWh, source: ISPRA data for 2017). The conversion factors used to convert thermal energy into CO_2e: 0.2 kg CO_2e/kWh for 2016, 0.19 kg CO_2e/kWh for 2017 and 0.18 kg CO_2e/kWh for 2018.
The location-based method, on the other hand, is based on average emission factors for regional, sub-national or national power generation. Applying the location-based method, the Group's total Scope 2 emissions in 2016 amount to 195,451 tonnes of CO_2, in 2017 to 191,678 tonnes and in 2018 to 183,486 tCO_2e. The same emission factors were used as were sued for the market-based method. The target set for 2018 is 9,476 tCO_2e.

**** The emission factors used to convert fuels into CO_2e are as follows: Jet fuel for 2016 2.53 kg CO_2e/l (source DEFRA 2016), for 2017 2.54 kg CO_2e/l (source DEFRA 2017) and for 2018 2.54 kg CO_2e/l (source DEFRA 2018).

[GRI 306-2] WASTE PRODUCED BY TYPE OF METHOD OF DISPOSAL*

	2016	2017	2018
Total hazardous waste (t)	**142.5**	**346.0**	**1. 096.0**
of which:			
Recovered (t)	17	277.7	339.7
Sent to landfill (t)	0.7	2.5	699.1
Incinerated (t)	0	0.4	-
Other types of disposal (t)	124.8	65.4	57.3
Total non-hazardous waste (t)	**21,821.6**	**25,790.6**	**27,449.5**
of which:			
Recovered (t)	21,205.3	25,190.1	26,129.2
Sent to landfill (t)	218.3	182.5	795.8
Incinerated (t)	-	-	-
Other types of disposal (t)	398.0	418.0	524.6
Total waste (t)**	**21,964.1**	**26,136.6**	**28,545.6**

* The figures for the quantity of waste produced are provided by the companies that provide waste management services.

** The target set for 2018 in relation to waste sent to landfill, incinerated or subject to other types of disposal is 2,341 tonnes. This projection is in line with the increase in the volume of hazardous waste produced in 2018, generated by the disposal of obsolete equipment at the various sites during that year.

[GRI 302-1] INTERNAL ENERGY CONSUMPTION RELATING TO REAL ESTATE FACILITIES BY SOURCE

	2016	2017	2018
Consumption of fuel from non-renewable sources (GJ)	**735,772**	**715,240**	**674,802**
of which:			
LPG (GJ)	8,304	11,705	9,094
Diesel (GJ)	112,296	106,214	87,904
Gas metano	615,172	597,321	577,804
Consumption of energy from non-renewable sources (GJ)	**112,342**	**106,337**	**93,603**
of which:			
Thermal energy (district heating) (GJ)	17,531	22,960	20,862
Electricity supplied by the National Grid (GJ)	94,811	83,377	72,741
Consumption of energy from renewable sources (GJ)	**1,790,247**	**1,810,741**	**1,741,421**
of which:			
Self-produced photovoltaic electricity (GJ)	4,779	7,057	5,907
Certified guarantee of origin electricity (GJ)	1,785,468	1,803,684	1,735,514
Total energy consumption (GJ)	**2,638,361**	**2,632,318**	**2,509,826**
of which:			
from renewable sources (GJ)	1,790,247	1,810,741	1,741,421
from non-renewable sources (GJ)	848,114	821,577	768,405

[GRI 305-1; GRI 305-2] DIRECT AND INDIRECT CO_2 EQUIVALENT EMISSIONS RELATING TO REAL ESTATE FACILITIES

	2016	2017	2018
Direct emissions - Scope 1 (tCO_2 e)	**47,740**	**47,724**	**44,140**
of which			
LPG (tCO_2e)	410	709	555
Diesel (tCO_2e)	7,905	7,444	6,224
Natural gas (tCO_2e)	39,425	39,571	37,361
Indirect emissions - Scope 2 (market-based) (tCO_2 e)	**11,562**	**10,647**	**9,266**
of which:			
Electricity (tCO_2e)	9,756	8,361	7,294
Thermal energy (tCO_2e)	1,806	2,286	1,972

[GRI 302-2; GRI 305-3] EXTERNAL ENERGY CONSUMPTION AND CO_2 EQUIVALENT EMISSIONS RELATING TO REAL ESTATE FACILITIES

	2016	2017	2018
Total external Group energy (GJ)	-	-	113
Indirect emissions - Scope 3 (tCO_2e)	-	-	6,889

WEIGHT OF ELECTRICITY CONSUMPTION RELATING TO REAL ESTATE FACILITIES BY TYPE OF BUSINESS

	2016	2017	2018
Post offices (%)	55	55	55
Head offices (%)	14	14	14
Operational sites (sorting centres) (%)	14	14	14
Delivery logistics centres (%)	13	13	13
Data Centres (%)	4	4	4

TOTAL COST OF ENERGY PURCHASED FOR REAL ESTATE FACILITIES

	2016	2017	2018
Total expenditure on energy (€)*	102,535,094	98,393,160	95,380,683

* The target set for 2018 is €95,441,365.

CORPORATE FLEET DATA

	2016	2017	2018
Total km travelled	**328,223,769**	**331,886,754**	**342,508,496**
Total vehicles	50,854	38,165	34,102
of which:			
traditional vehicles	45,176	33,562	29,786
alternative vehicles	5,678	4,603	4,316
of which:			
bicycles	324	324	324
electric vehicles*	1,093	1,025	1,129
hybrid motor vehicles	32	102	88
petrol-natural gas fuelled vehicles	3,302	2,173	1,705
petrol-LPG fuelled vehicles	-	979	1,070
diesel-natural gas fuelled vehicles	-	-	-
LPG fuelled vehicles	927	-	-
Percentage of alternative vehicles (%)	11.2	12.1	12.6

* The figure includes 150 tricycles purchased in 2018 and added to the fleet in January 2019.

[GRI 302-1; GRI 305-1; GRI 305-2] ENERGY CONSUMPTION AND CO_2 EQUIVALENT EMISSIONS TO THE COMPANY ROAD FLEET

	2016	2017	2018
Total energy consumed (GJ)	**1,034,861**	**998,702**	**946,453**
of which:			
Diesel (GJ)	422,061	739,837	719,274
Natural gas (GJ)	55,890	60,553	46,737
LPG (GJ)	1,693	23,351	22,287
Petrol (GJ)	553,678	173,279	147,205
Certified guarantee of origin electricity (GJ)	1,539	1,682	950
Direct emissions - Scope 1 (t CO_2e)	**68,737**	**68,351**	**65,379**
Indirect emissions - Scope 2 (t CO_2e)	**-**	**-**	**-**

[GRI 302-2; GRI 305-3] ENERGY CONSUMPTION AND CO_2 EQUIVALENT EMISSIONS TO CONTRACTED ROAD LOGISTICS

	2016	2017	2018
Total external Group energy consumption* (GJ)	1,861,003	1,675,733	1,395,456
Indirect emissions - Scope 3 (tCO_2 e)	131,004	117,444	98,808

* Road vehicles used by logistics contractors are diesel-fuelled.

AIR TRANSPORT FLEET DATA

	2016	2017	2018
Number of aircraft	28	25	23
AirMail (hours)	2,648	3,247	4,823
Charter (hours)	4,985	9,512	2,799

[GRI 302-1; GRI 305-1] ENERGY CONSUMPTION AND CO_2 EQUIVALENT EMISSIONS BY THE MAIL AND CHARTER FLEET*

	2016	2017	2018
Total internal Group energy consumption (GJ)	919,688	1,104,614	343,341
Direct emissions - Scope 1 (tCO_2e)	66,861	80,498	25,020

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

[GRI 302-2; GRI 305-3] ENERGY CONSUMPTION AND CO_2 EQUIVALENT EMISSIONS BY MAIL AND CHARTER TRANSPORT

	2016	2017	2018
Total external Group energy consumption (GJ)	508,371	538,845	379,090
Indirect emissions - Scope 3 (tCO_2e)	36,958	39,268	27,626

6. Outlook

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

The **Mail, Parcels and Distribution** Strategic Business Unit will be engaged in completing implementation of the new joint delivery model, which will see the reorganisation of around a further 405 delivery centres during the year, in addition to the 350 reorganised in 2018. 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 (the Bologna hub will enter service, as will the new mixed-mail centres and the centres for handling parcels, whilst work will begin on the creation of 2 further hubs in Milan and Rome for sorting parcels). These initiatives are designed to maximise synergies in the logistics and operations network and leverage all the Group's available assets, enabling us to improve our competitive position in the parcels market by taking advantage of the opportunities arising from the growth of e-commerce.

In addition, as part of the process of modernising its vehicle fleet, the Group is progressively introducing alternative electric delivery vehicles (3-wheeled vehicles). This will improve occupational safety and extend the process, launched in recent years, of adopting eco-friendly forms of transport, involving the introduction of a fleet of 4-wheeled electric vehicles.

On 8 March 2019, an agreement was signed with the labour unions regarding key aspects of the plans to reorganise Logistics activities, central and local staff departments and the post office network.

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 at least 650 FTEs.

Finally, plans to streamline the post office network will involve at least 1,400 FTEs, in view of the geographical reorganisation that took place in 2018, involving the creation of new macro areas, and the projects to be implemented in 2019.

The plans will be backed up by adequate incentives, in keeping with the long-standing policy regarding voluntary retirement schemes, and, where appropriate, by redeployment initiatives (reassignment to part-time roles or transfers to other locations or other positions).

The agreement also provides for initiatives that will have a positive impact on employment, involving over 3,800 personnel in 2019. This will involve the offer of permanent contracts to 2,000 staff formerly employed on fixed-term contracts, the conversion of 920 staff from part-time to full-time contracts, and the recruitment of 500 specialists and 420 new part-time personnel for operational sites and post offices.

Creation of the new **Payments**, **Mobile and Digital** Strategic Business Unit aims to deliver on the strategic objective of becoming Italy's leading payments ecosystem, ensuring convergence between payments and mobile technology, and between physical and digital channels. In this regard, PostePay SpA intends to lead changes in the habits of consumers, businesses and the Public Administration, creating new integrated products and services, above all in the fields of acquiring, e-commerce and mobile and digital payments.

A range of initiatives designed to develop the existing Postepay card offering will take place in 2019, alongside the introduction of new innovative products and services and commercialisation of the new Postepay Connect product, launched at the end of 2018, with a total of 40,000 cards issued by 31 December 2018.

Work on developing the new Postepay Junior and Postepay IoStudio offering has already begun, with the aim of providing new parental control functions and making it easier for parents to top up their children's cards. These new features will already be available in the first quarter of 2019.

In the **Financial Services** segment, the Group will continue with efforts to leverage our customer base, distribution network and brand. Postal Savings will continue to benefit from the new three-year agreement with Cassa depositi e prestiti signed in December 2017 and effective from 2018.

Plans to broaden the distribution of financial products will continue to take shape, with the aim of effectively responding to the various needs of customers.

Finally, the active management strategy for the financial instruments portfolio will aim to stabilise the overall return.

In keeping with the strategic guidelines set out in the Deliver 2022 Plan, 2019 will see the **PosteVita** Insurance Group continue to offer integrated savings and investment products with the aim of consolidating its position in the life insurance market. This will in part take the form of a progressive rebalancing of the offering towards products adding more value (multiclass and unit-linked products) and with risk-return profiles that are still moderate, in keeping with the type of customer served by the Group. Continuing the approach adopted in 2018, the Group is committed to delivering on the growth targets for the non-life business set out in the strategic plan. The focus will above all be on the welfare and non-vehicle non-life sectors, including property insurance (the launch of the new *Posta Protezione Casa 360* product, which has introduced cover for guarantees linked to natural disasters) and efforts to develop and complete the loan and mortgage protection offering.

Finally, with regard to vehicle insurance, having looked at the market and at potential partnerships in 2018, Poste Italiane expects to trial the distribution of vehicle insurance policies to the Group's employees in 2019.

7. Consolidated non-financial statement

Introduction

Poste Italiane's Consolidated Non-Financial Statement (NFS or "Statement") for the year ended 31 December 2018 has been drafted on the basis of the six key sustainability pillars of the Group's ESG Strategic Plan which covers environment, social and governance issues (ESG) and has been designed with the aim of generating long-term value for stakeholder.

In addition to ensuring compliance with the provisions of the Italian Legislative Decree 254/2016 ("Decree") through the integrated disclosure provided in the NFS, conformity with the law requirements is also ensured by providing references to other sections of the Annual Report and to other company documents, when the information is already contained therein or if useful to provide additional clarifications. In particular:

- the company's organizational and management model is illustrated within the Annual Report in the following paragraphs: "Incorporating sustainability within Poste Italiane's strategy", "Poste Italiane's business model" and "Poste Italiane's integrated internal control and risk management system". Such paragraphs describe the way in which the organisation, thanks to its business activities, generates results enabling it to deliver on its strategic objectives and create value over the short, medium and long term;
- risk management, implemented through the Group Risk Management ("GRM") model, based on the Enterprise Risk Management (ERM) framework, is described in the following paragraphs of the Annual Report: "Material topics of Poste Italiane" and "Poste Italiane's integrated internal control and risk management system", where the main non-financial risks, their potential impacts related to material topics and treatment actions are described in greater detail;
- company policies are described in the paragraph "The Group's sustainability policies" which sets out the general rules of conduct on which all of Poste Italiane's activities must be based. In addition, the section ""Objectives, Management Methods And Key Performances Achieved In The Pillars Of The Group's Esg Strategic Plan " provides information, with regard to each material topics, on the related strategic objectives and the operating processes used to deliver on them;
- performances are illustrated under the section "Objectives, Management Methods And Key Performances Achieved In The Pillars Of The Group's Esg Strategic Plan", which describes the main initiatives for the year, and in paragraph "Indicators tables", which shows the results achieved in the last three years.

The following table shows the link between the information disclosure required by the Decree and the corresponding sections within the Annual Report and other company documents required by law.

SCOPE OF DECREE 254/2016	PARAGRAPHS INCLUDED IN THE NFS	TOPICS AND ADDITIONAL INFORMATION INCLUDED IN OTHER 2018 DOCUMENTS	
Company organisational and management model	■ Multichannel commercial strategy ■ Material topics of Poste Italiane	RCG	■ 3. Corporate Governance Model - Company's Structure ■ 6. Board of Directors; 6.1 Current composition and term of office ■ 7. Committees
[Art. 3, paragraph 1, letter a]	■ Incorporating sustainability within Poste Italiane's strategy ■ Poste Italiane's business model ■ Poste Italiane's integrated internal control and risk management system		■ 8. Board of Statutory Auditors/Organisational, management and control model pursuant to Legislative Decree 231/2001 ■ 9. Internal Control and Risk Management System; 9.2 Organisational, management and the control model pursuant to Legislative Decree 231/2001
Policies [Art. 3, paragraph 1, letter b]	■ The Group's sustainability policies		
Main risks and related management systems [Art. 3, paragraph 1, letter c]	■ Material topics of Poste Italiane ■ Poste Italiane's integrated internal control and risk management system	RCG	■ 9. Internal Control and Risk Management System
Efforts to combat active and passive corruption [Art. 3, paragraph 1]	■ Integrity and transparency ■ Legality and incorporation of ESG criteria within procurement processes ■ Integration of ESG factors into investment policies ■ Integration of ESG factors into insurance policies ■ Indicators tables	RCG	■ 9. Internal Control and Risk Management System
Pertaining to personnel [Art. 3, paragraph 1]	■ Protection of human rights ■ Equal career development opportunities ■ Staff training and development ■ Staff welfare and wellbeing ■ Relations with social partners ■ Occupational health and safety ■ Indicators tables		-
Respect for human rights [Art. 3, paragraph 1]	■ Legality and incorporation of ESG criteria within procurement processes ■ Protection of human rights ■ Equal career development opportunities ■ Integration of ESG factors into investment policies ■ Integration of ESG factors into insurance policies ■ Indicators tables		-
Environmental [Art. 3, paragraph 1]	■ Legality and incorporation of ESG criteria within the procurement processes ■ Environmental impacts of real estate facilities ■ Environmental impacts of logistics ■ Integration of ESG factors into investment policies ■ Integration of ESG factors into insurance policies ■ Indicators tables		-
Social [Art. 3, paragraph 1]	■ Legality and incorporation of ESG criteria within procurement processes ■ Support for the socio-economic development of local communities ■ Dialogue and transparency in relations with the authorities ■ Financial inclusion ■ Quality and customer experience ■ Innovation and digitisation of products, services and processes ■ IT security and business continuity ■ Integration of ESG factors into investment policies ■ Integration of ESG factors into insurance policies ■ Indicators tables		

In addition to the above, additional information as required by the Decree can be found in the paragraph "The Group's Organisation And Operating Segments".

Reporting standards and policies

Poste Italiane's Consolidated Non-financial Statement has been prepared in compliance with Italian Legislative Decree 254/2016 and in accordance with the most widely used standards at international level: the Global Reporting Initiative ("GRI") Standards, applied in accordance with the core option, published by the Global Reporting Initiative in 2016 and including the "Financial Services Sector Disclosures" issued by the GRI in 2013.

The Statement is included in the Report on Operations, which in turn is contained in the Annual Report for 2018 and constitutes Poste Italiane's Integrated Report, prepared in accordance with the principles included in the "International Framework", published by the International Integrated Reporting Council (IIRC).

The NFS was approved by Poste Italiane SpA's Board of Directors on 19 March 2019 and, pursuant to art.3, paragraph 10 of the Decree, requires a separate assurance report from the independent auditor, PricewaterhouseCoopers SpA.

In order to define the contents of the NFS, the accounting principles of the GRI Standards were observed, among which the principle of materiality to identify the significant aspects to be disclosed (for further information refer to paragraph "Material topics of Poste Italiane") and to present the performances achieved by the Group with reference to such aspects and the sustainability goals. In particular, in relation to the materiality principle, the degree of detail regarding the various topics covered by the reporting process was defined according to the importance assigned to them in Poste Italiane Group's business objectives and strategies and their relevance for the stakeholders, established via a structured process of materiality analysis.

For each material topic, if applicable, information has been provided on the relevant management and organisational model, policies, including due diligence policies, and the results achieved through their application, as well as certain non-financial performance indicators.

Key Performance Indicators are collected on an annual basis; indicators reported refer to 2018, and where available to the 2016-2018 period as well. The qualitative and quantitative information derive from the Group's information systems and from a non-financial reporting system specifically implemented in order to comply with the requirements of the "GRI Sustainability Reporting Standards". The disclosures correspond with the scope of the Decree and are consistent with the activities conducted and the impacts produced by Poste Italiane. The data is based on punctual calculations and, where specifically indicated, on estimates. The estimated data regard certain items relating to energy consumption inside and outside the organisation - in particular, data regarding electricity consumption (for security purposes and relating to outsourced Data Centres), natural gas, diesel, LPG and district heating for the Group's real estate facilities – and water consumption, which was calculated on the basis of the costs incurred and the average tariff payable. Consumption linked to logistics is estimated in terms of distance travelled and/or average consumption of the means and the transported load, except for motor vehicles used in last mile logistics.

The scope of reporting refers exclusively to companies consolidated on a line-by-line basis for financial report, as indicated in the table "List of investments consolidated on a line-by-line basis"[33]. Exceptions to this scope are explicitly indicated within the document. The terms "Poste Italiane", "Group" or "Company" are used in the NFS to refer to the Poste Italiane Group.

All the GRI indicators published are listed below in the "GRI Standards Content Index", in which eventual limitations with respect to the relevant requirements are noted (see paragraph "GRI Standards Content Index").

In order to identify the contribution of Poste Italiane to achieving the 17 United Nations Sustainable Development Goals, a link was made with the targets established by Poste Italiane, the GRI Standards indicators and the SDGs, following the indications in the document "SDG Compass" drawn up by GRI, UN Global Compact and WBCSD (the World Business Council for Sustainable Development), further supplemented by an analysis of each Goal and the related 169 targets associated to them.

The following table outlines the relations among the scope of the Decree, Poste Italiane's material topics and the corresponding GRI Standards and describes, for each material topic, the related impact generated both inside and outside of the organisation.

33. Figures for Poste Tributi, which is in liquidation and has three employees, regard the workforce.

TABLE SHOWING THE LINK WITH THE SCOPE OF THE DECREE, POSTE ITALIANE'S MATERIAL TOPICS AND THE GRI STANDARDS

Scope of Decree 254/2016	Material topic	*GRI Specific Standard*	Internal scope	External scope
Efforts to combat active and passive corruption	Integrity and transparency	■ GRI 205 Anticorruption	Poste Italiane Group	Suppliers and business partners
Personnel	Equal career development opportunities	■ GRI 404 Training and Education	Poste Italiane Group	-
	Staff training and development	■ GRI 404 Training and Education	Poste Italiane Group	-
	Staff welfare and wellbeing	■ GRI 401 Employment	Poste Italiane Group	-
	Relations with social partners	■ GRI 402 Labor/Management Relations	Poste Italiane Group	-
	Occupational health and safety	■ GRI 403 Occupational Health and Safety	Poste Italiane Group	Suppliers and business partners
Respect for human rights	Safeguarding human rights at the Company	■ GRI 405 Diversity and Equal Opportunity ■ GRI 412 Human Rights Assessment	Poste Italiane Group	Suppliers and business partners
Environment	Legality and incorporation of ESG within the procurement process	■ GRI 301 Materials	Poste Italiane Group	Suppliers and business partners
	Environmental impacts of real estate facilities	■ GRI 301 Materials ■ GRI 302 Energy ■ GRI 303 Water ■ GRI 305 Emissions ■ GRI 306 Effluents and Waste	Poste Italiane Group	-
	Environmental impacts of logistics	■ GRI 301 Materials ■ GRI 302 Energy ■ GRI 305 Emissions ■ GRI 306 Effluents and Waste	Poste Italiane Group	Suppliers and business partners
Social	Support for the socio-economic development of local communities	■ GRI 203 Indirect Economic Impacts	Poste Italiane Group	-
	Dialogue and transparency in relations with the authorities	-	Poste Italiane Group	-
	Financial inclusion	■ FS 14 Initiatives designed to improve access to financial services for disadvan-taged people	Poste Italiane Group	-
	Quality and customer experience	-	Poste Italiane Group	-
	Innovation and digitisation of products, services and processes	-	Poste Italiane Group	-
	IT security and business continuity	■ GRI 418 Customer Privacy	Poste Italiane Group	-
	Integration of ESG factors into investment policies	■ FS 11 Percentage of assets subject to positive and negative environmental/social screening	Poste Italiane Group	-
	Integration of ESG factors into insurance policies	■ FS 11 Percentage of assets subject to positive and negative environmental/social screening	Poste Italiane Group	-

GRI standards content index

GRI Standard	Indicator number and title	Section
GRI 101: Foundation 2016		
GRI 102: GENERAL DISCLOSURES		
GRI 102: General Standards	**Organisational profile**	
	102-1 Name of the organisation	Report on Operations: Statement from the Chairwoman and the Chief Executive Officer
	102-2 Activities, brands, products and services	Report on Operations: The Group's organisation and operating segments
	102-3 Location of headquarters	Annual Report: inside the back cover
	102- 4 Location of operations	Report on Operations: Multichannel commercial strategy
	102-5 Ownership and legal form	Report on Operations: 4. Governance and integrated risk management model
	102-6 Markets served	Report on Operations: The Group's organisation and operating segments; Multichannel commercial strategy
	102-7 Scale of the organisation	Report on Operations: Group financial review; Indicators tables – People development Report on Corporate Governance and the Ownership Structure: Section I: Governance and ownership structures
	102-8 Information on employees and other workers	Report on Operations: Indicators tables – Protection of human rights
	102-9 Supply chain	Report on Operations: Legality and incorporation of ESG criteria within the procurement processes
	102-10 Significant changes to the organization and its supply chain	Report on Operations: Corporate actions during the year; Poste Italiane's organisational structure Report on Corporate Governance and the Ownership Structure: Section I: Governance and ownership structures
	102-11 Precautionary Principle or approach	The cautionary approach required by principle 15 of the United Nations Rio Declaration is applied by Poste Italiane to protect the environment in the development and introduction of new products and services and in planning new operating activities.
	102-12 External initiatives	Report on Operations: The Group's Environmental Social and Governance (ESG) Strategic Plan
	102-13 Membership of associations	Report on Operations: The Group's Environmental Social and Governance (ESG) Strategic Plan; Dialogue and transparency in relations with the authorities; Relations with social partners
	Strategy	
	102-14 Statement from senior decision-maker	Report on Operations: Statement from the Chairwoman and the Chief Executive Officer
	102-15 Key impacts, risks and opportunities	Report on Operations: Poste Italiane's material topics; Poste Italiane's integrated internal control and risk management system
	Ethics and Integrity	
	102-16 Values, principles, standards and norms of behaviour	Report on Operations: Risk management and risk assessment; Integrity and transparency

GRI Standard	Indicator number and title	Section
	Corporate Governance	
	102-18 Governance structure	Report on Operations: Management and supervisory bodies Report on Corporate Governance and the Ownership Structure: 7.2 Audit, Risk and Sustainability Committee
	102-19 Process for delegating authority for economic, environmental, and social topics from the highest governance body to senior executives and other employees	Report on Operations: Risk management and risk assessment
	102-20 Report whether the organisation has appointed an executive-level position or positions with responsibility for economic, environmental, and social topics	
	102-21 Processes for consultation between stakeholders and the highest governance body on economic, environmental, and social topics	
	102-22 Composition of the highest governance body and its committees	Report on Operations: Management and supervisory bodies; Indicators tables – People development; Link: https://www.posteitaliane.it/it/consiglio-di-amministrazione.html Report on Corporate Governance and the Ownership Structure: 7.2 Audit, Risk and Sustainability Committee
	102-23 Chair of the highest governance body	Report on Corporate Governance and the Ownership Structure: 6.6 Chief Executive Officer
	102-24 Criteria used for nominating and selecting the highest governance body	Report on Corporate Governance and the Ownership Structure: 6. Board of Directors; 6.1 current composition and term of office (pursuant to art. 123-bis, para. 2.d), Consolidated Law on Finance); 6.8 Independent Directors, 6.10 Assessment of workings of the Board of Directors and Board Committees, 6.11 Diversity policies (pursuant to art. 123-bis, paragraph 2.d), Consolidated Law on Finance)
	102-25 Conflicts of interest	Report on Corporate Governance and the Ownership Structure: 14. Other corporate governance procedures (pursuant to art. 123-bis, paragraph 2.a), Consolidated Law on Finance)
	102-26 Role of highest governance body in the development of strategies, policies and goals related to economic, environmental, and social topics	Report on Corporate Governance and the Ownership Structure: 6.6 Chief Executive Officer; 7.2 Audit, Risk and Sustainability Committee.
	102-27 Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental, and social topics	Report on Corporate Governance and the Ownership Structure: 6.3 Role and functions (pursuant to art. 123-bis, paragraph 2.d), Consolidated Law on Finance); 6.8 Independent Directors; 6.10 Assessment of workings of the Board of Directors and Board Committees
	102-28 Processes for evaluating the highest governance body's performance	Report on Corporate Governance and the Ownership Structure: 6.10 Assessment of workings of the Board of Directors and Board Committees
	102-29 Highest governance body's role in identifying and managing economic, environmental, and social topics	Report on Corporate Governance and the Ownership Structure: 6.3 Role and functions (pursuant to art. 123-bis, paragraph 2.d), Consolidated Law on Finance)
	102-30 Effectiveness of the organisation's risk management processes for economic, environmental, and social topics	Report on Corporate Governance and the Ownership Structure: 7.2 Audit, Risk and Sustainability Committee
	102-31 Frequency of the highest governance body's review of economic, environmental, and social topics and their impacts, risks, and opportunities	
	102-33 Process for communicating critical concerns to the highest governance body	Report on Corporate Governance and the Ownership Structure: 5.5 Equity participation by employees: voting rights mechanisms (pursuant to art. 123-bis, paragraph 1.e), Consolidated Law on Finance); 7.2 Audit, Risk and Sustainability Committee
	102-36 Process for determining remuneration	Report on Corporate Governance and the Ownership Structure: 6.12 Remuneration

GRI Standard	Indicator number and title	Section
	Stakeholder Engagement	
	102-40 A list of stakeholder groups engaged with by the organisation	Report on Operations: Stakeholder engagement
	102-41 Collective bargaining agreements	Report on Operations: Relations with social partners
	102-42 The basis for identifying and selecting stakeholders with whom to engage	Report on Operations: Stakeholder engagement
	102-43 Approach to stakeholder engagement	Report on Operations: Stakeholder engagement; Quality and Customer Experience
	102-44 Key topics and concerns that have been raised through stakeholder engagement and related actions	Report on Operations: The observations that emerged during the 2018 Multi-stakeholder Forum; Quality and Customer Experience
	Reporting practice	
	102-45 List of entities included in the consolidated financial statements and those not included in the sustainability report	Report on Operations: 7. Consolidated Non-financial Statement
	102-46 Defining report content and topic Boundaries	Report on Operations: Poste Italiane's material topics; 7. Consolidated Non-financial Statement
	102-47 List of material topics	Report on Operations: Poste Italiane's material topics
	102-48 Restatements of information provided in previous reports and reasons for doing so	Report on Operations: Indicators tables The restatements of information provided in the Consolidated non-financial Statement 2017 concern the following indicators: 303-1, 305-1, 305-2, 305-3 and 403-2. The reasons for the restatements are explicated in note of the related data collection tables
	102-49 Significant changes in reporting compared with previous periods	Report on Operations: 7. Consolidated Non-financial Statement
	102-50 Reporting period	Report on Operations: 7. Consolidated Non-financial Statement
	102-51 Date of most recent report	Non-financial Statement 2017; Sustainability Report 2017
	102-52 Reporting cycle	Report on Operations: 7. Consolidated Non-financial Statement
	102-53 Contact point for questions regarding the report	For further information and details regarding the topics and indicators covered in this Report, contact: Poste Italiane SpA Corporate Affairs/Group Risk Management Viale Europa, 190 00144 Rome – Italy
	102-54 Claims of reporting in accordance with the GRI Standards	Report on Operations: 7. Consolidated Non-financial Statement
	102-55 GRI content index	Report on Operations: GRI Standard Content Index
	102-56 External assurance	Report on Operations: 7. Consolidated Non-financial Statement

GRI Standard	Number and description of indicator	Section and/or page number	Notes/omissions
Material topics			
GRI 200: ECONOMIC PERFORMANCE INDICATORS			
Economic performance			
GRI 103: General requirements for reporting the management approach	103-1 Explanation of the material topic and its boundary	Report on Operations: Materiality matrix; Poste Italiane's sustainability strategy; The economic value generated and distributed by the Poste Italiane Group	
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
GRI 201: Economic performance	201-1 Direct economic value generated and distributed	Report on Operations: The economic value generated and distributed by the Poste Italiane Group	
Indirect economic impacts			
GRI 103: General requirements for reporting the management approach	103-1 Explanation of the material topic and its boundary	Report on Operations: Materiality matrix; Poste Italiane's sustainability strategy; Support for the socio-economic development of local communities	
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
GRI 203: Indirect economic impacts	203-1 Investment in communities	Report on Operations: Indicators tables	Information not available. The current reporting system did not allow reporting investments in communities for the years 2016-2017. We expect to report this information in the next cycles of disclosure.
Anti-corruption			
GRI 103: General requirements for reporting the management approach	103-1 Explanation of the material topic and its boundary	Report on Operations: Materiality matrix; Poste Italiane's sustainability strategy; Integrity and transparency	
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
GRI 205: Anti-corruption	205-1 Operations assessed for risks related to corruption	Report on Operations: Indicators tables	
	205-3 Confirmed incidents of corruption and actions taken	Report on Operations: Indicators tables	
GRI 300: ENVIRONMENTAL PERFORMANCE INDICATORS			
Materials			
GRI 103: General requirements for reporting the management approach	103-1 Explanation of the material topic and its boundary	Report on Operations: Materiality matrix; Poste Italiane's sustainability strategy; Legality and incorporation of ESG criteria within the procurement processes; Environmental impacts of logistics	
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
GRI 301: Materials	301-1 Materials used by weight or volume	Report on Operations: Indicators tables	

GRI Standard	Number and description of indicator	Section and/or page number	Notes/omissions
Energy			
GRI 103: General requirements for reporting the management approach	103-1 Explanation of the material topic and its boundary	Report on Operations: Materiality matrix; Poste Italiane's sustainability strategy; Environmental impacts of real estate facilities; Environmental impacts of logistics	
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
GRI 302: Energy	302-1 Energy consumption within the organisation	Report on Operations: Indicators tables	
	302-2 Energy consumption outside of the organisation	Report on Operations: Indicators tables	
Water			
GRI 103: General requirements for reporting the management approach	103-1 Explanation of the material topic and its boundary	Report on Operations: Materiality matrix; Poste Italiane's sustainability strategy; Environmental impacts of real estate facilities	
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
GRI 303: Water	303-1 Water withdrawals by source	Report on Operations: Indicators tables	
Emissions			
GRI 103: General requirements for reporting the management approach	103-1 Explanation of the material topic and its boundary	Report on Operations: Materiality matrix; Poste Italiane's sustainability strategy; Environmental impacts of real estate facilities; Environmental impacts of logistics	
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
GRI 305: Emissions	305-1 Direct (Scope 1) GHG emissions	Report on Operations: Indicators tables	
	305-2 Indirect (Scope 2) GHG emissions	Report on Operations: Indicators tables	
	305-3 Other indirect GHG (Scope 3) emissions	Report on Operations: Indicators tables	
Effluents and waste			
GRI 103: General requirements for reporting the management approach	103-1 Explanation of the material topic and its boundary	Report on Operations: Materiality matrix; Poste Italiane's sustainability strategy; Environmental impacts of real estate facilities; Environmental impacts of logistics	
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
GRI 306: Effluents and waste	306-2 Waste by type and disposal method	Report on Operations: Indicators tables	
Environmental assessment of suppliers			
GRI 103: General requirements for reporting the management approach	103-1 Explanation of the material topic and its boundary	Report on Operations: Materiality matrix; Poste Italiane's sustainability strategy; Legality and incorporation of ESG criteria within the procurement processes; Indicators tables	
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
GRI 400: SOCIAL PERFORMANCE INDICATORS			
Employment			
GRI 103: General requirements for reporting the management approach	103-1 Explanation of the material topic and its boundary	Report on Operations: Materiality matrix; Poste Italiane's sustainability strategy; Staff welfare and wellbeing	
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
GRI 401: Employment	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	Report on Operations: Indicators tables	

GRI Standard	Number and description of indicator	Section and/or page number	Notes/omissions
Labour/management relations			
GRI 103: General requirements for reporting the management approach	103-1 Explanation of the material topic and its boundary	Report on Operations: Materiality matrix; Poste Italiane's sustainability strategy; Relations with social partners	
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
GRI 402: Labour/ management relations	402-1 Minimum notice periods regarding operational changes	For Parent Company and its subsidiaries which are signatories of the Poste Italiane's National Collective Labour Agreement, the notice period for communicating major operational changes is four weeks (25 working days from the date of the first meeting with the labour unions, including Saturday) for talks at national level. In addition, a further two weeks (13 working days, including Saturday) is provided for in order to endorse any agreement reached by HR Coordination and an additional week (7 working days, including Saturday) for talks at local level. In addition, Article 2 (Contractual Arrangements) of the National Collective Labour Agreement of 30 November 2017 includes details of the notice period and procedures for consultation and negotiation with Trade Union Organisations	
Health and safety			
GRI 103: General requirements for reporting the management approach	103-1 Explanation of the material topic and its boundary	Report on Operations: Materiality matrix; Poste Italiane's sustainability strategy; Occupational health and safety	
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
GRI 403: Health and safety	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Report on Operations: Indicators tables	Information not available. The current reporting system did not allow reporting disclosure on contractors. We expect to report this information in the next cycles of disclosure.
Training and education			
GRI 103: General requirements for reporting the management approach	103-1 Explanation of the material topic and its boundary	Report on Operations: Materiality matrix; Poste Italiane's sustainability strategy; Staff training and development; Equal career development opportunities	
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
GRI 404: Training	404-1 Average hours of training per year per employee	Report on Operations: Indicators tables	
	404-3 Percentage of employees receiving regular performance and career development reviews	Report on Operations: Indicators tables	

GRI Standard	Number and description of indicator	Section and/or page number	Notes/omissions
Diversity and equal opportunity			
GRI 103: General requirements for reporting the management approach	103-1 Explanation of the material topic and its boundary	Report on Operations: Materiality matrix; Poste Italiane's sustainability strategy; Protection of human rights	
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
GRI 405: Diversity and equal opportunity	405-1 Diversity of governance bodies and employees	Report on Operations: Indicators tables	
Human rights assessment			
GRI 103: General requirements for reporting the management approach	103-1 Explanation of the material topic and its boundary	Report on Operations: Materiality matrix; Poste Italiane's sustainability strategy; Work with transparency and integrity; Legality and incorporation of ESG criteria within the procurement processes	
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
GRI 412: Human rights assessment	412-1 Operations that have been subject to human rights reviews or impact assessments	Report on Operations: Indicators tables	
Supplier social assessment			
GRI 103: General requirements for reporting the management approach	103-1 Explanation of the material topic and its boundary	Report on Operations: Materiality matrix; Poste Italiane's sustainability strategy; Legality and incorporation of ESG criteria within the procurement processes	
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
Customer privacy			
GRI 103: General requirements for reporting the management approach	103-1 Explanation of the material topic and its boundary	Report on Operations: Materiality matrix; Poste Italiane's sustainability strategy; IT security and business continuity	
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
GRI 418: Customer privacy	418-1 Substantiated complaints regarding concerning breaches of customer privacy and losses of customer data	Report on Operations: Indicators tables	
Active ownership			
GRI 103: General requirements for reporting the management approach	103-1 Explanation of the material topic and its boundary	Report on Operations: Materiality matrix; Poste Italiane's sustainability strategy; Integration of ESG factors into investment policies; Integration of ESG factors into insurance policies	
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
	FS11 Percentage of assets subject to positive and negative environmental or social screening	In 2018, Poste Vita and BancoPosta Fondi SGR – the Poste Italiane Group companies operating in the investment sector – subjected their portfolios to social and environmental screening by an external body. The process regarded 99% of Poste Vita's total AuM and 80% of BancoPosta Fondi SGR's total AuM.	
Local communities			
GRI 103: General requirements for reporting the management approach	103-1 Explanation of the material topic and its boundary	Report on Operations: Materiality matrix; Poste Italiane's sustainability strategy; Financial inclusion	
	103-2 The management approach and its components		
	103-3 Evaluation of the management approach		
	FS14 Initiatives to improve access to financial services for disadvantaged people	Report on Operations: Indicators tables	

Table showing links between the SDGs and the GRI indicators

SDG	Topic	GRI Standard Disclosure
Goal 1 – No poverty End poverty in all its forms everywhere.	■ Access to financial services	■ FS14
Goal 2 – Zero hunger End hunger, achieve food security and improved nutrition and promote sustainable agriculture.	■ Infrastructure investment	■ 201-1
Goal 3 – Good health and wellbeing Ensure healthy lives and promote wellbeing for all at all ages.	■ Air quality ■ Occupational health and safety	■ 305-1 ■ 305-2 ■ 305-3 ■ 403-2
Goal 4 – Quality education Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.	■ Employee training and education	■ 404-1 ■ 404-3
Goal 5 – Gender equality Achieve gender equality and empower all women and girls.	■ Gender equality ■ Infrastructure investment	■ 405-1 ■ 201-1 ■ 203-1
Goal 6 – Clean water and sanitation Ensure availability and sustainable management of water and sanitation for all.	■ Sustainable water withdrawals ■ Waste	■ 303-1 ■ 306-2

SDG	Topic	GRI Standard Disclosure
Goal 7 – Affordable and clean energy Ensure access to affordable, reliable, sustainable and modern energy for all.	■ Energy efficiency ■ Infrastructure investment ■ Renewable energy	■ 302-1 ■ 302-2 ■ 201-1 ■ 203-1 ■ 302-1 ■ 302-2
Goal 8 – Decent work and economic growth Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.	■ Access to financial services ■ Diversity and equal opportunity ■ Earnings, wages and benefits ■ Economic performance ■ Employee training and education ■ Energy efficiency ■ Materials efficiency ■ Occupational health and safety	■ FS14 ■ 405-1 ■ 401-2 ■ 201-1 ■ 404-1 ■ 404-3 ■ 302-1 ■ 302-2 ■ 301-1 ■ 403-2
Goal 9 – Industry, innovation and infrastructure Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.	■ Infrastructure investment ■ Research and development	■ 201-1 ■ 203-1 ■ 201-1
Goal 10 – Reduced inequalities Reduce inequality within and among countries.	■ Access to financial services ■ Economic development in areas of high poverty ■ Responsible finance	■ FS14 ■ 203-1 ■ FS11
Goal 11 – Sustainable cities and communities Make cities and human settlements inclusive, safe, resilient and sustainable.	■ Infrastructure investment	■ 201-1 ■ 203-1

SDG	Topic	GRI Standard Disclosure
Goal 12 – Responsible consumption and production Ensure sustainable consumption and production patterns.	■ Air quality ■ Energy efficiency ■ Materials efficiency/recycling ■ Waste	■ 305-1 ■ 305-2 ■ 305-3 ■ 302-1 ■ 302-2 ■ 301-1 ■ 306-2
Goal 13 – Climate action Take urgent action to combat climate change and its impacts.	■ Energy efficiency ■ GHG emissions	■ 302-1 ■ 302-2 ■ 305-1 ■ 305-2 ■ 305-3
Goal 14 – Life below water Conserve and sustainably use the oceans, seas and marine resources.	■ Ocean acidification	■ 305-1 ■ 305-2 ■ 305-3
Goal 15 – Life on land Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.	■ Forest degradation	■ 305-1 ■ 305-2 ■ 305-3
Goal 16 – Peace, justice and strong institutions Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.	■ Anti-corruption ■ Protection of privacy	■ 205-1 ■ 205-3 ■ 418-1

8. Summary of the resolutions of the ordinary Shareholders' Meeting

The ordinary Shareholders' Meeting of Poste Italiane SpA held in Rome in single call on 28 May 2019 at the "Centro Congressi Confindustria – Auditorium della Tecnica", Viale Umberto Tupini n. 65, adopted the following resolutions:

1. approved the financial statements of Poste Italiane SpA for the year ended December 31, 2018; and took note of the results of the consolidated financial statements of the Poste Italiane Group, also for the year ended December 31, 2018, which closed with net income for the year of euro 1,398.7 million;

2. resolved to:
   i. allocate the net income of BancoPosta's Ring-fenced Capital of 596,808,586 euro to the disposal of the Company;

   ii. allocate Poste Italiane SpA's net income for 2018, amounting to 583,766,266 euro, as follows:
      – to the distribution to the Shareholders, as a dividend, the amount of 0.441 euro for each ordinary shares in circulation on 24 June 2019, the day scheduled as the ex-dividend date, excluding treasury shares on that date;
      – the remaining amount after the distribution to the Shareholders, to the available reserve named "Retained Earnings";

   iii. pay the aforesaid dividend for 2018 of 0.441 euro per ordinary share – before withholding tax, if any – from 26 June 2019, with the "ex-dividend" date of coupon n. 4 falling on 24 June 2019 and the record date (i.e., the date of entitlement to the payment of the aforesaid dividend pursuant to article 83-*terdecies* of Legislative Decree n. 58 of 24 February 1998 and article 2.6.6, paragraph 2, of the Regulations of the markets organized and managed by Borsa Italiana SpA) falling on 25 June 2019;

3. appointed the new board of statutory auditors, which will remain in office until the approval of the financial statements for 2021, in the persons of:
   - Mauro Lonardo – Chairman of the board of statutory auditors
   - Luigi Borrè – Effective auditor
   - Anna Rosa Adiutori – Effective auditor
   - Alberto De Nigro – Alternate auditor
   - Maria Francesca Talamonti – Alternate auditor
   - Antonio Santi – Alternate auditor

   setting the related compensation at euro 80,000 a year for the Chairman and euro 70,000 for the other effective auditors, in addition to reimbursement of the travel and living expenses incurred because of their duties, due documented;

4. voted in favour of the section of the Remuneration Report that illustrates the remuneration policy for the Directors, the General Manager and the Executives with strategic responsibilities, adopted by the company for financial year 2019, also approving the specific part of the Remuneration Report related to BancoPosta's Ring-fenced Capital;

5. approved the equity-based incentive plans;

6. resolved, upon proposal of the outgoing Board of Statutory Auditors, to pay additional fees to the external auditor PricewaterhouseCoopers SpA for the year 2018, following the entry into force of new accounting principles;

7. appointed, upon proposal of the outgoing Board of Statutory Auditors, Deloitte & Touche SpA as external auditor for the period 2020-2028 and determined the related fees.

9. Other information

Events after 31 December 2018

Events after the end of the reporting period to which the Annual Report for 2018 refers are described in other sections of this document. Further information is provided in Poste Italiane Financial Statements for the year ended 31 December 2018.

Related party transactions

With the aim of ensuring the transparency and substantial and procedural correctness of transactions with related parties and connected persons, in 2015, Poste Italiane adopted "Guidelines for the management of transactions with related and connected parties". The Guidelines have been drawn up in compliance with the principles established by the CONSOB in Regulation 17221 of 12 March 2010, as amended, and with the Supervisory Standards issued by the Bank of Italy and applicable to Poste Italiane in relation to the activities of BancoPosta.

In line with these regulations, the Guidelines are reviewed every three years, and are in any event revised in response to any changes in legislation or of an organisational nature, or in the event of significant changes in the business model.

As a result, on 7 November 2018, Poste Italiane's Board of Directors approved new Guidelines that reflect, among other things, in relation to Bancoposta RFC's operations, the recommendations made by the Bank of Italy as part of the process of authorising the electronic money institution.

The scope of application of the Guidelines differs depending on the applicable regulations. This means that the CONSOB's requirements apply to Poste Italiane (in carrying out both its postal activities and those of BancoPosta and in the conduct of transactions with Poste Italiane's related parties through subsidiaries), whilst the standards issued by the Bank of Italy apply solely to BancoPosta's transactions with Poste Italiane's connected parties. The updated version of the Guidelines is published on Poste Italiane's website at https://www.posteitaliane.it/it/documenti-societari.html. The document is also available in the section dedicated to BancoPosta at https://www.posteitaliane.it/it/documenti-bancoposta.html.

Significant transactions completed in 2018

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

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

Moreover, in connection with the process that resulted in the establishment of the electronic money institution, the Related and Connected Parties Committee issued a favourable opinion to the Board of Directors on two contracts with PostePay SpA that qualify as material under the Bank of Italy's regulations. These regard the contract governing the outsourcing of BancoPosta's activities to the electronic money institution and the agreement on the promotion and placement of the EMI's products by BancoPosta. Both were approved by the Board of Directors and took effect on 1 October 2018.

Details of the impact of related party transactions on the financial position and profit or loss are provided in Poste Italiane Financial Statements for the year ended 31 December 2018.

Statement of reconciliation of profit and equity

The statement of reconciliation of the Parent Company's profit/(loss) for the period and Equity with the consolidated amounts at 31 December 2018, compared with the statement at 31 December 2017, is included in Poste Italiane Financial Statements for the year ended 31 December 2018 (Notes to the Poste Italiane Group's financial statements – Equity).

Exceptional and/or unusual transactions

Under the definition provided by the CONSOB ruling of 28 July 2006, the Poste Italiane Group did not conduct any exceptional and/or unusual transactions[34] in 2018.

Alternative performance indicators

In keeping with the guidelines published by the European Securities and Markets Authority on 5 October 2015 (ESMA/2015/1415), in addition to the financial disclosures required by IFRS, Poste Italiane has included a number of indicators in this report that have been derived from them. These provide management with a further tool for measuring the Group's performance.

The following alternative performance indicators are used:

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

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

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

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 inclusive of intersegment transactions.

NET WORKING CAPITAL – the sum of inventories, trade receivables and other receivables and assets, current tax assets, trade payables and other liabilities, and current tax liabilities.

This indicator is also presented separately for each Strategic Business Unit before adjusting for intersegment transactions.

34. Such transactions are defined as transactions that due to their significance/materiality, the nature of the counterparties, the purpose of the transaction, the manner of determining the transfer price and timing of the transaction may give rise to doubts over the correctness and/or completeness of the disclosures in the financial statements, over a conflict of interest, safeguards for the Company's financial position and protections for non-controlling shareholders.

NET 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 inclusive of intersegment transactions.

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

NET (DEBT)/FUNDS 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.

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.

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

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

Key performance indicators for principal Poste Italiane Group Companies

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

POSTEL SPA

(€000)	2018	2017	Increase/(decrease)	
Revenue from sales and services	195,725	213,230	(17,505)	-8.2%
Operating profit/(loss)	(20,134)	1,672	(21,806)	n/s
Profit/(loss) for the period	(16,141)	118	(16,259)	n/s
Investment	6,706	7,607	(901)	-11.8%
Equity	83,962	101,459	(17,497)	-17.2%
Permanent workforce - average	1,052	1,069	(17)	-1.6%
Flexible workforce - average	25	20	5	25.0%

n/s: not significant

SDA EXPRESS COURIER SPA

(€000)	2018	2017	Increase/(decrease)	
Revenue from sales and services	578,164	549,173	28,991	5.3%
Operating profit/(loss)	(51,155)	(42,114)	(9,041)	-21.5%
Profit/(loss) for the period	(39,711)	(31,990)	(7,721)	-24.1%
Investment	19,813	8,288	11,525	139.1%
Equity*	22,514	(22,876)	45,390	198.4%
Permanent workforce - average	1,309	1,347	(38)	-2.8%
Flexible workforce - average	111	85	26	30.6%

* Equity for 2018 includes capital of €90 million injected by the Parent Company during the year.

EUROPA GESTIONI IMMOBILIARI SPA

(€000)	2018	2017	Increase/(decrease)	
Revenue from sales and services	91,234	94,240	(3,006)	-3.2%
Operating profit/(loss)	3,068	4,639	(1,571)	-33.9%
Profit/(loss) for the period	431	1,843	(1,412)	-76.6%
Investment	271	681	(410)	-60.2%
Equity	237,674	237,263	411	0.2%
Permanent workforce - average	28	28	-	n/s
Flexible workforce - average	1	-	1	n/s

n/s: not significant

MISTRAL AIR SRL

(€000)	2018	2017	Increase/(decrease)	
Revenue from sales and services	59,015	100,472	(41,457)	-41.3%
Operating profit/(loss)	(5,182)	(8,950)	3,768	42.1%
Profit/(loss) for the period	(4,279)	(7,611)	3,332	43.8%
Investment	73	172	(99)	-57.6%
Equity*	845	(1,895)	2,740	144.6%
Permanent workforce - average	105	129	(24)	-18.6%
Flexible workforce - average	18	56	(38)	-67.9%

* Equity for 2018 includes capital of €7million injected by the Parent Company during the year.

POSTE VITA SPA*

(€000)	2018	2017	Increase/(decrease)	
Insurance premium revenue**	16,609,902	20,263,356	(3,653,454)	-18.0%
Profit/(loss) for the period	949,761	510,172	439,589	86.2%
Financial assets	126,263,345	125,626,314	637,031	0.5%
Technical provisions for insurance business	124,965,928	123,489,910	1,476,018	1.2%
Equity***	3,862,261	3,323,728	538,533	16.2%
Permanent workforce - average	396	388	8	2.1%
Flexible workforce - average	3	5	(2)	-40.0%

* The figures shown have been prepared in accordance with IFRS and therefore may not coincide with those in the financial statements prepared in accordance with the Italian Civil Code and under Italian GAAP..
** Insurance premium revenue is reported gross of outward reinsurance premiums.
*** During the year, the company paid dividends totalling €238 million.

POSTE ASSICURA SPA*

(€000)	2018	2017	Increase/(decrease)	
Insurance premium revenue**	168,157	131,099	37,058	28.3%
Profit/(loss) for the period	45,658	28,609	17,049	59.6%
Financial assets	281,905	233,498	48,407	20.7%
Technical provisions for insurance business	183,077	160,005	23,072	14.4%
Equity	139,723	104,359	35,364	33.9%
Permanent workforce - average	59	57	2	3.5%
Flexible workforce - average	1	-	1	n/s

* The figures shown have been prepared in accordance with IFRS and therefore may not coincide with those in the financial statements prepared in accordance with the Italian Civil Code and under Italian GAAP.
** Insurance premium revenue is reported gross of outward reinsurance premiums.
n/s: not significant

BANCOPOSTA FONDI SPA SGR

(€000)	2018	2017	Increase/(decrease)	
Fee income	104,491	101,954	2,537	2.5%
Net fee income	45,432	54,501	(9,069)	-16.6%
Profit/(Loss) for the period	22,529	29,134	(6,605)	-22.7%
Financial assets (liquidity and securities)	70,827	71,372	(545)	-0.8%
Equity*	60,709	53,886	6,823	12.7%
Permanent workforce - average	54	58	(4)	-6.3%

* During the year, the company paid dividends totalling €15 million.

POSTEPAY SPA

(€000)	2018	2017	Increase/(decrease)	
Revenue from sales and services	431,931	234,543	197,388	84,2%
Operating profit/(loss)	76,719	26,837	49,882	185,9%
Profit/(loss) for the period	54,509	18,659	35,850	192,1%
Investment	30,613	26,583	4,030	15,2%
Equity*	243,059	57,905	185,154	319,8%
Permanent workforce - average	232	213	19	8,9%
Flexible workforce - average	-	4	(4)	n.s.

* During the year, the company declared dividends totalling €9 million. Equity includes the capital increase of €140 million carried out via the contribution of the card payments and payment services business unit from BancoPosta RFC, effective for legal, accounting and tax purposes from 1 October 2018. On the same date, PosteMobile SpA changed its name to PostePay SpA.

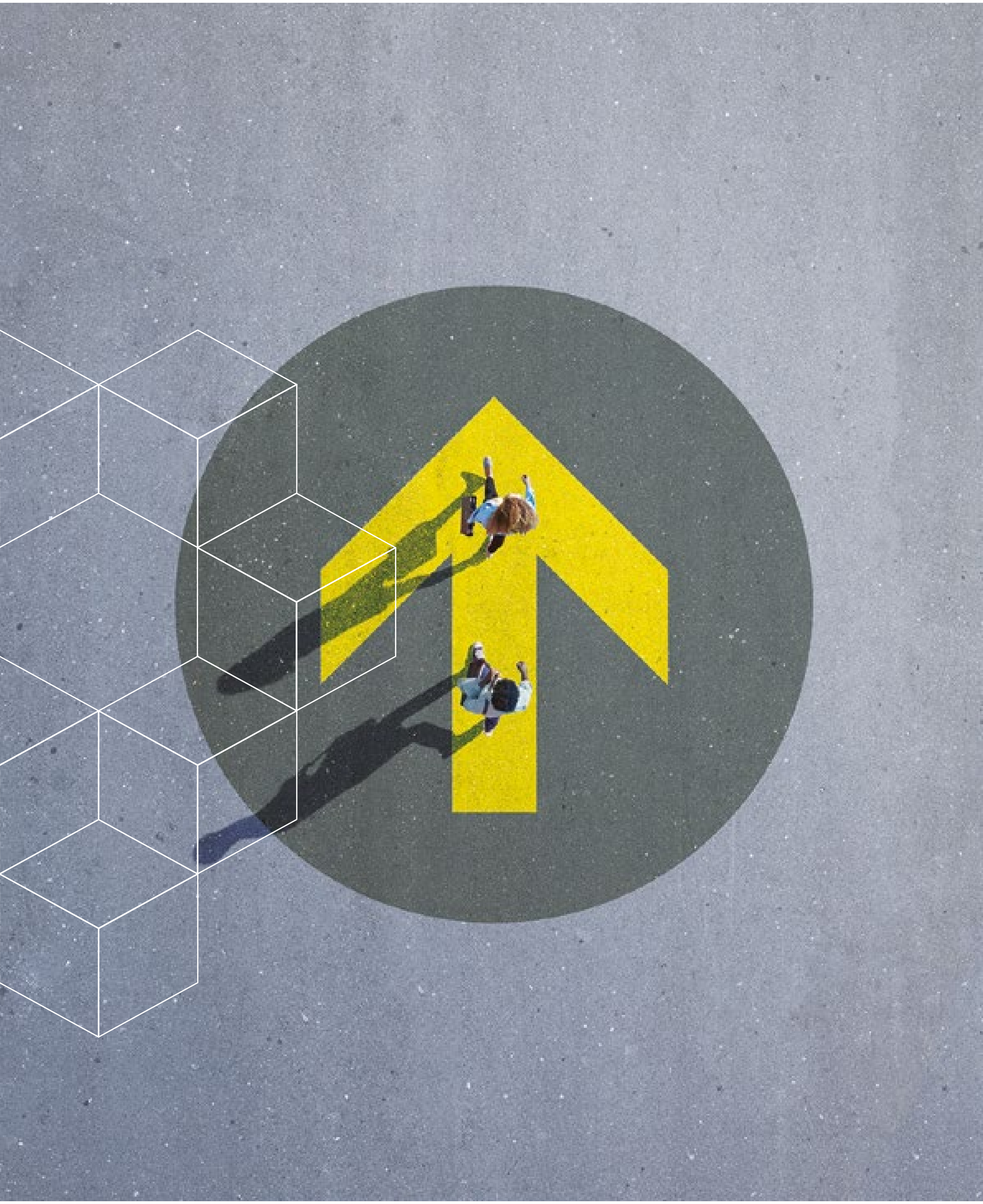
n/s: not significant

02

POSTE ITALIANE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Contents

POSTE ITALIANE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018



1. Introduction

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

Poste Italiane's shares have been listed on the *Mercato Telematico Azionario* (the MTA, an electronic stock exchange) since 27 October 2015. At 31 December 2018, the Company is 35% owned by CDP and 29.3% owned by the MEF, with the remaining shares held by institutional and retail investors. Poste Italiane SpA continues to be under the control of the MEF.

The Poste Italiane Group (the "Group") provides a universal postal service in Italy as well as integrated communication, logistics, financial and insurance products and services throughout the country via its national network of approximately 13,000 post offices.

The Group's business is assessed and presented on the basis of four operating segments: (i) Mail, Parcels and Distribution, (ii) Payments, Mobile and Digital (PMD), (iii) Financial Services and (iv) Insurance Services.

The Mail, Parcels and Distribution segment includes letter post, express delivery, logistics, parcels and philately, in addition to the activities conducted by various units of Poste Italiane SpA for other segments in which the Group operates. The Payments, Mobile and Digital segment includes revenue from payment services, card payments and mobile telecommunications services. Financial Services regard the activities of BancoPosta, which include the collection of all forms of savings deposits, the provision of payment services (of which some are outsourced to the Payments, Mobile and Digital segment), foreign currency exchange, the promotion and arrangement of loans issued by banks and other authorised financial institutions, the provision of investment services and the activities of BancoPosta Fondi SpA SGR. Insurance Services regard the activities of Poste Vita SpA, which operates in ministerial life assurance Classes I, III and V, and of its direct subsidiaries, Poste Assicura SpA, which operates in non-life insurance, and Poste Welfare Servizi Srl, which provides services to the segment in question.

This section of the Annual Report for the year ended 31 December 2018 includes the consolidated financial statements of the Poste Italiane Group, the separate financial statements of Poste Italiane SpA and BancoPosta RFC's Separate Report. The Report has been prepared in euros, the currency of the economy in which the Group operates.

The Group's consolidated financial statements consist of the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the financial statements. All amounts in the consolidated financial statements and the notes are shown in millions of euros, unless otherwise stated.

The separate financial statements of Poste Italiane SpA consist of the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes. Amounts in the financial statements are shown in euros (except for the statement of cash flows, which is shown in thousands of euros), whilst those in the notes are shown in millions of euros, unless otherwise stated.

The consolidated and separate financial statements contain sections and notes applicable to both sets of financial statements, providing information on matters common to both the Group and Poste Italiane SpA. The relevant matters specifically regard:

- the basis of presentation used and accounting standards adopted;
- disclosure of the sources and the procedures used in determining fair value;
- financial risk disclosures;
- a summary of the principal proceedings pending and relations with the authorities at 31 December 2018;
- and, in general, certain additional disclosures required by accounting standards, whose presentation in a single section is designed to provide the reader with better information (e.g. the analysis of net debt, key performance indicators for investee companies, etc.).

BancoPosta RFC's Separate Report, which forms an integral part of Poste Italiane SpA's financial statements, prepared in accordance with the specific financial reporting rules laid down by the applicable banking regulations, is dealt with separately in this Section.

2. Basis of preparation and significant accounting policies

2.1 Compliance with IAS/IFRS

The annual accounts are prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), and endorsed by the European Union ("EU") in EC Regulation 1606/2002 of 19 July 2002, and in accordance with Legislative Decree 38 of 28 February 2005, which introduced regulations governing the adoption of IFRS in Italian law.

The term IFRS includes all the International Financial Reporting Standards, International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC", previously known as the Standing Interpretations Committee or "SIC"), adopted by the European Union and contained in the EU regulations published as of 19 March 2019, the date on which the Board of Directors of Poste Italiane SpA approved the annual accounts.

2.2 Basis of preparation

The accounting policies described below reflect the fact that the Group and Poste Italiane SpA will remain **fully operational** in the foreseeable future, in accordance with the **going concern assumption**, and are consistent with those applied in the preparation of the annuals accounts for the previous year. Amendments to accounting standards applicable from the accounting period under review have not had an impact on these financial statements (note 2.7 – *New accounting standards and interpretations and those soon to be effective*).

The statement of financial position has been prepared on the basis of the **"current/non-current distinction"**[35]. In the statement of profit or loss, **expenses are classified according to their nature**. The **indirect method**[36] has been applied in the preparation of the statement of cash flows.

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

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

In preparing the annual accounts, the CONSOB regulations contained in Resolution 15519 of 27 July 2006 and in Ruling DEM/6064293 of 28 July 2006 have been taken into account.

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

35. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period (IAS 1 (revised), paragraph 68).
36. Under the indirect method, net cash from operating activities is determined by adjusting profit/(loss) for the year to reflect the impact of non-cash items, any deferment or provisions for previous or future operating inflows or outflows, and revenue or cost items linked to cash flows from investing or financing activities.

frequency. These items of income and expense are only presented separately when they are both of an exceptional nature and were generated by a materially significant transaction.

Pursuant to article 2447-*septies* of the Italian Civil Code, following the creation of BancoPosta's ring-fenced capital in 2011, the assets and contractual rights included therein (hereafter: "BancoPosta RFC") are shown separately in Poste Italiane SpA's statement of financial position, in a specific supplementary statement, and in the notes to the financial statements.

With regard to the interpretation and application of newly published, or revised, international accounting standards, and to certain aspects of taxation[37], where the related interpretations are based on examples of best practice or case-law that cannot yet be regarded as exhaustive, the financial statements been prepared on the basis of the relevant best practices. Any future changes or updated interpretations will be reflected in subsequent reporting periods, in accordance with the specific procedures provided for by the related standards.

2.3 Summary of significant accounting policies and measurement criteria

The Poste Italiane Group's financial statements have been prepared on a **historical cost basis**, with the exception of certain items for which **fair value measurement** is obligatory.

The principal accounting policies adopted by the Poste Italiane Group are described below.

Property, plant and equipment

Property, plant and equipment is stated at acquisition or construction cost, less accumulated depreciation and any accumulated impairment losses. Cost includes any directly attributable costs incurred to prepare the asset for its intended use, and the cost of dismantling and removing the asset to be incurred as a result of legal obligations requiring the asset to be restored to its original condition. Borrowing costs incurred for the acquisition or construction of property, plant and equipment are recognised as an expense in the period in which they are incurred (with the exception of borrowing costs directly attributable to the acquisition or construction of a qualifying asset, which are capitalised as part of the cost of the asset in question). Costs incurred for routine and/or cyclical maintenance and repairs are recognised directly in profit or loss in the year in which they are incurred. The capitalisation of costs attributable to the extension, modernisation or improvement of assets owned by Group companies or held under lease is carried out to the extent that they qualify for separate recognition as an asset or as a component of an asset, applying the component approach, which requires each component with a different useful life and value to be recognised separately. The original cost is depreciated on a straight-line basis from the date the asset is available and ready for use, based on the asset's expected useful life.

The useful life and residual value of property, plant and equipment are reviewed annually and adjusted, where necessary, at the end of each year. Land is not depreciated. When a depreciable asset consists of separately identifiable components, with useful lives that are significantly different from those of the other components of the asset, each component is depreciated separately, in accordance with the component approach, over a period that does not exceed the life of the principal asset.

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

The Poste Italiane Group has estimated the following useful lives for the various categories of property, plant and equipment:

Category	Years
Buildings	25-33
Structural improvements to own assets	20
Plant	4-10
Light constructions	10
Equipment	5-10
Furniture and fittings	8
Electrical and electronic office equipment	3-10
Motor vehicles, automobiles, motorcycles	4-10
Leasehold improvements	estimated lease term*
Other assets	3-5

* Or the useful life of the improvement if shorter than the estimated lease term.

Property and any related fixed plant and machinery located on land held under concession or sub-concession, which is to be returned free of charge to the grantor at the end of the concession term, are accounted for, based on the nature of the asset, within property, plant and equipment and depreciated on a straight-line basis over the shorter of the useful life of the asset and the residual concession term.

Gains and losses deriving from the disposal or retirement of an asset are calculated as the difference between the disposal proceeds and the net carrying amount of the asset retired or sold, and are recognised in profit or loss in the period in which the transaction occurs.

Investment property

Investment property relates to land or buildings held with a view to earn rental or lease income or for capital appreciation or both; in both cases such property generates cash flows that are largely independent of other assets. The same accounting treatment is applied to investment property as to property, plant and equipment.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance, which is controllable and capable of generating future economic benefits. Intangible assets are recognised at cost, including any directly attributable costs required to prepare the asset for its intended use, less accumulated amortisation and any accumulated impairment losses. Borrowings costs are capitalised as part of the cost of the asset only if directly attributable to its purchase or development; otherwise, they are recognised as an expense in the period in which they are incurred. Amortisation is applied from the date the asset is ready for use, systematically over the remaining useful life of the asset, or its estimated useful life.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets and liabilities of the company or business acquired, at the date of acquisition. Goodwill attributable to investments accounted for using the equity method is included in the carrying amount of the equity investment. Goodwill is not amortised on a systematic basis, but is tested periodically for impairment in accordance with IAS 36. This test is performed with reference to the cash generating unit ("CGU") to which the goodwill is attributable. The method applied in conducting impairment tests and the impact on the accounts of any impairment losses are described in the paragraph, "Impairment of assets".

Industrial patents, intellectual property rights, licences and similar rights

The costs of acquiring industrial patents, intellectual property rights, licences and similar rights are capitalised. Amortisation is applied on a straight-line basis, in order to allocate the purchase cost over the shorter of the expected useful life of the asset and any related contract terms, from the date the entity has the right to use the asset.

Costs associated with developing or maintaining software programmes are recognised in profit or loss in the period in which they are incurred. Costs that are directly associated with the production of identifiable and unique software products, and that generate economic benefits beyond one year, are recognised as intangible assets. Directly attributable costs, to the extent separately identifiable and measurable, include the cost of staff involved in software development and an appropriate portion of the relevant overheads. Amortisation is calculated on the basis of the estimated useful life of the software, which is usually three years. Research costs are not capitalised.

Leased assets

Assets held under finance leases, where the risks and rewards of ownership are substantially transferred to the lessee, are recognised at fair value or, if lower, at the present value of the minimum lease payments. The corresponding obligation toward the lessor, which is equal to the principal amount of future lease payments, is recognised as a financial liability. Depreciation is calculated on a straight-line basis, based on the useful lives of the various categories of asset previously described for property, plant and equipment and intangible assets.

Leases where the lessor retains substantially all of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the lease term.

Impairment of assets

At the end of each reporting period, property, plant, equipment and intangible assets with finite lives are analysed to assess whether there is any indication that an asset may be impaired (as defined by IAS 36). If any such indication exists, the recoverable amount of the asset is estimated in order to determine the impairment loss to be recognised in profit or loss. The recoverable amount is the higher of an asset's fair value less costs to sell, and its value in use, represented by the present value of the future cash flows expected to be derived from the asset. In calculating value in use, future cash flow estimates are discounted using a rate that reflects current market assessments of the time value of money, the period of the investment and the risks specific to the asset. The realisable value of assets that do not generate separate cash flows is determined with reference to the cash generating unit (CGU) to which the asset belongs.

Regardless of any impairment indicator, the assets listed below are tested for impairment every year:

- place at any time during the year, provided that it is performed at the same time in each of the following years;
- goodwill acquired in a business combination.

An impairment loss is recognised in profit or loss for the amount by which the net carrying amount of the asset, or the CGU to which it belongs, exceeds its recoverable amount. In particular, if the impairment loss regards goodwill and is higher than the related carrying amount, the remaining amount is allocated to the assets included in the CGU to which the goodwill has been allocated, in proportion to their carrying amount[38]. Except in the case of goodwill, if the impairment indicators no longer exist, the carrying amount of the asset or CGU is reinstated and the reversal recognised in profit or loss. The reversal must not exceed the carrying amount that would have been determined had no impairment loss been recognised and depreciation or amortisation been charged.

38. If the amount of the impairment loss is greater than the carrying amount of the asset or CGU, in accordance with IAS 36, no liability is recognised, unless recognition of a liability is required by an international accounting standard other than IAS36.

Investments

In the Poste Italiane Group's consolidated financial statements, investments in subsidiaries that are not significant (individually or in the aggregate) and are not consolidated, and those in companies over which the Group exerts significant influence ("associates") and in joint ventures, are accounted for using the equity method. See note 2.4 – *Basis of consolidation*.

In Poste Italiane SpA's separate financial statements, investments in subsidiaries and associates are accounted for at cost (including any directly attributable incidental expenses), after adjustment for any impairments. Investments in subsidiaries and associates are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any impairment losses (or subsequent reversals of impairment losses) are recognised in the same way and to the same extent described with regard to property, plant and equipment and intangible assets in the paragraph, "Impairment of assets".

Financial instruments

The accounting treatment for financial instruments, modified following the entry into effect of the new accounting standard IFRS 9, is described in paragraph 3, "Changes to accounting policies".

Derivative instruments

Derivatives are initially recognised at fair value on the date the derivative contract is executed and if they do not qualify for hedge accounting treatment, gains and losses arising from changes in fair value are accounted for in profit or loss for the period.

If, on the other hand, derivative financial instruments qualify for hedge accounting, gains and losses arising from changes in fair value after initial recognition are accounted for in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement*, as described below.

The relationship between each hedging instrument and the hedged item is documented, as well as the risk management objective, the strategy for undertaking the hedge transaction and the methods used to assess effectiveness. Assessment of whether the hedging derivative is effective takes place both at inception of the hedge and throughout the term of the hedge.

- Fair value hedges[39]
  When the hedge is related to recognised assets or liabilities, or an unrecognised firm commitment, the changes in fair value of both the hedging instrument and the hedged item are recognised in profit or loss. When the hedging transaction is not fully effective, resulting in differences between the above changes, the ineffective portion represents a loss or gain recognised separately in profit or loss for the period.
  IAS 39 allows, in addition to individual assets and liabilities, the designation of a cash amount, representing a group of financial assets and liabilities (or portions thereof) as the hedged item in such a way that a group of derivative instruments may be used to reduce exposure to fair value interest rate risk (a so-called macro hedge). Macro hedges cannot be used for net amounts deriving from differences between assets and liabilities. Like micro hedges, macro hedges are deemed highly effective if, at their inception and throughout the term of the hedge, changes in the fair value of the cash amount are offset by changes in the fair value of the hedges, and if the effective results fall within the interval required by IAS 39.

- Cash flow hedge[40]
  The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges after initial recognition is recognised in a specific equity reserve, with movements in the reserve accounted for in "Other comprehensive income" (the "Cash flow hedge reserve"). A hedging transaction is generally considered highly effective if, both at inception of the hedge and on an ongoing basis, changes in the expected future cash flows of the hedged item are substantially offset by changes in the fair value of the hedging instrument. If the hedging transaction is not fully effective, the gain or loss arising from a change in fair value relating to the ineffective portion is recognised in profit or loss for the period.
  Amounts accumulated in equity are recycled to profit or loss in the period in which the hedged item affects profit or loss. In particular, in the case of hedges associated with a highly probable forecast transaction (such as the purchase of fixed income

39. A hedge of the exposure to a change in fair value of a recognised asset or liability or of an unrecognised firm commitment attributable to a particular risk, and that could have an impact on profit or loss.
40. A hedge of the exposure to the variability of cash flows attributable to a particular risk associated with an asset or liability or with a highly probable forecast transaction, and that could have an impact on profit or loss.

debt securities), the reserve is reclassified to profit or loss in the period or in the periods in which the asset or liability, subsequently accounted for and connected to the aforementioned transaction, will affect profit or loss (for example, an adjustment to the return on the security).
If, during the life of the derivative, the forecast hedged transaction is no longer expected to occur, the related gains and losses accumulated in the cash flow hedge reserve are immediately reclassified to profit or loss for the period. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the related gains and losses accumulated in the cash flow hedge reserve at that time remain in equity and are recognised in profit or loss at the same time as the original underlying.

Classification of receivables and payables attributable to BancoPosta RFC

Receivables and payables attributable to BancoPosta RFC are treated as financial assets and liabilities if related to BancoPosta's typical deposit-taking and lending activities, or services provided under authority from customers. The related operating expenses and income, if not settled or classifiable in accordance with Bank of Italy Circular 272 of 30 July 2008 – The Account Matrix, are accounted for in trade receivables and payables.

Own use exemption

The standards establishing the principles for the recognition and measurement of financial instruments are also applied to derivative contracts to buy or sell non-financial items that are settled net in cash or in another financial instrument, with the exception of contracts entered into, and that continue to be held, for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements (the own use exemption).

This exemption applies to the recognition and measurement of forward electricity contracts entered into by the subsidiary EGI SpA if the following conditions have been met:

- the contract involves the physical supply of a commodity;
- the entity has not entered into an offsetting contract;
- the transaction must be entered into in accordance with expected purchase and/or sale or usage requirements.

In the event of application of the own use exemption, the commitments assumed are reported in note 13 - *Additional information - Commitments*.

Income tax expense

Current income tax expense (IRES and IRAP) is based on the best estimate of taxable profit for the period and the related regulations, applying the rates in force. Deferred tax assets and liabilities are calculated on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts, using tax rates that are expected to apply when the related deferred tax assets are realised or the deferred tax liabilities are settled. Deferred tax assets and liabilities are not recognised if the temporary differences derive from investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary difference is controlled by the Group or it is probable that the temporary difference will not reverse in the foreseeable future (IAS 12.39 and 12.40). In accordance with IAS 12, deferred tax liabilities are not recognised on goodwill deriving from a business combination.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred taxes are recognised in profit or loss, with the exception of taxes charged or credited directly to equity, in which case the tax effect is recognised directly in equity. Current and deferred tax assets and liabilities are offset when they are applied by the same tax authority to the same taxpaying entity, which has the legally exercisable right to offset the amounts recognised, and the entity has the intention of exercising this right. As a result, tax liabilities accruing in interim periods that are shorter than the tax year are not offset against related assets deriving from withholding tax or advances paid.

The Group's tax expense and related accounting treatment reflect the effects of the election to adopt a tax consolidation arrangement, in accordance with relevant legislation, by Poste Italiane SpA, together with the subsidiaries, Poste Vita SpA, SDA Express Courier SpA, Mistral Air Srl, Postel SpA, Risparmio Holding *in liquidazione* SpA, Europa Gestioni Immobiliari SpA, Poste Welfare Servizi Srl, Poste Assicura SpA, BancoPostaFondi SpA SGR and PostePay SpA. The tax consolidation arrangement is governed by Group regulations based on the principles of neutrality and equality of treatment, which are intended to ensure that the companies included in the tax consolidation are in no way penalised as a result. Following adoption of the tax consolidation arrangement, the Parent Company's tax expense is determined at consolidated level on the basis of the tax expense or tax losses for the period for each company included in the consolidation, taking account of any withholding tax or advances paid. Poste Italiane SpA posts its IRES tax expense to income taxes for the period, after adjustments to take account of the positive or negative impact of tax consolidation adjustments. Should the reductions or increases in tax expense deriving from such adjustments be attributable to the companies included in the tax consolidation, Poste Italiane SpA attributes such reductions or increases in tax expense to the companies in question. The economic benefits deriving from the offset of tax losses transferred to the consolidating entity by the companies participating in the tax consolidation arrangement are recognised in full by Poste Italiane SpA. Other taxes not related to income are included in "Other operating costs".

Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of interchangeable items and goods for resale is calculated using the weighted average cost method. In the case of non-interchangeable items, cost is measured on the basis of the specific cost of the item at the time of purchase. The value of the inventories is adjusted, if necessary, by provisions for obsolete or slow-moving stock. When the circumstances that previously led to recognition of the above provisions no longer exist, or when there is a clear indication of an increase in the net realisable value, the provisions are fully or partly reversed, so that the new carrying amount is the lower of cost and net realisable value at the end of the reporting period. Assets are not, however, recognised in the statement of financial position when the Group has incurred an expense that, based on the best information available at the date of preparation of the financial statements, is deemed unlikely to generate economic benefits for the Group after the end of the reporting period.

In the case of properties held for sale[41], if present, cost is represented by the fair value of each asset at the date of acquisition, plus any directly attributable transaction costs, whilst the net realisable value is based on the estimated sale price under normal market conditions, less direct costs to sell.

Long-term contract work is measured using the percentage of completion method, using cost to cost accounting[42].

Green Certificates (Emission Allowances)

With reference to Group companies subject to these rules[43], Green Certificates (or Emission Allowances) are a means of reducing greenhouse gas emissions, introduced into Italian and European legislation by the Kyoto Protocol with the aim of improving the technologies used in the production of energy and in industrial processes.

The European Emissions Trading System, which works on the basis of the cap and trade principle, has capped annual greenhouse gas emissions at European level. This corresponds to the issue, free of charge, of a set number of emission allowances by the competent national authorities. During the year, depending on the effective volume of greenhouse gas emissions produced with respect to the above cap, each company has the option of selling or purchasing emission allowances on the market.

In compliance with the requirements of the *OIC* (the Italian accounting standards setter) regarding "Greenhouse gas emissions allowances", in addition to being best practice for the principal IAS adopters, the accounting treatment is as follows.

The issue, free of charge, of emission allowances involves a commitment to produce, in the relevant year, a quantity of greenhouse gas emissions in proportion to the emission allowances received: this commitment is accounted for in the memorandum accounts based on the fair value of the emission allowances at the time of allocation. At the end of the year, the commitment is reduced or derecognised in proportion to the greenhouse gas emissions effectively produced and any residual value is reported in the section, "Additional information", in the Annual Report. The purchase and sale of emission allowances are accounted

41. These are properties held by EGI SpA and not accounted for in "Investment property" as they were purchased for sale or subsequently reclassified as held for sale.
42. This method is based on the ratio of costs incurred as of a given date divided by the estimated total project cost. The resulting percentage is then applied to estimated total revenue, obtaining the value to be attributed to the contract work completed and accrued revenue at the given date.
43. The subsidiary, Mistral Air Srl.

for in profit or loss in the year in which the transaction occurs. At the end of the year, any surplus emission allowances deriving from purchases are accounted for in closing inventory at the lower of cost and net realisable value. Any surplus emission allowances allocated free of charge are not accounted for in closing inventory. In the event of a shortfall in emission allowances the resulting charge and related liability are accounted for at the end of the year at fair value.

BancoPosta cash and deposits

Cash and securities held at post offices, and bank deposits attributable to the operations of BancoPosta RFC, are accounted for separately from cash and cash equivalents as they derive from deposits subject to investment restrictions, or from advances from the Italian Treasury to ensure that post offices can operate. This cash cannot be used for purposes other than those relating to the aforementioned operations.

Cash and cash equivalents

Cash and cash equivalents refer to cash in hand, deposits held at call with banks, amounts that at 31 December 2018 the Parent Company has temporarily deposited with the MEF and other highly liquid short-term investments with original maturities of ninety days or less. Current account overdrafts are accounted for in current liabilities.

Non-current assets (or disposal groups) classified as held for sale and discontinued operations

In compliance with IFRS 5, non-current assets, disposal groups and discontinued operations are measured at the lower of their carrying amount and fair value, less costs to sell.

When it is highly probable that the carrying amount of a non-current asset, or a disposal group, will be recovered, in its present condition, principally through a sale transaction or other form of disposal, rather than through continuing use, and the transaction likely to take place in the short term, the asset or disposal group is classified as held for sale or as a discontinuing operation in the statement of financial position. The transaction is deemed to be highly probable, when the Parent Company's Board of Directors, or, when so authorised, the board of directors of a subsidiary, has committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan has been initiated. Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance.

Non-current assets and net assets in a disposal group held for sale are recognised as discontinued operations if one of the following conditions is met: i) they represent a major line of business or geographical area of operation, ii) they are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operation, or, iii) they are subsidiaries acquired exclusively with a view to resale. The profit or loss from discontinued operations, and any gains or losses following the sale, are presented separately in a specific item in profit or loss, after the related taxation, with comparatives.

If the commitment to a plan to sell is assumed after the end of the reporting period, and/or the asset or disposal group can only be included in the transaction under conditions that are different from the current conditions, the Group does not proceed with reclassification and discloses the necessary information.

If, after the date of preparation of the financial statements, an asset (or disposal group) no longer meets the conditions for classification as held for sale, it must be reclassified following measurement at the lower of:

- the carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation, impairments or reversals of impairments that would have been recognised if the asset (or disposal group) had not been classified as held for sale;
- the recoverable amount, calculated at the date on which the decision not to sell was made.

Any adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale is included in "Profit/(Loss) for the year from continuing operations" in the period in which it no longer meets the conditions for classification as held for sale. If an individual asset or liability is removed from the disposal group classified as held for sale, the remaining assets and liabilities in the disposal group continue to be measured as a single group only if they continue to meet the conditions for classification as held for sale.

Equity

Share capital

Share capital is represented by Poste Italiane SpA's subscribed and paid-up capital. Incremental costs directly attributable to the issue of new shares are recognised as a reduction of the share capital, net of any deferred tax effect.

Reserves

Reserves include capital and revenue reserves. They include, the BancoPosta ring-fenced capital reserve (hereafter "BancoPosta RFC"), representing the dedicated assets attributed to BancoPosta RFC, the Parent Company's legal reserve, the fair value reserve, relating to items recognised at fair value through equity, and the cash flow hedge reserve, reflecting the effective portion of hedging instruments outstanding at the end of the reporting period.

Retained earnings

This relates to the portion of profit for the period and for previous periods which has not been distributed or taken to reserves or used to cover losses and actuarial gains and losses deriving from the calculation of the liability for employee termination benefits. This item also includes transfers from other equity reserves, when they have been released from the restrictions to which they were subjected.

Insurance contracts

The following policies and classification and measurement criteria refer specifically to the operations of the Poste Italiane Group's insurance companies.

Insurance contracts are classified and measured as insurance contracts or finance contracts, based on their prevalent features. Contracts issued by Poste Vita SpA primarily relate to life assurance. In 2010 Poste Assicura SpA began operating in the non-life sector.

The Group applies the following bases for classification and measurement of these contracts.

Insurance contracts in accordance with the provisions of IFRS 4

Contracts classified as insurance contracts in accordance with IFRS 4 include Class I and Class V life insurance policies, Class III policies that qualify as insurance contracts and non-life insurance contracts. These products are accounted for as follows:

- insurance premiums are accounted for when the policies are written, recognised as income and classified in revenue (shown net of outward reinsurance premiums); they include annual or single premiums accruing during the period and deriving from insurance contracts outstanding at the end of the reporting period, net of cancellations;
- technical provisions are made in respect of earned premiums to cover obligations to policyholders; such provisions are calculated on an analytical basis for each contract using the prospective method, based on actuarial assumptions appropriate to cover all outstanding obligations. An increase in technical provisions and the cost of claims are recognised as expenses in profit or loss, whilst a reduction in technical provisions, compared with the previous period, is recognised in income.

Contracts for separately managed accounts with discretionary participation features

In the case of contracts for separately managed accounts with discretionary participation features[44] (as defined in Appendix A of IFRS 4), IFRS 4 makes reference to national GAAP. The contracts are classified as "financial", but accounted for as "insurance" as follows:

- premiums, movements in technical provisions and other claims expenses are recognised in the same way as the insurance contracts described above;
- unrealised gains and losses attributable to policyholders are assigned to them and recognised in technical provisions (deferred liabilities payable to policyholders) under the shadow accounting method (IFRS 4.30).

The calculation technique used in applying the shadow accounting method is based on the prospective yield on each separately managed account, considering a hypothetical realisation of unrealised gains and losses over a period which is consistent with the characteristics of the assets and liabilities held in the portfolio. The amount to be recognised as a deferred liability also takes account, for each separately managed account, of contractual obligations, the level of minimum returns guaranteed at the time of concluding the contract and any financial guarantees provided.

Provisions for risks and charges

Provisions for risks and charges are recorded to cover losses that are either probable or certain to be incurred, for which, however, there is an uncertainty as to the amount or as to the date on which they will occur.

Provisions for risks and charges are made when the Group has a present (legal or constructive) obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation. Provisions are measured on the basis of management's best estimate of the use of resources required to settle the obligation. The value of the liability is discounted at a rate that reflects current market values and takes into account the risks specific to the liability. In those rare cases in which disclosure of some or all of the information regarding the risks in question could seriously prejudice the Group's position in a dispute or in ongoing negotiations with third parties, the Group exercises the option granted by the relevant accounting standards to provide limited disclosure.

44. A contractual right of investors to receive returns on the separately managed account.

Employee benefits

Short-term benefits

Short-term employee benefits are those that will be fully paid within twelve months of the end of the year in which the employee provided his or her services. Such benefits include wages, salaries, social security contributions, holiday pay and sick pay.

The undiscounted value of short-term employee benefits to be paid to employees in consideration of employment services provided over the relevant period is accrued as personnel expenses.

Post-employment benefits

Post-employment benefits consist of two types:

- Defined benefit plans
  Defined benefit plans include employee termination benefits payable to employees in accordance with article 2120 of the Italian Civil Code. For all companies with at least 50 employees, covered by the reform of supplementary pension provision, from 1 January 2007 vesting employee termination benefits (*TFR*) must be paid into a supplementary pension fund or into a Treasury Fund set up by INPS. Accordingly, the company's defined benefit liability is applicable only to the provisions made up to 31 December 2006[45].
  In the case of companies with less than 50 employees, to which the reform of supplementary pension provision does not apply, vested employee termination benefits continue to represent a defined benefit liability for the company.
  Under these plans, given that the amount of the benefit to be paid is only quantifiable following the termination of employment, the related effects on profit or loss or the financial position are recognised on the basis of actuarial calculations in compliance with IAS 19. In particular, the liability to be paid on cessation of employment is calculated using the projected unit credit method and then discounted to recognise the time value of money prior to the liability being settled. The liability recognised in the financial statements is based on calculations performed by independent actuaries.
  The calculations take account of termination benefits accrued for the period of service to date and are based on actuarial assumptions. These primarily regard: demographic assumptions (such as employee turnover and mortality) and financial assumptions (such as rate of inflation and a discount rate consistent with that of the liability). In the case of companies with at least 50 employees, as the company is not liable for employee termination benefits accruing after 31 December 2006, the actuarial calculation of employee termination benefits no longer takes account of future salary increases. Actuarial gains and losses at the end of each reporting period, based on the difference between the carrying amount of the liability and the present value of the Group's obligations at the end of the period, due to changes in the actuarial assumptions, are recognised directly in *Other comprehensive income*.

- Defined contribution plans
  TFR falls within the scope of defined contribution plans provided the benefits vested subsequent to 1 January 2007 and were paid into a Supplementary Pension Fund or a Treasury Fund at INPS. Contributions to defined contribution plans are recognised in profit or loss when incurred, based on their nominal value.

Termination benefits

Termination benefits payable to employees are recognised as a liability when the entity gives a binding commitment, also on the basis of consolidated relationships and mutual undertakings with union representatives, to terminate the employment of an employee, or group of employees, prior to the normal retirement date or, alternatively, an employee or group of employees accepts an offer of benefits in consideration of a termination of employment. Termination benefits payable to employees are immediately recognised as personnel expenses.

45. Where, following entry into effect of the new legislation, the employee has not exercised any option regarding the investment of vested employee termination benefits, the Group has remained liable to pay the benefits until 30 June 2007, or until the date, between 1 January 2007 and 30 June 2007, on which the employee exercised a specific option. Where no option was exercised, from 1 July 2007 vested employee termination benefits have been paid into a supplementary pension fund.

Other long-term employee benefits

Other long-term employment benefits consist of benefits not payable within twelve months of the end of the reporting period during which the employees provided their services. The net change in the value of any of the components of the liability during the reporting period is recognised in full in profit or loss. Measurement of the other long-term employee benefits liability is recognised in the financial statements also on the basis of calculations performed by independent actuaries.

Share-based payment

Goods or services received or acquired and the liability assumed in a share-based payment transaction – settled in cash, equity instruments or in other financial instruments – are recognised at fair value. In the case of a cash-settled transaction, the fair value of the liability is remeasured at the end of each reporting period, with any changes in fair value recognised in profit or loss, until the liability is settled. In the case of employee benefits, the expense is recognised in personnel expenses over the period in which the employee renders the relevant service.

Translation of items denominated in currencies other than the euro

Transactions in currencies other than the euro are translated to euro using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at closing exchange rates of monetary assets and liabilities denominated in currencies other than the euro are recognised in profit or loss.

Revenue recognition

The method of recognising revenue from contracts with customers has been modified following the introduction of IFRS 15 – *Revenue from Contracts with Customers*. The new policy is described in paragraph 3, "*Changes to accounting policies*".

Revenue from activities carried out in favour of or on behalf of the state and Public Administration entities is recognised on the basis of the amount effectively accrued, with reference to the laws and agreements in force, taking account, in any event, of the instructions contained in legislation regarding the public finances. The return on the current account deposits held by the MEF is determined using the effective interest method and is recognised as revenue from financial services. The same classification is applied to income from euro area government securities, in which deposits paid into accounts by private customers are invested.

Government grants

Government grants are recognised once they have been formally allocated to the Group by the public entity concerned and only if, based on the information available at the end of the year, there is reasonable assurance that the project to which the grant relates will be effectively carried out and completed in accordance with the conditions attached to the grant. Government grants are recognised in profit or loss as other operating income as follows: grants related to income are recognised in proportion to the costs actually incurred for the project and accounted for to the public entity; grants related to property, plant and equipment are recognised in proportion to the depreciation charged on the assets acquired and used to carry out the projects and whose cost have been accounted for to the public entity.

Finance income and costs

Finance income and costs are recognised on an accruals basis based on the effective interest method, i.e. using an interest rate that discounts all cash flows relating to a given transaction in the same way.

Interest income deriving from application of the effective interest rate method, as defined in paragraph 82(a) of IAS 1 – *Presentation of Financial Statements*, is described in section 5.3 – Notes to the statement of profit or loss.

Dividends

Dividends are recognised as finance income when the right to receive payment is established, which generally corresponds with approval of the distribution by the Shareholders Meeting of the investee company. Dividends from subsidiaries are accounted for as “Other operating income”.

Earnings per share

In the Poste Italiane Group’s consolidated financial statements, earnings per share is determined as follows:

Basic: basic earnings per share is calculated by dividing the Group’s profit for the year by the weighted average number of Poste Italiane SpA’s ordinary shares in issue during the period.

Diluted: At the date of preparation of these financial statements no financial instruments have been issued which have potentially dilutive characteristics[46].

Related parties

Related parties within the Group refer to Poste Italiane SpA’s direct and indirect subsidiaries and associates. Related parties external to the Group include the MEF and its direct or indirect subsidiaries and associates. The Group’s key management personnel are also classified as related parties, as are funds providing post-employment benefits to the Group’s employees and the related entities. The state and Public Administration entities other than the MEF are not classified as related parties. Related party transactions do not include those deriving from financial assets and liabilities represented by instruments traded on organised markets.

2.4 Basis of consolidation

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

- has power over the investee;
- is exposed, or has rights to, variable returns from its involvement with the investee;
- has the ability to influence those returns through its power over the investee.

Control is exercised both via direct or indirect ownership of voting shares, and via the exercise of dominant influence, defined as the power to govern the financial and operating policies of the entity, including indirectly based on legal agreements, obtaining the related benefits, regardless of the nature of the equity interest. In determining control, potential voting rights exercisable at the end of the reporting period are taken into account.

The consolidated financial statements have been specifically prepared at 31 December 2018, after appropriate adjustment, where necessary, to align accounting policies with those of the Parent Company.

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

46. Diluted earnings per share are calculated by taking into account the potentially dilutive effect of all instruments which can be converted into ordinary shares issued by the Parent Company. The calculation is based on the ratio of profit attributable to the Parent Company, adjusted to take account of any costs or income deriving from the conversion, net of any tax effect, and the weighted average number of shares outstanding, assuming conversion of all convertible securities.

used for line-by-line consolidation are as follows:

- the assets, liabilities, costs and revenue of consolidated entities are accounted for on a line-by-line basis, separating where applicable the equity and profit/(loss) amounts attributable to non-controlling interests in consolidated equity and consolidated profit or loss;
- business combinations, in which control over an entity is acquired, are accounted for using the acquisition method. The cost of acquisition is based on the fair values of the assets given, the liabilities incurred and the equity instruments issued by the acquirer, plus any directly attributable acquisition costs incurred. Any difference between the cost of acquisition and the fair values of the assets and liabilities acquired, following review of their fair value, is recognised as goodwill arising from consolidation (if positive), or recognised in profit or loss (if negative);
- acquisitions of non-controlling interests in entities already controlled by the Group are not accounted for as acquisitions, but as equity transactions; in the absence of a relevant accounting standard, the Group recognises any difference between the cost of acquisition and the related share of net assets of the subsidiary in equity;
- any significant gains and losses (and the related tax effects) on transactions between companies consolidated on a line-by-line basis, to the extent not yet realised with respect to third parties, are eliminated, as are intercompany payables and receivables, costs and revenue, and finance costs and income;
- gains and losses deriving from the disposal of investments in consolidated companies are recognised in profit or loss based on the difference between the sale price and the corresponding share of consolidated equity disposed of.

Investments in subsidiaries that are not significant and are not consolidated, and those in companies over which the Group exerts significant influence (assumed when the Group holds an interest of between 20% and 50%), hereinafter “associates”, and joint ventures are accounted for using the equity method.

At the time of acquisition, the investment is accounted for using the equity method. Any difference between the cost of acquisition of the investment and the net fair value of the investee’s identifiable assets and liabilities is accounted for as follows:

a. goodwill related to an associate or a joint venture is included in the carrying amount of the investment. Amortisation of such goodwill is not permitted

b. in determining the initial value of the entity’s investment, any excess of the entity’s interest in the net fair value of investee’s identifiable assets and liabilities over cost is recognised as income in determining the acquirer’s interest in the profit (loss) for the period of the associate or joint venture in the period in which the interest is acquired.

After acquisition, appropriate adjustments are made to the entity’s share of the profits or losses of the associate or joint venture to account, for example, for additional depreciation or amortisation of the investee’s depreciable or amortisable assets, based on the excess of their fair values over their carrying amounts at the time the investment was acquired, and of any impairment losses on goodwill or property, plant and equipment.

The equity method is as follows:

- the Group’s share of an entity’s post-acquisition profits or losses is recognised in profit or loss from the date on which significant influence or control is obtained until the date on which significant influence or control is no longer exerted by the Group; provisions are made to cover a company’s losses that exceed the carrying amount of the investment, to the extent that the Group has legal or constructive obligations to cover such losses; changes in the equity of companies accounted for using the equity method not related to the profit/(loss) for the year are recognised directly in equity;
- unrealised gains and losses on transactions between the Parent Company/subsidiaries and the company accounted for using the equity method are eliminated to the extent of the Group’s interest in the associate; unrealised losses, unless relating to impairment, are eliminated.

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

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

A list of companies consolidated on a line-by-line basis and using the equity method is provided in note 11 - *Additional information – Information on investments.*

2.5 Use of estimates

Preparation of the annual accounts requires the application of accounting standards and methods that are at times based on complex subjective judgments and estimates based on historical experience, and assumptions that are considered reasonable and realistic under the circumstances. Use of such estimates and assumptions affects the amounts reported in the financial statements and related disclosures. The actual amounts of items for which the above estimates and assumptions have been applied may differ from those reported in previous financial statements, due to uncertainties regarding the assumptions themselves and the conditions on which estimates are based. Estimates and assumptions are periodically reviewed and the impact of any changes is reflected in the financial statements for the period in which the estimate is revised if the revision only influences the current period, or also in future periods if the revision influences both current and future periods.

This section provides a description of accounting treatments that require the use of subjective estimates and for which a change in the conditions underlying the assumptions used could have a material impact on the Group's financial statements.

Revenue and receivables due from the State

The Group has substantial receivables due from the State, though the amount is much lower than in the past. Revenue from activities carried out in favour of or on behalf of the State and Public Administration entities is recognised on the basis of the amount effectively accrued, with reference to the laws and agreements in force, taking account, in any event, of the instructions contained in legislation regarding the public finance. The legal framework of reference is still subject to change and, as has at times been the case, circumstances were such that estimates made in relations to previous financial statements, with effects on the statement of profit and loss, had to be changed. The complex process associated with the determination of receivables, which was not yet completed at the date this document was published, may result in changes in the results for the years subsequent to 2018 to reflect variations in estimates.

At 31 December 2018, Poste Italiane Group's receivables outstanding with central and local authorities amounts to €881 million (€969 million at 31 December 2017), gross of provisions for doubtful debts.

The table below summarises receivables due from the State:

Receivables		at 31 December 2018	at 31 December 2017
Universal Service compensation	(i)	31	31
Electoral subsidies	(ii)	1	83
Remuneration of current account deposits	(iii)	39	25
Delegated services	(iii)	28	56
Other		1	2
Trade receivables due from the MEF		**100**	**197**
Shareholder transactions:			
Amount due from MEF following cancellation of EC Decision of 16 July 2008	(iv)	39	39
Total amounts due from the MEF		**139**	**236**
Receivables due from Ministries and Public Administration entities: Cabinet Office for publisher tariff subsidies	(v)	104	43
Receivables due from Ministries and Public Administration entities: Ministry for Econ. Dev.	(vi)	78	77
Other trade receivables due from Public Administration entities	(vii)	490	538
Trade receivables due from Public Administration entities		**672**	**658**
Other receivables and assets:			
Sundry receivables due from Public Administration entities	(viii)	3	8
Amounts receivable for IRES refund		55	55
Amounts receivable for IRAP refund		12	12
Current tax assets and related interest	**(ix)**	**67**	**67**
Total amounts due from the MEF and Public Administration entities		**881**	**969**

Specifically, at 31 December 2018, the total exposure to the State includes the following items.

i. Receivables related to Universal Service compensation, totalling €31 million and relating to compensation for previous years not funded in the state budget, for which provisions for doubtful debts for the full amount have been made. In 2018, the Group received €262 million in accrued compensation for the period (see note 5.2 – A7 Trade receivables).

ii. Residual receivables related to electoral tariff subsidies, totalling €1 million, fully funded in the state budget. In 2018, after agreement was reached with the MEF regarding the release of the funds, a total of €55 million was made available, having been deposited by the MEF in a non-interesting bearing escrow account in Poste Italiane SpA's name, held with the Treasury, in December 2017; a further €27 million was also collected.

iii. Sums due from the MEF for an amount of €67 million accrued during the period.

iv. Receivables of €39 million following cancellation of the EC Decision of 16 July 2008 and the interest due as a result of the sentence of the European Court of 30 September 2013, the impact of which on the Parent Company's equity was deferred or adjusted.

v. A sum due from the Cabinet Office in the form of publisher tariff subsidies[47], totalling €104 million, including €62 million accrued during the period and almost entirely funded in the state budgets for 2017 and 2018. These receivables are shown gross of collection of an amount of €72 million in subsidies for 2017 and the first half of 2018, which was deposited by the Cabinet Office in a non-interest bearing escrow account with the Italian Treasury and, for this reason, accounted for in "Prepayments received". Release of the amount deposited and extinguishment of the receivables in question are awaiting approval from the European Commission.

vi. Receivables due from the Ministry for Economic Development, amounting to €78 million, including receivables of €62 million that are the subject of legal proceedings following the decision by the State Attorney's Office not to clear a negotiated settlement worth approximately €50 million; with regard to the remaining amount, a joint working group has been set up with the debtor to agree on the amount of the services to be billed, partly on the basis of the results of the expert appraisal conducted as part of the above legal action.

vii. Regarding receivables outstanding with central and local government entities, totalling €490 million, certain items are still overdue, mainly because no provision was made in the relevant budgets or in connection with contracts or agreements. To this end, steps continue to be taken to renew the expired agreements and to make the necessary provisions[48].

viii. Other receivables of €3 million, for which provisions for doubtful debts for the full amount have been made, and for which legal action and out-of-court procedures are in progress.

ix. Remaining current assets and the related interest to be recovered in relation to:
   - €55 million in IRES to be recovered on the unreported lump-sum deduction equal to 10% of IRAP and the unreported deduction of IRAP incurred on personnel expenses, including €8 million in principal and €47 million in interest. Recovery of a large part of the amount due, attributable to the Parent Company, Poste Italiane, is the subject of two disputes heard by the Provincial Tax Tribunal for Rome, which has upheld Poste Italiane's appeals, ordering the tax authorities in Rome to refund the amounts claimed, in addition to the payment of interest. The tax authorities have appealed both rulings before the Regional Tax Tribunal and, on 23 March 2018, the Tribunal upheld the tax authorities' appeal against one of the rulings. Poste Italiane has appealed this ruling before the Supreme Court of Cassation. The recent ruling, in contrast with other previous favourable rulings, introduces new elements of uncertainty as regards the final outcome. The progress of the dispute is being closely monitored and should further developments lead the Company to reach a new and revised assessment of the situation, this will be reflected in future financial statements.
   - €12 million in IRAP to be recovered on the unreported deduction of expenses for disabled personnel in 2003. This receivable, including accrued interest of approximately €3 million at 31 December 2018, was assessed during the year under review, following the ruling handed down by the Regional Tax Tribunal for Lazio, which upheld an earlier appeal brought by the Parent Company, challenging the failure of the tax authorities in Rome to refund the amount claimed. This ruling was not appealed within the statutory deadline and is thereby final.

At 31 December 2018, provisions for doubtful debts reflect receivables for which no provision had been made in the state budget and uncertainties regarding past due amounts due from the Public Administration.

47. Publisher tariff subsidies were reinstated by Law Decree 244/2016 (the so-called "*Mille Proroghe*" decree), in effect from 1 January 2017 and converted with amendments into Law 19 of 27 February 2017.
48. The principal agreements that have expired regard those governing relations with the tax authorities in relation to the collection and the reporting of payments.

Provisions for risks and charges

The Group makes provisions for probable liabilities deriving from disputes with staff, suppliers, and third parties and, in general, for liabilities deriving from present obligations. These provisions cover the liabilities that could result from legal action of varying nature, the impact on profit or loss of seizures incurred and not yet definitively assigned, and amounts expected to be refundable to customers where the final amount payable has yet to be determined.

Determination of the provisions involves the use of estimates based on current knowledge of factors that may change over time, potentially resulting in outcomes that may be significantly different from those taken into account in preparing these financial statements.

Impairment tests of cash generating units and equity investments

Goodwill and other non-current assets are tested for impairment in accordance with the applicable accounting standards.

Impairment testing involves the use of estimates based on factors that may change over time, potentially resulting in effects that may be significantly different from prior year estimates.

In the Parent Company's case, the Mail, Parcels and Distribution segment, to which goodwill is allocated, was tested for impairment. Each of the other Group companies is considered a separate CGU.

The impairment tests at 31 December 2018 were performed on the basis of the business plans of the units concerned or the latest available projections. Data from the last year of the plan have been used to project cash flows for subsequent years over an indefinite time, and the resulting value was then discounted using the Discounted Cash Flow (DCF) method. For the determination of value in use, NOPLAT (net operating profit less adjusted taxes) was capitalised using an appropriate growth rate and discounted using the related WACC (Weighted Average Cost of Capital)[49].

With regard to Poste Italiane SpA alone, impairment tests were carried out on investments. The methods and criteria used to carry out the tests are in line with those described in relation to goodwill and other intangible assets.

With regard to the impairment test of the investment in FSIA Investimenti Srl, given the absence of reliable medium-term projections, the fair value of the investment at 31 December 2018 was determined (level 3 in the hierarchy) using market multiples. To identify the market multiple to use, reference was made to a study of a comparable company by a leading investment bank. The multiple used was 13.5 based on EBITDA for 2019 and 14.8 based on EBITDA for 2018.

The results of impairment tests are reported in notes 5.2 - A4 – Investments accounted for using the equity method, 5.2 - A3 – Intangible assets (with regard to goodwill) and 6.3 – A4 Investments.

Goodwill

Goodwill is tested at least annually to assess whether or not it has suffered any impairment to be recognised in profit or loss.

The test involves the allocation of goodwill to the various cash generating units and the subsequent measurement of the related recoverable amount. If the resulting recoverable amount is lower than the carrying amount of the cash generating unit, it is necessary to reduce the value of goodwill allocated to the unit. The allocation of goodwill to cash generating units and the measurement of their fair value involves the use of estimates based on factors that may change over time, affecting the analyses performed.

49. In the test carried out at 31 December 2018, use was made of an assumed growth rate between 1.48% and 1.67%, while the WACC for each CGU tested for impairment, determined in accordance with best market practices and for each operating segment, ranged from 6.42% to 8.57%. The cost of equity (Ke) is 7.99% for banking activities and 8.51% for asset management activities.

Measurement of other non-current assets

The current economic and financial crisis - which has resulted in highly volatile markets and great uncertainty with regard to economic projections - and the decline of the postal market in which the Group operates make it difficult to produce forecasts that can, with certainty, be defined as reliable. In this context, as at 31 December 2018, in part in view of the content of the Group's Strategic Plan for 2018-2022, approved by the Parent Company's Board of Directors on 26 February 2018, and the ongoing crisis in the postal and real estate sectors, the Parent Company's Mail, Parcels and Distribution segment was tested for impairment in order to determine a value in use to compare with the total carrying amount of net invested capital. In estimating the value in use of the segment, reference was made to revenue and cost projections in the Strategic Plan for 2018-2022, whilst the terminal value, calculated on the basis of data for the latest explicit projection period, was based on normalised earnings, taking into account the existence of potential positive elements whose value was not reflected in the explicit projections over the life of the plan. Reference was also made to the transfer prices that BancoPosta RFC is expected to pay for the services provided by Poste Italiane's distribution network, as determined in the new Strategic Plan. A WACC of 6.42% was used. The impairment test determined that the related carrying amounts are fair.

In addition, in assessing the value of non-current assets of the Mail, Parcels and Distribution segment, account was taken of any effect on the value in use of certain properties, should such properties no longer be used in operations in future, making adjustments to certain impairment losses taken in the past in the light of new evidence available at 31 December 2018. The fair value of the Parent Company's properties used in operations continued to be significantly higher than their carrying amount, as confirmed by the progressive updates of the property valuations carried out by a leading independent expert. As in the past, in determining the value of properties used as post offices and sorting centres, Poste Italiane SpA's universal service obligation was taken into account, as was the inseparability of the cash flows generated from the properties that provide this service, (which the Parent Company is required to operate throughout the country regardless of the expected profitability of each location); the unique nature of the operating processes involved and the substantial overlap between postal and financial activities within the same outlets, represented by post offices, were also considered. On this basis, the value in use of the Parent Company's land and buildings used in operations is relatively unaffected by changes in the commercial value of the properties concerned and, in certain critical market conditions, certain properties may have values that are significantly higher than their market value, without this having any impact on the cash flows or results of the Mail, Parcels and Distribution segment.

Depreciation and amortisation of property, plant and equipment and intangible assets

The cost of these assets is depreciated or amortised on a straight-line basis over the estimated useful life of the asset. The useful life is determined at the time of acquisition and is based on historical experience of similar investments, market conditions and expectations regarding future events that may have an impact, such as technological developments. The actual useful life may, therefore, differ from the estimated useful life. Each year, changes in technology and within the industry and the costs of dismantling tangible assets and their recoverable amounts are reviewed in order to update the residual useful lives of such assets. This periodic update may lead to changes in the depreciation or amortisation period and thus in charges for depreciation or amortisation in the current and in future years.

In the case of assets to be handed over, located on land held under concession or sub-concession, on expiry of the concession term, or whilst awaiting confirmation of renewal, any additional depreciation of assets takes into account the probable residual duration of the right to use the assets to provide public services, to be estimated on the basis of the framework agreements entered into with the Public Administration entity, the status of negotiations with the grantors and past experience.

Deferred tax assets

The recognition of deferred tax assets is based on the expectation of taxable income in future years. Assessments of expected taxable income depend on factors which may change over time, impacting on the valuation of the deferred tax assets in the statement of financial position.

Fair value of unquoted financial instruments

The fair value of financial instruments that are not traded on an active market is based on prices quoted by external dealers or on internal valuation techniques which estimate the transaction price on the measurement date in an arm's length exchange motivated by normal business considerations. The valuation models are primarily based on market variables, considering where possible, the prices in recent transactions and quoted market prices for substantially similar instruments, and of any related credit risk.

Technical provisions for insurance business

The measurement of technical provisions for the insurance business is based on estimates made by actuaries employed by Poste Vita SpA, based on a series of material assumptions, including technical, actuarial, demographic and financial assumptions, as well as on projections of future cash flows from the insurance contracts entered into by Poste Vita and Poste Assicura and effective at the end of the year. In order to verify the adequacy of the provisions, liability adequacy tests (LATs), (which measure the ability of future cash flows from the insurance contracts to cover liabilities towards the policyholders), are periodically performed. The LAT is conducted on the basis of the present value of future cash flows, obtained by projecting expected future cash flows from the existing portfolio to the end of the reporting period, based on appropriate assumptions regarding the cause of termination (death, surrender, redemption, reduction) and the performance of claims expenses. If necessary, technical provisions are topped up and the related cost charged to profit or loss.

Employee termination benefits (*TFR*)

The calculation of employee termination benefits is also conducted by independent actuaries, considering vested termination benefits for the period of service to date and actuarial assumptions of a demographic, economic and financial nature. These assumptions, which are based on the Group's experience and relevant best practices, are subject to periodic reviews.

Share-based payment

As more fully described in note 13 *Additional information – Share-based payment arrangements*, measurement of the fair value of the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan", approved by Poste Italiane SpA's shareholders on 24 May 2016, and the short-term incentive plan (MBO) for BancoPosta RFC's material risk takers (approved by Poste Italiane SpA's shareholders on 27 April 2017 and 29 May 2018), along with the related impact following the termination of employment, was based on the conclusions of independent actuaries. The plan terms and conditions link the award of the related options to the occurrence of certain events, such as the achievement of performance targets and performance hurdles and, in certain areas of operation, compliance with certain capital adequacy and short-term liquidity requirements. For these reasons, measurement of the liability, based on the outcome of an appraisal by external actuaries, involves the use of estimates based on current knowledge of factors that may change over time, potentially resulting in outcomes that may be significantly different from those taken into account in preparing these financial statements.

2.6 Determination of fair value

The Poste Italiane Group has adopted a fair value policy, setting out the general principles and rules to be applied in determining fair value for the purposes of preparing the financial statements, conducting risk management assessments and supporting the market transactions carried out by the Finance departments of the various Group entities. The principles and rules to be applied in measuring the fair value of financial instruments are unchanged with respect to 31 December 2017 and have been defined in compliance with indications from the various (banking and insurance) regulators and the relevant accounting standards, ensuring consistent application of the valuation techniques adopted at Group level. The methods used have been revised, where necessary, to take into account developments in operational procedures and in market practices during the year, and the guidelines for the Group's financial management reviewed and approved by Poste Italiane SpA's Board of Directors in December 2017.

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

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

The hierarchy consists of three levels.

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

1. **Bonds quoted on active markets:**
   - **Bonds issued by EU government bodies or Italian or foreign corporate bonds:** measurement is based on bid prices, according to a hierarchy of sources where the MTS (the wholesale electronic market for government securities) ranks first, MILA (Milan Stock Exchange) second, for bonds intended for retail customers, and the CBBT (Composite Bloomberg Bond Trader) third;
   - **Financial liabilities**: measurement is based on the ask prices quoted by CBBT (*Bloomberg Composite Price*).
2. **Equities and ETFs (*Exchange Traded Fund*) quoted on active markets:** measurement is based on the price resulting from the last trade of the day on the stock exchange of reference.
3. **Quoted investment funds**: measurement is based on the daily closing market price as provided by Bloomberg or the fund manager. Level 1 bond price quotations incorporate a credit risk component. Exchange rates published by the European Central Bank are used in determining the value of financial instruments denominated in currencies other than the euro.

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

1. **Bonds either quoted on inactive markets or not at all:**
   - **Straight Italian and international government and non-government bonds:** valued using discounted cash flow techniques involving the computation of the present value of future cash flows, inputting rates from yield curves incorporating spreads reflecting credit risk that are based on spreads determined with reference to quoted and liquid benchmark securities issued by the issuer, or by other companies with similar characteristics to the issuer. Yield curves may be slightly adjusted to reflect liquidity risk relating to the absence of an active market.
   - **Structured bonds:** measurement is based on a building blocks approach, where the structured bond is broken down into its basic components: the bond component and the option component. The bond component is measured by discounting cash flows to present value in line with the approach applicable to straight bonds, as defined above. The option component - which considering the features of the bonds included in the portfolio of the Poste Italiane Group relates to interest rate risk - is measured in accordance with a standard closed form expression as with classical option valuation

models with underlyings exposed to such risks. In the case of structured bonds used to hedge index-linked policies (before ISVAP regulation no. 32), measurement is based on the bid price provided by the financial counterparties with which buyback agreements have been struck.

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

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

4. **Derivative financial instruments:**

   - **Interest rate swaps:**
     Plain vanilla interest rate swaps: valued using discounted cash flow techniques, involving the computation of the present value of future differentials between the receiver and payer legs of the swap. The construction of yield curves to estimate future cash flows indexed to market parameters (money market rates and/or inflation) and computation of the present value of future differentials are carried out using techniques commonly used in capital markets.
     Interest rate swaps with an embedded option: valuation is based on a building block approach, entailing decomposition of a structured position into its basic components: the linear and option components. The linear component is measured using the discounted cash flow techniques described for plain vanilla interest rate swaps above. Using the derivatives held in Poste Italiane's portfolio as an example, the option component is derived from interest rate or inflation rate risks and is valued using a closed form expression, as with classical option valuation models with underlyings exposed to such risks.
   - **Bond forward:** valuation is based on the present value of the differential between the forward price of the underlying instrument as of the measurement date and the settlement price.
   - **Warrant:** considering the features of the securities held, measurement is based on the local volatility model. In particular, considering that buyback agreements have been entered into with the counterparties that structured these warrants, and that such counterparties use valuation models consistent with those used by the Group, these instruments are measured on the basis of the bid price quoted by the counterparties.
   - **Currency forwards:** valuation is based on the differential between the reciprocal currency registered at the measurement date and the reciprocal currency fixed at the trade date.

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

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

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

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

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

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

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

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

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

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

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

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

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

2.7 New accounting standards and interpretations and those soon to be effective

Accounting standards and interpretations applied from 1 January 2018

The following are applicable from 1 January 2018:

- **IFRS 9** – *Financial Instruments*, adopted with Regulation (EU) 2067/2016. The purpose of the new accounting standard, which replaces a large part of IAS 39 – *Financial Instruments: Recognition and Measurement*, is to improve disclosures on financial instruments with the aim of addressing the concerns that arose during the financial crisis. The standard also introduces an accounting model that aims to the timely recognition of expected impairment losses on financial assets. A detailed description of the main changes introduced by the standard is provided in the paragraph, "Changes to accounting policies".
- **IFRS 15** – *Revenue from Contracts with Customers*, adopted with Regulation (EU) 1905/2016. The new standard, which will replace IAS 18 - Revenue, IAS 11 – *Construction Contracts* and IFRIC 13 – *Customer Loyalty Programmes*, introduces an innovative, single framework that substantially changes the definitions, criteria and methods used for measuring and recognising revenue in the financial statements. A detailed description of the main changes introduced by the standard is provided in the paragraph, "Changes to accounting policies".
- **Amendments to IFRS 15** – *Revenue from Contracts with Customers - Clarifications to IFRS 15*, adopted with Regulation (EU) 1987/2017. Certain clarifications are introduced regarding the new treatment of revenue and further application relief is provided to entities that adopt the standard on the basis of the modified retrospective method.
- **Amendments to IFRS 4** – *Applying IFRS 9 – Financial Instruments with IFRS 4 - Insurance Contracts,* adopted with Regulation (EU) 1988/2017. These amendments aim to address the temporary accounting consequences of the different effective dates of IFRS 9 and the new standard for insurance contracts (IFRS 17), replacing IFRS 4[50] presumably starting from 1 January 2022[51].
- **Annual Improvements Cycle to IFRSs 2014 – 2016**, adopted with Regulation (EU) 182/2018 in connection with the annual projects to improve and revise international accounting standards. The accounting standard affected by the amendments introduced by this Regulation, applicable from 1 January 2018 are IAS 28 – *Investments in Associates and Joint Ventures* and IFRS 1 – *First-time Adoption of International Financial Reporting Standards*.
- **Amendments to IFRS 2** – *Share-based Payment adopted* with Regulation (EU) 289/2018. The Regulation introduces certain formal amendments and examples, to facilitate an understanding of the situations covered by the standard; it also provides specific indications on the accounting treatment of vesting and non-vesting conditions in case of cash-settled share-based payment transactions. In addition, the Regulation again illustrates the rules on *Share-based Payment Transactions with a Net Settlement Feature for Withholding Tax Obligations.*
- **Amendments to IAS 40** – *Investment Property adopted* with Regulation (EU) 400/2018. The amendments introduced clarify when an entity is authorised to change the designation of a property that was not an "investment property" as such and viceversa.

50. In November 2018, the IASB proposed to defer the effective date for IFRS 17, the new standard on insurance contracts, for a year, that is until 2022. The proposal made also covers extension until 2022 of the temporary exemption from application of IFRS 9 granted to insurance companies. In this way, IFRS 9 and IFRS 17 can be applied at the same time. The proposal is still being consulted on.
51. In particular, as a result of the new provisions, insurance companies may elect:
    a) to take advantage of the temporary exemption from application of IFRS 9, which allows companies to continue to apply IAS 39 until 1 January 2021. This exemption has, however, been granted to the extent that the company's activities are predominantly connected with insurance; or
    b) to apply the so-called overlay approach, whereby the difference between the profit/(loss) for the "Financial assets designated at fair value through profit or loss" applying IFRS 9 and the profit/(loss) for the same financial assets applying IAS 39 is reclassified to other comprehensive income. This reclassification would ensure the consistency of the effect on profit or loss of the financial assets in question, regardless of the accounting treatment used
    The Poste Italiane Group has not taken advantage of this exemption. In the consolidated financial statements of the Poste Italiane Group and Poste Vita, IFRS 9 has been applied uniformly from 1 January 2018.

Accounting standards and interpretations soon to be effective

The following are applicable from 1 January 2019:

- **IFRS 16** - *Leases*, adopted with Regulation (EU) 1986/2017. The new standard intends to improve the accounting treatment of lease contracts, giving a basis for users of financial statements to assess the effect that leases have on the financial position, operating performance and cash flows of an entity. These provisions entail a substantial revision of the current accounting treatment of lease contracts by lessees, introducing a unified model for the different types of lease (finance and operating). The main provisions for the lessee's financial statements include:
  a. for the contracts in scope, the lessee recognises a right-of-use asset in its statement of financial position (in the same way as an owned asset) and a financial liability;
  b. at the commencement date, the lessee will recognise the asset for an amount equal to the present value of all future lease payments;
  c. at the end of the reporting periods after the commencement date, and throughout the term of the lease contract, the asset is amortised systematically, while the financial liability increases by the amount of interest accrued, as calculated on the basis of the internal rate indicated in the lease contract;
  d. when a lease payment is made, the liability is reduced by the amount of the payment.

The standard grants the option of not applying the new provisions in the case of short-term contracts (for up to 12 months) and low-value contracts (where the underlying asset does not exceed US$5,000). For these contracts, the lessor may elect continue with the current accounting treatment

- **Amendments to IFRS 9** – *Financial Instruments – Prepayment Features with Negative Compensation* adopted with Regulation (EU) 498/2018. The amendments to this standard aim to clarify the classification of certain financial assets with prepayment features when IFRS 9 applies.
- **Interpretation IFRIC 22 -** *Foreign Currency Transactions and Advance Consideration,* adopted with Regulation (EU) 519/2018. This interpretation clarifies the accounting treatment of transactions involving advance receipts or payments in foreign currency.
- **Interpretation IFRIC 23** - *Uncertainty over Income Tax Treatments*; adopted with Regulation (EU) 1595/201. This interpretation aims to clarify how to reflect uncertainty in accounting for income tax.

Lastly, as of the reporting date, the IASB has issued certain financial reporting standards, amendments and interpretations not yet endorsed by the European Commission:

- IFRS 17 - *Insurance Contracts*;
- Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures*;
- Annual improvements cycle to IFRS 2015 - 2017;
- Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement;*
- Amendments to the *Conceptual Framework*;
- Amendments to IFRS 3: *Business Combinations*;
- Amendments to IAS 1 and IAS 8: *Definition of Material*.

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

New International Financial Reporting Standards: Transitional provisions and ESMA disclosures

The *Public Statement* issued on 26 October 2018 by the European Securities and Market Authority requires entities to provide adequate disclosure, in their annual financial statements for 2018, of the progress in the implementation of IFRS 16, of the manner in which they have carried out the transition between the alternative methods outlined by the standard, and of the expected quantitative impact of first-time adoption. Based on the above, attention is called to the following.

IFRS 16 implementation plan

At 31 December 2018, the final phase of the plan to implement IFRS 16 in the Poste Italiane Group has been completed, as scheduled. All the transitioning contracts were identified and, from an IT point of view, the map of all contract management and accounting support software was completed, along with the survey and data quality review of the information contained therein. The plan saw also the development of the systems/channels powering the calculation engine of the initial financial liability, the related right of use and the ensuing, recurring movements due to amortisation, borrowing costs, payments and any contractual changes. The accounting approach selected for the treatment of the contracts in scope was designed and has been fully operational since 1 January 2019. Lastly, activities began, and will be completed by the end of the first quarter of 2019, to define the new accounting disclosure on leases and to analyse and upgrade the company processes impacted by the new standard, which in some cases involved the redesign of the obligations and responsibilities involved.

Below, details are provided of the aspects that are most significant or expressly referred to in ESMA's Public Statement.

IFRS 16 accounting approach

The new approach to accounting for contracts falling within the scope of IFRS 16 calls for the following:

- the cost of lease payments is not recognised, with the exception of non-deductible VAT which, in line with the international theories/methods, is not part of the calculation of the items that are relevant under IFRS 16 (financial liability and right of use);
- the origination and repayment of amounts payable to the lessor, including those with an impact on profit or loss, are recognised originally in exclusive IFRS 16 sub-items of the line item "Financial liabilities".

The approach adopted makes it possible to make appropriate offsetting entries for goods/services rendered, adjustments, invoice reviews etc. without any subsequent reversing entries.

Transition method and main assumptions

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

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

The approach does not require the restatement of comparative data and allows the use of practical expedients to calculate the financial liability and the right of use at the transition date. Specifically, the Group used such practical expedients for:

- identifying the contracts in scope (IFRS 16, para. C3)[52];

52. As a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, the entity is permitted:
    a) to apply this standard to contracts that were previously identified as leases applying IAS 17 - Leases and IFRIC 4 - Determining Whether an Arrangement Contains a Lease.
    b) not to apply this standard to contracts that were not previously identified as containing a lease, applying IAS 17 and IFRIC 4.

- setting the discount rate for minimum future payments (IFRS 16 para. C10, point a.)[53];
- determining the lease term (IFRS 16 para. C10, point e.);
- not applying the standard to low value and short-term leases (IFRS 16 para. 5)[54], and those where the underlying asset is an intangible asset, other than copyrights and similar (IFRS 16 paragraphs 3 and 4)[55].

Regarding the identification of contracts in scope, the Group elected not to remeasure contracts outstanding at the date of transition that had (or had not been) classified previously as leases or as containing a lease component. As a result of this expedient, lease contracts or contracts containing a lease component, which had been accounted for in accordance with IAS 17, now fall within the scope of IFRS 16.

Regarding the determination of the discount rate, reference was made to an incremental borrowing rate ("IBR") applicable to a hypothetical loan that might have been obtained in the current economic environment, the value date, the maturity date and the credit spread that reflects the entity's organisation and financial structure. The IBR associated at the inception of each contract will be revised in connection with any lease modification, i.e. substantive and significant amendments to the contract (e.g. term of the contract or future lease payments).

With respect to the determination of the lease term, particularly for property lease agreements, the Group used a valuation approach that is based first of all on the duration of the obligation, as per the agreement between the parties and/or the legal framework of reference (Law 392 of 27 July 1978), and extended their term as a result of an interpretation/forecast of events, circumstances and future intentions, including of a strategic nature, of both the lessor and the lessee. This resulted in a set of rules to determine the lease term, to be applied to leased properties classified previously in three distinct clusters: (i) properties where the lease is subject to legal restrictions and high commercial-value properties, (ii) properties for civilian use, such as the company accommodation for Group employees and executives, and (iii) properties used in operations. The lease term for all of the other agreements was set as equal to the duration of the obligation agreed upon between the parties, in keeping with future intent in wanting and being able to complete the term and past experience.

Further assumptions in the application of IFRS 16

The Group adopted also the practical expedient not to separate the non-lease components from the lease components for the rental contracts of the corporate fleet and vehicles for business and personal use.

Quantitative impacts of first-time adoption of IFRS 16

At the date of transition, the types of contract falling within the scope of IFRS 16 relate to:

- Properties used in operations (approximately 10,600 contracts);
- Corporate fleet rented for the delivery of postal products and vehicles for business and personal use given to employees (plus contracts for approximately 19,200 vehicles);
- Properties used as accommodation for employees (approximately 250 contracts);
- Aircraft used by the Group's airline (6 contracts);
- Other types of asset (7 contracts).

The tables below show the main preliminary effects on the financial position at 1 January 2019 resulting from the application of IFRS 16, for both the Group and the Parent Company, Poste Italiane SpA. However, the figures shown are still being reviewed.

53. A lessee may use one or more of the following practical expedients when applying this standard retrospectively in accordance with paragraph C5(b) to leases previously classified as operating leases applying IAS 17. A lessee is permitted to apply these practical expedients on a lease-by-lease basis:
    a) a lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment;
    b) *Omissis*;
    c) *Omissis*;
    d) *Omissis*;
    e) a lessee may use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.
54. A lessee may elect not to apply the requirements of the standard to:
    a) *short-term leases; and*
    b) *leases for which the underlying asset is of low value (omissis).*
55. An entity shall apply this standard to all leases, including leases of right-of-use assets in a sublease, except for: omissis; e) rights held by a lessee under licensing agreements within the scope of IAS 38 - Intangible Assets for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights (para. 3). A lessee may, but is not required to, apply this standard to leases of intangible assets other than those described in paragraph 3 e) (par. 4).

EFFECTS OF FIRST-TIME ADOPTION OF IFRS 16

(€m)	Right of use	Financial liability
Poste Italiane Group		
Properties used in operations	1,235	1,234
Other assets	139	139
Total at 1 January 2019	**1,374**	**1,373**

EFFECTS OF FIRST-TIME ADOPTION OF IFRS 16

(€m)	Right of use	Financial liability
Poste Italiane SpA		
Properties used in operations	1,114	1,114
Other assets	114	114
Total at 1 January 2019	**1,228**	**1,228**

Lastly, the tables below show the reconciliation between the lease commitments at 31 December 2018 (on the basis of IAS 17) and the amount of the lease liability recognised at 1 January 2019 (in accordance with IFRS 16).

POSTE ITALIANE GROUP

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

POSTE ITALIANE SPA

(€m)	
Operating lease commitments at 31 December 2018	680
Short-term lease exemption 31 December 2018	(5)
Low value exemption at 31 December 2018	(25)
Lease liabilities at 31 December 2018 within scope of IFRS 16	**650**
Adjustment following different treatment of extension and termination options	723
Undiscounted lease liabilities at 1 January 2019	**1,373**
Adjustment for discounted lease liabilities at 1 January 2019	(145)
Lease liabilities resulting from application of IFRS 16 at 1 January 2019	**1,228**

3. Changes to accounting policies

3.1 Basis of preparation

From 1 January 2018, the Poste Italiane Group has adopted IFRS 9 *Financial Instruments* (adopted with Regulation (EU) 2067/2016) and IFRS 15 *Revenue from Contracts with Customers* (adopted with Regulation (EU) 1905/2016). Below, details are provided of the new classification and measurement methods introduced by the abovementioned IFRS and the impact of their first-time adoption on the statements of financial position of the Poste Italiane Group and Poste Italiane SpA.

3.1.1 IFRS 9 - Financial Instruments

On initial recognition, financial assets and liabilities are classified at fair value based on the business purpose for which they were acquired. The purchase and sale of financial instruments is recognised by category, either on the date on which the Group commits to purchase or sell the asset (the transaction date), or, in the case of insurance transactions and BancoPosta's operations, at the settlement date[56]. Any changes in fair value between the transaction date and the settlement date are recognised in the financial statements.

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

Financial assets

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

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

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

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

- Financial assets measured at fair value through profit or loss
  This category includes: (a) financial assets primarily held for trading; (b) those that qualify for designation at fair value through

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

profit or loss, exercising the fair value option; (c) financial assets that must be recognised at fair value through profit or loss; (d) derivative instruments, with the exception of the effective portion of those designated as cash flow hedges. Financial instruments in this category are classified as short-term if they are held for trading or if they are expected to be realised within twelve months of the end of the reporting period. Derivative instruments at fair value through profit or loss are recognised as assets or liabilities depending on whether the fair value is positive or negative. Fair value gains and losses on outstanding transactions with the same counterparty are offset, where contractually permitted.

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

An expected credit loss (ECL) provision must be made for financial assets recognised at amortised cost and financial assets at fair value through OCI, as follows: (i) specific provisions for doubtful debts are made for expected losses on financial assets measured at amortised cost; (ii) expected losses on financial assets measured at fair value through other comprehensive income are recognised in profit or loss, with a contra entry in the fair value reserve in equity. The method utilised is the "General impairment model", whereby:

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

In determining whether credit risk has increased significantly, it is necessary to compare the risk of default of the financial instrument as at the reporting date with the risk of default of the financial instrument on initial recognition. However, there is a rebuttable default presumption if the financial instrument is more than 90 days past due, unless there is reasonable and supportable information to demonstrate that a default criterion with greater lag is more appropriate. Regarding trade receivables, a simplified approach is applied to measure the expected credit loss, if these receivables do not contain a significant financing component pursuant to IFRS 15. Under the simplified approach, use is made of a provision matrix based on observed historical losses.

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

The effects of the reclassification are as follows:

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

Financial assets are derecognised when there is no longer a contractual right to receive cash flows from the investment or when all the related risks and rewards and control have been substantially transferred.

Financial liabilities

Financial liabilities, including borrowings, trade payables and other payment obligations, are carried at amortised cost using the effective interest method. If there is a change in the expected cash flows and they can be reliably estimated, the value of borrowings is recalculated to reflect the change on the basis of the present value of estimated future cash flows and the internal rate of return initially applied. Financial liabilities are classified as current liabilities, unless there is an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

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

Financial liabilities are derecognised when they are extinguished or when the obligation specified in the contract expires, is cancelled or discharged.

3.1.2 IFRS 15 – Revenue from Contracts with Customers

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

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

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

Identification of the performance obligation

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

Determination of the elements of variable consideration

For revenue recognition purposes, IFRS 15 requires recognition of the elements of variable consideration. In particular, revenue incorporates these elements in the transaction price (discounts, rebates, allowances, incentives, penalties and similar).

Of the elements of variable consideration, particularly important are penalties (other than those related to compensation for damages). These expenses are deducted directly from revenue.

Allocation of the transaction price

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

Contract costs

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

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

Contract assets and liabilities

A contract asset is an entity's right to payment for goods and services already transferred to a customer. If goods or services are transferred to the customer before the relevant payment is due, the amount must be recognised as a contract asset.

A contract liability is the obligation to transfer to the customer goods or services for which payment has already been obtained (or for which the customer's consideration is due before the goods and services are provided). This consideration is recognised as a contract liability.

3.2 Use of estimates in relation to IFRS 9 and IFRS 15

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

Impairment and stage allocation

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

- determination of the parameters of significant increase in credit risk (SICR);
- estimates of probability of default (PD) and internal ratings of sovereign and banking counterparties (internal ratings are developed for certain residual types of corporate counterparties).

Determination of the elements of variable consideration

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

3.3 Adoption of IFRS 9 and IFRS 15

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

- for the transition to IFRS 9, to use the exemption under IFRS 9.7.2.15 whereby the retrospective cumulative effect of the change in accounting standard is recognised as of 1 January 2018 in retained earnings and in the fair value reserve, where appropriate, without restating the comparative year accounts;
- for the transition to IFRS 15, to adopt the simplified transition method, whereby the cumulative effect of the change of accounting standard is recognised as of 1 January 2018 in retained earnings, without any restatement of the comparative year accounts. The Poste Italiane Group also opted not to take into account the so-called “completed contracts” at the transition date, which continue to be recognised in accordance with IAS 18 and related interpretations.

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

3.3.1 IFRS 9 - Financial instruments

Key elections

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

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

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

Classification & Measurement

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

- Hold to Collect (HTC): where the financial asset is held to collect contractual cash flows, in the form of principal and interest, with rare sales and/or limited volumes; financial instruments that fall into this business model, and that met the SPPI test, are recognised at amortised cost.
- Hold to Collect & Sell (HTC&S): where the financial asset is held to collect contractual cash flows, in the form of principal and interest, and well as proceeds from its sale; financial instruments that fall into this business model, and that met the SPPI test, are recognised at fair value through other comprehensive income.
- Other: this is a residual category which includes financial assets with a business model other than the previous ones, including held-for-trading financial assets. Financial instruments that fail to meet the SPPI test, as well as the shares/units of UCITS held by Poste Vita SpA, are recognised at fair value through profit or loss.

Equity instruments account for a residual portion of the portfolio compared with the debt instruments and shares/units of mutual investment funds held by the Poste Italiane Group. Nearly all of the shares held by the Group are reported at fair value through profit or loss.

Impairment and Stage Allocation

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

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

The Group did not use the low risk credit exemption.

Hedge Accounting

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

Credit risk management practices: inputs, assumptions and estimation techniques

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

General description of the models utilised

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

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

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

Significant increase in credit risk

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

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

- the rating of the financial instrument when it is first included in the portfolio;
- the rating of the financial instrument on the reporting date;
- the age of the position within the portfolio;
- an additive factor to mitigate the non-linearity of PD with respect to the rating classes[57];
- a judgmental factor that is used only in the event of sudden changes in creditworthiness not yet reflected in internal and external credit ratings[58].

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

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

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

57. The additive factor is built in view of the rating level at the reporting date, where the better the final rating the higher the threshold for the transition to Stage 2.
58. The judgmental factor can summarise important aspects in determining the significant increase in credit risk, taking into account such elements as:
    - an actual or expected significant change in the internal/external credit rating of the financial instrument;
    - existing or expected negative changes in economic, financial or business conditions that might cause a significant change in the debtor's ability to honour its obligations, such as an actual or expected increase in interest rates or an actual or expected significant increase in unemployment rates.

Definition of default

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

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

Collective and individual provisions

A collective provision criterion is applied to a homogeneous group of financial assets that defines the extent of the ECL on such assets, without attributing the expected loss to a specific exposure. The method of grouping is based on the type of counterparty using the method for estimating PD.

Individual provisions are considered only following the review of trade receivables for amounts in excess of a given threshold and only in relation to single receivables.

Forward looking information

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

The Poste Italiane Group incorporates forward looking information directly in the PD estimation. In particular, the internal model adopted allows completion of the input dataset necessary to calculate the PD starting from scenario values referring to a number of the model's variables. The purpose of this approach is to estimate the variables that have not been assessed by using the historical correlation of the available information[59].

Estimation techniques used

Since events of default cannot be used, as they are not very frequent, to develop credit scoring models for sovereign and banking counterparties, a shadow rating approach has been adopted.

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

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

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

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

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

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

59. The use of this approach is limited to situations in which it is deemed that, effectively, the available data no longer represents the real degree of risk associated with the counterparty.

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

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

ECL measurement

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

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

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

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

Trade receivables

The Group adopts the simplified approach to test for the impairment of trade receivables, on the basis of which provisions for credit losses are determined for an amount equal to expected losses throughout the lifetime of the receivable. This approach is determined through the following process:

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

3.3.2 IFRS 15 - Revenue from contracts with customers

The main results of the assessments conducted are described below:

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

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

3.4 Impact of the adoption of IFRS 9 and IFRS 15

3.4.1 Impact of the adoption of IFRS 9 and IFRS 15 on the Group's statement of financial position

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

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

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

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

** Adjustments primarily include the impairment resulting from first-time adoption of IFRS 9.

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

RECONCILIATION OF RETAINED EARNINGS

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

RECONCILIATION OF THE FAIR VALUE RESERVE

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

Summary of the effects of first-time adoption

The effects of the first-time adoption of IFRS 9 are described below, separately by Classification & Measurement and Impairment.

Classification & Measurement

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

FINANCIAL INSTRUMENTS

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

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

RECONCILIATION OF FINANCIAL INSTRUMENTS

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

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

i. Reclassification of available-for-sale financial assets to the following IFRS 9 categories:
   a. Amortised cost, totalling €17,014 million, with an increase of €255 million in the fair value reserve.
   b. FVTOCI, totalling €117,072 million, including €5 million in equity instruments for which the Group has exercised the FVTOCI option.
   c. FVTPL, totalling €1,719 million, regarding financial assets held under a business model other than the above, that is financial assets that do not pass the SPPI test. This category also includes equity instruments that were not measured at FVTOCI, whose reclassification has resulted in an increase in retained earnings and a simultaneous decrease in the fair value reserve of €16 million, attributable to the Visa Inc. shares.

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

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

At 31 December 2018, the fair value of instruments reclassified from the AFS category to the amortised cost category amounts to approximately €14,573 million, whilst the fair value loss that would have been recognised in equity at 31 December 2018, if on transition €17,014 million had not been reclassified from the AFS category to the amortised cost category, would have amounted to approximately €787 million (before the related taxation).

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

RECONCILIATION OF TRADE RECEIVABLES

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

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

Impairment

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

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

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

Exposure to credit risk

The following tables provide information on the exposure to credit risk at 1 January 2018.

POSTE ITALIANE GROUP - CREDIT RISK - RATINGS

Item (€m)	from AAA to AA-		from A+ to BBB-		from BB+ to C		Not rated	Hedge accounting effects	Total
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2			
Financial assets at amortised cost									
Receivables	200	-	7,262	-	50	-			7,512
Fixed income instruments	6	-	19,781	-	4	-			19,791
Gross carrying amount - Total	**206**	**-**	**27,043**	**-**	**54**	**-**			**27,303**
Amortised cost - Total	**206**	**-**	**27,032**	**-**	**54**	**-**	**403**	**725**	**28,420**
Financial assets at FVTOCI									
Fixed income instruments	1,919	-	117,928	2	746	34			120,629
Other investments	-	-	500	-	-	-			500
Gross carrying amount - Total	**1,919**	**-**	**118,428**	**2**	**746**	**34**			**121,129**
Carrying amount - Fair value	**2,103**	**-**	**129,603**	**2**	**798**	**38**	**-**	**-**	**132,544**

The analysis shows the exposure for each class of financial assets measured at amortised cost and those measured at fair value through other comprehensive income, for which the general deterioration model was used in stages. The amounts refer to the gross carrying amount and do not take into account guarantees or other instruments hedging credit risk.

The following tables provide details of the measurement method applied to trade receivables and the reconciliation with the ECL provisions at 1 January 2018.

POSTE ITALIANE GROUP - CREDIT RISK - TRADE RECEIVABLES ADJUSTED FOR INDIVIDUAL IMPAIRMENTS

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

POSTE ITALIANE GROUP - CREDIT RISK - TRADE RECEIVABLES ADJUSTED ON THE BASIS OF THE PROVISION MATRIX

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

RICONCILIATION OF EXPECTED CREDIT LOSS PROVISIONS FOR TRADE RECEIVABLES

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

3.4.2 Impact of the adoption of IFRS 9 and IFRS 15 on Poste Italiane SpA's statement of financial position

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

Assets (€m)	Balance at 31 December 2017	Classification and measurement (IFRS 9) and Reclassifications (IFRS 15)*	Adjustments (IFRS 9 and 15)**	Balance at 1 January 2018
Non-current assets				
Property, plant and equipment	1,912	-	-	1,912
Investment property	52	-	-	52
Intangible assets	385	-	-	385
Investments	2,081	-	-	2,081
Financial assets attributable to BancoPosta	49,388	1,950	(7)	51,331
Financial assets	834	-	-	834
Trade receivables	5	-	-	5
Deferred tax assets	762	(156)	2	608
Other receivables and assets	1,148	-	(1)	1,147
Total	**56,567**	**1,794**	**(6)**	**58,355**
Current assets				
Trade receivables	2,014	-	(2)	2,012
Current tax assets	77	-	5	82
Other receivables and assets	894	-	-	894
Financial assets attributable to BancoPosta	10,659	(27)	(3)	10,629
Financial assets	363	-	-	363
Cash and deposits attributable to BancoPosta	3,196	-	-	3,196
Cash and cash equivalents	2,039	-	-	2,039
Total	**19,242**	**(27)**	**-**	**19,215**
Non-current assets held for sale	**-**	**-**	**-**	**-**
Total Assets	**75,809**	**1,767**	**(6)**	**77,570**

Liabilities and equity (€m)	Balance at 31 December 2017	Classification and measurement (IFRS 9) and Reclassifications (IFRS 15)*	Adjustments (IFRS 9 and 15)**	Balance at 1 January 2018
Equity				
Share capital	1,306	-	-	1,306
Reserves	1,431	1,359	14	2,804
Retained earnings	2,775	16	(21)	2,770
Total	**5,512**	**1,375**	**(7)**	**6,880**
Non-current liabilities				
Provisions for risks and charges	668	-	-	668
Employee termination benefits	1,244	-	-	1,244
Financial liabilities attributable to BancoPosta	4,010	-	-	4,010
Financial liabilities	286	-	-	286
Deferred tax liabilities	315	393	-	708
Other liabilities	1,183	-	-	1,183
Total	**7,706**	**393**	**-**	**8,099**
Current liabilities				
Provisions for risks and charges	870	-	-	870
Trade payables	1,211	27	-	1,238
Current tax liabilities	5	(1)	1	5
Other liabilities	1,593	(27)	-	1,566
Financial liabilities attributable to BancoPosta	57,843	-	-	57,843
Financial liabilities	1,069	-	-	1,069
Total	**62,591**	**(1)**	**1**	**62,591**
Total liabilities and equity	**75,809**	**1,767**	**(6)**	**77,570**

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

** Adjustments primarily include the impairment resulting from first-time adoption of IFRS 9.

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

RECONCILIATION OF RETAINED EARNINGS

(€m)	
Retained earnings at 31 December 2017	**2,775**
Effect of reclassifications of financial instruments - IFRS 9	16
Effect of adjustments for expected losses - IFRS 9	(28)
Effect of first-time adoption of IFRS 15	-
Tax effects	7
Retained earnings at 1 January 2018	**2,770**

RECONCILIATION OF THE FAIR VALUE RESERVE

(€m)	
Fair value reserve at 31 December 2017 - IAS 39 (AFS)	**191**
Effect of reclassifications of financial instruments - IFRS 9	1,907
Effect of adjustments for expected losses - IFRS 9	14
Tax effects	(548)
Fair value reserve at 1 January 2018 - IFRS 9 (FVTOCI)	**1,564**

Summary of the effects of first-time adoption

The effects of the first-time adoption of IFRS 9 are described below, separately by Classification & Measurement and Impairment.

Classification & Measurement

The table below describes the original classification under IAS 39 and the new classification under IFRS 9 for each of Poste Italiane SpA's financial asset classes at 1 January 2018.

FINANCIAL INSTRUMENTS

(€m)	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount	IFRS 9 carrying amount
Financial receivables	Loans and receivables	Amortised cost	7,593	7,590
	Loans and receivables	Fair value through profit or loss	8	8
Fixed income instruments	Held-to-maturity	Amortised cost	3,246	3,245
	Held-to-maturity	FVOCI - Debt securities	9,666	11,131
	Available-for-sale	Amortised cost	15,398	15,850
	Available-for-sale	FVOCI - Debt securities	23,700	23,700
	Available-for-sale	Fair value through profit or loss	-	-
	Fair value through profit or loss	Fair value through profit or loss	-	-
	Fair value through profit or loss	FVOCI - Debt securities	-	-
Structured bonds	Fair value through profit or loss	Fair value through profit or loss	-	-
	Available-for-sale	Fair value through profit or loss	41	41
	Available-for-sale	FVOCI - Equities	-	-
Non-hedging derivatives	Fair value through profit or loss	Fair value through profit or loss	-	-
Hedging derivatives	Fair value - Hedging instrument	Fair value - Hedging instrument	395	395
Total financial assets attributable to BancoPosta			**60,047**	**61,960**
Financial receivables	Loans and receivables	Amortised cost	641	641
	Loans and receivables	Fair value through profit or loss	-	-
Fixed income instruments	Held-to-maturity	Amortised cost	-	-
	Held-to-maturity	FVOCI - Debt securities	-	-
	Available-for-sale	Amortised cost	-	-
	Available-for-sale	FVOCI - Debt securities	551	551
	Available-for-sale	Fair value through profit or loss	-	-
	Fair value through profit or loss	Fair value through profit or loss	-	-
	Fair value through profit or loss	FVOCI - Debt securities	-	-
Structured bonds	Fair value through profit or loss	Fair value through profit or loss	-	-
	Available-for-sale	Fair value through profit or loss	-	-
	Available-for-sale	FVOCI - Equities	5	5
Total financial assets			**1,197**	**1,197**
Amounts due from staff under fixed-term contract settlements	Loans and receivables	Amortised cost	188	187
Trade receivables	Loans and receivables	Amortised cost	2,019	2,017
Cash	Loans and receivables	Amortised cost	2,039	2,039
Cash and deposits attributable to BancoPosta	Loans and receivables	Amortised cost	3,196	3,196

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

RECONCILIATION OF FINANCIAL INSTRUMENTS

			Classification, measurement and impairment					
(€m)	Note	Balance at 31 December 2017 (IAS 39)	Amortised cost	FVTOCI	FVTPL	FVTPL equities	FVTOCI equities	Balance at 1 January 2018 (IFRS 9)
Balance of financial assets at 31 December 2017 (IAS 39)		**60,047**						
Available-for-sale financial assets		**39,139**						
Reclassifications from AFS to amortised cost	i)a	(15,398)	15,398	-	-	-	-	15,398
Remeasurements			458					458
Reclassifications from AFS to FVTOCI	i)b	(23,700)	-	23,700	-	-	-	23,700
Reclassifications from AFS to FVTPL	i)c	(41)	-	-	-	41	-	41
Held-to-maturity financial assets and loans and receivables		**20,513**						
Reclassifications from HTM and loans and receivables to amortised cost	ii)a	(10,839)	10,839	-	-	-	-	10,839
Reclassifications from HTM to FVTOCI	ii)b	(9,666)	-	9,666	-	-	-	9,666
Remeasurements			-	1,465				1,465
Reclassifications from loans and receivables to FVTPL	ii)c	(8)	-	-	8	-	-	8
Financial instruments at FVTPL		**-**						
Reclassification from FVTPL to FVTOCI		-	-	-	-	-	-	-
FVTPL		-	-	-	-	-	-	-
Derivative financial instruments		**395**						
Effect of reclassifications		(395)	-	-	395	-	-	395
Effect of adjustment for expected credit losses on instruments designated at amortised cost			**(10)**					**(10)**
Balance of financial assets attributable to BancoPosta at 1 January 2018 (IFRS 9)			**26,685**	**34,831**	**403**	**41**	**-**	**61,960**
Balance of financial assets at 31 December 2017 (IAS 39)		**1,197**						
Available-for-sale financial assets		**556**						
Reclassifications from AFS to amortised cost		-	-	-	-	-	-	-
Remeasurements			-	-	-	-	-	-
Reclassifications from AFS to FVTOCI	i)b	(556)	-	551	-	-	5	556
Reclassifications from AFS to FVTPL		-	-	-	-	-	-	-
Held-to-maturity financial assets and loans and receivables		**641**						
Reclassifications from HTM and loans and receivables to amortised cost	ii)a	(641)	641	-	-	-	-	641
Reclassifications from HTM to FVTOCI		-	-	-	-	-	-	-
Remeasurements			-	-	-	-	-	-
Reclassifications from loans and receivables to FVTPL		-	-	-	-	-	-	-
Financial instruments at FVTPL		**-**						
Reclassification from FVTPL to FVTOCI		-	-	-	-	-	-	-
FVTPL		-	-	-	-	-	-	-
Derivative financial instruments		**-**						
Effect of reclassifications		-	-	-	-	-	-	-
Effect of adjustment for expected credit losses on instruments designated at amortised cost			**-**					**-**
Balance of financial assets at 1 January 2018 (IFRS 9)			**641**	**551**	**-**	**-**	**5**	**1,197**

AFS: Available For Sale
HTM: Held To Maturity
FVTPL: Fair Value Through Profit or Loss
FVTOCI: Fair Value Through Other Comprehensive Income

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

a. Amortised cost, totalling €15,398 million, with an increase of €458 million in the fair value reserve;

b. FVTOCI, totalling €24,256 million, including €5 million in equity instruments for which the Company has exercised the FVTOCI option;

c. FVTPL, totalling €41 million, regarding Visa Incorporated shares that the Company has not elected to measure at FVTOCI and whose reclassification has resulted in an increase in retained earnings and a simultaneous decrease in the fair value reserve of €16 million.

ii. Reclassification of held-to-maturity financial assets and loans and receivables to the following IFRS 9 categories:

a. Amortised cost, totalling €11,480 million;

b. FVTOCI, totalling €9,666 million, generating an increase in the fair value reserve of €1,465 million;

c. FVTPL, totalling €8 million, regarding the amount receivable from Visa Inc. that did not pass the SPPI test.

At 31 December 2018, the fair value of instruments reclassified from the AFS category to the amortised cost category amounts to approximately €13,043 million, whilst the fair value loss that would have been recognised in equity at 31 December 2018, if on transition €15,398 million had not been reclassified from the AFS category to the amortised cost category, would have amounted to approximately €692 million (before the related taxation).

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

RECONCILIATION OF TRADE RECEIVABLES

(€m)	Balance at 31 December 2017 (IAS 39)	Reclassifications and adjustments				
		Amortised cost	FVTOCI	FVTPL	FVTPL equities	FVTOCI equities
Trade receivables	2,536					
Provisions for doubtful trade receivables	(517)					
Total trade receivables (IAS 39)	**2,019**					
Effect of reclassifications	2,019	2,019				
Effect of adjustments for expected losses		(2)	-	-	-	-
Balance at 1 January 2018 (IFRS 9)		**2,017**	**-**	**-**	**-**	**-**

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

Impairment

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

a. €10 million in expected losses in relation to financial instruments recognised at amortised cost;

b. €14 million in expected losses in relation to financial instruments recognised at FVTOCI (impairment losses taken on these financial instruments have an offsetting entry in the fair value reserve);

c. €3 million in expected losses, including €2 million in additional provisions in relation to trade receivables and €1 million in additional provisions in relation to other receivables and assets.

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

Exposure to credit risk

The following tables provide information on the exposure to credit risk at 1 January 2018.

POSTE ITALIANE SPA - CREDIT RISK - INTERNAL RATINGS BY BANCOPOSTA RFC

Item (€m)	from AAA to AA+		from A+ to BBB-		from BB+ to C		Not rated	Hedge accounting effects	Total
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2			
Financial assets at amortised cost									
Loans	-	-	-	-	-	-			-
Receivables	200	-	6,944	-	45	-			7,189
Fixed income instruments	-	-	18,378	-	-	-			18,378
Gross carrying amount - Total	**200**	**-**	**25,322**	**-**	**45**	**-**			**25,567**
Amortised cost - Total	**200**	**-**	**25,312**	**-**	**45**	**-**	**403**	**725**	**26,685**
Financial assets at FVTOCI									
Fixed income instruments	-	-	32,252	-	-	-			32,252
Other investments	-	-	-	-	-	-			-
Gross carrying amount - Total	**-**	**-**	**32,252**	**-**	**-**	**-**			**32,252**
Carrying amount - Fair value	**-**	**-**	**34,831**	**-**	**-**	**-**	**-**	**-**	**34,831**

POSTE ITALIANE SPA - CREDIT RISK - INTERNAL RATINGS BY BANCOPOSTA RFC

Item (€m)	from AAA to AA-		from A+ to BBB-		from BB+ to C		Not rated	Hedge accounting effects	Total
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2			
Financial assets at amortised cost									
Loans	-	-	367	-	-	-			367
Receivables	-	-	269	-	5	-			274
Fixed income instruments	-	-	-	-	-	-			-
Gross carrying amount - Total	**-**	**-**	**636**	**-**	**5**	**-**			641
Amortised cost - Total	**-**	**-**	**636**	**-**	**5**	**-**	**-**	**-**	641
Financial assets at FVTOCI									
Fixed income instruments	-	-	505	-	-	-			505
Other investments	-	-	-	-	-	-			-
Gross carrying amount - Total	**-**	**-**	**505**	**-**	**-**	**-**			505
Carrying amount - Fair value	**-**	**-**	**551**	**-**	**-**	**-**	**-**	**-**	**551**

The analysis shows the exposure for each class of financial assets measured at amortised cost and those measured at fair value through other comprehensive income, for which the general deterioration model was used in stages. The amounts refer to the gross carrying amounts and do not take into account guarantees or other instruments hedging credit risk.

The following tables provide details of the measurement method applied to trade receivables and the reconciliation with the ECL provisions at 1 January 2018.

POSTE ITALIANE SPA - CREDIT RISK - TRADE RECEIVABLES ADJUSTED FOR ANALYTICAL IMPAIRMENTS

Item (€m)	1 January 2018	
	Gross carrying amount	Provisions for doubtful debts
Trade receivables		
Receivables due from customers	1,435	358
Cassa depositi e prestiti	374	-
Ministries and Public Administration entities	400	99
Overseas counterparties	174	1
Private entities	487	258
Receivables due from the MEF	194	31
Receivables due from Group companies	288	-
Total	**1,917**	**389**

POSTE ITALIANE SPA - CREDIT RISK - TRADE RECEIVABLES ADJUSTED ON THE BASIS OF THE PROVISION MATRIX

Age bands (€m)	1 January 2018	
	Gross carrying amount	Provisions for doubtful debts
Trade receivables not yet due	332	3
Past due 0 - 1 year	102	5
Past due 1 - 2 years	50	9
Past due 2 - 3 years	14	6
Past due 3 - 4 years	10	6
Past due > 4 years	36	36
Positions subject to legal action and/or bankruptcy proceedings	75	65
Total	**619**	**130**

RICONCILIATION OF EXPECTED CREDIT LOSS PROVISIONS FOR TRADE RECEIVABLES

Item (€m)	
Expected credit loss provisions at 31 December 2017 (IAS 39 compliant)	**517**
Additional impairments recognised at 1 January 2018 on:	
Trade receivables	2
Expected credit loss provisions at 1 January 2018 (IFRS 9 compliant)	**519**

4. Material events during the year

4.1 Principal corporate actions

Poste Italiane and Anima Holding: new binding agreement to strengthen partnership in asset management

On 6 March 2018, Poste Italiane Spa and Anima Holding SpA, together with Poste Vita SpA, BancoPosta Fondi SpA SGR and Anima SpA SGR, to the extent of their respective responsibilities, signed implementing agreements designed to strengthen their partnership in the asset management sector, in accordance with the terms and conditions announced on 21 December 2017.

The transaction envisaged the partial spin-off of management of the assets underlying Poste Vita SpA's Class I insurance products (totalling over €70 billion), previously attributed to BancoPosta Fondi SpA SGR, to Anima SpA SGR and an extension of the partnership for a further 15 years.

Following the receipt of clearance from the Bank of Italy on 11 July 2018, the extraordinary general meetings of the shareholders of BancoPosta Fondi SGR and Anima SGR approved the spin-off, which was effective from 1 November 2018. In return for transferring its shares in Anima SGR to Anima Holding, Poste Italiane SpA received €120 million on 24 October 2018, with the Group recognising a non-recurring gain in profit or loss (€116 million in the Parent Company's profit or loss).

Launch of the process of establishing an electronic money institution within the Group

With the aim of more effectively driving growth in the payment services market and strengthening the service offering for retail, business and Public Administration customers, Poste Italiane has combined the Group's expertise and competencies in the field of mobile and digital payments in one specialist entity. The initiative was implemented via the contribution, to PosteMobile SpA, of BancoPosta RFC's card payments and payment services business and PosteMobile's establishment of a separate ring-fenced entity through which it is able to operate as a "hybrid" electronic money institution ("EMI"), whilst also continuing to operate as a mobile virtual network operator. Following the receipt of clearance from the Bank of Italy, the Extraordinary General Meeting of Poste Italiane's shareholders held on 29 May 2018 approved the proposed removal of the restriction on the rights and obligations of BancoPosta RFC relating to assets, contractual rights and authorisations that make up the card payments and payment services business unit from the ring-fence that applies to BancoPosta RFC. The transaction as a whole was effective from 1 October 2018. From the same date, PosteMobile SpA changed its name to PostePay SpA.

Injection of capital for BancoPosta RFC

Following the Board of Directors' resolution of 25 January 2018 and the subsequent Extraordinary General Meeting of Poste Italiane SpA's shareholders, on 27 September 2018, Poste Italiane injected €210 million of fresh capital into BancoPosta RFC. The aim of the transaction was to align BancoPosta RFC's leverage ratio with the target set by the Risk Appetite Framework. At 31 December 2018 the leverage ratio was 3.2%.

The following material events also took place during 2018:

- On 13 February 2018, the deed for the merger of PosteTutela SpA with and into Poste Italiane SpA was executed. The transaction was effective for legal purposes from 1 March 2018, and for accounting and tax purposes from 1 January 2018.
- On 12 April 2018, Poste Italiane SpA implemented the decision taken by its Board of Directors on 25 January 2018, subscribing for its share of the rights issue carried out by Anima Holding SpA, amounting to a total of approximately €30 million. This has enabled the Company to retain its 10.04% interest in the associate.
- With reference to the sale of the 100% interest in Banca del Mezzogiorno–Mediocredito Centrale SpA ("BdM"), agreed on 8 February 2017 by Poste Italiane SpA, the seller, and Invitalia, the buyer, on 31 October 2018, Invitalia informed Poste Italiane that the Bank of Italy had requested the buyer not to proceed with the reduction of BdM's capital scheduled for 2018, and preparatory to payment of a €40 million tranche of the related consideration. In line with the terms of the agreement, Poste Italiane and Invitalia, acting in good faith, concluded an agreement that resulted in Invitalia's payment of a sum of €20 million on 27 February 2019. The remaining €20 million will be paid from the dividends to be paid by BdM in 2018, 2019 and 2020. At 31 December 2018, this receivable has been assessed in view of BdM's expected ability to pay dividends and taking into account the supervisory instructions and recommendations from the Bank of Italy.

4.2 Other material events

The following material events also occurred in 2018:

Poste Vita SpA: deferred tax assets on the change in technical provisions

Paragraph 1-*bis* of art. 111 of the Consolidated Law on Income Tax (introduced by art. 38, paragraph 13-bis of Law Decree 78 of 31 May 2010) provides for a partial exemption (based on a specific percentage deduction) of the positive or negative movement in the obligatory technical provisions relating to the Life business from taxation. In Poste Vita's case, the percentage deduction is 98.5%.

For each insurance policy, an increase in the related technical provisions is, by necessity, later followed by a matching reduction and the two movements are subject to the same tax treatment. This means that the partial non-deductibility of the increase in the provisions will always be followed by a later, matching non-taxable reduction. Therefore, in terms of each policy, the difference emerging in a certain reporting period between pre-tax profit and the related tax base is only temporary.

At the end of 2018, the insurance company completed a long-term project designed to enable it to calculate the specific deferred tax asset, on each policy, resulting from the temporary differences arising from application of the above legislation. This was to enable it to trace and monitor the related calculations. On completion of the project, the company was able to recognise deferred tax assets ("DTA"[60]) for the first time at 31 December 2018, amounting to approximately €385 million (€351 million in non-recurring income for the tax periods from 2010 to 2017). The process was also supported by the opinion issued by a leading independent expert, who confirmed the legitimacy of the recognition of deferred tax assets on the non-deductible movement in technical provisions.

In accordance with IAS 8, these changes are classed as a change in accounting estimates, as the change to the method of determining DTA is connected with new elements introduced or identified in 2018 and is, above all, due to changes of a technical and organisational nature and the resulting improvement in the available information[61].

60. "Deferred tax assets".
61. These elements are linked to the notion of "new information" and "new developments" in para. 5 of IAS 8, meaning changes in the circumstances on which an estimate was based or more experience acquired after the previous financial statements were approved for publication.

Poste Vita SpA: Ancillary Own Funds (AOF)

In 2018, market volatility and the performance of the spread between Italian and German government securities led to a deterioration in the Solvency II Ratio of the subsidiary, Poste Vita SpA, which declined from 284% in March 2018 to 172% at 30 September 2018.

Among the various instruments available to support the Solvency II Ratio, the company opted for 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, following prior authorisation from the supervisory authority. 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 the 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 can be 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 €1,000 million at 31 December 2018. This has had a positive impact on the solvency ratio of approximately 24 percentage points.

It should be noted that, in view of the maturity, in May 2019, of a subordinated security with a nominal value of €750 million, currently included in Tier 2 capital, if the Solvency Capital Requirement were at least equal to the amount registered at the end of December 2018, in June 2019 the full amount of the commitment, totalling €1,750 million, could be included in the computation of the company's supervisory capital.

Poste Vita SpA: IVASS Regulation 43 - 2019

In 2018, market volatility and the performance of the spread between Italian and German government securities led to the issue of Law Decree 119/2018, containing urgent tax and financial measures. The legislation permits entities that do not apply international financial reporting standards to measure their current securities on the basis of the value at the time of initial recognition, as presented in its latest approved annual financial statements, rather than at fair value, with the exception of permanent losses. In view of this, on 12 February 2019, IVAS issued Regulation 43, setting out the procedure to be followed by insurance companies wishing to access this option. In preparing its separate financial statements, prepared under local GAAP, the subsidiary, Poste Vita SpA, elected to apply this option in relation to a portion of its current securities, suspending the recognition of impairment losses totalling approximately €450 million. This enabled the subsidiary to report net profit of approximately €580 million, after recognition of the DTA referred to above. In accordance with the Regulation, the company has established an undistributable revenue reserve of €312 million in its separate financial statements, based on the difference between the value of the securities recognised in the financial statements and the related fair values after the relevant taxation.

Poste Italiane SpA: dispute with the AGCM

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 as per art. 102 of the TFEU. This does not constitute acceptance or admission of liability in relation to the alleged misconduct and does not affect the Company's right to defend its position through the appropriate channels. At 31 December 2018, the provisions made in 2017 have been utilised in full (note 9 – *Proceedings pending and principal relations with the authorities*).

Poste Italiane SpA: Impairment of the investment in Anima Holding

At 31 December 2018, in response to highly volatile movements in Anima Holding SpA's share price, an impairment test was conducted on the goodwill implicit in the value of the investment. Performed on the basis of the available projections, the test revealed the need to recognise an impairment loss on the goodwill accounted for at the time of acquisition of the investment, resulting in the recognition of a loss of €42 million in consolidated profit or loss[62] (€27 million in the Parent Company's profit or loss).

Postel SpA: Impairment of goodwill

At 31 December 2018, an impairment test of the value of the goodwill allocated to Postel SpA, based on the available projections, revealed the need to write off the related carrying amount, resulting in recognition of an impairment loss of €33 million in consolidated profit or loss.

Poste Italiane SpA: authority to purchase and hold treasury shares

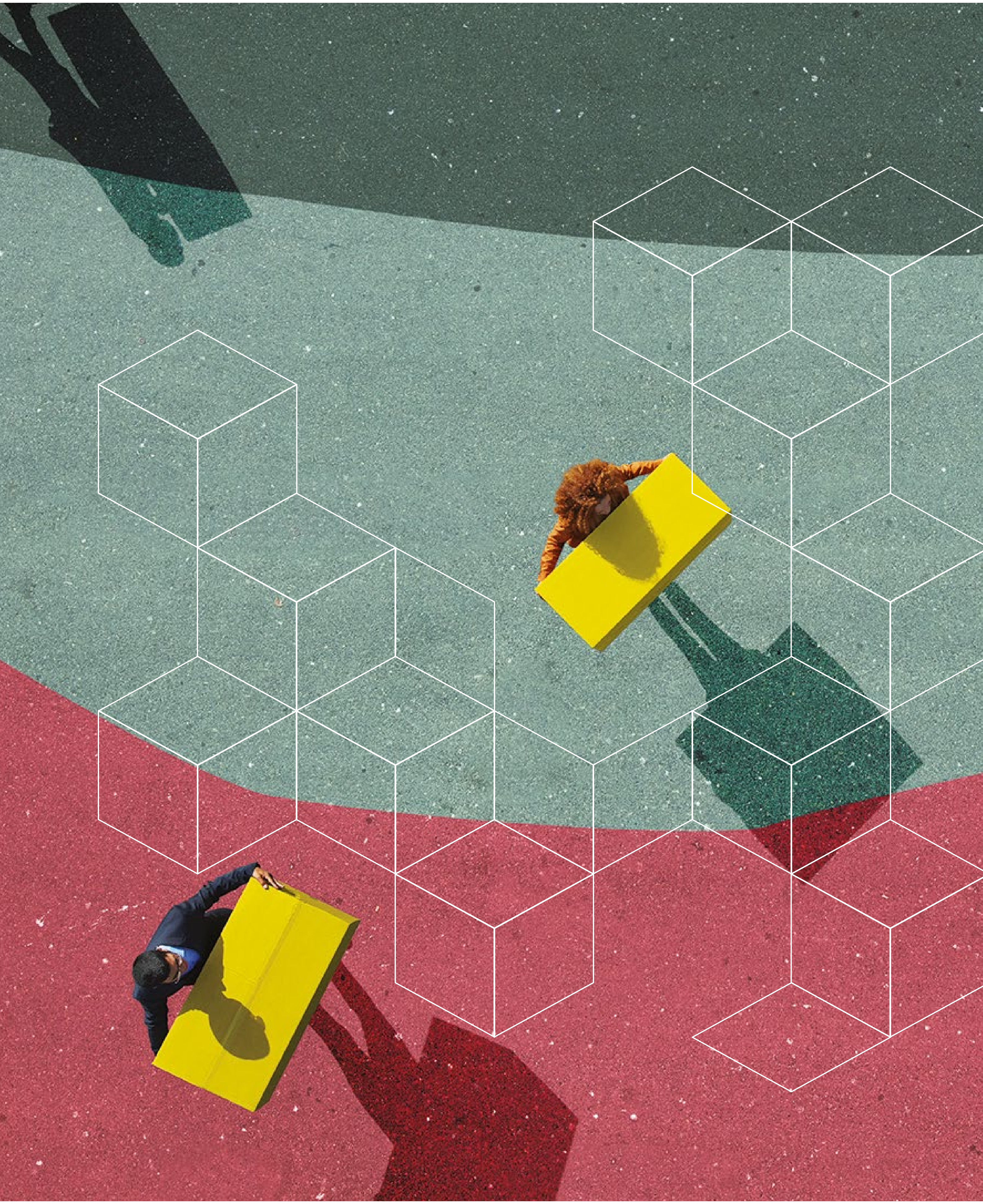
On 29 May 2018, the Ordinary and Extraordinary General Meeting of Poste Italiane SpA's shareholders authorised the Company to purchase and hold up to 65.3 million of the Company's ordinary shares, representing approximately 5% of the share capital, at a total cost of up to €500 million. Purchase of the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

From 4 February 2019, Poste Italiane SpA launched a buyback programme[63] via purchases in the *Mercato Telematico Azionario* (the MTA, an electronic stock exchange) in order to create a stock of treasury shares of up to €50 million, equal to approximately 7 million shares or less than 1% of the share capital, partly to service any future staff incentive plans. At 15 February 2019, Poste Italiane had purchased 5,257,965 own shares at an average price of €7.608, making a total cost of approximately €40 million and equal to 0.4026% of the share capital.

62. Deferred tax assets have not been recognised on the impairment, which has resulted in a permanent difference between statutory pre-tax profit and the tax base.
63. The purchases were made in execution of the shareholder resolution and in compliance with art. 144-bis, paragraph 1, letter B) of CONSOB Regulation 11971/1999 and the applicable provisions, so as to ensure equal treatment for all shareholders pursuant to art. 132 of the Consolidated Law on Finance, and in accordance with the operating procedures established in the organisational and management regulations of Borsa Italiana SpA.

Poste Italiane Financial Statements
for the year ended 31 December 2018

5. POSTE ITALIANE GROUP FOR THE YEAR ENDED 31 DECEMBER 2018



5. Poste Italiane Group for the year ended 31 December 2018

5.1 Consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER

Assets (€m)	Note	2018	*of which, related party transactions*	2017	*of which, related party transactions*
Non-current assets					
Property, plant and equipment	[A1]	1,945	-	2,001	-
Investment property	[A2]	48	-	52	-
Intangible assets	[A3]	545	-	516	-
Investments accounted for using the equity method	[A4]	497	497	508	508
Financial assets	[A5]	170,922	5,101	171,004	3,059
Trade receivables	[A7]	7	-	9	-
Deferred tax assets	[C14]	1,368	-	869	-
Other receivables and assets	[A8]	3,469	1	3,043	1
Technical provisions attributable to reinsurers		71	-	71	-
Total		**178,872**		**178,073**	
Current assets					
Inventories	[A6]	136	-	138	-
Trade receivables	[A7]	2,192	661	2,026	688
Current tax assets	[C14]	117	-	93	-
Other receivables and assets	[A8]	1,111	7	954	5
Financial assets	[A5]	19,942	6,004	15,762	6,211
Cash and deposits attributable to BancoPosta	[A9]	3,318	-	3,196	-
Cash and cash equivalents	[A10]	3,195	1,306	2,428	385
Total		**30,011**		**24,597**	
Non-current assets and disposal groups held for sale		**-**	**-**	**-**	**-**
Total assets		**208,883**		**202,670**	

Liabilities and equity (€m)	Note	2018	*of which, related party transactions*	2017	*of which, related party transactions*
Equity					
Share capital	[B2]	1,306	-	1,306	-
Reserves	[B4]	1,531	-	1,611	-
Retained earnings		5,268	-	4,633	-
Equity attributable to owners of the Parent		**8,105**		**7,550**	
Equity attributable to non-controlling interests		-	-	-	-
Total		**8,105**		**7,550**	
Non-current liabilities					
Technical provisions for insurance business	[B5]	125,149	-	123,650	-
Provisions for risks and charges	[B6]	656	58	692	58
Employee termination benefits	[B7]	1,187	-	1,274	-
Financial liabilities	[B8]	7,453	20	5,044	-
Deferred tax liabilities	[C14]	701	-	546	-
Other liabilities	[B10]	1,379	-	1,207	-
Total		**136,525**		**132,413**	
Current liabilities					
Provisions for risks and charges	[B6]	863	12	903	13
Trade payables	[B9]	1,583	150	1,332	194
Current tax liabilities	[C14]	12	-	23	-
Other liabilities	[B10]	2,319	75	2,249	70
Financial liabilities	[B8]	59,476	3.970	58,200	3,541
Total		**64,253**		**62,707**	
Liabilities related to assets held for sale		**-**	**-**	**-**	**-**
Total equity and liabilities		**208,883**		**202,670**	

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER

(€m)	Note	2018	*of which, related party transactions*	2017	*of which, related party transactions*
Revenue from Mail, Parcels & other	[C1]	3,579	490	3,631	513
Revenue from Payments, Mobile & Digital	[C2]	628	48	586	64
Revenue from Financial Services	[C3]	5,186	2,139	4,956	1,663
of which, non-recurring income		*120*		*91*	
Revenue from Insurance Services after movements in technical provisions and other claims expenses	[C4]	1,471	16	1,456	15
Insurance premium revenues		16,720	-	20,343	-
Income from insurance activities		3,604	16	3,925	15
Net change in technical provisions for insurance business and other claim expenses		(17,111)	-	(22,335)	-
Expenses from insurance activities		(1,742)	-	(477)	-
Net operating revenue		**10,864**		**10,629**	
Cost of goods and services	[C5]	2,343	206	2,370	195
Expenses from financial activities	[C6]	46	3	57	3
Personnel expenses	[C7]	6,137	43	6,093	40
Depreciation, amortisation and impairments	[C8]	570	-	545	-
of which, non-recurring costs/(income)		*33*		*-*	
Capitalised costs and expenses	[C9]	(17)	-	(24)	-
Other operating costs	[C10]	239	7	410	15
Impairment loss/(reversal) on debt instruments, receivables and other assets	[C11]	47	(3)	55	-
Operating profit/(loss)		**1,499**		**1,123**	
Finance costs	[C12]	71	-	94	1
of which, non-recurring costs		*-*		*-*	
Finance income	[C12]	106	-	115	-
of which, non-recurring income		*-*		*3*	
Impairment loss/(reversal) on financial instruments	[C13]	20	20	94	
of which, non-recurring expense/(income)		*-*		*82*	
Profit/(Loss) on investments accounted for using the equity method	[A4]	(24)	-	17	-
Profit/(Loss) before tax		**1,490**		**1,067**	
Income tax expense	[C14]	91	-	378	-
of which, non-recurring expense/(income)		*(351)*		*(9)*	
Net profit for the year		**1,399**		**689**	
of which, attributable to owners of the Parent		1,399		689	
of which, attributable to non-controlling interests		-		-	
Earnings per share	**[B3]**	**1.071**		**0.528**	
Diluted earnings per share	**[B3]**	**1.071**		**0.528**	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER

(€m)	Note	2018	2017
Net profit/(Loss) for the year		**1,399**	**689**
Items to be reclassified in the Statement of profit or loss for the year			
FVOCI debt instruments			
Increase/(decrease) in fair value during the year	[tab. B4]	(1,946)	(315)
Transfers to profit or loss	[tab. B4]	(396)	(676)
Increase/(Decrease) for expected credit loss		(1)	
Cash flow hedges			
Increase/(decrease) in fair value during the year	[tab. B4]	191	(57)
Transfers to profit or loss	[tab. B4]	19	(4)
Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the year		609	287
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		-	-
After-tax increase/(decrease) in reserves related to group of assets and liabilites held for sale	[tab. B4]	-	2
Items not to be reclassified in the Statement of profit or loss for the year			
FVOCI equity instruments			
Increase/(decrease) in fair value during the period		-	
Transfers to equity		-	
Actuarial gains/(losses) on provisions for employee termination benefits	[tab. B7]	16	(1)
Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year		(4)	-
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		-	-
Total other comprehensive income		**(1,511)**	**(764)**
Total comprehensive income for the year		**(112)**	**(75)**
of which, attributable to owners of the Parent		(112)	(75)
of which, attributable to non-controlling interests		-	-

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity										
	Share capital	Reserves						Retained earnings/ (Accumulated losses)	Total equity attributable to owners of the Parent	Equity attributable to non-controlling interests	Total equity
(€m)		Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Reserves related to disposal groups and liabilities held for sale	Reserve for investees accounted for using equity method				
Balance at 1 January 2017	**1,306**	**299**	**1,000**	**1,092**	**(18)**	**(1)**	**2**	**4,454**	**8,134**	**-**	**8,134**
Total comprehensive income for the year	-	-	-	(722)	(43)	2	-	688	(75)	-	(75)
Dividends paid	-	-	-	-	-	-	-	(509)	(509)	-	(509)
Reclassifications to/(from) reserves related to disposal groups and liabilites held for sale	-	-	-	1	-	(1)	-	-	-	-	-
Balance at 31 December 2017	**1,306**	**299**	**1,000**	**371**	**(61)**	**-**	**2**	**4,633**	**7,550**	**-**	**7,550**
Adjustments due to adoption of IFRS 9 and IFRS 15	**-**	**-**	**-**	**1,233**	**-**	**-**	**-**	**(17)**	**1,216**	**-**	**1,216**
Reclassifications of financial instruments	-	-	-	1,705	-	-	-	13	1,718	-	1,718
Adjustments	-	-	-	15	-	-	-	(40)	(25)	-	(25)
Tax effects	-	-	-	(487)	-	-	-	10	(477)	-	(477)
Balance at 1 January 2018 including IFRS 9 and IFRS 15 effects	**1,306**	**299**	**1,000**	**1,604**	**(61)**	**-**	**2**	**4,616**	**8,766**	**-**	**8,766**
Total comprehensive income for the year	-	-	-	(1,673)	150	-	-	1,411*	(112)	-	(112)
Other changes	-	-	210	-	-	-	-	(210)	-	-	-
Dividends paid	-	-	-	-	-	-	-	(549)	(549)	-	(549)
Balance at 31 December 2018	**1,306**	**299**	**1,210**	**(69)**	**89**	**-**	**2**	**5,268**	**8,105**	**-**	**8,105**

* This item includes net profit for the year of €1,399 million and actuarial gains on provisions for employee termination benefits of €12 million, after the related current and deferred taxation.

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER

(€m)	Note	2018	2017
Cash and cash equivalents at beginning of year		**2,428**	**3,902**
Profit/(Loss) before tax		1,490	1,067
Depreciation, amortisation and impairments	[tab. C8]	537	545
Impairment of goodwill/goodwill arising from consolidation	[tab. A3]	33	-
Net provisions for risks and charges	[tab. B6]	579	707
Use of provisions for risks and charges	[tab. B6]	(656)	(617)
Provisions for employee termination benefits	[tab. B7]	1	1
Employee termination benefits	[tab. B7]	(92)	(96)
Impairment of disposal groups	[tab. A11.1]	-	3
(Gains)/Losses on disposals		(120)	(2)
Impairment losses/(Reversals of impairment losses) on financial assets	[tab. C13]	20	94
(Dividends)	[tab. C12.1]	-	-
Dividends received		-	-
(Finance income realised)	[tab. C12.1]	(7)	(9)
(Finance income in form of interest)	[tab. C12.1]	(95)	(94)
Interest received		94	102
Interest expense and other finance costs	[tab. C12.2]	66	80
Interest paid		(59)	(57)
Losses and impairment losses/(Reverseals of impairment losses) on receivables	[tab. C11]	46	55
Income tax paid	[tab. C14.3]	(351)	(472)
Other changes		42	(1)
Cash flow generated by operating activities before movements in working capital	**[a]**	**1,528**	**1,306**
Movements in working capital:			
(Increase)/decrease in Inventories	[tab. A6]	(2)	(1)
(Increase)/decrease in Trade receivables		(201)	80
(Increase)/decrease in Other receivables and assets		(428)	(202)
Increase/(decrease) in Trade payables		222	(176)
Increase/(decrease) in Other liabilities		104	97
Movement in group of assets and liabilites held for sale		-	(12)
Cash flow generated by/(used in) movements in working capital	**[b]**	**(305)**	**(214)**
Increase/(decrease) in liabilities attributable to financial activities, payments, cards and acquiring		4,513	2,911
Net cash generated by/(used for) financial assets attributable to financial activities, payments, cards and acquiring		(2,585)	(2,290)
(Increase)/decrease in cash and deposits attributable to BancoPosta	[tab. A9]	(122)	(702)
(Income)/Expenses and other non-cash components from financial activities		(1,065)	(1,405)
Cash generated by/(used for) assets and liabilities attributable to financial activities	**[c]**	**741**	**(1,486)**
Net cash generated by/(used for) financial assets attributable to insurance activities		(5,860)	(9,941)
Increase/(decrease) in net technical provisions for insurance business		6,369	11,185
(Gains)/Losses on financial assets/liabilities measured at fair value		1,444	(348)
(Income)/Expenses and other non-cash components from insurance activities		(1,320)	(1,211)
Cash generated by/(used for) assets and liabilities attributable to insurance activities	**[d]**	**633**	**(315)**
Net cash flow from/(for) operating activities	**[e]=[a+b+c+d]**	**2,597**	**(709)**
- of which related party transactions		**(1,484)**	**241**
Investing activities:			
Property, plant and equipment	[tab. A1]	(260)	(241)
Investment property	[tab. A2]	-	(1)

(€m)	Note	2018	2017
Intangible assets	[tab. A3]	(278)	(225)
Investments		(30)	(228)
Other financial assets		-	-
Disposals:			
Property, plant and equipment, investment property, intangible assets and assets held for sale		2	5
Investments		120	-
Other financial assets		165	296
Disposal groups		-	131
Net cash flow from/(for) investing activities	**[f]**	**(281)**	**(263)**
- of which related party transactions		**254**	**(65)**
Proceeds from/(Repayments of) long-term borrowings		-	4
(Increase)/decrease in loans and receivables		-	1
Increase/(decrease) in short-term borrowings		(1,000)	1
Dividends paid	[B2]	(549)	(509)
Net cash flow from/(for) financing activities and shareholder transactions	**[g]**	**(1,549)**	**(503)**
- of which related party transactions		**(405)**	**(327)**
Cash and cash equivalents reclassified from non-current assets and disposal groups held for sale	**[h] [tab. A11]**	**-**	**1**
Net increase/(decrease) in cash	**[i]=[e+f+g+h]**	**767**	**(1,474)**
Cash and cash equivalents at end of year	**[tab. A10]**	**3,195**	**2,428**
Cash and cash equivalents at end of year	**[tab. A10]**	**3,195**	**2,428**
Cash subject to investment restrictions		(53)	-
Escrow account with the Italian Treasury		(72)	(55)
Cash attributable to technical provisions for insurance business		(1,392)	(358)
Amounts that cannot be drawn on due to court rulings		(18)	(15)
Current account overdrafts		0	(1)
Cash received on delivery (restricted) and other restrictions		(21)	(21)
Unrestricted net cash and cash equivalents at end of year		**1,639**	**1,978**

5.2 Notes to the statement of financial position

Assets

A1 - Property, plant and equipment (€1,945 million)

The following table shows movements in property, plant and equipment in 2018:

TAB. A1 - MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

(€m)	Land	Property used in operations	Plant and machinery	Industrial and commercial equipment	Leasehold improvements	Other assets	Assets under construction and prepayments	Total
Cost	76	2,956	2,168	325	482	1,875	43	7,925
Accumulated depreciation	-	(1,756)	(1,837)	(295)	(286)	(1,658)	-	(5,832)
Accumulated impairments	-	(66)	(14)	(1)	(10)	(1)	-	(92)
Balance at 1 January 2018	**76**	**1,134**	**317**	**29**	**186**	**216**	**43**	**2,001**
Movements during the year								
Additions	-	31	78	6	31	69	45	260
Adjustments	-	-	-	-	-	-	-	-
Reclassifications	-	12	8	1	7	8	(33)	3
Disposals	-	-	-	-	(2)	-	-	(2)
Depreciation	-	(113)	(72)	(9)	(32)	(95)	-	(321)
(Impairments)/Reversal of impairments	-	6	-	-	(1)	(1)	-	4
Total movements	**-**	**(64)**	**14**	**(2)**	**3**	**(19)**	**12**	**(56)**
Cost	76	2,999	2,198	319	515	1,909	55	8,071
Accumulated depreciation	-	(1,871)	(1,856)	(291)	(315)	(1,710)		(6,043)
Accumulated impairments	-	(58)	(11)	(1)	(11)	(2)	-	(83)
Balance at 31 December 2018	**76**	**1,070**	**331**	**27**	**189**	**197**	**55**	**1,945**

At 31 December 2018, property, plant and equipment includes assets belonging to the Parent Company located on land held under concession or sub-concession, which are to be handed over free of charge at the end of the concession term. These assets have a total carrying amount of €43 million.

Capital expenditure of €260 million in 2018, including €2 million in capitalised costs for self-constructed assets, consists of:

- €31 million relating to extraordinary maintenance of post offices and local head offices around the country (€19 million) and mail sorting offices (€8 million);
- €78 million relating to plant, with the most significant expenditure made by the Parent Company, of which €29 million was for plant and equipment related to buildings, €17 million for the purchase of telecommunications infrastructure, €16 million for the purchase of equipment for use in the sorting letters and processing of parcels and €9 million for the installation of ATMs;
- €31 million to upgrade plant (€21 million) and the structure of properties held under lease (€10 million);
- €69 million relating to "Other assets", of which €40 million incurred by the Parent Company was for the purchase of new computer hardware for post offices and head offices and the consolidation of storage systems and €14 million incurred by PostePay SpA for the purchase of electronic devices to be used in provision of electronic postman services (€10 million) and of "PosteMobile Casa" devices (€4 million);
- €45 million relating to assets under construction, of which €25 million was incurred by the Parent Company including €10 million regarding the restyling of post offices and €10 million the renovation of primary distribution centres.

Reversals of impairment losses are due to changes in estimates relating to buildings (property used in operations) and sorting centres owned by the Parent Company, and reflect prudent consideration of the effects on the relevant values in use that might arise as a result of reduced utilisation or future removal from the production cycle (note 2.5 – *Use of estimates*).

Reclassifications from assets under construction, totalling €33 million, relate primarily to the acquisition cost of assets that became available and ready for use during the year. In particular, this relates to the entry into service of hardware held in storage and the completion of the process of restyling leased and owned properties.

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

A2 - Investment property (€48 million)

Investment property primarily relates to residential accommodation previously used by post office directors and former service accommodation owned by Poste Italiane SpA in accordance with Law 560 of 24 December 1993. The following movements in Investment property took place in 2018:

TAB. A2 - MOVEMENTS IN INVESTMENT PROPERTY

(€m)	Year ended 31 December 2018
Cost	141
Accumulated depreciation	(88)
Accumulated impairments	(1)
Balance at 1 January	**52**
Movements during the year	
Additions	-
Disposals	(1)
Depreciation	(4)
(Impairments)/Reversal of impairments	-
Total movements	**(5)**
Cost	139
Accumulated depreciation	(91)
Accumulated impairments	-
Balance at 31 December	**48**
Fair value at 31 December	101

The fair value of investment property at 31 December 2018 includes €65 million representing the sale price applicable to the Parent Company's former service accommodation in accordance with Law 560 of 24 December 1993, while the remaining balance reflects price estimates computed internally by the Company[64].

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

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

A3 - Intangible assets (€545 million)

The following table shows movements in intangible assets in 2018:

TAB. A3 - MOVEMENTS IN INTANGIBLE ASSETS

(€m)	Industrial patents, intellectual property rights, concessions, licences, trademarks and similar rights	Assets under construction and advances	Goodwill	Other	Total
Cost	2,871	117	120	100	3,208
Accumulated amortisation and impairments	(2,531)	-	(69)	(92)	(2,692)
Balance at 1 January 2018	**340**	**117**	**51**	**8**	**516**
Movements during the year					
Additions	136	141	-	1	278
Reclassifications	102	(102)	-	-	-
Transfers and disposals	-	-	-	-	-
Amortisation and impairments	(212)	-	(33)	(4)	(249)
Total movements	**26**	**39**	**(33)**	**(3)**	**29**
Cost	3,109	156	120	101	3,486
Accumulated amortisation and impairments	(2,743)	-	(102)	(96)	(2,941)
Balance at 31 December 2018	**366**	**156**	**18**	**5**	**545**

Investment in "Intangible assets" during 2018 amounts to €278 million, of which €15 million relates to internally developed software. Development costs, other than those incurred directly to produce identifiable software used, or intended for use, within the Group, are not capitalised.

The increase in **industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights** totals €136 million, before amortisation for the period, and relates primarily to the purchase and entry into service of new software programmes and the acquisition of software licences.

Purchases of **intangible assets under construction** primarily related to the development of software relating to the infrastructure platform and for BancoPosta services.

The balance of **intangible assets under construction** includes activities conducted by the Parent Company, primarily regarding the development for software relating to the infrastructure platform (€55 million), for BancoPosta services (€41 million), for use in providing support to the sales network (€29 million) and for the postal products platform (€13 million).

During the year the Group effected reclassifications from intangible assets under construction to industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights, amounting to €102 million, reflecting the completion and commissioning of software and the upgrade of existing software.

Goodwill relates to the following:

TAB. A3.1 - GOODWILL

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Postel SpA	-	33
Poste Welfare Servizi Srl	18	18
Total	**18**	**51**

Goodwill has been tested for impairment in accordance with the relevant accounting standards. The information available and the impairment tests conducted revealed the need to write off the goodwill allocated to Postel SpA, totalling €33 million.

The recoverable value of the Postel CGU[65], identified on the basis of the company's value in use and determined on the basis of the budget for 2019 and the new Business Plan for 2020-2022, approved by the company's board of directors on 27 February 2019, was lower than the company's invested capital (including the related goodwill) by approximately €33 million. Value in use was determined using a WACC of 6.42% (6.12% at 31 December 2017) and a growth rate of 1.66% (1.4% at 31 December 2017).

A4 - Investments accounted for using the equity method (€497 million)

TAB. A4 - INVESTMENTS

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Investments in associates	214	219
Investments in subsidiaries	3	3
Investments in joint ventures	280	286
Total	**497**	**508**

MOVEMENTS IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD DURING 2018

Investments	Balance at 1 January 2018	Additions/ (Reductions)	Adjustments: accounted for using the equity method	Adjustments: dividend adjustments	Balance at 31 December 2018
in subsidiaries					
Kipoint SpA	1	-	-	-	1
Indabox Srl	1	-	-	-	1
Risparmio Holding SpA - in liquidazione	1	-	-	-	1
Total subsidiaries	**3**	**-**	**-**	**-**	**3**
in joint ventures					
FSIA Investimenti Srl	286	-	5	(11)	280
Total joint ventures	**286**	**-**	**5**	**(11)**	**280**
in associates					
Anima Holding SpA	219	30	(29)	(6)	214
Total associates	**219**	**30**	**(29)**	**(6)**	**214**
Total	**508**	**30**	**(24)**	**(17)**	**497**

Investments in associates refer almost entirely to the investment in Anima Holding. The movement in **investments** primarily relates to:

- Poste Italiane SpA's subscription for its share of the rights issue carried out by the associate, Anima Holding SpA on 12 April 2018, amounting to a total of approximately €30 million and enabling the Company to retain its 10.04% interest;
- a net increase in the carrying amount of the investment of approximately €7.1 million, primarily reflecting a reduction of €5.9 million following the payment of dividends for 2017, and an increase of €13 million representing the share of profit booked by the investee between 30 September 2017 and 30 September 2018 (the latest data available);

65. Postel SpA qualifies as a single CGU allocated to the Mail, Parcels and Distribution segment.

- an impairment loss of €42 million following the impairment test conducted on the basis of the latest available information[66].

Investments in joint ventures refer almost entirely to the investment in FSIA Investimenti Srl. The reduction of approximately €6 million is due to a decrease of €11 million following the payment of dividends for 2017 and an increase of €5 million representing the share of profit booked by the investee, after amortisation of the intangible assets identified at the time of the purchase price allocation, between 30 September 2017 and 30 September 2018 (the latest data available).

The value of intangible assets and goodwill allocated to the investment in FSIA Investimenti Srl at the time of the purchase price allocation is shown below:

FSIA INVESTIMENTI S.R.L.

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017	Acquisition-date values
Intangible assets	**95**	**108**	**116**
Customer relationships	49	53	55
Backlog	29	34	36
Software	16	21	24
Deferred tax liabilities	**(26)**	**(29)**	**(30)**
Goodwill	**254**	**254**	**254**

In 2018, Poste Italiane SpA obtained tax relief, pursuant to art. 15, paragraph 10 of Law Decree 185 of 2008, on the increase in the value of the goodwill and other intangible assets relating to the acquisition of the investment in FSIA Investimenti Srl recognised in Poste Italiane's consolidated financial statements at 31 December 2017.

In order to qualify for the relief, the Company paid substitute tax (IRES and IRAP) of approximately €32 million, equal to 16% of the amounts to which the relief applies, totalling approximately €198 million. Specifically, the amount qualifying for relief consists of the following:

(€m)	
Goodwill	103
Customer relationships	48
Backlog	32
Software	15
Total	**198**
Substitute tax paid	**32**

This process will allow the Parent Company to deduct tax amortisation of the revalued amounts from the tax bases for IRES and IRAP from the second tax period following the one in which the substitute tax was paid (from 2020).

The substitute tax paid has been accounted for in current tax assets. The asset in question will be deducted from 2020 within the deadline and according to the procedures for the deduction of amortisation relating to amounts qualifying for tax relief.

A list of subsidiaries, joint ventures and associates accounted for using the equity method is provided in *Additional information – Information on investments* (note 13).

66. The recoverable value of the investment in Anima Holding, identified on the basis of the latest available projections, was lower than the company's carrying amount by approximately €42 million. Value in use was determined using a cost of equity (Ke) of 8.51% (7.24% at 31 December 2017) and a growth rate of 1.475% (1.4% at 31 December 2017).

A5 - Financial assets (€190,864 million)

TAB. A5 - FINANCIAL ASSETS

FINANCIAL ASSETS

Item (€m)	Balance at 31 December 2018 Non-current assets	Current assets	Total	Balance at 31 December 2017 Non-current assets	Current assets	Total
Financial assets at amortised cost	22,965	9,904	32,869	11,708	9,336	21,044
Financial assets at FVTOCI	118,994	8,761	127,755	130,969	4,836	135,805
Financial assets at fair value through profit or loss	28,753	1,074	29,827	27,857	1,481	29,338
Derivative financial instruments	210	203	413	470	109	579
Total	**170,922**	**19,942**	**190,864**	**171,004**	**15,762**	**186,766**

FINANCIAL ASSETS BY TYPE OF ACTIVITY

Item (€m)	Balance at 31 December 2018 Non-current assets	Current assets	Total	Balance at 31 December 2017 Non-current assets	Current assets	Total
FINANCIAL SERVICES	51,575	12,143	63,718	49,415	10,663	60,078
Financial assets at amortised cost	21,507	9,714	31,221	11,675	8,837	20,512
Financial assets at FVTOCI	29,808	2,263	32,071	37,346	1,825	39,171
Financial assets at fair value through profit or loss	50	8	58	-	-	-
Derivative financial instruments	210	158	368	394	1	395
INSURANCE SERVICES	118,778	7,688	126,466	121,005	4,853	125,858
Financial assets at amortised cost	1,420	85	1,505	-	258	258
Financial assets at FVTOCI	88,655	6,492	95,147	93,072	3,006	96,078
Financial assets at fair value through profit or loss	28,703	1,066	29,769	27,857	1,481	29,338
Derivative financial instruments	-	45	45	76	108	184
MAIL, PARCELS AND DISTRIBUTION	569	58	627	584	246	830
Financial assets at amortised cost	38	52	90	33	241	274
Financial assets at FVTOCI	531	6	537	551	5	556
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
PAYMENT SERVICES AND CARD PAYMENTS	-	53	53	-	-	-
Financial assets at amortised cost	-	53	53	-	-	-
Total	**170,922**	**19,942**	**190,864**	**171,004**	**15,762**	**186,766**

Financial assets by operating segment break down as follows:

- Financial Services, relate primarily to the financial assets of BancoPosta RFC and the company, BancoPosta Fondi SpA SGR;
- Insurance Services, includes the financial assets of Poste Vita SpA and its subsidiary, Poste Assicura SpA;
- Postal and Business Services, representing all the other financial assets held by the Parent Company (different from those held by BancoPosta) and the other financial assets held by companies that provide postal and business services;
- Payment Services and Card Payments, representing the financial assets held by the ring-fenced EMI;
- The impact of the transition to IFRS 9 is commented on in note 3 – *Changes to accounting policies*, to which reference should be made.

Financial services

Financial assets measured at amortised cost

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

TAB. A5.1 - MOVEMENTS IN FINANCIAL ASSETS AT AMORTISED COST

(€m)	Receivables	Fixed income instruments	Total
Balance at 31 December 2017	**7,600**	**12,912**	**20,512**
First-time adoption of IFRS 9	(10)	6,182	6,172
Balance at 1 January 2018	**7,590**	**19,094**	**26,684**
Purchases		6.303	6.303
Changes in amortised cost	-	(75)	(75)
Changes in fair value through profit or loss	-	342	342
Changes in cash flow hedges*	-	(1)	(1)
Changes in impairment	-	(2)	(2)
Net changes	759		759
Effects of sales on profit or loss	-	1	1
Accrued income	-	164	164
Sales, redemptions and settlement of accrued income		(2,954)	(2,954)
Balance at 31 December 2018	**8,349**	**22,872**	**31,221**

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

Loans and receivables

This item breaks down as follows:

TAB. A5.1.1 - LOANS AND RECEIVABLES AT AMORTISED COST

	Balance at 31 December 2018			Balance at 31 December 2017		
Item (€m)	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Loans	-	251	251	-	-	-
Receivables	-	8,098	8,098	8	7,592	7,600
Amounts deposited with MEF	-	5,927	5,927	-	6,011	6,011
Receivables	-	5,930	5,930	-	6,011	-
Provisions for doubtful amounts deposited with MEF	-	(3)	(3)	-	-	-
Other financial receivables	-	2,171	2,171	8	1,581	1,589
Total	**-**	**8,349**	**8,349**	**8**	**7,592**	**7,600**

Loans refer to outstanding repurchase agreements with a total nominal value of €254 million, entered into with Cassa di Compensazione e Garanzia SpA (the Central Counterparty)[67].

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

Receivables include:

- **Amounts deposited with the MEF**, including public customers' current account deposits of BancoPosta RFC, which earn a variable rate of return, calculated on a basket of government bonds and money market indices[68]. Following the introduction of IFRS 9, the deposits have been adjusted to reflect accumulated impairments of approximately €3 million, reflecting the risk of counterparty default. In 2018, the Parent Company entered into derivatives with the aim of converting the return on the deposits in question into a fixed rate. The transaction was designed to fix the return on the indexed components of the deposits, through a series of forward purchases and spot sales of BTPs, with settlement of the differential between the forward price of the securities and their market value.
- **Other financial receivables** include: (i) guarantee deposits of €1,652 million, including €1,332 million provided to counterparties in asset swap transactions (with collateral provided by specific Credit Support Annexes), €186 million provided to counterparties in repurchase agreements on fixed income securities (with collateral contemplated by specific Global Master Repurchase Agreements) and €134 million in collateral deposited with the Central Counterparty, in relation to the clearing system (i.e. the Default Fund)[69]; and (ii) amounts to be charged to customers using debit cards issued by BancoPosta, totalling €131 million.

Fixed income instruments

These are Eurozone fixed income instruments held by BancoPosta RFC, consisting of government securities issued by the Italian government and securities guaranteed by the Italian government with a nominal value of €20,935 million. Their carrying amount of €22,872 million reflects the amortised cost of unhedged fixed income bonds, totalling €10,309 million, the amortised cost of fair-value hedged fixed-rate bonds, totalling €11,570 million, increased by €993 million to take into account the effects of the hedge. Following the introduction of IFRS 9, fixed income instruments recognised at amortised cost are adjusted to take into account the related impairments. Accumulated impairments at 31 December 2018 amount to approximately €9 million (€7 million at 1 January 2018).

At 31 December 2018, the fair value[70] of these instruments is €21,189 million.

Changes in fair value through profit or loss for 2018 reflect a gain of €342 million, due to the impact of fair value hedges.

This portfolio includes fixed rate instruments amounting to €4,500 million (including €2,000 million acquired in 2018), issued by Cassa depositi e prestiti SpA and guaranteed by the Italian government (at 31 December 2018, their fair value totalled €4,539 million).

68. The rate in question is calculated as follows: 50% is based on the return on 6-month BOTs, with the remaining 50% based on the monthly average Rendistato index. The latter represents the average yield on government securities with maturities greater than 1 year, approximating the return on 7-year BTPs.
69. A guarantee fund established with payments from participants in the derivative, equity and bond markets, as a further guarantee for the transactions carried out. The fund can be used to meet the charges arising from any participant default.
70. In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, €16,780 million of the total amount qualifies for inclusion in level 1 and €4,409 million for inclusion in level 2.

Financial assets measured at fair value through other comprehensive income

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

TAB. A5.2 - MOVEMENTS IN FINANCIAL ASSETS AT FVTOCI

(€m)	Fixed income instruments	Equity instruments	Total
Balance at 31 December 2017	**39,130**	**41**	**39,171**
First-time adoption of IFRS 9	(4,267)	(41)	(4,308)
Balance at 1 January 2018	**34,863**	**-**	**34,863**
Purchases	2,923	-	2,923
Transfers to equity	(359)	-	(359)
Changes in amortised cost	(8)	-	(8)
Fair value gains and losses through equity	(1,887)	-	(1,887)
Changes in fair value through profit or loss	325	-	325
Changes in cash flow hedges*	11	-	11
Effects of sales on profit or loss	378	-	378
Accrued income	324	-	324
Sales, redemptions and settlement of accrued income	(4,499)	-	(4,499)
Balance at 31 December 2018	**32,071**	**-**	**32,071**

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

Fixed income instruments

These are Eurozone fixed income instruments held primarily by BancoPosta RFC, consisting of government securities issued by the Italian government with a nominal value of €30,260 million.

Total fair value losses for the period amount to €1,562 million, with losses of €1,887 million recognised in the relevant equity reserve in relation to the portion of the portfolio not hedged by fair value hedges, and a gain of €325 million recognised through profit and loss in relation to the hedged portion.

Following the introduction of IFRS 9, fixed income instruments recognised at FVTOCI are adjusted for impairment through the relevant equity reserve, with a matching entry in profit or loss. Accumulated impairments at 31 December 2018 amount to €13 million (€14 million at 1 January 2018).

Certain securities are encumbered as they have been delivered to counterparties for use as collateral in connection with loans and hedging transactions, as described in note 13 – *Additional information*.

Financial assets measured at fair value through profit or loss

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

TAB. A5.3 - MOVEMENTS IN FINANCIAL ASSETS AT FVTPL

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

Receivables

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

Equity instruments

This item relates to the following:

- €45 million, reflecting the fair value of 32,059 Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock) received for the sale of the Visa Europe Ltd. share to Visa Incorporated on 21 June 2016 convertible at the rate of 13.886[71] ordinary shares for each C share, minus a suitable illiquidity discount, considering the staggered conversion between the fourth and twelfth year after the closing;
- €5 million, reflecting the fair value of 11,144 class C shares of Visa Incorporated. These shares are not traded on an organised exchange, but are immediately convertible into Class A shares (at the rate of four ordinary shares for each C share), which are listed on the New York Stock Exchange, if disposal is desired.

Fair value gains in the period under review, amounting to €9 million, have been recognised in profit or loss in "Revenue from financial activities".

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

Derivative financial instruments

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

TAB. A5.4 - MOVEMENTS IN DERIVATIVE FINANCIAL INSTRUMENTS

	Cash flow hedges						Fair value hedges		FV vs CE				Total	
	Forward purchases		Forward sales		Interest rate swap		Interest rate swap		Forward purchases		Forward sales			
(€m)	nominal	fair value	nominal	fair value	nominal	fair value	nominal	fair value	nominal	fair value	nominal	fair value	nominal	fair value
Balance at 1 January 2018	**-**	**-**	**1,408**	**(23)**	**1,110**	**(59)**	**19,755**	**(1,160)**	**-**	**-**	**-**	**-**	**22,273**	**(1,242)**
Increases/(decreases)*	3,050	105	1,340	61	500	26	5,280	(669)	852	2	-	-	11,022	(475)
Gains/(Losses) through profit or loss**	-	-	-	-	-	-	-	(2)	-	-	-	-	-	(2)
Transactions settled***	(1,505)	(11)	(1,408)	23	-	(24)	(1,445)	272	(852)	(2)	-	-	(5,210)	258
Balance at 31 December 2018	**1,545**	**94**	**1,340**	**61**	**1,610**	**(57)**	**23,590**	**(1,559)**	**-**	**-**	**-**	**-**	**28,085**	**(1,461)**
Of which:														
Derivative assets	**1,545**	**94**	**1,340**	**61**	**675**	**50**	**4,420**	**163**	**-**	**-**	**-**	**-**	**7,980**	**368**
Derivative liabilities	**-**	**-**	**-**	**-**	**935**	**(107)**	**19,170**	**(1,722)**	**-**	**-**	**-**	**-**	**20,105**	**(1,829)**

* Increases/(decreases) refer to the nominal value of new transactions and changes in the fair value of the overall portfolio during the period.
** Gains and losses through profit or loss refer to any ineffective components of hedges, recognised in other income and other expenses from financial activities.
*** Transactions settled include forward transactions settled, accrued differentials and the settlement of interest rate swaps linked to securities sold.

Fair value hedges in the form of interest rate swaps relate to instruments classified as at amortised cost, with a nominal value of €10,730 million, and instruments classified as FVTOCI, with a nominal value of €12,860 million.

Cash flow hedges in the form of interest rate swaps and forward sales relate to instruments classified as FVTOCI, with nominal values of €1,610 million and €1,340 million, respectively.

Cash flow interest rate hedges recorded a total fair value gain of €192 million on the effective portion, reflected in the cash flow hedge reserve.

Fair value hedges recorded a net fair value loss on the effective portion of €669 million, whilst the hedged securities recorded a net fair value gain of €667 million, with the difference of €2 million due to paid differentials.

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

- the conclusion of forward purchases with a nominal value of €3,050 million. During the year, purchases of €1,505 million were settled;
- the conclusion of forward sales with a nominal value of €1,340 million;
- the settlement of forward sales outstanding at 31 December 2017, totalling €1,408 million;
- the conclusion of new cash flow interest rate swaps with a nominal value of €500 million;
- the conclusion of new fair value interest rate swaps with a nominal value of €5,280 million;
- the unwinding of fair value interest rate swaps hedging securities that have been sold, with a nominal value of €1,445 million.

In addition, the Parent Company has entered into forward purchases and spot sales with a total nominal value of €852 million (recognised at fair value through profit or loss), with the aim of fixing the return, for the current year, on public customers' current account deposits held at the parent, the MEF, and earning a variable rate of return (tab. A5.1.1). These transactions had a positive impact of €2 million on profit or loss for the year.

Insurance services

Financial assets at amortised cost

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

TAB. A5.5 - MOVEMENTS IN FINANCIAL ASSETS AT AMORTISED COST

(€m)	Receivables	Fixed income instruments	Total
Balance at 31 December 2017	**258**	**-**	**258**
First-time adoption of IFRS 9	(208)	1,412	1,204
Balance at 1 January 2018	**50**	**1,412**	**1,462**
Purchases		62	62
Changes in amortised cost	-	9	9
Changes in fair value through profit or loss	-	-	-
Changes in cash flow hedges	-	-	-
Changes in impairment	-	-	-
Net changes	(12)		(12)
Effects of sales on profit or loss	-	-	-
Accrued income	-	15	15
Sales, redemptions and settlement of accrued income		(31)	(31)
Balance at 31 December 2018	**38**	**1,467**	**1,505**

Receivables

Financial receivables of €38 million include accrued interest of €20 million yet to be collected at 31 December 2018 and €12 million in amounts due for units of investment funds sold but not yet collected.

Fixed income instruments

Fixed income instruments at amortised cost at 31 December 2018 have a carrying amount of €1,467 million. These instruments exclusively relate to the free capital of Poste Vita SpA and Poste Assicura SpA. At 31 December 2018, the fair value[72] of these instruments is €1,578 million.

Following the introduction of IFRS 9, fixed income instruments recognised at amortised cost are adjusted to take into account the related impairments. Accumulated impairments at 31 December 2018 amount to approximately €0.6 million (unchanged with respect to 1 January 2018).

72. In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, €1,317 million of the total amount qualifies for inclusion in level 1 and €261 million for inclusion in level 2.

Financial assets at fair value through other comprehensive income

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

TAB. A5.6 - MOVEMENTS IN FINANCIAL ASSETS AT FVTOCI

(€m)	Fixed income instruments	Other instruments	Equity instruments	Total
Balance at 31 December 2017	**94,709**	**1,352**	**17**	**96,078**
First-time adoption of IFRS 9	1,875	(806)	(17)	1,052
Balance at 1 January 2018	**96,584**	**546**	**-**	**97,130**
Purchases	15,436	-	-	15,436
Transfers to equity	(361)	-	-	(361)
Changes in amortised cost	354	-	-	354
Fair value gains and losses through equity	(4,549)	(21)	-	(4,570)
Effects of sales on profit or loss	222	-	-	222
Accrued income	737	-	-	737
Sales, redemptions and settlement of accrued income	(13,801)	-	-	(13,801)
Balance at 31 December 2018	**94,622**	**525**	**-**	**95,147**

These financial instruments have recorded a net fair value loss of €4,570 million. This includes €4,522 million deriving primarily from the measurement of securities held by Poste Vita SpA and transferred to policyholders, with a contra-entry made in technical provisions in accordance with the shadow accounting method, and a portion of €48 million reflected in a matching negative movement in the related equity reserve.

Fixed income instruments

At 31 December 2018, fixed income instruments relate primarily to investments held by Poste Vita SpA, totalling €94,454 million (a nominal value of €92,262 million) issued by European governments and European blue-chip companies. These instruments are mainly intended to cover separately managed accounts, where gains and losses are transferred in full to policyholders and recognised in technical provisions using the shadow accounting method. These fixed income instruments comprise bonds issued by CDP SpA, with a fair value of €1,107 million.

Following the introduction of IFRS 9, fixed income instruments recognised at FVTOCI are adjusted for impairment through the relevant equity reserve, with a matching entry in profit or loss. Accumulated impairments at 31 December 2018 amount to €41 million, including a portion of €40 million transferred to policyholders using the shadow accounting method (at 1 January 2018, impairments amounted to €43 million, including €42 million transferred to policyholders using the shadow accounting method).

Other investments

At 31 December 2018, Cassa depositi e prestiti's private placement of a Constant Maturity Swap, classified as at FVTOCI, amounts to €525 million. Fair value losses registered during the period, totalling €21 million, have been transferred to policyholders using the shadow accounting method.

Following the introduction of IFRS 9, this investment is adjusted for impairment through the relevant equity reserve, with a matching entry in profit or loss. Accumulated impairments at 31 December 2018 amount to €0.3 million, transferred in full to policyholders.

Financial assets at fair value through profit or loss

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

TAB. A5.7 - MOVEMENTS IN FINANCIAL ASSETS AT FVTPL

(€m)	Receivables	Fixed income instruments	Other instruments	Equity instruments	Other instruments	Total
Balance at 31 December 2017	**-**	**6,220**	**23,060**	**58**	**-**	**29,338**
First-time adoption of IFRS 9	208	(3,492)	806	17	-	(2,461)
Balance at 1 January 2018	**208**	**2,728**	**23,866**	**75**	**-**	**26,877**
Purchases		388	7,680	173	20	8,261
Fair value gains and losses through profit or loss	-	(15)	(1,371)	(25)	1	(1,410)
Net changes	(149)					(149)
Effects of sales on profit or loss	-	(28)	(6)	1	-	(33)
Accrued income	-	10	-	-	-	10
Sales/Settlement of accrued income		(1,512)	(2,217)	(58)	-	(3,787)
Balance at 31 December 2018	**59**	**1,571**	**27,952**	**166**	**21**	**29,769**

Receivables

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

Fixed income securities

At 31 December 2018, fixed income securities amounting to €1,571 million consist of €825 million in coupon stripped BTPs and Zero Coupon bonds and €746 million of corporate bonds issued by blue-chip companies. Financial instruments totalling €478 million are linked to separately managed accounts, €1,078 million covers contractual obligations arising on Class III insurance policies and the remaining €15 million relates to securities in which the company's free capital has been invested.

Units of mutual investment funds

At 31 December 2018, units of mutual investment funds amounting to €27,952 million include €26,601 million to cover Class I products and €1,345 million to cover Class III products. The remaining €5 million relates to investment of the company's free capital (see note 13 – *Additional information - Unconsolidated structured entities*). Net investment in funds during the period amounts to €5,462 million, with fair value losses amounting to approximately €1,371 million, transferred in full to Class I policyholders under the shadow accounting method. At 31 December 2018, the investments primarily regard equity funds, totalling €26,290 million, units in real estate funds, totalling €1,047 million, and funds that primarily invest in bonds, totalling €614 million.

Equity instruments

Equity instruments amount to €166 million. These are investments that cover the contractual obligations arising on Class I products linked to separately managed accounts and Class III policies. The increase over the period reflects the combined effect of net investments of approximately €115 million, the proceeds from sales of approximately €1 million and a fair value loss of approximately €25 million.

Other investments

Other investments of €21 million relate to a Constant Maturity Swap placed by Cassa depositi e prestiti (a nominal value of €22 million) and covering products linked to separately managed accounts.

Derivative financial instruments

At 31 December 2018, outstanding instruments primarily related to warrants executed by Poste Vita SpA to cover contractual obligations deriving from Class III policies with a fair value of €45 million and a notional amount of €797 million. The reduction in value in 2018 totalling €139 million reflects redemptions and sales (€119 million) and the change in fair value (€20 million). Details of the Group's warrants are as follows:

TAB. A5.8 - WARRANTS

Policy (€m)	At 31 December 2018		At 31 December 2017	
	Nominal value	Fair value	Nominal value	Fair value
Titanium	-	-	621	45
Arco	-	1	165	34
Prisma	-	-	166	29
6Speciale	-	-	200	-
6Avanti	-	-	200	-
6Sereno	173	12	173	18
Primula	176	11	176	17
Top5	223	10	223	18
Top5 edizione II	225	11	225	23
Total	**797**	**45**	**2,149**	**184**

In addition, at 31 December 2018, Poste Vita reports outstanding forward sales with a nominal value of €3 million and a negligible fair value.

Postal and business services

Financial assets at amortised cost

Financial assets at amortised cost refer solely to financial receivables totalling €90 million.

This item breaks down as follows:

TAB. A5.9 - RECEIVABLES AT AMORTISED COST

(€m)	Balance at 31 December 2018			Balance at 31 December 2017		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Guarantee deposits	-	30	30	-	40	40
Due from the purchasers of service accommodation	5	2	7	5	2	7
Due from others	33	40	73	28	199	227
Provisions for doubtful debts	-	(20)	(20)	-	-	-
Total	**38**	**52**	**90**	**33**	**241**	**274**

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

Other receivables of €69 million (a nominal value of €70 million) represent the remaining amount receivable from Invitalia SpA as a result of the sale of Banca del Mezzogiorno-MedioCreditoCentrale SpA on 7 August 2017[73]. Following the agreement between the parties finalised in January 2019, €20 million of this amount was collected on 27 February 2019.

Impairment losses of €20 million were recognised on these receivables in the last quarter of 2018 following prudent application of the measurement criteria provided in IFRS 9.

Financial assets at fair value through other comprehensive income

TAB. A5.10 - MOVEMENTS IN FINANCIAL ASSETS AT FVTOCI

(€m)	Fixed income instruments	Equity instruments	Total
Balance at 31 December 2017	**551**	**5**	**556**
First-time adoption of IFRS 9	-	-	-
Balance at 1 January 2018	**551**	**5**	**556**
Purchases	-	-	-
Transfers to equity	-	-	-
Changes in amortised cost	-	-	-
Fair value gains and losses through equity	(11)	-	(11)
Changes in fair value through profit or loss	(8)	-	(8)
Changes in cash flow hedges	-	-	-
Effects of sales on profit or loss	-	-	-
Accrued income	5	-	5
Sales, redemptions and settlement of accrued income	(5)	-	(5)
Balance at 31 December 2018	**532**	**5**	**537**

Fixed income instruments

This item relates to BTPs with a total nominal value of €500 million. Of these, instruments with a value of €375 million have been hedged using asset swaps designated as fair value hedges.

Following the introduction of IFRS 9, fixed income instruments recognised at FVTOCI are adjusted to take into account the related impairments. Accumulated impairments at 31 December 2018 amount to approximately €0.2 million (unchanged compared with 1 January 2018).

Equity instruments

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

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

Financial assets at fair value through profit or loss

This item consists of equity instruments (as defined by art. 2346, paragraph 6 of the Italian Civil Code) resulting from the conversion of Contingent Convertible Notes[74], whose value at 31 December 2018 is zero.

Derivative financial instruments

TAB. A5.11 - MOVEMENTS IN DERIVATIVE FINANCIAL INSTRUMENTS

	Year ended 31 December 2018			
(€m)	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total
Balance at 1 January 2018	**(5)**	**(34)**	**-**	**(39)**
Increases/(decreases)	(1)	(3)	-	(4)
Hedge completion	-	-	-	-
Gains/(Losses) through profit or loss	-	-	-	-
Transactions settled*	1	11	-	12
Balance at 31 December 2018	**(5)**	**(26)**	**-**	**(31)**
Of which:				
Derivative assets	-	-	-	-
Derivative liabilities	(5)	(26)	-	(31)

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

At 31 December 2018, derivative financial instruments include:

- a swap contract entered into in 2013 to hedge the cash flows of a €50 million bond issued on 25 October 2013 (note B.8 – *Financial liabilities*). With this transaction, the Parent Company took on the obligation to pay a fixed rate of 4.035% and sold the variable rate of the bond which, at 31 December 2018, is 1.945%;
- nine asset swaps used as fair value hedges in 2010 to protect the value of BTPs with a nominal value of €375 million against movements in interest rates. These instruments have enabled the Parent Company to sell the fixed rate on the BTPs of 3.75% and purchase a variable rate.

Payment services and card payments

Financial assets at amortised cost

Financial assets at amortised cost refer solely to financial receivables due to the ring-fenced EMI, amounting to €53 million.

74. These are Contingent Convertible Notes with an original value of €75 million, a twenty-year term to maturity and issued by Midco SpA, which in turn owns 51% of the airline Alitalia SAI SpA. The Notes were subscribed for by Poste Italiane SpA on 23 December 2014, in connection with the strategic transaction that resulted in Etihad Airways' acquisition of an equity interest in Alitalia SAI, without giving rise to any involvement on the part of Poste Italiane in the management of the issuer or its subsidiary. Interest and principal payments were provided for in the relevant terms and conditions if, and to the extent that, there was available liquidity. On the fulfilment of certain negative pledge conditions, in 2017 the loan was converted into equity instruments (as defined by art. 2346, paragraph 6 of the Italian Civil Code), carrying the same rights associated with the Notes.

Fair value hierarchy

FAIR VALUE HIERARCHY

Item (€m)	at 31 December 2018				at 31 December 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Financial assets at FVTOCI	119,159	8,591	5	127,755	129,465	5,418	922	135,805
Equity instruments	-	-	5	5	17	4	42	63
Fixed income instruments	119,159	8,066	-	127,225	129,448	4,942	-	134,390
Other instruments	-	525	-	525	-	472	880	1,352
Financial assets at FVTPL	1,091	26,074	2,662	29,827	6,796	21,788	754	29,338
Receivables	-	8	59	67	-	-	-	-
Equity instruments	165	5	46	216	58	-	-	58
Fixed income instruments	671	900	-	1,571	6,212	8	-	6,220
Other investments	255	25,161	2,557	27,973	526	21,780	754	23,060
Derivative financial investments	-	413	-	413	-	579	-	579
Total	**120,250**	**35,078**	**2,667**	**157,995**	**136,261**	**27,785**	**1,676**	**165,722**

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

NET TRANSFERS BETWEEN LEVEL 1 AND 2 AT 30 JUNE 2018 (€M)

Item (€m)	From Level 1 to Level 2		From Level 2 to Level 1	
	Level 1	Level 2	Level 1	Level 2
Transfers of financial assets	**(6,701)**	**6,701**	**595**	**(595)**
Financial assets at FVTOCI				
Equity instruments	-	-	-	-
Fixed income instruments	(6,457)	6,457	595	(595)
Other instruments	-	-	-	-
Financial assets at FVTPL				
Receivables	-	-	-	-
Equity instruments	-	-	-	-
Fixed income instruments	(38)	38	-	-
Other investments	(206)	206	-	-
(Net transfers between Level 1 and 2)	**(6,701)**	**6,701**	**595**	**(595)**

Reclassifications from level 1 to level 2 relate to financial instruments whose value, at 31 December 2018, is not observable in a liquid and active market, as defined in the Group's Fair Value Policy. Reclassifications from level 2 to level 1, on the other hand, relate to financial instruments whose value, at 31 December 2018, is observable in a liquid and active market.

Movements in level 3 during the year are shown below:

MOVEMENTS IN FINANCIAL INSTRUMENTS AT FAIR VALUE (LEVEL 3)

	Financial assets			
Item	Financial assets at FVTOCI	Financial assets at FVTPL	Derivative financial instruments	Total
Balance at 31 December 2017	**922**	**754**	**-**	**1,676**
First-time adoption of IFRS 9	(917)	1,130	-	213
Balance at 1 January 2018	**5**	**1,884**	**-**	**1,889**
Purchases/Issues	-	1,724	-	1,724
Sales/Extinguishment of initial accruals	-	(829)	-	(829)
Redemptions	-	-	-	-
Movements in fair value through profit or loss	-	95	-	95
Movements in fair value through equity	-	-	-	-
Transfers to profit or loss	-	-	-	-
Gains/Losses in profit or loss due to sales	-	-	-	-
Transfers to level 3	-	-	-	-
Transfers to other levels	-	-	-	-
Movements in amortised cost	-	-	-	-
Write-off	-	-	-	-
Other movements (including accruals at end of period)	-	(212)	-	(212)
Balance at 31 December 2018	**5**	**2,662**	**-**	**2,667**

Financial instruments classified in level 3 are held primarily by Poste Vita SpA and, to a residual extent, by Poste Italiane SpA.

In the case of the Group's insurance company, instruments in level 3 regard funds that invest primarily in unlisted instruments, whose fair value measurement is based on the latest available NAV (Net Asset Value) as announced by the fund manager. This NAV is adjusted according to the capital calls and reimbursements announced by the managers which occurred between the latest NAV date and the measurement date. These financial instruments primarily consist of investments in private equity funds and, to a lesser extent, real estate funds associated entirely with Class I products related to separately managed accounts. Movements during the year regard the purchase of new investments, redemptions of units of unquoted close-end funds and changes in fair value.

A6 - Inventories (€136 million)

TAB. A6 - INVENTORIES

Item (€m)	Balance at 31 December 2017	Increase/ (decrease)	Reclassifications	Balance at 31 December 2018
Properties held for sale	119	4	(3)	120
Work in progress, semi-finished and finished goods and goods for resale	10	(2)	-	8
Raw, ancillary and consumable materials	9	(1)	-	8
Total	**138**	**1**	**(3)**	**136**

This item refers entirely to properties held for sale, which include the portion of EGI SpA's real estate portfolio to be sold, whose fair value[75] at 31 December 2018 amounts to approximately €281 million.

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

A7 – Trade receivables (€2,199 million)

TAB. A7 - TRADE RECEIVABLES

Item (€m)	Balance at 31 December 2018			Balance at 31 December 2017		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Customers	7	2,115	2,122	9	1,860	1,869
MEF	-	68	68	-	166	166
Subsidiaries, associates and joint ventures	-	4	4	-	-	-
Prepayments to suppliers	-	5	5	-	-	-
Total	**7**	**2,192**	**2,199**	**9**	**2,026**	**2,035**

Receivables due from customers

TAB. A7.1 - RECEIVABLES DUE FROM CUSTOMERS

Item (€m)	Balance at 31 December 2018			Balance at 31 December 2017		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Ministries and Public Administration entities	-	672	672	-	658	658
Cassa depositi e prestiti	-	440	440	-	374	374
Parcel express courier and express parcel services	-	352	352	-	259	259
Overseas counterparties	-	304	304	-	229	229
Unfranked mail delivered and other value added services	18	252	270	20	254	274
Overdrawn current accounts	-	154	154	-	148	148
Amounts due for other BancoPosta services	-	83	83	-	87	87
Property management	-	7	7	-	7	7
Other trade receivables	3	452	455	4	412	416
Provisions for doubtful debts	(14)	(601)	(615)	(15)	(568)	(583)
Total	**7**	**2,115**	**2,122**	**9**	**1,860**	**1,869**

Specifically[76]:

- Amounts due from **Ministries and Public Administration entities** refer mainly to the following services:
  - Integrated Notification and mailroom services, amounting to €246 million, rendered to central and local government entities;
  - Compensation for the discounts applied to publishers, due from the *Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria* (Cabinet Office – Publishing department), amounting to €104 million, of which €62 million accrued during the year. These receivables are shown gross of collection of an amount of €72 million in subsidies for 2017 and the first half of 2018, which was deposited by the Cabinet Office in a non-interest bearing escrow account with the Italian Treasury and, for this reason, accounted for in "Prepayments received". Release of the amount deposited and extinguishment of the receivables in question are awaiting approval from the European Commission.

76. At 31 December 2018, the balance of trade receivables includes €14 million, net of the related provisions for doubtful accounts, relating to rental income falling within the scope of IFRS 15 – Revenue from Contracts with Customers.

– Reimbursement of the costs associated with the management of property, vehicles and security incurred on behalf of the Ministry for Economic Development, totalling €76 million, of which €1 million relates to the amount accrued during the year (see note 2.5[77] for information on this item).
– Unfranked mail services provided on credit, totalling €73 million, to central and local government entities.
– The payment of pensions and vouchers on behalf of INPS (the National Institute of Social Security), totalling €68 million. In February 2019, having conducted a joint assessment, Poste Italiane and INPS signed an agreement that, among other things, has settled the respective outstanding trade receivables (note B6).

- Amounts due from **Cassa depositi e prestiti** refer to fees and commissions for BancoPosta's deposit-taking activities during 2018.
- Receivables for **parcel, express courier and express parcel services** refer to services provided by SDA Express Courier SpA, and to the mailing of parcels by the Parent Company.
- Receivables from **overseas counterparties** relate to postal services carried out by the Parent Company for overseas postal operators.
- Receivables arising from **unfranked mail delivered and other value added services** refer to bulk mail services and other added value services.
- Receivables for **overdrawn current accounts** are amounts due to BancoPosta for temporarily overdrawn current accounts largely due to recurring BancoPosta bank charges, including accumulated sums, which have largely been written down, that BancoPosta is in the process of recovering.
- **Other trade receivables** include mainly: €64 million related to PostePay SpA, primarily for sales of terminals, subscriptions for telecommunications services, services rendered to other operators and for the sale of top-ups through other channels; €34 million for Posta Time services; €27 million for non-universal postal services; €25 million for Posta Target services; €23 million for Posta Contest services; €19 million relating to air transport provided by Mistral Air Srl; €19 million for telegraphic services; and €18 million for the delivery of legal process.

Provisions for doubtful debts relating to customers are described in note 7 – *Risk management*.

Receivables due from the MEF

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

TAB. A7.2 - RECEIVABLES DUE FROM THE MEF

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Universal Service compensation	31	31
Publisher tariff and electoral subsidies	1	83
Remuneration of current account deposits	39	25
Payment for delegated services	28	56
Other	1	2
Provision for doubtful debts due from the MEF	(32)	(31)
Total	**68**	**166**

77. See "Revenue and receivables due from the State", item (vi), showing overall amounts due from the Ministry for Economic Development (€78 million), including amounts due for postal and other residual services, amounting to €2 million.

Specifically:

- **Universal Service compensation** includes:

TAB. A7.2.1 - UNIVERSAL SERVICE COMPENSATION RECEIVABLE

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Remaining balance for 2012	23	23
Remaining balance for 2005	8	8
Total	**31**	**31**

With reference to the amount receivable for 2012, AGCom has recognised a net cost incurred by the Company of €327 million, compared with compensation of €350 million originally recognised. Provision has not been made in the state budget for the remaining €23 million. The Company appealed AGCom's decision.

The outstanding receivable relating to compensation for 2005 was subject to cuts in the budget laws for 2007 and 2008.

Provisions for doubtful debts have been made for the full amount of the above receivables.

Finally, with regard to the outstanding balance of the compensation for 2013, which was collected in full in 2015, with resolution 493/14/CONS of 9 October 2014, AGCom has initiated an assessment of the net cost incurred by Poste Italiane SpA. On 24 July 2015, the regulator notified the Company that it would extend the assessment to include the 2014 financial year. At the end of the public consultation, launched by AGCom in 2016, the regulator published Resolution 298/17/CONS, in which it assessed the cost of providing the universal service for 2013 and 2014 to be €393 million and €409 million, respectively, compared with revenue of €343 million and €277 million recognised in the Company's statement of profit or loss for services rendered in the relevant years. The regulator also announced that the compensation fund to cover the cost of providing the universal service has not been set up. The Company filed a legal challenge to AGCom's resolution before the Regional Administrative Court on 6 November 2017, which is still pending.

With Resolution 571/18/CONS, published on 11 February 2019, AGCom has launched a public consultation on the assessment of the net cost of providing the Universal Postal Service in 2015 and 2016, with the estimated costs of providing the service amounting to €378 million for 2015 and €355 million for 2016, compared with revenue of €279 million and €262 million recognised by the Parent Company for the services rendered in those years.

- Receivables arising from **electoral subsidies** refer to compensation for previous years, for which provision has been made in the state budget. In 2018, after agreement was reached with the MEF regarding the release of the funds, a total of €55 million was made available, having been deposited by the MEF in a non-interesting bearing escrow account in Poste Italiane SpA's name, held with the Treasury, in 2017; a further €27 million was also collected.
- The **remuneration of current account deposits** refers entirely to amounts accruing in 2018 and almost entirely relates to the deposit of funds deriving from accounts opened by Public Administration entities and attributable to BancoPosta RFC.
- Payments for **delegated services**, collected in February 2019, relate to fees accrued solely in the year under review for treasury services performed by BancoPosta on behalf of the state in accordance with a special agreement with the MEF, renewed on 16 November 2017 for the three-year period 2017-2019.

Provisions for doubtful debts due from the MEF are described in note 7 – *Risk management*.

A8 - Other receivables and assets (€4,580 million)

TAB. A8 - OTHER RECEIVABLES AND ASSETS

Item (€m)	Note	Balance at 31 December 2018			Balance at 31 December 2017		
		Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Substitute tax paid		3,371	549	3,920	2,926	541	3,467
Amounts due from social security agencies and pension funds (excl. fixed-term contract settlements)		-	109	109	-	98	98
Receivables relating to fixed-term contract settlements		82	85	167	101	87	188
Amounts restricted by court rulings		-	78	78	-	75	75
Accrued income and prepaid expenses from trading transactions		-	11	11	-	11	11
Tax assets		-	8	8	-	5	5
Sundry receivables		16	317	333	16	159	175
Provisions for doubtful debts due from others		-	(96)	(96)	-	(72)	(72)
Other receivables and assets		**3,469**	**1,061**	**4,530**	**3,043**	**904**	**3,947**
Interest accrued on IRES refund		-	47	47	-	47	47
Interest accrued on IRAP refund		-	3	3	-	3	3
Total		**3,469**	**1,111**	**4,580**	**3,043**	**954**	**3,997**

Specifically:

- **substitute tax paid** refers mainly to:
  - €2,140 million on non-current receivables paid in advance by Poste Vita SpA for the financial years 2012-2018, relating to withholding and substitute tax paid on capital gains on life policies[78];
  - €1,231 million charged to holders of Interest-bearing Postal Certificates and Class III and V insurance policies for stamp duty at 31 December 2018[79]; This amount is balanced by a matching entry in "Other taxes payable" until expiration or early settlement of the Interest-bearing Postal Certificates or the insurance policies, i.e. the date on which the tax is payable to the tax authorities (tab. B10.3);
  - €303 million relating to advances paid in relation to stamp duty to be paid in virtual form in 2019 and charged to customers and to be recovered from customers by Poste Italiane;
  - €127 million relating to stamp duty charged to Postal Savings Books, which Poste Italiane SpA pays in virtual form as required by law.
- Amounts due from staff under **fixed-term contract settlements** consist of salaries to be recovered following the agreements of 13 January 2006, 10 July 2008, 27 July 2010, 18 May 2012, 21 March 2013, 30 July 2015 and 19 June 2018 between Poste Italiane SpA and the trade unions, regarding the re-employment by court order of staff previously employed on fixed-term contracts. This item refers to receivables with a present value of €167 million from staff, from INPS and pension funds recoverable in the form of variable instalments, the last of which is due in 2040. The item includes €42 million receivable from INPS (formerly IPOST), covered by a specific agreement with IPOST dated 23 December 2009. Payment of this amount consists of six instalments of €6.9 million each, falling due between 30 June 2012 and 31 December 2014 and deemed to be collectible in full. Negotiations are underway with a view to recovering this amount and, in the event of a negative outcome, Poste Italiane will resort to legal action.
- Amounts that **cannot be drawn on due to court rulings** include €65 million in amounts seized and not assigned to creditors, in the process of recovery, and €13 million in amounts stolen from the Parent Company in December 2007 as a result of an attempted fraud and that have remained on deposit with an overseas bank. The latter sum may only be recovered once the legal formalities are completed. The risks associated with collection of these items are taken into account in the provisions for doubtful debts due from others.
- **Accrued interest on IRES refund**, amounting to €47 million, refers to interest accruing up to 31 December 2018 in relation to the tax credit determined by an unreported deduction of IRAP paid on labour costs from IRES and almost entirely attribut-

78. Of the total amount, €518 million, assessed on the basis of provisions at 31 December 2018, has yet to be paid and is accounted for in "Other taxes payable" (tab. B10.3).
79. Introduced by article 19 of Law Decree 201/2011, converted as amended by Law 214/2011, in accordance with the MEF Decree dated 24 May 2012: Manner of implementation of paragraphs from 1 to 3 of article 19 of Law Decree 201 of 6 December 2011, on stamp duty on current accounts and financial products (Official Gazette 127 of 1 June 2012).

able to the Parent Company. Recovery of the amount in question has resulted in a dispute, the outcome of which is subject to uncertainty. With regard to the remaining overall tax credit, amounting to €55 million (i.e. including current tax assets and related interest), information is provided in note 2.5– *Use of estimates*.

- **Accrued interest on IRAP refund**, amounting to €3 million, refers to interest accruing up to 31 December 2018 on the IRAP credit in relation to the failure to deduct personnel expenses for disabled staff employed in 2003.

Provisions for doubtful debts due from others are described in note 7 – *Risk management*.

A9 - Cash and deposits attributable to bancoposta (€3,318 million)

TAB. A9 - CASH AND DEPOSITS ATTRIBUTABLE TO BANCOPOSTA

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Cash and cash equivalents in hand	2,967	2,799
Bank deposits	351	397
Total	**3,318**	**3,196**

Cash at post offices, relating exclusively to BancoPosta RFC, regards cash deposits on postal current accounts, postal savings products (Interest-bearing Postal Certificates and Postal Savings Books) or advances obtained from the Italian Treasury to fund post office operations. This cash may only be used in settlement of these obligations. Cash and cash equivalents in hand are held at post offices (€842 million) and with companies that provide cash transportation services whilst awaiting transfer to the Italian Treasury (€2,125 million). Bank deposits relate to BancoPosta RFC's operations and include amounts deposited in an account with the Bank of Italy to be used in interbank settlements, totalling €348 million.

A10 - Cash and cash equivalents (€3,195 million)

TAB. A10 - CASH AND CASH EQUIVALENTS

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Bank deposits and amounts held at the Italian Treasury	1,877	2,034
Deposits with the MEF	1,306	379
Cash and cash equivalents in hand	12	15
Total	**3,195**	**2,428**

The balance of cash at 31 December 2018 includes approximately €1,556 million, including €1,392 million in liquidity covering technical provisions for the insurance business, €53 million in amounts deposited with the MEF in a so-called buffer account, consisting of customer deposits subject to restrictions on their use, €72 million deposited by the *Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria* (Cabinet Office – Publishing department) in a non-interest bearing escrow account with the Italian Treasury as advance payment for publisher tariff subsidies due to the Parent Company (note A7), and €21 million resulting from the collection of cash on delivery and amounts subject to other restrictions.

A11 - Non-current assets and disposal groups held for sale and liabilities related to assets held for sale

This item, which at 31 December 2017 had a negative balance of €0.3 million, was reduced to zero in 2018, following completion of the spin-off of BancoPosta Fondi SpA SGR under the agreement executed with Anima Holding described in note 4.1.

Equity

B1 - Share capital (€8,105 million)

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

TAB. B1 - RECONCILIATION OF EQUITY

(€m)	Equity at 31 December 2018	Changes in equity during 2018	Net profit/ (loss) for 2018	Equity at 1 January 2018 including IFRS 9 and IFRS 15 effects	Changes resulting from IFRS 9 and IFRS 15	Equity at 31 December 2017
Financial statements of Poste Italiane SpA	**5,459**	**(2,005)**	**584**	**6,880**	**1,368**	**5,512**
- Undistributed profit (loss) of consolidated companies	4,297	-	1,016	3,281	(12)	3,293
- Investments accounted for using the equity method	3	-	(24)	27	-	27
- Balance of FV and CFH reserves of investee companies	(25)	(41)	-	16	(140)	156
- Actuarial gains and losses on employee termination benefits of investees	(4)	-	-	(4)	-	(4)
- Fees to be amortised attributable to Poste Vita SpA and Poste Assicura SpA	(39)	-	1	(40)	-	(40)
- Effects of contributions and transfers of business units between Group companies				-		
SDA Express Courier SpA	2	-	-	2	-	2
EGI SpA	(71)	-	-	(71)	-	(71)
Postel SpA	17	-	-	17	-	17
PosteShop SpA	1	-	-	1	-	1
- Effects of intercompany transactions (including dividends)	(1,878)	(14)	(278)	(1,586)	-	(1,586)
- Elimination of adjustments to value of consolidated companies	551	-	123	428	-	428
- Amortisation until 1 January 2004/Impairment of goodwill	(156)	-	(17)	(139)	-	(139)
- Impairments of disposal groups held for sale	(40)	-	-	(40)	-	(40)
- Other consolidation adjustments	(12)	-	(6)	(6)	-	(6)
Equity attributable to owners of the Parent	**8,105**	**(2,060)**	**1,399**	**8,766**	**1,216**	**7,550**
- Non-controlling interests (excluding net profit/(loss))	-	-	-	-	-	-
- Net profit/(loss) attributable to non-controlling interests	-	-	-	-	-	-
Equity attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**
Total consolidated equity	**8,105**	**(2,060)**	**1,399**	**8,766**	**1,216**	**7,550**

At 31 December 2018, earnings per share is €1.071 (€0.528 at 31 December 2017).

B2 - Share capital (€1,306 million)

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

At 31 December 2018, all the shares in issue are fully subscribed and paid up. No preference shares have been issued and the Parent Company does not hold treasury shares (as described above in note 4.2, from 4 February 2019, Poste Italiane SpA launched a buyback programme and on 19 March purchased 5,257,965 own shares, representing 0.4026% of the share capital).

B3 - Shareholders' transactions

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

B4 - Reserves (€1,531 million)

TAB. B4 - RESERVES

(€m)	Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Reserve for investees accounted for using equity method	Total
Balance at 31 December 2017	**299**	**1,000**	**371**	**(61)**	**2**	**1,611**
Changes resulting from IFRS 9 and IFRS 15	**-**	**-**	**1,233**	**-**	**-**	**1,233**
Reclassifications of financial instruments	-	-	1,705	-	-	1,705
Adjustments	-	-	15	-	-	15
Tax effects	-	-	(487)	-	-	(487)
Balance at 1 January 2018 including IFRS 9 and IFRS 15 effects	**299**	**1,000**	**1,604**	**(61)**	**2**	**2,844**
Increases/(decreases) in fair value during the year	-	-	(1,946)	191	-	(1,755)
Tax effect of changes in fair value	-	-	556	(55)	-	501
Transfers to profit or loss	-	-	(396)	19	-	(376)
Tax effect of transfers to profit or loss	-	-	113	(5)	-	108
Increase/(Decrease) for expected credit loss	-	-	(1)	-	-	(1)
Gains/(losses) recognised in equity	-	-	(1,673)	150	-	(1,523)
Reserves related to disposal groups and liabilities held for sale	-	-	-	-	-	-
Other	-	210	-	-	-	210
Attribution of net profit for 2017	-	-	-	-	-	-
Balance at 31 December 2018	**299**	**1,210**	**(69)**	**89**	**2**	**1,531**

Details are as follows:

- the **fair value reserve** regards changes in the value of financial assets at fair value through other comprehensive income. Fair value losses in 2018, totalling €1,946 million, reflect:
  - – a net decrease of €1,887 million in financial assets attributable to the Group's Financial Services segment;
  - – a net decrease of €48 million in financial assets attributable to the Group's Insurance Services segment;
  - – a net decrease of €11 million in financial assets attributable to the Group's Postal and Business Services segment.
- The **cash flow hedge** reserve, attributable to the Parent Company, reflects changes in the fair value of the effective portion of cash flow hedges. In 2018, the fair value gain of €191 million was primarily attributable to the value of BancoPosta RFC's derivative financial instruments.

Liabilities

B5 - Technical provisions for insurance business (€125,149 million)

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

TAB. B5 - TECHNICAL PROVISIONS FOR INSURANCE BUSINESS

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Mathematical provisions	119,419	111,014
Outstanding claims provisions	780	631
Technical provisions where investment risk is transferred to policyholders	2,652	3,530
Other provisions	2,115	8,315
for operating costs	108	90
for deferred liabilities to policyholders	2,007	8,225
Technical provisions for claims	183	160
Total	**125,149**	**123,650**

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

The provisions for deferred liabilities due to policyholders include portions of gains and losses attributable to policyholders under the shadow accounting method. In particular, the value of the provisions reflects the attribution to policyholders, in accordance with the relevant accounting standards (to which reference is made for more details), of unrealised profits and losses on available-for-sale financial assets at 31 December 2018 and, to a lesser extent, on financial instruments at fair value through profit or loss. The reduction in the provisions reflects the effect of the change in the spread in the last two months of the period under review.

B6 - Provisions for risks and charges (€1,519 million)

Movements in provisions for risks and charges are as follows:

TAB. B6 - MOVEMENTS IN PROVISIONS FOR RISKS AND CHARGES FOR THE YEAR ENDED 31 DECEMBER 2018

Item (€m)	Balance at 1 January 2018	Provisions	Finance costs	Released to profit or loss	Uses	Balance at 31 December 2018
Provisions for operational risk	439	96	-	(18)	(94)	423
Provisions for disputes with third parties	369	46	1	(39)	(42)	335
Provisions for disputes with staff*	77	9	-	(3)	(18)	65
Provisions for personnel expenses	133	76	-	(31)	(53)	125
Provisions for early retirement incentives	446	444	-	(1)	(442)	447
Provisions for expired and statute barred postal savings certificates	15	-	-	(15)	-	-
Provisions for taxation/social security contributions	14	4	-	-	-	18
Other provisions for risks and charges	102	16	-	(5)	(7)	106
Total	**1,595**	**691**	**1**	**(112)**	**(656)**	**1,519**
Overall analysis of provisions:						
- non-current portion	692					656
- current portion	903					863
	1,595					**1,519**

* Net provisions for personnel expenses amount to €2 million. Service costs (legal assistance) amount to €4 million.

Specifically:

- **Provisions for operational risk** primarily relate to operational risks arising from BancoPosta's operations. The provisions primarily regard liabilities linked to disputes with customers regarding certain investment instruments and products sold in the past and whose performance is not in line expectations, liabilities deriving from the provision of delegated services for social security agencies, compensation and adjustments to income for previous years, the settlement of items deriving from the reconstruction of operating items at the date of the Company's establishment, risks linked to errors in the distribution of postal products issued in previous years, violations of an administrative nature, likely frauds and estimated risks for charges and expenses to be incurred in connection with seizures effected by BancoPosta as garnishee-defendant. Provisions for the year, totalling €96 million, primarily reflect risks linked to errors in the distribution of postal products, revised estimates regarding compensation and adjustments to income for previous years and an updated estimate of the liabilities linked to disputes with customers regarding certain investment instruments and products sold in the past and whose performance is not in line expectations. In this latter regard, during the year, the situation was closely monitored, as was the process of liquidating the real estate funds previously marketed by the Parent Company. With specific regard to the Europa Immobiliare I fund (which reached maturity on 31 December 2017), as approved by Poste Italiane's Board of Directors on 19 February 2018 and 28 June 2018, on 24 September 2018, the Company launched a voluntary initiative designed to protect customers who had invested in the fund. This process came to a conclusion on 7 December 2018. Total uses amount to €94 million and regard €52 million in liabilities settled with customers who had invested in the Europa Immobiliare I fund and who accepted the above offer from the Parent Company. With regard to liabilities arising from the services rendered on behalf of social security agencies, as reported in note A7, in February 2019, having conducted a joint assessment, Poste Italiane and INPS signed an agreement that has settled outstanding trade receivables due to the Parent Company and determined the amount payable by Poste Italiane to INPS as a result of certain claims regarding the payment of pensions carried out under agreements in effect until 31 August 2009. At 31 December 2018, all the liabilities provided for in the agreement are reflected in provisions for operational risk.
- **Provisions for disputes with third parties** relate to the present value of expected liabilities deriving from different types of legal and out-of-court disputes with suppliers and third parties, the related legal expenses, and penalties and indemnities payable to customers. Provisions for the year of €46 million reflect the estimated value of new liabilities measured on the basis of expected outcomes. The reduction of €39 million relates to the reversal of liabilities recognised in the past, whilst a reduction of €42 million regards liabilities settled.
- **Provisions for disputes with staff** regard liabilities that may arise following labour litigation and disputes of various types. Net releases of €6 million relate to an update of the estimate of the liabilities and the related legal expenses, taking account of both the overall value of negative outcomes in terms of litigation, and the application of Law 183 of 4 November 2010 ("*Collegato lavoro*"), which has introduced a cap on current and future compensation payable to an employee in the event of "court-imposed conversion" of a fixed-term contract.
- **Provisions for personnel expenses** are made to cover expected liabilities arising in relation to the cost of labour, with are certain or likely to occur but whose estimated amount is subject to change. They have increased by the estimated amount of new liabilities (€76 million) and decreased as a result of past liabilities that failed to materialise (€31 million) and settled disputes (€53 million).
- **Provisions for early retirement incentives** reflect the estimated costs to be incurred as a result of the Company's binding commitment to pay early retirement incentives on a voluntary basis, under the current redundancy scheme agreed with the labour unions for a determinate number of employees who will leave the Company by 31 December 2020. These schemes may qualify for other forms of incentive, such as early retirement in accordance with Law 92 of 28 June 2012, supplemented by article 1, paragraph 160 of Law 205/2017. €442 million of the provisions made at 31 December 2017, amounting to €446 million, were utilised during the year.
- **Provisions for expired and statute barred Postal Savings Certificates** were made to cover the cost of redeeming certificates relating to specific issues, even if expired[80]. These provisions were released to profit or loss during the year, given that the obligation previously assumed by the Parent Company has expired.
- **Provisions for taxation/social security contributions** have been made to cover potential future tax and social security liabilities.
- **Other provisions** cover probable liabilities of various type, including: estimated liabilities deriving from the risk that specific legal actions undertaken in order to reverse seizures of the Parent Company's assets may be unable to recover the related amounts, claims for rent arrears on properties used free of charge by the Parent Company, claims for payment of accrued interest expense due to certain suppliers and frauds.

80. Provisions for expired and statute barred Postal Certificates were made in 1998 to cover the cost of redeeming certificates relating to specific issues, the value of which was recognised in revenue in profit or loss in the years in which the certificates became invalid. The provisions were made in response to the Parent Company's decision to redeem such certificates even if expired.

B7 - Employee termination benefits (€1,187 million)

The following movements in employee termination benefits took place in 2018:

TAB. B7 - MOVEMENTS IN PROVISIONS FOR EMPLOYEE TERMINATION BENEFITS

(€m)	2018
Balance at 1 January	**1,274**
Current service cost	1
Interest component	20
Effect of actuarial (gains)/losses	(16)
Uses for the period	(92)
Balance at 31 December 2018	**1,187**

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

The main actuarial assumptions applied in calculating provisions for **employee termination benefits**, are as follows:

TAB. B7.1 - ECONOMIC AND FINANCIAL ASSUMPTIONS

	At 31 December 2018
Discount rate	1.250%
Inflation rate	1.500%
Annual rate of increase of employee termination benefits	2.625%

TAB. B7.2 - DEMOGRAPHIC ASSUMPTIONS

	At 31 December 2018
Mortality	RG48 differentiated by gender
Disability	INPS 1998 differentiated by gender
Rate of employee turnover	Specific table with rates differentiated by length of service
Advance rate	Specific table with rates differentiated by length of service
Pensionable age	In accordance with rules set by INPS

Actuarial gains and losses are generated by the following factors:

TAB. B7.3 - ACTUARIAL (GAINS)/LOSSES

	At 31 December 2018
	TFR
Change in demographic assumptions	1
Change in financial assumptions	(1)
Other experience-related adjustments	(16)
Total	**(16)**

The sensitivity of employee termination benefits plan to changes in the principal actuarial assumptions is analysed below.

TAB. B7.4 - SENSITIVITY ANALYSIS

	At 31 December 2018
	TFR
Inflation rate +0.25%	1,201
Inflation rate -0.25%	1,173
Discount rate +0.25%	1,165
Discount rate -0.25%	1,209
Turnover rate +0.25%	1,186
Turnover rate -0.25%	1,188

The following table provides further information in relation to employee termination benefits.

TAB. B7.5 - OTHER INFORMATION

	At 31 December 2018
Expected service cost	1
Average duration of defined benefit plan	7.51
Average employee turnover	0.251%

B8 - Financial liabilities (€66,929 million)

TAB. B8 - FINANCIAL LIABILITIES

	Balance at 31 December 2018			Balance at 31 December 2017		
Item (€m)	**Non-current liabilities**	**Current liabilities**	**Total**	**Non-current liabilities**	**Current liabilities**	**Total**
Payables deriving from postal current accounts	-	46,240	46,240	-	46,575	46,575
Borrowings	5,654	3,832	9,486	3,398	3,419	6,817
Bonds	50	762	812	798	775	1,573
Borrowings from financial institutions	5,604	3,070	8,674	2,600	2,643	5,243
Finance leases	-	-	-	-	1	1
MEF account, held at the Treasury	-	3,649	3,649	-	3,483	3,483
Derivative financial instruments	1,798	61	1,859	1,645	31	1,676
Cash flow hedges	53	58	111	101	17	118
Fair value hedges	1,745	3	1,748	1,544	14	1,558
Fair value through profit or loss	-	-	-	-	-	-
Other financial liabilities	1	5,694	5,695	1	4,692	4,693
Total	**7,453**	**59,476**	**66,929**	**5,044**	**58,200**	**63,244**

Payables deriving from postal current accounts

Payables deriving from postal current accounts represent BancoPosta's direct deposits, and include interest accrued at 31 December 2018, which was settled with customers in January 2019.

Borrowings

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

Bonds

Bonds consist of the following:

- bonds recognised at an amortised cost of €50 million issued by Poste Italiane under the EMTN – Euro Medium Term Note programme of €2 billion listed by the Company in 2013 on the Luxembourg Stock Exchange. These bonds were issued through a private placement on 25 October 2013; the term to maturity of the loan is ten years and the interest rate is 3.5% for the first two years and variable thereafter (EUR Constant Maturity Swap rate plus 0.955%, with a cap of 6% and a floor of 0%). The interest rate risk exposure was hedged as described in note A5 – *Financial assets*; the fair value[81] of this borrowing at 31 December 2018 is €50 million.
- Subordinated bonds[82] with a nominal value of €750 million and accounted for at their amortised cost of €762 million, issued at a below par price of 99.597 by Poste Vita SpA on 30 May 2014 and listed on the Luxembourg Stock Exchange. The bonds have a term to maturity of five years and pay annual coupon interest at a fixed rate of 2.875%. The fair value[83] of this borrowing at of this borrowing at 31 December 2018 is €770 million.

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

Borrowings from financial institutions

TAB. B8.1 - BORROWINGS FROM FINANCIAL INSTITUTIONS

	Balance at 31 December 2018			Balance at 31 December 2017		
Item (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Repurchase agreements	5,604	2,869	8,473	2,400	2,442	4,842
EIB fixed rate loan maturing 11 April 2018	-	-	-	-	200	200
EIB fixed rate loan maturing 23 March 2019	-	200	200	200	-	200
Current account overdrafts	-	-	-	-	1	1
Accrued interest expense	-	1	1	-	-	-
Total	**5,604**	**3,070**	**8,674**	**2,600**	**2,643**	**5,243**

Borrowings from financial institutions are subject to a standard negative pledge[84].

At 31 December 2018, outstanding liabilities of €8,473 million relate to repurchase agreements entered into by the Parent Company with major financial institutions and Central Counterparties, amounting to a total nominal value of €8,166 million. €6,684 million of this amount regards Long Term Repos and €1,789 million to ordinary borrowing operations, the resources from both invested in Italian fixed income government securities and as funding for incremental deposits used as collateral. The fair value[85] of the repurchase agreements in question at 31 December 2018 is €8,488 million.

The fair value[86] of the EIB loan amounts to €200 million.

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

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

At 31 December 2018, the following credit facilities are available:

- committed lines of €1,923 million;
- uncommitted credit facilities of €1,724 million, including €959 million in lines of credit, €160 million in overdraft facilities and €605 million in the form of personal guarantee facilities;
- overdraft facilities of €167 million;
- unsecured guarantee facilities with a value of €714 million (with €605 million available to the Parent Company), of which guarantees with a value of €283 million have been used in favour of third parties.

At 31 December 2018, the committed and uncommitted lines of credit have not been used. No collateral has been provided to secure the lines of credit obtained.

Finally, the Bank of Italy has granted BancoPosta RFC access to intraday credit in order to fund intraday interbank transactions. Collateral for this credit facility is provided by securities with a nominal value of €535 million, and the facility is unused at 31 December 2018.

MEF account held at the Treasury

TAB. B8.2 - MEF ACCOUNT, HELD AT THE TREASURY

	Balance at 31 December 2018			Balance at 31 December 2017		
Item (€m)	**Non-current liabilities**	**Current liabilities**	**Total**	**Non-current liabilities**	**Current liabilities**	**Total**
Balance of cash flows for advances	-	3,546	3,546	-	3,375	3,375
Balance of cash flows from management of postal savings	-	(89)	(89)	-	(84)	(84)
Amounts payable due to theft	-	157	157	-	157	157
Amounts payable for operational risks	-	35	35	-	35	35
Total	**-**	**3,649**	**3,649**	**-**	**3,483**	**3,483**

The **balance of cash flows for advances**, represents the net amount payable as a result of advances from the MEF to meet the cash requirements of BancoPosta. These break down as follows:

TAB. B8.2.1 - BALANCE OF CASH FLOWS FOR ADVANCES

	Balance at 31 December 2018			Balance at 31 December 2017		
Item (€m)	**Non-current liabilities**	**Current liabilities**	**Total**	**Non-current liabilities**	**Current liabilities**	**Total**
Net advances	-	3,546	3,546	-	3,375	3,375
MEF postal current accounts and other payables	-	670	670	-	671	671
MEF - State pensions	-	(670)	(670)	-	(671)	(671)
Total	**-**	**3,546**	**3,546**	**-**	**3,375**	**3,375**

The balance of cash flows from the management of postal savings, amounting to a positive €89 million, represents the balance of withdrawals less deposits during the last two days of the year and cleared early in the following year. The balance at 31 December 2018 consists of €29 million payable to Cassa depositi e prestiti, less €118 million receivable from the MEF for Interest-bearing Postal Certificates issued on its behalf.

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

Amounts payable for operational risks regard the portion of advances obtained to fund the operations of BancoPosta, in relation to which asset under recovery is certain or probable.

Derivative financial instruments

Movements in derivative financial instruments during 2018 are described in note A5 – *Financial assets*.

Other financial liabilities

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

TAB. B8.3 - OTHER FINANCIAL LIABILITIES

	Balance at 31 December 2018			Balance at 31 December 2017		
Item (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Prepaid cards	-	4,027	4,027	-	2,853	2,853
Domestic and international money transfers	-	688	688	-	734	734
Tax collection and road tax	-	19	19	-	145	145
Guarantee deposits	-	70	70	-	100	100
Cashed cheques	-	243	243	-	243	243
Endorsed cheques	-	163	163	-	188	188
Amounts to be credited to customers	-	220	220	-	88	88
Other amounts payable to third parties	-	145	145	-	68	68
Payables for items in process	-	85	85	-	190	190
Other	1	34	35	1	83	84
Total	**1**	**5,694**	**5,695**	**1**	**4,692**	**4,693**

Following the Parent Company's contribution, on 1 October 2018, of the card payments and payment services unit, liabilities relating to **prepaid cards** refer to the subsidiary, PostePay SpA.

Amounts payable for guarantee deposits include €56 million received from counterparties in repurchase agreements on fixed income instruments (collateral provided by specific Global Master Repurchase Agreements) and €14 million received from counterparties in interest rate swaps (collateral provided by specific Credit Support Annexes).

Changes in liabilities arising from financing activities

The following reconciliation of financial liabilities is provided in accordance with IAS 7, following the amendments introduced by EU Regulation 1990/2017 of 6 November 2017.

TAB. B8.4- CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Item (€m)	Balance at 31 December 2017	Net cash flow from/(for) financing activities	Net cash flow from/(for) operating activities*	Non-cash flows	Balance at 31 December 2018
Borrowings	6,817	(952)	3,632	(11)	9,486
Bonds	1,573	(750)	-	(11)	812
Borrowings from financial institutions	5,243	(201)	3,632	-	8,674
Finance lease liabilities	1	(1)	-	-	-
Other financial liabilities	4,693	(48)	1,052	(2)	5,695
Total	**11,510**	**(1,000)**	**4,684**	**(13)**	**15,181**

* The total amount of €4,684 million is included in the cash flow from/(for) operating activities, the balance of which in the statement of cash flows amounts to €2,597 million and regards borrowings and other financial liabilities not attributable to financing activities.

Fair value hierarchy

In terms of the fair value hierarchy, derivative financial instruments held at 31 December 2018 (€1,859 million) are classified in level 2.

B9 – Trade payables (€1,583 million)

TAB. B9 - TRADE PAYABLES

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Amounts due to suppliers	1,192	1,064
Contract liabilities	365	253
Amounts due to subsidiaries	2	1
Amounts due to associates	4	2
Amounts due to joint ventures	20	12
Total	**1,583**	**1,332**

Amounts due to suppliers

TAB. B9.1 - AMOUNTS DUE TO SUPPLIERS

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Italian suppliers	1,058	926
Overseas suppliers	24	30
Overseas counterparties*	110	108
Total	**1,192**	**1,064**

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

Contract liabilities

TAB. B9.2 - MOVEMENTS IN CONTRACT LIABILITIES

Item (€m)	Balance at 1 January 2018	Change due to recognition of revenue for period	Other movements	Balance at 31 December 2018
Prepayments and advances from customers	246	-	51	297
Other contract liabilities	31	-	7	39
Liabilities for fees to be refunded	-	26	-	26
Liabilities for volume discounts	9	4	(9)	4
Total	**286**	**29**	**50**	**365**

Prepayments and advances from customers

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

TAB. B9.2.1 -PREPAYMENTS AND ADVANCES FROM CUSTOMERS

Item (€m)	Note	Balance at 31 December 2018	Balance at 31 December 2017
Prepayments from overseas suppliers		149	107
Prepayments from the MEF	[tab. A7.2]	-	55
Automated franking		36	47
Advances from the Cabinet Office - Publishing and Information department	[tab. A7.1]	72	-
Unfranked mail		16	13
Postage-paid mailing services		7	7
Other services		17	17
Total		**297**	**246**

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

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

B10 – Other liabilities (€3,698 million)

TAB. B10 - OTHER LIABILITIES

Item (€m)	Balance at 31 December 2018 Non-current liabilities	Current liabilities	Total	Balance at 31 December 2017 Non-current liabilities	Current liabilities	Total
Amounts due to staff	12	978	990	4	932	936
Social security payables	33	454	487	35	482	517
Other taxes payable	1,231	734	1,965	1,065	687	1,752
Other amounts due to joint ventures	-	-	-	-	1	1
Sundry payables	93	94	187	92	68	160
Accrued liabilities and deferred income	10	58	68	11	79	90
Total	**1,379**	**2,319**	**3,698**	**1,207**	**2,249**	**3,456**

Amounts due to staff

TAB. B10.1 - AMOUNTS DUE TO STAFF

Item (€m)	Balance at 31 December 2018 Non-current liabilities	Current liabilities	Total	Balance at 31 December 2017 Non-current liabilities	Current liabilities	Total
Fourteenth month salaries	-	232	232	-	231	231
Incentives	12	626	638	4	448	452
Accrued vacation pay	-	57	57	-	56	56
Other amounts due to staff	-	63	63	-	197	197
Total	**12**	**978**	**990**	**4**	**932**	**936**

At 31 December 2018, certain liabilities, that at 31 December 2017 were included in provisions for personnel expenses, were determinable with reasonable certainty and as such were recognised as payables.

The reduction in **Other amounts due to staff** reflects one-off payments made to staff following renewal of the national collective labour agreement.

Social security payables

TAB. B10.2 - SOCIAL SECURITY PAYABLES

Item (€m)	Balance at 31 December 2018 Non-current liabilities	Current liabilities	Total	Balance at 31 December 2017 Non-current liabilities	Current liabilities	Total
INPS	2	347	349	1	385	386
Pension funds	-	88	88	-	82	82
Health funds	-	4	4	-	-	-
INAIL	31	4	35	34	3	37
Other agencies	-	11	11	-	12	12
Total	**33**	**454**	**487**	**35**	**482**	**517**

Other tax liabilities

TAB. B10.3 - OTHER TAXES PAYABLE

Item (€m)	Balance at 31 December 2018 Non-current liabilities	Current liabilities	Total	Balance at 31 December 2017 Non-current liabilities	Current liabilities	Total
Stamp duty payable	1,231	11	1,242	1,065	31	1,096
Tax due on insurance provisions	-	518	518	-	489	489
Withholding tax on employees' and consultants' salaries	-	106	106	-	98	98
VAT payable	-	31	31	-	21	21
Substitute tax	-	48	48	-	24	24
Withholding tax on postal current accounts	-	3	3	-	1	1
Other taxes due	-	17	17	-	23	23
Total	**1,231**	**734**	**1,965**	**1,065**	**687**	**1,752**

In particular:

- **Stamp duty payable** represents the amount payable to the tax authorities for stamp duty in virtual form, before the adjustment applied in 2019 pursuant to note 3-bis to art. 13 of the Tariff introduced by Presidential Decree 642/1972. The non-current portion of stamp duty payable primarily relates to the amount due at 31 December 2018 on interest-bearing postal certificates in circulation and on Class III and V insurance policies under the legislation referred to in note A8 – *Other receivables and assets*.
- **Tax due on insurance provisions** relates to Poste Vita SpA and is described in note A8.
- **Withholding tax on employees' and consultants' salaries** relates to amounts paid to the tax authorities by Group companies in January and February 2019 as withholding agents.

Sundry payables

TAB. B10.4 - SUNDRY PAYABLES

Item (€m)	Balance at 31 December 2018 Non-current liabilities	Current liabilities	Total	Balance at 31 December 2017 Non-current liabilities	Current liabilities	Total
Sundry payables attributable to BancoPosta	75	6	81	75	8	83
Guarantee deposits	10	1	11	10	4	14
Other payables	8	87	95	7	56	63
Total	**93**	**94**	**187**	**92**	**68**	**160**

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

Guarantee deposits primarily relate to amounts collected from customers as a guarantee of payment for services (postage-paid mailing services, the use of post office boxes, lease contracts, telegraphic service contracts, etc.).

Accrued liabilities and deferred income

TAB. B10.5 - ACCRUED LIABILITIES AND DEFERRED INCOME

Item (€m)	Balance at 31 December 2018 Non-current liabilities	Current liabilities	Total	Balance at 31 December 2017 Non-current liabilities	Current liabilities	Total
Accrued liabilities	-	5	5	-	5	5
Deferred income	10	53	63	11	74	85
Total	**10**	**58**	**68**	**11**	**79**	**90**

Deferred income regards components of income recognised on the basis of accounting standards other than IFRS15 and includes:

- €24 million in prepaid telephone traffic sold as of 31 December 2018 by PostePay SpA and not yet used by customers;
- €7 million in grants approved by the competent public authorities in favour of the Parent Company, where the matching costs have yet to be incurred.

Deferred income relating to fees on Postemat and Postepay Evolution cards collected in advance, which at 31 December 2017 amounted to €27 million, following the adoption of IFRS 15, is recognised in contract liabilities from 1 January 2019.

5.3 Notes to the statement of profit or loss

Revenue from contracts with customers

Item (€m)	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Revenue from Mail, Parcels and other	**[C1]**	**3,579**	**3,631**
of which Revenue from contracts with customers		**3,504**	
recognised at a point in time		605	
recognised over time		2,899	
Revenue from Payments, Mobile and Digital	**[C2]**	**628**	**586**
of which Revenue from contracts with customers		**320**	
recognised at a point in time		87	
recognised over time		233	
Revenue from Financial Services	**[C3]**	**5,186**	**4,956**
of which Revenue from contracts with customers		**3,388**	
recognised at a point in time		513	
recognised over time		2,875	
Revenue from Insurance Services after movements in technical provisions and other claims expenses	**[C4]**	**1,471**	**1,456**
Insurance premium revenue		*16,720*	*20,343*
Income from insurance activities		*3,604*	*3,925*
Movement in technical provisions for insurance business and other claims expenses		*(17,111)*	*(22,335)*
Expenses from insurance activities		*(1,742)*	*(477)*
of which Revenue from contracts with customers		**10**	
recognised at a point in time		-	
recognised over time		10	
Total		**10,864**	**10,629**

Revenue from contracts with customers breaks down as follows:

- **Revenue from mail, parcel & other revenue**, referring to services provided to customers through retail and business sales channels. Revenue generated through the retail channel is recognised at a point in time given the number of transactions handled through the various sales channels (post offices, call centres and online) and measured on the basis of the rates applied. Revenue generated through the business channel is generally earned as a result of annual or multi-annual contracts and is recognised over time using the output method determined on the basis of shipments requested and handled. These contracts include elements of variable consideration (primarily volume discounts and penalties linked to the quality of service provided) estimated using the expected value method and recognised as a reduction from revenue.
- **Revenue from payment services**, mobile and digital refers to:
  - mobile and fixed line telecommunications services, including: revenue from “standard telecommunications offerings” recognised over time using the output method and based on the traffic offered (voice, text and data) to the customer (€183.5 million); revenue generated by the fixed line “PosteMobile Casa” offering, recognised over time using the output method and based on the fee charged to the customer (€15.3 million); revenue in the form of SIM activation fees recognised at a point in time when the SIM card is handed over to the customer (€7.4 million). Within the Poste Italiane Group, the only mobile and fixed line telecommunications contracts used are in the form of bundles combining two performance obligations to which the implicit discount is allocated on the basis of the related fair value. The revenue from this type of offer, however, is not significant in terms of total revenue from payments, mobile and digital.
  - card payments, relating primarily to the cards issued by Postepay (recognised at a point in time when issued) and the services linked to them (recognised over time as the service is used by the customer).

– Payment services, primarily relating to fees for collection and reporting recognised at a point in time (€55.5 million) and revenue from the processing of tax payments using forms F23/F24 recognised over time based on the level of service rendered (€61.9 million).

- **Revenue from financial services**, which breaks down as follows:
  – revenue from placement and intermediation services: these are recognised over time and measured on the basis of the volumes placed, quantified on the basis of commercial agreements with financial institutions. In terms of payment for the collection of postal savings, the agreement entered into with Cassa depositi e prestiti envisages payment of a variable consideration on achieving certain levels of inflows, determined annually on the basis of the volume of inflows and expected redemptions. Certain commercial agreements, entered into with leading financial partners for the placement of financial products, envisage the return of placement fees in the event of early termination or surrender by the customer;
  – revenue from current account and related services: these are recognised over time, measured on the basis of the service rendered (including the related services, e.g. bank transfers, securities deposits, etc.) and quantified on the basis of the contract terms and conditions offered to the customer;
  – revenue from fees on the processing of payment slips: these are recognised at a point in time given the number of transactions handled by post offices and quantified on the basis of the terms and conditions in the contract of sale.

C1 - Revenue from mail, parcels and other revenue (€3,579 million)

This item breaks down as follows:

TAB. C1 - REVENUE FROM MAIL, PARCELS & OTHER

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Mail and parcel revenue	3,372	3,373
Other revenue	207	258
Total	**3,579**	**3,631**

Mail and parcel revenue breaks down as follows:

TAB. C1.1 - MAIL AND PARCEL REVENUE

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Unfranked mail	1,062	1,089
Automated franking by third parties and at post offices	677	731
Express parcel and express courier services	422	406
Integrated services	145	157
Stamps	129	152
Overseas mail and parcels	237	172
Postage-paid mailing services	93	95
Electronic document management and e-procurement services	13	28
Telegrams	38	41
Innovative services	12	12
Logistics services	7	6
Other postal services	214	179
Total market revenue	**3,049**	**3,068**
Universal Service compensation	262	262
Publishing subsidies	61	43
Total	**3,372**	**3,373**

Universal Service compensation relates to amounts paid by the MEF to cover the costs of fulfilling the USO. Compensation for services rendered during the year, amounting to €262 million, was recognised on the basis of the *Contratto di Programma* (Service Contract) for 2015-2019, which took effect on 1 January 2016.

Publisher tariff subsidies[87] relate to the amount receivable by Poste Italiane from the *Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria* (Cabinet Office - Publishing department) as compensation for the discounts applied to publishers and non-profit organisations when sending mail. The compensation is determined on the basis of the tariffs set in the decree issued by the Ministry for Economic Development, in agreement with the Ministry of the Economy and Finance, on 21 October 2010 and Law Decree 63 of 18 May 2012, as converted into Law 103 of 16 July 2012. In this regard, provision has been made in the state budget for 2018, to cover the discounts applied by the Company in the period under review, but the subsidies are subject to the approval of the European Commission.

Other revenue breaks down as follows:

TAB. C1.2 - OTHER REVENUE

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Air shipping services	3	62
Income from application for residence permits	23	23
Rentals	16	15
Other business services	82	92
Other operating income	83	66
Total	**207**	**258**

C2 - Revenue from payment services, mobile and digital (€628 million)

This item breaks down as follows:

TAB. C2 - REVENUE FROM PAYMENTS, MOBILE & DIGITAL

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Mobile	217	211
Cards & Acquiring	269	212
Cards	238	194
Acquiring	7	5
Other fees	24	13
Transaction Banking	142	163
Payment Slips	56	77
Commissions for processing tax payments using forms F23/F24	62	61
Banking & Money Transfers	20	23
Other Transaction Banking	4	2
Total	**628**	**586**

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

This item primarily relates to revenue from the mobile telecommunications services provided by PostePay SpA and revenue from card payments and payment services generated by the Parent Company in the first nine months of 2018 and by the EMI in the last quarter of 2018.

C3 - Revenue from financial services (€5,186 million)

This item breaks down as follows:

TAB. C3 - REVENUE FROM FINANCIAL SERVICES

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Financial services	4,636	4,307
Income from financial activities	418	646
Other operating income	132	3
Total	**5,186**	**4,956**

Other operating income includes non-recurring income of €120 million resulting from the sale to Anima Holding SpA of shares in Anima SGR, as described in more detail in note 4.1.

This revenue primarily regards revenue generated by the Parent Company's BancoPosta RFC.

Revenue from Financial Services breaks down as follows:

TAB. C3.1 - REVENUE FROM FINANCIAL SERVICES

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Fees for collection of postal savings deposits	1,827	1,566
Income from investment of postal current account deposits	1,554	1,475
Commissions on payment of bills by payment slip	412	434
Other revenues from current account services	382	359
Distribution of loan products	237	197
Income from delegated services	100	103
Fees for the management of public funds	-	27
Interest on loans and other income	-	22
Money transfers	17	17
Mutual fund management fees	89	85
Securities custody	4	5
Commissions from securities trading	4	4
Other products and services	10	13
Total	**4,636**	**4,307**

In particular:

- **Fees for the collection of postal savings deposits** relates to remuneration for the provision and redemption of Interest-bearing Postal Certificates and payments into and withdrawals from Postal Savings Books. This service is provided by Poste Italiane SpA on behalf of Cassa depositi e prestiti under the Agreement of 14 December 2017 to cover the three-year period 2018-2020.
- **Income from the investment of postal current account deposits** breaks down as follows:

TAB. C3.1.1 - INCOME FROM INVESTMENT OF POSTAL CURRENT ACCOUNT DEPOSITS

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Income from investments in securities	1,488	1,448
Interest income on financial assets at amortised cost	485	499
Interest income on financial assets at FVTOCI	981	992
Interest expense on asset swaps of financial assets at FVTOCI and at amortised cost	7	(49)
Interest income on repurchase agreements	15	6
Income from deposits held with the MEF	65	27
Remuneration of current account deposits (deposited with the MEF)	63	27
Differential on derivatives stabilising returns	2	-
Other income	1	-
Total	**1,554**	**1,475**

Income from investments in securities relates to interest earned on investment of deposits paid into postal current accounts by private customers. The total includes the impact of the interest rate hedge described in note A5 – *Financial assets*.
Income from deposits held with the MEF primarily represents accrued interest for the year on amounts deposited by Public Administration entities.

- **Revenue from current account services** primarily relates to charges on current accounts, fees on amounts collected and on statements of account sent to customers, annual fees on debit cards and related transactions.
- **Revenue from the distribution of loan products** relates to commissions received by the Parent Company on the placement of personal loans and mortgages on behalf of third parties.

TAB. C3.2 - INCOME FROM FINANCIAL ACTIVITIES

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Income from equity instruments at FVTPL	9	-
Fair value gains	9	-
Income from financial assets at FVTOCI	400	639
Realised gains	400	547
Realised gains on other equity instruments	-	91
Dividends from other investments	-	1
Income from financial assets at amortised cost	4	-
Realised gains	4	-
Income from fair value hedges	-	2
Fair value gains	-	2
Foreign exchange gains	4	5
Realised gains	4	5
Other income	1	-
Total	**418**	**646**

C4 - Revenue from insurance services after movements in technical provisions and other claim expenses (€1,471 million)

Details of this item are as follows:

TAB. C4 - REVENUE FROM INSURANCE SERVICES AFTER MOVEMENTS IN TECHNICAL PROVISIONS AND OTHER CLAIMS EXPENSES

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Insurance premium revenue	16,720	20,343
Income from insurance activities	3,604	3,925
Movement in technical provisions for insurance business and other claims expenses	(17,111)	(22,335)
Expenses from insurance activities	(1,742)	(477)
Total	**1,471**	**1,456**

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

TAB. C4.1 - INSURANCE PREMIUM REVENUE

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Class I	15,782	19,634
Class III	740	537
Class IV	19	17
Class V	69	75
Gross life Premiums	**16,610**	**20,263**
Outward reinsurance premiums	(18)	(19)
Net life premiums	**16,592**	**20,244**
Non-life premiums	168	131
Outward reinsurance premiums	(40)	(32)
Net non-life premiums	**128**	**99**
Total	**16,720**	**20,343**

Income from insurance activities is as follows:

TAB. C4.2 - INCOME FROM INSURANCE ACTIVITIES

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Income from financial assets at amortised cost	3	-
Interest	3	-
Realised gains	-	-
Income from financial assets at FVTPL	778	1,246
Interest	565	586
Fair value gains	166	585
Realised gains	47	75
Income from financial assets at FVTOCI	2,789	2,638
Interest	2,548	2,360
Realised gains	241	278
Other income	34	41
Total	**3,604**	**3,925**

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

TAB. C4.3 - MOVEMENT IN TECHNICAL PROVISIONS FOR INSURANCE BUSINESS AND OTHER CLAIMS EXPENSES

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Claims paid	10,734	11,141
Movement in mathematical provisions	8,419	14,694
Movement in outstanding claim provisions	149	(311)
Movement in Other technical provisions	(1,326)	172
Movement in technical provisions where investment risk is transferred to policyholders	(878)	(3,370)
Total movement in technical provisions for insurance business and other claims expenses: Life	**17,098**	**22,326**
Portion ceded to reinsurers: Life	**(10)**	**(13)**
Total movement in technical provisions for insurance business and other claims expenses: Non-life	**35**	**29**
Portion ceded to reinsurers: Non-life	**(12)**	**(7)**
Total	**17,111**	**22,335**

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

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

Expenses from insurance activities break down as follows:

TAB. C4.4 - EXPENSES FROM INSURANCE ACTIVITIES

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Expenses from financial assets at FVTPL	1,673	245
Fair value losses	1,610	119
Realised losses	63	126
Expenses from financial assets at FVTOCI	29	96
Interest	4	-
Realised losses	25	96
Impairments	(2)	93
Other expenses	42	43
Total	**1,742**	**477**

C5 – Costs of goods and services (€2,343 million)

TAB. C5 - COST OF GOODS AND SERVICES

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Services	1,911	1,894
Lease expense	312	335
Raw, ancillary and consumable materials and goods for resale	120	141
Total	**2,343**	**2,370**

Cost of services

TAB. C5.1 - SERVICES

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Transport of mail, parcels and forms	584	538
Routine maintenance and technical assistance	231	240
Outsourcing fees and external service charges	196	187
Personnel services	140	142
Energy and water	122	124
Mobile telecommunication services for customers	97	89
Credit and debit card fees and charges	84	84
Transport of cash	91	99
Cleaning, waste disposal and security	73	62
Mail, telegraph and telex	58	54
Telecommunications and data trasmission	54	63
Advertising and promotions	67	72
Electronic document management, printing and enveloping services	24	28
Consultants' fees and legal expenses	26	27
Asset management fees	21	19
Airport costs	10	32
Insurance premiums	12	15
Agent commissions and other	12	13
Securities custody and management fees	2	2
Remuneration of Statutory Auditors	1	1
Other	6	3
Total	**1,911**	**1,894**

Lease expense

TAB. C5.2 - LEASE EXPENSE

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Real estate leases and ancillary costs	179	183
Vehicle leases	59	69
Equipment hire and software licences	48	47
Other lease expense	26	36
Total	**312**	**335**

Real estate leases relate almost entirely to the buildings from which the Group operates (post offices, Delivery Logistics Centres and Sorting Centres). Under the relevant lease agreements, rents are increased annually on the basis of the price index published by the *Istituto Nazionale di Statistica* (ISTAT, the Italian Office for National Statistics). Lease terms are generally six years, renewable for a further six. Renewal is assured from the clause stating that the lessor “waives the option of refusing renewal on expiry of the first term”, by which the lessor, once the agreement has been signed, cannot refuse to renew the lease, except in cases of force majeure. The Parent Company has the right to withdraw from the contract at any time, giving six months' notice, in accordance with the standard lease contract.

Raw, ancillary and consumable materials and goods for resale

TAB. C5.3 - RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS FOR RESALE

Item (€m)	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Consumables, advertising materials and goods for resale		65	78
Fuels and lubricants		51	55
Printing of postage and revenue stamps		4	5
SIM cards and scratch cards		1	3
Change in inventories of work in progress, semi-finished and finished goods and goods for resale	[tab. A6]	2	2
Change in inventories of raw, ancillary and consumable materials	[tab. A6]	1	(2)
Change in property held for sale	[tab. A6]	(4)	(1)
Other		-	1
Total		**120**	**141**

C6 – Expenses from financial activities (€46 million)

The table below provides a breakdown of this item:

TAB. C6 - EXPENSES FROM FINANCIAL ACTIVITIES

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Expenses from financial assets at FVTOCI	22	17
Realised losses	22	17
Expenses from financial assets at amortised cost	3	-
Realised losses	3	-
Expenses from fair value hedges	2	-
Fair value losses	2	-
Foreign exchange losses	-	2
Fair value losses	-	1
Realised losses	-	1
Interest expense	15	21
Interest on customers' deposits	5	5
Interest expense on repurchase agreements	7	11
Interest due to MEF	3	4
Other interest expense and similar charges	-	2
Portion of interest expense on own liquidity (finance costs)	-	(1)
Other expenses	4	17
Total	**46**	**57**

C7 - Personnel expenses (€6,137 million)

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

TAB. C7 - PERSONNEL EXPENSES

Item (€m)	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Wages and salaries		4,115	4,208
Social security contributions		1,178	1,196
Provisions for employee termination benefits: current service cost	[tab. B7]	1	1
Provisions for employee termination benefits: supplementary pension funds and INPS		256	258
Agency staff		9	2
Remuneration and expenses paid to Directors		2	2
Early retirement incentives		173	52
Net provisions (reversals) for disputes with staff	[tab. B6]	2	(25)
Provisions for early retirement incentives	[tab. B6]	444	446
Amounts recovered from staff due to disputes		(5)	(6)
Share-based payments		5	3
Other personnel expenses/(cost recoveries)		(43)	(44)
Total		**6,137**	**6,093**

Net provisions for disputes with staff and provisions for restructuring charges are described in note B6 – *Provisions for risks and charges*.

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

The following table shows the Group's average and year-end headcount for 2018.

TAB. C7.1 - NUMBER OF EMPLOYEES

	Average		Year end	
Unità	For the year ended 31 December 2018	For the year ended 31 December 2017	At 31 December 2018	At 31 December 2017
Executives	690	732	672	699
Middle managers	15,582	15,859	15,192	15,481
Operational staff	109,279	114,007	105,892	110,607
Back-office staff	600	760	909	644
Total employees on permanent contracts*	**126,151**	**131,358**	**122,665**	**127,431**

* Figures expressed in Full Time Equivalent terms.

Taking account of staff on flexible contracts, the total average number of full-time equivalent staff in 2018 is 134,360 (138,040 in 2017:).

C8 - Depreciation, amortisation and impairments (€570 million)

Depreciation, amortisation and impairments break down as follows:

TAB. C8 - DEPRECIATION, AMORTISATION AND IMPAIRMENTS

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Property, plant and equipment	321	329
Properties used in operations	113	112
Plant and machinery	72	77
Industrial and commercial equipment	9	8
Leasehold improvements	32	30
Other assets	95	102
Impairments/recoveries/adjustments of property, plant and equipment	(4)	(9)
Depreciation of investment property	4	4
Amortisation and impairments of intangible assets	216	221
Industrial patents and intellectual property rights,concessions, lincenses, trademarks and similar rights	212	215
Other	4	6
Goodwill impairment	33	-
Total	**570**	**545**

Impairments refer to the write-off of the goodwill allocated to Postel SpA, which is of a non-recurring nature, as described in more detail in note A3 – Intangible assets.

C9 - Capitalised costs and expenses (€17 million)

Capitalised costs and expenses break down as follows:

TAB. C9 - INCREASES RELATING TO ASSETS UNDER CONSTRUCTION

Item (€m)	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Property, plant and machinery	**[A1]**	**2**	**7**
Cost of goods and services		2	7
Intangible assets	**[A3]**	**15**	**17**
Cost of goods and services		4	5
Personnel expenses		11	12
Total		**17**	**24**

C10 - Other operating costs (€239 million)

Other operating costs break down as follows:

TAB. C10 - OTHER OPERATING COSTS

Item (€m)	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Operational risk events		46	60
Thefts		5	5
Loss of BancoPosta assets, net of recoveries		1	1
Other operating losses of BancoPosta		40	54
Net provisions for risks and charges made/(released)		81	227
for disputes with third parties	[tab. B6]	7	37
for non-recurring charges	[tab. B6]	78	170
for statute-barred postal savings certificates	[tab. B6]	(15)	-
for other risks and charges	[tab. B6]	11	20
Losses		2	1
Municipal property tax, urban waste tax and other taxes and duties		70	69
Impairments of disposal groups held for sale		-	3
Other recurring expenses		40	50
Total		**239**	**410**

C11 - Impairment losses/(reversals of impairment losses) on debt instruments, receivables and other assets (€47 million)

TAB. C11 - IMPAIRMENT LOSSES/(REVERSALS OF IMPAIRMENT LOSSES) ON DEBT INSTRUMENTS, RECEIVABLES AND OTHER ASSETS

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Net provisions and losses on receivables and other assets (uses of provisions)	46	55
Provisions (reversal of provisions) for receivables due from customers	23	40
Provisions (reversal of provisions) for receivables due from the MEF	(1)	-
Provisions (reversal of provisions) for sundry receivables	23	12
Credit losses	1	3
Impairment/(reversal) on financial assets at FVTOCI	(1)	-
Impairment/(reversal) on financial assets at amortised cost	2	-
Total	**47**	**55**

C12 - Finance income (€106 million) and costs (€71 million)

Income from and costs incurred on financial instruments relate to assets other than those in which deposits collected by BancoPosta and the financial and insurance businesses are invested.

Finance income

TAB. C12.1 - FINANCE INCOME

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Income from financial assets at FVTOCI	40	91
Interest	44	93
Accrued differentials on fair value hedges	(11)	(11)
Realised gains	7	9
Income from amortised cost financial assets	54	-
Income from financial assets at FVTPL	1	3
Other finance income	6	9
Finance income on discounted receivables	5	6
Late payment interest	14	16
Impairment of amounts due as late payment interest	(14)	(16)
Interest on IRAP refund	-	3
Other	1	-
Foreign exchange gains	5	12
Total	**106**	**115**

For the purposes of reconciliation with the statement of cash flows, in 2018 finance income after realised gains and foreign exchange gains amounted to €95 million (€94 million in 2017).

Finance costs

TAB. C12.2 - FINANCE COSTS

Item (€m)	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Finance costs on financial liabilities		38	51
on bonds		36	49
on borrowings from financial institutions		1	1
on derivative financial instruments		1	1
Finance costs on sundry financial assets		2	1
Income from financial assets at FVTOCI		2	1
Finance costs on provisions for employee termination benefits and pension plans	[tab. B7]	20	21
Finance costs on provisions for risks	[tab. B6]	1	1
Other finance costs		5	5
Foreign exchange losses		5	14
Total		**71**	**94**

For the purposes of reconciliation with the statement of cash flows, in 2018 financial costs after foreign exchange losses amount to €66 million (€80 million in 2017).

C13 - Impairment losses/(reversals of impairment losses) on financial assets (€20 million)

TAB. C13 - IMPAIRMENT LOSSES/(REVERSALS OF IMPAIRMENT LOSSES) ON FINANCIAL ASSETS

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Impairment/(reversal) on financial assets at FVTOCI	-	12
Impairment/(reversal) on financial assets at amortised cost	20	82
Total	**20**	**94**

C14 - Income tax expense (€91 million)

This item breaks down as follows:

TAB. C14 - INCOME TAX EXPENSE

Item (€m)	For the year ended 31 December 2018			For the year ended 31 December 2017		
	IRES	IRAP	Total	IRES	IRAP	Total
Current tax expense	250	64	314	285	75	360
Deferred tax income	(397)	2	(395)	(11)	1	(10)
Deferred tax expense	136	36	172	25	3	28
Total	**(11)**	**102**	**91**	**299**	**79**	**378**

Income tax expense includes deferred tax income of €385 million (€351 million in non-recurring income relating to the tax periods 2010-2017) recognised by Poste Vita on temporary differences resulting the application of paragraph 1-*bis* of art. 111 of the Consolidated Law on Income Tax (introduced by art. 38, paragraph 13-bis of Law Decree 78 of 31 May 2010), as described in more detail in note 4.2 – *Other material events.*

The *tax rate* for 2018 (before the recognition of non-recurring deferred tax income of €351 million) is 29.64%. The effective tax rate for the year is 6.11%.

TAB. C14.1 - RECONCILIATION BETWEEN THEORETICAL AND EFFECTIVE IRES RATE

Item (€m)	For the year ended 31 December 2018		For the year ended 31 December 2017	
	IRES	Tax Rate	IRES	Tax Rate
Profit before tax	**1,490**		**1,067**	
Theoretical tax charge	358	24.0%	256	24.0%
Effect of changes with respect to theoretical rate				
Realised gains on investments	(27)	-1.78%	-	0.00%
Realised gains on other investments	-	0.00%	(21)	-1.95%
Non-deductible out-of-period losses	4	0.27%	6	0.54%
Net provisions for risks and charges and bad debts	4	0.28%	15	1.42%
Non-deductible taxes	6	0.39%	6	0.56%
Realignment of tax bases and carrying amounts and taxation for previous years	(9)	-0.58%	(17)	-1.62%
Technical provisions for insurance business	-	0.00%	49	4.59%
Other	5	0.23%	5	0.46%
Effective tax charge	**341**	**22.80%**	**299**	**27.99%**
Assessment of deferred tax assets on non-deductible change in technical provisions	(351)	-23.53%	-	0.00%
Effective tax charge	**(11)**	**-0.73%**	**299**	**27.99%**

TAB. C14.2 - RECONCILIATION BETWEEN THEORETICAL AND EFFECTIVE IRAP RATE

Item (€m)	For the year ended 31 December 2018 IRAP	Tax Rate	For the year ended 31 December 2017 IRAP	Tax Rate
Profit before tax	**1,490**		**1,067**	
Theoretical tax charge	88	5.92%	68	6,33%
Effect of changes with respect to theoretical rate				
Non-deductible personnel expenses	14	0.92%	13	1.18%
Realised gains on investments	(5)	-0.35%	-	0.00%
Non-deductible out-of-period losses	1	0.04%	1	0.09%
Net provisions for risks and charges and bad debts	4	0.25%	5	0.48%
Non-deductible taxes	6	0.43%	-	0.00%
Non-deductible taxes	1	0.09%	1	0.13%
Finance income and costs	-	0.02%	5	0.45%
Realignment of tax bases and carrying amounts and taxation for previous years	(2)	-0.16%	-	-0.01%
Claim for IRAP refund	-	0.00%	(9)	-0.81%
Other	(5)	-0.31%	(5)	-0.51%
Effective tax charge	**102**	**6.84%**	**79**	**7.32%**

Current tax assets and liabilities

TAB. C14.3 - MOVEMENTS IN CURRENT TAX ASSETS/(LIABILITIES)

Item (€m)	Current taxes for the year ended 31 December 2018		
	IRES Assets/ (Liabilities)	IRAP Assets/ (Liabilities)	Total
Balance at 1 January	**71**	**(1)**	**70**
Effects of first-time adoption of IFRS 9 and IFRS 15	5	-	5
Payment of	263	88	351
payments on account for the current year	218	77	295
balance payable for the previous year	13	11	24
substitute tax	32	-	32
Provisions to profit or loss	(250)	(64)	(314)
Provisions to equity	2	(1)	1
Other	(8)	-	(8)
Balance at 31 December	**83**	**22**	**105**
of which:			
Current tax assets	83	34	117
Current tax liabilities	-	(12)	(12)

Under IAS 12 – Income Taxes, IRES and IRAP credits are offset against the corresponding current tax liabilities, when applied by the same tax authority to the same taxable entity, which has a legally enforceable right to offset and intends to exercise this right.

At 31 December 2018, current tax assets/(liabilities) include:

- a tax asset of €56 million reflects payments of IRES and IRAP on account, refundable IRAP from the previous year and IRES withholding tax incurred, after provisions for IRES and IRAP for the year;

- a substitute tax of €32 million paid by the Parent Company in order to obtain tax relief, pursuant to art. 15, paragraph 10 of Law Decree 185 of 2008, on the increase in the value of the goodwill and other intangible assets relating to the acquisition of the investment in FSIA Investimenti Srl (as described in more detail in note A4 – Investments accounted for using the equity method). By paying this substitute tax, the Parent Company can deduct tax amortisation of the revalued amounts from the tax bases for IRES and IRAP from the second tax period following the one in which the substitute tax was paid;
- an IRAP credit of €9 million to be recovered on the unreported deduction of expenses for disabled personnel in 2003, identified in 2017 following the ruling handed down by the Lazio Regional Tax Tribunal, which upheld the appeal previously submitted by the Company (see also the information in note 2.5 – *Use of estimates*);
- the remaining IRES credit of €8 million to be recovered on the unreported partial deduction of IRAP paid from IRES, which is the subject of claims submitted in accordance with art. 6 of Law Decree 185 of 29 November 2008 and art. 2 of Law Decree 201 of 6 December 2011 (further information on amounts receivable in relation to interest due on the refund is provided in note A8).

Deferred tax assets and liabilities

TAB. C14.4 - DEFERRED TAXES

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Deferred tax assets	1,368	869
Deferred tax liabilities	(701)	(546)
Total	**667**	**323**

The nominal tax rate for IRES is 24% from 1 January 2017, whilst the Group's average statutory rate for IRAP is 5.91%[88]. Movements in deferred tax assets and liabilities are shown below:

TAB. C14.5 - MOVEMENTS IN DEFERRED TAX ASSETS AND LIABILITIES

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Balance at 1 January	**323**	**53**
Effects of first-time adoption of IFRS 9 and IFRS 15	(483)	-
Net income/(expenses) recognised in profit or loss	223	(16)
Net income/(expenses) recognised in equity	604	286
Balance at 31 December	**667**	**323**

88. The nominal IRAP rate is 3.90% for most taxpayers, 4.20% for companies that operate under concession arrangements other than motorway and tunnel construction and operating companies, 4.65% for banks and other financial entities and 5.90% for insurance companies (+/-0.92%, representing regional increases and cuts and + 0.15% representing an increase for regions that showed a healthcare deficit).

The following table shows movements in deferred tax assets and liabilities, broken down according to the events that generated such movements:

TAB. C14.6 - MOVEMENTS IN DEFERRED TAX ASSETS

Item (€m)	PPE and intangible assets	Depreciation and amortisation	Financial assets and liabilities	Provisions for impairments and value adjustments	Provisions for risks and charges	Actuarial gains and losses on employee termination benefits	Technical provisions for insurance business	Other	Total
Balance at 1 January 2018	**48**	**18**	**265**	**97**	**351**	**26**	**-**	**64**	**869**
Effects of first-time adoption of IFRS 9 and IFRS 15	-	-	(156)	-	-	-	-	4	(152)
Income/(expenses) recognised in profit or loss	1	(1)	-	6	(12)	1	385	15	395
Income/(expenses) recognised in equity	-	-	261	-	-	(5)	-	-	256
Balance at 31 December 2018	**49**	**17**	**370**	**103**	**339**	**22**	**385**	**83**	**1,368**

TAB. C14.7 - MOVEMENTS IN DEFERRED TAX LIABILITIES

Item (€m)	Financial assets and liabilities	Other	Total
Balance at 1 January 2018	**514**	**32**	**546**
Effects of first-time adoption of IFRS 9 and IFRS 15	331	-	331
Income/(expenses) recognised in profit or loss	165	7	172
Income/(expenses) recognised in equity	(348)	-	(348)
Balance at 31 December 2018	**662**	**39**	**701**

Movements in deferred tax assets and liabilities recognised directly in equity during the year are as follows:

TAB. C14.8 - INCOME/(EXPENCE) RECOGNISED IN EQUITY

	Increases/(decreases) in equity	
Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Fair value reserve for FVTOCI financial assets	669	269
Cash flow hedge reserve for hedging instruments	(60)	18
Actuarial gains/(losses) on employee termination benefits	(5)	(1)
Total	**604**	**286**

5.4 Operating segments

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

- Mail, Parcels and Distribution
- Payments, Mobile and Digital
- Financial Services
- Insurance Services

In addition to managing the mail and parcel service, the Mail, Parcels and Distribution segment also includes the activities of the distribution network and the activities of Poste Italiane SpA corporate functions that provide services to BancoPosta RFC and the other segments in which the Group operates. In this regard, separate General Operating Guidelines have been approved by Poste Italiane SpA's Board of Directors which, in implementation of BancoPosta RFC's By-laws, identify the services provided by Poste Italiane SpA functions to BancoPosta and determines the manner in which they are remunerated.

The Payments, Mobile and Digital segment includes the activities carried out until 30 September 2018 by the relevant function within the Parent Company and for the remaining 3 months by PostePay SpA, as well as mobile telecommunications services.

The Financial Services segment includes the activities of BancoPosta RFC, BancoPosta Fondi SpA SGR and Poste Tributi ScpA in liquidation.

The Insurance Services segment includes the activities carried out by the Poste Vita group.

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

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

Year ended 31 December 2018 (€m)	Mail, Parcel & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Net external revenue from ordinary activities	3,579	628	5,186	1,471	-	10,864
Net intersegment revenue from ordinary activities	4,632	338	909	1	(5,880)	-
Net revenue from ordinary activities	**8,211**	**966**	**6,095**	**1,472**	**(5,880)**	**10,864**
Depreciation, amortisation and impairments	(528)	(25)	-	(17)	-	(570)
Non-cash expenses	9	(10)	(121)	-	-	(122)
Total non-cash expenses	**(519)**	**(35)**	**(121)**	**(17)**	**-**	**(692)**
Operating profit/(loss)	**(430)**	**204**	**859**	**866**	**-**	**1,499**
Finance income/(costs)	(26)	-	(2)	64	-	36
(Impairment loss)/reversal on debt instruments, receivables and other assets	(20)	-	-	-	-	(20)
Profit/(Loss) on investments accounted for using the equity method	-	5	(29)	-	-	(24)
Intersegment finance income/(costs)	15	-	(2)	(13)	-	-
Income tax expense	89	(56)	(209)	84	-	(92)
Net profit/(loss) for the year	**(372)**	**153**	**617**	**1,001**	**-**	**1,399**
Assets	**9,302**	**5,075**	**72,738**	**131,280**	**(9,512)**	**208,883**
Non-current assets	5,726	350	53,495	121,658	(2,357)	178,872
Current assets	3,576	4,725	19,243	9,622	(7,155)	30,011
Liabilities	**6,721**	**4,831**	**69,827**	**127,323**	**(7,924)**	**200,778**
Non-current liabilities	1,592	282	9,685	125,739	(773)	136,525
Current liabilities	5,129	4,549	60,142	1,584	(7,151)	64,253
Other information						
Capital expenditure	487	27	-	25	-	539
Investments accounted for using equity method	3	281	214	-	-	498
External revenue from contracts with customers	**3,504**	**320**	**3,388**	**10**	**-**	**7,222**

Year ended 31 December 2017 (€m)	Mail, Parcel & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Net external revenue from ordinary activities	3,631	586	4,956	1,456	-	10,629
Net intersegment revenue from ordinary activities	4,497	328	1,014	1	(5,840)	-
Net revenue from ordinary activities	**8,128**	**914**	**5,970**	**1,457**	**(5,840)**	**10,629**
Depreciation, amortisation and impairments	(505)	(22)	(1)	(17)	-	(545)
Non-cash expenses	(56)	(8)	(198)	-	-	(262)
Total non-cash expenses	**(561)**	**(30)**	**(199)**	**(17)**	**-**	**(807)**
Operating profit/(loss)	**(517)**	**195**	**646**	**799**	**-**	**1,123**
Profit/(Loss) on investments accounted for using the equity method	(2)	7	12	-	-	17
Finance income/(costs)	(119)	(1)	(2)	49	-	(73)
Income tax expense	127	(55)	(153)	(297)	-	(378)
Net profit/(loss) for the year	**(502)**	**146**	**499**	**546**	**-**	**689**
Assets	**10,199**	**3,490**	**67,149**	**129,059**	**(7,227)**	**202,670**
Non-current assets	5,769	72	50,869	123,202	(1,839)	178,073
Current assets	4,430	3,418	16,280	5,857	(5,388)	24,597
Non-current assets and disposal groups held for sale	-	-	-	-	-	-
Liabilities	**7,465**	**3,165**	**64,447**	**125,681**	**(5,638)**	**195,120**
Non-current liabilities	1,868	19	5,888	124,888	(250)	132,413
Current liabilities	5,597	3,146	58,559	793	(5,388)	62,707
Liabilities related to assets held for sale	-	-	-	-	-	-
Other information						
Capital expenditure	425	27	-	15	-	467
Investments accounted for using equity method	3	286	219	-	-	508

Disclosures about geographical segments, based on the geographical areas in which the various Group companies are based or the location of its customers, is of no material significance. At 31 December 2018, all entities consolidated on a line-by-line basis are based in Italy, as is the majority of their client base; revenue from foreign clients does not represent a significant percentage of total revenue.

Assets include those deployed by the segment in the course of ordinary business activities and those that could be allocated to it for the performance of such activities.

5.5 Related party transactions

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

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

IMPACT OF RELATED PARTY TRANSACTIONS ON THE FINANCIAL POSITION AT 31 DECEMBER 2018

	Balance at 31 December 2018						
Name (€m)	Financial assets	Trade receivables	Other assets Other receivables	Cash and cash equivalents	Financial liabilities	Trade payables	Other liabilities
Subsidiaries							
Address Software Srl	-	-	-	-	-	1	-
Kipoint SpA	-	-	-	-	-	1	-
Risparmio Holding SpA	-	-	-	-	-	-	1
Joint ventures							
FSIA Group	-	4	-	-	-	20	-
Associates							
Anima Holding Group	-	-	-	-	-	4	-
Related parties external to the Group							
MEF	5,930	199	9	1,306	3,653	44	8
Cassa depositi e prestiti Group	5,087	441	-	-	-	1	-
Enel Group	-	27	-	-	-	4	-
Eni Group	-	5	-	-	-	11	-
Equitalia Group	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	42	-
Montepaschi Group	44	4	-	-	337	-	-
Other related parties external to the Group	69	20	-	-	-	22	66
Provision for doubtful debts owing from external related parties	(25)	(39)	(1)	-	-	-	-
Total	**11,105**	**661**	**8**	**1,306**	**3,990**	**150**	**75**

At 31 December 2018, total provisions for risks and charges made to cover probable liabilities arising from transactions with related parties external to the Group attributable to trading relations amounted to €70 million (€71 million at 31 December 2017).

IMPACT OF RELATED PARTY TRANSACTIONS ON THE FINANCIAL POSITION AT 31 DECEMBER 2017

	Balance at 31 December 2017						
Name (€m)	Financial assets	Trade receivables	Other assets Other receivables	Cash and cash equivalents	Financial liabilities	Trade payables	Other liabilities
Subsidiaries							
Address Software Srl	-	-	-	-	-	1	-
Kipoint SpA	-	-	-	-	-	1	-
Risparmio Holding SpA	-	-	-	-	-	-	1
Joint ventures							
FSIA Group	-	-	-	-	-	12	-
Associates							
Anima Holding Group	-	-	-	-	-	2	-
Related parties external to the Group							
MEF	6,011	316	17	379	3,485	96	8
Cassa depositi e prestiti Group	3,032	375	-	-	56	2	-
Enel Group	-	30	-	-	-	11	-
Eni Group	-	1	-	-	-	18	-
Equitalia Group	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	33	-
Montepaschi Group	-	2	-	6	-	-	-
Other related parties external to the Group	227	6	-	-	-	18	61
Provision for doubtful debts owing from external related parties	-	(42)	(11)	-	-	-	-
Total	**9,270**	**688**	**6**	**385**	**3,541**	**194**	**70**

IMPACT OF RELATED PARTY TRANSACTIONS ON PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2018

	Year ended 31 December 2018													
	Revenue					Costs								
						Capital expenditure		Current expenditure						
Name (€m)	Revenue from Mail, Parcels & other	Revenue from Payments, Mobile & Digital	Revenue from Financial Services	Revenue from Insurance Services after movements in technical provisions and other claims expenses	Finance income	Property, plant and equipment	Intangible assets	Goods and services	Personnel expenses	Other operating costs	Expenses from financial activities	Losses and impairment losses/ (reversals of impairment losses) on debt instruments, receivables and other assets	Finance costs	Losses and impairment losses/ (reversals of impairment losses) on financial assets
Subsidiaries														
Address Software Srl	-	-	-	-	-	-	-	1	-	-	-	-	-	-
Kipoint SpA	-	-	-	-	-	-	-	2	-	-	-	-	-	-
Joint ventures				-										
FSIA Group	-	-	-		-	-	3	37	-	-	-	-	-	-
Associates														
Anima Holding Group	2	-	120	-	-	-	-	10	-	-	-	-	-	-
Other SDA Group Associates	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Related parties external to the Group														
MEF	359	40	125	-	-	-	-	3	-	5	3	(4)	-	-
Cassa depositi e prestiti Group	2	-	1,890	16	-	-	-	6	-	-	-	1	-	-
Enel Group	56	6	2	-	-	-	-	30	-	-	-	-	-	-
Eni Group	18	2	1	-	-	-	-	33	-	-	-	-	-	-
Equitalia Group	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	-	12	31	-	-	-	-	-	-
Montepaschi Group	23	-	1	-	-	-	-	-	-	-	-	-	-	-
Other related parties external to the Group	30	-	-	-	-	-	-	53	43	1	-	-	-	20
Total	**490**	**48**	**2,139**	**16**	**-**	**-**	**15**	**206**	**43**	**6**	**3**	**(3)**	**-**	**20**

At 31 December 2018, net provisions for risks and charges used to cover probable liabilities arising from transactions with related parties external to the Group attributable to trading relations amounted to €1 million (€11 million at 31 December 2017).

IMPACT OF RELATED PARTY TRANSACTIONS ON PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2017

	Balance at 31 December 2017											
	Revenue					Costs						
						Capital expenditure		Current expenditure				
Name (€m)	Revenue from Mail, Parcels & other	Revenue from Payments, Mobile & Digital	Revenue from Financial Services	Revenue from Insurance Services after movements in technical provisions and other claims expenses	Finance income	Property, plant and equipment	Intangible assets	Goods and services	Personnel expenses	Other operating costs	Expenses from financial activities	Finance costs
Subsidiaries												
Address Software Srl	-	-	-	-	-	-	-	1	-	-	-	-
Kipoint SpA	-	-	-	-	-	-	-	1	-	-	-	-
Joint ventures												
FSIA Group	-	-	-	-	-	-	3	29	-	-	-	
Associates												
Gruppo Anima Holding	2	-	-	-	-	-	-	5	-	-	-	-
Other SDA Group Associates	1	-	-	-	-	-	-	-	-	-	-	-
Related parties external to the Group												
MEF	380	59	86	-	-	-	-	5	-	1	3	1
Cassa depositi e prestiti Group	2	-	1.577	15	-	-	-	8	-	-	-	-
Enel Group	75	2	-	-	-	-	-	33	-	2	-	-
Eni Group	7	3	-	-	-	-	-	38	-	-	-	-
Equitalia Group	1	-	-	-	-	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	-	12	34	-	-	-	-
Montepaschi Group	17							-	-	-	-	-
Other related parties external to the Group	28	-	-	-	-	-	-	41	40	1	-	-
Total	**513**	**64**	**1.663**	**15**	**-**	**-**	**15**	**195**	**40**	**4**	**3**	**1**

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

- Amounts received from the MEF relate primarily to payment for carrying out the USO, the management of postal current accounts, as payment for delegated services, integrated e-mail services, the franking of mail on credit, collection services, and for the integrated notification and reporting service for processing tax returns.
- Amounts received from CDP SpA primarily relate to payment for the collection of postal savings deposits.
- Amounts received from the Enel Group primarily relate to payment for bulk mail shipments, unfranked mail, franking of mail on credit and postage paid mailing services, as well as collection and accounting for electric utility payments. The costs incurred primarily relate to the supply of gas and electricity.
- Amounts received from the Eni Group relate primarily to payment for mail shipments and collection and accounting for utility payments. The costs incurred relate to the supply of gas and of fuel for motorcycles and vehicles.
- Purchases from the Leonardo Group primarily relate to the supply, by Leonardo SpA, of equipment, maintenance and technical assistance for mechanised sorting equipment, and systems and IT assistance regarding the creation of document storage facilities, specialist consulting services and software maintenance, and the supply of software licences and of hardware.
- Amounts received from the Monte dei Paschi di Siena group primarily regard payment for mail shipments.
- Revenue from financial services received from the Anima group refers to the gain recognised on the sale to Anima Holding SpA of shares in Anima (note A4).

Impact of related party transactions and positions

The impact of related party transactions on the financial position, profit or loss and cash flows is shown in the following table:

IMPACT OF RELATED PARTY TRANSACTIONS

Item (€m)	Total in financial statements	Total related parties	Impact (%)	Total in financial statements	Total related parties	Impact (%)
	Balance at 31 December 2018			Balance at 31 December 2017		
Assets and liabilities						
Financial assets	190,864	11,105	5.8	186,766	9,270	5.0
Trade receivables	2,199	661	30.1	2,035	688	33.8
Other receivables and assets	4,580	8	0.2	3,997	6	0.2
Cash and cash equivalents	3,195	1,306	40.9	2,428	385	15.9
Non-current assets and disposal groups held for sale	-	-	n/a	-	-	n/a
Provisions for risks and charges	1,519	70	4.6	1,595	71	4.5
Financial liabilities	66,929	3,990	6.0	63,244	3,541	5.6
Trade payables	1,583	150	9.5	1,332	194	14.6
Other liabilities	3,698	75	2.0	3,456	70	2.0
Liabilities related to assets held for sale	-	-	n/a	-	-	n/a
	Balance at 31 December 2018			Balance at 31 December 2017		
Profit or loss						
Revenue from Mail, Parcels & other	3,579	490	13.7	3,631	513	14.1
Revenue from Payments, Mobile & Digital	628	48	7.6	586	64	10.9
Revenue from Financial Services	5,186	2,139	41.2	4,956	1,663	33.6
Revenue from Insurance Services after movements in technical provisions and other claims expenses	1,471	16	1.1	1,456	15	1.0
Cost of goods and services	2,343	206	8.8	2,370	195	8.2
Expenses from financial activities	46	3	6.5	57	3	5.3
Personnel expenses	6,137	43	0.7	6,093	40	0.7
Other operating costs	239	7	2.9	410	15	3.7
Finance costs	71	-	n/a	94	1	1.1
Finance income	106	-	n/a	115	-	n/a
Cash flows						
Cash flow from/(for) operating activities	2,597	(1,484)	n/a	(709)	241	n/a
Cash flow from/(for) investing activities	(281)	254	n/a	(263)	(65)	n/a
Cash flow from/(for) financing activities and shareholder transactions	(1,549)	(405)	26.1	(503)	(327)	65.0

Key management personnel

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

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Item (€000)	Year ended 31 December 2018	Year ended 31 December 2017
Remuneration to be paid in short/medium term	13,127	11,577
Post-employment benefits	532	463
Other benefits to be paid in longer term	1,223	7
Termination benefits	2,075	6,979
Share-based payments	2,840	2,034
Total	**19,797**	**21,060**

REMUNERATION OF STATUTORY AUDITORS

Name (€000)	Year ended 31 December 2018	Year ended 31 December 2017
Remuneration	1,268	1,350
Expenses	52	44
Total	**1,320**	**1,394**

The remuneration paid to members of the Parent Company's Supervisory Board amounts to approximately €58 thousand at 31 December 2018. In determining the remuneration, the amounts paid to managers of Poste Italiane who are members of the Supervisory Board are not taken into account, as this remuneration is passed on to the employer.

In determining the remuneration, the amounts paid to managers of Poste Italiane who are members of the Supervisory Board is not taken into account, as this remuneration is passed on to the employer.

No loans were granted to key management personnel during the year ended, at 31 December 2018, Group companies do not report receivables in respect of loans granted to key management personnel.

Transactions with staff pension funds

The Parent Company and the subsidiaries that apply the National Collective Labour Agreement are members of the Fondoposte Pension Fund, the national supplementary pension fund for Poste Italiane personnel, established on 31 July 2002 as a non-profit entity. The Fund's officers and boards are the General Meeting of delegates, the Board of Directors, the Chairman and Deputy Chairman of the Board of Directors and Board of Statutory Auditors. Representation of members on the above boards is shared equally between the companies and the workers that are members of the Fund. The participation of members in the running of the Fund is guaranteed by the fact that they directly elect the delegates to send to the General Meeting.

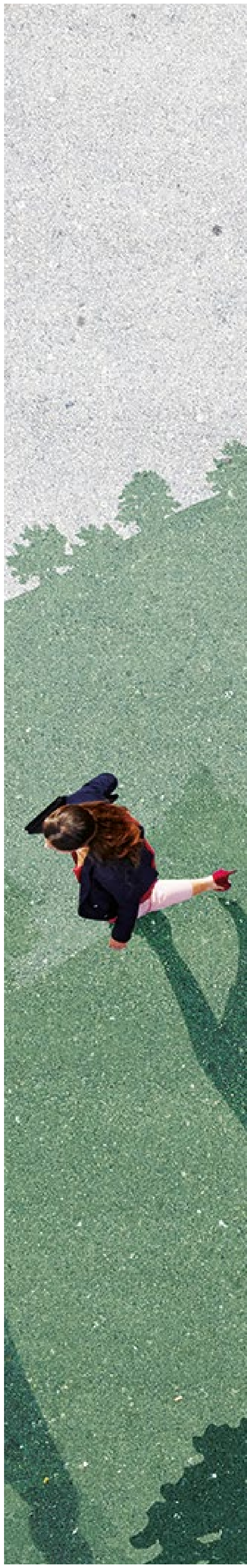
Other related party disclosures

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

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

Poste Italiane Financial Statements
for the year ended 31 December 2018

6. POSTE ITALIANE SPA FOR THE YEAR ENDED 31 DECEMBER 2018



6. Poste Italiane SpA for the year ended 31 December 2018

6.1 Financial statements

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER

Assets (€)	Note	2018	*of which, related party transactions*	2017	*of which, related party transactions*
Non-current assets					
Property, plant and equipment	[A1]	1,835,085,847	-	1,911,937,903	-
Investment property	[A2]	47,574,867	-	52,173,862	-
Intangible assets	[A3]	448,088,183	-	384,738,633	-
Investments	[A4]	2,197,594,888	2,197,594,888	2,080,824,271	2,080,824,271
Financial assets attributable to BancoPosta	[A5]	51,543,254,591	4,526,820,159	49,388,349,082	2,484,460,998
Financial assets	[A6]	814,445,003	278,590,031	834,206,663	278,545,033
Trade receivables	[A7]	5,636,510	-	4,819,596	-
Deferred tax assets	[C12]	862,844,852	-	762,428,461	-
Other receivables and assets	[A8]	1,288,241,050	1,465,574	1,147,810,617	1,465,574
Total		**59,042,765,791**		**56,567,289,088**	
Current assets					
Trade receivables	[A7]	2,255,638,007	1,048,869,525	2,014,316,006	969,785,580
Current tax assets	[C12]	88,209,983	-	76,514,929	-
Other receivables and assets	[A8]	865,889,249	31,862,570	893,895,395	8,206,579
Financial assets attributable to BancoPosta	[A5]	12,319,498,283	6,157,734,608	10,659,169,756	6,011,557,495
Financial assets	[A6]	168,104,149	130,884,144	362,812,795	316,214,465
Cash and deposits attributable to BancoPosta	[A9]	3,318,398,871	-	3,196,090,710	-
Cash and cash equivalents	[A10]	2,127,300,260	1,306,085,900	2,038,504,143	385,342,934
Total		**21,143,038,802**		**19,241,303,734**	
Non-current assets held for sale		**1,100**	**-**	**-**	**-**
Total assets		**80,185,805,693**		**75,808,592,822**	

Liabilities and equity (€)	Note	2018	*of which, related party transactions*	2017	*of which, related party transactions*
Equity					
Share capital	[B1]	1,306,110,000	-	1,306,110,000	-
Reserves	[B2]	1,545,714,349	-	1,431,627,440	-
Retained earnings		2,606,922,919	-	2,774,352,906	-
Total		**5,458,747,268**		**5,512,090,346**	
Non-current liabilities					
Provisions for risks and charges	[B4]	607,844,228	58,301,383	668,025,648	58,061,136
Employee termination benefits	[B5]	1,158,106,279	-	1,244,371,225	-
Financial liabilities attributable to BancoPosta	[B6]	7,375,813,984	20,101,464	4,010,248,264	-
Financial liabilities	[B7]	77,034,598	-	285,458,970	-
Deferred tax liabilities	[C12]	376,216,879	-	315,083,329	-
Other liabilities	[B9]	1,342,776,666	6,035,435	1,182,435,445	6,839,319
Total		**10,937,792,634**		**7,705,622,881**	
Current liabilities					
Provisions for risks and charges	[B4]	823,220,052	12,399,743	870,369,401	12,872,791
Trade payables	[B8]	1,488,112,389	387,167,971	1,210,582,606	396,805,756
Current tax liabilities	[C12]	5,548,039	-	4,646,411	-
Other liabilities	[B9]	1,771,013,379	276,231,265	1,593,498,699	98,743,272
Financial liabilities attributable to BancoPosta	[B6]	59,382,968,337	8,903,501,544	57,842,702,028	4,191,469,190
Financial liabilities	[B7]	318,403,595	112,130,122	1,069,080,450	101,772,823
Total		**63,789,265,791**		**62,590,879,595**	
Total liabilities and equity		**80,185,805,693**		**75,808,592,822**	

STATEMENT OF FINANCIAL POSITION (CONTINUED)

SUPPLEMENTARY STATEMENT SHOWING BANCOPOSTA RFC AT 31 DECEMBER 2018

Assets (€)	Note	Capital outside the ring-fence	BancoPosta RFC	Adjustments	Total
Non-current assets					
Property, plant and equipment		1,835,085,847	-	-	1,835,085,847
Investment property		47,574,867	-	-	47,574,867
Intangible assets		448,088,183	-	-	448,088,183
Investments		2,197,594,888	-	-	2,197,594,888
Financial assets attributable to BancoPosta	[A5]	-	51,543,254,591	-	51,543,254,591
Financial assets		814,445,003	-	-	814,445,003
Trade receivables		5,636,510	-	-	5,636,510
Deferred tax assets	[C12]	355,920,150	506,924,702	-	862,844,852
Other receivables and assets	[A8]	89,767,184	1,198,473,866	-	1,288,241,050
Total		**5,794,112,632**	**53,248,653,159**	**-**	**59,042,765,791**
Current assets					
Trade receivables	[A7]	1,364,913,372	890,724,635	-	2,255,638,007
Current tax assets		88,209,983	-	-	88,209,983
Other receivables and assets	[A8]	322,000,531	543,888,718	-	865,889,249
Financial assets attributable to BancoPosta	[A5]	-	12,319,498,283	-	12,319,498,283
Financial assets		168,104,149	-	-	168,104,149
Cash and deposits attributable to BancoPosta	[A9]	-	3,318,398,871	-	3,318,398,871
Cash and cash equivalents	[A10]	809,105,752	1,318,194,508	-	2,127,300,260
Total		**2,752,333,787**	**18,390,705,015**	**-**	**21,143,038,802**
Non-current assets held for sale		**1,100**	**-**	**-**	**1,100**
Intersegment relations net amount		**(356,676,897)**	**-**	**356,676,897**	**-**
Total assets		**8,189,770,622**	**71,639,358,174**	**356,676,897**	**80,185,805,693**

Liabilities and equity (€)	Note	Capital outside the ring-fence	BancoPosta RFC	Adjustments	Total
Equity					
Share capital		1,306,110,000	-	-	1,306,110,000
Reserves	[B2]	318,855,702	1,226,858,647	-	1,545,714,349
Retained earnings		955,113,892	1,651,809,027	-	2,606,922,919
Total		**2,580,079,594**	**2,878,667,674**	**-**	**5,458,747,268**
Non-current liabilities					
Provisions for risks and charges	[B4]	190,877,886	416,966,342	-	607,844,228
Employee termination benefits	[B5]	1,154,793,669	3,312,610	-	1,158,106,279
Financial liabilities attributable to BancoPosta	[B6]	-	7,375,813,984	-	7,375,813,984
Financial liabilities		77,034,598	-	-	77,034,598
Deferred tax liabilities	[C12]	4,165,110	372,051,769	-	376,216,879
Other liabilities	[B9]	68,114,916	1,274,661,750	-	1,342,776,666
Total		**1,494,986,179**	**9,442,806,455**	**-**	**10,937,792,634**
Current liabilities					
Provisions for risks and charges	[B4]	728,930,480	94,289,572	-	823,220,052
Trade payables	[B8]	1,329,467,833	158,644,556	-	1,488,112,389
Current tax liabilities		5,548,039	-	-	5,548,039
Other liabilities	[B9]	1,732,354,902	38,658,477	-	1,771,013,379
Financial liabilities attributable to BancoPosta	[B6]	-	59,382,968,337	-	59,382,968,337
Financial liabilities		318,403,595	-	-	318,403,595
Total		**4,114,704,849**	**59,674,560,942**	**-**	**63,789,265,791**
Intersegment relations net amount		**-**	**(356,676,897)**	**356,676,897**	**-**
Total liabilities and equity		**8,189,770,622**	**71,639,358,174**	**356,676,897**	**80,185,805,693**

STATEMENT OF FINANCIAL POSITION (CONTINUED)

SUPPLEMENTARY STATEMENT SHOWING BANCOPOSTA RFC AT 31 DECEMBER 2017

Assets (€)	Note	Capital outside the ring-fence	BancoPosta RFC	Adjustments	Total
Non-current assets					
Property, plant and equipment		1,911,937,903	-	-	1,911,937,903
Investment property		52,173,862	-	-	52,173,862
Intangible assets		384,738,633	-	-	384,738,633
Investments		2,080,824,271	-	-	2,080,824,271
Financial assets attributable to BancoPosta	[A5]	-	49,388,349,082	-	49,388,349,082
Financial assets		834,206,663	-	-	834,206,663
Trade receivables		4,819,596	-	-	4,819,596
Deferred tax assets	[C12]	356,756,674	405,671,787	-	762,428,461
Other receivables and assets	[A8]	107,821,075	1,039,989,542	-	1,147,810,617
Total		**5,733,278,677**	**50,834,010,411**	**-**	**56,567,289,088**
Current assets					
Trade receivables	[A7]	1,225,248,317	789,067,689	-	2,014,316,006
Current tax assets		76,514,929	-	-	76,514,929
Other receivables and assets	[A8]	286,712,412	607,182,983	-	893,895,395
Financial assets attributable to BancoPosta	[A5]	-	10,659,169,756	-	10,659,169,756
Financial assets		362,812,795	-	-	362,812,795
Cash and deposits attributable to BancoPosta	[A9]	-	3,196,090,710	-	3,196,090,710
Cash and cash equivalents	[A10]	1,647,069,987	391,434,156	-	2,038,504,143
Total		**3,598,358,440**	**15,642,945,294**	**-**	**19,241,303,734**
Non-current assets held for sale		**-**	**-**	**-**	**-**
Intersegment relations net amount		**(246,597,739)**	**-**	**246,597,739**	**-**
Total assets		**9,085,039,378**	**66,476,955,705**	**246,597,739**	**75,808,592,822**

Liabilities and equity (€)	Note	Capital outside the ring-fence	BancoPosta RFC	Adjustments	Total
Equity					
Share capital		1,306,110,000	-	-	1,306,110,000
Reserves	[B2]	314,288,161	1,117,339,279	-	1,431,627,440
Retained earnings		1,132,771,446	1,641,581,460	-	2,774,352,906
Total		**2,753,169,607**	**2,758,920,739**	**-**	**5,512,090,346**
Non-current liabilities					
Provisions for risks and charges	[B4]	217,857,055	450,168,593	-	668,025,648
Employee termination benefits	[B5]	1,227,833,121	16,538,104	-	1,244,371,225
Financial liabilities attributable to BancoPosta	[B6]	-	4,010,248,264	-	4,010,248,264
Financial liabilities		285,458,970	-	-	285,458,970
Deferred tax liabilities	[C12]	7,138,359	307,944,970	-	315,083,329
Other liabilities	[B9]	67,086,975	1,115,348,470	-	1,182,435,445
Total		**1,805,374,480**	**5,900,248,401**	**-**	**7,705,622,881**
Current liabilities					
Provisions for risks and charges	[B4]	777,162,208	93,207,193	-	870,369,401
Trade payables	[B8]	1,147,321,447	63,261,159	-	1,210,582,606
Current tax liabilities		4,646,411	-	-	4,646,411
Other liabilities	[B9]	1,528,284,775	65,213,924	-	1,593,498,699
Financial liabilities attributable to BancoPosta	[B6]	-	57,842,702,028	-	57,842,702,028
Financial liabilities		1,069,080,450	-	-	1,069,080,450
Total		**4,526,495,291**	**58,064,384,304**	**-**	**62,590,879,595**
Intersegment relations net amount		**-**	**(246,597,739)**	**246,597,739**	**-**
Total liabilities and equity		**9,085,039,378**	**66,476,955,705**	**246,597,739**	**75,808,592,822**

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER

(€)	Note	2018	*of which, related party transactions*	2017	*of which, related party transactions*
Revenue from sales and services	[C1]	8,418,637,346	3,221,472,952	8,060,292,717	2,844,220,110
Other income from financial activities	[C2]	418,410,968	-	645,722,411	-
of which non-recurring income		-	-	*91,265,681*	-
Other operating income	[C3]	452,027,254	394,007,364	584,162,127	535,510,396
of which non-recurring income		*116,400,000*	-	*13,724,680*	-
Total revenue		**9,289,075,568**		**9,290,177,255**	
Cost of goods and services	[C4]	1,725,383,442	584,671,424	1,665,585,335	614,207,444
Expenses from financial activities	[C5]	50,289,658	7,168,015	40,429,235	3,241,443
Personnel expenses	[C6]	5,946,572,100	47,829,321	5,877,139,431	40,386,709
Depreciation, amortisation and impairments	[C7]	473,835,028	-	480,482,332	-
Capitalised costs and expenses		(12,479,459)	-	(12,220,140)	-
Other operating costs	[C8]	305,942,657	6,150,031	429,639,359	13,196,277
Impairment loss/(reversal) on debt instruments, receivables and other assets	[C9]	21,563,259	(3,211,838)	29,486,404	1,664,932
Operating profit/(loss)		**777,968,883**		**779,635,299**	
Finance costs	[C10]	69,963,475	356,260	67,463,489	793,778
Finance income	[C10]	44,290,759	29,389,665	42,999,301	14,006,202
of which non-recurring costs		-	-	*2,570,648*	-
Impairment loss/(reversal) on financial instruments	[C11]	19,878,102	19,885,407	82,279,608	-
of which non-recurring costs		-		*82,067,306*	-
Profit/(Loss) before tax		**732,418,065**		**672,891,503**	
Income tax for the year	[C12]	148,651,799	-	55,926,464	-
of which, non-recurring expense/(income)		-		*(8,634,273)*	-
Net profit for the year		**583,766,266**		**616,965,039**	

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER

(€)	Note	2018	2017
Net profit/(Loss) for the year		**583,766,266**	**616,965,039**
Items to be reclassified in the Statement of profit or loss for the year			
FVOCI debt instruments			
Increase/(decrease) in fair value during the year	[tab. B3]	(1,897,523,762)	(313,350,744)
Transfers to profit or loss		(384,662,933)	(665,615,256)
Increase/(Decrease) for expected credit loss		(769,501)	-
Cash flow hedges			
Increase/(decrease) in fair value during the year	[tab. B3]	191,444,411	(56,619,724)
Transfers to profit or loss		19,285,494	(4,419,347)
Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the year		591,321,895	283,203,836
Items not to be reclassified in the Statement of profit or loss for the year			
FVOCI equity instruments			
Increase/(decrease) in fair value during the year		-	-
Transfers to equity		105,354	-
Actuarial gains/(losses) on provisions for employee termination benefits	[tab. B5]	16,402,715	(1,605,572)
Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year		(4,674,568)	445,520
Total other components of comprehensive income		**(1,469,070,895)**	**(757,961,287)**
Total comprehensive income for the year		**(885,304,629)**	**(140,996,248)**

STATEMENT OF CHANGES IN EQUITY

	Equity							
	Share capital	Reserve					Retained earnings/ (Accumulated losses)	Total
(€)		Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Merger surplus		
Balance at 1 January 2017	**1,306,110,000**	**299,234,320**	**1,000,000,000**	**904,655,507**	**(17,745,553)**	**-**	**2,667,930,819**	**6,160,185,093**
Total comprehensive income for the year	-	-	-	(713,275,172)	(43,526,063)	-	615,804,987	(140,996,248)
Dividends paid	-	-	-	-	-	-	(509,382,900)	(509,382,900)
Merger	-	-	-	-	-	2,284,401	-	2,284,401
Balance at 31 December 2017	**1,306,110,000**	**299,234,320**	**1,000,000,000**	**191,380,335**	**(61,271,616)**	**2,284,401**	**2,774,352,906**	**5,512,090,346**
of which attributable to BancoPosta RFC	-	-	*1,000,000,000*	*179,388,940*	*(62,049,661)*	-	*1,641,581,460*	*2,758,920,739*
Adjustments due to adoption of IFRS 9 and IFRS 15	**-**	**-**	**-**	**1,372,368,242**	**-**	**-**	**(4,463,554)**	**1,367,904,688**
Reclassifications of financial instruments	-	-	-	1,906,792,810	-	-	16,439,408	1,923,232,218
Adjustments	-	-	-	14,094,323	-	-	(27,548,740)	(13,454,417)
Tax effects	-	-	-	(548,518,891)	-	-	6,645,778	(541,873,113)
Balance at 1 January 2018 including IFRS 9 and IFRS 15 effects	**1,306,110,000**	**299,234,320**	**1,000,000,000**	**1,563,748,577**	**(61,271,616)**	**2,284,401**	**2,769,889,352**	**6,879,995,034**
of which attributable to BancoPosta RFC	-	-	*1,000,000,000*	*1,551,539,112*	*(62,049,661)*	-	*1,639,507,764*	*4,128,997,215*
Total comprehensive income for the year	-	-	-	(1,631,547,110)	150,642,714	-	595,599,767*	(885,304,629)
Dividends paid	-	-	-	-	-	-	(548,566,200)	(548,566,200)
Merger	-	-	-	-	-	12,623,063	-	12,623,063
Injection of fresh capital into BancoPosta RFC	-	-	210,000,000	-	-	-	(210,000,000)	-
Balance at 31 December 2018	**1,306,110,000**	**299,234,320**	**1,210,000,000**	**(67,798,533)**	**89,371,098**	**14,907,464**	**2,606,922,919**	**5,458,747,268**
of which attributable to BancoPosta RFC	-	-	*1,210,000,000*	*(71,408,519)*	*88,267,166*	-	*1,651,809,027*	*2,878,667,674*

* This item includes net profit for the year of €584 million and actuarial losses on provisions for employee termination benefits of €16 million after the related taxation of €4 million.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER

(€000)	Note	2018	2017
Cash and cash equivalents at beginning of year		**2,038,504**	**2,715,199**
Effect of first-time adoption of IFRS 9		**(7)**	**-**
Cash and cash equivalents at beginning of year		**2,038,497**	**2,715,199**
Profit/(Loss) before tax		732,418	672,891
Depreciation, amortisation and impairments	[tab. C7]	473,835	480,483
Impairments/(Reversals of impairments) of investments	[tab. A4.1]	121,156	21,821
Net provisions for risks and charges	[tab. B4]	563,971	736,659
Use of provisions for risks and charges	[tab. B4]	(669,368)	(607,140)
Employee termination benefits paid	[tab. B5]	(88,652)	(94,256)
(Gains)/losses on disposals	[tab. C3.2]	(115,563)	(15,476)
Impairment losses/(Reversals of impairment losses) on financial assets		19,867	-
(Dividends)		(16,981)	(7,748)
Dividends received		16,981	7,748
(Finance income on disposals)	[tab. C10.1]	-	(3,816)
(Finance income in form of interest)	[tab. C10.1]	(23,061)	(20,338)
Interest received		20,466	26,072
Interest expense and other finance costs	[tab. C10.2]	65,732	55,235
Impairment loss on Contingent Convertible Notes	[tab. C10.2]	-	82,132
Interest paid		(59,378)	(33,708)
Losses and impairment losses/(Reversals of impairment losses) on receivables	[tab. C9]	20,649	29,487
Income tax paid	[tab. C12.3]	(268,048)	(400,524)
Cash generated by operating activities before movements in working capital	**[a]**	**794,024**	**929,522**
Movements in working capital:			
(Increase)/decrease in Trade receivables		(216,303)	68,571
(Increase)/decrease in Other receivables and assets		144,191	252,794
Increase/(decrease) in Trade payables		286,399	(208,179)
Increase/(decrease) in Other liabilities		137,009	34,427
Cash generated by/(used in) movements in working capital	**[b]**	**351,296**	**147,613**
Increase/(decrease) in financial liabilities attributable to BancoPosta		4,722,213	3,324,390
Net cash generated by/(used for) financial assets		(1,771,796)	(2,605,125)
(Increase)/decrease in other financial assets attributable to BancoPosta		(935,205)	314,441
(Increase)/decrease in cash and deposits attributable to BancoPosta		(122,308)	(701,940)
(Income)/Expenses and other non-cash components attributable to financial activities		(1,063,845)	(1,404,203)
Cash generated by/(used for) financial assets and liabilities attributable to BancoPosta	**[c]**	**829,059**	**(1,072,437)**
Net cash flow from/(for) operating activities	**[d]= [a+b+c]**	**1,974,379**	**4,698**
- of which related party transactions		*2,607,150*	*723,071*

(€000)	Note	2018	2017
Investing activities:			
Property, plant and equipment	[tab. A1]	(215,798)	(208,088)
Investment property	[tab. A2]	(430)	(586)
Intangible assets	[tab. A3]	(242,345)	(192,681)
Investments		(242,344)	(227,780)
Other financial assets		(11,432)	(2,133)
Postecom merger		-	5,851
Disposals:			
Property, plant and equipment, investment property and assets held for sale		2,129	135,315
Investments		120,000	-
Other financial assets		187,269	309,995
Mergers	[e]	4,140	-
Net cash flow from/(for) investing activities		**(398,811)**	**(180,107)**
- of which related party transactions		*130,415*	*183,287*
(Increase)/decrease in loans and receivables		-	1,031
Increase/(decrease) in short-term borrowings		(938,200)	7,066
Dividends paid	[B1]	(548,565)	(509,383)
Net cash flow from/(for) financing activities and shareholder transactions	**[f]**	**(1,486,765)**	**(501,286)**
- of which related party transactions		*(408,638)*	*(327,533)*
Net increase/(decrease) in cash	**[g]= [d+e+f]**	**88,803**	**(676,695)**
Cash and cash equivalents at end of year	**[tab. A10]**	**2,127,300**	**2,038,504**
Cash and cash equivalents at end of year	**[tab. A10]**	**2,127,300**	**2,038,504**
Cash subject to investment restrictions		(930,168)	-
Restricted deposits with the Italian Treasury		(71,654)	(55,506)
Amounts that cannot be drawn on due to court rulings		(17,910)	(14,782)
Unrestricted net cash and cash equivalents at end of year		**1,107,568**	**1,968,216**

6.2 Information on BancoPosta RFC

As required by art. 2, paragraphs 17-octies et seq. of Law 10 of 26 February 2011, converting Law Decree 225 of 29 December 2010, in order to identify ring-fenced capital for the purposes of applying the Bank of Italy's prudential requirements to BancoPosta's operations and for the protection of creditors, at the General Meeting held on 14 April 2011 Poste Italiane SpA's shareholder approved the creation of ring-fenced capital to be used exclusively in relation to BancoPosta's operations (BancoPosta Ring-fenced Capital or BancoPosta RFC), as governed by Presidential Decree 144 of 14 March 2001, and established the assets and contractual rights to be included in the ring-fence as well as *By-laws* governing its organisation, management and control. BancoPosta RFC was provided originally with an initial reserve of €1 billion through the attribution of Poste Italiane SpA's retained earnings. The resolution of 14 April 2011 became effective on 2 May 2011, the date on which it was filed with the Companies' Register. Following on from the Board of Directors' resolution of 25 January 2018 and the subsequent Extraordinary General Meeting of Poste Italiane SpA's shareholders, on 27 September 2018, Poste Italiane injected €210 million of fresh capital of into BancoPosta RFC.

The separation of BancoPosta from Poste Italiane SpA is only partly comparable to other ring-fenced capital solutions. Indeed, BancoPosta is not expected to meet the requirements of articles 2447 *bis et seq*. of the Italian Civil Code or for other special purpose entities, in that it has not been established for a single specific business but rather, pursuant to Presidential Decree 144 of 14 March 2001, for several types of financial activities to be regularly carried out for an unlimited period of time. For this reason, the above legislation does not impose the 10% limit on BancoPosta's equity, waiving the provisions of the Italian Civil Code unless expressly cited as applicable.

Nature of assets and contractual rights and authorisations

BancoPosta's assets, contractual rights and authorisations pursuant to notarial deed were conferred on BancoPosta RFC exclusively by Poste Italiane SpA without third-party contributions. BancoPosta's operations consist of those listed in Presidential Decree 144 of 14 March 2001, as amended[89], with the exception of activities linked to card payments and payment services, now carried out by the subsidiary, PostePay SpA. More details on this aspect are provided below:

- the collection of all forms of savings deposit from the public in accordance with art. 11, para. 1 of Legislative Decree 385/1993 of 1 September 1993 - Consolidated Banking Law (*Testo Unico Bancario*, or *TUB*) - and all related and consequent activities;
- the collection of savings through postal securities and deposits;
- payment services, including the issuance, administration and sale of prepaid cards and other payment instruments pursuant to art. 1, para. 2, letter f) numbers 4) and 5), TUB;
- foreign currency exchange services;
- promotion and arrangement of loans issued by approved banks and financial brokers;
- investment and related services pursuant to art. 12, Presidential Decree 144/2001;
- debt collection services;
- professional gold trading, on own behalf or on behalf of third parties, in accordance with the requirements of Law 7 of 17 January 2000.

All of the assets and rights arising out of various contracts, agreements and legal transactions related to the above activities have also been conferred on BancoPosta RFC.

On 25 January 2018, Poste Italiane SpA's Board of Directors approved the removal from BancoPosta RFC's ring-fence of the assets, liabilities and contractual rights attributable to the card payments and payment services business unit and their subsequent transfer to the subsidiary, PosteMobile SpA, in order to enable the latter to operate as a hybrid electronic money institution ("EMI"). Following the receipt of clearance from the Bank of Italy on 24 April 2018, the Extraordinary General Meeting of Poste Italiane's shareholders held on 29 May 2018 approved the proposed removal of the assets,

89. As revised on the issuance of Law Decree 179 of 18 October 2012 converted into law with amendments by Law 221 of 17 December 2012.

liabilities and contractual rights attributable to the card payments and payment services business unit from the ring-fence that applies to BancoPosta RFC. From 1 October 2018, Poste Mobile assumed its new name of "PostePay SpA" and began operating as an intermediary specialising in mobile and digital payments[90].

BancoPosta RFC's operations

BancoPosta RFC's operations consist of the investment of cash held in postal current accounts, in the name of BancoPosta but subject to statutory restrictions, and the management of third parties' collections and remittances. This latter activity includes the collection of postal savings (Postal Savings Books and Interest-bearing Postal Certificates), carried out on behalf of Cassa depositi e prestiti and the MEF, and services delegated by Public Administration entities. These transactions involve the use of cash advances from the Italian Treasury and the recognition of financial items awaiting settlement. The specific agreement with the MEF requires BancoPosta to provide daily statements of all cash flows, with a delay of two bank working days with respect to the transaction date.

In compliance with the 2007 Budget Law, from 2007 the Company is required to invest the funds raised from deposits paid into postal current accounts by private customers in euro area government securities[91]. Funds deposited by Public Administration entities are, instead, deposited with the Ministry of the Economy and Finance and earn a variable rate of return linked to a basket of government securities and money market indices, in accordance with a specific agreement with the MEF regarding treasury services, renewed on 2 October 2017 and covering the two-year period 2017-2018. In addition, under the agreement with the MEF, renewed on 16 November 2017 for the three-year period 2017-2019, a percentage of the funds deriving from private customer deposits may be placed in a special "Buffer" account at the MEF, with the objective of ensuring flexibility with regard to investments in view of daily movements in amounts payable to current account holders. These deposits are remunerated at a variable rate calculated on the basis of the Euro OverNight Index Average (EONIA)[92] rate.

Cost and revenue allocation and measurement of operations contracted out by BancoPosta RFC

Given the fact that Poste Italiane is a single legal entity, the Company's general accounting system maintains its uniform characteristics and capabilities. In this context, the general principles governing administrative and accounting aspects of BancoPosta RFC are as follows:

- identification of transactions in Poste Italiane SpA's general ledgers relating to BancoPosta's ring-fenced operations which are then extracted for recording in BancoPosta's separate ledgers;
- allocation to BancoPosta of all relevant revenues and costs. In particular the services rendered by the different functions of Poste Italiane SpA to BancoPosta RFC, are exclusively recorded as payables in BancoPosta's separate books, in special intersegment accounts only, and subsequently settled;
- settlement of all incoming and outgoing third party payments by Poste Italiane SpA's Chief Financial Officer;
- allocation of income taxes based on BancoPosta's separate income statement after adjusting for deferred taxation;
- reconciliation of BancoPosta's separate books to Poste Italiane's general ledger.

90. The business unit consists of assets and contractual rights linked to:
   - *Own products*: prepaid cards (card payments), payment services, acquiring services, tax payments using forms F23/F24 and international money transfers (Moneygram) forming part of the operations carried out independently by the EMI. In particular, these products are issued by the EMI, which is responsible for their conception, development and management, whilst BancoPosta RFC acts as distributor of the products through the Group's physical distribution network.
   - *Products handled under service agreements*: payment products and services and money transfers carried out exclusively within the scope of BancoPosta RFC's operations, as they are "reserved to" the ring-fence by Presidential Decree 144/01. In particular, with the aim of leveraging the infrastructure of the newly created hybrid EMI, BancoPosta has outsourced operations relating to payment products and services issued by BancoPosta, and distributed by BancoPosta through Poste Italiane's physical network, to the EMI under an outsourcing agreement between BancoPosta and the EMI.
91. In addition, following the amendment of art. 1, paragraph 1097 of Law 296 of 27 December 2006, introduced by art. 1, paragraph 285 of the 2015 Stability Law (Law 190 of 23 December 2014), it became possible for BancoPosta RFC to invest up to 50% of its deposits in securities guaranteed by the Italian government.
92. The rate applied in overnight lending and calculated as the weighted average of overnight rates for transactions on the interbank market reported to ECB by a panel of banks operating in the euro zone (the biggest banks in all the euro zone countries).

Part IV of Chapter 1 of the Supervisory Standards in Bank of Italy Circular 285/2013, addressing specific aspects relating to Poste Italiane in respect of BancoPosta RFC's operations, govern the process of contracting out BancoPosta's corporate functions to Poste Italiane, whilst the outsourcing of operations to entities external to Poste Italiane is covered by the regulations applicable to banks.

In compliance with the Circular, the General Guidelines approved by the Board of Directors[93] these services are in turn classified as essential and non-essential control and operating functions.

BancoPosta RFC may therefore both outsource operating activities, entering into agreements with third parties, and contract out certain operating or control activities to Poste Italiane functions, agreeing "Specific Operating Guidelines" with the heads of the various functions. The Operating Guidelines establish, among other things, the applicable levels of service and transfer prices and are effective following an authorisation process involving the relevant functions, the Chief Executive Officer and, where required, the Company's Board of Directors. The transfer prices set out in the Operating Guidelines are determined according to objective criteria that reflect the real contribution of the various functions to BancoPosta RFC's results. In this regard, the transfer prices paid, inclusive of commissions and any other form of remuneration due, are determined on the basis of market prices and tariffs for the same or similar services, identified, where possible, following a benchmarking process. When the specifics and/or the particular nature of a service provided by one of the Issuer's functions do not allow the use of a comparable market price, a cost-based method is used, again with the support of benchmarking to ensure that the price charged is adequate for the service provided. The prices set in each Operating Guidelines can be reduced in the presence of operating losses of the activities outsourced or in case of penalties due to the failure to achieve pre-established service levels, as measured by specific performance indicators. The Operating Guidelines for 2017-2018, which were due to expire originally on 31 December 2018, have been amended and updated following organisational changes and the corporate actions carried out in 2018 that entailed a significant impact on BancoPosta RFC in terms of reassessment of the scope of its activities. The new Operating Guidelines took effect on 1 October 2018 and will expire on 31 December 2020.

The following table includes a summary of the services provided to BancoPosta RFC by the Issuer's functions, with a brief indication of how the transfer prices are determined.

Function	Allocation key
Post Office Network	Percentage of net revenue generated by product/service category
Information Technology	Fixed component: recharge of costs based on direct and indirect drivers Variable component: determined with reference to the maintenance of operating performance
Back-office* and Customer Care	Fees by professional role based on market benchmarks + recharge of external costs Market prices for similar services
Mail and Logistics Services	Prices for mail sent to customers and internal mail
Real Estate	Market prices with reference to floor space and maintenance costs
Investment Governance	Fees by professional role based on market benchmarks + recharge of external costs
Legal Affairs	
Security, Safety and Fraud Management	
Human Resources, Organisation and Services	
External Relations	
Chief Financial Office	Fees by professional role based on market benchmarks
Purchasing	
Internal Auditing	
Anti-money Laundering*	
Compliance	

* New Operating Guidelines effective from 1 October 2018.

Essential operating functions   Control functions

93. The Guidelines were revised on 28 June 2018 and 31 January 2019.

The relevant transactions, profit and loss and balance sheet amounts, generated by these relationships are only recorded in BancoPosta RFC's Separate Report. In Poste Italiane SpA's comprehensive accounts intersegment transactions are on the other hand eliminated, and are not presented. The accounting treatment adopted is similar to that provided for by the accounting standards regulating the preparation of the Group's consolidated financial statements.

Obligations

Poste Italiane SpA's liability, pursuant to art. 2, paragraph 17-nonies of Law Decree 225 of 29 December 2010 converted into Law 10, to creditors of BancoPosta RFC is limited to the ring-fenced capital, represented by the assets and contractual rights originally allocated or arisen after the separation. Poste Italiane's liability is, however, unlimited with respect to claims arising from actions in tort relating to the management of BancoPosta or for transactions for which no indication was made that the obligation was taken specifically by BancoPosta RFC.

The Regulation approved at the Extraordinary General Meeting of Poste Italiane SpA's shareholder on 14 April 2011 SpA, and subsequently amended on 31 January 2019, provides that, where necessary, BancoPosta RFC's equity shall be sufficient to ensure that it is able to comply with supervisory capital requirements and is aligned with the risk profile of its operations.

Separate Report

BancoPosta RFC's Separate Report is prepared in application of Bank of Italy Circular 262 of 22 December 2005 - Banks' Financial Statements: Layouts and Preparation, as amended. The application of these regulations, whilst in compliance with the same accounting standards adopted by Poste Italiane SpA, requires the use of a different basis of presentation for certain components of profit or loss and the statement of financial position compared with the basis of presentation adopted for the statutory financial statements.

In this regard, the following table shows a reconciliation of the components of BancoPosta RFC's equity, as shown in the Company's statement of financial position and in the Separate Report[94].

RECONCILIATION OF SEPARATE EQUITY

(€m)

Item in supplementary statement / Item in Separate Report		110 Valuation reserves	140 Reserves	180 Net profit for period
Reserves	1,227	17	1,210	-
BancoPosta RFC reserve	1,210	-	1,210	-
Fair value reserve	(71)	(71)	-	-
Cash flow hedge reserve	88	88	-	-
Retained earnings	1,652	(2)	1,057	597
Net profit for period	1,654	-	1,057	597
Cumulative actuarial gains/(losses) on defined benefit plans	(2)	(2)	-	-
Total	**2,879**	**15**	**2,267**	**597**

Intersegment relations between BancoPosta RFC and the Poste Italiane functions outside the ring-fence are disclosed exclusively in BancoPosta RFC's Separate Report, where they are shown in detail and in full, together with the income and expenses that generated them.

94. Actuarial gains and losses on defined benefit plans, which in the Company's financial statements are accounted for in retained earnings, are accounted for in the valuation reserves in the Separate Report (Item 110 of Liabilities).

Further regulatory aspects

Pursuant to art. 2, paragraph 17-undecies of Law Decree 225 of 29 December 2010[95], which states that "the assets and contractual rights included in BancoPosta's ring-fenced capital shall be shown separately in the Company's statement of financial position", Poste Italiane SpA's statement of financial position includes a "Supplementary statement showing BancoPosta RFC".

On 27 May 2014, the Bank of Italy issued specific Supervisory Standards for BancoPosta RFC, which, in taking into account the entity's specific organisational and operational aspects, has established prudential requirements that are substantially in line with those applicable to banks. These include regulations covering the organisational structure and governance, the system of internal controls and the requirements regarding capital adequacy and risk containment.

Furthermore, BancoPosta RFC's Regulation states that "In view of the absence of non-controlling interests in BancoPosta RFC, on approval of Poste Italiane SpA's financial statements, the General Meeting shall – on the recommendation of the Board of Directors – vote on the appropriation of the Company's profit for the year, and in particular: the share attributable to BancoPosta RFC, as indicated in the Separate Report, taking account of specific regulatory aspects and, above all, the need to comply with prudential capital adequacy requirements (…)".

95. Converted into Law 10 of 26 February 2011.

6.3 Notes to the financial statements

Assets

A1 - Property, plant and equipment (€1,834 million)

Movements in property, plant and equipment are as follows:

TAB. A1 - MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

(€m)	Land	Property used in operations	Plant and machinery	Industrial and commercial equipment	Leasehold improvements	Other assets	Assets under construction and prepayments	Total
Cost	75	2,814	1,963	322	475	1,700	38	7,387
Accumulated depreciation	-	(1,645)	(1,656)	(293)	(281)	(1,521)	-	(5,396)
Accumulated impairment	-	(65)	(3)	(1)	(10)	-	-	(79)
Balance at 1 January 2018	**75**	**1,104**	**304**	**28**	**184**	**179**	**38**	**1,912**
Movements during the year								
Additions	-	29	75	6	32	48	25	215
Reclassifications	-	9	7	1	7	5	(29)	-
Disposals	-	-	-	-	(1)	-	-	(1)
Depreciation	-	(111)	(68)	(9)	(32)	(77)	-	(297)
(Impairments)/Reversal of impairments	-	6	1	-	(1)	-	-	6
Total movements	**-**	**(67)**	**15**	**(2)**	**4**	**(24)**	**(4)**	**(78)**
Cost	75	2,852	1,997	317	510	1,722	34	7,507
Accumulated depreciation	-	(1,756)	(1,677)	(290)	(311)	(1,567)	-	(5,601)
Accumulated impairment	-	(59)	(1)	(1)	(11)	-	-	(72)
Balance at 31 December 2018	**75**	**1,037**	**319**	**26**	**188**	**155**	**34**	**1,834**

None of the above items is attributable to BancoPosta RFC.

At 31 December 2018, property, plant and equipment includes assets located on land held under concession or sub-concession, which are to be handed over free of charge at the end of the concession term, with a carrying amount of €43 million.

The main movements during 2018 are described below:

- €29 million relating to extraordinary maintenance of post offices and local head offices around the country (€19 million) and mail sorting offices (€8 million);
- €75 million relating to plant, of which €29 million for plant and equipment related to buildings, €17 million for the purchase of telecommunications infrastructure, €16 million di euro for the purchase of equipment for use in sorting letters and processing parcels, €9 million for the installation of ATMs (automated teller machine) and €4 million for the installation and extraordinary maintenance of video surveillance systems;
- €32 million invested in the upgrade of plant (€21 million) and the structure (€11 million) of properties held under lease;
- €48 million relating to "Other assets", including €40 million for the purchase of new computer hardware for post offices and head offices and the consolidation of storage systems;

- €25 million relating to assets under construction, of which €10 million regards the restyling of post offices and €10 million the renovation of primary distribution centres. the renovation of primary distribution centres.

Reclassifications from assets under construction, totalling €29 million, relate primarily to the acquisition cost of assets that became available and ready for use during the year. In particular, these assets regard the rollout of hardware held in storage and completion of the process of restyling leased and owned properties.

Reversals of impairment losses are due to revised estimates relating to buildings (property used in operations) and sorting centres, and reflect prudent consideration of the effects on the relevant values in use that might arise as a result of reduced utilisation or future removal from the production cycle (note 2.5 – *Use of estimates*).

A2 - Investment property (€48 million)

Investment property primarily regards former service accommodation owned by Poste Italiane SpA pursuant to Law 560 of 24 December 1993, and residential accommodation previously used by post office directors. None of the property included in this item is attributable to BancoPosta RFC. Movements in investment property are as follows:

TAB. A2 - MOVEMENTS IN INVESTMENT PROPERTY

(€m)	Year ended 31 December 2018
Cost	141
Accumulated depreciation	(88)
Accumulated impairment	(1)
Balance at 1 January	**52**
Movements during the year	
Disposals	(1)
Depreciation	(4)
Total movements	**139**
Cost	(5)
Accumulated depreciation	(91)
Accumulated impairment	-
Carrying amount	**48**
Fair value at 31 December	**101**

The fair value of investment property at 31 December includes approximately €65 million representing the sale price applicable to the Company's former service accommodation in accordance with Law 560 of 24 December 1993, while the remaining balance reflects price estimates computed internally by the Company[96].

Most of the properties included in this category are subject to lease agreements classifiable as operating leases, given that Poste Italiane SpA retains substantially all the risks and rewards of ownership of the properties. Under the relevant agreements, tenants usually have the right to break off the lease with six-month notice. Given the resulting lack of certainty, the expected revenue flows from these leases are not referred to in these notes.

A3 - Intangible assets (€448 million)

The following table shows movements in intangible assets:

TAB. A3 - MOVEMENTS IN INTANGIBLE ASSETS

(€m)	Industrial patents, intellectual property rights, concessions, licences, trademarks and similar rights	Concessions, licences, trademarks and similar rights	Assets under construction and advances	Total
Cost	2,536	2	110	2,648
Accumulated amortisation and impairments	(2,261)	(2)	-	(2,263)
Balance at 1 January 2018	**275**	**-**	**110**	**385**
Movements during the year				
Additions	110	-	132	242
Reclassifications	96	-	(96)	-
Disposals	-	-	(1)	(1)
Amortisation and impairments	(180)	-	-	(180)
Total movements	**26**	**-**	**35**	**61**
Cost	2,743	2	146	2,891
Accumulated amortisation and impairments	(2,441)	(2)	-	(2,443)
Balance at 31 December 2018	**302**	**-**	**146**	**448**

None of the above items is attributable to BancoPosta RFC.

Investment in Intangible assets during 2018 amounts to €242 million, including € 12 million in internal software development costs and the related expenses, primarily relating to personnel expenses (€11 million). Research and development costs, other than those incurred directly to produce identifiable software used, or intended for use, within the Company, are not capitalised.

The increase in **industrial patents and intellectual property rights**, totalling €110 million, before amortisation for the year, relates primarily to the purchase and entry into service of new software programmes following the purchase of software licences.

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

The balance of **intangible assets under construction** includes activities primarily regarding the development of software relating to the infrastructure platform (€55 million), BancoPosta services (€41 million), the provision of support to the sales network (€29 million) and the postal products platform (€13 million).

During the year the Company effected reclassifications from "Intangible assets under construction" to "Industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights", amounting to €96 million, reflecting the completion and commissioning of software and the upgrade of existing software.

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

A4 - Investments (€2,198 million)

This item includes the following:

TAB. A4 - INVESTMENTS

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Investments in subsidiaries	1,705	1,591
Investments in joint ventures	279	279
Investments in associates	214	211
Total	**2,198**	**2,081**

No investments are attributable to BancoPosta RFC.

Movements in investments in subsidiaries, joint ventures and associates are as follows:

TAB. A4.1 - MOVEMENTS IN INVESTMENTS IN THE YEAR ENDED 31 DECEMBER 2018

Investments (€m)	Balance at 1 January 2018	Additions			Reductions		Adjustments		Balance at 31 December 2018
		Subscriptions/ Capital contributions	Acquisitions	Reclass. to non-current assets held for sale	Sales, liquidations, mergers	Reclass. to non-current assets held for sale	Revaluations	(Impairments)	
in subsidiaries									
BancoPosta Fondi SpA SGR	12	-	-	-	(3)	-	-	-	9
CLP ScpA	-	-	-	-	-	-	-	-	-
Consorzio PosteMotori	-	-	-	-	-	-	-	-	-
Cons. per i Servizi di Telefonia Mobile ScpA	-	-	-	-	-	-	-	-	-
EGI SpA	172	-	-	-	-	-	-	(2)	170
Indabox Srl	2	-	-	-	-	-	-	-	2
Mistral Air Srl	-	5	-	-	-	-	-	(4)	1
PatentiViaPoste ScpA	-	-	-	-	-	-	-	-	-
Poste Tributi ScpA (in liquidation)	-	-	-	-	-	-	-	-	-
PosteTutela SpA	1	-	-	-	(1)	-	-	-	-
Poste Vita SpA	1,219	-	-	-	-	-	-	-	1,219
Postel SpA	125	-	-	-	-	-	-	(43)	82
PostePay SpA	60	140	-	-	-	-	-	-	200
Risparmio Holding SpA (in liquidation)	-	-	-	-	-	-	-	-	-
SDA Express Courier SpA	-	67	-	-	-	-	-	(45)	22
Total subsidiaries	**1,591**	**212**	**-**	**-**	**(4)**	**-**	**-**	**(94)**	**1,705**
in joint ventures									
FSIA Investimenti Srl	279	-	-	-	-	-	-	-	279
Total joint ventures	**279**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**279**
in associates									
ItaliaCamp Srl	-	-	-	-	-	-	-	-	-
Anima Holding SpA	211	30	-	-	-	-	-	(27)	214
Conio Inc.	-	-	-	-	-	-	-	-	-
Total associates	**211**	**30**	**-**	**-**	**-**	**-**	**-**	**(27)**	**214**
Total	**2,081**	**242**	**-**	**-**	**(4)**	**-**	**-**	**(121)**	**2,198**

The following movements occurred in 2018

- The injection of capital amounting to €7 million into Mistral Air Srl to cover the losses incurred by the subsidiary through to 31 December 2017 and to establish an extraordinary reserve, as approved by the extraordinary general meeting of the investee company's shareholders on 12 April 2018, partly via the use of other provisions for risks and charges made in 2017 (€2 million).
- The subscription and payment for new shares issued by PosteMobile SpA, amounting to €140 million, via the contribution of the card payments and payment services business unit attributable to BancoPosta RFC, effective for legal, accounting and tax purposes from 1 October 2018. From the same date, PosteMobile SpA changed its name to PostePay SpA.
- The injection of €90 million in fresh capital into SDA Express Courier to cover losses incurred through to 30 June 2018 and to recapitalise the company and to establish an extraordinary reserve, as approved by the extraordinary general meetings of the investee company's shareholders on 30 January and 25 September 2018, partly via the use of other provisions for risks and charges made in 2017 (€23 million).
- The subscription for the new shares issued by Anima Holding, totalling €30 million, as approved by Poste Italiane SpA's Board of Directors on 25 January 2018.
- Completion, on 1 November 2018, following the receipt of clearance from the Bank of Italy, of the partial spin-off of BancoPosta Fondi SpA SGR to Anima SGR and the sale to Anima Holding SpA of shares in Anima SGR issued to Poste Italiane SpA. This transaction generated a net gain of €116 million, recognised as a non-recurring realised gain and accounted for in "Other operating income".
- The merger, on 13 February 2018, of PosteTutela SpA with and into Poste Italiane. The transaction was effective for legal purposes from 1 March 2018, and for accounting and tax purposes from 1 January 2018. The transaction accounted for at historical cost, generated a merger surplus of €13 million, recognised in the appropriate equity reserve.

Corporate actions during 2018, are described in notes 3.1 – *Principal corporate actions*.

The impairment tests required by the related accounting standards have been conducted in order to identify any evidence of impairment. Based on the available projections and the results of the impairment tests carried out[97], impairment losses totalling €121 million[98]. In particular:

- in the case of EGI SpA, an impairment loss of €2 million was recognised, based on the value of equity adjusted for unrealised after-tax gains on the property it owns as the best approximation of value in use, prudently deemed to be a valid indicator of the company's recoverable value;
- in the case of the investments in Mistral Air Srl and SDA Express Courier SpA, on which impairment losses totalling €49 million have been recognised, equity was sued as the closest approximation to value in use, which, under the circumstances, was deemed not to be lower than the companies' recoverable values;
- in the case of the subsidiary, Postel SpA, based on its budget for 2019 and the new business plan for the period 2020-2022, approved by the company's board of directors on 27 February 2019, the carrying amount of the investment was higher than the company's equity value and an impairment loss of €43 million has been recognised;
- in the case of the associate, Anima Holding SpA, the recoverable value of the investment, identified on the basis of value in use and determined on the basis of the latest available projections, was lower than the carrying amount and an impairment loss of €27 million has been recognised[99].

Poste Italiane SpA has committed to providing financial support to the subsidiaries, SDA Express Courier SpA and Mistral Air Srl, for 2019 and Poste Tributi ScpA throughout its liquidation.

97. The method applied and the criteria used in conducting impairment tests at 31 December 2018, are described in note 2.5 – *Use of estimates*, with regard to the impairment testing of cash generating units and investments.
98. Impairment losses on investments in subsidiaries amount to €94 million and have been recognised in "Other operating costs" (tab. C8), whilst the impairment loss on the investment in Anima Holding SpA, totalling €27 million, has been recognised in "Finance costs" (tab. C10.2).
99. Value in use was determined using a cost of equity (Ke) of 8.51% (7.24% at 31 December 2017) and a growth rate of 1.475% (1.4% at 31 December 2017).

The following table shows a list of investments in subsidiaries, joint ventures and associates at 31 December 2018:

TAB. A4.2 - LIST OF INVESTMENTS

Name (€000)	% interest	Share capital*	Net profit/ (loss) for the year	Carrying amount of equity	Share of equity	Carrying amount at 31 December 2018	Difference between equity and carrying amount
subsidiaries							
BancoPosta Fondi SpA SGR	100.00	12,000	22,529	60,709	60,709	8,400	52,309
CLP ScpA	51.00	516	-	738	376	263	113
Consorzio PosteMotori	58.12	120	-	290	169	70	99
Consorzio per i Servizi di Telefonia Mobile ScpA	51.00	120	-	116	59	61	(2)
EGI SpA	55.00	103,200	431	237,674	130,721	169,893	(39,172)
Indabox Srl**	100.00	50	(290)	313	313	1,550	(1,237)
Mistral Air Srl	100.00	1,000	(4,279)	845	845	845	-
PatentiViaPoste ScpA	69.65	120	-	124	86	84	2
Poste Tributi ScpA (in liquidation)**	88.89	2,325	-	(1,785)	(1,587)	-	(1,587)
Poste Vita SpA**	100.00	1,216,608	949,761	3,862,261	3,862,261	1,218,481	2,643,780
Postel SpA	100.00	20,400	(16,141)	83,962	83,962	81,984	1,978
PostePay SpA	100.00	7,561	54,509	243,059	243,059	200,580	42,479
Risparmio Holding SpA (in liquidation)**,***	80.00	50	(55)	1,036	829	323	506
SDA Express Courier SpA	100.00	10,000	(39,711)	22,514	22,514	22,438	76
joint ventures							
FSIA Investimenti Srl****	30.00	20	11,325	930,059	279,018	278,870	148
associates							
ItaliaCamp Srl*****	20.00	10	153	636	127	2	125
Anima Holding SpA******	10.04	7,293	97,379	1,205,344	121,017	213,729	(92,712)
Conio Inc.**,*****	18.48	23	(53)	(66)	(12)	22	(34)

* Consortium fund in the case of consortia. The registered offices of all the companies are located in Rome, with the exception of Anima Holding SpA and FSIA Investimenti Srl, whose registered offices are in Milan, and Conio Inc., whose registered office is in California (USA).

** These amounts have been calculated under IFRS and, therefore, may not be consistent with those included in the investee company's annual financial statements prepared in accordance with the Civil Code and Italian GAAP and, in the case of Conio Inc., in accordance with US GAAP.

*** Figures taken from the company's latest approved interim financial statements at 30 September 2018.

**** Figures taken from the company's interim financial statements at 30 September 2018, as approved by its board of directors, and including measurement of the SIA group using the equity method and recognition of the related effects with regard to Purchase Price Allocation.

***** Figures taken from the company's latest approved financial statements at 31 December 2017.

****** Figures taken from the company's latest interim financial statements at 30 September 2018, as approved by its board of directors.

A5 - Financial assets attributable to BancoPosta (€63,863 million)

TAB. A5 - FINANCIAL ASSETS ATTRIBUTABLE TO BANCOPOSTA

Item (€m)	Note	Balance at 31 December 2018 Non-current assets	Current assets	Total	Balance at 31 December 2017 Non-current assets	Current assets	Total
Financial assets at amortised cost		21,507	9,890	31,397	11,675	8,838	20,513
Financial assets at FVTOCI		29,777	2,263	32,040	37,319	1,821	39,140
Financial assets at fair value through profit or loss		50	8	58	-	-	-
Derivative financial instruments		209	159	368	394	1	395
Total		**51,543**	**12,320**	**63,863**	**49,388**	**10,660**	**60,048**

The operations in question regard the financial services provided by the Company pursuant to Presidential Decree 144/2001, which from 2 May 2011 are attributable to the ring-fenced capital, and which relate to the management of postal current accounts deposits, carried out in the name of BancoPosta but subject to statutory restrictions on the investment of the liquidity in compliance with the applicable legislation, and the management of collections and payments on behalf of third parties (see note 6.2 - *Information on BancoPosta RFC*).

Financial assets measured at amortised cost

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

TAB. A5.1 - MOVEMENTS IN FINANCIAL ASSETS AT AMORTISED COST

Items (€m)	Loans	Receivables	Fixed income instruments		Total	
	Carrying amount	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount
Balance at 31 December 2017	**-**	**7,601**	**12,692**	**12,912**	**12,692**	**20,513**
First-time adoption of IFRS 9	-	(11)	4,821	6,183	4,821	6,172
Balance at 1 January 2018	**-**	**7,590**	**17,513**	**19,095**	**17,513**	**26,685**
Purchases	4,234		6,045	6,304	6,045	10,538
Change in amortised cost	-		-	(75)	-	(75)
Changes in fair value through profit or loss	-		-	342	-	342
Changes in cash flow hedge transactions*	-		-	(1)	-	(1)
Changes in impairment	-		-	(2)	-	(2)
Net changes	-	684	-	-	-	684
Effect of sales on profit or loss	-	-	-	1	-	1
Accrued income for current year	-		-	163	-	163
Sales and settlement of accrued income	(3,983)		(2,623)	(2,955)	(2,623)	(6,938)
Balance at 31 December 2018	**251**	**8,274**	**20,935**	**22,872**	**20,935**	**31,397**

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

Loans

At 31 December 2018, this item refers to outstanding repurchase agreements with a total nominal value of €254 million, entered into with Cassa di Compensazione e Garanzia SpA (the Central Counterparty)[100].

Receivables

Receivables include:

TAB. A5.1.1 - RECEIVABLES AT AMORTISED COST

Items (€m)	Balance at 31 December 2018			Balance at 31 December 2017		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Amounts deposited with the MEF	-	5,927	5,927	-	6,011	6,011
Receivables	-	5,930	5,930	-	6,011	6,011
Provisions for doubtful amounts deposited with MEF	-	(3)	(3)	-	-	-
Other financial receivables	-	2,347	2,347	8	1,582	1,590
Total	**-**	**8,274**	**8,274**	**8**	**7,593**	**7,601**

- **Amounts deposited with the MEF**, including public customers' current account deposits, which earn a variable rate of return calculated on a basket of government bonds and money market indices[101]. Following the introduction of IFRS 9, the deposits have been adjusted to reflect accumulated impairments of approximately €3 million, reflecting the risk of counterparty default (unchanged with respect to 1 January 2018). In 2018, the Company entered into derivatives with the aim of converting the return on the deposits in question into a fixed rate. The transaction was designed to fix the return on the indexed components of the deposits, through a series of forward purchases and spot sales of BTPs, with settlement of the differential between the forward price of the securities and their market value.
- **Other financial receivables include**: (i) €1,652 million in guarantee deposits - including €1,332 million provided to counterparties in asset swap transactions (with collateral provided by specific Credit Support Annexes) and €186 million provided to counterparties in repurchase agreements on fixed income securities (with collateral contemplated by specific Global Master Repurchase Agreements) and €134 million in collateral deposited with the Central Counterparty, in relation to the clearing system (i.e. the Default Fund)[102] - (ii) €174 million in amounts receivable from the subsidiary, PostePay SpA, primarily in relation to amounts debited in early 2019, and (iii) € amounts to be charged to customers using debit cards issued by BancoPosta, totalling €131 million.

Fixed income instruments

These regard investments in fixed income euro area government securities, consisting of bonds issued by the Italian government and securities guaranteed by the Italian government, having a nominal value of €20,935 million. Their carrying amount of €22,872 million reflects the amortised cost of unhedged fixed income bonds, totalling €10,309 million, the amortised cost of fair-value hedged fixed-rate bonds, totalling €11,570 million, increased by €993 million to take into account the effects of the hedge. Following the introduction of IFRS 9, fixed income instruments recognised at amortised cost are adjusted to take into account the related impairments. Accumulated impairments at 31 December 2018 amount to approximately €9 million (€7 million at 1 January 2018).

At 31 December 2018, the fair value[103] of these instruments is €21,189 million.

100. The Central Counterparty is an entity that acts as an intermediary in a transaction between two parties, avoiding the parties' exposure to the risk that one of the counterparties to the agreement may default and guaranteeing successful completion of the transaction.
101. The rate in question is calculated as follows: 50% is based on the return on 6-month BOTs, with the remaining 50% based on the monthly average Rendistato index. The latter represents the average yield on government securities with maturities greater than 1 year, approximating the return on 7-year BTPs
102. A guarantee fund established with payments from participants in the derivative, equity and bond markets, as a further guarantee for the transactions carried out. The fund can be used to meet the charges arising from any participant default.
103. In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, €16,780 million of the total amount qualifies for inclusion in level 1 and €4,409 million for inclusion in level 2.

Changes in fair value through profit or loss for 2018 reflect a gain of €342 million, reflecting the impact of fair value hedges.

The available-for-sale portfolio includes fixed rate instruments amounting to €4,500 million (including €2,000 million acquired in 2018), issued by Cassa depositi e prestiti SpA and guaranteed by the Italian government (at 31 December 2018, their fair value totalled €4,539 million).

Financial assets measured at fair value through other comprehensive income

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

TAB. A5.2 - MOVEMENTS IN FINANCIAL ASSETS AT FVTOCI

Securities (€m)	Equity instruments	Fixed income instruments		Total	
	Fair value	Nominal value	Fair value	Nominal value	Fair value
Balance at 31 December 2017	**41**	**35,738**	**39,099**	**35,738**	**39,140**
First-time adoption of IFRS 9	(41)	(4,821)	(4,267)	(4,821)	(4,308)
Balance at 1 January 2018	**-**	**30,917**	**34,832**	**30,917**	**34,832**
Purchases	-	2,790	2,918	2,790	2,918
Transfers to equity	-	-	(360)	-	(360)
Change in amortised cost	-	-	(8)	-	(8)
Changes in fair value through equity	-	-	(1,886)	-	(1,886)
Changes in fair value through profit or loss	-	-	325	-	325
Changes in cash flow hedge transactions*	-	-	12	-	12
Effect of sales on profit or loss	-	-	378	-	378
Accrued income for current year	-	-	324	-	324
Sales and settlement of accrued income	-	(3,478)	(4,495)	(3,478)	(4,495)
Balance at 31 December 2018	**-**	**30,229**	**32,040**	**30,229**	**32,040**

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

Fixed income instruments

These are Eurozone fixed income instruments, consisting of government securities issued by the Italian government with a nominal value of €30,229 million.

Total fair value losses for the period amount to €1,561 million, with losses of €1,886 million recognised in the relevant equity reserve in relation to the portion of the portfolio not hedged by fair value hedges, and a gain of €325 million recognised through profit and loss in relation to the hedged portion.

Following the introduction of IFRS 9, fixed income instruments recognised at FVTOCI are adjusted for impairment through the relevant equity reserve, with a matching entry in profit or loss. Accumulated impairments at 31 December 2018 amount to €13 million (€14 million at 1 January 2018).

Certain securities are encumbered as they have been delivered to counterparties for use as collateral in connection with loans and hedging transactions, as described in note 12 – *Additional information.*

Financial assets measured at fair value through profit or loss

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

TAB. A5.3 - MOVEMENTS IN FINANCIAL ASSETS AT FVTPL

	Receivables	Equity instruments	Total
(€m)	Fair value	Fair value	Fair value
Balance at 31 December 2017	**-**	**-**	-
First-time adoption of IFRS 9	8	41	49
Balance at 1 January 2018	**8**	**41**	**49**
Purchases	-	-	-
Changes in fair value through profit or loss	-	9	9
Net changes	-	-	-
Effect of sales on profit or loss	-	-	-
Accrued income for current year	-	-	-
Sales and settlement of accrued income	-	-	-
Balance at 31 December 2018	**8**	**50**	**58**

Receivables

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

Equity instrument

Equity instruments include:

- €45 million, reflecting the fair value of 32,059 Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock) received for the sale of the Visa Europe Ltd. share to Visa Incorporated on 21 June 2016; these shares are convertible at the rate of 13,886[104] ordinary shares for each C share, minus a suitable illiquidity discount, considering the staggered conversion between the fourth and the twelfth year after the closing;
- €5 million, reflecting the fair value of 11,144 Class C shares of Visa Incorporated. These shares are not traded on an organised exchange, but are convertible into Class A shares (at the rate of four ordinary shares for each Class C share), which are listed on the New York Stock Exchange, if disposal is desired.

Fair value gains in the year under review, amounting to €9 million, have been recognised in profit or loss in "Revenue from financial activities".

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

Derivative financial instruments

Movements in derivative financial instruments:

TAB. A5.4 - MOVEMENTS IN DERIVATIVE FINANCIAL INSTRUMENTS

	Cash flow hedges						*Fair value hedges*		FVTPL				Total	
	Forward purchases		Forward sales		*Asset swap*		Asset swap		Forward purchases		Forward sales			
(€m)	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value
Balance at 1 January 2018	**-**	**-**	**1,408**	**(23)**	**1,110**	**(59)**	**19,755**	**(1,160)**	**-**	**-**	**-**	**-**	**22,273**	**(1,242)**
Increases/(decreases)*	3,050	105	1,340	61	500	26	5,280	(669)	852	2	-	-	11,022	(475)
Gains/(Losses) through profit or loss**	-	-	-	-	-	-	-	(2)	-	-	-	-	-	(2)
Transactions settled***	(1,505)	(11)	(1,408)	23	-	(24)	(1,445)	272	(852)	(2)	-	-	(5,210)	258
Balance at 31 December 2018	**1,545**	**94**	**1,340**	**61**	**1,610**	**(57)**	**23,590**	**(1,559)**	**-**	**-**	**-**	**-**	**28,085**	**(1,461)**
of which														
Derivative assets	1,545	94	1,340	61	675	50	4,420	163	-	-	-	-	7,980	368
Derivative liabilities	-	-	-	-	935	(107)	19,170	(1,722)	-	-	-	-	20,105	(1,829)

* Increases/(decreases) refer to the nominal value of new transactions and changes in the fair value of the overall portfolio during the period.
** Gains and losses through profit or loss refer to any ineffective components of hedges, recognised in other income and other expenses from financial and insurance activities.
*** Transactions settled include forward transactions settled, accrued differentials and the settlement of interest rate swaps linked to securities sold.

Fair value hedges in the form of interest rate swaps regard instruments classified as at amortised cost, with a nominal value of €10,730 million, and instruments classified as FVTOCI, with a nominal value of €12,860 million.

Cash flow hedges in the form of interest rate swaps and forward sales regard instruments classified as FVTOCI, with nominal values of €1,610 million and €1,340 million, respectively.

Cash flow interest rate hedges recorded a total fair value gain of €192 million on the effective portion, reflected in the cash flow hedge reserve.

Fair value hedges recorded a net fair value loss on the effective portion of €669 million, whilst the hedged securities (tab. A5.2) recorded a net fair value gain of €667 million, with the difference of €2 million due to paid differentials.

In the year under review, the Company carried out the following transactions:

- the conclusion of forward purchases with a nominal value of €3,050 million. During the year, purchases of €1,505 million were settled;
- the conclusion of forward sales with a nominal value of €1,340 million;
- the settlement of forward sales outstanding at 31 December 2017, totalling €1,408 million;
- the conclusion of new cash flow interest rate swaps with a nominal value of €500 million;
- the conclusion of new fair value interest rate swaps with a nominal value of €5,280 million;
- the unwinding of fair value interest rate swaps hedging securities that have been sold, with a nominal value of €1,445 million.

In addition, the Company has entered into forward purchases and spot sales with a total nominal value of €852 million (recognised at fair value through profit or loss), with the aim of fixing the return, for the current year, on public customers' current account deposits held at the parent, the MEF, and earning a variable rate of return (tab. A5.1.1). These transactions had a positive impact of €2 million on profit or loss for the year (tab. C1.2.1).

Fair value hierarchy of BancoPosta's financial assets

The following table shows the classification of BancoPosta's financial assets measured at fair value by level in the fair value hierarchy:

TAB. A5.5 - FAIR VALUE HIERARCHY

Item (€m)	Balance at 31 December 2018				Balance at 31 December 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI	31,780	260	-	32,040	36,244	2,859	37	39,140
Fixed income instruments	31,780	260	-	32,040	36,244	2,855	-	39,099
Equity instruments	-	-	-	-	-	4	37	41
Financial assets at FVTPL	-	13	45	58	-	-	-	-
Equity instruments	-	5	45	50	-	-	-	-
Receivables	-	8	-	8	-	-	-	-
Derivative financial instruments	-	368	-	368	-	395	-	395
Total financial assets at fair value	**31,780**	**641**	**45**	**32,466**	**36,244**	**3,254**	**37**	**39,535**

There were no transfers of the related financial instruments measured at fair value on a recurring basis between level 1 and level 2 in 2018.

Changes in level 3 primarily regard changes in the fair value of the Visa Incorporated preference shares.

A6 - Financial assets (€983 million)

TAB. A6 - FINANCIAL ASSETS

Item (€m)	Balance at 31 December 2018			Balance at 31 December 2017		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Financial assets at amortised cost	283	163	446	284	358	642
Financial assets at FVTOCI	532	5	537	551	5	556
Total	**815**	**168**	**983**	**835**	**363**	**1,198**

Financial assets measured at amortised cost

Movements in financial assets measured at amortised cost are shown below:

TAB. A6.1 - MOVEMENTS IN FINANCIAL ASSETS AT AMORTISED COST

	Loans	Receivables	Total	
(€m)	Carrying amount	Carrying amount	Nominal value	Carrying amount
Balance at 1 January 2018	**367**	**275**	**-**	**642**
Purchases	6		-	6
Change in amortised cost	-	-	-	-
Changes in fair value through profit or loss	-		-	-
Changes in cash flow hedge transactions*	-		-	-
Changes in impairment	-	(20)	-	(20)
Net changes	-	(164)	-	(164)
Effect of sales on profit or loss	-		-	-
Accrued income for current year	1		-	1
Sales and settlement of accrued income	(19)		-	(19)
Balance at 31 December 2018	**355**	**91**	**-**	**446**

Loans

These loans break down as follows:

TAB. A6.1.1 - LOANS AT ADMORTISED COST

	Balance at 31 December 2018			Balance at 31 December 2017		
Item (€m)	Loans	Intercompany accounts	Total	Loans	Intercompany accounts	Total
Direct subsidiaries						
Mistral Air Srl	-	15	15	-	13	13
PatentiViaPoste ScpA	-	-	-	-	-	-
Poste Tributi ScpA (in liquidation)	-	-	-	-	2	2
Poste Vita SpA	251	-	251	251	-	251
Postel SpA	-	12	12	-	8	8
SDA Express Courier SpA	-	77	77	-	93	93
Total	**251**	**104**	**355**	**251**	**116**	**367**

This item includes:

- €251 million relating to an irredeemable subordinated loan, issued to Poste Vita SpA in order to bring the subsidiary's capitalisation into line with expected growth in earned premiums, in compliance with the specific regulations governing the insurance sector;
- €104 million regarding overdrafts on intercompany current accounts granted to subsidiaries, paying interest on an arm's length basis.

Following the introduction of IFRS 9, loans are adjusted to take into account the related impairments of €0.3 million, reflecting counterparty default risk (unchanged with respect to 1 January 2018).

Receivables

TAB. A6.1.2 - RECEIVABLES AT AMORTISED COST

Item (€m)	Balance at 31 December 2018			Balance at 31 December 2017		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Guarantee deposits	-	30	30	-	40	40
Due from the purchasers of service accommodation	5	2	7	5	2	7
Others	29	45	74	29	199	228
Provisions for financial receivables	-	(20)	(20)	-	-	-
Total	**34**	**57**	**91**	**34**	**241**	**275**

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

Other receivables of €69 million (a nominal value of €70 million) regard the remaining amount due from Invitalia SpA as a result of the sale of Banca del Mezzogiorno-MedioCreditoCentrale SpA on 7 August 2017[105]. Following the agreement between the parties finalised in January 2019, €20 million of this amount was collected on 27 February 2019.

Impairment losses of €20 million were recognised on these receivables in the last quarter of 2018 following prudent application of the measurement criteria provided form in IFRS 9.

Financial assets at fair value through other comprehensive income

Movements in financial assets at fair value through other comprehensive income (FVTOCI) are shown below:

TAB. A6.2 - MOVEMENTS IN FINANCIAL ASSETS AT FVTOCI

(€m)	Fixed income instruments		Equity instruments	Other investments		Total	
	Nominal value	Fair value	Fair value	Nominal value	Fair value	Nominal value	Fair value
Balance at 1 January 2018	**500**	**551**	**5**	**-**	**-**	**500**	**556**
Purchases	-	-	-	-	-	-	-
Transfers to equity reserves	-	-	-	-	-	-	-
Changes in amortised cost	-	-	-	-	-	-	-
Changes in fair value through equity	-	(11)	-	-	-	-	(11)
Changes in fair value through profit or loss	-	(8)	-	-	-	-	(8)
Changes in cash flow hedge transactions	-	-	-	-	-	-	-
Effect of sales on profit or loss	-	-	-	-	-	-	-
Accrued income for current year	-	5	-	-	-	-	5
Sales and settlement of accrued income	-	(5)	-	-	-	-	(5)
Balance at 31 December 2018	**500**	**532**	**5**	**-**	**-**	**500**	**537**

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

Fixed income instruments

This item entirely regards BTPs with a total nominal value of €500 million. Of these, instruments with a value of €375 million have been hedged using asset swaps designated as fair value hedges.

Following the introduction of IFRS 9, fixed income instruments recognised at FVTOCI are adjusted for impairment through the relevant equity reserve, with a matching entry in profit or loss. Accumulated impairments at 31 December 2018 amount to €0.2 million (unchanged with respect to 1 January 2018).

Equity instruments

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

Financial assets at fair value through profit or loss

This item consists of equity instruments (as defined by art. 2346, paragraph 6 of the Italian Civil Code) resulting from the conversion of Contingent Convertible Notes[106] whose value at 31 December 2018 is zero.

Derivative financial instruments

TAB. A6.3 - MOVEMENTS IN DERIVATIVE FINANCIAL INSTRUMENTS

	2018		
(€m)	Cash Flow hedges	Fair value hedges	Total
Balance at 1 January	**(5)**	**(34)**	**(39)**
Increases/(decreases)	(1)	(3)	(4)
Gains/(Losses) through profit or loss	-	-	-
Transactions settled*	1	11	12
Balance at 31 December	**(5)**	**(26)**	**(31)**
of which			
Derivative assets	-	-	-
Derivative liabilities	(5)	(26)	(31)

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

At 31 December 2018, outstanding derivative financial instruments include:

- swap contract entered into in 2013 to hedge the cash flows of a €50 million bond issued on 25 October 2013 (note B.7 – Financial liabilities). With this transaction, the Company took on the obligation to pay a fixed rate of 4.035% and sold the variable rate of the bond which, at 31 December 2018, is 1.945%;
- nine asset swaps used as fair value hedges in 2010 to protect the value of BTPs with a nominal value of €375 million against movements in interest rates. These instruments have enabled the Company to sell the fixed rate on the BTPs of 3.75% and purchase a variable rate.

106. These are Contingent Convertible Notes with an original value of €75 million, a twenty-year term to maturity and issued by Midco SpA, which in turn owns 51% of the airline Alitalia SAI SpA. The Notes were subscribed for by Poste Italiane SpA on 23 December 2014, in connection with the strategic transaction that resulted in Etihad Airways' acquisition of an equity interest in Alitalia SAI, without giving rise to any involvement on the part of Poste Italiane in the management of the issuer or its subsidiary. Interest and principal payments were provided for in the relevant terms and conditions if, and to the extent that, there was available liquidity. On the fulfilment of certain negative pledge conditions, in 2017 the loan was converted into equity instruments (as defined by art. 2346, paragraph 6 of the Italian Civil Code), carrying the same rights associated with the Notes.

Fair value hierarchy of financial assets

The following table shows the classification of financial assets measured at fair value by level in the fair value hierarchy:

TAB. A6.4 - FAIR VALUE HIERARCHY

Item (€m)	Balance at 31 December 2018				Balance at 31 December 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI	532	-	5	537	551	-	5	556
Fixed income instruments	532	-	-	532	551	-	-	551
Equity instruments	-	-	5	5	-	-	5	5
Other instruments	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-
Total financial assets at fair value	**532**	**-**	**5**	**537**	**551**	**-**	**5**	**556**

There were no transfers of the related financial instruments measured at fair value on a recurring basis between level 1 and level 2 in 2018.

A7 - Trade receivables (€2,261 million)

TAB. A7 - TRADE RECEIVABLES

Item (€m)	Balance at 31 December 2018			Balance at 31 December 2017		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Customers	6	1,790	1,796	5	1,560	1,565
Subsidiaries	-	397	397	-	288	288
MEF	-	68	68	-	166	166
Total	**6**	**2,255**	**2,261**	**5**	**2,014**	**2,019**
of which attributable to BancoPosta RFC	-	*891*	*891*	-	*789*	*789*

Receivables due from customers

TAB. A7.1 - RECEIVABLES DUE FROM CUSTOMERS

Item (€m)	Balance at 31 December 2018			Balance at 31 December 2017		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Ministries and Public Administration entities	-	663	663	-	642	642
Cassa depositi e prestiti	-	440	440	-	374	374
Overseas counterparties	-	304	304	-	229	229
Unfranked mail delivered	18	145	163	20	140	160
Overdrawn current accounts	-	154	154	-	148	148
Amounts due for other BancoPosta services	-	82	82	-	87	87
Other trade receivables	2	483	485	-	411	411
Provisions for doubtful debts	(14)	(481)	(495)	(15)	(471)	(486)
Total	**6**	**1,790**	**1,796**	**5**	**1,560**	**1,565**
of which attributable to BancoPosta RFC	-	*600*	*600*	-	*536*	*536*

Specifically[107]:

- Amounts due from **Ministries and Public Administration** entities refer mainly to the following services:
  - Integrated Notification and mailroom services rendered to central and local government bodies, amounting to €246 million;
  - Compensation for the discounts applied to publishers, due from the *Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria* (Cabinet Office – Publishing department), amounting to €104 million, of which €62 million accruing during the year. These receivables are shown gross of collection of the amount of €72 million in subsidies for 2017 and the first half of 2018, which was deposited by the Cabinet Office in a non-interest bearing escrow account with the Italian Treasury and, for this reason, accounted for in "Prepayments received". Release of the amount deposited and extinguishment of the receivables in question are awaiting approval from the European Commission;
  - Reimbursement of the costs associated with the management of property, vehicles and security incurred on behalf of the Ministry for Economic Development, totalling €76 million, of which €1 million relates to the amount accrued during the year (see note 2.5[108] for information on this item);
  - Unfranked mail services provided on credit to central and local government bodies, totalling €73 million;
  - The payment of pensions and vouchers on behalf of INPS (the National Institute of Social Security), totalling €68 million. In February 2019, having conducted a joint assessment, Poste Italiane and INPS signed an agreement that, among other things, has settled the respective outstanding trade receivables (note B4).
- Receivables due from **Cassa depositi e prestiti** refer to fees for BancoPosta's deposit-taking activities during 2018.
- Receivables from **overseas counterparties** primarily relates to postal services carried out by the Company for overseas postal operators.
- Receivables arising from **Unfranked mail delivered** include €72 million in amounts due from customers who use the service on their own behalf and €91 million for amounts due from agents who provide the service for third parties, primarily regarding bulk mail. Collection of these receivables is delegated to the authorised agents who provide the service.
- Receivables for **overdrawn current accounts** are amounts due for temporarily overdrawn current accounts largely due to recurring BancoPosta bank charges, including accumulated sums in the process of being recovered, which have largely been written down.
- **Other trade receivables** primarily include €133 million generated by parcel post operations, €34 million for Posta Time services, €27 million for non-universal postal services, €25 million related to Posta Target services, €23 million for Posta Contest services, €19 million for telegraphic services and €18 million related to the Notification of Legal Process service.

Provisions for doubtful debts relating to customers are described in note 7 – *Risk management*.

107. At 31 December 2018, the balance of trade receivables includes €13 million, net of the related provisions for doubtful accounts, relating to rental income falling within the scope of IFRS 15 – Revenue from Contracts with Customers.
108. See "Revenue and receivables due from the State", item (vi), showing overall amounts due from the Ministry for Economic Development (€78 million), including amounts due for postal and other residual services, amounting to €2 million.

Receivables due from subsidiaries and joint ventures

TAB. A7.2 - TRADE RECEIVABLES DUE FROM SUBSIDIARIES

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Direct subsidiaries		
BancoPosta Fondi SpA SGR	16	22
CLP ScpA	15	14
Consorzio PosteMotori	15	6
EGI SpA	1	1
Mistral Air Srl	3	2
PatentiViaPoste ScpA	6	6
Poste Tributi ScpA (in liquidation)	5	5
Poste Vita SpA	143	139
Postel SpA	42	41
PostePay SpA	103	18
SDA Express Courier SpA	40	28
Indirect subsidiaries		
Poste Assicura SpA	8	6
Total	**397**	**288**
of which attributable to BancoPosta RFC	*224*	*172*

These trade receivables include:

- Poste Vita SpA: primarily regarding fees deriving from the sale of insurance policies through post offices and attributable to BancoPosta RFC (€140 million);
- PostePay SpA: primarily regarding amounts receivable for the distribution of products relating to payment services (€47 million) and amounts due for services relating to the provision of card payment and payment services (€31 million);
- Postel SpA: mainly relating to receivables deriving from the delivery of Bulk Mail by Poste Italiane SpA and collected by the subsidiary (€25 million).

Receivables due from the MEF

This item relates to trade receivables due from the Ministry of the Economy and Finance:

TAB. A7.3 - RECEIVABLES DUE FROM THE MEF

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Universal Service compensation	31	31
Publisher tariff and electoral subsidies	1	83
Remuneration of current account deposits	39	25
Payment for delegated services	28	56
Other	1	2
Provision for doubtful debts due from the MEF	(32)	(31)
Total	**68**	**166**
of which attributable to BancoPosta RFC	*67*	*81*

Specifically:

- **Universal Service compensation** includes the following:

TAB. A7.3.1 - UNIVERSAL SERVICE COMPENSATION RECEIVABLE

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Remaining balance for 2012	23	23
Remaining balance for 2005	8	8
Total	**31**	**31**

With reference to the amount receivable for 2012, AGCom has recognised a net cost incurred by the Company of €327 million, compared with compensation of €350 million originally recognised. Provision has not been made in the state budget for the remaining €23 million. The Company appealed AGCom's decision on 13 November 2014 before the Regional Administrative Court (TAR).
The outstanding receivable relating to compensation for 2005 was subject to cuts in the budget laws for 2007 and 2008. Provisions for doubtful debts have been made for the full amount of the above receivables.
Finally, with regard to the outstanding balance of the compensation for 2013, which was collected in full in 2015, with resolution 493/14/CONS of 9 October 2014, AGCom has initiated an assessment of the net cost incurred by the Company. On 24 July 2015, the regulator notified the Company that it would extend the assessment to include the 2014 financial year. At the end of the public consultation, launched by AGCom in 2016, the regulator published Resolution 298/17/CONS, in which it assessed the cost of providing the universal service for 2013 and 2014 to be €393 million and €409 million, respectively, compared with revenue of €343 million and €277 million recognised in the Company's statement of profit or loss for services rendered in the relevant years. The regulator also announced that the compensation fund to cover the cost of providing the universal service has not been set up. The Company filed a legal challenge to AGCom's resolution before the Regional Administrative Court on 6 November 2017.
With Resolution 571/18/CONS, published on 11 February 2019, AGCom has launched a public consultation on the assessment of the net cost of providing the Universal Postal Service in 2015 and 2016, with the estimated costs of providing the service amounting to €378 million for 2015 and €355 million for 2016, compared with revenue of €279 million and €262 million recognised by the Company for the services rendered in those years.

- Receivables arising from electoral subsidies refer to compensation for previous years, for which provision has been made in the state budget. In 2018, after agreement was reached with the MEF regarding the release of the funds, a total of €55 million was made available, having been deposited by the MEF in a non-interesting bearing escrow account in Poste Italiane SpA's name, held with the Treasury, in 2017; a further €27 million was also collected.

- The **remuneration of current account deposits** refers entirely to amounts accruing in 2018 and almost entirely relates to the deposit of funds deriving from accounts opened by Public Administration entities and attributable to BancoPosta RFC.
- Payments for **delegated services**, collected in February 2019, to fees accrued solely in 2018 for treasury services performed by BancoPosta on behalf of the state in accordance with a special agreement with the MEF, renewed on 16 November 2017 for the three-year period 2017-2019.

Provisions for doubtful debts due from the MEF are described in note 7 – *Risk management*.

A8 - Other receivables and assets (€2,154 million)

This item breaks down as follows:

TAB. A8 - OTHER RECEIVABLES AND ASSETS

		Balance at 31 December 2018			Balance at 31 December 2017		
Item (€m)	**Note**	**Non-current assets**	**Current assets**	**Total**	**Non-current assets**	**Current assets**	**Total**
Substitute tax paid		1,198	470	1,668	1,040	536	1,576
Receivables relating to fixed-term contract settlements		82	85	167	101	87	188
Amounts due from social security agencies and pension funds (excl. fixed-term contract settlements)		-	109	109	-	98	98
Amounts restricted by court rulings		-	78	78	-	75	75
Accrued income and prepaid expenses from trading transactions and other assets		-	7	7	-	6	6
Other amounts due from subsidiaries		-	25	25	-	4	4
Sundry receivables		8	106	114	7	106	113
Provisions for doubtful debts due from others		-	(63)	(63)	-	(67)	(67)
Other receivables and assets		**1,288**	**817**	**2,105**	**1,148**	**845**	**1,993**
Interest accrued on IRES refund	[C12]	-	46	46	-	46	46
Interest accrued on IRAP refund	[C12]	-	3	3	-	3	3
Total		**1,288**	**866**	**2,154**	**1,148**	**894**	**2,042**
of which attributable to BancoPosta RFC		*1,198*	*544*	*1,742*	*1,040*	*607*	*1,647*

Specifically:

- **Substitute tax paid**, attributable to BancoPosta RFC, primarily regards:
  - €1,198 million charged to holder of Interest-bearing Postal Certificates for stamp duty at 31 December 2018[109]; This amount is balanced by a matching entry in "Other taxes payable" until expiration or early extinguishment of the Interest-bearing Postal Certificates, i.e. the date on which the tax is payable to the tax authorities (tab. B9.3);
  - €303 million relating to stamp duty to be paid in virtual form in 2019 and to be recovered from customers;
  - €127 million relating to stamp duty to be charged to Postal Savings Book holders, which the Company pays in virtual form as required by law;
  - €10 million in withholding tax on interest paid to current account holders for 2018, which is to be recovered from customers;

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

- Amounts due from staff under **fixed-term contract settlements** consist of salaries to be recovered following the agreements of 13 January 2006, 10 July 2008, 27 July 2010, 18 May 2012, 21 March 2013, 30 July 2015 and 19 June 2018 between Poste Italiane SpA and the trade unions, regarding the re-employment by court order of staff previously employed on fixed-term contracts. This item refers to receivables with a present value of €167 million from staff, from INPS and pension funds recoverable in the form of variable instalments, the last of which is due in 2040. A breakdown of the receivables by individual agreement is provided below:

TAB A8.1 - RECEIVABLES FROM FIXED-TERM CONTRACT SETTLEMENTS

	Balance at 31 December 2018				Balance at 31 December 2017			
Item (€m)	Non-current assets	Current assets	Total	Nominal value	Non-current assets	Current assets	Total	Nominal value
Receivables								
due from staff under agreement of 2006	1	1	2	3	3	1	4	4
due from staff under agreement of 2008	21	12	33	35	29	13	42	45
due from staff under agreement of 2010	28	7	35	42	32	7	39	48
due from staff under agreement of 2012	22	6	28	34	25	7	32	40
due from staff under agreement of 2013	2	1	3	4	3	1	4	5
due from staff under agreement of 2015	3	1	4	4	4	1	5	5
due from staff under agreement of 2018	1	-	1	1				
due from INPS (former IPOST)	-	42	42	42	-	42	42	42
due from INPS	4	10	14	15	5	10	15	16
due from pension funds	-	5	5	5	-	5	5	5
Total	**82**	**85**	**167**		**101**	**87**	**188**	

The item includes €42 million receivable from INPS (formerly IPOST), covered by a specific agreement with IPOST dated 23 December 2009. Payment of this amount consists of six instalments of €6.9 million each, falling due between 30 June 2012 and 31 December 2014 and deemed to collectible in full. Negotiations are underway with a view to recovering this amount and, in the event of a negative outcome, Poste Italiane will resort to legal action

- Amounts that **cannot be drawn on due to court rulings** include €65 million in amounts seized and not assigned to creditors in the process of recovery, and €13 million in amounts stolen from the Company in December 2007 as a result of an attempted fraud and that have remained on deposit with an overseas bank. The latter sum may only be recovered once the legal formalities are completed. The risks associated with collection of these items are taken into account in the provisions for doubtful debts due from others.
- Amounts due from subsidiaries include €19 million in amounts receivable from subsidiaries by Poste Italiane SpA, as the consolidating entity in the tax consolidation arrangement (note 2.3 – Summary of significant accounting standards and policies). The related amounts are due from the subsidiaries, PostePay SpA and Poste Assicura SpA.
- **Accrued interest on IRES refund**, amounting to €46 million, refers to interest accruing up to 31 December 2018 in relation to the tax credit determined by an unreported deduction of IRAP paid on labour costs from IRES. Recovery of the amount in question has resulted in a dispute, the outcome of which is subject to uncertainty. With regard to the remaining overall tax credit, amounting to €50 million (i.e. including current tax assets and related interest), information is provided in note 2.5– Use of estimates.
- **Accrued interest on IRAP refund**, amounting to €3 million, regards interest accruing up to 31 December 2018 on IRAP to be recovered on the unreported deduction of expenses for disabled personnel in 2003, described in note C12.

Movements in the related **provisions for doubtful** debts are described in note 7 – *Risk management.*

A9 - Cash and deposits attributable to BancoPosta (€3,318 million)

Details of this item are as follows:

TAB. A9 - CASH AND DEPOSITS ATTRIBUTABLE TO BANCOPOSTA

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Cash and cash equivalents in hand	2,967	2,799
Bank deposits	351	397
Total	**3,318**	**3,196**

Cash at post offices, relating exclusively to BancoPosta RFC, regards cash deposits on postal current accounts, postal savings products (Interest bearing Postal Certificates and Postal Savings Books) or advances obtained from the Italian Treasury to fund post office operations. This cash may only be used in settlement of these obligations. Cash and cash equivalents in hand are held at post offices (€842 million) and companies that provide cash transportation services whilst awaiting transfer to the Italian Treasury (€2,125 million). Bank deposits relate to BancoPosta RFC's operations and include amounts deposited in an account with the Bank of Italy to be used in interbank settlements, totalling €348 million.

A10 - Cash and cash equivalents (€2,127 million)

Details of this item are as follows:

TAB. A10 - CASH AND CASH EQUIVALENTS

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Deposits with the MEF	1,306	379
Bank deposits and amounts held at the Italian Treasury	810	1,648
Cash and cash equivalents in hand	11	12
Total	**2,127**	**2,039**
of which attributable to BancoPosta RFC	*1,318*	*391*

Cash held on **deposit with the MEF** at 31 December 2018 include approximately €930 million in amounts deposited with the MEF in a so-called buffer account, consisting of customer deposits subject to restrictions on their use and yet to be invested (note – 6.2 – Information on BancoPosta RFC).

Bank deposits and amounts held at the Italian Treasury include €72 million deposited by the *Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria* (Cabinet Office – Publishing department) in a non-interest bearing escrow account with the Italian Treasury as advance payment for publisher tariff subsidies due to the Company (note A7). In addition, **bank deposits and amounts held at the Italian Treasury** include €18 million whose use is restricted by court orders related to different disputes.

Equity

B1 - Share capital (€1,306 million)

Poste Italiane SpA's share capital consists of 1,306,110,000 no-par value ordinary shares, of which Cassa depositi e prestiti SpA (CDP) holds 35% and the Ministry of the Economy and Finance holds 29.3%, while the remaining shares are held by institutional and retail investors.

At 31 December 2018, all the shares in issue are fully subscribed and paid up. No preference shares have been issued and the Company does not hold treasury shares.

On 4 February 2019, the Company launched a buyback programme authorised by the Annual General Meeting of shareholders held on 29 May 2018. At 15 February 2018, Poste Italiane has acquired 5,257,965 own shares for a total amount of €40 million, equal to 0.4026% of the share capital (note 4.2 – *Other material events*).

In accordance with the resolution adopted by shareholders at the Annual General Meeting held on 29 May 2018, on 20 June 2018, the Company paid dividends of €549 million (a dividend of €0.42 per share).

B2 - Reserve (1,546 million)

TAB. B2 - RESERVES

(€m)	Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Merger surplus	Total
Balance at 31 December 2017	**299**	**1,000**	**191**	**(61)**	**2**	**1,431**
of which attributable to BancoPosta RFC	-	*1,000*	*179*	*(62)*	-	*1,117*
First-time adoption IFRS 9	**-**	**-**	**1,373**	**-**	**-**	**1,373**
Reclassifications of financial instruments	-	-	1,907	-	-	1,907
Adjustments	-	-	14	-	-	14
Tax effect	-	-	(548)	-	-	(548)
Balance at 1 January 2018 including IFRS 9 effects	**299**	**1,000**	**1,564**	**(61)**	**2**	**2,804**
of which attributable to BancoPosta RFC	-	*1,000*	*1,552*	*(62)*	-	*2,490*
Increases/(decreases) in fair value during the year	-	-	(1,897)	191	-	(1,706)
Tax effect of changes in fair value	-	-	541	(55)	-	486
Transfers to profit or loss	-	-	(385)	20	-	(365)
Tax effect of transfers to profit or loss	-	-	110	(5)	-	105
Increase/(Decrease) for expected credit loss	-	-	(1)	-	-	(1)
Gains/(Losses) recognised in equity	-	-	(1,632)	151	-	(1,481)
Merger contribution	-	-	-	-	13	13
Injection of fresh capital into BancoPosta RFC	-	210	-	-	-	210
Balance at 31 December 2018	**299**	**1,210**	**(68)**	**90**	**15**	**1,546**
of which attributable to BancoPosta RFC	-	*1,210*	*(71)*	*88*	-	*1,227*

Details are as follows:

- the **fair value reserve** regards changes in the fair value of available-for-sale financial assets. The decrease of €1,897 million during 2018 reflects:
  - a net decrease of €1,886 million in financial assets measured at fair value through other comprehensive income and attributable to BancoPosta RFC;
  - a net decrease of €11 million in financial assets measured at fair value through other comprehensive income held outside the ring-fence.
- the **cash flow hedge reserve** represents changes in the fair value of the effective portion of cash flow hedges outstanding. In 2018, the fair value gain of €191 million reflects a net gain of €192 million on derivative financial instruments attributable to BancoPosta RFC and a net loss of €1 million on the value of financial instruments held outside the ring-fence.

Finally, with regard to BancoPosta RFC reserve, following on from the Board of Directors' resolution of 25 January 2018 and the subsequent Extraordinary General Meeting of Poste Italiane SpA's shareholders, on 27 September 2018, Poste Italiane injected €210 million of fresh capital of into BancoPosta RFC (note 6.2 – *Information on BancoPosta RFC*).

B3 - Availability and distributability of reserves

The following table shows the availability and distributability of Poste Italiane SpA's reserves. Retained earnings include the profit for 2018 of €584 million.

TAB. B3 - AVAILABILITY AND DISTRIBUTABILITY OF RESERVES

(€m)	Amount at 31 December 2018		Potential use
Share capital		**1,306**	
Revenue reserves:			
- legal reserve		**299**	
legal reserve	261		B
legal reserve	38		A B D
- BancoPosta RFC reserve		**1,210**	**- -**
- fair value reserve		**(68)**	**- -**
- cash flow hedge reserve		**90**	**- -**
- merger surplus		**15**	**A B D**
- retained earnings		**2,607**	
retained earnings	*98*		*- -*
retained earnings	*1,042*		*C*
retained earnings	*1,569*		*A B D*
Fair value gains on financial assets at FVTPL net of tax effect	*24*		*B C*
after-tax actuarial gains/(losses)	*(126)*		*- -*
Total		**5,459**	
of which distributable		***1,622***	

A: for capital increases
B: to cover losses
C: to cover BancoPosta losses
D: for shareholder distributions

Liabilities

B4 - Provisions for risks and charges (€1,431 million)

Movements in provisions for risks and charges are as follows:

TAB. B4 - MOVEMENTS IN PROVISIONS FOR RISKS AND CHARGES

Item (€m)	Balance at 31 December 2017	Provisions	Finance costs	Released to profit or loss	Uses	Balance at 31 December 2018
Provisions for non-recurring charges	429	96	-	(17)	(93)	415
Provisions for disputes with third parties	341	36	-	(34)	(41)	302
Provisions for disputes with staff*	75	9	-	(3)	(17)	64
Provisions for personnel expenses	132	73	-	(31)	(50)	124
Provisions for early retirement incentives	440	444	-	-	(440)	444
Provisions for expired and statute barred postal savings certificates	15	-	-	(15)	-	-
Provisions for taxation	3	-	-	-	-	3
Other provisions	103	6	-	-	(30)	79
Total	**1,538**	**664**	**-**	**(100)**	**(671)**	**1,431**
of which attributable to BancoPosta RFC	*544*	*116*	-	*(36)*	*(113)*	*511*
Overall analysis of provisions:						
- non-current portion	668					608
- current portion	870					823
	1,538					**1,431**

* Net provisions for personnel expenses total €2million. Service costs (legal assistance) total €4 million.

Specifically:

- **Provisions for non-recurring charges** relate to operational risks arising from BancoPosta's operations. They primarily regard the liabilities arising from to disputes with customers regarding certain investment products whose performance is not in line with expectations, deriving from the provision of delegated services for social security agencies, the reconstruction of operating ledger entries at the time of the Company's incorporation fraud, violations of administrative regulations, compensation and adjustments to income for previous years, or to the erroneous application of statute barring and estimated risks for charges and expenses to be incurred in connection with seizures effected by BancoPosta as garnishee-defendant. Provisions for the year, totalling €96 million, primarily reflect risks linked to errors in the distribution of postal products, revised estimates regarding compensation and adjustments to income for previous years and an updated estimate of the liabilities linked to disputes with customers regarding certain investment instruments and products sold in the past and whose performance is not in line expectations. In this latter regard, during the year, the situation was closely monitored, as was the process of liquidating the real estate funds previously marketed by the Company. With specific regard to the Europa Immobiliare I fund (which reached maturity on 31 December 2017), as approved by Poste Italiane's Board of Directors on 19 February 2018 and 28 June 2018, on 24 September 2018, the Company launched a voluntary initiative designed to protect customers who had invested in the fund. This process came to a conclusion on 7 December 2018. Total uses amount to €93 million and regard €52 million in liabilities settled with customers who had invested in the Europa Immobiliare I fund and who accepted the above offer.
  With regard to liabilities arising from the services rendered on behalf of social security agencies, as reported in note A7, in February 2019, having conducted a joint assessment, Poste Italiane and INPS signed an agreement that has settled outstanding trade receivables due to the Company and determined the amount payable by Poste Italiane to INPS as a result of certain claims regarding the payment of pensions carried out under agreements in effect until 31 August 2009. At 31 December 2018, all the liabilities provided for in the agreement are reflected in provisions for operational risk.
- **Provisions for disputes with third parties** regard the present value of expected liabilities deriving from different types of legal and out-of-court disputes with suppliers and third parties, the related legal expenses, and penalties and indemnities payable to customers. Provisions for the year of €36 million reflect the estimated value of new liabilities measured on the

basis of expected outcomes. The reduction of € 34 million relates to the reversal of liabilities recognised in the past, whilst a reduction of €41 million regards the value of disputes settled.

- **Provisions for disputes with staff** regard liabilities that may arise following labour litigation and disputes of various types. Net provisions of €6 million relate to an update of the estimate of the liabilities and the related legal expenses, taking account of both the overall value of negative outcomes in terms of litigation, and the application of Law 183 of 4 November 2010 ("Collegato lavoro"), which introduced a cap on current and future compensation payable to an employee in the event of "court-imposed conversion" of a fixed-term contract to a permanent one.
- **Provisions for personnel expenses** are made to cover expected liabilities arising in relation to the cost of labour, with are certain or likely to occur but whose estimated amount is subject to change. They have increased by €73 million to reflect the estimated value of new liabilities and decreased as a result of past contingent liabilities that failed to materialise (€31 million) and settled disputes (€50 million).
- **Provisions for early retirement incentives** reflect the estimated costs to be incurred as a result of the Company's bonding commitment to pay early retirement incentives on a voluntary basis, under the current redundancy scheme agreed with the labour unions for a determinate number of employees who will leave the Company by 31 December 2020. These schemes may qualify for other forms of incentive, such as early retirement in accordance with Law 92 of 28 June 2012, supplemented by article 1, paragraph 160 of Law 205/2017. The €440 million in provisions made at 31 December 2017 were used in full during the year.
- **Provisions for expired and statute barred Postal Certificates** have been made to cover the cost of redeeming certificates relating to specific issues, even after the certificates have become invalid[110]. These provisions were released to profit or loss during the year, given that the obligation previously assumed by the Company has expired.
- **Provisions for taxation** have been made to cover estimated tax liabilities.
- **Other provisions** cover probable liabilities of various type, including: estimated liabilities deriving from the risk that specific legal actions undertaken in order to reverse seizures of the Company's assets may be unable to recover the related amounts; losses incurred by subsidiaries that the Company intends to cover; claims for rent arrears on properties used free of charge by the Company; and claims for payment of accrued interest expense due to certain suppliers, losses incurred by subsidiaries that the Company intends to cover and fraud. Provisions of €6 million for the year primarily regard the first type of liability. Uses totalling €30 million primarily regard the coverage of losses incurred by subsidiaries (note A4 – *Investments*).

B5 - Employee termination benefits (€1,158 million)

Movements in employee termination benefits are as follows:

TAB. B5 - MOVEMENTS IN PROVISIONS FOR EMPLOYEE TERMINATION BENEFITS

(€m)		2018
Balance at 1 January		**1,244**
interest component	19	
effect of actuarial gains/(losses)	(16)	
Provisions for the year		3
Uses for the year		(89)
Balance at 31 December		**1,158**
of which attributable to BancoPosta RFC		*3*

The interest component is recognised in finance costs. The current service cost, which from 2007 is paid to pension funds or third-party social security agencies and is no longer included in the employee termination benefits managed by the Company, is recognised in personnel expenses. Net uses of provisions for employee termination benefits amount to €86 million, €4 million to substitute tax and €1 million to transfers from a number of Group companies.

110. Provisions for expired and statute barred Postal Certificates were made in 1998 to cover the cost of redeeming certificates relating to specific issues, the value of which was recognised in revenue in profit or loss in the years in which the certificates became invalid. The provisions were made in response to the Company's decision to redeem such certificates even if expired.

The main actuarial assumptions applied in calculating provisions for employee termination benefits are as follows:

TAB. B5.1 - ECONOMIC AND FINANCIAL ASSUMPTIONS

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

TAB. B5.2 - DEMOGRAPHIC ASSUMPTIONS

	At 31 December 2018
Mortality	RG48 differentiated by gender
Disability	INPS 1998 differentiated by gender
Rate of employee turnover	Specific table with rates differentiated by length of service. The average length of service for participants corresponds to an annual rate of 0.14%
Advance rate	1.25% for lengths of service of at least 8 years
Pensionable age	In accordance with rules set by INPS

Actuarial gains and losses are generated by the following factors:

TAB. B5.3 - ACTUARIAL GAINS AND LOSSES

(€m)	At 31 December 2018	At 31 December 2017
Change in demographic assumptions	-	-
Change in financial assumptions	-	7
Other experience-related adjustments	(16)	(5)
Total	**(16)**	**2**

The sensitivity of employee termination benefits to changes in the principal actuarial assumptions is analysed below:

TAB. B5.4 - SENSITIVITY ANALYSIS

(€m)	Employee termination benefits at 31 December 2018	Employee termination benefits at 31 December 2017
Inflation rate +0.25%	1,171	1,263
Inflation rate -0.25%	1,145	1,226
Discount rate +0.25%	1,137	1,215
Discount rate -0.25%	1,179	1,275
Turnover rate +0.25%	1,157	1,243
Turnover rate -0.25%	1,159	1,245

TAB. B5.5 - OTHER INFORMATION

	At 31 December 2018
Expected service cost	-
Average duration of defined benefit plan	7.41
Average employee turnover	0.14%

B6 - Financial liabilities attributable to BancoPosta (€66,759 million)

TAB. B6 - FINANCIAL LIABILITIES ATTRIBUTABLE TO BANCOPOSTA

	Balance at 31 December 2018			Balance at 31 December 2017		
Item (€m)	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Payables deriving from postal current accounts	-	51,139	51,139	-	47,252	47,252
Borrowings	5,604	2,869	8,473	2,400	2,442	4,842
Borrowings from financial institutions	5,604	2,869	8,473	2,400	2,442	4,842
MEF account, held at the Treasury	-	3,649	3,649	-	3,483	3,483
Derivative financial instruments*	1,772	57	1,829	1,610	28	1,638
Cash flow hedges	49	58	107	96	17	113
Fair value hedges	1,723	(1)	1,722	1,514	11	1,525
Other financial liabilities	-	1,669	1,669	-	4,638	4,638
Total	**7,376**	**59,383**	**66,759**	**4,010**	**57,843**	**61,853**

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

Payables deriving from postal current accounts

These payables include net amounts accrued at 31 December 2018 and settled with customers in January 2019. The balance includes amounts due to Poste Italiane Group companies, totalling €4,903 million, with €4,271 million relating to postal current accounts in the name of PostePay SpA and €526 million deposited in postal current accounts by Poste Vita SpA.

Borrowings

Borrowings from financial institutions

At 31 December 2018, outstanding liabilities of €8,473 million relate to repurchase agreements entered into by the Company with major financial institutions and Central Counterparties, amounting to a total nominal value of €8,166 million. €6,684 million of this amount regards Long Term Repos and €1,789 million to ordinary borrowing operations, the resources from both invested in Italian fixed income government securities and as funding for incremental deposits used as collateral.

At 31 December 2018, the fair value[111] of the above borrowings amounts to €8,488 million.

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

MEF account held at the Treasury

TAB. B6.1 - MEF ACCOUNT HELD AT THE TREASURY

Item (€m)	Balance at 31 December 2018			Balance at 31 December 2017		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Balance of cash flows for advances	-	3,546	3,546	-	3,375	3,375
Balance of cash flows from management of postal savings	-	(89)	(89)	-	(84)	(84)
Amounts payable due to theft	-	157	157	-	157	157
Amounts payable for operational risks	-	35	35	-	35	35
Total	**-**	**3,649**	**3,649**	**-**	**3,483**	**3,483**

The **balance of cash flows for advances** represents the net amount payable as a result of advances from the MEF to meet the cash requirements of BancoPosta. These break down as follows:

TAB. B6.1.1 - BALANCE OF CASH FLOWS FOR ADVANCES

Item (€m)	Balance at 31 December 2018			Balance at 31 December 2017		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Net advances	-	3,546	3,546	-	3,375	3,375
MEF postal current accounts and other payables	-	670	670	-	671	671
MEF - State pensions	-	(670)	(670)	-	(671)	(671)
Total	**-**	**3,546**	**3,546**	**-**	**3,375**	**3,375**

The **balance of cash flows from the management of postal savings**, amounting to a positive €89 million, represents the balance of withdrawals less deposits during the last two days of the year and cleared early in the following year. The balance at 31 December 2018 consists of €29 million payable to Cassa depositi e prestiti, less €118 million receivable from the MEF for Interest-bearing Postal Certificates issued on its behalf.

Amounts payable due to thefts from post offices of €157 million regard the Company's liability to the MEF on behalf of the Italian Treasury for losses resulting from theft and fraud. This liability derives from cash withdrawals from the Treasury to make up for the losses resulting from these criminal acts, in order to ensure that post offices can continue to operate.

Amounts payable for operational risks regard the portion of advances obtained to fund the operations of BancoPosta, in relation to which asset under recovery is certain or probable.

Derivative financial instruments

Movements in derivative financial instruments during 2018 are described in note A5.

Other financial liabilities

TAB. B6.2 - OTHER FINANCIAL LIABILITIES

Item (€m)	Balance at 31 December 2018 Non-current liabilities	Current liabilities	Total	Balance at 31 December 2017 Non-current liabilities	Current liabilities	Total
Prepaid cards	-	-	-	-	2,853	2,853
Domestic and international money transfers	-	689	689	-	734	734
Cheques to be credited to postal savings books	-	243	243	-	243	243
Amounts to be credited to customers	-	235	235	-	118	118
Endorsed cheques	-	163	163	-	188	188
Other amounts payable to third parties	-	145	145	-	67	67
Guarantee deposits	-	70	70	-	100	100
Tax collection and road tax*	-	19	19	-	145	145
Payables for items in process	-	105	105	-	190	190
Total	**-**	**1,669**	**1,669**	**-**	**4,638**	**4,638**

* Following the contribution of the card payments and payment services unit to PostePay SpA, the balance at 31 December 2018 solely regards liabilities arising following payments made by payment slip.

The reduction compared with 31 December 2017 primarily reflects the contribution of the card payments and payment services unit to PostePay SpA from 1 October 2018 (note 6.2 – *Information BancoPosta RFC*).

Amounts payable for guarantee deposits include €56 million received from counterparties in repurchase agreements on fixed income instruments (collateral provided by specific Global Master Repurchase Agreements) and €14 million received from counterparties in interest rate swaps (collateral provided by specific Credit Support Annexes).

Payable for items in process regard €21 million in amounts credited to the subsidiary, PostePay SpA, primarily in early 2019.

B7 - Financial liabilities (€395 million)

TAB. B7 - FINANCIAL LIABILITIES

Item (€m)	Balance at 31 December 2018 Non-current liabilities	Current liabilities	Total	Balance at 31 December 2017 Non-current liabilities	Current liabilities	Total
Borrowings	50	200	250	250	963	1,213
Bonds	50	-	50	50	763	813
Borrowings from financial institutions	-	200	200	200	200	400
Derivative financial instruments*	26	5	31	35	4	39
Fair value hedges	22	4	26	30	4	34
Cash flow hedges	4	1	5	5	-	5
Financial liabilities due to subsidiaries	-	112	112	-	46	46
Other financial liabilities	1	1	2	1	56	57
Total	**77**	**318**	**395**	**286**	**1,069**	**1,355**

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

Borrowings

Other than the guarantees described in the following notes, borrowings are unsecured and are not subject to financial covenants, which would require the Company to comply with financial ratios or maintain a certain minimum rating. Financial institutions borrowings are subject to standard negative pledge clauses[112].

Bonds

This item regards bonds recognised at an amortised cost of €50 million issued by Poste Italiane under the EMTN – Euro Medium Term Note programme of €2 billion listed by the Company in 2013 on the Luxembourg Stock Exchange. These bonds were issued through a private placement on 25 October 2013; The term to maturity of the loan is ten years and the interest rate is 3.5% for the first two years and variable thereafter (EUR Constant Maturity Swap rate plus 0.955%, with a cap of 6% and a floor of 0%). The interest rate risk exposure was hedged as described in note A6 – Financial assets; the fair value[113] of this borrowing at 31 December 2018 is €50 million.

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

Borrowings from financial institutions

TAB. B7.1 - BORROWINGS FROM FINANCIAL INSTITUTIONS

Item (€m)	Balance at 31 December 2018			Balance at 31 December 2017		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
EIB fixed rate loan maturing 11 April 2018	-	-	-	-	200	200
EIB fixed rate loan maturing 23 March 2019	-	200	200	200	-	200
Total	**-**	**200**	**200**	**200**	**200**	**400**

The fair value of the EIB loan is €200 million.

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

The carrying amount of the other financial liabilities in table B7 approximates to their fair value.

Credit facilities

At 31 December 2018, the following credit facilities are available:

- committed lines of €1,923 million;
- uncommitted lines of credit of €1,724 million, including €959 million in lines of credit, €160 million in overdraft facilities and €605 million in the form of personal guarantee facilities.

At 31 December 2018, the committed and uncommitted lines have not been used. Unsecured guarantees with a value of €182 million have been used on behalf of Poste Italiane SpA and with a value €59 million, on behalf of Group companies. No collateral has been provided to secure the lines of credit obtained.

The uncommitted lines of credit and overdraft facilities are also available for overnight transactions entered into by BancoPosta RFC.

Finally, the Bank of Italy has granted BancoPosta RFC access to intraday credit in order to fund intraday interbank transactions.

112. A commitment given to creditors by which a borrower undertakes not to give senior security to other lenders ranking pari passu with existing creditors, unless the same degree of protection is also offered to them.
113. In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

Collateral for this credit facility is provided by securities with a nominal value of €535 million, and the facility is unused at 31 December 2018.

The existing lines of credit and medium/long-term borrowings are adequate to meet expected financing requirements.

Derivative financial instruments

Movements in derivative financial instruments during 2018, are described in note A6 – *Financial assets*.

Financial liabilities due to subsidiaries

These liabilities relate to intercompany current accounts paying interest at market rates and break down as follows:

TAB. B7.2 - FINANCIAL LIABILITIES DUE TO SUBSIDIARIES

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Direct subsidiaries		
BancoPosta Fondi SpA SGR	15	20
EGI SpA	-	1
Poste Vita SpA	79	1
PostePay SpA	18	24
Total	**112**	**46**

Changes in liabilities arising from financing activities

The following disclosures are provided in accordance with IAS 7, following the amendments introduced by EU Regulation 1990/2017 of 6 November 2017.

TAB. B7.3 - CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Item (€m)	Balance at 31 December 2017	Net cash flow from/(for) financing activities	Non-cash flows	Balance at 31 December 2018
Borrowings	1,213	(950)	(13)	250
Bonds	813	(750)	(13)	50
Borrowings from financial institutions	400	(200)	-	200
Financial liabilities due to subsidiaries	46	66	-	112
Other financial liabilities	57	(55)	-	2
Total	**1,316**	**(939)**	**(13)**	**364**

B8 - Trade payables (€1,488 million)

TAB. B8 - TRADE PAYABLES

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Amounts due to suppliers	878	727
Amounts due to subsidiaries	281	230
Contract liabilities	329	254
Total	**1,488**	**1,211**
of which attributable to BancoPosta RFC	*159*	*63*

Amounts due to suppliers

TAB. B8.1 - AMOUNTS DUE TO SUPPLIERS

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Italian suppliers	753	594
Overseas suppliers	15	25
Overseas postal operators*	110	108
Total	**878**	**727**
of which attributable to BancoPosta RFC	*18*	*29*

* The amount due to overseas counterparties regards fees payable to overseas postal operators and companies in return for postal and telegraphic services received.

Amounts due to subsidiaries and joint ventures

TAB. B8.2 - AMOUNTS DUE TO SUBSIDIARIES AND JOINT VENTURES

Name (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Name		
BancoPosta Fondi SpA SGR	1	-
CLP ScpA	80	84
Consorzio PosteMotori	1	-
Consorzio per i Servizi di Telefonia Mobile ScpA	14	9
EGI SpA	15	16
PatentiViaPoste ScpA	1	1
PosteTutela SpA	-	47
Poste Vita SpA	1	-
Postel SpA	33	15
PostePay SpA	83	5
SDA Express Courier SpA	46	41
Indirect subsidiaries		
Poste Assicura SpA	1	-
Joint ventures		
FSIA group	5	12
Total	**281**	**230**
of which attributable to BancoPosta RFC	*108*	*25*

Contract liabilities

TAB. B8.3 - CONTRACT LIABILITIES

Item (€m)	Balance at 31 December 2017	IFRS 15 reclassifications	Balance at 1 January 2018	Increases/ (decreases)	Change due to recognition of revenue for period	Balance at 31 December 2018
Prepayments and advances from customers	245	-	245	51	-	296
Liabilities for fees to be refunded	-	-	-	-	26	26
Liabilities for volume discounts	9	-	9	(9)	4	4
Deferred income from trading transactions	-	27	27	(27)	3	3
Total	**254**	**27**	**281**	**15**	**33**	**329**
of which attributable to BancoPosta RFC	*9*	*27*	*36*	*(36)*	*33*	*33*

Prepayments and advances from customers

This item refers to amounts received from customers as prepayment for the following services to be rendered:

TAB. B8.3.1 - PREPAYMENTS AND ADVANCES FROM CUSTOMERS

Item (€m)		Balance at 31 December 2018	Balance at 31 December 2017
Overseas counterparties		149	107
Advances from MEF		-	55
Advances from the Cabinet Office - Publishing and Information department	[tab.A7.1]	72	-
Automated franking		36	47
Unfranked mail		16	13
Postage-paid mailing services		7	7
Other services		16	16
Total		**296**	**245**
of which attributable to BancoPosta RFC		-	-

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

B9 - Other liabilities (€3,114 million)

TAB. B9 - OTHER LIABILITIES

	Balance at 31 December 2018			Balance at 31 December 2017		
Item (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Amounts due to staff	11	962	973	4	914	918
Social security payables	33	441	474	35	469	504
Other tax liabilities	1,198	131	1,329	1,040	116	1,156
Other amounts due to subsidiaries	6	204	210	7	30	37
Sundry payables	85	29	114	85	34	119
Accrued expenses and deferred income from trading transactions	10	4	14	11	30	41
Total	**1,343**	**1,771**	**3,114**	**1,182**	**1,593**	**2,775**
of which attributable to BancoPosta RFC	*1,274*	*39*	*1,313*	*1,115*	*65*	*1,180*

Amounts due to staff

These items primarily regard accrued amounts that have yet to be paid at 31 December 2018. The following table shows a breakdown:

TAB. B9.1 - AMOUNTS DUE TO STAFF

	Balance at 31 December 2018			Balance at 31 December 2017		
Item (€m)	**Non-current liabilities**	**Current liabilities**	**Total**	**Non-current liabilities**	**Current liabilities**	**Total**
Fourteenth month salaries	-	224	224	-	222	222
Incentives	11	625	636	4	447	451
Accrued vacation pay	-	55	55	-	54	54
Other amounts due to staff	-	58	58	-	191	191
Total	**11**	**962**	**973**	**4**	**914**	**918**
of which attributable to BancoPosta RFC	*1*	*11*	*12*	-	*14*	*14*

At 31 December 2018, certain liabilities that, at 31 December 2017, were included in provisions for personnel expenses, were determinable with reasonable certainty and, as such, were recognised as payables.

The reduction in **Other amounts due to staff** reflects one-off payments made to staff following renewal of the national collective labour agreement.

Social security payables

TAB. B9.2 - SOCIAL SECURITY PAYABLES

	Balance at 31 December 2018			Balance at 31 December 2017		
Item (€m)	**Non-current liabilities**	**Current liabilities**	**Total**	**Non-current liabilities**	**Current liabilities**	**Total**
INPS	1	338	339	1	375	376
Pension funds	-	85	85	-	80	80
Health funds	-	5	5	-	-	-
INAIL	32	3	35	34	3	37
Other agencies	-	10	10	-	11	11
Total	**33**	**441**	**474**	**35**	**469**	**504**
of which attributable to BancoPosta RFC	-	*3*	*3*	-	*7*	*7*

Other tax liabilities

TAB. B9.3 - OTHER TAX LIABILITIES

	Balance at 31 December 2018			Balance at 31 December 2017		
Item (€m)	**Non-current liabilities**	**Current liabilities**	**Total**	**Non-current liabilities**	**Current liabilities**	**Total**
Withholding tax on employees' and consultants' salaries	-	102	102	-	94	94
Withholding tax on postal current accounts	-	3	3	-	1	1
Stamp duty payable	1,198	11	1,209	1,040	-	1,040
Other taxes due	-	15	15	-	21	21
Total	**1,198**	**131**	**1,329**	**1,040**	**116**	**1,156**
of which attributable to BancoPosta RFC	*1,198*	*19*	*1,217*	*1,040*	*9*	*1,049*

Specifically:

- **Withholding tax on employees' and consultants' salaries** relates to amounts paid to the tax authorities by the Company in January and February 2019 as the withholding agent.
- **Stamp duty** represents the amount payable to the tax authorities for stamp duty in virtual form, before the adjustment applied in 2019 pursuant to note 3-bis to art. 13 of the Tariff introduced by Presidential Decree 642/1972. The non-current portion of stamp duty payable primarily regards the amount due at 31 December 2018 on interest-bearing postal certificates in circulation, in compliance with the legislation referred to in note A8 – Other receivables and assets.

Other amounts due to subsidiaries and joint ventures

TAB. B9.4 - OTHER AMOUNTS DUE TO SUBSIDIARIES

	Balance at 31 December 2018			Balance at 31 December 2017		
Name (€m)	**Non-current liabilities**	**Current liabilities**	**Total**	**Non-current liabilities**	**Current liabilities**	**Total**
Direct subsidiaries						
Poste Vita SpA	-	114	114	-	15	15
PostePay SpA	-	73	73	-	-	-
SDA Express Courier SpA	6	12	18	5	10	15
BancoPosta Fondi SpA SGR	-	2	2	-	-	-
Postel SpA	-	1	1	1	3	4
Mistral Air Srl	-	1	1	1	1	2
Risparmio Holding SpA	-	1	1	-	1	1
Total	**6**	**204**	**210**	**7**	**30**	**37**
of which attributable to BancoPosta RFC	-	-	-	-	-	-

This item primarily regards the amount payable to subsidiaries by Poste Italiane SpA, as the consolidating entity in the tax consolidation arrangement (note 2.3 – *Summary of significant accounting standards and policies*), to whom the subsidiaries have transferred tax assets in the form of payments on account, withholding taxes and taxes paid overseas, after deducting IRES payable to the Company by the subsidiary, Poste Vita SpA, BancoPosta Fondi SpA SGR and Postel SpA, and the benefit connected with the tax losses contributed by Mistral Air Srl, SDA Express Courier SpA and Risparmio Holding SpA in 2018.

The amount payable to the subsidiary, PostePay SpA, includes €72 million relating to the difference between the carrying amounts of the assets and liabilities of the card payments and payment services business unit contributed to PostePay from 1 October 2018, which will be settled by Poste Italiane in early 2019 (note 6.2 – *Information on BancoPosta RFC*).

Sundry payables

This item breaks down as follows

TAB. B9.5 - SUNDRY PAYABLES

Item (€m)	Balance at 31 December 2018 Non-current liabilities	Current liabilities	Total	Balance at 31 December 2017 Non-current liabilities	Current liabilities	Total
Sundry payables attributable to BancoPosta	75	6	81	75	8	83
Guarantee deposits	10	-	10	10	-	10
Other	-	23	23	-	26	26
Total	**85**	**29**	**114**	**85**	**34**	**119**
of which attributable to BancoPosta RFC	*75*	*6*	*81*	*75*	*8*	*83*

In particular:

- sundry payables attributable to BancoPosta's operations primarily relate to transactions effected in previous years in the process of settlement;
- guarantee deposits primarily relate to amounts collected from customers as a guarantee of payment for services (postage-paid mailing services, the use of post office boxes, lease contracts, telegraphic service contracts, etc.).

Accrued expenses and deferred income

This item breaks down as follows:

TAB. B9.6 - ACCRUED EXPENSES AND DEFERRED INCOME

Item (€m)	Balance at 31 December 2018 Non-current liabilities	Current liabilities	Total	Balance at 31 December 2017 Non-current liabilities	Current liabilities	Total
Accrued expenses	-	2	2	-	2	2
Deferred income	10	2	12	11	28	39
Total	**10**	**4**	**14**	**11**	**30**	**41**
of which attributable to BancoPosta RFC	-	-	-	-	*27*	*27*

Deferred income regards components of income recognised on the basis of accounting standards other than IFRS15 and includes:

- €7 million in grants approved by the competent public authorities in favour of the Company, whose matching costs have not been incurred yet;
- €4 million relating to advance collection of the rental on a thirty-year lease of a pneumatic postal structure in Rome.

Deferred income attributable to BancoPosta RFC and relating to fees on Postemat and Postepay Evolution cards collected in advance, which at 31 December 2017 amounted to €27 million, following the adoption of IFRS15, is recognised in contract liabilities from 1 January 2019.

6.4 Statement of profit or loss

C1 - Revenue from sales and services (€8,419 million)

TAB. C1 - REVENUE FROM SALES AND SERVICES

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Postal Services	**2,892**	**2,879**
of which Revenue from contracts with customers	2,892	
recognised at a point in time	562	
recognised over time	2,330	
BancoPosta services	**5,419**	**5,106**
of which Revenue from contracts with customers	3,863	
recognised at a point in time	505	
recognised over time	3,358	
Other sales of goods and services	**108**	**75**
of which Revenue from contracts with customers	108	
recognised at a point in time	28	
recognised over time	80	
Total	**8,419**	**8,060**

Revenue from contracts with customers breaks down as follows:

- **Revenue from Postal Services** referring to services provided to customers through retail and business sales channels. Revenue generated through the retail channel is recognised at a point in time given the number of transactions handled through the various sales channels (post offices, call centres and on line) and measured on the basis of the rates applied. Revenue generated through the business channel is generally earned as a result of annual or multi-annual contracts and is recognised over time using the output method determined on the basis of shipments requested and handled. These contracts include elements of variable consideration (primarily volume discounts and penalties linked to the quality of service provided) estimated using the expected value method and recognised as a reduction from revenue.
- **Revenue from BancoPosta Services**, which breaks down as follows: (i) revenue from placement and intermediation services: these are recognised over time and measured on the basis of the volumes placed, quantified on the basis of commercial agreements with financial institutions. In terms of payment for the collection of postal savings, the agreement entered into with Cassa depositi e prestiti envisages payment of a variable consideration on achieving certain levels of inflows, determined annually on the basis of the volume of inflows and expected redemptions. Certain commercial agreements, entered into with leading financial partners for the placement of financial products, envisage the return of placement fees in the event of early termination or surrender by the customer; (ii) revenue from current account and related services: these are recognised over time, measured on the basis of the service rendered (including the related services, e.g. bank transfers, securities deposits, etc.) and quantified on the basis of the contract terms and conditions offered to the customer; (iii) revenue from fees on the processing of payment slips: these are recognised at a point in time given the number of transactions handled by post offices and quantified on the basis of the terms and conditions in the contract of sale. Revenue from financial services includes, for the first nine months, revenue from card payments and payment services, relating mainly to the issue of PostePay cards (recognised at a point in time, upon issue) and the related services (recognised over time on the basis of use by the customer).

Revenue from Postal Services

TAB. C1.1 - REVENUE FROM POSTAL SERVICES

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Unfranked mail	1,042	1,053
Automated franking by third parties and at post offices	676	731
Overseas mail and parcels	238	173
Integrated services	145	157
Stamps	129	152
Postage-paid mailing services	93	95
Telegrams	38	41
Other postal services	208	172
Total market revenue	**2,569**	**2,574**
Universal Service compensation	262	262
Publisher tariff subsidies	61	43
Total	**2,892**	**2,879**

Universal Service compensation relates to amounts paid by the MEF to cover the costs of fulfilling the USO. Annual compensation, amounting to €262 million, is established in the *Contratto di Programma* (Service Contract) for 2015-2019, which took effect on 1 January 2016

Publish tariff subsidies[114] relate to the amount receivable by the Company from the *Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria* (Cabinet Office - Publishing department) as compensation for the discounts applied to publishers and non-profit organisations when sending mail. The compensation is determined on the basis of the tariffs set in the decree issued by the Ministry for Economic Development, in agreement with the Ministry of the Economy and Finance, on 21 October 2010 and Law Decree 63 of 18 May 2012, as converted into Law 103 of 16 July 2012. In this regard, provision has been made in the state budget for 2018, but the subsidies are subject to the approval of the European Commission.

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

BancoPosta Services

TAB. C1.2 - REVENUE FROM BANCOPOSTA SERVICES

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Fees for collection of postal savings deposits	1,827	1,566
Income from investment of postal current account deposits	1,556	1,475
Revenue from current account services	497	497
Insurance brokerage	407	468
Commissions on payment of bills by payment slip	412	434
Distribution of loan products	262	214
Fees for issue and use of prepaid cards	173	194
Income from delegated services	101	104
Distribution of investment funds	51	41
Distribution of payment products and services	47	-
Money transfers	29	37
Securities custody	4	5
Commissions from securities placements and trading	4	4
Other products and services	49	67
Total	**5,419**	**5,106**

In particular:

- **Fees for the collection of postal savings deposits** relate to remuneration for the provision and redemption of Interest-bearing Postal Certificates and payments into and withdrawals from Postal Savings Books. This service is provided by Poste Italiane SpA on behalf of Cassa depositi e prestiti under the Agreement of 14 December 2017 to cover the three-year period 2018-2020.
- **Income from the investment of postal current account deposits** breaks down as follows:

TAB. C1.2.1 - INCOME FROM INVESTMENT OF POSTAL CURRENT ACCOUNTS DEPOSITS

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Income from investments in securities	1,488	1,448
Interest income on held-to-maturity financial assets	485	499
Interest income on available-for-sale financial assets	981	992
Interest income on asset swaps of available-for-sale financial assets	7	(49)
interest on repurchase agreements	15	6
Income from deposits held with the MEF	65	27
Remuneration of current account deposits (deposited with the MEF)	63	27
Differential on derivatives stabilising returns	2	-
Other Income	3	-
Total	**1,556**	**1,475**

Income from investments in securities derives from the investment of deposits paid into postal current accounts held by private customers. The total includes the impact of the interest rate hedge described in note A5 – *Financial assets attributable to BancoPosta*.

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

- **Revenue from current account services** primarily relates to charges on current accounts (€211 million), fees on amounts collected and on statements of account sent to customers (€112 million), annual fees on debit cards (€24 million) and related transactions (€45 million).
- **Revenue from insurance brokerage** derives from fees receivable from the subsidiaries, Poste Vita and Poste Assicura, in return for the sale of insurance policies.
- **Revenue from the distribution of loan products** relate to commissions received by the Company on the placement of personal loans and mortgages on behalf of third parties.
- **Income from delegated services** primarily regards amounts received by the Company for the payment of pensions and vouchers issued by INPS (€40 million), and for the provision of treasury services on the basis of the agreement with the MEF (€57 million).
- Income from the **distribution of payment products and services** regards fees received in return for distributing and promoting the products issued by the subsidiary, PostePay SpA.
- **Other products and services** mainly reflect fees deriving from the processing of tax payment forms (F24) (€41 million).

Other sales of goods and services

The main components are: income from the subsidiary, PostePay SpA, in relation to card payment services (€31 million), fees received for collecting applications for residence permits, totalling €23 million and income from call centre services, amounting to €7 million.

C2 - Other income from financial activities (€418 million)

TAB. C2 - OTHER INCOME FROM FINANCIAL ACTIVITIES

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Income from equity instruments at FVTPL	9	1
Fair value gains	9	-
Dividends from other investments	-	1
Income from financial assets at FVTOCI	400	638
Realised gains	400	638
Income from financial assets at amortised cost	4	-
Realised gains	4	-
Income from fair value hedges	-	2
Fair value gains	-	2
Foreign exchange gains	4	5
Realised gains	4	5
Other income	1	-
Total	**418**	**646**

C3 - Other operating income (€452 million)

TAB. C3 - OTHER OPERATING INCOME

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Dividends from subsidiaries	262	508
Gains on disposals	117	17
Lease rentals	14	14
Recoveries of contract expenses and other recoveries	12	13
Government grants	10	9
Recovery of cost of seconded staff	6	5
Other income	31	18
Total	**452**	**584**

Dividends from subsidiaries

TAB. C3.1 - DIVIDENDS FROM SUBSIDIARIES

Name (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Poste Vita SpA	238	470
BancoPosta Fondi SpA SGR	15	21
PostePay SpA	9	17
Total	**262**	**508**

Gains on disposals

TAB. C3.2 - GAINS ON DISPOSALS

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Gains on disposal of investments	116	14
Gains on disposal of investment property	1	2
Gains on disposal of property and plant	-	1
Total	**117**	**17**

For the purposes of reconciliation with the statement of cash flows, in 2018 this item amounts to €115 million, after losses of €2 million. In 2017, this item, after losses of €1 million, amounted to €16 million.

Gains on the sale of investments are non-recurring and regard the sale of shares in Anima SGR to Anima Holding SpA (note 4.1).

C4 - Cost of goods and services (€1,725 million)

TAB. C4 - COST OF GOODS AND SERVICES

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Services	1,361	1,288
Lease expense	270	282
Raw, ancillary and consumable materials and goods for resale	94	96
Total	**1,725**	**1,666**

Cost of services

TAB. C4.1 - COST OF SERVICES

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Transport of mail, parcels and forms	243	229
Outsourcing fees and external service charges	208	135
Routine maintenance and technical assistance	194	192
Personnel services	133	133
Energy and water	108	113
Transport of cash	91	88
Credit and debit card fees and charges	74	84
Cleaning, waste disposal and security	68	65
Mail, telegraph and telex	58	54
Advertising and promotions	57	62
Printing and enveloping services	46	43
Telecommunications and data transmission	43	53
Consultants' fees and legal expenses	21	19
Insurance premiums	9	9
Agent commissions and other	6	7
Securities custody and management fees	2	2
Total	**1,361**	**1,288**

Lease expense

TAB. C4.2 - LEASE EXPENSE

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Property rentals	155	159
Lease rentals	148	151
Ancillary costs	7	8
Vehicle leases	57	67
Equipment hire and software licenses	54	52
Other lease expense	4	4
Total	**270**	**282**

Real estate leases relate almost entirely to the buildings from which the Company operates (post offices, Delivery Logistics Centres and Sorting Centres). Under the relevant lease agreements, rents are increased annually on the basis of the price index published by the Istituto Nazionale di Statistica (*ISTAT*, the Italian Office for National Statistics). Lease terms are generally six years, renewable for a further six. Renewal is assured from the clause stating that the lessor “waives the option of refusing renewal on expiry of the first term”, by which the lessor, once the agreement has been signed, cannot refuse to renew the lease, except in cases of force majeure. Poste Italiane SpA has the right to withdraw from the contract at any time, giving six months’ notice, in accordance with the standard lease contract.

Raw, ancillary and consumable materials and goods for resale

TAB. C4.3 - RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS FOR RESALE

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Fuels and lubricants	45	41
Stationery and printed matter	17	20
Printing of postage and revenue stamps	4	6
Consumables and goods for resale	28	29
Total	**94**	**96**

C5 - Expenses from financial activities (€50 million)

TAB. C5 - EXPENSES FROM FINANCIAL ACTIVITIES

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Interest expense	19	19
Interest expense on repurchase agreements	6	11
Interest on customers' deposits	10	5
Interest paid to MEF	3	4
Portion of interest expense on own liquidity (finance costs)	-	(1)
Income from available-for-sale financial assets	22	15
Realised gains	22	15
Expenses from financial assets at amortised cost	3	-
Realised losses	3	-
Expenses from fair value hedges	2	-
Fair value losses	2	-
Foreign exchange losses	-	2
Fair value losses	-	1
Realised gains	-	1
Other expenses	4	4
Total	**50**	**40**

C6 - Personnel expenses (€5,947 million)

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

TAB. C6 - PERSONNEL EXPENSES

Item (€m)	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Wages and salaries		3,976	4,050
Social security contributions		1,137	1,150
Provisions for employee termination benefits: supplementary pension funds and INPS		248	248
Agency staff		8	2
Remuneration and expenses paid to Directors		2	2
Share based payment		4	3
Redundancy payments		173	51
Net provisions (reversals) for disputes with staff	[tab. B4]	2	(25)
Provisions for restructuring charges	[tab. B4]	444	440
Amounts recovered from staff for disputes		(5)	(6)
Other staff costs/(cost recoveries)		(42)	(38)
Total		**5,947**	**5,877**

Net provisions for disputes with staff and provisions for early retirement incentives are described in note B4 - *Provisions for risks and charges.*

Cost recoveries primarily regard revised estimates for previous years.

The following table shows the Company's average and year-end headcounts by category:

TAB. C6.1 - WORKFORCE

	Average workforce		Year-end workforce	
Permanent workforce	**2018**	**2017**	**At 31 December 2018**	**At 31 December 2017**
Executives	573	594	549	583
Middle managers (A1)	6,389	6,476	6,184	6,344
Middle managers (A2)	8,130	8,203	7,879	8,073
Grades B, C, D	107,149	111,695	103,820	108,409
Grades E, F	580	734	891	622
Total permanent workforce*	**122,821**	**127,702**	**119,323**	**124,031**

* Figures expressed in full-time equivalent terms.

Furthermore, taking account of staff on flexible contracts, the average number of full-time equivalent staff in 2018 is di 130,867 (in 2017: 134,190).

C7 - Depreciation, amortisation and impairments (€474 million)

TAB. C7 - DEPRECIATION, AMORTISATION AND IMPAIRMENTS

Item (€m)	**For the year ended 31 December 2018**	**For the year ended 31 December 2017**
Property, plant and equipment	297	307
Properties used in operations	111	110
Plant and machinery	68	72
Industrial and commercial equipment	9	9
Leasehold improvements	32	30
Other assets	77	86
Impairments/recoveries/adjustments of property, plant and equipment*	(6)	(10)
Depreciation of investment property	4	4
Amortisation and impairments of intangible assets	179	180
Industrial patents and intellectual property rights	179	180
Total	**474**	**481**

* See note A1.

C8 - Other operating costs (€306 million)

TAB. C8 - OTHER OPERATING COSTS

Item (€m)	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Operational risk events		46	60
Thefts during the year		5	5
Reversal of BancoPosta assets, net of recoveries		1	1
Other operating losses of BancoPosta		40	54
Net provisions for risks and charges made/(released)		72	259
for disputes with third parties	[tab. B4]	2	50
for non-recurring charges incurred by BancoPosta	[tab. B4]	79	170
for expired and statute barred postal savings certificates	[tab. B4]	(15)	-
for other risks and charges	[tab. B4]	6	39
Losses		2	1
Other taxes and duties		64	62
Municipal property tax		25	26
Urban waste tax		21	22
Other		18	14
Impairments of investments	[tab. A4.1]	94	21
Other recurring expenses		28	26
Total		**306**	**429**

Impairment losses on investments in subsidiaries are described in note A4.

C9 - Impairment losses/(reversals of impairment losses) on debt instruments, receivables and other assets (€22 million)

TAB. C9 - IMPAIRMENT LOSSES/(REVERSALS OF IMPAIRMENT LOSSES) ON DEBT INSTRUMENTS, RECEIVABLES AND OTHER ASSETS

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Net provisions and losses on receivables and other assets (uses of provisions)	21	30
Provisions (reversal of provisions) for receivables due from customers	8	22
Provisions (reversal of provisions) for receivables due from the MEF	(1)	-
Provisions (reversal of provisions) for sundry receivables	14	8
Net impairment losses on debt instruments and receivables attributable to financial activities	1	-
Impairment/(reversal) on financial assets at FVTOCI	(1)	-
Impairment/(reversal) on financial assets at amortised cost	2	-
Total	**22**	**30**

C10 - Finance income (€44 million) and costs (€70 million)

Finance income

TAB C10.1 - FINANCE INCOME

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Income from subsidiaries and associates	29	14
Interest on loans	6	5
Interest on intercompany current accounts	1	1
Dividends from associates*	17	8
Other	5	-
Income from available-for-sale financial assets	5	9
Interest on fixed-income instruments	16	16
Accrued differentials on fair value hedges	(11)	(11)
Realised gains	-	4
Other finance income	6	9
Finance income on discounting receivables**	5	6
Overdue interest	13	14
Impairment of amounts due as overdue interest	(13)	(14)
Interest on IRAP refund	-	3
Other	1	-
Foreign exchange gains*	4	11
Total	**44**	**43**

* For the purposes of reconciliation with the statement of cash flows, in 2018 finance income after foreign exchange gains and dividends from associates amounts to €23 million (€24 million in 2017).

** Finance income on discounted receivables regards interest on amounts due from staff and INPS under the fixed-term contract settlements of 2006, 2008, 2010, 2012, 2013 and 2015.

Finance costs

TAB. C10.2 - FINANCE COSTS

Item (€m)	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Finance costs on financial liabilities		15	29
on bonds		13	27
on financial institutions borrowings		1	1
on derivative financial instruments		1	1
Finance costs on provisions for employee termination benefits	[tab. B5]	19	20
Finance costs on provisions for risks	[tab. B4]	-	1
Remuneration of Poste Italiane's own liquidity	[tab. C5]	-	1
Impairment of investments in joint ventures		27	-
Other finance costs		5	5
Foreign exchange losses*		4	12
Total		**70**	**68**

* For the purposes of reconciliation with the statement of cash flows, in 2018 financial costs after foreign exchange losses amount to €66 million (€56 million in 2017).

C11 - Impairment losses/(reversals of impairment losses) on financial assets (€20 million)

The impairment losses on financial assets described in note A6 are as follows:

TAB. C11 - IMPAIRMENT LOSSES/(REVERSALS OF IMPAIRMENT LOSSES) ON FINANCIAL ASSETS

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
Net impairment losses on financial receivables	20	82
Impairment losses/(Reversals of impairment losses) on financial receivables	20	82
Total	**20**	**82**

C12 - Income tax expense (€148 million)

TAB. C12 - INCOME TAX EXPENSE

Item (€m)	For the year ended 31 December 2018			For the year ended 31 December 2017		
	IRES	IRAP	Total	IRES	IRAP	Total
Current tax expense	119	35	154	56	26	82
Deferred tax income	(7)	2	(5)	(24)	(4)	(28)
Deferred tax expense	(1)	-	(1)	2	-	2
Total	**111**	**37**	**148**	**34**	**22**	**56**

The tax rate for 2018 is 20.3% and consists of:

TAB. C12.1 - RECONCILIATION BETWEEN THE THEORETICAL IRES TAX RATE AND THE EFFECTIVE IRES TAX RATE

Item (€m)	For the year ended 31 December 2018		For the year ended 31 December 2017	
	IRES	Tax rate %	IRES	Tax rate %
Profit before tax	*732*		*673*	
Theoretical tax charge	176	24.0%	162	24.0%
Effect of increases/(decreases)on theoretical tax charge				
Adjustments to investments	29	3.97%	5	0.78%
Dividends from investee companies	(64)	-8.68%	(117)	-17.48%
Realised gains on investments	(27)	-3.62%	(3)	-0.47%
Realised gains on other investments	-	-	(21)	-3.09
Non-deductible out-of-period losses	3	0.41%	5	0.70%
Non-deductible taxes	5	0.67%	5	0.76%
Net provisions for risks and charges and bad debts	3	0.37%	20	2.97%
Taxation for previous years	(7)	-0.95%	(19)	-2.78%
Other	(7)	-0.93%	(7)	-0.42%
Effective tax charge	**111**	**15.24%**	**34**	**4.98%**

TAB. C12.2 - RECONCILIATION BETWEEN THE THEORETICAL IRAP TAX RATE AND THE EFFECTIVE IRAP TAX RATE

Item (€m)	For the year ended 31 December 2018		For the year ended 31 December 2017	
	IRAP	Tax rate %	IRAP	Tax rate %
Profit before tax	*732*		*673*	
Theoretical tax charge	33	4.49%	31	4.57%
Effect of increases/(decreases)on theoretical tax charge				
Non-deductible personnel expenses	12	1.69%	12	1.70%
Dividends from investee companies	(13)	-1.71%	(24)	-3.51%
Realised gains on investments	(5)	-0.71%	(1)	-0.09%
Net provisions for risks and charges and bad debts	2	0.29%	5	0.80%
Non-deductible out-of-period losses	1	0.08%	1	0.13%
Finance income and costs	1	0.05%	1	0.14%
Impairment loss/(reversal) on financial instruments	6	0.87%	5	0.71%
Non-deductible taxes	1	0.16%	1	0.18%
Claim for IRAP refund	-	-	(9)	-1.28%
Taxation for previous years	(3)	-0.35%	(1)	-0.09%
Other	2	0.21%	1	0.08%
Effective tax charge	**37**	**5.06%**	**22**	**3.33%**

Current tax expense

TAB. C12.3 - MOVEMENTS IN CURRENT TAX ASSETS/(LIABILITIES)

Item (€m)	Current taxes for the year ended 31 December 2018		
	IRES	IRAP	Total
	Assets/ (Liabilities)	Assets/ (Liabilities)	
Balance at 1 January	**69**	**(5)**	**64**
First-time adoption of IFRS 9	5	-	5
Payments of	234	35	269
prepayments for the current year	202	32	234
balance payable for the previous year	-	3	3
substitute tax	32	-	32
Provisions to profit or loss	(119)	(35)	(154)
Provisions to equity	2	(1)	1
Tax consolidation	(110)	-	(110)
Balance at 31 December	**81**	**(6)**	**75**
of which:			
Current tax assets	80	9	89
Current tax liabilities	-	(6)	(6)

Under IAS 12 – Income Taxes, IRES and IRAP credits are offset against the corresponding current tax liabilities, when applied by the same tax authority to the same taxable entity, which has a legally enforceable right to offset and intends to exercise this right.

Current tax assets/(liabilities) for the year ended 31 December 2018 primarily regard:

- a tax asset of €38 million relating to all the companies participating in the tax consolidation arrangement and reflecting payments of IRES and IRAP on account and refundable IRAP from the previous year, after provisions for IRES and IRAP for the year;
- the substitute tax of €32 million paid by the Parent Company in order to obtain tax relief, pursuant to art. 15, paragraph 10 of Law Decree 185 of 2008, on the increase in the value of the goodwill and other intangible assets relating to acquisition of the investment in FSIA Investimenti Srl (as described in more detail in note A4 – Investments accounted for using the equity method). By paying this substitute tax, the Parent Company can deduct tax amortisation of the revalued amounts from the tax bases for IRES and IRAP from the second tax period following the one in which the substitute tax was paid;
- the IRAP refund of €9 million to be recovered on the unreported deduction of expenses for disabled personnel in 2003, identified in 2017 following the ruling handed down by the Regional Tax Tribunal for Lazio, which has upheld an earlier appeal brought by the Company (see the description provided in note 2.5 – Use of estimates). Accrued interest on this refund, totalling approximately €3 million, is recognised in "Other receivables and assets" (tab. A8);
- the remaining IRES credit of €4 million to be recovered on unreported IRAP deduction, following submission of a claim pursuant to article 6 of Law Decree 185 of 29 November 2008 and article 2 of Law Decree 201 of 6 December 2011, which provided for a partial deductibility of IRAP from IRES (reference should be made to the information on accrued interest in note A8).

Deferred tax assets and liabilities

Details of this item at 31 December 2018 are shown in the following table:

TAB. C12.4 - DEFERRED TAXES

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Deferred tax assets	863	762
Deferred tax liabilities	(376)	(315)
Total	**487**	**447**
of which attributable to BancoPosta RFC		
Deferred tax assets	507	406
Deferred tax liabilities	(372)	(308)

The nominal tax rate for IRES is 24% from 1 January 2017, whilst the nominal tax rate for IRAP is 3.90% for entities as a whole and 4.20% for entities that hold concessions other than those relating to the construction and operation of motorways and tunnels (+/–0.92% resulting from regional surtaxes and/or relief and +0.15% as a result of additional surtaxes levied in regions with a health service deficit). The Company's average statutory rate for IRAP is 4.49%. Movements in deferred tax assets and liabilities are shown below:

TAB. C12.5 - MOVEMENTS IN DEFERRED TAX ASSETS AND LIABILITIES

Item (€m)	Note	Balance at 31 December 2018
Balance at 1 January		**447**
First-time adoption of IFRS 9		(547)
Deferred tax income/(expense) recognised in profit or loss		6
Income/(expense) recognised in equity	[tab. C12.8]	586
Extraordinary transactions*		(5)
Balance at 31 December		**487**

* Extraordinary transactions primarily regard the balance of deferred tax assets transferred to PostePay SpA following the contribution of the card payments and payment services business unit on 1 October 2018.

The following table shows movements in deferred tax assets and liabilities, broken down according to the events that generated such movements:

TAB. C12.6 - MOVEMENTS IN DEFERRED TAX ASSETS

Item (€m)	Investment property	Financial assets and liabilities	Contra asset accounts	Provisions for risks and charges	Present value of employee termination benefits	Contract liabilities	Other	Total
Balance at 1 January 2017	**16**	**206**	**75**	**308**	**25**	**-**	**42**	**672**
Income/(Expenses) recognised in profit or loss	-	-	3	22	-	-	3	28
Income/(expenses) recognised in equity	-	60	-	-	(1)	-	-	59
Merger contribution	-	-	3	-	-	-	-	3
Balance at 31 December 2017	**16**	**266**	**81**	**330**	**24**	**-**	**45**	**762**
First-time adoption of IFRS 9	-	(156)	2	-	-	-	-	(154)
Income/(Expenses) recognised in profit or loss	1	-	6	(17)	-	10	5	5
Income/(expenses) recognised in equity	-	260	-	-	(5)	-	-	255
Extraordinary transactions	-	-	-	-	-	-	(5)	(5)
Balance at 31 December 2018	**17**	**370**	**89**	**313**	**19**	**10**	**45**	**863**

TAB. C12.7 - MOVEMENTS IN DEFERRED TAX LIABILITIES

Item (€m)	Financial assets and liabilities	PPE	Other	Total
Balance at 1 January 2017	**535**	**1**	**-**	**536**
Income/(Expenses) recognised in profit or loss	-	-	2	2
Income/(expenses) recognised in equity	(223)	-	-	(223)
Balance at 31 December 2017	**312**	**1**	**2**	**315**
First-time adoption of IFRS 9	392	-	1	393
Income/(Expenses) recognised in profit or loss	-	-	(1)	(1)
Income/(expenses) recognised in equity	(331)	-	-	(331)
Balance at 31 December 2018	**373**	**1**	**2**	**376**

At 31 December 2018, deferred tax assets and liabilities recognised directly in equity are as follows:

TAB. C12.8 - DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED IN EQUITY

Item (€m)	Increases/(decreases) in equity	
	Year ended 31 December 2018	Year ended 31 December 2017
Fair value reserve for available-for-sale financial assets	651	265
Cash flow hedge reserve	(60)	18
Actuarial gains/(losses) on employee termination benefits	(5)	(1)
Total	**586**	**282**

6.5 Related party transactions

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

IMPACT OF RELATED PARTY TRANSACTIONS ON THE FINANCIAL POSITION AT 31 DECEMBER 2018

Name (€m)	Balance at 31 December 2018								
	BancoPosta's financial assets	Financial assets	Trade receivables	Other receivables and assets	Cash and cash equivalents	BancoPosta's financial liabilities	Financial liabilities	Trade payables	Other liabilities
Direct subsidiaries									
BancoPosta Fondi SpA SGR	-	-	16	-	-	20	15	1	2
CLP ScpA	-	-	15	-	-	1	-	80	-
Consorzio PosteMotori	-	-	15	-	-	45	-	1	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	1	-	14	-
EGI SpA	-	-	1	-	-	7	-	15	-
Mistral Air Srl	-	15	3	1	-	-	-	-	1
PatentiViaPoste ScpA	-	-	6	-	-	9	-	1	-
Poste Tributi ScpA (in liquidation)	-	-	5	-	-	1	-	-	-
Poste Vita SpA	-	256	143	-	-	539	79	1	114
Postel SpA	-	12	42	1	-	6	-	33	1
PostePay SpA	174	-	103	17	-	4,291	18	83	73
Risparmio Holding SpA	-	-	-	-	-	-	-	-	1
SDA Express Courier SpA	-	77	40	2	-	3	-	46	18
Indirect subsidiaries									
Poste Assicura SpA	-	-	8	4	-	5	-	1	-
Poste Welfare Servizi Srl	-	-	-	-	-	9	-	-	-
Joint ventures									
SIA Group	-	-	-	-	-	-	-	5	-
Related parties external to the Group									
Ministry of the Economy and Finance	5,930	-	197	11	1,306	3,649	-	43	8
Cassa depositi e prestiti Group	4,541	-	440	-	-	-	-	-	-
Enel Group	-	-	26	-	-	-	-	-	-
Eni Group	-	-	5	-	-	-	-	12	-
Leonardo Group	-	-	-	-	-	-	-	41	-
Monte dei Paschi di Siena Group	44	-	3	-	-	337	-	-	-
Invitalia Group	-	69	2	-	-	-	-	-	-
Other related parties external to the Group	-	-	18	-	-	-	-	10	64
Provisions for doubtful debts from external related parties	(5)	(20)	(39)	(3)	-	-	-	-	-
Total	**10,684**	**409**	**1,049**	**33**	**1,306**	**8,923**	**112**	**387**	**282**

IMPACT OF RELATED PARTY TRANSACTIONS ON THE FINANCIAL POSITION AT 31 DECEMBER 2017

	Balance at 31 December 2017								
Name (€m)	BancoPosta's financial assets	Financial assets	Trade receivables	Other receivables and assets	Cash and cash equivalents	BancoPosta's financial liabilities	Financial liabilities	Trade payables	Other liabilities
Direct subsidiaries									
BancoPosta Fondi SpA SGR	-	-	22	-	-	19	20	-	-
CLP ScpA	-	-	14	-	-	10	-	84	-
Consorzio PosteMotori	-	-	6	-	-	41	-	-	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	6	-	9	-
EGI SpA	-	-	1	-	-	12	1	16	-
Mistral Air Srl	-	13	2	-	-	-	-	-	2
PatentiViaPoste ScpA	-	-	6	-	-	8	-	1	-
Poste Tributi ScpA (in liquidation)	-	2	5	1	-	7	-	-	-
PosteTutela SpA	-	-	-	-	-	7	-	47	-
Poste Vita SpA	-	251	139	-	-	570	1	-	15
Postel SpA	-	8	41	1	-	5	-	15	4
PosteMobile SpA	-	-	18	1	-	15	24	5	-
Risparmio Holding SpA	-	-	-	-	-	-	-	-	1
SDA Express Courier SpA	-	93	28	1	-	3	-	41	15
Indirect subsidiaries									
Poste Assicura SpA	-	-	6	-	-	2	-	-	-
Poste Welfare Servizi Srl	-	-	-	-	-	3	-	-	-
Joint ventures									
SIA Group	-	-	-	-	-	-	-	12	-
Related parties external to the Group									
Ministry of the Economy and Finance	6,011	-	312	17	379	3,483	-	97	8
Cassa depositi e prestiti Group	2,485	-	374	-	-	-	56	-	-
Enel Group	-	-	29	-	-	-	-	5	-
Eni Group	-	-	1	-	-	-	-	19	-
Leonardo Group	-	-	-	-	-	-	-	32	-
Monte dei Paschi di Siena Group	-	-	2	-	6	-	-	-	-
Invitalia Group	-	228	2	-	-	-	-	-	-
Other related parties external to the Group	-	-	4	-	-	-	-	14	61
Provisions for doubtful debts from external related parties	-	-	(42)	(11)	-	-	-	-	-
Total	**8,496**	**595**	**970**	**10**	**385**	**4,191**	**102**	**397**	**106**

At 31 December 2018, total provisions for risks and charges made to cover probable liabilities arising from transactions with related parties external to the Company and attributable primarily to trading relations amount to €71 million (€71 million at 31 December 2017).

IMPACT OF RELATED PARTY TRANSACTIONS ON PROFIT OR LOSS

Name (€m)	Year ended 31 December 2018											
	Revenue			Costs								
				Capital expenditure		Current expenditure						
	Revenue from sales and services	Other operating income	Finance income	Property, plant and equipment	Intangible assets	Cost of goods and services	Expenses from financial activities	Personnel expenses	Other operating costs	Impairment losses/ (Reversals of impairment losses) on debt instruments, receivables and other assets	Finance costs	Impairment loss/ (reversal) on financial instruments
Direct subsidiaries												
BancoPosta Fondi SpA SGR	53	15	-	-	-	-	-	-	-	-	-	-
CLP ScpA	5	-	-	2	-	152	-	-	3	-	-	-
Consorzio PosteMotori	40	-	-	-	-	-	-	-	1	-	-	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	2	24	-	-	-	-	-	-
EGI SpA	-	1	-	-	-	96	-	-	-	-	-	-
Mistral Air Srl	-	1	-	-	-	-	-	-	-	-	-	-
PatentiViaPoste ScpA	25	-	-	-	-	-	-	-	-	-	-	-
Poste Vita SpA	412	239	11	-	-	-	-	1	-	-	-	-
Postel SpA	4	2	-	-	-	47	-	2	-	-	-	-
Postepay SpA	108	11	-	-	-	83	4	1	-	-	-	-
SDA Express Courier SpA	9	4	1	-	-	87	-	2	-	-	-	-
Indirect subsidiaries												
Kipoint SpA	-	-	-	-	-	1	-	-	-	-	-	-
Poste Assicura SpA	31	-	-	-	-	-	-	-	-	-	-	-
Joint ventures												
SIA Group	-	-	11	-	3	27	-	-	-	-	-	-
Associates												
Anima Group	2	116	6	-	-	-	-	-	-	-	-	-
Related parties external to the Group												
Ministry of the Economy and Finance	513	5	-	-	-	3	3	-	-	(4)	-	-
Cassa depositi e prestiti Group	1,892	-	-	-	-	-	-	-	-	1	-	-
Enel Group	58	-	-	-	-	-	-	-	-	-	-	-
Eni Group	20	-	-	-	-	30	-	-	-	-	-	-
Leonardo Group	-	-	-	-	12	28	-	-	-	-	-	-
Monte dei Paschi di Siena Group	20	-	-	-	-	-	-	-	-	-	-	-
Invitalia Group	2	-	-	-	-	-	-	-	-	-	-	20
Other related parties external to the Group	27	-	-	-	-	7	-	42	-	-	-	-
Total	**3,221**	**394**	**29**	**2**	**17**	**585**	**7**	**48**	**4**	**(3)**	**-**	**20**

IMPACT OF RELATED PARTY TRANSACTIONS ON PROFIT OR LOSS

	Year ended 31 December 2017										
	Revenue			Costs							
				Capital expenditure		Current expenditure					
Name (€m)	Revenue from sales and services	Other operating income	Finance income	Property, plant and equipment	Intangible assets	Property, plant and equipment	Intangible assets	Personnel expenses	Other operating costs	Impairment losses/ (Reversals of impairment losses) on debt instruments, receivables and other assets	Finance costs
Direct subsidiaries											
Banca del Mezzogiorno-MedioCredito Centrale SpA	1	-	-	-	-	-	-	-	-	-	-
BancoPosta Fondi SpA SGR	43	21	1	-	-	-	-	-	-	-	-
CLP ScpA	8	1	-	-	1	153	-	-	1	-	-
Consorzio PosteMotori	40	-	-	-	-	-	-	-	-	-	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	6	-	23	-	-	-	-	-
EGI SpA	-	1	-	-	-	99	-	-	-	-	-
PatentiViaPoste ScpA	25	-	-	-	-	-	-	-	1	-	-
Postecom SpA	-	-	-	-	5	9	-	-	-	-	-
Poste Tributi ScpA (in liquidation)	1	-	-	-	-	-	-	-	-	-	-
PosteTutela SpA	-	1	-	-	-	98	-	-	-	-	-
Poste Vita SpA	470	471	4	-	-	-	-	-	-	-	-
Postel SpA	4	1	-	-	-	43	-	1	-	-	-
PosteMobile SpA	16	18	-	-	-	2	-	-	-	-	-
SDA Express Courier SpA	7	4	1	-	-	80	-	-	-	-	-
Indirect subsidiaries											
Poste Assicura SpA	23	-	-	-	-	-	-	-	-	-	-
Joint ventures											
SIA Group	-	-	-	-	3	28	-	-	-	-	-
Associates											
Anima Group	2	-	8	-	-	-	-	-	-	-	-
Related parties external to the Group											
Ministry of the Economy and Finance	514	3	-	-	-	5	3	-	-	-	1
Cassa depositi e prestiti Group	1,578	-	-	-	-	-	-	-	-	-	-
Enel Group	70	-	-	-	-	-	-	-	-	2	-
Eni Group	9	-	-	-	-	31	-	-	-	-	-
Equitalia Group	1	-	-	-	-	-	-	-	-	-	-
Leonardo Group	1	-	-	-	12	29	-	-	-	-	-
Monte dei Paschi di Siena Group	17	-	-	-	-	-	-	-	-	-	-
Invitalia Group	3	14	-	-	-	-	-	-	-	-	-
Other related parties external to the Group	11	-	-	-	-	14	-	39	-	-	-
Total	**2,844**	**535**	**14**	**6**	**21**	**614**	**3**	**40**	**2**	**2**	**1**

At 31 December 2018, total provisions for risks and charges made to cover probable liabilities arising from transactions with related parties external to the Company and primarily attributable to trading relations amount to €2 million (€11 million at 31 December 2017).

The nature of the Company's principal transactions with related parties external to the Group is summarised below:

- Amounts received from the MEF relate primarily to payment for carrying out the USO, the management of postal current accounts, as payment for delegated services, integrated e-mail services, the franking of mail on credit, collection services, and for the integrated notification and reporting service for processing tax returns.
- Amounts received from CDP SpA primarily relate to payment for the collection of postal savings deposits.
- Amounts received from the Enel Group primarily relate to payment for bulk mail shipments, unfranked mail, franking of mail on credit and postage paid mailing services, as well as collection and accounting for electric utility payments. The costs incurred primarily relate to the supply of gas and electricity.
- Amounts received from the Eni Group relate primarily to payment for mail shipments and collection and accounting for utility payments. The costs incurred relate to the supply of fuel for motorcycles and vehicles and the supply of gas.
- Purchases from the Leonardo Group primarily relate to the supply, by Leonardo SpA (formerly Selex ES SpA), of equipment, maintenance and technical assistance for mechanised sorting equipment, and systems and IT assistance regarding the creation of document storage facilities, specialist consulting services and software maintenance, and the supply of software licences and of hardware.
- Amounts received from the Monte dei Paschi di Siena group primarily regard payment for mail shipments.
- Revenue from financial services received from the Anima group refers to the gain recognised on the sale to Anima Holding SpA of shares in Anima SGR (note A4).

Impact of related party transactions and positions

The impact of related party transactions on the financial position, profit or loss and cash flows is shown in the following table:

IMPACT OF RELATED PARTY TRANSACTIONS

Item (€m)	At 31 December 2018			At 31 December 2017		
	Total in financial statements	Total related parties	Impact (%)	Total in financial statements	Total related parties	Impact (%)
Financial position						
Financial assets attributable to BancoPosta	63,863	10,684	16.7	60,048	8,496	14.1
Financial assets	983	409	41.6	1,198	595	49.7
Trade receivables	2,261	1,049	46.4	2,019	970	48.0
Other receivables and assets	2,150	33	1.5	2,042	10	0.5
Cash and cash equivalents	2,127	1,306	61.4	2,039	385	18.9
Provisions for risks and charges	1,431	71	5.0	1,538	71	4.6
Financial liabilities attributable to BancoPosta	66,759	8,923	13.4	61,853	4,191	6.8
Financial liabilities	395	112	28.4	1,355	102	7.5
Trade payables	1,488	387	26.0	1,211	397	32.8
Other liabilities	3,114	282	9.1	2,775	106	3.8
Profit or loss						
Revenue from sales and services	84,719	3,221	3.8	8,060	2,844	35.3
Other operating income	448	394	87.9	584	535	91.6
Cost of goods and services	1,725	585	33.9	1,666	614	36.9
Expenses from financial activities	50	7	14.0	40	3	7.5
Personnel expenses	5,947	48	0.8	5,877	40	0.7
Other operating costs	306	4	1.3	429	13	3.0
Finance costs	70	-	n.a.	68	1	1.5
Finance income	44	29	65.9	43	14	32.6
Cash flow						
Net cash flow from/(for) operating activities	1,974	2,607	n.a.	5	723	n.a.
Net cash flow from/(for) investing activities	(399)	130	n.a.	(180)	183	n.a.
Net cash flow from/(for) financing activities and shareholder transactions	(1,487)	(409)	27.5	(501)	(328)	65.5

Key management personnel

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

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Item (€000)	Year ended 31 December 2018	Year ended 31 December 2017
Remuneration to be paid in short/medium term	13,127	11,577
Post-employment benefits	532	463
Other benefits to be paid in longer term	1,223	7
Termination benefits	2,075	6,979
Share-based payments	2,840	2,034
Total	**19,797**	**21,060**

REMUNERATION OF STATUTORY AUDITORS

Item (€000)	Year ended 31 December 2018	Year ended 31 December 2017
Remuneration	270	271
Expenses	19	-
Total	**289**	**271**

The remuneration paid to members of the Company's Supervisory Board amounts to approximately €58 thousand in 2018. In determining the re, the amounts paid to managers of Poste Italiane who are members of the Supervisory Board is not taken into account, as this remuneration is passed on to the employer.

No loans were granted to key management personnel during the year and, at 31 December 2018, the Company does not report receivables in respect of loans granted to key management personnel.

Transactions with staff pension funds

Poste Italiane SpA and the subsidiaries that apply the National Collective Labour Contract are members of the Fondoposte Pension Fund, the national supplementary pension fund for Poste Italiane personnel, established on 31 July 2002 as a non-profit entity. The Fund's officers and boards are the General Meeting of delegates, the Board of Directors, the Chairman and Deputy Chairman of the Board of Directors and Board of Statutory Auditors. Representation of members on the above boards is shared equally between the companies and the workers that are members of the Fund. The participation of members in the running of the Fund is guaranteed by the fact that they directly elect the delegates to send to the General Meeting.

Other related party disclosures

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

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

Moreover, in connection with the process that resulted in the establishment of the electronic money institution, the Related and Connected Parties Committee issued a favourable opinion to the Board of Directors on two contracts with PostePay SpA that qualify as material under the Bank of Italy's regulations. These regard the contract governing the outsourcing of BancoPosta's activities to the electronic money institution and the agreement on the promotion and placement of the EMI's products by BancoPosta. Both were approved by the Board of Directors and took effect on 1 October 2018.

7. Risk management

Introduction

Compared with the version presented in the Annual Report for 2017, this note has undergone a number of changes in terms of form and content. In particular:

- IFRS 9 - *Financial Instruments* has amended IFRS 7 – *Financial Instruments*: Disclosures, introducing, among other things, a more comprehensive set of disclosures on credit risk. The new disclosures required by IFRS 7 and provided in these notes cannot be applied to comparative information.
- The note on "Risk management" is common to both the Group and Poste Italiane SpA. It deals with both financial risk (as defined by IFRS 7) and other types of risk that the Group deems it appropriate or necessary to disclose. Quantitative disclosures for Poste Italiane SpA alone are provided in the specific section of this note, unless otherwise indicated.

Financial risk

Information on financial risk management at 31 December 2018 is provided below, in accordance with the requirements of the new international financial reporting standard, IFRS 7 – *Financial Instruments: Disclosures*.

Until 31 December 2018, responsibility for coordinating and managing the investment strategy and the hedging of capital market risks had been assigned to the Parent Company's Coordination of Investment Management function, which aimed to ensure a uniform approach across the Poste Italiane Group's various financial entities. From 1 January 2019, responsibility for BancoPosta RFC's financial management has been transferred to BancoPosta Fondi SpA SGR. Centralised treasury management, definition of the capital structure for the Group, and the assessment of funding transactions and extraordinary and subsidised transactions are the responsibility of the Parent Company's Administration, Finance and Control function.

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

- **Poste Italiane SpA's** financial transactions primarily relate to BancoPosta's operations, asset financing and liquidity investment.
  BancoPosta RFC's operations consist in the active management of liquidity generated by postal current account deposits, carried out in the name of BancoPosta but subject to statutory restrictions, and collections and payments on behalf of third parties. The funds deposited by private account holders in postal current accounts are invested in euro zone government securities[115], whilst deposits by Public Administration entities are deposited with the MEF. The investment profile is based on the constant monitoring of habits of current account holders and the use of a statistical/econometric model that forecasts the interest rates and maturities typical of postal current accounts. Accordingly, the portfolio composition aims to replicate the financial structure of current accounts by private customers. Management of the relationship between the structure of deposits and investments is handled through an appropriate Asset & Liability Management system. The above-mentioned model is thus the general reference for the investments, in order to limit exposure to interest rate risk and liquidity risks. The prudential requirements introduced by the third revision of the Bank of Italy Circular 285/2013 require BancoPosta to apply the same regulations applicable to banks in terms of its controls, establishing that its operations are to be conducted in accordance with the Consolidated Law on Banking (TUB) and the Consolidated Law on Finance (TUF). BancoPosta RFC

115. Following the amendment of art. 1, paragraph 1097 of Law 296 of 27 December 2006, introduced by art. 1, paragraph 285 of the 2015 Stability Law (Law 190 of 23 December 2014), it became possible for BancoPosta RFC to invest up to 50% of its deposits in securities guaranteed by the Italian government. As of 1 April 2015, the match between BancoPosta's private customer deposits and related investments, which is verified on a quarterly basis, relates to the amortised cost calculated on the ex coupon value of the financial instruments held in portfolio. Before, the equivalence was measured based on the nominal value of the instruments

is, therefore, required to establish a system of internal controls in line with the provisions of Circular 285[116], which, among other things, requires definition of a Risk Appetite Framework (RAF[117]), the containment of risks within the limits set by the RAF, protection of the value of assets and against losses, and identification of material transactions to be subject to prior examination by the risk control function.
Following the positive performance of current account deposits in 2018, from March onwards, the process of monitoring the risk profile indicated that there had been a decline in the leverage ratio to a level below the threshold set in the Risk Appetite Framework (RAF). On 27 September 2018, Poste Italiane injected €210 million of fresh capital into BancoPosta RFC, in execution of the Board of Directors' resolution of 25 January 2018 that approved the recapitalisation of BancoPosta, and this helped to restore the leverage ratio. The leverage ratio at 31 December 2018 stands at approximately 3.2% (3% being the minimum level required by the regulations).
Operations not covered by BancoPosta RFC, primarily relating to management of the Parent Company's own liquidity, are carried out in accordance with investment guidelines approved by the Board of Directors, which require the Company to invest in instruments such as government securities, high-quality corporate or bank bonds and term bank deposits. Liquidity is also deposited in postal current accounts, subject to the same requirements applied to the investment of deposits by private current account holders.

- Financial instruments held by the insurance company **Poste Vita SpA**, primarily relate to investments designed to cover its contractual obligations to policyholders on traditional life policies and index-linked and unit-linked policies. Other investments in financial instruments relate to investments of the insurance company's free capital.
  Traditional Life policies, classified under Class I and V, primarily include products whose benefits are revaluated based on the return generated through the management of pools of financial assets, which are separately identifiable in accounting terms only, within the company's assets (so-called separately managed accounts). In the case of policies sold in previous years, the company has guaranteed a minimum return payable at maturity on such products (at 31 December 2018, this minimum return on existing policies ranged between 0% and 1.5%). Gains and losses resulting from measurement are attributed in full to policyholders and accounted for in specific technical provisions under the shadow accounting method. The calculation technique used by the Group in applying this method is based on the prospective yield on each separately managed account, considering a hypothetical realisation of unrealised gains and losses over a period of time that matches the assets and liabilities held in the portfolio (see note 2.3 in relation to "Insurance contracts").
  The impact of financial risk on investment performance can be absorbed in full or in part by the insurance provisions, based on the level and structure of the guaranteed minimum returns (new policies do not offer a guaranteed minimum return) and the profit-sharing mechanisms of the "separate portfolio" for the policyholder. The company determines the sustainability of minimum returns through periodic analyses using an internal financial-actuarial (Asset-Liability Management) model which simulates, for each separate portfolio, the change in value of the financial assets and the expected returns under a "central scenario" (based on current financial and commercial assumptions) and under stress and other scenarios based on different sets of assumptions. This model makes it possible to manage the risks assumed by Poste Vita SpA on a quantitative basis, thereby fostering reduced earnings volatility and optimal allocation of financial resources.
  Index-linked and unit-linked products, relating to Class III insurance products, relate to policies where the premium is invested in Italian government securities, warrants and mutual investment funds. In the case of index-linked policies issued, the company assumes sole liability for solvency risk associated with the instruments in which premiums are invested, providing a guaranteed minimum return only when required by contract (new policies do not offer a guaranteed minimum return). The company continuously monitors changes in the risk profile of individual products, focusing especially on the risk linked to the insolvency of issuers.
  Poste Assicura SpA's investment policies are designed to preserve the Company's financial strength, as outlined in the framework resolution approved by the Board of Directors on 24 October 2018. Regular analyses of the macroeconomic context and market trends for the different asset classes, with the relevant effects on asset-liability management, are conducted. For the Non-life business, the focus is on the management of liquidity in order to meet claims.

Within the above context, balanced financial management and monitoring of the main risk/return profiles are carried out and ensured by dedicated organisational structures that operate separately and independently. In addition, specific processes are in place governing the assumption and management of and control over financial risks, including the progressive introduction of appropriate information systems.

In this regard, on 19 February 2018, Poste Italiane SpA's Board of Directors adopted a revised version of the Guidelines for Internal Control and Risk Management System (SCIGR), which contains integrated guidelines for Poste Italiane SpA's Internal Control and Risk Management System.

116. See in particular the provisions laid down in Part I – Section IV – Chapter 3.
117. The RAF consists of a framework that defines, in keeping with the maximum acceptable risk, the business model and strategic plan, the risk appetite, risk tolerance thresholds, risk limits, and risk management policies, together with the processes needed to define and implement them.

From an organisational viewpoint, the management of financial risk involves the following bodies and functions:

- the **Audit, Risk and Sustainability Committee**, established in 2015, whose role, based on adequate research activity, is to act in an advisory capacity and make recommendations to support the Board of Directors in assessing and making decisions regarding Poste Italiane SpA's internal control and risk management system and, from February 2018, issues relating to Poste Italiane SpA's sustainability.
- the **Financial and Insurance Services Committee**, established on 19 March 2018 to replace the previous Finance, Savings and Investment Committee, with the aim of overseeing the process of developing the products and services distributed by BancoPosta, in order to take a uniform, integrated view of the entire offering and to monitor the performance of the financial investments in which private customer deposits are invested.
- an **Investment Committee established at the Group's insurance company, Poste Vita SpA**, which, based on analyses by the relevant functions, provides advice to senior management on the development, implementation and oversight of investment strategy;
- appropriate functions established within the Parent Company and the subsidiaries providing financial and insurance services (BancoPosta Fondi SGR SpA and Poste Vita SpA) that perform **Risk Measurement and Control** activities, ensuring the organisational separation of risk assessment from risk management activities. The results of these activities are examined by the relevant advisory Committees, which are responsible for carrying out an integrated assessment of the main risk profiles.

In constructing the Risk Model used by BancoPosta RFC, account was also taken of the existing prudential supervisory standards for banks and the specific instructions for BancoPosta, published by the Bank of Italy on 27 May 2014 with the third revision of Circular 285 of 17 December 2013.

Poste Italiane Group

Price risk

This is the risk that the value of a financial instrument fluctuates as a result of market price movements, deriving from factors specific to the individual instrument or the issuer, and factors that influence all instruments traded on the market.

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

The sensitivity analysis at 31 December 2018 took into account positions potentially exposed to fluctuations in value. Financial statement balances have been subjected to a stress test, based on actual volatility during the year, considered to be representative of potential market movements. The results of the sensitivity analysis carried out as at 31 December 2018 for the Poste Italiane Group are shown in the following table.

POSTE ITALIANE GROUP - PRICE RISK

Item (€m)	Position	Change in value		Effect on liability toward policyholders		Pre-tax profit		Equity reserves before taxation	
		+ Vol	- Vol	+ Vol	- Vol	+ Vol	- Vol	+ Vol	- Vol
2018 effects									
Financial assets at FVTPL	27,555	1,096	(1,096)	1,082	(1,082)	14	(14)	-	-
Equity instruments	217	58	(58)	45	(45)	13	(13)	-	-
Other investments	27,338	1,038	(1,038)	1,037	(1,037)	1	(1)	-	-
Derivative financial instruments	45	8	(8)	8	(8)	-	-	-	-
Fair value through profit or loss	45	8	(8)	8	(8)	-	-	-	-
Fair value through profit or loss (liabilities)	-	-	-	-	-	-	-	-	-
Variability at 31 December 2018	**27,600**	**1,104**	**(1,104)**	**1,090**	**(1,090)**	**14**	**(14)**	**-**	**-**
2017 effects									
Financial assets									
Financial assets at FVTOCI	1,248	117	(117)	111	(111)	-	-	6	(6)
Equity instruments	58	10	(10)	4	(4)	-	-	6	(6)
Other investments	1,190	107	(107)	107	(107)	-	-	-	-
Financial assets at FVTPL	22,452	804	(804)	804	(804)	-	-	-	-
Equity instruments	58	14	(14)	14	(14)	-	-	-	-
Other investments	22,394	790	(790)	790	(790)	-	-	-	-
Derivative financial instruments	184	47	(47)	47	(47)	-	-	-	-
Fair value through profit or loss	184	47	(47)	47	(47)	-	-	-	-
Variability at 31 December 2017	**23,884**	**968**	**(968)**	**962**	**(962)**	**-**	**-**	**6**	**(6)**

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

- investments in units of mutual investment funds held by Poste Vita SpA, with a fair value of €27,338 million, including approximately €25,987 million used to cover Class I policies, approximately €1,345 million used to cover Class III policies and a residual amount relating the free capital;
- equity instruments held by Poste Vita SpA, totalling €166 million, used to cover Class I policies linked to separately managed accounts and to cover Class III policies;

- equities held by BancoPosta RFC, totalling €50 million, consisting of €45 million in Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock) and €5 million in Class C shares of Visa Incorporated. For the purpose of the sensitivity analysis, the equities are matched with the corresponding amount of the Class A shares, considering the volatility of the shares listed on the NYSE.

In relation to derivative financial instruments, price risk concerns investments in warrants held by Poste Vita SpA used to cover Class III policies.

Foreign exchange risk

This is the risk that the value of a financial instrument fluctuates as a result of movements in exchange rates for currencies other than the functional currency.

Sensitivity analysis of the items subject to foreign exchange risk was based on the most significant positions, assuming a stress scenario determined by the levels of exchange rate volatility applicable to each foreign currency position. The test applies an exchange rate movement based on volatility during the year, which was considered to be representative of potential market movements.

The table below shows the sensitivity to foreign exchange risk of the Poste Italiane Group's most significant positions at 31 December 2018.

POSTE ITALIANE GROUP - FOREIGN EXCHANGE RISK/USD

Item (€m)	Position in USD	Position in Euro	Change in value		Pre-tax profit		Equity reserves before taxation	
			+ Vol 260gg	- Vol 260gg	+ Vol 260gg	- Vol 260gg	+ Vol 260gg	- Vol 260gg
2018 effects								
Financial assets at FVTPL	123	107	8	(8)	8	(8)	-	-
Equity instruments	58	50	4	(4)	4	(4)	-	-
Other investments	65	57	4	(4)	4	(4)	-	-
Variability at 31 December 2018	**123**	**107**	**8**	**(8)**	**8**	**(8)**	**-**	**-**
2017 effects								
Financial assets								
Financial assets at FVTOCI	96	80	6	(6)	3	(3)	3	(3)
Equity instruments	49	41	3	(3)	-	-	3	(3)
Other investments	47	39	3	(3)	3	(3)	-	-
Variability at 31 December 2017	**96**	**80**	**6**	**(6)**	**3**	**(3)**	**3**	**(3)**

The risk in question relates to equities held by the Parent Company and units in certain alternative investment funds in which Poste Vita SpA has invested.

Foreign exchange risk refers to the net receivable/(payable) position in SDRs, a synthetic currency resulting from the weighted average of the exchange rates of four major currencies (the euro, US dollar, British pound and Japanese yen) held by Poste Italiane SpA and used worldwide to settle debts and credits among postal operators.

POSTE ITALIANE GROUP - FOREIGN EXCHANGE RISK/SDRS

Item (€m)	Position in SDR	Position in Euro	Change in value		Pre-tax profit		Equity reserves before taxation	
			+ Vol 260gg	- Vol 260gg	+ Vol 260gg	- Vol 260gg	+ Vol 260gg	- Vol 260gg
2018 effects								
Current assets in SDRs	145	176	6	(6)	6	(6)	-	-
Current liabilities in SDRs	(124)	(150)	(5)	5	(5)	5	-	-
Variability at 31 December 2018	**21**	**26**	**1**	**(1)**	**1**	**(1)**	**-**	**-**
2017 effects								
Current assets in SDRs	117	139	5	(5)	5	(5)	-	-
Current liabilities in SDRs	(101)	(120)	(4)	4	(4)	4	-	-
Variability at 31 December 2017	**16**	**19**	**1**	**(1)**	**1**	**(1)**	**-**	**-**

Fair value interest rate risk

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

This refers to the effects of changes in interest rates on the price of fixed rate financial instruments or variable rate financial instruments converted to fixed rate via cash flow hedges and, to a lesser degree, the effects of changes in interest rates on the fixed components of floating rate financial instruments or fixed rate financial instruments converted to variable rate via fair value hedges. The impact of these effects is directly related to the financial instrument's duration.

The following interest rate sensitivity analysis was based on changes in fair value with a parallel shift in the forward yield curve of +/- 100 bps. The measures of sensitivity shown in the following analysis provide a reference point which is useful in assessing potential changes in fair value in the event of greater movements in interest rates.

The table below shows the sensitivity analysis for the fair value interest rate risk at 31 December 2018 for the Poste Italiane Group's positions.

POSTE ITALIANE GROUP - FAIR VALUE INTEREST RISK

Item	Position		Change in value		Effect on liability toward policyholders		Pre-tax profit		Equity reserves before taxation	
(€m)	Nominale	Fair value	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
2018 effects										
Financial assets										
Financial assets at FVTOCI	123,693	127,751	(5,967)	5,923	(5,132)	5,132	-	-	(835)	791
Fixed income instruments	123,193	127,226	(5,965)	5,921	(5,130)	5,130	-	-	(835)	791
Other investments	500	525	(2)	2	(2)	2	-	-	-	-
Financial assets at FVTPL	1,578	2,207	(232)	232	(232)	232	-	-	-	-
Fixed income instruments	1,548	1,571	(29)	29	(29)	29	-	-	-	-
Other investments	30	636	(203)	203	(203)	203	-	-	-	-
Derivative financial instruments	2,885	155	(4)	4	-	-	-	-	(4)	4
Cash flow hedges	2,885	155	(4)	4	-	-	-	-	(4)	4
Financial liabilities						-				
Derivative financial instruments	(50)	(5)	2	(2)	-	-	-	-	2	(2)
Fair value though profit or loss	-	-	-	-	-	-	-	-	-	-
Cash flow hedges	(50)	(5)	2	(2)	-	-	-	-	2	(2)
Variability at 31 December 2018	**128,106**	**130,108**	**(6,201)**	**6,157**	**(5,364)**	**5,364**	**-**	**-**	**(837)**	**793**
2017 effects										
Financial assets										
Financial assets at FVTOCI	124,162	134,552	(6,614)	6,536	(5,450)	5,450	-	-	(1,164)	1,086
Fixed income instruments	124,161	134,390	(6,611)	6,533	(5,447)	5,447	-	-	(1,164)	1,086
Other investments	1	162	(3)	3	(3)	3	-	-	-	-
Financial assets at FVTPL	6,481	6,886	(251)	244	(248)	241	(3)	3	-	-
Fixed income instruments	5,979	6,220	(235)	235	(232)	232	(3)	3	-	-
Other investments	502	666	(16)	9	(16)	9	-	-	-	-
Financial liabilities						-				
Derivative financial instruments	1,358	(28)	94	(100)	-	-	-	-	94	(100)
Cash flow hedges	1,358	(28)	94	(100)	-	-	-	-	94	(100)
Variability at 31 December 2017	**132,001**	**141,410**	**(6,771)**	**6,680**	**(5,698)**	**5,691**	**(3)**	**3**	**(1,070)**	**986**

In terms of **financial assets recognised at fair value through other comprehensive income**, the risk in question primarily relates to:

- fixed income government bonds held by Poste Vita SpA, totalling €79,137 million; of this amount, €77,296 million is used to cover Class I and V policies linked to separately managed funds, €1,841 million relates to the company's free capital;
- €32,040 million in fixed income government bonds held by BancoPosta RFC, which consist of: fixed rate bonds amounting to €15,006 million; variable rate bonds converted into fixed rate bonds via cash flow swaps amounting to €1,823 million; inflation-linked securities amounting to €2,047 million and fixed or variable rate bonds converted to variable rate positions via fair value hedges amounting to €13,164 million (of which €11,163 million is in forward starts);
- €15,316 million in other, non-government bonds held by Poste Vita SpA, used mainly to meet obligations towards policyholders in relation to separately managed Class I and V policies, including bonds issued by CDP SpA, totalling €1,632 million, mainly to cover Class I policies.

Within the context of **financial assets at fair value through profit or loss**, fair value interest rate risk concerns a portion of the fixed rate investments of Poste Vita SpA, totalling €2,207 million (consisting of investments with a fair value of €825 million, relating to coupon stripped[118] BTPs and zero coupon bonds primarily covering obligations associated with Class III insurance products, investments with a fair value of €747 million, relating to corporate bonds primarily covering Class I, III and V and to a lesser extent investments of the company's free capital), to "Other investments", represented by mutual funds amounting to €614 million and bonds issued by CDP SpA with a fair value of €21 million.

Within the context of **derivative financial instruments**, the risk in question primarily concerns forward sales of government bonds with a nominal value of €1,340 million and forward purchase contracts for government bonds with a nominal value of €1,545 million, classified as cash flow hedges and entered into during the first half of 2018 by BancoPosta RFC.

At 31 December 2018, with reference to the interest rate risk exposure determined by the average duration[119] of the portfolios, the duration of BancoPosta's overall investments went from 5.30 to 5.18. On the other hand, with respect to Class I and Class V policies sold by Poste Vita SpA, the duration of the matching assets went from 6.13 at 31 December 2017 to 6.18 at 31 December 2018, whilst the duration of the liabilities went from 7.84 to 8.18 (assessment of the duration was carried out using the new Coherent Duration method [120]). The financial instruments intended to cover the technical provisions for Class III policies have maturities that match those of the liabilities.

Spread risk

This is the risk of a potential fall in the value of bonds held, following deterioration in the creditworthiness of issuers. This is due to the importance that the impact of the spread of returns on government securities had on the fair value of euro zone government and corporate securities, reflecting the market's perception of the credit rating of issuers.

The value of the portfolio of bonds issued or guaranteed by the Italian government is much more sensitive to the credit risk associated with the Italian Republic than to changes in so-called risk-free interest rates. This is due to the fact that changes in credit spreads are not hedged and relate to the entire securities portfolio, meaning both the fixed and variable rate components. In this latter case, in fact, fair value derivatives, used to convert variable rate instruments, hedge only the risk-free interest rate risk and not credit risk. This means that a change in the credit spread has an equal impact on both fixed and variable instruments.

2018 witnessed an average increase in the yields on Italian government bonds compared with the previous year and, at 31 December 2018, the spread between ten-year Italian government bonds and German bunds is approximately 250 bps, up on the figure for the previous year (159 bps at 31 December 2017).

118. Coupon stripping consists in detaching the interest payment coupons from a note or bond. Coupon stripping transforms each government security into a series of zero-coupon bonds. Each component may be traded separately.
119. Duration is the indicator used to estimate the percentage change in price of in response to a shift in market returns.
120. The Coherent Duration of assets and liabilities is defined as changes in the value of assets and liabilities, in proportion to the total amount of assets exposed to interest rate risk, following parallel shocks raising and lowering interest rates by 10 basis points.

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

i. a net reduction of approximately €1.6 billion in the fair value of Poste Italiane SpA's financial assets at fair value through other comprehensive income (a nominal value of approximately €31 billion): the increase in the fair value of securities hedged against interest rate risk of approximately €0.3 billion was offset by the reduction in the fair value of the matching derivatives, whilst the reduction in the fair value of unhedged instruments and of the component subject to spread risk (unhedged) was reflected in consolidated equity (approximately €1.9 billion);

ii. a net reduction of approximately €5 billion in the fair value of the Poste Vita group's financial assets at fair value through other comprehensive income (a nominal value of the fixed income instruments of approximately €93 billion), almost entirely passed on to policyholders and recognised in specific technical provisions under the shadow accounting mechanism (the impact on the specific fair value reserve amounts to approximately €48 million).

The sensitivity to the spread has been calculated by applying a shift of +/- 100 bps to the yield curve for Italian government bonds.

The table below shows the results of the analysis of sensitivity to spread risk of the most significant positions in the portfolios of both the Parent Company and the Poste Vita group at 31 December 2018.

POSTE ITALIANE SPA - EFFECT OF CREDIT SPREAD ON FAIR VALUE

Item (€m)	Position		Change in value		Equity reserves before taxation	
	Nominal	Fair value	+100bps	-100bps	+100bps	-100bps
2018 effects						
Financial assets						
Financial assets at FVTOCI	30,729	32,572	(2,598)	3,036	(2,598)	3,036
Fixed income instruments	30,729	32,572	(2,598)	3,036	(2,598)	3,036
Derivative financial instruments	2,885	155	(4)	4	(4)	4
Cash flow hedges	2,885	155	(4)	4	(4)	4
Variability at 31 December 2018	**33,614**	**32,727**	**(2,602)**	**3,040**	**(2,602)**	**3,040**
2017 effects						
Financial assets						
Financial assets at FVTOCI	36,238	39,650	(3,893)	4,623	(3,893)	4,623
Fixed income instruments	36,238	39,650	(3,893)	4,623	(3,893)	4,623
Financial liabilities						
Derivative financial instruments	1,408	(23)	92	(98)	92	(98)
Cash flow hedges	1,408	(23)	92	(98)	92	(98)
Variability at 31 December 2017	**37,646**	**39,627**	**(3,801)**	**4,525**	**(3,801)**	**4,525**

For the purposes of full disclosure, a movement in the spread would have no accounting effect on financial assets measured at amortised cost, but would only impact unrealised gains and losses. In other words, fixed income instruments measured at amortised cost attributable entirely to BancoPosta, which at 31 December 2018 amounted to €22,872 million (nominal value of €20,935 million) and have a fair value of €21,189 million, would be reduced in fair value by approximately €2 billion following an increase in the spread of 100 bps, with the change not reflected in the accounts.

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

POSTE VITA GROUP - EFFECT OF CREDIT SPREAD ON FAIR VALUE

Item (€m)	Position		Change in value		Effect on liability toward policyholders		Pre-tax profit		Equity reserves before taxation	
	Notional	Fair Value	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
2018 effects										
Financial assets										
Financial assets at FVTOCI	92,933	95,147	(5,818)	5,806	(5,753)	5,753	(12)	-	(53)	53
Fixed income instruments	92,433	94,622	(5,792)	5,780	(5,727)	5,727	(12)	-	(53)	53
Other investments	500	525	(26)	26	(26)	26	-	-	-	-
Financial assets at FVTPL	1,578	2,206	(235)	235	(234)	234	(1)	1	-	-
Fixed income instruments	1,548	1,571	(30)	30	(29)	29	(1)	1	-	-
Other investments	30	635	(205)	205	(205)	205	-	-	-	-
Variability at 31 December 2018	**94,511**	**97,353**	**(6,053)**	**6,041**	**(5,987)**	**5,987**	**(13)**	**1**	**(53)**	**53**
2017 effects										
Financial assets										
Financial assets at FVTOCI	87,894	94,871	(6,634)	6,634	(6,450)	6,450	-	-	(184)	184
Fixed income instruments	87,893	94,709	(6,526)	6,526	(6,342)	6,342	-	-	(184)	184
Other investments	1	162	(108)	108	(108)	108	-	-	-	-
Financial assets at FVTPL	6,481	6,886	(290)	290	(287)	287	(3)	3	-	-
Fixed income instruments	5,979	6,220	(240)	240	(237)	237	(3)	3	-	-
Other investments	502	666	(50)	50	(50)	50	-	-	-	-
Variability at 31 December 2017	**94,375**	**101,757**	**(6,924)**	**6,924**	**(6,737)**	**6,737**	**(3)**	**3**	**(184)**	**184**

For the purposes of full disclosure, following an increase in the spread of 100 bps, the Poste Vita group's fixed income instruments measured at amortised cost, which at 31 December 2018 amounted to €1,467 million (nominal value of €1,520 million) and have a fair value of €1,578 million, would be reduced in fair value by approximately €99 million, with the change not reflected in the accounts.

In addition to using the above sensitivity analysis, Poste Italiane SpA and the Poste Vita group monitor spread risk by calculating its maximum potential losses, through an estimate of Value at Risk (VAR) on statistical bases, over a 1-day time horizon and at a 99% confidence level. Risk analysis performed through VAR takes into account the historical variability of the risk (spread) in question, in addition to modelling parallel shifts of the yield curve.

The following table shows the maximum potential loss computed at 31 December 2018, limited, in terms of materiality, to the financial assets held by the Parent Company and the Poste Vita group.

POSTE ITALIANE SPA - VAR ANALYSIS

Item (€m)	Position		SpreadVaR
	Nominal	Fair value	
2018 effects			
Financial assets			
Financial assets at FVTOCI	30,729	32,572	380
Fixed income instruments	30,729	32,572	380
Derivative financial instruments	1,545	94	24
Cash flow hedges	1,545	94	24
Variability at 31 December 2018	**32,274**	**32,666**	**404**
2017 effects			
Financial assets			
Financial assets at FVTOCI	36,238	39,650	345
Fixed income instruments	36,238	39,650	345
Financial liabilities			
Derivative financial instruments	1,408	(23)	3
Cash flow hedges	1,408	(23)	8
Variability at 31 December 2017	**37,646**	**39,627**	**336**

* The VAR indicated for derivative financial instruments only refers to forward purchases, whilst the VAR relating to fixed income instruments also takes into account forward sales.

POSTE VITA GROUP - VAR ANALYSIS

Item (€m)	Position		*SpreadVaR*
	Nominal	*Fair value*	
2018 effects			
Financial assets			
Financial assets at FVTOCI	92,933	95,147	1,655
Fixed income instruments	92,433	94,622	1,655
Other investments	500	525	1
Financial assets at FVTPL	1,578	2,206	3
Fixed income instruments	1,548	1,571	2
Other investments	30	635	1
Variability at 31 December 2018	**94,511**	**97,353**	**1,657**
2017 effects			
Financial assets			
Financial assets at FVTOCI	87,894	94,871	564
Fixed income instruments	87,893	94,709	564
Other investments	1	162	-
Financial assets at FVTPL	6,481	6,886	4
Fixed income instruments	5,979	6,220	4
Other investments	502	666	-
Variability at 31 December 2017	**94,375**	**101,757**	**565**

Credit risk

This is the risk of default of one of the counterparties to which there is an exposure, with the exception of equities and units of mutual funds.

Exposure to credit risk

With regard to the **financial assets** exposed to this risk and to which the accounting rules governing impairment apply (as described in the paragraph, ***"Credit risk management practices"***), the following table shows the Poste Italiane Group's exposure at 31 December 2018, relating to financial assets measured at amortised cost and at fair value through other comprehensive income, for which a general deterioration model was used. The analysis shows the exposure by financial asset class by stages. The amounts refer to the gross carrying amount (amortised cost before ECL), unless otherwise indicated, and do not take into account guarantees or other credit enhancements.

POSTE ITALIANE GROUP - CREDIT RISK - RATINGS

Item (€m)	from AAA to AA+		from A+ to BBB-		from BB+ to C		Not rated	Hedge accounting effects	Total
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2			
Financial assets at amortised cost									
Loans	-	-	251	-	-	-			251
Receivables	13	-	7,690	-	15	-			7,718
Fixed income instruments	-	-	23,356	-	-	-			23,356
Gross carrying amount - Total	13	-	31,297	-	15	-			31,325
Amortized cost - Total	**13**	**-**	**31,264**	**-**	**15**	**-**	**584**	**993**	**32,869**
Financial assets at FVTOCI									
Fixed income instruments	1,591	-	121,268	35	743	21			123,658
Other investments	-	-	500	-	-	-			500
Gross carrying amount - Total	1,591	-	121,768	35	743	21			124,158
Carrying amount - Fair value	**1,688**	**-**	**125,281**	**36**	**725**	**20**	**-**		**127,750**

The following table shows the counterparty concentration of credit risk by financial asset class. Amounts refer to the gross carrying amount.

POSTE ITALIANE GROUP - CREDIT RISK - CONCENTRATION

Item (€m)	At 31 December 2018	
	Gross Carrying amount	Provision to cover expected losses
Financial assets at amortised cost	31,325	(33)
Loans	251	-
Sovereign	-	-
Corporate	251	-
Banking	-	-
Receivables	7,718	(23)
Sovereign	5,930	(3)
Corporate	410	(20)
Banking	1,378	-
Fixed income instruments	23,356	(10)
Sovereign	18,827	(10)
Corporate	4,518	-
Banking	11	-
Financial assets at FVTOCI	124,158	(14)
Fixed income instruments	123,658	(14)
Sovereign	108,393	(14)
Corporate	8,265	-
Banking	7,000	-
Other investments	500	-
Sovereign	-	-
Corporate	-	-
Banking	500	-
Total	**155,483**	**(47)**

Collateral held and other credit enhancements

Principles and processes involved in measuring and managing guarantees and other credit risk mitigation instruments

The Poste Italiane Group uses instruments to mitigate credit risk and counterparty risk. In particular:

- as regards Poste Italiane SpA, primarily in relation to BancoPosta RFC, the credit and counterparty risks associated with hedging derivatives and repurchase agreements are mitigated by entering into a master netting agreement and requiring collateral in the form of cash or government bonds;
- the Poste Vita group invests in, among other things, corporate bonds that are guaranteed in order to mitigate the overall exposure to credit risk;
- in terms of trade receivables, the Poste Italiane Group credit terms are extended for customers, requesting, in certain cases, guarantees or sureties issued by prime banks or insurance companies.

At 31 December 2018, the Group does not hold financial assets secured by guarantees or other risk mitigation instruments for which no loss provisions have been made (except for the temporary use of liquidity in repurchase agreements).

The main types of instrument used to mitigate credit risk are described below:

Fixed income securities

Debt instruments held by the Group and secured by guarantees or other risk mitigation instruments are as follows:

- bonds issued by CDP SpA guaranteed by the Italian State and subscribed by BancoPosta RFC, amounting to a nominal value of €4,500 million. These are recognised as financial assets measured at amortised cost and, in determining the associated expected credit losses, account was taken of the PD of the Italian Republic;
- bonds held by the Poste Vita group, with a nominal value of €3,543 million at 31 December 2018, recognised in assets measured at fair value through other comprehensive income (€3,487 million) and in assets measured at fair value through profit or loss (€56 million). In these cases, the guarantee covers 100% of the nominal value of the securities. The guarantees securing these financial instruments are as follows:
  - corporate bonds backed by personal guarantees provided the parent company or another associate, amounting to a nominal value of €3,111 million;
  - covered bonds backed by mortgages, primarily property mortgages, amounting to a nominal value of €329 million;
  - bonds guaranteed by sovereign states, amounting to a nominal value of €102 million.

  In the case of instruments backed by personal guarantees provided by a sovereign state or one or more companies, expected losses are calculated on the basis of the credit rating of the guarantor. With regard to covered bonds, the underlying guarantees were assessed with reference to the issue rating, rather than the issuer rating.

Derivative financial instruments and repurchase agreements

In order to limit the counterparty risk exposure, Poste Italiane SpA has concluded standard ISDA master agreements (with attached CSA) and GMRAs which govern the collateralization of derivative transactions and repurchase agreements, respectively.

In addition, in order to mitigate counterparty risk and gain easier access to the market, from December 2017, BancoPosta RFC has entered into repurchase agreements with the Central Counterparty, the *Cassa di Compensazione e Garanzia*.

The calculation of positions in derivatives and repurchase agreements and the related risk mitigation instruments are illustrated in the paragraph "*Offsetting financial assets and liabilities*".

Trade receivable

To mitigate the risks arising from the extension of credit terms to its customers, the Poste Italiane Group has implemented a policy and suitable guidelines that govern the management of trade receivables, the terms and conditions of payment applicable to customers and defines the corporate process aimed at checking the customer's creditworthiness, as well as the sustainability of the business risk inherent in the contract involving extended payment terms.

Depending on the evaluations, the contracts entered into with customers may require a suitable guarantee. Guarantees are also requested if they are required by rules and regulations and/or implementing rules of specific services.

The Poste Italiane Group mainly accepts guarantees issued by primary banks or insurance companies. Alternatively, upon request of the customer and after a risk analysis, it accepts sureties issued by other institutions, security deposits or the opening of postal escrow account.

The Poste Italiane Group, as a rule, exempts the Public Administration from the provision of guarantees to secure trade receivables arising from transactions with it, save for the cases when such guarantees are mandatory by law or due to implementing rules of specific services.

For all of the exposures evaluated individually, to calculate loss provisions, guarantees reduce the amount of the exposure at risk.

ECL measurement

The following tables show, for each class of financial instrument, the reconciliation between the opening and closing balances of the ECL provisions required by IFRS 9.

Financial assets

POSTE ITALIANE GROUP - CREDIT RISK - DETAILS OF THE PROVISION TO COVER EXPECTED LOSSES ON FINANCIAL INSTRUMENTS AT AMORTISED COST

Item (€m)	Financial assets at amortised cost		Total
	Receivables	Fixed income instruments	
	Stage 1	*Stage* 1	
Balance at 1 January 2018	**3**	**8**	**11**
Impairment of fixed income instruments/receivables held at the beginning of the period	20	-	20
Reversal of fixed income instruments/receivables held at the beginning of the period	-	-	-
Impairment of fixed income instruments/receivables purchased/paid in the period	-	3	3
Reversal for write-off	-	-	-
Reversal due to sale/collection	-	(1)	(1)
Balance at 31 December 2018	**23**	**10**	**33**

At 31 December 2018, estimated expected losses on financial instruments measured at amortised cost amount to approximately €33 million. The net increase of €20 million primarily relates to the impairment of receivables at amortised cost (note A5 – Financial assets).

POSTE ITALIANE GROUP - CREDIT RISK - DETAILS OF THE PROVISION TO COVER EXPECTED LOSSES ON FINANCIAL ASSETS AT FVTOCI

Item (€m)	Financial assets at FVTOCI		Total
	Receivables	Fixed income instruments	
	Stage 1	Stage 1	
Balance at 1 January 2018	**-**	**15**	**15**
Impairment of fixed income instruments/receivables held at the beginning of the period	-	-	-
Reversal of fixed income instruments/receivables held at the beginning of the period	-	(1)	(1)
Impairment of fixed income instruments/receivables purchased/paid in the period	-	1	1
Reversal for write-off	-	-	-
Reversal due to sale/collection	-	(1)	(1)
Balance at 31 December 2018	**-**	**14**	**14**

At 31 December 2018, estimated expected losses on financial instruments measured at fair value through other comprehensive income amount to approximately €14 million, in line with the provision made at 1 January 2018.

Trade receivables

The Poste Italiane Group's exposure to credit risk, in relation to each class of **trade receivable** at 31 December 2018, is shown separately depending on whether or not the model used to estimate ECL is based on an individual or a collective assessment.

POSTE ITALIANE GROUP - CREDIT RISK - TRADE RECEIVABLES IMPAIRED ON THE ANALYTICAL BASIS

Item (€m)	31 December 2018	
	Gross carrying amount	Provisions for doubtful debts
Trade receivables		
Due from customers	1,889	422
Cassa depositi e prestiti	440	-
Ministries and public entities	501	107
Overseas counterparties	201	4
Private customers	747	311
Due from MEF	100	32
Other receivables	4	-
Total	**1,993**	**454**

POSTE ITALIANE GROUP - CREDIT RISK - TRADE RECEIVABLES IMPAIRED ON THE BASIS OF THE SIMPLIFIED MATRIX

Range of past due (€m)	31 December 2018	
	Gross carrying amount	Provisions for doubtful debts
Not past due trade receivables	413	5
Past due 0 - 1 year	193	7
Past due 1 - 2 years	32	8
Past due 2 - 3 years	22	10
Past due 3 - 4 years	12	8
Past due > 4 years	49	49
Positions subject to legal *recovery and/or insolvency proceedings*	132	106
Total	**853**	**193**

Movements in the expected credit loss provisions for trade receivables (due from customers and the MEF) are as follows:

DETAILS OF THE PROVISION TO COVER EXPECTED LOSSES ON TRADE RECEIVABLES

Item (€m)	Balance at 31 December 2017	First-time adoption IFRS 9	Balance at 1 January 2018	Net provisions	Uses	Balance at 31 December 2018
Trade receivables						
Receivables due from customers	583	10	593	37	(15)	615
Public administration entities	144	2	146	1	-	147
Overseas postal operators	7	-	7	2	-	9
Private customers	382	8	390	20	(4)	406
Interest on late payments	50	-	50	14	(11)	53
Receivables due from the MEF	31	2	33	(1)	-	32
Total	**614**	**12**	**626**	**36**	**(15)**	**647**

Credit loss provisions for private customers include the provisions made by BancoPosta RFC to mitigate the risk of non-recovery of numerous individually modest amounts due from overdrawn current account holders. Credit loss provisions for the Public Administration relate to items that may in part not be recoverable as a result of legislation limiting public spending and delays in payment and problems with a number of debtor entities. Credit loss provisions for amounts due from the MEF reflect the absence of funds in the state budget, meaning it is not possible to collect certain amounts receivable, recognised on the basis of legislation or contracts and agreements in effect at the time of recognition.

Other receivables and assets

Movements in the credit loss provisions for other receivables and assets are shown below.

POSTE ITALIANE GROUP - MOVEMENTS IN PROVISIONS FOR DOUBTFUL DEBTS DUE FROM OTHERS

Item (€m)	Balance at 31 December 2017	Effect of first-time adoption IFRS 9	Balance at 1 January 2018	Net provisions	Uses	Change in scope of consolidation	Balance at 31 December 2018
Public Administration entities for sundry services	14	-	14	(5)	(6)	-	3
Receivables relating to fixed-term contract settlements	9	-	9	1	-	-	10
Other receivables	49	-	49	28	6	-	83
Total	**72**	**-**	**72**	**24**	**-**	**-**	**96**

Credit risk – comparative exercise at 31 December 2017

The adoption ***IFRS 9*** – *Financial Instruments* has radically altered the quantity of information required in relation to credit risk.

The Poste Italiane Group has decided not to restate comparative year amounts during transition to the new accounting standard. The following tables showing credit risk in the Annual Report for 2017 are not comparable with those for 2018.

GPOSTE ITALIANE GROUP - CREDIT RISK ON FINANCIAL ASSETS

Item (€m)	Balance at 31 December 2017			
	from Aaa to Aa3	from A1 to Baa3	from Ba1 to Not rated	Total
Financial assets at amortised cost	184	20,160	700	21,044
Loans and receivables	184	7,248	700	8,132
Loans	-	-	-	-
Receivables	184	7,248	700	8,132
Fixed income instruments	-	12,912	-	12,912
Financial assets at FVTOCI	1,935	131,974	481	134,390
Fixed income instruments	1,935	131,974	481	134,390
Financial assets at FVTPL	136	6,058	572	6,766
Fixed income instruments	136	5,512	572	6,220
Structured bonds	-	546	-	546
Derivative financial instruments	73	442	64	579
Cash flow hedges	18	13	-	31
Fair value hedges	55	245	64	364
Fair value through profit or loss	-	184	-	184
Total	**2,328**	**158,634**	**1,817**	**162,779**

POSTE ITALIANE GROUP - CREDIT RISK ON TRADE RECEIVABLES

Item (€m)	at 31 December 2017	
	Carrying amount	Specific impairment
Trade receivables		
Due from customers	1,869	(480)
Cassa depositi e prestiti	374	-
Ministries and public entities	484	(130)
Overseas counterparties	222	-
Private customers	789	(350)
Due from MEF	166	(31)
Due from subsidiaries, associates and joint ventures	-	-
Prepayments	-	-
Total	**2,035**	
of which past due	467	

POSTE ITALIANE GROUP - CREDIT RISK ON OTHER RECEIVABLES AND ASSETS

Item (€m)	at 31 December 2017	
	Carrying amount	Specific impairment
Other receivables and assets		
Due from tax Authorities - tax withholdings	3,467	-
Receivables due from staff under fixed-term contract settlements	179	(9)
Accrued income and prepaid expenses from trading transactions	11	-
Tax assets	5	-
Other receivables	285	(63)
Amount due from MEF following cancellation of EC Decision of 16 July 2008	-	-
Interest accrued on IRES refund	47	-
Interest accrued on IRAP refund	3	-
Total	**3,997**	
of which past due	58	

Offsetting financial assets and liabilities

In accordance with IFRS 7 – Financial Instruments: Disclosures, this section provides details of financial assets and liabilities that are subject to master netting agreements or similar arrangements, regardless of whether the financial instruments have been offset in keeping with paragraph 42 of IAS 32[121].

In particular, the disclosures in question concern the following positions relating to Poste Italiane SpA at 31 December 2018:

- derivative assets and liabilities and related collateral, represented both by cash and government securities;
- repurchase agreements and reverse repurchase agreements and the related collateral, represented both by cash and government securities.

The positions in question are subject to standard bilateral netting agreements that allow, in the event of the counterparty's default, the offsetting of debit and credit positions covered by ISDA contracts and repurchase agreements, for which GMRA agreements have been entered into.

In order to present the tables in compliance with the requirements of IFRS 7, repurchase agreements are shown at amortised cost, whilst derivative transactions are shown at fair value. The related financial collateral is shown at fair value.

FINANCIAL ASSETS OFFSET IN THE STATEMENT OF FINANCIAL POSITION OR THAT ARE SUBJECT TO A MASTER NETTING AGREEMENT OR SIMILAR ARRANGEMENTS

Item (€m)	Gross amount of financial assets* (a)	Amount of financial liabilities offset in financial statements (b)	Net amount of financial assets (c=a-b)	Related amounts not offset – Collateral – Financial instruments (d)	Related amounts not offset – Collateral – Cash deposits provided/ (received) as collateral (e)	Financial assets net (f=c-d-e)
For the year ended 31 December 2018						
Financial assets attributable to BancoPosta						
Derivatives	368	-	368	353	14	1
Repurchase agreements	251	-	251	251	-	-
Other	-	-	-	-	-	-
Financial assets						
Derivatives	-	-	-	-	-	-
Repurchase agreements	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total at 31 December 2018	**619**	**-**	**619**	**604**	**14**	**1**
For the year ended 31 December 2017						
Financial assets attributable to BancoPosta						
Derivatives	394	-	394	281	100	13
Repurchase agreements	-	-	-	-	-	-
Other	-	-	-	-	-	-
Financial assets						
Derivatives	-	-	-	-	-	-
Repurchase agreements	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total at 31 December 2017	**394**	**-**	**394**	**281**	**100**	**13**

* The gross amount of financial assets includes the financial instruments subject to offsetting and those subject to master netting agreements or similar arrangements, regardless of whether the financial instruments have been offset.

121. Paragraph 42 of IAS 32 provides that "A financial asset and a financial liability can be offset and the net amount presented in the statement of financial position when, and only when, an entity:
a currently has a legally enforceable right to set off the recognised amounts; and
b intends either to settle on a net basis or to realise the asset and settle the liability simultaneously."

FINANCIAL LIABILITIES OFFSET IN THE STATEMENT OF FINANCIAL POSITION OR THAT ARE SUBJECT TO A MASTER NETTING AGREEMENT OR SIMILAR ARRANGEMENTS

Item (€m)	Gross amount of financial liabilities* (a)	Amount of financial (liabilities)/assets offset in financial statements (b)	Financial assets/ (liabilities), net (c=a+b)	Related amounts not offset – Collateral – Securities provided/ (received) as collateral (d)	Related amounts not offset – Collateral – Cash deposits provided/ (received) as collateral (e)	Financial liabilities net (f=c+d+e)
For the year ended 31 December 2018						
Financial liabilities attributable to BancoPosta						
Derivatives	1,829	-	1,829	500	1,326	3
Repurchase agreements	8,473	-	8,473	8,423	50	-
Other	-	-	-	-	-	-
Financial liabilities						
Derivatives	30	-	30	-	30	-
Repurchase agreements	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total at 31 December 2018	**10,332**	**-**	**10,332**	**8,923**	**1,406**	**3**
For the year ended 31 December 2017						
Financial liabilities attributable to BancoPosta						
Derivatives	1,637	-	1,637	570	1,064	3
Repurchase agreements	4,842	-	4,842	4,816	22	4
Other	-	-	-	-	-	-
Financial liabilities						
Derivatives	39	-	39	-	39	-
Repurchase agreements	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total at 31 December 2017	**6,518**	**-**	**6,518**	**5,386**	**1,125**	**7**

* The gross amount of financial liabilities includes the financial instruments subject to offsetting and those subject to master netting agreements or similar arrangements, regardless of whether the financial instruments have been offset.

Liquidity risk

This is the risk that an entity may have difficulties in raising sufficient funds, at market conditions, to meet its obligations deriving from financial instruments.

In order to minimise this risk, the Poste Italiane Group applies a financial policy based on diversification of the various forms of short-term and long-term borrowings and counterparties; availability of relevant lines of credit in terms of amounts and the number of banks; gradual and consistent distribution of the maturities of medium/long-term borrowings; and use of dedicated analytical models to monitor the maturities of assets and liabilities.

The following tables compare the Poste Italiane Group's liabilities and assets at 31 December 2018, in terms of liquidity risk.

POSTE ITALIANE GROUP - LIQUIDITY RISK - LIABILITIES

Item (€m)	at 31 December 2018				at 31 December 2017			
	Within 12 months	Between 1 and 5 years	Over 5 years	Total	Within 12 months	Between 1 and 5 years	Over 5 years	Total
Flows from Poste Vita group's policies	15,154	35,121	124,600	174,875	12,913	37,877	110,200	160,990
Financial liabilities	28,882	14,057	22,164	65,103	24,513	14,184	22,910	61,607
Postal current accounts	15,973	9,702	20,577	46,252	14,904	9,966	21,717	46,587
Borrowings	6,303	3,191	10	9,504	3,430	3,359	52	6,841
Other financial liabilities	6,606	1,164	1,577	9,347	6,179	859	1,141	8,179
Trade payables	1,584	-	-	1,584	1,332	-	-	1,332
Other liabilities	2,320	1,361	22	3,703	2,249	1,185	26	3,460
Total	**47,940**	**50,539**	**146,786**	**245,265**	**41,007**	**53,246**	**133,136**	**227,389**

The above table shows expected cash outflows at the date of the financial statements, broken down by maturity, while the maturities of postal current account deposits are reported on the basis of the estimates made with a statistic/econometric model. Repayments of principal at nominal value are increased by interest payments calculated, where applicable, on the basis of the yield curve applicable at 31 December 2018. The liabilities of Poste Vita SpA and Poste Assicura SpA are reflected in "Flows from Poste Vita group's policies".

POSTE ITALIANE GROUP - LIQUIDITY RISK - ASSETS

Item (€m)	at 31 December 2018				at 31 December 2017			
	Within 12 months	Between 1 and 5 years	Over 5 years	Total	Within 12 months	Between 1 and 5 years	Over 5 years	Total
Financial assets	22,461	63,877	164,746	251,084	21,398	66,789	155,301	243,488
Financial assets at amortised cost								
Loans	251	-	-	251	-	-	-	-
Receivables								
Deposits with the MEF	6,032	-	-	6,032	6,047	-	-	6,047
Other financial receivables	2,315	36	4	2,355	1,822	38	4	1,864
Fixed income instruments	1,749	4,716	23,489	29,954	1,594	6,702	7,327	15,623
Financial assets at FVTOCI								
Fixed income instruments	11,864	56,620	96,957	165,441	9,619	55,447	110,169	175,235
Financial assets at FVTPL								
Receivables	8	-	-	8	-	-	-	-
Fixed income instruments	242	2,505	44,296	47,043	2,316	4,602	37,801	44,719
Trade receivables	2,192	4	3	2,199	2,026	6	3	2,035
Other receivables and assets	1,110	3,446	41	4,597	952	3,012	53	4,017
Cash and deposits attributable to BancoPosta	3,318	-	-	3,318	3,196	-	-	3,196
Cash and cash equivalents	3,195	-	-	3,195	2,428	-	-	2,428
Total	**32,276**	**67,327**	**164,790**	**264,393**	**30,000**	**69,807**	**155,357**	**255,164**

In the case of assets, cash inflows are broken down by maturity, shown at nominal value and increased, where applicable, by interest receivable. Held-to-maturity and available-for-sale financial assets include financial instruments held by BancoPosta RFC and the Group's insurance companies, shown on the basis of expected cash flows, consisting of principal and interest paid at the various payment dates.

The key point of note is the liquidity risk associated with the investment of customers' current account balances and with the Class I and V policies issued by Poste Vita SpA.

In terms of BancoPosta RFC's specific operations, the liquidity risk relates to current account deposits and prepaid cards[122], the related investment of the deposits in Eurozone government securities and/or securities guaranteed by the Italian government, and the margins on derivative transactions. The potential risk derives from a mismatch between the maturities of investments in securities and those of liabilities, represented by current accounts where the funds are available on demand, thus compromising the Parent Company's ability to meet its obligations to current account holders. This potential mismatch between assets and liabilities is monitored via comparison of the maturity schedule for assets with the statistical model of the performance of current account deposits, in accordance with the various likely maturity schedules and assuming the progressive total withdrawal of deposits over a period of twenty years for retail customers, ten years for business customers and PostePay cards and five years for Public Administration customers.

In relation to the policies sold by Poste Vita SpA, in order to analyse its liquidity risk profile, the company performs Asset/liability management (ALM) analysis to manage assets effectively in relation to its obligations to policyholders, and also develops projections of the effects deriving from financial market shocks (asset dynamics) and of the behaviour of policyholders (liability dynamics).

Lastly, for the proper evaluation of the liquidity risk attributable to BancoPosta RFC, it should be noted that, unless they are restricted, investments in euro area government securities are highly liquid assets and can be used as collateral in interbank repurchase agreements to obtain short-term financing. This practice is normally adopted by BancoPosta.

Cash flow interest rate risk

This is defined as the uncertainty related to the generation of future cash flows, due to interest rate fluctuations. Such risk may arise from the mismatch – in terms of interest rate, interest rate resets and maturities – of financial assets and liabilities until their contractual maturity and/or expected maturity (banking book), with effects in terms of interest spreads and, as such, an impact on future results.

The following analysis refers to the uncertainty over future cash flows generated by variable rate instruments and variable rate instruments created through fair value hedges following fluctuations in market interest rates.

Sensitivity to cash flow interest rate risk relating to these instruments is calculated by assuming a parallel shift in the yield curve of +/- 100 bps.

Sensitivity to cash flow interest rate risk at 31 December 2018 on the Poste Italiane Group's positions is shown in the table below.

122. From 1 October 2018, PostePay collects the inflows from prepaid cards and then deposits the funds in full in postal current accounts held by the Parent Company.

POSTE ITALIANE GROUP - CASH FLOW INTEREST RATE RISK

Item (€m)	Position	Change in value		Effect on liability toward policyholders		Pre-tax profit	
	Nominal	+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps
2018 effects							
Financial assets							
Receivables							
Deposits with the MEF	5,930	59	(59)	-	-	59	(59)
Other financial receivables	1,682	17	(17)	-	-	17	(17)
Fixed income instruments	425	4	(4)	-	-	4	(4)
Financial assets at FVTOCI							
Fixed income instruments	14,018	140	(140)	110	(110)	30	(30)
Other investments	500	5	(5)	5	(5)	-	-
Financial assets at FVTPL							
Fixed income instruments	35	-	-	-	-	-	-
Other investments	22	-	-	-	-	-	-
Cash and deposits attributable to BancoPosta							
Bank deposits	351	4	(4)	-	-	4	(4)
Cash and cash equivalents							
Bank deposits	1,720	17	(17)	9	(9)	8	(8)
Deposits with the MEF	1,306	13	(13)	-	-	13	(13)
Financial liabilities							
Other financial liabilities	(71)	(1)	1	-	-	(1)	1
Variability at 31 December 2018	**25,918**	**258**	**(258)**	**124**	**(124)**	**134**	**(134)**
2017 effects							
Financial assets							
Receivables							
Deposits with the MEF	6,011	60	(60)	-	-	60	(60)
Other financial receivables	1,219	12	(12)	-	-	12	(12)
Financial assets at FVTOCI							
Fixed income instruments	15,666	157	(157)	127	(127)	30	(30)
Financial assets at FVTPL							
Fixed income instruments	162	2	(2)	2	(2)	-	-
Other investments	500	5	(5)	5	(5)	-	-
Cash and deposits attributable to BancoPosta							
Bank deposits	397	4	(4)	-	-	4	(4)
Cash and cash equivalents							
Bank deposits	1,916	20	(20)	3	(3)	17	(17)
Deposits with the MEF	379	4	(4)	-	-	4	(4)
Other financial liabilities	(100)	(1)	1	-	-	(1)	1
Variability at 31 December 2017	**26,150**	**263**	**(263)**	**137**	**(137)**	**126**	**(126)**

Specifically, with respect to **financial assets**, the cash flow interest rate risk primarily relates to:

- a portion of the securities portfolio held by the Poste Vita SpA, with a nominal value of €13,439 million;
- investment by the Parent Company of the funds deriving from the current account deposits of Public Administration entities in the following: deposits with the MEF, with a nominal value of €5,930 million;

- fixed rate government bonds held by the Parent Company and swapped into variable rate through fair value hedges, with a total nominal amount of €2,440 million (including €1,900 million in securities hedged against changes in fair value, where the hedges will begin to have an effect on profit or loss in the 12 months after the end of the period under review); in addition to an inflation-linked bond issued by the Italian Republic, with a nominal value of €100 million, both of which have been hedged against changes in its fair value;
- receivables of €1,682 million, reflecting collateral posted to secure liabilities arising in relation to derivative financial instruments held by BancoPosta RFC, amounting to €1,652 million.

In relation to **cash and cash equivalents**, cash flow interest rate risk primarily relates to the bank deposits of Poste Italiane SpA and Poste Vita SpA, in addition to amounts deposited by the Parent Company with the MEF and held in the so-called buffer account.

Cash flow inflation risk

This is defined as the uncertainty related to future cash flows due to changes in the rate of inflation observed in the market.

The table below analyses the sensitivity of future cash flows for the Poste Italiane Group's financial assets at 31 December 2018.

POSTE ITALIANE GROUP - CASH FLOW INFLATION RISK

Item (€m)	Position		Change in value		Effect on liability toward policyholders		Pre-tax profit	
	Nominal	*Carrying amount*	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
2018 effects								
Financial assets								
Financial assets at amortised cost	142	173	-	-	-	-	-	-
Fixed income instruments	142	173	-	-	-	-	-	-
Financial assets at FVTOCI	12,258	12,957	44	(44)	42	(42)	2	(2)
Fixed income instruments	12,258	12,957	44	(44)	42	(42)	2	(2)
Financial assets at FVTPL	-	-	-	-	-	-	-	-
Fixed income instruments	-	-	-	-	-	-	-	-
Variability at 31 December 2018	**12,400**	**13,130**	**44**	**(44)**	**42**	**(42)**	**2**	**(2)**
2017 effects								
Financial assets								
Financial assets at amortised cost	-	-	-	-	-	-	-	-
Fixed income instruments	-	-	-	-	-	-	-	-
Financial assets at FVTOCI	12,475	14,136	43	(43)	40	(40)	3	(3)
Fixed income instruments	12,475	14,136	43	(43)	40	(40)	3	(3)
Financial assets at FVTPL	-	-	-	-	-	-	-	-
Fixed income instruments	-	-	-	-	-	-	-	-
Variability at 31 December 2017	**12,475**	**14,136**	**43**	**(43)**	**40**	**(40)**	**3**	**(3)**

At 31 December 2018, cash flow inflation risk relates to inflation-linked government securities not subject to cash flow hedges or fair value hedges. Of the total nominal value, securities totalling €10,479 million are held by Poste Vita SpA and securities totalling €1,875 million by BancoPosta RFC.

Poste Italiane SpA

For the purposes of full disclosure, information on Poste Italiane SpA's exposure to financial risk is reported below if not already covered in the above information regarding the Poste Italiane Group.

Price risk

POSTE ITALIANE SPA - PRICE RISK

Item (€m)	Position	Change in value		Pre-tax profit		Equity reserves before taxation	
		+ Vol	- Vol	+ Vol	- Vol	+ Vol	- Vol
2018 effects							
Financial assets attributable to BancoPosta							
Financial assets at fair value through profit or loss	50	13	(13)	13	(13)	-	-
Equity instruments	50	13	(13)	13	(13)	-	-
Variability at 31 December 2018	**50**	**13**	**(13)**	**13**	**(13)**	**-**	**-**
2017 effects							
Financial assets attributable to BancoPosta							
Financial assets at FVTOCI	41	5	(5)	-	-	5	(5)
Equity instruments	41	5	(5)	-	-	5	(5)
Variability at 31 December 2017	**41**	**5**	**(5)**	**-**	**-**	**5**	**(5)**

Foreign exchange risk

POSTE ITALIANE SPA - FOREIGN EXCHANGE RISK/USD

Item (€m)	Position in USD	Position in Euro	Change in value		Pre-tax profit		Equity reserves before taxation	
			+ Vol 260gg	- Vol 260gg	+ Vol 260gg	- Vol 260gg	+ Vol 260gg	- Vol 260gg
2018 effects								
Financial assets attributable to BancoPosta								
Financial assets at fair value through profit or loss	58	50	4	(4)	-	-	4	(4)
Equity instruments	58	50	4	(4)	-	-	4	(4)
Variability at 31 December 2018	**58**	**50**	**4**	**(4)**	**-**	**-**	**4**	**(4)**
2017 effects								
Financial assets attributable to BancoPosta								
Financial assets at FVTOCI	49	41	3	(3)	-	-	3	(3)
Equity instruments	49	41	3	(3)	-	-	3	(3)
Variability at 31 December 2017	**49**	**41**	**3**	**(3)**	**-**	**-**	**3**	**(3)**

Fair value interest rate risk

POSTE ITALIANE SPA - FAIR VALUE INTEREST RATE RISK

Item (€m)	Position		Change in value		Pre-tax profit		Equity reserves before taxation	
	Nominal	*Fair Value*	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
2018 effects								
Financial assets attributable to BancoPosta								
Financial assets at FVTOCI	30,229	32,040	(798)	753	-	-	(798)	753
Fixed income instruments	30,229	32,040	(798)	753	-	-	(798)	753
Derivative financial instruments	2,885	155	(4)	4	-	-	(4)	4
Cash flow hedges	2,885	155	(4)	4	-	-	(4)	4
Financial assets								
Financial assets at FVTOCI	500	532	(3)	3	-	-	(3)	3
Fixed income instruments	500	532	(3)	3	-	-	(3)	3
Financial liabilities								
Derivative financial instruments	(50)	(5)	2	(2)	-	-	2	(2)
Cash flow hedges	(50)	(5)	2	(2)	-	-	2	(2)
Variability at 31 December 2018	**33,564**	**32,722**	**(803)**	**758**	**-**	**-**	**(803)**	**758**
2017 effects								
Financial assets attributable to BancoPosta								
Financial assets at FVTOCI	35,738	39,099	(1,009)	931	-	-	(1,009)	931
Fixed income instruments	35,738	39,099	(1,009)	931	-	-	(1,009)	931
Financial assets								
Financial assets at FVTOCI	500	551	(4)	4	-	-	(4)	4
Fixed income instruments	500	551	(4)	4	-	-	(4)	4
Financial liabilities attributable to BancoPosta								
Derivative financial instruments	1,408	(23)	91	(97)	-	-	91	(97)
Cash flow hedges	1,408	(23)	91	(97)	-	-	91	(97)
Financial liabilities								
Derivative financial instruments	(50)	(5)	3	(3)	-	-	3	(3)
Cash flow hedges	(50)	(5)	3	(3)	-	-	3	(3)
Variability at 31 December 2017	**37,596**	**39,622**	**(919)**	**835**	**-**	**-**	**(919)**	**835**

Credit risk

CREDIT RISK - RATINGS FOR BANCOPOSTA RFC

Item (€m)	from AAA to AA-		from A+ to BBB-		from BB+ to C			Not Rated	Hedge accounting effects	Total
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3			
Financial assets at amortised cost										
Loans	-	-	251	-	-	-	-			251
Receivables	13	-	7,554	-	15	-	-			7,582
Fixed income instruments	-	-	21,888	-	-	-	-			21,888
Gross carrying amount - Total	13	-	29,693	-	15	-	-			29,721
Amortised cost - Total	**13**	**-**	**29,681**	**-**	**15**	**-**	**-**	**695**	**993**	**31,397**

Item (€m)	from AAA to AA-		from A+ to BBB-		from BB+ to C			Not Rated	Hedge accounting effects	Total
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3			
Financial assets at FVTOCI										
Fixed income instruments	-	-	31,590	-	-	-	-			31,590
Gross carrying amount - Total	-	-	31,590	-	-	-	-			31,590
Carrying amount - Fair value	**-**	**-**	**32,040**	**-**	**-**	**-**	**-**	**-**	**-**	**32,040**

CREDIT RISK - RATINGS FOR ASSETS OUTSIDE THE RING-FENCE

Item (€m)	from AAA to AA-		from A+ to BBB-		from BB+ to C			Not Rated	Hedge accounting effects	Total
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3			
Financial assets at amortised cost										
Loans	-	-	356	-	-	-	-			356
Receivables	-	-	104	-	-	-	-			104
Gross carrying amount - Total	-	-	460	-	-	-	-			460
Amortised cost - Total	**-**	**-**	**440**	**-**	**-**	**-**	**-**	**6**	**-**	**446**

Item (€m)	from AAA to AA-		from A+ to BBB-		from BB+ to C			Not Rated	Hedge accounting effects	Total
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3			
Financial assets at FVTOCI										
Fixed income instruments	-	-	505	-	-	-	-			505
Gross carrying amount - Total	-	-	505	-	-	-	-			505
Carrying amount - Fair value	**-**	**-**	**532**	**-**	**-**	**-**	**-**	**-**	**-**	**532**

BANCOPOSTA RFC - CREDIT RISK - CONCENTRATION

Item (€m)	At 31 December 2018	
	Gross Carrying amount	Provision to cover expected losses
Financial assets at amortised cost	29,721	(12)
Loans	251	-
Sovereign	-	-
Corporate	251	-
Banking	-	-
Receivables	7,582	(3)
Sovereign	5,930	(3)
Corporate	303	-
Banking	1,349	-
Fixed income instruments	21,888	(9)
Sovereign	17,378	(9)
Corporate	4,510	-
Banking	-	-
Financial assets at FVTOCI	31,590	(13)
Fixed income instruments	31,590	(13)
Sovereign	31,590	(13)
Corporate	-	-
Banking	-	-
Total	**61,311**	**(25)**

ASSETS OUTSIDE THE RING-FENCE - CREDIT RISK - CONCENTRATION

Item (€m)	At 31 December 2018	
	Gross Carrying amount	Provision to cover expected losses
Financial assets at amortised cost	466	(20)
Loans	355	-
Sovereign	-	-
Corporate	355	-
Banking	-	-
Receivables	111	(20)
Sovereign	-	-
Corporate	81	(20)
Banking	30	-
Financial assets at FVTOCI	510	-
Fixed income instruments	510	-
Sovereign	510	-
Corporate	-	-
Banking	-	-
Total	**976**	**(20)**

BANCOPOSTA RFC - CREDIT RISK - DETAILS OF THE PROVISION TO COVER EXPECTED LOSSES ON FINANCIAL INSTRUMENTS AT AMORTISED COST

Item (€m)	Financial assets at amortised cost		Total
	Receivables	Fixed income instruments	
	Stage 1	Stage 1	
Balance at 1 January 2018	**2,643**	**7,626**	**10,269**
Impairment of fixed income instruments/receivables held at the beginning of the period	-	2	2
Reversal of fixed income instruments/receivables held at the beginning of the period	(34)	(182)	(216)
Impairment of fixed income instruments/receivables purchased/paid in the period	-	2,822	2,822
Reversal due to sale/collection	-	(923)	(923)
Reversal for write-off	-	-	-
Balance at 31 December 2018	**2,609**	**9,345**	**11,954**

BANCOPOSTA RFC - CREDIT RISK - DETAILS OF THE PROVISION TOCOVER EXPECTED LOSSES ON FINANCIAL ASSETS AT FVTOCI

Item (€m)	Financial assets at FVTOCI		Total
	Receivables	Fixed income instruments	
	Stage 1	Stage 1	
Balance at 1 January 2018	**-**	**13,876**	**13,876**
Impairment of fixed income instruments/receivables held at the beginning of the period	-	27	27
Reversal of fixed income instruments/receivables held at the beginning of the period	-	(579)	(579)
Impairment of fixed income instruments/receivables purchased/paid in the period	-	1,275	1,275
Reversal due to sale/collection	-	(1,492)	(1,492)
Reversal for write-off	-	-	-
Balance at 31 December 2018	**-**	**13,107**	**13,107**

ASSETS OUTSIDE THE RING-FENCE - CREDIT RISK - DETAILS OF THE PROVISION TO COVER EXPECTED LOSSES ON FINANCIAL INSTRUMENTS AT AMORTISED COST

Item (€m)	Financial assets at amortised cost					Total
	Loans	Receivables			Fixed income instruments	
	Stage 1	Stage 1	Stage 2	Total	Stage 1	
Balance at 1 January 2018	**327**	**168**	**341**	**509**	**-**	**836**
Impairment of fixed income instruments/receivables held at the beginning of the period	-	19,989	-	19,989	-	19,989
Reversal of fixed income instruments/receivables held at the beginning of the period	(11)	(100)	(15)	(115)	-	(126)
Impairment of fixed income instruments/receivables purchased/paid in the period	4	-	-	-	-	4
Reversal due to sale/collection	-	-	-	-	-	-
Reversal for write-off	-	-	-	-	-	-
Balance at 31 December 2018	**320**	**20,057**	**326**	**20,383**	**-**	**20,703**

ASSETS OUTSIDE THE RING-FENCE - CREDIT RISK - DETAILS OF THE PROVISION TO COVER EXPECTED LOSSES ON FINANCIAL ASSETS AT FVTOCI

Item (€m)	Financial assets at FVTOCI					Total
	Loans	Receivables			Fixed income instruments	
	Stage 1	Stage 1	Stage 2	Total	Stage 1	
Balance at 1 January 2018	**-**	**-**	**-**	**-**	**218**	**218**
Impairment of fixed income instruments/receivables held at the beginning of the period	-	-	-	-	-	-
Reversal of fixed income instruments/receivables held at the beginning of the period	-	-	-	-	-	-
Impairment of fixed income instruments/receivables purchased/paid in the period	-	-	-	-	-	-
Reversal due to sale/collection	-	-	-	-	-	-
Reversal for write-off	-	-	-	-	-	-
Balance at 31 December 2018	**-**	**-**	**-**	**-**	**218**	**218**

CREDIT RISK - TRADE RECEIVABLES ADJUSTED ON THE BASIS OF THE PROVISION MATRIX

Age bands (€m)	At 31 December 2018	
	Gross carrying amount	Provisions for doubtful debts
Trade receivables not yet due	310	(3)
Past due 0 - 1 year	148	(5)
Past due 1 - 2 years	24	(5)
Past due 2 - 3 years	17	(6)
Past due 3 - 4 years	7	(4)
Past due > 4 years	42	(42)
Positions subject to legal action and/or bankruptcy proceedings	80	(68)
Total	**628**	**(133)**

CREDIT RISK - TRADE RECEIVABLES ADJUSTED FOR INDIVIDUAL IMPAIRMENTS

Item (€m)	At 31 December 2018	
	Gross carrying amount	Provisions for doubtful debts
Trade receivables		
Due from customers	1,666	(364)
Cassa depositi e prestiti	440	-
Ministries and public entities	482	(96)
Overseas postal operators	201	(4)
Private customers	543	(264)
Due from MEF	99	(31)
Due from subsidiaries	397	-
Total	**2,162**	**(395)**

DETAILS OF THE PROVISION TO COVER EXPECTED LOSSES ON TRADE RECEIVABLES

(€m)	Balance at 31 December 2017	First-time adoption IFRS 9	Balance at 1 January 2018	Net provisions	Uses	Contribution of PostePay SpA	Balance at 31 December 2018
Trade receivables							
Receivables due from customers	442	-	442	8	(1)	(1)	448
Private customers	295	-	295	6	(1)	(1)	299
Public administration entities	140	-	140	-	-	-	140
Overseas postal operators	7	-	7	2	-	-	9
Interest on late payments	44	-	44	13	(10)	-	47
Receivables due from the MEF	31	2	33	(1)	-	-	32
Total	**517**	**2**	**519**	**20**	**(11)**	**(1)**	**527**
of which attributable to BancoPosta RFC	150	-	150	3	-	(1)	152

DETAILS OF THE PROVISION TO COVER EXPECTED LOSSES DUE FROM OTHERS

(€m)	Balance at 31 December 2017	First-time adoption IFRS 9	Balance at 1 January 2018	Net provisions	Uses	Contribution of PostePay SpA	Balance at 31 December 2018
Public Administration entities for sundry services	13	-	13	(4)	-	(6)	3
Receivables from fixed-term contract settlements	9	-	9	1	-	-	10
Other receivables	45	-	45	17	-	(12)	50
Total	**67**	**-**	**67**	**14**	**-**	**(18)**	**63**
of which attributable to BancoPosta RFC	27	-	27	18	-	(18)	45

POSTE ITALIANE SPA - EXPOSURE TO SOVEREIGN DEBT

Item (€m)	At 31 December 2018			At 31 December 2017		
	Nominal value	Carrying amount	Fair value	Nominal value	Carrying amount	Fair value
Financial assets attributable to BancoPosta						
Italy	**46,664**	**50,373**	**48,897**	**45,930**	**49,527**	**50,998**
Financial assets at amortised cost	16,435	18,333	16,857	12,692	12,913	14,384
Financial assets at FVTOCI	30,229	32,040	32,040	33,238	36,614	36,614
Financial assets						
Italy	**500**	**532**	**532**	**500**	**551**	**551**
Financial assets at FVTOCI	500	532	532	500	551	551
Total	**47,164**	**50,905**	**49,429**	**46,430**	**50,078**	**51,549**

Credit risk – comparative exercise at 31 December 2017

CREDIT RISK ON FINANCIAL ASSETS ATTRIBUTABLE TO BANCOPOSTA

Item (€m)	Balance at 31 December 2017			
	from Aaa to Aa3	from A1 to Baa3	from Ba1 to Not rated	Total
Financial assets attributable to BancoPosta				
Financial assets at amortised cost				
Loans and Receivables	177	19,902	435	20,514
Receivables	177	6,989	435	7,601
Fixed income instruments	-	12,913	-	12,913
Financial assets at FVTOCI	-	39,099	-	39,099
Fixed income instruments	-	39,099	-	39,099
Derivative financial instruments	73	258	63	394
Cash flow hedges	18	13	-	31
Fair Value hedges	55	245	63	363
Total	**250**	**59,259**	**498**	**60,007**

CREDIT RISK ON FINANCIAL ASSETS

Item (€m)	Balance at 31 December 2017			
	da Aaa a Aa3	da A1 a Baa3	da Ba1 a Not rated	Total
Financial assets				
Financial assets at amortised cost				
Loans and Receivables	7	261	374	642
Loans	-	-	367	367
Receivables	7	261	7	275
Financial assets at FVTOCI	-	551	-	551
Fixed income instruments	-	551	-	551
Total	**7**	**812**	**374**	**1,193**

RISK ON TRADE RECEIVABLES

Item (€m)	At 31 December 2017	
	Carrying amount	*Individual impairments*
Trade receivables		
Customers	1,565	(388)
Cassa depositi e prestiti	374	-
Ministries and Public Administration entities	478	(130)
Overseas counterparties	222	-
Private customers	491	(258)
MEF	166	(31)
Trade Receivables due from subsidiaries	288	-
Total	**2,019**	
of which past due	373	

RISK ON OTHER RECEIVABLES AND ASSETS

Item (€m)	At 31 December 2017 Carrying amount	Individual impairments
Other receivables and assets		
Substitute tax paid	1,576	-
Receivables relating to fixed-term contract settlements	179	(9)
Accruals and deferrals of a trading nature and other assets	6	-
Other amounts due from subsidiaries	3	-
Sundry receivables	229	(58)
Interest accrued on IRES refund	46	-
Interest accrued on IRAP refund	3	-
Total	**2,042**	
of which past due	46	

Liquidity risk

LIQUIDITY RISK - ASSETS

Item (€m)	at 31 December 2018 Within 12 months	Between 1 and 5 years	Over 5 years	Total	at 31 December 2017 Within 12 months	Between 1 and 5 years	Over 5 years	Total
Financial assets attributable to BancoPosta								
Financial assets at amortised cost								
Loans	251	-	-	251	-	-	-	-
Receivables	8,379	-	-	8,379	7,629	8	-	7,637
Amounts due from MEF	6,032	-	-	6,032	6,047	-	-	6,047
other financial receivables	2,347	-	-	2,347	1,582	8	-	1,590
Fixed income instruments	1,749	4,695	23,478	29,922	1,594	6,702	7,327	15,623
Financial assets at FVTOCI	3,001	10,312	30,011	43,324	4,143	9,767	39,362	53,272
Fixed income instruments	3,001	10,312	30,011	43,324	4,143	9,767	39,362	53,272
Financial assets at FVTPL								
Receivables	8	-	-	8	-	-	-	-
Financial assets	213	731	313	1,257	366	570	301	1,237
Trade receivables	2,256	3	3	2,262	2,014	1	4	2,019
Other receivables and assets	866	1,265	41	2,172	894	1,118	52	2,064
Cash and deposits attributable to BancoPosta	3,318	-	-	3,318	3,196	-	-	3,196
Cash and cash equivalents	2,127	-	-	2,127	2,039	-	-	2,039
Total	**22,168**	**17,006**	**53,846**	**93,020**	**21,875**	**18,166**	**47,046**	**87,087**

LIQUIDITY RISK - LIABILITIES

Item (€m)	at 31 December 2018 Within 12 months	Between 1 and 5 years	Over 5 years	Total	at 31 December 2017 Within 12 months	Between 1 and 5 years	Over 5 years	Total
Financial liabilities attributable to BancoPosta	27,764	13,329	23,849	64,942	23,683	13,371	23,173	60,227
Postal current accounts	16,365	10,942	23,845	51,152	15,121	10,110	22,032	47,263
Loans	6,088	2,384	-	8,472	2,440	2,403	-	4,843
Other financial liabilities	5,311	3	4	5,318	6,122	858	1,141	8,121
Financial liabilities	317	58	-	375	1,079	209	52	1,340
Trade payables	1,488	-	-	1,488	1,211	-	-	1,211
Other liabilities	1,772	1,325	22	3,119	1,594	1,161	26	2,781
Total	**31,341**	**14,712**	**23,871**	**69,924**	**27,567**	**14,741**	**23,251**	**65,559**

Cash flow interest rate risk

POSTE ITALIANE SPA - CASH FLOW INTEREST RATE RISK

Item (€m)	Position	Change in value		Pre-tax profit	
	Nominal	+100 bps	-100 bps	+100 bps	-100 bps
2018 Effects					
Financial assets attributable to BancoPosta					
Financial assets at amortised cost					
Receivables					
Amounts due from MEF	5,930	59	(59)	59	(59)
Other financial receivables	1,652	17	(17)	17	(17)
Fixed income instruments	425	4	(4)	4	(4)
Financial assets at FVTOCI					
Fixed income instruments	1,740	17	(17)	17	(17)
Financial assets					
Financial assets at amortised cost					
Loans	354	4	(4)	4	(4)
Receivables					
Other financial receivables	30	-	-	-	-
Financial assets at FVTOCI					
Fixed income instruments	375	4	(4)	4	(4)
Cash and deposits attributable to BancoPosta					
Bank deposits	351	4	(4)	4	(4)
Cash and cash equivalents					
Deposits with the MEF	1,306	13	(13)	13	(13)
Bank deposits	686	7	(7)	7	(7)
Financial liabilities attributable to BancoPosta					
Other financial liabilities	(70)	(1)	1	(1)	1
Financial liabilities					
Financial liabilities due to subsidiaries	(112)	(1)	1	(1)	1
Other financial liabilities	(1)	-	-	-	-
Variability at 31 December 2018	**12,666**	**127**	**(127)**	**127**	**(127)**

Item (€m)	Position	Change in value		Pre-tax profit	
	Nominal	+100 bps	-100 bps	+100 bps	-100 bps
2017 effects					
Financial assets attributable to BancoPosta					
Financial assets at amortised cost					
Receivables					
Amounts due from MEF	6,011	60	(60)	60	(60)
Other financial receivables	1,179	12	(12)	12	(12)
Financial assets at FVTOCI					
Fixed income instruments	1,170	17	(17)	17	(17)
Financial assets					
Financial assets at amortised cost					
Loans	367	4	(4)	4	(4)
Receivables					
Other financial receivables	40	-	-	-	-
Financial assets at FVTOCI					
Fixed income instruments	375	4	(4)	4	(4)
Cash and deposits attributable to BancoPosta					
Bank deposits	397	4	(4)	4	(4)
Cash and cash equivalents					
Deposits with the MEF	379	4	(4)	4	(4)
Bank deposits	1,557	16	(16)	16	(16)
Financial liabilities attributable to BancoPosta					
Other financial liabilities	(100)	(1)	1	(1)	1
Financial liabilities					
Financial					
Financial liabilities due to subsidiaries	(46)	-	-	-	-
Other financial liabilities	-	-	-	-	-
Variability at 31 December 2017	**11,869**	**120**	**(120)**	**120**	**(120)**

Other risks

The other principal risks to which the Poste Italiane Group is exposed at 31 December 2018 are described below.

Operational risk

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. This category of risk includes losses resulting from fraud, human error, business disruption, systems failures, breach of contracts and natural disasters. Operational risk includes legal risk.

To protect against this form of risk, BancoPosta RFC has formalised a methodological and organisational framework to identify, measure and manage the operating risk related to its products/processes.

The framework, which is based on an integrated (qualitative and quantitative) measurement model, makes it possible to monitor and manage risk on an increasingly informed basis.

In 2018, a series of steps have been taken to refine the operational risk management framework, with the aim of making the process of recording operational losses more efficient and mitigating such risks. This has involved the creation of cross-functional working groups. Support has also been provided to the specialist units and the user responsible for the process of analysing and assessing IT risk, in keeping with the approach adopted in 2017.

At 31 December 2018, the risk map prepared in accordance with the aforementioned framework shows the type of operational risks BancoPosta RFC's products are exposed to. In particular:

Event Type	Number of types
Internal fraud	29
External fraud	49
Employee practices and workplace safety	7
Customers, products and business practices	32
Damage to tangible assets	4
Business disruption and system failure	7
Process execution, management and delivery	122
Total at 31 December 2018	**250**

For each type of mapped risk, the Company has recorded and classified the related sources of risk (internal losses, external losses, scenario analysis and risk indicators) in order to construct complete inputs for the integrated measurement model. Systematic measurement of the mapped risks has enabled the Company to prioritise mitigation initiatives and attribute responsibilities to competent functions, in order to contain any future impact.

Poste Vita SpA and Poste Assicura SpA have also drawn up and finalised their own framework for identifying, assessing and managing operational risks. The adopted approach reflects the specific nature of the processes and operational risk events typical of an insurance company. The process of assessing operational risk exposure is carried out in keeping with the related solvency requirements, and involves both qualitative and quantitative analysis, conducted through a structured process for identifying internal losses and assessing potential risks in terms of frequency, impact and mitigation. The overall risk exposure is modest thanks to the adoption of organisational measures and mitigating risk controls.

Insurance risks

Insurance risks derive from the stipulation of insurance contracts and the terms and conditions contained therein (technical bases adopted, premium calculation, terms and conditions of cash surrender, etc.).

In technical terms, mortality is one of the main risk factors for Poste Vita SpA, i.e. any risk associated with the uncertainty of a policyholder's life expectancy. Particular attention is paid in selling pure life insurance policies, an area where procedures set underwriting limits to the capital and the age of the policyholder. In terms of "pure life" insured amounts the Group's insurance companies transfer their risks to reinsurers in keeping with the nature of the products sold and conservation levels adequate to the companies' capital structure.

For products with the capital sum subject to positive risk, such as term life insurance, this risk has negative consequences if the actual frequency of death exceeds the death probabilities realistically calculated (second order technical bases).

For products with the capital sum subject to negative risk, such as annuities, there are negative consequences when actual death frequencies are lower than the death probabilities realistically calculated (longevity risk).

Nevertheless, at 31 December 2018, the mortality risk is limited for the Group, considering the features of the products offered. The only area where this risk is somewhat significant is term life insurance, for which actual death rates are compared from time to time with those projected on the basis of the demographics adopted for pricing purposes. Moreover, mortality risk is mitigated through reinsurance and by setting limits on both the capital and the age of the policyholder when policies are sold.

Longevity risk is also low. In fact, for most life insurance products the probability of annuitisation is very close to zero, as historical experience shows that policyholders never use the option to annuitise. Pension products, in particular, still account for a limited share of insurance liabilities (about 5%). In addition, for these products, the Group may, if certain conditions materialise, change the demographic base and the composition by sex used to calculate the annuity rates.

Pricing risk is the risk of incurring losses due to inadequate premiums charged for the insurance products sold. It may arise due to:

- inappropriate selection of the technical basis;
- incorrect assessment of the options embedded in the product;
- incorrect evaluation of the factors used to calculate the expense loads.

As Poste Vita's mixed and whole-life policies have mostly cash value build-up features, accumulating in accordance with a technical rate of zero, the technical basis adopted does not affect premium calculation (and/or the insured capital). In fact, there is nearly no pricing risk associated with the choice between technical bases in Poste Vita's portfolio, except for the term life insurance products discussed above.

The options embedded in the policies held in the portfolio include:

- Surrender option;
- Guaranteed minimum return option;
- Annuity conversion option.

For nearly all the products in the portfolio there are no surrender penalties. The surrender risk only becomes significant, however, in the event of mass surrenders which, on the basis of historical evidence, have a low probability of occurrence (a surrender rate of approximately 2.9% in 2018).

Poste Assicura SpA is exposed to the following insurance risks:

- Underwriting risk: the risk deriving from the conclusion of insurance contracts associated with the events insured, the processes followed when pricing and selecting risks and unfavourable claims trends compared with previous estimates. This risk can be divided into the following categories:
    - Pricing risk: the risk linked to the company's pricing of its policies which depends on the assumptions used in order to calculate premiums. If prices are based on inadequate assumptions, the insurer may be exposed to the risk of being unable to meet its contractual obligations to policyholders. These risks include those related to disability-morbidity, or the risk associated with the payment of benefits or claims for illness and/or injury. Pricing risk also includes the risk that the premiums charged are not sufficient to cover the actual costs incurred in the management of the contract and the risk of excessive growth in operations associated with poor selection of risks or the absence of resources sufficient to keep up with the pace of growth.
    - Provisioning risk: referring to the risk that technical provisions are not sufficient to meet obligations to policyholders. This insufficiency may be due to incorrect estimates by the company and/or changes in the general environment.
- Catastrophe risk: the risk that extreme and exceptional events have a negative impact that has not been taken into account when pricing the policies.
- Anti-selection risk: this relates to the company's unwillingness to insure an event not classified as future, uncertain and damaging.

As regards Poste Assicura SpA's insurance business, which commenced operations in 2010, the expected growth of the portfolio and the different degrees of risk associated with the products distributed has required the company to adopt a highly prudent approach to reinsurance. In particular, it has entered into pro rata reinsurance treaties with major reinsurance providers, establishing the amounts to be ceded based on the specific type and size of the risk to be assumed, backed up by excess-loss or stop-loss treaties to cover risks of a certain size (such as accident policies or so-called catastrophic risks). In addition, when defining the guarantees offered, the assumption of specific types of risk has been mitigated by limiting the size of pay-outs in the event of certain specific types of claim.

With reference to non-life risks, the Group performs specific analyses including, among other things, stress tests to determine the Company's solvency also under adverse market conditions.

Reputational risk

The main element of reputational risk to which the Group is, by its nature, exposed is linked to market performance and primarily associated with the placement of postal savings products and investment products issued by third-party entities (bonds, certificates and real estate funds) or by Group companies (insurance policies issued by the subsidiary, Poste Vita SpA, and mutual funds managed by BancoPosta Fondi SpA SGR).

In particular, with regards to real estate funds sold in the period 2002-2005, which have given rise to a number of complaints and disputes, the Company is closely monitoring performance through to the respective maturities, assessing the potential impact on the provisions for risks and charges accounted for in the financial statements. During the year ended 31 December 2018, the estimate of the liabilities deriving from risks linked to disputes with customers regarding certain financial instruments and investment products, sold in previous years and that have not yet reached maturity, whose performance is not in line with expectations, was prudently revised. On 16 January 2017, Poste Italiane SpA's Board of Directors passed a resolution aimed at protecting all of the customers who, in 2003, purchased units issued by the Invest Real Security real estate fund, and who still held the units at 31 December 2016, the date of the fund's maturity. The estimated liabilities resulting from this initiative were recognised in provisions for risks and charges, with a total of €48 million used at 31 December 2017 following implementation. In addition, with a view to consolidating the Company's historical customer relationships, based on trust and transparency, on 19 February and 28 June, Poste Italiane SpA's Board of Directors approved an initiative designed to protect customers who, in 2004, against a different economic and regulatory backdrop compared with today's, purchased units issued by the Europa Immobiliare 1 fund and who still held the units at 31 December 2017, the date of the fund's maturity. This initiative, the aim of which was to allow each investor to recover the difference between the amount they invested at the time of subscription, increased by any income distributions or early returns of capital over the life of the fund, and the amount that the investor will receive from the Fund's "Final Liquidation Distribution", was launched on 24 September 2018 and came to a conclusion on 7 December 2018[123].

123. Details of the initiative have been published on Poste Italiane SpA's corporate website at https://www.poste.it/iniziativa-tutela-fondo-europa-immobiliare.html

8. Hedging transactions

Below is a description of the hedging transactions entered into by the Poste Italiane Group, as distinguished between fair value hedges and cash flow hedges, which are accounted for as per IAS 39 – Financial Instruments: Recognition and Measurement. The fair value hedges and cash flow hedges described below refer mainly to fixed income instruments held by BancoPosta.

Hedging transactions - Fair value hedges

The Poste Italiane Group has a government bond portfolio – made up of fixed-rate BTPs and inflation-linked BTPs – subject to movements in fair value due to changes in interest rates and in the inflation rate.

To limit the effects of interest rates on fair value, BancoPosta RFC enters into Over the Counter (OTC) interest rate swaps to hedge the fair value of the bonds held in the portfolio. The objective of these transactions is to have instruments that can offset changes in fair value of the portfolio due to interest rate fluctuations and the rate of inflation. The credit risk of the Italian Republic is not hedged and is set for the duration of the swap.

Full hedges and partial hedges are implemented, with the start date equal to the date of purchase of the instrument (swap spot start) and after the purchase of the instrument (swap forward start), respectively.

The Group evaluates the effectiveness of every hedging relationship in offsetting movements in fair value through a retrospective effectiveness test and a prospective effectiveness test[124], using the approaches illustrated in the following notes.

The retrospective effectiveness test is performed by utilising the “dollar offset approach through the hypothetical derivative[125]”. With this approach, consideration is given to the hedge ratio of the change in fair value of the actual derivative to the change in fair value of the hypothetical derivative occurred between inception and the valuation date. The hedge is considered effective if the hedge ratio ranges from 80% to 125%. The hypothetical derivative and the actual hedging instrument have a settlement date consistent with the hedge inception (spot or forward start) and differ solely in their spread which is considered, as already indicated, the main source of ineffectiveness[126]. The partial ineffectiveness of the hedge, equal to the difference between the changes in value of the two derivatives (hypothetical and actual) represents the net effect of the hedge recognised separately in profit or loss.

124. IAS 39 requires two effectiveness tests:
- prospective effectiveness test: attests that the hedging relationship is expected to be highly effective in future periods;
- retrospective effectiveness test: attests that the hedging relationship has been effective from inception to the reporting date.

For a hedge to be effective, the prospective effectiveness test must show that the hedge is highly effective in offsetting fair value or cash flow movements attributable to the hedged instrument during the designation period, while the result of the retrospective test must show offset ratios ranging from 80% to 125%. A hedge can be ineffective when the hedging instrument and the hedged item: are in different currencies; have different maturities; use different underlying interest rates; are exposed to different counterparty risks; and when the derivative is not equal to zero at inception.

125. The dollar offset approach is a quantitative method that involves a comparison between movements in the fair value or cash flow of the hedging instrument and the movements in the fair value or cash flow of the hedged instrument attributable to the risk hedged. Depending on the policy selected, this approach can be used:
- on a cumulative basis, by observing the performance of the hedge since inception;
- on a periodic basis, by comparing the hedge performance with that of the last test.

The dollar offset approach can be implemented through a hypothetical derivative, that is by constructing a theoretical derivative to compare the relevant theoretical movements in fair value or cash flow with those of the hedged instrument (actual derivative).

126. For the hypothetical derivative use is made of the mid-market spread, which makes the present value at the settlement date equal to zero, and for the actual derivative the interest rate agreed upon with the counterparty.

For the purposes of the prospective effectiveness test, different approaches have been adopted, depending on the characteristics of the hedging swap. In particular:

- the "Critical terms[127]" approach for swap spot starts, for which it has been determined at inception that the characteristics of the fixed leg make it possible to replicate exactly the fixed cash flows generated by the hedged item;
- the "Dollar offset through the hypothetical derivative" approach for forward start swaps, for which the prospective effectiveness test is performed by calculating the hedge ratio between the change in fair value of the hypothetical derivative and the change in fair value of the actual derivative[128]. The hedge is considered effective if the hedge ratio falls in the interval between 80%and 125%.

Hedging transactions – Cash flow hedges

To limit the exposure to interest rate risk deriving from the need to reinvest the cash generated by maturing bonds held in portfolio, BancoPosta RFC enters, if necessary, into forward purchases. In addition, to pursue the stabilisation of returns, forward sales are entered into. These derivatives qualify as cash flow hedges of forecast transactions.

In addition, the Group has a portfolio of inflation-linked BTPs subject to cash flow variability in relation to inflation.

To limit the effects of interest rates on cash flows, the Group enters into OTC interest rate swaps or inflation swaps to hedge the cash flows of the bonds held in portfolio. The objective of these transactions is to stabilise until maturity the return of the instrument, regardless of movements of the variable parameter.

The Group evaluates the effectiveness of the designated derivative in every hedging relationship through a retrospective effectiveness test and a prospective effectiveness test.

With regards to the hedges of forecast transactions, the retrospective effectiveness test involves the calculation of a hedge ratio defined as the ratio of the difference between the fair value of the forward transaction entered into with the counterparty on the test and inception date and the present value of the difference between the theoretical forward price of the BTP calculated as of the test and inception date. Assuming a perfect match between the forward prices of the counterparties and the theoretical forward prices, the hedge ratio is always equal to 100%. As such, there are no sources of ineffectiveness.

For the purposes of the prospective effectiveness test, the critical terms approach is applied, considering at inception the consistency between the hedging instrument and the hedged item on the basis of the qualitative characteristics of the contracts[129].

With respect to inflation-linked bonds, the retrospective effectiveness test considers the hedge ratio between the change in fair value of the actual derivative to the change in fair value of the hypothetical derivative occurred between the date of inception and the valuation date. The hedge is considered effective if the hedge ratio ranges from 80% to 125%.

The hypothetical derivative and the actual derivative have a settlement date that matches the inception of the hedge and differ in terms of their fixed-rate component[130]. Moreover, for the derivatives used to hedge inflation-linked BTP, the fair value at the settlement date reflects also the interest of the instrument accrued from the latest interest payment date to the date of settlement of the derivative. As such, both are considered the main sources of ineffectiveness.

The change in fair value of the actual derivative is recognised through equity, for the effective portion of the hedge, while the change in fair value of the ineffective portion is recognised through profit or loss.

127. The critical terms approach involves a comparison between the critical terms of the hedging instrument with those of the hedged item. The hedging relationship is highly effective when all the critical terms of the two instruments match perfectly and there are no features or options that might invalidate the hedge. Critical terms include, among others: notional amount of the derivative and principal of the underlying, credit risk, timing, currency of the cash flows.
128. Calculated by assuming a parallel shift of + / - 100 bps of the yield curves.
129. The notional amount of the forward contract must be set, at the settlement date, as equal to the nominal amount of the instrument in the event of a purchase, and equal or lower than the nominal amount of the instrument in the event of a sale. The underlying of the forward contract must coincide with the instrument that must be purchased or sold (in this case it must be an instrument in the portfolio) at the settlement date. The settlement date must be the same as the date on which the cash flow to be hedged is expected, in the event of a forward purchase, or must be related to the year in which the total return is meant to be stabilised, in the event of a forward sale.
130. The hypothetical derivative uses the fixed rate, which makes the present value at the settlement date equal to zero, while the actual derivative uses the interest rate agreed upon with the counterparty.

For the purposes of the prospective effectiveness test, different approaches have been applied, depending on the characteristics of the hedging swap. In particular:

- the "Critical terms" approach for derivatives for which it has been determined at inception that the characteristics of the indexed leg of the swap make it possible to replicate exactly the variable cash flows generated by the hedged item;
- the "Dollar offset through the hypothetical derivative" approach for derivative contracts with a fixed rate applicable to a nominal amount growing constantly at six-month intervals until the derivative expires. For these contracts the prospective effectiveness test is performed by calculating the hedge ratio between the change in fair value of the hypothetical derivative and the change in fair value of the actual derivative[131]. The hedge is considered effective if the hedge ratio falls in the interval between 80% and 125%.

Bond hedges - Cash flow hedges

The Poste Italiane Group is exposed to the risk of cash flow volatility in relation to the €50 million bond issue of 25 October 2013, which calls for annual variable interest payments.

The exposure to this risk is hedged through an interest rate swap to hedge cash flows whereby the Parent Company took on the obligation to pay a fixed rate and sold the variable interest payable by the bond. The hedge covers the interest rate risk while the implicit credit risk is not hedged.

The effectiveness of the hedges is tested retrospectively and prospectively by using the "Dollar offset through the hypothetical derivative" approach.

Effects of hedging transactions on profit or loss and financial position

The table below shows the hedging instruments by expiration date. The average interest rate of the interest rate swaps shown represents the contractually expected average fixed rate of the hedging transaction by maturity band.

131. Calculated by assuming a parallel shift of + / - 100 bps of the yield curves.

TIME DISTRIBUTION BASED ON REMAINING DURATION OF CASH FLOW HEDGE CONTRACTS

	Maturity			
(€m)	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total
Cash flow hedges - Interest rate risk				
Forward purchases				
Nominal	1,545	-	-	1,545
Settlement price	1,491	-	-	1,491
Forward sales				
Nominal	1,340	-	-	1,340
Settlement price	1,644	-	-	1,644
Interest rate swaps				
Nominal	445	490	725	1,660
Avarage interest rate %	4.70	4.95	4.15	4.53

TIME DISTRIBUTION BASED ON REMAINING DURATION OF FAIR VALUE HEDGE CONTRACTS

	Maturity			
(€m)	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total
Fair value hedges - Interest rate risk				
Interest rate swaps				
Nominal	-	375	23,590	23,965

The table below shows the effects of hedging transactions, broken down by type, on profit or loss and the financial position.

FAIR VALUE HEDGES - RATE RISK

	Nominal	Carrying amount*		Accumulated amount of fair value hedge adjustments on the hedged item		Change in value used for calculating hedge ineffectiveness	Accumulated amount of fair value hedge adjustments on the hedge item in case of discontinuing
(€m)		Assets	Liabilities	Assets	Liabilities		
Hedged items							
Fixed income instruments, of which:		26,136	-	993	-	686	-
at amortised cost		12,568	-	993	-	341	-
at FVTOCI		13,568	-		-	345	-
Hedging instruments							
Interest rate swap	23,965	163	(1,748)			(688)	
Hedging gain/(loss) recognised in PL						**(2)**	

* Not including credit loss provisions

CASH FLOW HEDGES - RATE RISK

(€m)	Nominal	Carrying amount		Change in value used for calculating hedge ineffectiveness	Cash flow hedge	
		Assets	Liabilities		Cash flow hedge reserve	Discontinued hedges
Hedged items						
Fixed income instruments, of which:			-	(61)		
at amortised cost		-	-	-		
at FVTOCI		1,823	-	(61)		
Bonds		-	(50)	-		
Forward purchases instruments				(94)		
Hedging instruments						
Forward purchases	1,545	94	-	94	76	-
Forward sales	1,340	61	-	61	61	-
Interest rate swaps	1,660	50	(112)	-	(12)	-
Hedging gain/(loss) recognised in PL				**-**		

The table below shows the effects of cash flow hedges on other comprehensive income.

IMPACT ON OCI OF CASH FLOW HEDGES - RATE RISK

(€m)	Gain/(Loss) on hedged recognised in OCI	Transfers to profit or loss:	
		Hedge accounting effects	Discontinued
Fixed income instruments	192	18	-
Bonds	(1)	1	-
Total	**191**	**19**	**-**

9. Proceedings pending and principal relations with the Authorities

The following information is provided in accordance with accounting standard IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*.

Litigation

On 27 February 2015, the tax Authorities notified **Poste Italiane SpA** of an indictment for accounting irregularities before the Court of Auditors for the Lazio region, regarding a number of accounting records for the handling and distribution of revenue stamps in the years between 2007 and 2010. The hearing was held on 2 July 2015. With sentence no. 332 of 9 July 2015, the Court of Auditors for the Lazio region fined the Parent Company an amount of €8 million, plus monetary revaluation and legal interest. The Company filed an appeal and, on 15 November 2017, the Court of Auditors issued judgement 542, upholding the appeal and limiting the initial fine to the sum, of €4 million. During the year under review, following expiry of the deadline for lodging an appeal against the judgement and after subsequent confirmation from the counterparty, a receivable of €4 million was recognised.

Tax disputes

In November 2011, the tax Authorities notified **EGI SpA** of three notices of assessment for the years 2006, 2007 and 2008, resulting in the identification of the same irregularity in each of the three years. This concerned the application, for the purposes of IRES, of art. 11, paragraph 2 of Law 413/1991 to properties of historical and artistic interest owned by EGI and leased by it to third parties. Following the ruling in the first instance of the Provincial Tax Tribunal of Rome, on 7 May 2014, the company proceeded to pay a total amount due of approximately €2.1 million. Furthermore, as a result of the ruling in the second instance, handed down by the Regional Tax Tribunal of Rome in EGI SpA's favour, on 10 June 2015, the company obtained a refund of the amount paid. On 24 April 2015, the tax Authorities notified EGI that they had filed an appeal with the Court of Cassation, requesting annulment of the judgement on appeal, and on 12 June 2015 EGI SpA presented a cross appeal. The litigation is currently pending before the Supreme Court of Cassation. On this specific issue, the Supreme Court has recently adopted an interpretation favourable to the tax Authorities. As a result, conscious of a significant increase in the risk of an adverse outcome, EGI is assessing the possibility of settling the dispute in return for concessions, in accordance with art. 6 of Law Decree 119/2018. In this case, EGI will have to pay a sum equal to 15% of the additional IRES claimed, amounting to a total of approximately €0.4 million. EGI has thus made provision for this amount in its provisions for risks and charges.

In 2009, the Regional Tax Office for Large Taxpayers (Agenzia delle Entrate - Direzione Regionale del Lazio - Ufficio Grandi Contribuenti) notified **Poste Vita SpA** of an alleged violation of the VAT regulations in the 2004 tax year, resulting in fines of approximately €2.3 million for the alleged failure to pay VAT on invoices for service commissions. Poste Vita SpA appealed the above findings before the Provincial Tax Tribunal of Rome. In December 2010 and September 2011, the tax Authorities sent notices of two further small fines for the same violation in fiscal years 2005 and 2006. These fines have also been appealed. The Provincial Tax Tribunal of Rome found in the company's favour, ruling that the tax Authorities' allegations are without grounds. The tax Authorities have challenged such rulings, filing a series of appeals. The Regional Tax Tribunal of Rome rejected both appeals and confirmed the lack of grounds for the claims against Poste Vita. With regard to the disputes relating to 2004 and 2006, on 23 October 2015, the State Attorney's Office challenged these decisions and summoned the company to appear before the Court of Cassation. The likely outcome of this tax dispute continues to be taken into account in determining provisions for risks and charges.

On 25 November 2014, a tax audit relating to **Postel SpA**, regarding direct taxes and VAT for the tax years from 2009 to 2012 and previously undertaken by the tax Authorities, came to an end with delivery of a tax audit report in which the right to deduct VAT from purchases, applied by the company in 2010 and 2011, was contested. Then, on 8 October 2015, an audit relating to income tax and withholding tax, regarding Postel SpA's alleged failure to pay social security contributions for employees and/or contractors used by a supplier between 2010 and 2014, came to an end with delivery of a tax audit report, contesting the right to deduct VAT and the deductibility of IRAP. As a result of the above audits, the tax Authorities have served the company with two separate tax assessment notices for 2010 and 2011. Specifically:

- In relation to 2010, on 21 December 2015, the company was requested to pay VAT of €5.6 million, in addition to penalties and interest, as well as VAT, IRES and IRAP totalling €0.2 million, plus penalties and interest. On 18 May 2016, the company appealed the assessment notice, at the same time paying a provisional amount of approximately €2.3 million of the VAT due.
- In relation to 2011, on 18 October 2016, the company received a tax assessment notice for VAT, IRES, IRAP and withholding tax, amounting to €1.2 million, plus penalties and interest. On 16 December 2016, the company appealed the assessment notice, at the same time paying a provisional amount of approximately €0.5 million.

In addition, based on the findings set out in the tax audit report of 8 October 2015, the tax Authorities:

- with regard to the 2012 tax year, on 25 November 2016, notified Postel SpA of a tax assessment notice relating to IRES, IRAP, VAT and withholding tax of €0.1 million, plus penalties and interest. On 19 January 2017, the company appealed the assessment notice, at the same time paying a provisional amount equal to approximately half of the requested amount. At the hearing held on 13 February 2018, the appeal was upheld and the tax Authorities were ordered to pay costs. As notified on 3 October 2018, the tax Authorities appealed to the Regional Tax tribunal in Rome. Postel appeared before the Tribunal to argue its case on 30 November 2018. A date for the appeal hearing has yet to be scheduled;
- with regard to the 2013 tax year, on 24 July 2017, notified Postel SpA of a tax assessment notice relating to VAT, IRES, IRAP and withholding tax of approximately €0.2 million, plus penalties and interest. The company appealed the assessment notice on 23 October 2017, at the same time paying a provisional amount equal to approximately half of the requested amount. The appeal hearing was held on 13 December 2018. The company opted to settle the tax disputes in return for concessions (art. 6 of Law Decree 119 of 23 October 2018, converted into Law 136 of 17 December 2018) and withdrew its appeal. On 13 December 2018, the Tribunal adjourned the hearing until 11 July 2019.

With regard to the assessment notices for 2010 and 2011, the company has elected to take up the settlement concession introduced by art. 11 of Law Decree 50 of 24 April 2017, which involves payment of the outstanding tax and interest on the arrears accruing up to the 60th day after notification of the assessment, except for penalties and overdue interest. The amounts payable under the settlement are reduced by the amounts already paid as a result of the legislation in force regarding the collection of tax when judgement is pending. In this instance, the amount payable by the company is €8.4 million. Thus, having already paid the sum of €2.8 million, the company proceeded to pay the sum of €5.6 million. The provisions made in previous years, totalling €8.3 million, have been utilized. The actions brought against the company were thus cancelled by the Tribunal in 2018.

On 19 April 2018, the tax Authorities in Rome (*Guardia di Finanza – Nucleo di Polizia economico-finanziaria*) entered the offices of **SDA Express Courier SpA**. The purpose of the inspection was to verify the company's compliance with the requirements regarding VAT, income tax, IRAP and withholding tax for the years 2014, 2015 and 2016, pursuant to and for the purposes of articles 52 and 63 of Presidential Decree 633/72, art. 33 of Presidential Decree 600/73, art. 2 of Legislative Decree 68/2001 and Law 4/1929. On 29 November 2018, the audit was formally declared completed. The main finding of the final notice of assessment regards the deduction of VAT relating to the adjustment entries issued by the company in connection with discounts granted to customers following an increase in the number of shipments. These discounts become price reductions, originally applied by the company when the shipment is handled, and are therefore classified as rebates or discounts under the related contract. In the view of SDA's consultants, the finding is without grounds in either fact or law. As a result, the company plans to challenge the finding through the appropriate administrative and/or legal channels.

In November 2018, **Consorzio Postemotori** received notice of an order issued by the Criminal Court in Rome and of the precautionary seizure of a BancoPosta current account in the consortium's name, amounting to €4.6 million. This was accompanied by precautionary measures concerning both the people under investigation and real property. In response, the consortium's management board declared itself in full agreement with the considerations and conclusions contained in two independent expert opinions, one of which regarded the public law aspects of the concession under which the consortium provides its services to the Ministry of Infrastructure and Transport (management and registration of payments due from users in return for the services provided by the Department of Land Transportation) and the other concerning the related tax aspects. The former concluded that the concession's legal framework and, in particular, the payments due to the consortium, are in compliance with the legislation governing service concessions, without identifying any critical issues or illegality regarding the payments due or the billing of those payments. The latter judged the risk of potential tax liabilities for the consortium as a result of the charges brought by the Public Prosecutor to be remote.

Social security disputes

Since 2012, the *Istituto Nazionale per la Previdenza Sociale* (INPS, the National Institute of Social Security) office at Genoa Ponente has issued **Postel SpA** and Postelprint SpA (regarding which an agreement relating to a merger with Postel SpA was signed on 27 April 2015, effective for accounting and tax purposes from 1 January 2015) a number of notices of adjustment, some of which have resulted in payment orders, for a total amount payable of €19.6 million at 31 December 2018. According to INPS, this amount represents social security contributions funding income support, extraordinary income support, unemployment benefit and family benefits not covered by the contributions paid to IPOST and which, according to INPS, the two companies have failed to pay. The companies immediately challenged the grounds for the payment orders, initially through administrative channels before the Administrative Committee for Employee Pensions, and then in the form of legal action before the Court of Genoa. In a memo issued on 20 October 2016, the Ministry of Labour stated that the social security contributions system applicable to Poste Italiane also applies to all the other Group companies, with the sole exception of those that provide air transport, banking and express delivery services.

In relation to the three combined actions of the five pending before the Court of Genoa, on 11 July 2017, the court read out the judgement upholding INPS's claim, amounting to €9.16 million, only to the extent of the difference in contributions between the family benefits paid by Postel to employees and the amount assessed by INPS in the form of contributions for family benefits. The company was ordered to pay just €0.22 million. The contribution for income support, extraordinary income support, unemployment benefit (€8.94 million) is not payable, on the basis that, given that Postel is wholly owned by the State through the Parent Company (the requirement was met until Poste Italiane SpA's flotation), 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 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 two judgements dated 28 December 2018, the Court of Appeal in Genoa confirmed in full the judgements at the first instance, rejecting INPS's appeals. The agency has six months after the judgements are filed to appeal to the Supreme Court.

The other two cases are still pending and are still at a preliminary stage, relating to the appeals filed by Postel SpA against the payment orders for the period from May 2009 to September 2018. Taking into account the favourable judgements, the reasons given for the judgements and the latest appeals brought by INPS, the company has adjusted its provisions for risks and charges based on the opinion of its legal advisors.

Principal proceedings pending and relations with the Authorities

European Commission

On 13 September 2013, the Court of Justice of the European Union upheld **Poste Italiane SpA**'s appeal, overturning the decision of the European Commission of 16 July 2008 on state aid, ordering the EC to pay legal costs. Acting on the European Commission's Decision, and in accordance with instructions from the Parent Company's shareholder, in January 2009 Poste Italiane SpA paid €443 million plus interest of €41 million to the MEF. In implementation of the European Court's (by then definitive) decision, in accordance with art.1 paragraph 281 of the 2015 Budget Law, (Law 190 of 23 December 2014), on 13 May 2015, the Company collected the amount of €535 million from its then sole shareholder, the MEF. Following the European Court's decision, however, the European Commission reopened its review and appointed an external expert to determine whether (in accordance with art. 1, paragraph 31 of the 2006 Budget Law - Law 266 of 23 December 2005) the rates of interest earned by the Company on deposits with the MEF during the period from 1 January 2005 to 31 December 2007 were in line with market rates. The external expert has provided the Commission, on a preliminary basis, with an updated version of the analysis originally performed by the Commission. Poste Italiane will collaborate with the relevant national Authorities to demonstrate the appropriate nature of the returns earned during the period in question.

AGCM (the Antitrust Authority)

On 9 March 2015, the Authority notified **Poste Italiane SpA** of an investigation of BancoPosta RFC for alleged violation of articles 20, 21 and 22 of the Consumer Code, regarding the "Libretto Smart" product. On 21 December 2015, the AGCM notified Poste Italiane of its final ruling in which it deemed the Company's conduct unfair and imposed a fine of €0.54 million, limited to a tenth of the maximum applicable amount taking into account the mitigating circumstance that Poste Italiane had adopted initiatives aimed at allowing customers to benefit from the bonus rate. Poste Italiane lodged an appeal against this ruling before the Lazio Regional Administrative Court, which has adjourned the case until a hearing on the merits. The hearing on the merits, scheduled for 17 October 2018, did not take place and the case was removed from the register. It may be resumed at the Company's request by 17 April 2019.

On 4 June 2015, the AGCM launched an investigation pursuant to art.8, paragraph 2 quater of Law 287/90, aimed at ascertaining whether actions taken by **Poste Italiane** were designed to prevent H3G SpA (now Wind tre SpA) from accessing the post office network. Requests to participate in the investigation from Fastweb SpA and Vodafone Omnitel BV, as well as **PostePay** (formerly **PosteMobile**). With the ruling adopted at a meeting held on 16 December 2015, the Authority deemed that Poste Italiane had failed, when requested, to offer a competitor of the subsidiary, PostePay, equal access to goods and services that are exclusively available from Poste Italiane, as they form part of the activities carried out within the scope of the Universal Postal Service. In the same ruling, the Authority also ruled that Poste Italiane should desist from such conduct in the future. The Authority did not impose a fine.

Poste Italiane and PostePay lodged an appeal against the ruling before Lazio Regional Administrative Court which, whilst rejecting the appeals lodged by Poste and Poste Mobile, confirmed the principle, backed by Poste Italiane and expressly approved by the AGCM, under which the obligation established by art. 8, paragraph 2-quater of Law 287/90 regards equality of treatment. As a result, H3G's request was unlawful, as it aimed to limit access to certain areas of Poste Italiane's network and was not interested in obtaining treatment equal to that applied by Poste Italiane to its subsidiary, PostePay[132].

Following the above ruling from the AGCM, H3G submitted a writ of summons to the Court of Rome, citing Poste Italiane and PostePay and requesting an order to pay compensation for damages incurred, arising from the violations referred to in the above ruling, amounting to approximately €375.8 million. At the hearing held on 29 March 2017, the investigating judge ordered the appointment of an independent expert.

Finally, on 28 March 2018, Poste Italiane, PosteMobile and Wind Tre SpA reached an agreement whereby, without any rec-

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

ognition and in order to restore peaceful business relations, the parties abandoned the dispute in question. By signing the agreement, Poste Italiane undertook to pay WindTre SpA a total of €1.5 million to cover the operating, general and staff costs incurred, also in relation to disputes, including but not limited to the collection and processing of information and corporate data by WindTre's offices, legal fees and legal aid expenses, charges relating to technical consultancy services, etc.. On 28 May 2018, the Court of Rome ordered that the case be dismissed.

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

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

On 8 October 2018, the AGCM notified **Poste Italiane** of the launch of investigation **PS11215** – pursuant to art. 27, paragraph 3 of Legislative Decree 206/05 (the Consumer Code) and art. 6 of the Regulation for Investigations – with an accompanying request for information pursuant to art. 12, paragraph 1 of the above Regulation. The investigation is in response to complaints filed on 24 July 2018 by "Altroconsumo" and on 8 August 2018 by "Centro Tutela Consumatori e Utenti" (two consumers' associations). The Authority is primarily looking into an advertising campaign called *"Buoni e libretti – Buono a sapersi"*, promoting Interest-bearing Postal Certificates and Postal Savings Books via TV and press adverts. The investigation relates to the alleged violation of articles 21 and 22, paragraph 1 and 4 letter a) of the Consumer Code, as the effect of taxation was, in the Authority's view, not clearly indicated.

On 29 October 2018, Poste Italiane replied to the request for information. Moreover, following a hearing at the offices of the AGCM on 28 November 2018, Poste Italiane sent the Authority a list of its commitments – pursuant to art. 27, paragraph 7 of the Consumer Code, art 8, paragraph 7 of Legislative Decree 145/2007 and art. 9 of the above Regulation for investigations. The commitments were later added to on 11 January 2019.

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

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

Following transposition into Italian law of the third European postal services directive (Directive 2008/6/CE), the so-called "net avoided cost" method has been applied in quantifying the cost of the universal service[133]. In this regard:

i. On 29 July 2014, the board of AGCom issued Resolution 412/14/CONS, approving the measure defining the method of calculating and quantifying the net cost of the universal postal service for 2011 and 2012. In confirming that the cost of the universal service for 2011 and 2012 is, in certain respects, unfair and thus merits compensation, the resolution quantified the cost for 2011 and 2012, respectively, as €381 million and €327 million, compared to sums recorded originally by Poste Italiane SpA for approximately €357 million and €350 million. On 13 November 2014, Poste Italiane SpA challenged this resolution by filing an appeal before the Regional Administrative Court (TAR). The case is still pending.
ii. In September 2017, the regulator published Resolution 298/17/CONS relating to its assessment of the net cost of the universal postal service incurred by the Company for 2013 and 2014 and the applicability of the mechanism for allocating such cost. In detail, the regulator has assessed the cost of providing the universal service for 2013 and 2014 to be €393 million and €409 million, respectively, compared with revenue of €343 million and €277 million recognised in Poste Italiane SpA's statement of profit or loss in previous years. The regulator has also announced that the compensation fund to cover the cost of providing the universal service, as provided for in art. 10 of Legislative Decree 261/1999, has not been set up. On 6 November 2017, the Company challenged this resolution by filing an appeal before the Regional Administrative Court (TAR).

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

iii. With Resolution 571/18/CONS, published on 11 February 2019, AGCom has launched a public consultation on the assessment of the net cost of providing the Universal Postal Service in 2015 and 2016, with the estimated costs of providing the service amounting to €378 million for 2015 and €355 million for 2016, compared with revenue of €279 million and €262 million recognised by the Parent Company for the services rendered in those years. Interested parties have 45 days from publication of the Resolution in which to send their contributions to the consultation. The above figures may be adjusted by the regulator in its final decision following closure of the consultation.

Bank of Italy

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

Following an inspection of a sample of post offices that was completed in December 2017, relating to efforts to combat money laundering and the financing of terrorism, in May 2018, the Bank of Italy invited BancoPosta to provide a report, updated to 30 September 2018, on the progress made in implementing all the initiatives undertaken in this regard. The report in question, containing a list of the initiatives implemented as of the above date and those to be taken in future, together with the related time-scale, was sent to the Bank of Italy on 29 October 2018, having been presented to Poste Italiane's Board of Directors on 18 October 2018.

The Bank of Italy's Financial Intelligence Unit (UIF) conducted a number of inspections of **Poste Vita SpA** in 2015 and 2016, in relation to money laundering prevention as per art. 47 and art. 53, paragraph 4, of Legislative Decree 231 of 2007. On 8 July 2016, the UIF sent Poste Vita a notice of assessment and violation, alleging the company's failure to promptly report suspect transactions (regarding transactions relating to a single policy) pursuant to art. 41 of Legislative Decree 231/2007. The violation in question may result in a fine of up to €0.4 million. Poste Vita has sent the Ministry of the Economy and Finance a defence memorandum and is awaiting a final decision.

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

On 20 March 2017, IVASS began an inspection of **Poste Vita** pursuant to art. 189 of the Private Insurance Code (Legislative Decree 209 of 7 September 2005). The inspection ended on 28 June 2017. The focus of the inspection was "an audit of the best estimate of liabilities and the assumptions used in computing such liabilities and solvency capital requirements (SCR), including on a prospective basis". On 27 September 2017, Poste Vita provided the documentation requested. On 27 September 2017, IVASS sent Poste Vita the results of the inspection. Finding that the degree of implementation of the Solvency II framework was satisfactory overall, the regulator did not identify any specific shortcomings, and issued a partially favourably opinion, making a number of points and observations. Therefore, on 25 October 2017 the company submitted its considerations regarding the investigations and corrective measures required by the inspection report to IVASS, and planned a series of activities aimed at implementing the improvement initiatives recommended by the Authority. To date, Poste Vita's implementation of the planned actions is on schedule.

Consob

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

In July and August, two requests were received from the CONSOB: the first, dated 27 July, was also sent to other intermediaries and regarded an in-depth assessment of the key issues relating to implementation and application of MiFID II; the second, dated 13 August, contained a request for a meeting with the aim of obtaining greater details on the provision of investment services. During this meeting, held at the CONSOB in September 2018, additional information was provided with respect to the information previously made available, and the related implementation plan was presented, in line with the details submitted to the regulator in the Tableau de Bord on Compliance at 30 June 2018, supplemented with further guidance based on evidence emerging during the process. Finally, during the above meeting, the CONSOB requested further details on specific issues, later formalised in writing, to which the Group gave a full and timely response.

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

On 15 January 2014, at the end of an investigation launched in 2009, the Authority imposed a fine of €0.34 million on **Postel SpA**, which the company accounted for in its financial statements for 2013. The company appealed the Authority's ruling before the Civil Court of Rome, requesting an injunction suspending its implementation, which was accepted by the judge with a ruling on 16 June 2014. On 21 January 2016, the designated judge reduced the fine by €0.1 million, rejecting the other preliminary exceptions raised on the merits. On 21 March 2017, Equitalia Servizi di riscossione SpA notified the company of a payment order in which, in addition to requesting payment of a fine of €0.24 million, as reduced by the judgement from the Court of Rome, it also applied, among other things, an additional amount of €0.12 million. Postel appealed the order, resulting in cancellation of the fine of €0.12 million by the Court of Rome. On 3 August 2018, the Authority notified the company that it had appealed this judgement before the Supreme Court and Postel proceeded to notify and lodge a counter-appeal within the legally required deadline. The Court's ruling on the admissibility of the appeal and the date for a public hearing are awaited. The company has filed a formal request with the Authority in order to recover the sums in question (already paid by Postel following the Authority's seizure of the related amounts from a third party) and, has also applied to the tax Authorities for a refund, a response to which has yet to be received.

10. Material non-recurring events and/or transactions

A brief summary of the impact of material non-recurring events and transactions[134] involving the Poste Italiane Group in 2018, is provided below, as required by CONSOB ruling DEM/6064293 of 28 July 2006:

- income of €120 million from the sale to Anima Holding SpA of shares in Anima SGR, as described in more detail in note 4 – *Material events during the year* (in the parent Company's financial statements, the related non-recurring income amounts to €116 million).
- The impairment loss of €33 million on the goodwill allocated to Postel SpA, as described in more detail in note 5.2-A3.
- Income of €351 million following Poste Vita's recognition of deferred tax income (for the tax periods from 2010 to 2017) on temporary difference resulting from the application of paragraph 1-bis of art. 111 of the Consolidated Law on Income Tax (introduced by art. 38, paragraph 13-bis of Law Decree 78 of 31 May 2010), as described in more detail in note 4 - *Material events during the year*.

11. Exceptional and/or unusual transactions

Under the definition provided by the CONSOB ruling of 28 July 2006, the Poste Italiane Group did not conduct any exceptional and/or unusual transactions[135] in 2018.

12. Events after the end of the reporting period

Events after the end of the reporting period are described in the above notes and no other significant events have occurred after 31 December 2018.

134. Events and transactions are defined as such when their occurrence is non-recurring, being transactions or events that do not recur frequently in the ordinary course of business.
135. Such transactions are defined as transactions that due to their significance/materiality, the nature of the counterparties, the purpose of the transaction, the manner of determining the transfer price and timing of the transaction may give rise to doubts over the correctness and/or completeness of the disclosures in the financial statements, over a conflict of interest, safeguards for the Company's financial position and protections for non-controlling shareholders.

13. Additional information

This note provides information applicable to both the Poste Italiane Group's consolidated financial statements and Poste Italiane SpA's separate financial statements, including qualitative and quantitative disclosures on matters required by accounting standards, not specifically dealt with in the previous notes.

Analysis of net debt/(funds)

The net debt/(funds) of the Poste Italiane Group and Poste Italiane SpA at 31 December 2018 are analysed below.

Poste Italiane Group

NET DEBT/(FUNDS) AT 31 DECEMBER 2018

Balance at 31 December 2018 (€m)	Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Eliminations	Consolidated amount	*of which, related parties*
Financial liabilities	**1,259**	**4,307**	**67,022**	**1,034**	**(6,693)**	**66,929**	
Postal current accounts	-	-	47,160	-	(920)	46,240	-
Bonds	50	-	-	762	-	812	-
Borrowings from financial institutions	201	-	8,473	-	-	8,674	308
Other borrowings	-	-	-	-	-	-	-
Finance leases	-	-	-	-	-	-	-
MEF account, held at the Treasury	-	-	3,649	-	-	3,649	3,649
Derivative financial instruments	30	-	1,829	-	-	1,859	20
Other financial liabilities	20	4,027	1,634	14	-	5,695	13
Intersegment financial liabilities	958	280	4,277	258	(5,773)	-	-
Technical provisions for insurance business	**-**	**-**	**-**	**125,148**	**-**	**125,148**	**-**
Financial assets	**(1,417)**	**(4,097)**	**(64,578)**	**(126,545)**	**5,773**	**(190,864)**	
Financial assets at amortised cost	(89)	(53)	(31,221)	(1,506)	-	(32,869)	(10,530)
Financial assets at FVTOCI	(538)	-	(32,071)	(95,146)	-	(127,755)	(525)
Financial assets at FVTPL	-	-	(58)	(29,769)	-	(29,827)	(21)
Derivative financial instruments	-	-	(368)	(45)	-	(413)	(29)
Intersegment financial assets	(790)	(4,044)	(860)	(79)	5,773	-	-
Technical provisions attributable to reinsurer	**-**	**-**	**-**	**(71)**	**-**	**(71)**	**-**
Net financial liabilities/(assets)	**(158)**	**210**	**2,444**	**(434)**	**(921)**	**1,141**	
Cash and deposits attributable to BancoPosta	-	-	(3,318)	-	-	(3,318)	-
Cash and cash equivalents	(973)	(246)	(1,323)	(1,574)	921	(3,195)	(1,306)
Net debt/(funds)	**(1,131)**	**(36)**	**(2,197)**	**(2,008)**	**-**	**(5,372)**	

NET DEBT/(FUNDS) AT 31 DECEMBER 2017

Balance at 31 December 2017 (€m)	Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Eliminations	Consolidated amount	*of which, related parties*
Financial liabilities	**2,249**	**3,249**	**62,274**	**1,017**	**(5,545)**	**63,244**	
Postal current accounts	-	-	47,468	-	(893)	46,575	-
Bonds	812	-	-	761	-	1,573	-
Borrowings from financial institutions	401	-	4,842	-	-	5,243	-
Other borrowings	-	-	-	-	-	-	-
Finance leases	-	1	-	-	-	1	-
MEF account, held at the Treasury	-	-	3,483	-	-	3,483	3,483
Derivative financial instruments	39	-	1,637	-	-	1,676	-
Other financial liabilities	79	2,969	1,639	6	-	4,693	56
Intersegment financial liabilities	918	279	3,205	250	(4,652)	-	-
Technical provisions for insurance business	**-**	**-**	**-**	**123,650**	**-**	**123,650**	**-**
Financial assets	**(1,587)**	**(3,283)**	**(60,688)**	**(125,860)**	**4,652**	**(186,766)**	
Loans and receivables	(274)	-	(7,600)	(258)	-	(8,132)	(6,239)
Held-to-maturity financial assets	-	-	(12,912)	-	-	(12,912)	-
Available-for-sale financial assets	(556)	-	(39,171)	(96,078)	-	(135,805)	(2,485)
Financial assets at FVTPL	-	-	-	(29,338)	-	(29,338)	(555)
Derivative financial instruments	-	-	(395)	(184)	-	(579)	-
Intersegment financial assets	(757)	(3,283)	(610)	(2)	4,652	-	-
Technical provisions attributable to reinsurers	**-**	**-**	**-**	**(71)**	**-**	**(71)**	**-**
Net financial liabilities/(assets)	**662**	**(34)**	**1,586**	**(1,264)**	**(893)**	**57**	
Cash and deposits attributable to BancoPosta	-	-	(3,196)	-	-	(3,196)	-
Cash and cash equivalents	(1,997)	(21)	(396)	(907)	893	(2,428)	(385)
Net debt/(funds)	**(1,335)**	**(55)**	**(2,006)**	**(2,171)**	**-**	**(5,567)**	

Net funds attributable to the Mail, Parcels and Distribution Strategic Business Unit at 31 December 2017 have been adjusted to take into account a financial receivable of €490 million, following the reclassification of the investments in FSIA and Anima Holding, in the Payments, Mobile and Digital and Financial Services segments, respectively.

Net funds attributable to the Payments, Mobile and Digital and Financial Services segments at 31 December 2017 have been adjusted following recognition of debt of €279 million and €211 million, respectively, after the reclassification of the above investments.

At 31 December 2018, total consolidated net funds amount to €5,372 million, as shown above.

The change during the year reflects a reduction in the fair value of financial instruments measured at FVTOCI, totalling €636 million, including the impact of first-time adoption of IFRS 9. The fair value reserve relating to these instruments, before the related taxation, is negative €115 million.

An analysis of the net funds of the Mail, Parcels and Distribution segment at 31 December 2018, in accordance with ESMA recommendation 319/2013, is provided below:

ESMA NET FINANCIAL INDEBTEDNESS

(€m)	at 31 December 2018	at 31 December 2017
A. Liquidity	**(973)**	**(1,997)**
B. Current loans and receivables	**(57)**	**(245)**
C. Current bank borrowings	201	201
D. Current portion of non-current debt	-	763
E. Other current financial liabilities	23	82
F. Current financial debt (C+D+E)	**224**	**1,046**
G. Current net debt/(funds) (A+B+F)	**(806)**	**(1,196)**
H. Non-current bank borrowings	-	200
I. Bond issues	50	49
J. Other non-current liabilities	27	36
K. Non-current financial debt (H+I+J)	**77**	**285**
L. Net debt/(funds) (ESMA guidelines) (G+K)	**(729)**	**(911)**
Non-current financial assets	(570)	(585)
Net debt/(funds)	**(1,299)**	**(1,496)**
Intersegment loans and receivables and financial liabilities	168	161
Net debt/(funds) including intersegment transactions	**(1,131)**	**(1,335)**

Poste Italiane SpA

NET DEBT/(FUNDS)

Balance at 31 December 2018 (€m)	Capital outside ring-fence	BancoPosta RFC	Eliminations	Poste Italiane SpA	of which related party
Financial liabilities	**1,238**	**66,838**	**(922)**	**67,154**	
Postal current accounts	-	51,204	(65)	51,139	4,903
Bonds	50	-	-	50	-
Borrowings from financial institutions	200	8,473	-	8,673	308
MEF account held at the Treasury	-	3,649	-	3,649	3,649
Derivative financial instruments	31	1,829	-	1,860	29
Other financial liabilities	114	1,669	-	1,783	34
Intersegment financial liabilities	843	14	(857)	-	-
Financial assets	**(997)**	**(64,706)**	**857**	**(64,846)**	
Financial assets at amortised cost	(446)	(31,397)	-	(31,843)	(11,064)
Financial assets at FVTOCI	(537)	(32,040)	-	(32,577)	-
Financial assets at fair value through profit or loss	-	(58)	-	(58)	-
Derivative financial instruments	-	(368)	-	(368)	(29)
Intersegment financial assets	(14)	(843)	857	-	-
Liabilities/(net financial assets)	**241**	**2,132**	**(65)**	**2,308**	
Cash and deposits attributable to BancoPosta	-	(3,318)	-	(3,318)	-
Cash and cash equivalents	(875)	(1,318)	65	(2,128)	(1,306)
Net debt/(funds)	**(634)**	**(2,504)**	**-**	**(3,138)**	

NET DEBT/(FUNDS)

Balance at 31 December 2017 (€m)	Capital outside ring-fence	BancoPosta RFC	Eliminations	Poste Italiane SpA	of which related party
Financial liabilities	**2,087**	**62,109**	**(988)**	**63,208**	
Postal current accounts	-	47,494	(242)	47,252	677
Bonds	813	-	-	813	-
Borrowings from financial institutions	400	4,842	-	5,242	-
MEF account held at the Treasury	-	3,483	-	3,483	3,483
Derivative financial instruments	39	1,638	-	1,677	-
Other financial liabilities	103	4,638	-	4,741	133
Intersegment financial liabilities	732	14	(746)	-	-
Financial assets	**(1,212)**	**(60,780)**	**746**	**(61,246)**	
Financial assets at amortised cost	(642)	(7,601)	-	(8,243)	(6,923)
Financial assets at FVTOCI	-	(12,912)	-	(12,912)	-
Financial assets at fair value through profit or loss	(556)	(39,140)	-	(39,696)	(2,485)
Derivative financial instruments	-	(395)	-	(395)	-
Intersegment financial assets	(14)	(732)	746	-	-
Liabilities/(net financial assets)	**875**	**1,329**	**(242)**	**1,962**	
Cash and deposits attributable to BancoPosta	-	(3,196)	-	(3,196)	-
Cash and cash equivalents	(1,885)	(396)	242	(2,039)	(385)
Net debt/(funds)	**(1,010)**	**(2,263)**	**-**	**(3,273)**	

At 31 December 2018, the Company has net funds of €3,138 million. The change during the year reflects a reduction in the fair value of financial instruments measured at FVTOCI, totalling €375 million, including the impact of first-time adoption of IFRS 9. The fair value reserve relating to these instruments, before the related taxation, is negative €114 million.

An analysis of the net funds of the Parent Company outside the ring-fence at 31 December 2018, in accordance with ESMA recommendation 319/2013, is provided below:

ESMA NET FINANCIAL INDEBTEDNESS FOR CAPITAL OUTSIDE RING-FENCE

(€m)	At 31 December 2018	At 31 December 2017
A. Liquidity	**(875)**	**(1,885)**
B. Current loans and receivables	**(168)**	**(363)**
C. Current bank borrowings	200	200
D. Current portion of non-current debt	-	763
E. Other current financial liabilities	118	106
F. Current financial liabilities (C+D+E)	**318**	**1,069**
G. Current net debt (A+B+F)	**(725)**	**(1,179)**
H. Non-current bank borrowings	-	200
I. Bond issues	50	50
J. Other non-current liabilities	27	36
K. Non-current net debt (H+I+J)	**77**	**286**
L. Industrial net debt (ESMA guidelines) (G+K)	**(648)**	**(893)**
Non-current financial assets	(815)	(835)
Industrial net debt	(1,463)	(1,728)
Intersegment financial receivables and payables	829	718
Industrial net debt for capital outside ring-fence including intersegment transactions	**(634)**	**(1,010)**

Transfers of financial assets that are not derecognised

This section provides additional information on the transfer of financial assets that are not derecognised (continuing involvement).

At 31 December 2018, these assets concern reverse repurchase agreements entered into with primary financial intermediaries and entirely attributable to the Parent Company.

TRANSFERS OF FINANCIAL ASSETS THAT ARE NOT DERECOGNISED

		At 31 December 2018			At 31 December 2017		
Item (€m)	Note	Nominal value	Carrying amount	Fair value	Nominal value	Carrying amount	Fair value
Financial assets attributable to BancoPosta	**[A5]**						
Financial assets at amortised cost		3,424	3,527	3,363	4,407	4,486	4,890
Financial assets at FVTOCI		4,742	5,179	5,179	-	-	-
Financial liabilities attributable to BancoPosta	**[B6]**						
Financial liabilities resulting from repurchase agreements		(8,477)	(8,473)	(8,484)	(4,840)	(4,842)	(4,853)
Financial assets	**[A6]**						
Financial assets at FVTOCI		-	-	-	-	-	-
Financial liabilities	**[B7]**						
Financial liabilities resulting from repurchase agreements		-	-	-	-	-	-
Total		**(311)**	**233**	**58**	**(433)**	**(356)**	**37**

Financial assets subject to encumbrances

This paragraph provides information on the nominal value and carrying amount of financial assets delivered to counterparties as collateral for repurchase agreements and asset swaps, and financial assets delivered to the Bank of Italy as collateral for intraday credit granted to the Parent Company and as collateral for SEPA Direct Debits.

FINANCIAL ASSETS SUBJECT TO ENCUMBRANCES

Item (€m)	At 31 December 2018		At 31 December 2017	
	Nominal value	Carrying amount	Nominal value	Carrying amount
Financial assets attributable to BancoPosta				
Financial assets at amortised cost				
Loans and receivables	1,651	1,651	1,179	1,179
Receivables used as collateral provided by CSAs	1,332	1,332	1,110	1,110
Receivables used as collateral provided by GMRAs	185	185	69	69
Receivables in the form of guarantee deposits (Clearing House margin requirements)	134	134	-	-
Fixed income instruments	3,671	3,773	5,180	5,288
Securities used for repurchase agreements	3,424	3,527	4,407	4,486
Securities used as collateral provided by CSAs and GMRAs	247	246	253	269
Securities used as collateral for intraday credit from the Bank of Italy and for Sepa Direct Debits	-	-	520	533
Financial assets at FVTOCI				
Fixed income instruments	5,314	5,809	-	-
Securities involved in repurchase agreements	4,742	5,179	-	-
Securities used as collateral for intraday credit from the Bank of Italy and for Sepa Direct Debits	572	630	-	-
Financial assets				
Financial assets at amortised cost				
Loans and receivables	30	30	40	40
Receivables used as collateral provided by CSAs	30	30	40	40
Financial assets at FVTOCI				
Fixed income instruments	-	-	-	-
Securities involved in repurchase agreements	-	-	-	-
Total financial assets subject to encumbrances	**10,666**	**11,263**	**6,399**	**6,507**

At 31 December 2018, the Company has received financial assets as collateral for repurchase agreements, having a nominal value of €254 million and a fair value of €251 million.

Exposure to sovereign debt

With regard to financial assets, as required by Communication DEM/11070007 of 28 July 2011, implementing Document 2011/266 published by the European Securities and Markets Authority (ESMA) and later amendments, the Group's exposure to sovereign debt at 31 December 2018 is shown in the table below.

POSTE ITALIANE GROUP - EXPOSURE TO SOVEREIGN DEBT

Item (€m)	at 31 December 2018			at 31 December 2017		
	Nominal value	Carrying amount	Fair Value	Nominal value	Carrying amount	Fair Value
Italy	**125,501**	**130,596**	**129,231**	**121,811**	**130,961**	**132,433**
Financial assets at amortised cost	17,934	19,778	18,413	12,692	12,912	14,384
Financial assets at FVTOCI	106,745	109,995	109,995	106,971	115,897	115,897
Financial assets at FVTPL	822	823	823	2,148	2,152	2,152
Non-current assets and disposal groups held for sale	-	-	-	-	-	-
Austria	**15**	**15**	**15**	**-**	**-**	**-**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	15	15	15	-	-	-
Financial assets at FVTPL	-	-	-	-	-	-
Belgium	**89**	**92**	**92**	**95**	**101**	**101**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	89	92	92	95	101	101
Financial assets at FVTPL	-	-	-	-	-	-
Finland	**15**	**15**	**15**	**-**	**-**	**-**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	15	15	15	-	-	-
Financial assets at FVTPL	-	-	-	-	-	-
France	**151**	**173**	**173**	**151**	**171**	**171**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	151	173	173	151	171	171
Financial assets at FVTPL	-	-	-	-	-	-
Germany	**49**	**57**	**57**	**58**	**67**	**67**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	47	56	56	58	67	67
Financial assets at FVTPL	2	1	1	-	-	-
Ireland	**10**	**11**	**11**	**10**	**11**	**11**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	10	11	11	10	11	11
Financial assets at FVTPL	-	-	-	-	-	-
Spain	**1,167**	**1,440**	**1,440**	**1,928**	**2,186**	**2,186**
Financial assets at amortised cost	3	3	3	-	-	-
Financial assets at FVTOCI	1,164	1,437	1,437	1,928	2,186	2,186
Financial assets at FVTPL	-	-	-	-	-	-
Slovenia	**-**	**-**	**-**	**20**	**23**	**23**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	-	-	-	20	23	23
Financial assets at FVTPL	-	-	-	-	-	-
USA	**1**	**1**	**1**	**-**	**-**	**-**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	1	1	1	-	-	-
Financial assets at FVTPL	-	-	-	-	-	-
Total	**126,997**	**132,399**	**131,034**	**124,073**	**133,520**	**134,992**

Unconsolidated structured entities

In order to make investments as consistent as possible with the risk-return profiles of the policies issued, ensuring management flexibility and efficiency, in certain cases Poste Vita SpA has purchased over 50% of the assets managed by certain investment funds. In these cases, tests have been performed in keeping with IFRS to determine the existence of control. The results of the tests on such funds suggest that the company does not exercise any control within the meaning of IFRS 10 – *Consolidated Financial Statements*. However, these funds qualify as unconsolidated structured entities. A structured entity is an entity designed in such a way as not to make voting rights the key factor in determining control over it, as in the case where voting rights refer solely to administrative activities and the relevant operations are managed on the basis of contractual arrangements. Whilst maintaining a moderate risk appetite, in 2018, the gradual process of diversifying investments, begun in 2015, continued by increasing investments in open-end harmonised multi-asset funds of the UCITS type, above all those belonging to the “MULTIFLEX” SICAV.

NATURE OF THE INVOLVEMENT IN THE UNCONSOLIDATED STRUCTURED ENTITY

ISIN (€m)	Name	Nature of entity	Activity of the Fund	% investment	NAV At.	NAV Amount
LU1379774190	*Multiflex-Diversified Dis-Cm*	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31 December 2018	5,463
LU1407712014	*Multiflex - Global Optimal Multi Asset Fund*	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31 December 2018	4,650
LU1407712287	*Multiflex - Strategic Insurance Distribution*	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31 December 2018	4,383
LU1193254122	*Mfx - Global Fund - Asset Global Fund (Pimco Multi Asset)*	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31 December 2018	3,816
LU1407711800	*Multiflex - Dynamic Multi Asset Fund*	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31 December 2018	3,482
IT0004937691	*Tages Platinum Growth*	Non-harmonised fund of hedge funds	Pursuit of absolute returns, with low long-term volatility and correlation with the main financial markets	100	30 November 2018	426
LU1808839242	*Multiflex-Olymp Insurn Ma-Cm*	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31 December 2018	533
LU1808838863	*Multiflex-Olympium Opt Ma-Cm*	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31 December 2018	538
LU1500341240	*Multiflex-Lt Optimal M/A-Cm*	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31 December 2018	384
IT0005212193	*Diamond Italian Properties*	Italian-registered, closed-end alternative real estate investment funds	Investment in real estate assets, real property rights, including those resulting from property lease-translational arrangements, concessions and other similar rights in accordance with the legislation from time to time in effect	100	30 June 2018	157
LU1500341752	*Multiflex-Dynamic Lt M/A-Cm*	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31 December 2018	340
IT0005174450	Fondo Diamond Eurozone Office Ubs	Italian-registered, closed-end alternative real estate investment funds	Investment in "core" and "core plus" real estate assets for retail use, located in the Eurozone and euro-denominated	100	30 September 2018	195

ISIN (€m)	Name	Nature of entity	Activity of the Fund	% investment	NAV At.	NAV Amount
IT0005210387	Diamond Eurozone Retail Property Fund	Italian-registered, closed-end alternative real estate investment funds	Investment in "core" and "core plus" real estate assets for office use, located in the Eurozone and euro-denominated	100	30 September 2018	102
LU1081427665	Shopping Property Fund 2	Closed-end harmonised fund	Master fund which invests primarily in commercial properties and, marginally, in office buildings and alternative sectors. It does not invest in property debt	64	30 September 2018	90
LU1581282842	Indaco Sicav Sif - Indaco Cifc Us Loan	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds, loans and equities)	100	30 November 2018	81
QU0006738854	Prima Credit Opportunity Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30 November 2018	126
IT0005215113	Fondo Cbre Diamond	Italian-registered, closed-end alternative real estate investment funds	Investiment in real estate assets, real property rights, including those resulting from property lease arrangements, participating interests in property companies and in units of alternative real estate funds	100	30 September 2018	68
QU0006738052	Prima Eu Private Debt Opportunity Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30 November 2018	138
IT0005210593	Diamond Other Sector Italia	Italian-registered, closed-end alternative real estate investment funds	Investment in real estate assets, real property rights, including those resulting from property lease arrangements, participating interests in property companies and the professional management and development of the fund's assets	100	30 September 2018	59
IT0005247819	Fondo Diamond Value Added Properties	Italian-registered, closed-end alternative real estate investment funds	Investment in real estate assets, real property rights, including those resulting from property lease-translational arrangements and concessions and in investment in unquoted property companies	100	30 September 2018	54
QU0006742476	Prima Global Equity Prtners Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30 November 2018	27
IT0004597396	Advance Capital Energy Fund	Closed-end non-harmonised fund of funds	Investments in energy companies to achieve capital appreciation and realise relevant gains, after exit	86	30 September 2018	27

Nature of the involvement in the unconsolidated structured entity

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

ISIN (€m)	Name	Classification	Carrying amount	Maximum loss exposure*	Difference between carrying amount and maximum loss exposure	Method to determine maximum loss exposure
LU1379774190	*Multiflex-Diversified Dis-Cm*	Financial assets at FVTPL	5,463	695	4,768	VaR 99.5% over a 1-year time horizon
LU1407712014	*Multiflex - Global Optimal Multi Asset Fund*	Financial assets at FVTPL	4,650	238	4,412	Provided by fund management company
LU1407712287	*Multiflex - Strategic Insurance Distribution*	Financial assets at FVTPL	4,383	389	3,994	Provided by fund management company
LU1193254122	*Mfx - Global Fund - Asset Global Fund (Pimco Multi Asset)*	Financial assets at FVTPL	3,816	378	3,438	Provided by fund management company
LU1407711800	*Multiflex - Dynamic Multi Asset Fund*	Financial assets at FVTPL	3,482	210	3,272	Provided by fund management company
IT0004937691	*Tages Platinum Growth*	Financial assets at FVTPL	426	36	390	Provided by fund management company
LU1808839242	*Multiflex-Olymp Insurn Ma-Cm*	Financial assets at FVTPL	533	50	483	Provided by fund management company
LU1808838863	*Multiflex-Olympium Opt Ma-Cm*	Financial assets at FVTPL	538	33	505	Provided by fund management company
LU1500341240	*Multiflex-Lt Optimal M/A-Cm*	Financial assets at FVTPL	384	26	358	Provided by fund management company
IT0005212193	*Diamond Italian Properties*	Financial assets at FVTPL	157	46	111	VaR 99.5% over a 1-year time horizon
LU1500341752	*Multiflex-Dynamic Lt M/A-Cm*	Financial assets at FVTPL	340	20	320	Provided by fund management company
IT0005174450	Fondo Diamond Eurozone Office Ubs	Financial assets at FVTPL	195	72	123	VaR 99.5% over a 1-year time horizon
IT0005210387	*Diamond Eurozone Retail Property Fund*	Financial assets at FVTPL	102	25	77	VaR 99.5% over a 1-year time horizon
LU1081427665	*Shopping Property Fund 2*	Financial assets at FVTPL	57	24	33	VaR 99.5% over a 1-year time horizon
LU1581282842	*Indaco Sicav Sif - Indaco Cifc Us Loan*	Financial assets at FVTPL	81	34	47	VaR 99.5% over a 1-year time horizon
QU0006738854	Prima Credit Opportunity Fund	Financial assets at FVTPL	126	54	72	VaR 99.5% over a 1-year time horizon
IT0005215113	Fondo Cbre Diamond	Financial assets at FVTPL	68	25	43	VaR 99.5% over a 1-year time horizon
QU0006738052	Prima Eu Private Debt Opportunity Fund	Financial assets at FVTPL	138	59	79	VaR 99.5% over a 1-year time horizon
IT0005210593	Diamond Other Sector Italia	Financial assets at FVTPL	59	14	45	VaR 99.5% over a 1-year time horizon
IT0005247819	Fondo Diamond Value Added Properties	Financial assets at FVTPL	54	13	41	VaR 99.5% over a 1-year time horizon
QU0006742476	Prima Global Equity Prtners Fund	Financial assets at FVTPL	27	9	18	VaR 99.5% over a 1-year time horizon
IT0004597396	*Advance Capital Energy Fund*	Financial assets at FVTPL	23	13	10	VaR 99.5% over a 1-year time horizon

* Maximum loss is estimated without considering the ability of liabilities to offset losses, thus representing a more prudential estimate.

Nature of the risk

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

The table below shows the types of financial instruments in which the funds invest and the main markets of reference as at 31 December 2018.

Asset class (€m)	Fair Value
Financial instruments	
Corporate bonds	10,270
Government bonds	9,773
Other investments net of liabilities	2,127
Equity instruments	2,177
Cash	939
Derivatives	
Swaps	(33)
Futures	(56)
Forwards	(58)
Total	**25,139**

Market traded on and UCITS (€m)	Fair Value
Germany (Frankfurt, Berlin, Munich)	4,104
Dublin	2,199
New York	2,100
Trace	2,080
London	1,372
Paris	1,329
Euronext	1,289
Tokyo	660
Singapore	412
Euromtf	390
Luxembourg	333
Eurotlx	330
Hong Kong	136
Other	7,299
Funds	1,106
Total	**25,139**

Share-based payment arrangements

Long-term incentive scheme: phantom stock plan

Poste Italiane Group

The Annual General Meeting of Poste Italiane SpA's shareholders held on 24 May 2016 approved the information circular for the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan", prepared in accordance with art 84-bis of the Regulations for Issuers. The LTIP, set up in line with market practices, aims to link a portion of the variable component of remuneration to the achievement of earnings targets and the creation of sustainable shareholder value over the long term.

Description of the Plan

As described in the above information circular for the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan", prepared in accordance with art 84-bis of the Regulations for Issuers, the Phantom Stock Plan for the period 2016-2018 entails the award to Beneficiaries of phantom stocks granting them the right to receive stock representing the value of Poste Italiane's shares and the related cash bonus at the end of a vesting period. The number of phantom stocks awarded to each Beneficiary is dependent on achieving the Performance Hurdle and meeting the Qualifying Conditions and the related Performance Targets over a three-year period. The Plan covers a medium- to long-term period. In particular, the plan includes three award cycles, corresponding to the financial years 2016, 2017 and 2018, each with a duration of three years.

The phantom stocks are awarded if the performance targets are achieved, and converted into a cash bonus based on the market value of the shares in the thirty stock exchange trading days prior to the grant date for the phantom stocks or at the end of a retention period (as specified below). The key characteristics of the Plan are described below.

Beneficiaries

The beneficiaries are: Poste Italiane's Chief Executive Officer, in his role as General Manager, certain managers within the Poste Italiane Group, including key management personnel, Material Risk Takers who work for BancoPosta RFC and personnel belonging to the Poste Vita insurance group.

Plan terms and conditions

The Performance Targets, to which receipt of the cash bonus is subject, are as follows:

- for the General Manager and other beneficiaries of the Plan employed by Poste Italiane, other than BancoPosta personnel, an indicator of earnings based on the Group's cumulative EBIT over a three-year period, used to account for the continuity and sustainability of earnings over the long term;
- for Beneficiaries included among BancoPosta RFC's Risk Takers, the three-year RORAC (Return On Risk Adjusted Capital), used for the LTIP with the aim of taking into account the continuity and sustainability of the long-term performance after appropriately adjusting for risk;
- for Beneficiaries including personnel belonging to the Poste Vita insurance group, the RORAC registered by the Poste Vita insurance group over a three-year period, used for the LTIP with the aim of taking into account the continuity and sustainability of the long-term performance after appropriately adjusting for risk.

All Beneficiaries must be measured against an indicator of shareholder value creation, based on the Total Shareholder Return, used to measure performance based on the value created for Poste Italiane's shareholders compared with other FTSE MIB-listed companies.

Vesting of the Phantom Stocks is subject to achievement of the Performance Hurdle, designed to ensure sustainability of the Plan at Group level. The Performance Hurdle corresponds with achievement of a certain target for the Group's cumulative EBIT over a three-year period at the end of each Performance Period. In addition, in the case of the General Manager (and Chief Executive Officer) and BancoPosta RFC's Risk Takers, vesting of the Phantom Stocks is also subject to achievement of Qualifying Conditions, designed to ensure the stability of BancoPosta RFC's capital and liquidity position, as follows:

- Indicator of capital adequacy, based on CET 1 at the end of the period.
- Indicator of short-term liquidity, based on LCR at the end of the period.
- Indicator of risk-adjusted earnings, based on RORAC at the end of the period; this indicator has been introduced from the 2017-2019 cycle and only for the General Manager (and Chief Executive Officer).
- For personnel belonging to the Poste Vita insurance group, vesting of the Phantom Stocks, in addition to achievement of the Performance Hurdle (Group's cumulative EBIT over a three-year period), is subject to achievement of the specific Qualifying Condition, namely the Solvency II ratio at the end of the period.
- The Phantom Stocks will be awarded by the end of the year following the end of the Performance Period, and immediately converted into cash. In the case of the General Manager, BancoPosta RFC's Risk Takers and the Poste Vita group's personnel, they are subject to a one-year retention period, before they can be converted into cash, following confirmation that the Qualifying Conditions for each plan have been met.

Determination of fair value and effects on profit or loss

Measurement, using Monte Carlo simulations, is carried out by an independent expert.

First Cycle 2016-2018

The total number of phantom stocks awarded to the 36 Beneficiaries of the First Cycle of the Plan outstanding at 31 December 2018 amounted to 351,346. The cost recognised for 2018 is approximately €1 million, whilst the liability recognised in amounts due to staff is approximately €2.6 million.

Second Cycle 2017-2019

The total number of phantom stocks awarded to the 52 Beneficiaries of the Second Cycle of the Plan at 31 December 2018 amounted to 576,124. The cost recognised for 2018 is approximately €1.6 million, whilst the liability recognised in amounts due to staff is approximately €2.5 million.

Third Cycle 2018-2020

The total number of phantom stocks awarded to the 72 Beneficiaries of the Third Cycle of the Plan amounted to 665,569, with an estimated fair value per unit at 31 December 2018 of €5.26 in relation to three Plans for the Chief Executive Officer and General Manager, €5.68 for BancoPosta RFC's personnel, €5.89 for Poste Vita's personnel and €5.69 relating to the Group's remaining personnel. The cost recognised for 2018 is approximately €1.2 million, equivalent to the liability recognised in amounts due to staff.

Poste Italiane SpA

The effects on profit or loss of the above Long-Term Incentive scheme at 31 December 2018 for Poste Italiane SpA are shown below.

First Cycle 2016-2018

The total number of phantom stocks awarded to the 31 Beneficiaries of the First Cycle of the Plan outstanding at 31 December 2018 amounted to 311,254. The cost recognised for 2018 is approximately €1 million, whilst the liability recognised in amounts due to staff is approximately €2.3 million.

Second Cycle 2017-2019

The total number of phantom stocks awarded to the 46 Beneficiaries of the Second Cycle of the Plan amounted to 525,791. The cost recognised for 2018 is approximately €1.5 million, whilst the liability recognised in amounts due to staff is approximately €2.3 million.

Third Cycle 2017-2019

The total number of phantom stocks awarded to the 65 Beneficiaries of the Third Cycle of the Plan amounted to 612,014. The cost recognised for 2018 is approximately €1 million, equivalent to the liability recognised in amounts due to staff.

Short-term incentive schemes: MBO

On 27 May 2014, the Bank of Italy issued specific Supervisory Standards for BancoPosta (Part IV, Chapter I, "BancoPosta" including in Circular 285 of 17 December 2013 "Prudential supervisory standards for banks") which, in taking into account BancoPosta's specific organisational and operational aspects, has extended application of the prudential standards for banks to include BancoPosta. This includes the standards relating to remuneration and incentive policies (Part I, Title IV, Chapter 2 "Remuneration and incentive policies and practices" in the above Circular 285/2013). These standards provide that a part of the bonuses paid to BancoPosta RFC's Material Risk Takers may be awarded in the form of financial instruments over a multi-year timeframe. As a result, with regard to the management incentive schemes adopted for BancoPosta RFC, where the incentive is above a certain materiality threshold, the MBO management incentive scheme envisages the award of 50% of the incentive in the form of phantom stocks, representing the value of Poste Italiane SpA's shares, and application of the following deferral mechanisms:

- 60% of the award to be deferred for a 5-year period on a pro-rata basis, in the case of Material Risk Takers who are beneficiaries of both the short- and long-term incentive schemes;
- 40% of the award to be deferred for a 3-year period on a pro-rata basis for the remaining Material Risk Takers.

The award of phantom stocks is subject to meeting the Performance Hurdle (Group earnings: EBIT) and certain Qualifying Conditions, as follows:

- Capital adequacy: CET 1, risk tolerance level approved in the Risk Appetite Framework (RAF);
- Short-term liquidity: LCR, risk tolerance level approved in the Risk Appetite Framework (RAF).

Payment of the deferred portion will take place each year, provided that BancoPosta RFC's minimum regulatory capital and liquidity requirements have been met. The effects on profit or loss and on equity are recognised in the period in which the instruments vest[136].

136. The contribution of the card payments and payment services business unit, previously attributable to BancoPosta RFC, has involved the transfer of personnel who are the beneficiaries of share-based incentive schemes.

Determination of fair value and effects on profit or loss

At 31 December 2018, the number of phantom stocks is 101,694, whilst the number of phantom stocks estimated on the basis of the best available information, with the aim of recognising the related service cost, is 145,860. An independent expert, external to the Group, was appointed to measure the value of the stocks, based on best market practices. The liability recognised at 31 December 2018 amounts to €1.4 million.

Severance payments on termination of employment

Severance payments to BancoPosta RFC's Material Risk Takers on early termination are paid in accordance with the same procedures applied to short-term variable remuneration as regards deferral, payment in financial instruments and verification of the minimum regulatory capital and liquidity requirements for BancoPosta RFC.

At 31 December 2018, the number of outstanding phantom stocks totals 276,744. The liability recognised is €1.7 million.

Information on investments

Details of investments are as follows:

LIST OF INVESTMENTS CONSOLIDATED ON A LINE-BY-LINE BASIS

Name (Registered office) (€000)	% interest	Share capital	Net profit/(loss) for the year	Equity
BancoPosta Fondi SpA SGR (Rome)	100.00%	12,000	22,529	60,709
Consorzio Logistica Pacchi ScpA (Rome)	100.00%	516	-	738
Consorzio per i Servizi di Telefonia Mobile ScpA (Rome)	100.00%	120	-	116
Consorzio PosteMotori (Rome)	80.75%	120	-	290
Europa Gestioni Immobiliari SpA (Rome)	100.00%	103,200	431	237,674
Mistral Air Srl (Rome)*	100.00%	1,000	(4,279)	845
PatentiViaPoste ScpA (Rome)	86.86%	120	-	124
Postepay SpA (Rome)	100.00%	7,561	54,509	243,059
Poste Tributi ScpA (Rome)* **	100.00%	2,325	-	(1,785)
Poste Vita SpA (Rome)**	100.00%	1,216,608	949,761	3,862,261
Poste Assicura SpA (Rome)**	100.00%	25,000	45,658	139,723
Postel SpA (Rome)	100.00%	20,400	(16,141)	83,962
SDA Express Courier SpA (Rome)*	100.00%	10,000	(39,711)	22,514
Poste Welfare Servizi Srl (Rome)	100.00%	16	3,211	10,884

* Poste Italiane SpA is committed to providing financial support to the subsidiaries SDA Express Courier SpA and Mistral Air Srl for 2019 and to Poste Tributi ScpA throughout its liquidation.

** The figures shown for these companies were prepared in accordance with IFRS and, as such, may vary from those available in the respective financial reports, which were prepared in accordance with the Italian Civil Code and Italian GAAP.

LIST OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Name (Registered office) (€000)	Nature of investment	Carrying amount	% interest	Assets	Liabilities	Equity	Revenue and income	Net profit/(loss) for the year
Address Software Srl (Rome)	Subsidiary	268	51.00%	994	467	527	1,104	62
Anima Holding SpA (Milan) (a)	Associate	213,728	10.04%	2,078,252	872,908	1,205,344	815,733*	97,379
Conio Inc. (San Francisco) (b)	Associate	27	18.50%	140	136	4	-	(205)
FSIA Investimenti Srl (Milan) (c)	Joint venture	279,814	30.00%	992,721	62,662	930,059	21,185**	11,325
Indabox Srl (Rome)	Subsidiary	925	100.00%	492	179	313	109	(290)
ItaliaCamp Srl (Rome) (d)	Associate	85	20.00%	1,157	521	636	848	153
Kipoint SpA (Rome)	Subsidiary	835	100.00%	2,773	1,938	835	4,931	221
Risparmio Holding SpA (Rome) (e)	Subsidiary	828	80.00%	1,113	77	1,036	-	(55)
Uptime SpA - in liquidation (Rome) (d)	Subsidiary	-	100.00%	771	4,702	(3,931)	-	(598)
Other SDA Express Courier associates (f)	Associate	4						

a. Data derived from the latest consolidated interim accounts for the period ended 30 September 2018 approved by the company's board of directors.
b. Data for Conio Inc. and its subsidiary, Conio Srl at 31 December 2017.
c. Data derived from the latest interim accounts for the period ended 30 September 2018 approved by the company's board of directors, including measurement of the SIA group at equity and the effects recognised at the time of Purchase Price Allocation.
d. Data derived from the accounts for the period ended 31 December 2017, the latest approved by the company.
e. Data derived from the accounts for the period ended 30 September 2018, the latest approved by the company.
f. The other associates of the SDA Express Courier Group are: MDG Express Srl and Speedy Express Courier Srl.

* The amount includes commissions, interest income and other similar income.
** The amount includes dividends and measurement of the investments using the equity method.

Disclosure required by law 124/2017

The information required by art. 1, paragraphs 125 and 129 of Law 124 of 4 August 2017 is provided below.

The information is provided in thousands of euros and on a cash basis, indicating the Group company that received and/or disbursed the grant. In addition, given the numerous interpretative doubts, the following information is provided on the basis of the best interpretation of the legislation available to date, in the light of the guidance provided by Assonime in Circular 5 of 22 February 2019.

Group company (€000)	Grantor/beneficiary	Purpose	Amount disbursed/received
Grants received			
Poste Italiane	Ministry of Education, Universities and Research	Financial training	2,446
Total			**2,446**
Grants disbursed			
Poste Italiane	Cecilia società cooperativa sociale Onlus	Donation	100
Poste Italiane	Fondazione Intercultura Onlus	Donation	90
Poste Italiane	Fondazione Poste Insieme Onlus	Donation	81
Poste Italiane	Medici con l'Africa Cuamm	Donation	20
Poste Italiane	Fondazione Cortile dei Gentili	Donation	10
Postel	Fondazione Poste Insieme Onlus	Donation	20
PostePay	Fondazione Poste Insieme Onlus	Donation	50
Total			**371**

Postal savings deposits

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

POSTAL SAVINGS DEPOSITS

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Post office savings books	105,771	108,564
Interest-bearing Postal Certificates	219,512	214,347
Cassa depositi e prestiti	154,231	146,104
MEF	65,281	68,243
Total	**325,283**	**322,911**

Assets under management

Assets under management by BancoPosta Fondi SpA SGR, measured at fair value using information available on the last working day of the year, amount to €8,119 million at 31 December 2018 (€7,984 million at 31 December 2017).

Commitments

The Group's purchase commitments break down as follows.

COMMITMENTS

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Property leases and other lease arrangements	780	749
Purchases of property, plant and equipment	95	42
Purchases of intangible assets	29	32
Total	**904**	**823**

At 31 December 2018, EGI SpA has given commitments to purchase electricity, with a total value of €21.5 million, on regulated forward markets in 2019. At 31 December 2018, the corresponding market value is €21 million.

Poste Italiane SpA's purchase commitments break down as follows.

PURCHASE COMMITMENTS

Item (€m)	At 31 December 2018	*related to subsidiaries*	At 31 December 2017	*related to subsidiaries*
Property leases and other lease arrangements	680	43	764	48
Property, plant and equipment	96	-	42	-
Intangible assets	29	-	33	-
Total	**805**	**43**	**839**	**48**

Future commitments attributable to the Group and Poste Italiane SpA related to property leases, which may generally be terminated with six months' notice, break down by due date as follows:

COMMITMENTS DERIVING FROM PROPERTY LEASES AND OTHER LEASE ARRANGEMENTS - POSTE ITALIANE GROUP

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Commitments deriving from property leases and other lease payments falling due:		
within 1 year of the reporting date	203	248
between 2 and 5 years after the reporting date	481	436
more than 5 years after the reporting date	96	65
Total	**780**	**749**

COMMITMENTS FOR PROPERTY LEASES AND OTHER LEASE ARRAGEMENTS

Item (€m)	At 31 December 2018	*related to subsidiaries*	At 31 December 2017	*related to subsidiaries*
Instalments falling due:				
within 1 year of the reporting date	213	16	255	13
between 2 and 5 years after the reporting date	412	26	454	30
more than 5 years after the reporting date	55	1	55	5
Total	**680**	**43**	**764**	**48**

Guarantees

Unsecured guarantees issued by the Group and Poste Italiane SpA are as follows:

GUARANTEES

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Sureties and other guarantees issued:		
by banks/insurance companies in the interests of Group companies in favour of third parties	283	283
by the Group in its own interests in favour of third parties	21	21
Total	**304**	**304**

GUARANTEES

Item (€m)	At 31 December 2018	At 31 December 2017
Sureties and other guarantees issued:		
by banks in the interests of Poste Italiane SpA in favour of third parties	182	172
by Poste Italiane SpA in the interests of subsidiaries in favour of third parties	59	59
letters of patronage issued by Poste Italiane SpA in the interests of subsidiaries	21	21
Total	**262**	**252**

Third-party assets

Third-party assets held by Group companies are shown below. This type of asset refers solely to the Parent Company, Poste Italiane SpA.

Item (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Bonds subscribed by customers held at third-party banks	3,093	3,562
Total	**3,093**	**3,562**

In addition to the above, at 31 December 2018, Poste Italiane SpA holds a further €2 million in assets belonging to Group companies.

Assets in the process of allocation

At 31 December 2018, the Parent Company had paid a total of €97 million in claims on behalf of the Ministry of Justice, for which, under the agreement between Poste Italiane SpA and the MEF, it has already been reimbursed by the Treasury, whilst awaiting acknowledgement of the relevant account receivable from the Ministry of Justice.

Disclosure of fees paid to independent auditors pursuant to art.149 duodecies of the consob's regulations for issuers

The following table shows fees payable to the Parent Company's auditor, PricewaterhouseCoopers SpA, and companies within its network for 2018, presented in accordance with art. 149 duodecies of the CONSOB's Regulations for Issuers:

DISCLOSURE OF FEES PAID TO INDEPENDENT AUDITORS

Type of service (€000)	Supplier of service	Fees*
Poste Italiane SpA		
Audit	PricewaterhouseCoopers SpA	1,221
	PricewaterhouseCoopers network	-
Attestation services	PricewaterhouseCoopers SpA	235
	PricewaterhouseCoopers network	-
Other services	PricewaterhouseCoopers SpA	55
	PricewaterhouseCoopers network	-
Subsidiaries of Poste Italiane SpA		
Audit	PricewaterhouseCoopers SpA	967
	PricewaterhouseCoopers network	-
Attestation services	PricewaterhouseCoopers SpA	598
	PricewaterhouseCoopers network	-
Other services	PricewaterhouseCoopers SpA	-
	PricewaterhouseCoopers network	60
Total		**3,136**

* The above amounts do not include incidental expenses and charges.

Auditing services are expensed as incurred and reported in the audited financial statements[137]. With regard to the Parent Company, the item "Audit" includes additional fees of €75 thousand subject to approval by the Annual General Meeting of shareholders on 28 May 2019.

137. Any audit or attestation services relating to accounts prior to the reporting date are recognised on an accruals basis, following engagement of the auditor, in the year in which the services are rendered, applying the percentage of completion method.

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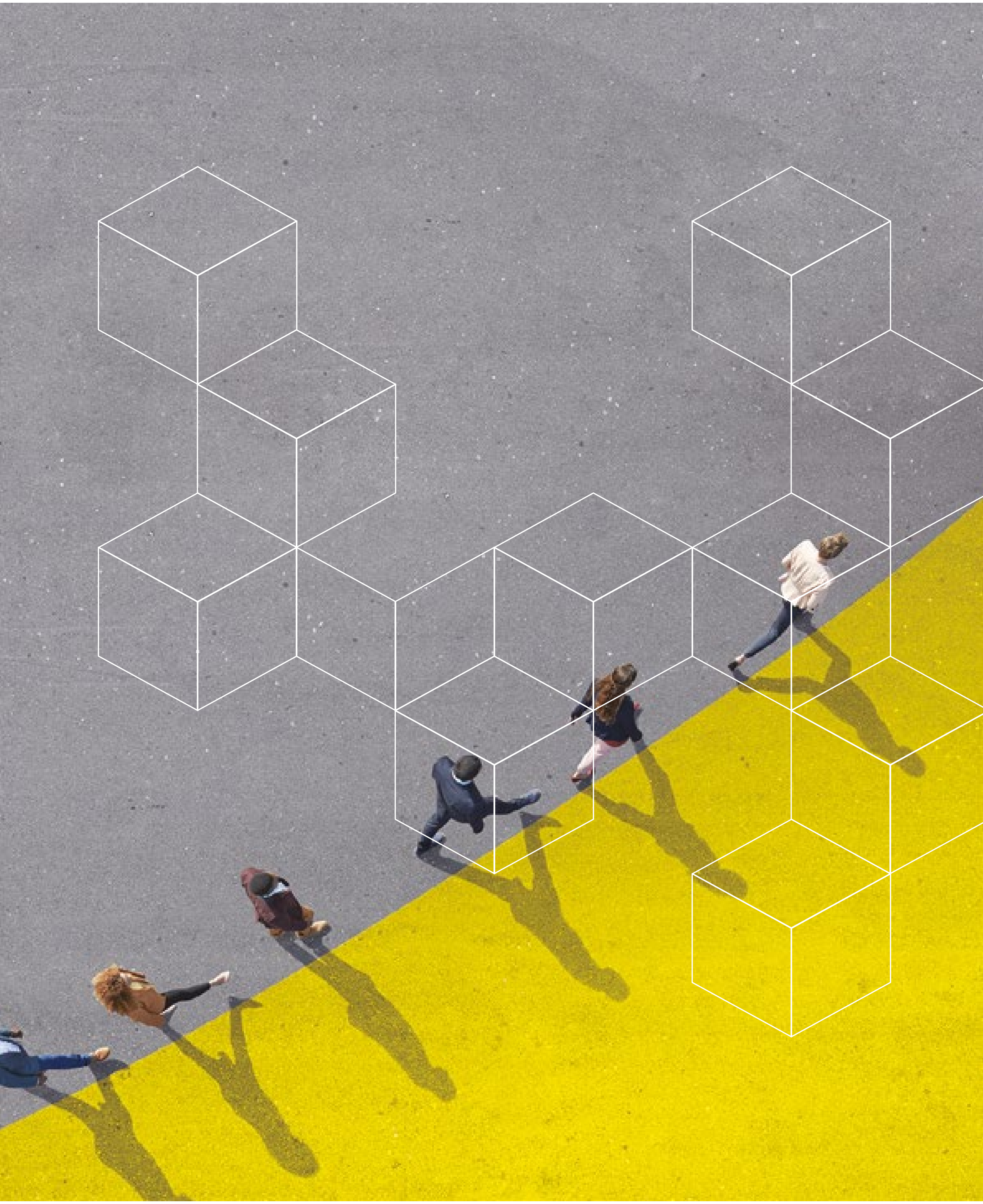
Poste Italiane Financial Statements
for the year ended 31 December 2018

14. BANCOPOSTA RFC SEPARATE REPORT FOR THE YEAR ENDED 31 DECEMBER 2018



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Financial Statements

Statement of financial position

at 31 December

Assets (€)		2018	2017
10.	Cash and cash equivalents	3,327,674,415	3,217,163,704
20.	Financial assets measured at fair value through profit or loss	58,041,524	-
	a) financial assets held for trading	-	-
	b) financial assets designated at fair value	-	-
	c) other financial assets mandatorily measured at fair value	*58,041,524*	-
30.	Financial assets measured at fair value through other comprehensive income	32,040,011,924	39,140,379,660
40.	Financial assets measured at amortised cost	33,743,062,105	22,014,168,028
	a) due from banks	*1,400,368,286*	*1,150,646,309*
	b) due from customers	*32,342,693,819*	*20,863,521,719*
50.	Hedging derivatives	367,749,406	394,507,899
60.	Adjustments for changes in hedged financial assets portfolio (+/-)	-	-
70.	Investments	-	-
80.	Property, plant and equipment	-	-
90.	Intangible assets	-	-
	of which:	-	-
	- goodwill	-	-
100.	Tax assets	506,924,701	405,671,786
	a) current	-	-
	b) deferred	*506,924,701*	*405,671,786*
110.	Non-current assets held for sale and discontinued operations	-	-
120.	Other assets	2,445,137,509	2,063,534,180
Total assets		**72,488,601,584**	**67,235,425,257**

Statement of financial position

at 31 December

Liabilities and equity (€)		2018	2017
10.	Financial liabilities measured at amortised cost	64,202,714,720	59,636,019,238
	a) due to banks	*5,984,821,231*	*5,949,610,345*
	b) due to customers	*58,217,893,489*	*53,686,408,893*
	c) debt securities in issue	-	-
20.	Financial liabilities held for trading	-	-
30.	Financial liabilities designated at fair value	-	-
40.	Hedging derivatives	1,828,670,521	1,637,107,776
50.	Adjustments for changes in hedged financial liabilities portfolio (+/-)	-	-
60.	Tax liabilities	372,051,769	307,944,970
	a) current	-	-
	b) deferred	*372,051,769*	*307,944,970*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80.	Other liabilities	2,691,928,376	2,335,518,644
90.	Employee termination benefits	3,312,610	16,538,104
100.	Provisions for risks and charges:	511,255,914	543,375,786
	a) commitment and guarantees given	-	-
	b) post-employment benefit	-	-
	c) other provisions	*511,255,914*	*543,375,786*
110.	Valuation reserves	14,833,603	114,941,270
120.	Redeemable shares	-	-
130.	Equity instruments	-	-
140.	Reserves	2,267,025,485	2,058,999,822
150.	Share premium reserve	-	-
160.	Share capital	-	-
170.	Treasury shares (-)	-	-
180.	Profit/(Loss) for the year (+/-)	596,808,586	584,979,647
Total liabilities and equity		**72,488,601,584**	**67,235,425,257**

Income statement

for the year ended 31 December

Income/(Expense) (€)		2018	2017
10.	Interest and similar income	1,555,587,952	1,476,745,714
	of which: interest income calculated using the effective interest rate method	*1,555,587,952*	*1,476,745,714*
20.	Interest and similar expense	(28,570,167)	(28,950,210)
30.	**Net interest income**	**1,527,017,785**	**1,447,795,504**
40.	Fee and commission income	3,861,199,639	3,628,959,602
50.	Fee and commission expense	(139,560,667)	(64,607,340)
60.	**Net fee and commission income**	**3,721,638,972**	**3,564,352,262**
70.	Dividends and similar income	445,281	597,839
80.	Profits/(Losses) on trading	5,670,610	2,342,123
90.	Fair value adjustments in hedge accounting	(1,777,493)	1,897,984
100.	Profits/(Losses) on disposal or repurchase of:	378,997,561	623,613,722
	a) financial assets measured at amortised cost	*1,377,576*	-
	b) financial assets measured at fair value through other comprehensive income	*377,619,985*	*623,613,722*
	c) financial liabilities	-	-
110.	Profits/(Losses) on other financial assets/liabilities measured at fair value through profit or loss	9,199,912	-
	a) financial assets and liabilities designated at fair value	-	-
	b) other financial assets mandatorily measured at fair value	*9,199,912*	-
120.	**Net interest and other banking income**	**5,641,192,628**	**5,640,599,434**
130.	Net losses/recoveries due to credit risk on:	(21,388,521)	(14,583,719)
	a) financial assets measured at amortised cost	*(22,158,069)*	*(14,583,719)*
	b) financial assets measured at fair value through other comprehensive income	*769,548*	-
140.	Profits/(Losses) from contract amendments without termination	-	-
150.	**Net income from banking activities**	**5,619,804,107**	**5,626,015,715**
160.	Administrative expenses:	(4,686,171,866)	(4,615,783,659)
	a) personnel expenses	*(82,419,369)*	*(93,415,138)*
	b) other administrative expenses	*(4,603,752,497)*	*(4,522,368,521)*
170.	Net provisions for risks and charges	(72,295,107)	(182,598,597)
	a) commitment and guarantees given	-	-
	b) other net provisions	*(72,295,107)*	*(182,598,597)*
180.	Net losses/recoveries on property, plant and equipment	-	-
190.	Net losses/recoveries on intangible assets	-	-
200.	Other operating income/(expenses)	(31,424,095)	(57,613,621)
210.	**Operating expenses**	**(4,789,891,068)**	**(4,855,995,877)**
220.	Profits/(Losses) on investments	-	-
230.	Profits/(Losses) on fair value measurement of property, plant and equipment and intangible assets	-	-
240.	Impairment of goodwill	-	-
250.	Profits/(Losses) on disposal of investments	-	-
260.	**Income/(Loss) before tax from continuing operations**	**829,913,039**	**770,019,838**
270.	Taxes on income from continuing operations	(233,104,453)	(185,040,191)
280.	**Income/(Loss) after tax from continuing operations**	**596,808,586**	**584,979,647**
290.	Income/(Loss) after tax from discontinued operations	-	-
300.	**Profit/(Loss) for the year**	**596,808,586**	**584,979,647**

Statement of comprehensive income

for the year ended 31 December

Income/(Expense) (€)		2018	2017
10.	**Profit/(Loss) for the year**	**596,808,586**	**584,979,647**
	Other components of comprehensive income after taxes not reclassified to profit or loss		
20.	Equity instruments designated at fair value through other comprehensive income	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit risk)	-	-
40.	Hedges of equity instruments designated at fair value through other comprehensive income	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	372,965	283,022
80.	Non-current assets held for sale and discontinued operations	-	-
90.	Share of valuation reserve attributable to equity-accounted investments	-	-
	Other components of comprehensive income after taxes reclassified to profit or loss		
100.	Hedges of foreign investments	-	-
110.	Foreign exchange differences	-	-
120.	Cash flow hedges	150,316,827	(44,678,244)
130.	Hedges (elements not designated)	-	-
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(1,622,947,631)	(709,554,691)
150.	Non-current assets held for sale and discontinued operations	-	-
160.	Share of valuation reserve attributable to equity-accounted investments	-	-
170.	**Total other components of comprehensive income after taxes**	**(1,472,257,839)**	**(753,949,913)**
180.	**Comprehensive income (Items 10+170)**	**(875,449,253)**	**(168,970,266)**

Statement of changes in equity

	at 31 December 2018									
	Share capital		Share premium reserve	Reserves		Valuation reserves	Equity instruments	Treasury shares	Profit/(Loss) for the year	Equity
(€)	ordinary shares	other shares		retained earnings	other*					
Closing balances at 31 December 2017	-	-	**-**	**1,058,999,822**	**1,000,000,000**	**114,941,270**	**-**	**-**	**584,979,647**	**2,758,920,739**
Adjustments to opening balances**	-	-	-	(2,073,696)	-	1,372,150,172	-	-	-	1,370,076,476
Opening balances at 1 January 2018	**-**	**-**	**-**	**1,056,926,126**	**1,000,000,000**	**1,487,091,442**	**-**	**-**	**584,979,647**	**4,128,997,215**
Attribution of retained earnings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(584,979,647)**	**(584,979,647)**
Reserves	-	-	-	-	-	-	-	-	-	-
Dividends and other attributions	-	-	-	-	-	-	-	-	(584,979,647)	(584,979,647)
Movements during the year	**-**	**-**	**-**	**99,359**	**210,000,000**	**(1,472,257,839)**	**-**	**-**	**596,808,586**	**(665,349,894)**
Movements in reserves	-	-	-	99,359	210,000,000	-	-	-	-	210,099,359
Equity-related transactions	-	-	-	-	-	-	-	-	-	-
Issuance of new shares	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-
Payment of extraordinary dividends	-	-	-	-	-	-	-	-	-	-
Movements in equity instruments	-	-	-	-	-	-	-	-	-	-
Derivatives on own shares	-	-	-	-	-	-	-	-	-	-
Stock options	-	-	-	-	-	-	-	-	-	-
Comprehensive income for 2018	-	-	-	-	-	(1,472,257,839)	-	-	596,808,586	(875,449,253)
Equity at 31 December 2018	**-**	**-**	**-**	**1,057,025,485**	**1,210,000,000**	**14,833,603**	**-**	**-**	**596,808,586**	**2,878,667,674**

* This item corresponds to the BancoPosta RFC reserve.

** The changes in the opening balances are due to the effects of the transition to IFRS 9.

at 31 December 2017

(€)	Share capital		Share premium reserve	Reserves		Valuation reserves	Equity instruments	Treasury shares	Profit/(Loss) for the year	Equity
	ordinary shares	other shares		retained earnings	other*					
Closing balances at 31 December 2016	**-**	**-**	**-**	**948,999,822**	**1,000,000,000**	**868,891,183**	**-**	**-**	**568,276,740**	**3,386,167,745**
Adjustments to opening balances	-	-	-	-	-	-	-	-	-	-
Opening balances at 1 January 2017	**-**	**-**	**-**	**948,999,822**	**1,000,000,000**	**868,891,183**	**-**	**-**	**568,276,740**	**3,386,167,745**
Attribution of retained earnings	**-**	**-**	**-**	**110,000,000**	**-**	**-**	**-**	**-**	**(568,276,740)**	**(458,276,740)**
Reserves	-	-	-	110,000,000	-	-	-	-	(110,000,000)	-
Dividends and other attributions	-	-	-	-	-	-	-	-	(458,276,740)	(458,276,740)
Movements during the year	**-**	**-**	**-**	**-**	**-**	**(753,949,913)**	**-**	**-**	**584,979,647**	**(168,970,266)**
Movements in reserves	-	-	-	-	-	-	-	-	-	-
Equity-related transactions	-	-	-	-	-	-	-	-	-	-
Issuance of new shares	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-
Payment of extraordinary dividends	-	-	-	-	-	-	-	-	-	-
Movements in equity instruments	-	-	-	-	-	-	-	-	-	-
Derivatives on own shares	-	-	-	-	-	-	-	-	-	-
Stock options	-	-	-	-	-	-	-	-	-	-
Comprehensive income for 2017	-	-	-	-	-	(753,949,913)	-	-	584,979,647	(168,970,266)
Equity at 31 December 2017	**-**	**-**	**-**	**1,058,999,822**	**1,000,000,000**	**114,941,270**	**-**	**-**	**584,979,647**	**2,758,920,739**

* This item corresponds to the BancoPosta RFC reserve.

Statement of cash flows

for the year ended 31 December

INDIRECT METHOD

(€)	2018	2017
A. Operating activities		
1. Cash flow from operations	**707,840,222**	**669,944,592**
- profit/(loss) for the year (+/-)	596,808,586	584,979,647
- gains/(losses) on financial assets held for trading and on assets and liabilities measured at fair value through profit or loss (-/+)	(9,638,688)	1,095,199
- gains/(losses) on hedging activities (-/+)	1,777,492	(1,897,984)
- net losses/recoveries due to credit risk (+/-)	21,388,521	14,583,719
- net losses/recoveries on property, plant and equipment and intangible assets (+/-)	-	-
- net provisions and other expenses/income (+/-)	147,682,241	444,520,215
- unpaid taxes and duties (+)	233,104,452	185,040,192
- net losses/recoveries on discontinued operations after tax (+/-)	-	-
- other adjustments (+/-)	(283,282,382)	(558,376,396)
2. Cash flow from/(used for) financial assets	**(4,480,855,905)**	**(2,352,404,996)**
- financial assets held for trading	-	-
- financial assets designated at fair value	-	-
- other financial assets mandatorily measured at fair value	-	-
- financial assets measured at fair value through other comprehensive income	1,253,773,199	(2,764,116,693)
- financial assets measured at amortised cost	(5,332,798,567)	919,204,139
- other assets	(401,830,537)	(507,492,442)
3. Cash flow from/(used for) financial liabilities	**4,258,506,041**	**2,847,080,414**
- financial liabilities measured at amortised cost	4,565,926,545	3,463,588,665
- financial liabilities held for trading	-	-
- financial liabilities designated at fair value	-	-
- other liabilities	(307,420,504)	(616,508,251)
Net cash flow from/(used for) operating activities	**485,490,358**	**1,164,620,010**
B. Investing activities		
1. Cash flow from	**-**	**-**
- disposal of investments	-	-
- dividends received on investments	-	-
- disposal of property, plant and equipment	-	-
- disposal of intangible assets	-	-
- disposal of business division	-	-
2. Cash flow used for	**-**	**-**
- acquisition of investments	-	-
- acquisition of property, plant and equipment	-	-
- acquisition of intangible assets	-	-
- acquisition of business division	-	-
Net cash flow from/(used for) investing activities	**-**	**-**
C. Financing activities		
- issuance/purchase of own shares	-	-
- issuance/purchase of equity instruments	-	-
- dividends and other payments*	(374,979,647)	(458,276,740)
Net cash flow from/(used for) financing activities	**(374,979,647)**	**(458,276,740)**
Net cash flow generated/(used) during the year	**110,510,711**	**706,343,270**

KEYS:
(+) from (-) used for

* Financing activities for 2018 include dividend payments of €585 million net of the €210 million capital injection from Poste Italiane SpA outside the ring-fence.

RECONCILIATION FOR THE YEAR ENDED 31 DECEMBER

Item (€)	2018	2017
Cash and cash equivalents at beginning of the year	3,217,163,704	2,510,820,434
Net cash flow generated/(used) during the year	110,510,711	706,343,270
Cash and cash equivalents: foreign exchange effect	-	-
Cash and cash equivalents at end of the year	**3,327,674,415**	**3,217,163,704**

Notes

Part A – Accounting policies

A.1 – General

Section 1 – Declaration of compliance with international financial reporting standards

The Separate Report has been prepared in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). These were endorsed for application in the European Union by European Regulation (EC) 1606/2002 of 19 July 2002, as transposed into Italian law by Legislative Decree 38 of 28 February 2005 governing the introduction of IFRS into Italian legislation. The term "IFRS" means all International Financial Reporting Standards, all International Accounting Standards ("IAS"), and all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") previously known as the Standing Interpretations Committee ("SIC") endorsed for application in the European Union by EU Regulations issued prior to 19 March 2019, the date on which the Board of Directors of Poste Italiane SpA approved the BancoPosta RFC Separate Report as part of Poste Italiane SpA's Annual Report.

Accounting standards and interpretations applicable from 1 January 2018 and those soon to be effective

The relevant information is provided in note 2.7 – *New Accounting standards and interpretations and those soon to be effective* – in the section – *Poste Italiane financial statements* – of this Annual Report.

Section 2 – Basis of preparation

The Separate Report has been prepared in application of the 5th update of Bank of Italy Circular 262 of 22 December 2005 – "Banks' Financial Statements: Layouts and Preparation", which came into force on 1 January 2018, and of art. 2447 *septies*, paragraph 2, of the Italian Civil Code. On 27 May 2014, the Bank of Italy issued specific Supervisory Standards for BancoPosta RFC (Circular 285/2013, Part Four, Section 1) which, in taking into account the entity's specific organisational and operational aspects, has established prudential requirements that are substantially in line with those applicable to banks. The Standards also govern the requirements regarding capital adequacy and risk containment.

The Separate Report relates to the year ended 31 December 2018, has been prepared in euros and consists of the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the explanatory notes. The statement of financial position, income statement and statement of comprehensive income consists of numbered line items and lettered line sub-items. Nil balances have also been presented in the statement of financial position, income statement and statement of comprehensive income for the sake of completeness. The statement of cash flows has been prepared using the indirect method[138]. All figures in the notes are stated in millions of euros. Notes and account analysis have not been included for nil balances.

138. Under the indirect method, net cash from operating activities is determined by adjusting profit/(loss) for the year to reflect the impact of non-cash items, any deferment or provisions for previous or future operating inflows or outflows, and revenue or cost items linked to cash flows from investing or financing activities.

The financial reporting standards and the recognition, measurement and classification criteria adopted in this Report are consistent with those used to prepare the separate Report as of and for the year ended 31 December 2017, except for the classification, measurement and impairment of financial instruments and the recognition of revenue, which changed following the coming into force of IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers.

The Poste Italiane Group elected to adopt the new financial reporting standards starting from its mandatory effective date, i.e. 1 January 2018, without early adoption. Regarding the transition method, it elected to:

- in relation to IFRS 9, use the exemption in accordance with the provisions of IFRS 9.7.2.15 whereby the retrospective cumulative effect of the change to the new accounting standard is recognised, as of 1 January 2018, in retained earnings and in the fair value reserve, where appropriate, without restating the comparative data;
- in relation to IFRS 15, adopt the Simplified transition method whereby the cumulative effect of the change to the new accounting standard is recognised, as of 1 January 2018, in retained earnings, without restating the comparatives, thus opting not to apply the new rules to contracts completed at the transition date and accounted for in accordance with IAS 18 and related interpretations.

To reclassify the comparative data at 31 December 2017 in the new official formats required by the 5th update of Circular 262 of the Bank of Italy, steps were taken to that effect, without changing the amounts, to report them in the new items. In particular, it is noted that:

- The items “Due from customers”, “Due from banks” and “Held to maturity financial assets” in last year’s financial report have all be reclassified to item 40 “Financial assets measured at amortised cost”;
- “Available-for-sale financial assets” in last year’s financial report have been reclassified to Item 30 “Financial assets measured at fair value through other comprehensive income”;
- “Due to banks” and “Due to customers” in last year’s financial report have been reclassified to Item 10 “Financial liabilities measured at amortised cost”.

The effects of the transition to the new financial reporting standards are illustrated in Section 4 - Other information.

The Separate Report forms an integral part of Poste Italiane SpA’s financial statements and has been prepared on a going concern basis in that BancoPosta’s operations are certain to continue in the foreseeable future.

BancoPosta’s accounting policies, described in the Separate Report, are the same as those adopted by Poste Italiane SpA are described in this Part A and are relevant to all of BancoPosta RFC’s operations.

Section 3 – Events after the end of the reporting period

As of 1 January 2019, BancoPosta has outsourced its investment management activities to BancoPosta Fondi SGR, a Poste Italiane Group company, a licensed, regulated intermediary specialising in asset management and designated as a competence centre for the management of financial investments. At the same time, again from 1 January 2019, as part of the reorganisation of BancoPosta RFC’s internal and operating processes, BancoPosta Fondi SGR outsourced its Internal Audit and Risk Management to BancoPosta, designed to achieve an overall strengthening of the controls conducted by the audit departments involved.

Section 4 – Other information

4.1 Intersegment relations

Balances relating to transactions between BancoPosta RFC and Poste Italiane SpA ("Intersegment transactions") are recognised in the statement of financial position at 31 December 2018 as shown below:

(€)		At 31 December 2018	*of which intersegment*	At 31 December 2017	*of which intersegment*
	Assets				
10.	Cash and cash equivalents	3,328	-	3,217	-
20.	Financial assets measured at fair value through profit or loss	58	-	-	-
	a) financial assets held for trading	-	-	-	-
	b) financial assets designated at fair value	-	-	-	-
	c) other financial assets mandatorily measured at fair value	*58*	-	-	-
30.	Financial assets measured at fair value through other comprehensive income	32,040	-	39,140	-
40.	Financial assets measured at amortised cost	33,743	844	22,014	734
	a) due from banks	*1,400*	-	*1,151*	-
	b) due from customers	*32,343*	*844*	*20,863*	*734*
50.	Hedging derivatives	368	-	395	-
60.	Adjustments for changes in hedged financial assets portfolio (+/-)	-	-	-	-
70.	Investments	-	-	-	-
80.	Property, plant and equipment	-	-	-	-
90.	Intangible assets	-	-	-	-
	of which: *- goodwill*	-	-	-	-
100.	Tax assets	507	-	406	-
	a) current	-	-	-	-
	b) deferred	*507*	-	*406*	-
110.	Non-current assets held for sale and discontinued operations	-	-	-	-
120.	Other assets	2,445	2	2,063	22
	A Total Assets	**72,489**	**846**	**67,235**	**756**
	Liabilities and equity				
10.	Financial liabilities measured at amortised cost	64,203	-	59,636	256
	a) due to banks	*5,985*	-	*5,950*	-
	b) due to customers	*58,218*	*79*	*53,686*	*256*
	c) debt securities in issue	-	-	-	-
20.	Financial liabilities held for trading	-	-	-	-
30.	Financial liabilities designated at fair value	-	-	-	-
40.	Hedging derivatives	1,829	-	1,637	-
50.	Adjustments for changes in hedged financial liabilities portfolio (+/-)	-	-	-	-
60.	Tax liabilities	372	-	308	-
	a) current	-	-	-	-
	b) deferred	*372*	-	*308*	-
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-
80.	Other liabilities	2,692	410	2,335	254
90.	Employee termination benefits	3	-	17	-
100.	Provisions for risks and charges:	511	-	543	-
	a) commitment and guarantees given	-	-	-	-
	b) post-employment benefit	-	-	-	-
	c) other provisions	*511*	-	*543*	-
110.	Valuation reserves	15	-	115	-
120.	Redeemable shares	-	-	-	-
130.	Equity instruments	-	-	-	-
140.	Reserves	2,267	-	2,059	-
150.	Share premium reserve	-	-	-	-
160.	Share capital	-	-	-	-
170.	Treasury shares (-)	-	-	-	-
180.	Profit/(Loss) for the year (+/-)	597	-	585	-
	B Total liabilities and equity	**72,489**	**489**	**67,235**	**510**
	A-B Net intersegment balances		**357**		**246**

The provision of services to BancoPosta RFC by Poste Italiane SpA functions is governed by specific *General Guidelines governing the process of contracting out BancoPosta's corporate functions to Poste Italiane* (the "General Guidelines"), the latest version of which was approved by Poste Italiane SpA's Board of Directors.

In implementation of *BancoPosta RFC's Regulation*, these General Guidelines[139], identify the services in question and determine the manner in which they are remunerated. The general policies and instructions contained in the General Guidelines in relation to transfer pricing are detailed in specific Operating Guidelines, jointly developed by BancoPosta and other Poste Italiane SpA functions. The Operating Guidelines establish, among other things, the applicable levels of service and transfer prices and are effective following an authorisation process involving the relevant functions, the Chief Executive Officer and, where required, the Company's Board of Directors. When BancoPosta intends to contract out a major operating process or a control procedure, whether in its entirety or in part, to Poste Italiane SpA in accordance with specific Operating Guidelines, it must give prior notice to the Bank of Italy. In accordance with Bank of Italy Circular 285 issued on 17 December 2013, Part Four, Chapter 1 BancoPosta, Section II, paragraph 2, the Board of Statutory Auditors is required to verify, at least every six months, that the policies adopted are fit for purpose and are in compliance with the related statutory requirements and supervisory standards.

In line with 2017, the services are charged for in the form of transfer prices. The transfer prices paid, inclusive of commissions and any other form of remuneration due, are determined on the basis of market prices and tariffs for the same or similar services, identified, where possible, following a benchmarking process. When the specifics and/or the particular nature of a service provided by a Poste Italiane function do not allow the use of a comparable market price, a cost-based method is used, again with the support of benchmarking to ensure that the price charged is adequate for the service provided. In this case, an appropriate mark-up, determined with reference to those used by comparable peers, is applied. The prices set in each Operating Guidelines can be reduced in the presence of operating losses of the activities outsourced or in case of penalties due to the failure to achieve pre-established service levels, as measured by specific performance indicators. The Operating Guidelines for 2017-2018, which were due to expire originally on 31 December 2018, have been amended and updated following organisational changes and the corporate actions carried out in 2018 that entailed a significant impact on BancoPosta RFC in terms of reassessment of the scope of its activities. The new Operating Guidelines took effect on 1 October 2018 and will expire on 31 December 2020. The transfer prices so defined are revised every year in connection with the planning and budget process.

For the purposes of oversight of the unbundled accounts, in 2018 the Board of Statutory Auditors conducted the relevant audit activities during 2 meetings, reporting its conclusions in its annual report to shareholders for the year ended 31 December 2018.

4.2 Proceedings pending and principal relations with the authorities

Proceedings pending

On 27 February 2015, the tax authorities notified **Poste Italiane SpA**, in relation to BancoPosta RFC's operations, of an indictment for accounting irregularities before the Court of Auditors for the Lazio region, regarding a number of accounting records for the handling and distribution of revenue stamps in the years between 2007 and 2010. The hearing was held on 2 July 2015. With sentence 332 of 9 July 2015, the Court of Auditors for the Lazio region fined Poste Italiane an amount of €8 million, plus monetary revaluation and legal interest. Poste Italiane filed an appeal and, on 15 November 2017, the Court of Auditors issued judgement 542, upholding the appeal and limiting the initial fine to the sum amounting to €4 million. During the year under review, following expiry of the deadline for lodging an appeal against the judgement and after subsequent confirmation from the counterparty, a receivable of €4 million was recognised.

Relations with the authorities

AGCM (The Antitrust Authority)

On 9 March 2015, the Authority notified Poste Italiane, in relation to BancoPosta RFC's operations, of an investigation for alleged violation of articles 20, 21 and 22 of the Consumer Code, regarding the "Libretto Smart" product. On 21 December 2015, the Authority notified Poste Italiane of its final ruling, in which it deemed the Company's conduct unfair and imposed a

139. BancoPosta RFC's Regulation, originally approved on 14 April 2011 by the Extraordinary General Meeting of Shareholders of Poste Italiane, was revised by Poste Italiane SpA's Board of Directors on 28 February 2017 and 28 June 2018. In its meeting of 31 January 2019, the Board of Directors approved the new "General guidelines governing BancoPosta RFC's outsourcing and contracting out process", combining the guidelines outlined separately in the "General guidelines governing the process of contracting out BancoPosta's corporate functions to Poste Italiane" and the "Guidelines governing BancoPosta RFC's outsourcing process".

fine of €0.54 million, limited to a tenth of the maximum applicable amount, taking into account the mitigating circumstance that Poste Italiane had adopted initiatives aimed at allowing customers to benefit from the bonus rate. Poste Italiane lodged an appeal against this ruling before the Lazio Regional Administrative Court, which adjourned the case to a hearing on the merits. The hearing on the merits, scheduled for 17 October 2018, did not take place and the case was removed from the register. It may be resumed at the Company's request by 17 April 2019.

On 8 October 2018, the AGCM notified Poste Italiane, with reference to BancoPosta RFC, of the launch of investigation PS11215 – pursuant to art. 27, paragraph 3 of Legislative Decree 206/05 (the Consumer Code) and art. 6 of the Regulation for Investigations – with an accompanying request for information pursuant to art. 12, paragraph 1 of the above Regulation. The investigation is in response to complaints filed on 24 July 2018 by "Altroconsumo" and on 8 August 2018 by "Centro Tutela Consumatori e Utenti" (two consumers' associations). The Authority is primarily looking into an advertising campaign called "Buoni e libretti – Buono a sapersi", promoting Interest-bearing Postal Certificates and Postal Savings Books via TV and press adverts. The investigation regards the alleged violation of articles 21 and 22, paragraph 1 and 4 letter a) of the Consumer Code, as the effect of taxation was, in the Authority's view, not clearly indicated.

On 29 October 2018, Poste Italiane replied to the request for information. Moreover, following a hearing at the offices of the AGCM on 28 November 2018, Poste Italiane sent the Authority a list of its commitments – pursuant to art. 27, paragraph 7 of the Consumer Code, art 8, paragraph 7 of Legislative Decree 145/2007 and art. 9 of the above Regulation for investigations. The commitments were later added to on 11 January 2019.

Bank of Italy

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

Following an inspection of a sample of post offices that was completed in December 2017, relating to efforts to combat money laundering and the financing of terrorism, in May 2018, the Bank of Italy invited BancoPosta to provide a report, updated to 30 September 2018, on the progress made in implementing all the initiatives undertaken in this regard. The report in question, containing a list of the initiatives implemented as of the above date and those to be taken in future, together with the related time-scale, was sent to the Bank of Italy on 29 October 2018, after having been presented to Poste Italiane's Board of Directors on 18 October 2018.

CONSOB

In 2017, in line with the roll-out plan launched in October 2016, IT releases were completed for the new guided consultancy platform, which was gradually extended to the entire Poste Italiane network. In parallel, further compliance initiatives aimed at implementing the MiFID 2 Directive, which came into force on 3 January 2018, were also implemented.

The innovations made to procedural and IT structures, and the further initiatives planned in 2018 to consolidate the Company's oversight of them, were the subject of specific reporting to the CONSOB, in March.

In July and August, two requests were received from the CONSOB: the first, dated 27 July, was also sent to other intermediaries and regarded an in-depth assessment of the key issues relating to implementation and application of MiFID II; the second, dated 13 August, contained a request for a meeting with the aim of obtaining greater details on the provision of investment services. During this meeting, held at the CONSOB in September 2018, additional information was provided with respect to the information previously made available, and the related implementation plan was presented, in line with the details submitted to the regulator in the *Tableau de* Bord on Compliance at 30 June 2018, supplemented with further guidance based on evidence emerging during the process. Finally, during the above meeting, the CONSOB requested further details on specific issues, later formalised in writing, to which Poste Italiane gave a full and timely response.

4.3 Transition to IFRS 9 and IFRS 15

IFRS 9 – Financial instruments

IFRS 9, the new financial reporting standard adopted with Regulation (EU) 2067/2016 that became mandatorily effective as of 1 January 2018, replaced most of IAS 39, improving disclosures on financial instruments and introducing an accounting model intended to reflect promptly expected losses on financial instruments.

The project to adopt the new standard was implemented by Poste Italiane in 2017, with the objective to: i) identify the areas impacted by the standard ("Classification & Measurement", "Impairment" and "Hedge accounting"), ii) determine the quantitative and qualitative effects of the transition, iii) identify and implement the application and organisational solutions for an organic, effective and consistent management process within the Group.

For the content of the new financial reporting standard and the analysis of the qualitative impacts and the choices adopted by the Poste Italiane Group, reference is made to note 3 – Changes in accounting policies - in the section – *Poste Italiane's financial statements* – of this Annual Report.

Below, a description is provided of the main effects on the statement of financial position at 1 January 2018 of BancoPosta RFC determined by the adoption of the new standard.

As already indicated, in accordance with paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1, the Group elected not to restate the accounts of prior periods on a basis consistent with the accounts of the annual reporting period that includes the date of initial application of the new standard, without prejudice to the retrospective application of the new measurement and reporting requirements set by IFRS 9. According to the guidelines contained in the 5th update of Circular 262, below a reconciliation is provided between the format of the financial statements used in the Separate annual report for 2017 and that introduced by the new Circular 262 of the Bank of Italy, reclassifying the balances to the new items (amounts calculated in accordance with IAS 39) in accordance with the classification criteria laid down by IFRS 9 and on the basis of the analyses performed, but without the application of the new measurement criteria, thus with the same amounts for total assets and total liabilities and equity.

Reconciliation between the financial statements published in the Separate report 2017 and the financial statements prepared in accordance with IFRS 9 (new Circular 262) as of 1 January 2018 (reclassification of IAS 39 balances)

ASSETS

IAS 39 / IFRS 9 (€m)	10. Cash and cash equivalents	20. Financial assets held for trading	30. Financial assets designated at fair value	40. Available-for-sale financial assets	50. Held-to-maturity financial assets	60. Due from banks	70. Due from customers	80. Hedging derivatives	90. Adjustments for changes in hedged financial assets portfolio (+/-)	100. Investments	110. Property, plant and equipment	120. Intangible assets	130. Tax assets	140. Non-current assets held for sale and discontinued operations	150. Other assets	Total assets
10. Cash and cash equivalents	3,217	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,217
20. Financial assets measured at fair value through profit or loss	-	-	-	41	-	-	8	-	-	-	-	-	-	-	-	49
30. Financial assets measured at fair value through other comprehensive income	-	-	-	23,701	9,666	-	-	-	-	-	-	-	-	-	-	33,367
40. Financial assets measured at amortised cost	-	-	-	15,398	3,246	1,151	7,943	-	-	-	-	-	-	-	-	27,738
50. Hedging derivatives	-	-	-	-	-	-	-	395	-	-	-	-	-	-	-	395
60. Adjustments for changes in hedged financial assets portfolio (+/-)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
70. Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
80. Property, plant and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
90. Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100. Tax assets	-	-	-	-	-	-	-	-	-	-	-	-	406	-	-	406
110. Non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
120. Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.063	2,063
Total assets	**3,217**	**-**	**-**	**39,140**	**12,912**	**1,151**	**7,951**	**395**	**-**	**-**	**-**	**-**	**406**	**-**	**2,063**	**67,235**

LIABILITIES AND EQUITY

IFRS 9 (€m) / IAS 39	10. Due to banks	20. Due to customers	30. Debt securities in issue	40. Financial liabilities held for trading	50. Financial liabilities designated at fair value	60. Hedging derivatives	70. Adjustments for changes in hedged financial liabilities portfolio (+/-)	80. Tax liabilities	90. Liabilities associated with non-current assets held for sale and discontinued operations	100. Other liabilities	110. Employee termination benefits	120. Provisions for risks and charges	130. Valuation reserves	140. Redeemable shares	150. Equity instruments	160. Reserves	170. Share premium reserve	180. Share capital	200. Profit/(Loss) for the year (+/-)	Total liabilities and equity
10. Financial liabilities measured at amortised cost	5,950	53,686	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	59,636
20. Financial liabilities held for trading	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30. Financial liabilities designated at fair value	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
40. Hedging derivatives	-	-	-	-	-	1,637	-	-	-	-	-	-	-	-	-	-	-	-	-	1,637
50. Adjustments for changes in hedged financial liabilities portfolio (+/-)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
60. Tax liabilities	-	-	-	-	-	-	-	308	-	-	-	-	-	-	-	-	-	-	-	308
70. Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
80. Other liabilities	-	-	-	-	-	-	-	-	-	2,335	-	-	-	-	-	-	-	-	-	2,335
90. Employee termination benefits	-	-	-	-	-	-	-	-	-	-	17	-	-	-	-	-	-	-	-	17
100. Provisions for risks and charges	-	-	-	-	-	-	-	-	-	-	-	543	-	-	-	-	-	-	-	543
110. Valuation reserves	-	-	-	-	-	-	-	-	-	-	-	-	115	-	-	-	-	-	-	115
120. Redeemable shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
130. Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
140. Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,059	-	-	-	2,059
150. Share premium reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
160. Share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
170. Treasury shares (-)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
180. Profit/(Loss) for the year (+/-)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	585	585
Total liabilities and equity	**5,950**	**53,686**	**-**	**-**	**-**	**1,637**	**-**	**308**	**-**	**2,335**	**17**	**543**	**115**	**-**	**-**	**2,059**	**-**	**-**	**585**	**67,235**

Below, the reconciliation between the Statement of financial position at 31 December 2017 (IAS 39 amounts), with the reclassifications determined by the transition to IFRS 9, and the Statement of financial position at 1 January 2018 (IFRS 9 amounts) is shown. In these statements the carrying amounts at 31 December 2017 (IAS 39 measurement) are changed, due to the application of the new measurement and impairment methods, to arrive at opening carrying amounts that IFRS 9 compliant.

Reconciliation between the Statement of financial position at 31 December 2017 (which reflects the new classification rules under IFRS 9) and the Statement of financial position at 1 January 2018 (which reflects the new measurement and impairment rules under IFRS 9)

ASSETS

Assets (€)		31 December 2017	Transition to IFRS 9		1 January 2018
			Classification and measurement	Impairment	
10.	Cash and cash equivalents	3,217	-	-	3,217
20.	Financial assets measured at fair value through profit or loss	49	-	-	49
30.	Financial assets measured at fair value through other comprehensive income	33,367	1,465	-	34,832
40.	Financial assets measured at amortised cost	27,738	458	(10)	28,186
50.	Hedging derivatives	395	-	-	395
60.	Adjustments for changes in hedged financial assets portfolio (+/-)	-	-	-	-
70.	Investments	-	-	-	-
80.	Property, plant and equipment	-	-	-	-
90.	Intangible assets	-	-	-	-
100.	Tax assets	406	(156)	1	251
110.	Non-current assets held for sale and discontinued operations	-	-	-	-
120.	Other assets	2,063	(1)	6	2,068
Total assets		**67,235**	**1,766**	**(3)**	**68,998**

LIABILITIES AND EQUITY

Liabilities and equity (€m)	31 December 2017	Transition to IFRS 9		1 January 2018
		Classification and measurement	Impairment	
10. Financial liabilities measured at amortised cost	59,636	-	-	59,636
20. Financial liabilities held for trading	-	-	-	-
30. Financial liabilities designated at fair value	-	-	-	-
40. Hedging derivatives	1,637	-	-	1,637
50. Adjustments for changes in hedged financial liabilities portfolio (+/-)	-	-	-	-
60. Tax liabilities	308	393	-	701
70. Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-
80. Other liabilities	2,335	-	-	2,335
90. Employee termination benefits	17	-	-	17
100. Provisions for risks and charges	543	-	-	543
110. Valuation reserves	115	1,358	14	1,487
120. Redeemable shares	-	-	-	-
130. Equity instruments	-	-	-	-
140. Reserves	2,059	15	(17)	2,057
150. Share premium reserve	-	-	-	-
160. Share capital	-	-	-	-
170. Treasury shares (-)	-	-	-	-
180. Profit/(Loss) for the year (+/-)	585	-	-	585
Total liabilities and equity	**67,235**	**1,766**	**(3)**	**68,998**

The transition to IFRS 9 determined (net of the tax effect) a positive effect on Equity at 1 January 2018, for a total amount of €1,370 million, due to (i) an increase of €1,373 million deriving from the different classification of financial assets; and (ii) a decrease of €3 million deriving from the new method to calculate expected credit losses.

Classification and measurement of financial instruments

The reclassification of financial assets to the new items contemplated by IFRS 9, and the resulting different measurement criterion, had a positive effect on Equity at 1 January 2018 in the amount of €1,923 million before tax.

Below, a description is provided of the effect resulting from the adjustment to the carrying amount of the investment portfolio following the change in the business model:

a. Reclassification of "Available-for-sale financial assets" to "Financial assets measured at amortised cost" (Hold to collect - HTC business model) for €15,398 million, with the resulting determination of the carrying amount and an increase in the valuation reserve for €458 million;

b. Reclassification of "Available-for-sale financial assets" to "Financial assets measured at fair value through profit or loss" (Other/Trading business model) for €41 million, attributable to equity instruments that have not been measured at "fair value through other comprehensive income", with no effects on Equity (increase of €16 million in Retained earnings and corresponding decrease in the valuation reserve);

c. Reclassification of "Financial assets held to maturity" to "Financial assets measured at fair value through other comprehensive income" ("Hold to collect and sell" - HTC&S business model) for €9,666 million, with the resulting remeasurement of the carrying amount and recognition in the valuation reserve of the changes in fair value since origination for €1,465 million;

d. Reclassification of "Due from customers" for €8 million to "Financial assets measured at fair value through profit or loss", without any effect on Equity.

Impairment

The new rules established by IFRS 9 on the rationale and methods to calculate impairments (Expected Credit Loss – ECL) and the forecast models adopted, had a negative impact (before tax) on Retained earnings for €24 million, as shown below:

- €7 million in expected credit losses on debt instrument classified as "Financial assets measured at amortised cost" and €3 million in addition to the provisions made in previous years in relation to other financial assets measured at amortised cost (other than securities), with a total effect of €10 million on Equity;
- €14 million in expected credit losses recognised on debt instruments classified as "Financial assets measured at fair value through other comprehensive income". Considering that financial assets in this item are measured through OCI, the adjustment had no effect on Equity.

The statement below shows the reconciliation between Equity at 31 December 2017, as published in the Separate report 2017, and Equity at 1 January 2018, following the transition to IFRS 9, with the effects commented above.

RECONCILIATION BETWEEN EQUITY IAS 39 AND EQUITY IFRS 9

(€m)	Effects of transition to IFRS 9
Equity at 31 December 2017 (IAS 39)	**2,759**
Valuation reserves	
Effects resulting from reclassifications of financial instruments - IFRS 9	1,907
Effects resulting from provisions for expected credit losses - IFRS 9	14
Tax effects	(549)
Revenue reserves	
Effects resulting from reclassifications of financial instruments - IFRS 9	16
Effects resulting from provisions for expected credit losses - IFRS 9	(24)
Tax effects	6
Total impact of reclassifications of financial instruments	1,923
Total impact of provisions for expected credit losses	(10)
Tax effect	(543)
Total after-tax impact	**1,370**
Equity at 1 January 2018 (IFRS 9)	**4,129**

Regarding the above effects, on 27 December 2017 the Official Journal of the European Union published Regulation (EU) 2017/2395, amending Regulation 2013/575, i.e. CRR, and introducing, among others, transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds which, in the case of BancoPosta, matters only for the effects deriving from the adjustments due to expected losses. BancoPosta RFC elected, under the applicable Regulation, to adopt a phase-in approach for the recognition of such effects over a five-year period, mitigating the impact on CET 1 with the application of decreasing percentages over time.

IFRS 15 – Revenue from contracts with customers

IFRS 15, which was issued with Regulation (EU) 1905/2016, replaced as of 1 January 2018 IAS 18, IAS 11 and IFRIC 13, introducing a single and innovative frame of reference and changing substantively definitions, criteria and methods to determine and recognise revenue.

The project to adopt the new financial reporting standard was conducted by Poste Italiane in 2017. The purpose of the process was to assess contracts of sale, categorised by type of activity, and identify each existing performance obligation and any gaps between the accounting policies currently applied and those introduced by the new standard. Against this backdrop, the administrative/accounting processes, the available information systems and the existing procedures were reviewed to determine compliance with the new rules.

The content of the new financial reporting standard and the main considerations of the Poste Italiane Group are illustrated in note 3 – Changes in accounting policies- of the section – *Poste Italiane's financial statements* – of this Annual Report.

The Poste Italiane Group elected to apply IFRS 15 starting from its mandatory effective date of 1 January 2018, without early application.

The review performed revealed the existence of clauses that call for the return of the fees collected for the placement of mutual funds and loans in the presence of early redemptions and repayments (to date recognised as provisions for risks and charges). As of 1 January 2018, such fees are deducted directly from revenue.

The application of IFRS 15 at the transition date did not generate any effect on BancoPosta's Retained earnings.

4.4 Significant events occurred during the year

Creation of an electronic money institution within the Group

With the aim of more effectively driving growth in the payment services market and strengthening the service offering for retail, business and Public Administration customers, Poste Italiane has combined the Group's expertise and competencies in the field of mobile and digital payments in one specialist entity. The initiative was implemented via the contribution, to PosteMobile SpA, of BancoPosta RFC's card payments and payment services business unit and PosteMobile's establishment of a separate ring-fenced entity through which it is able to operate as a "hybrid" electronic money institution ("EMI"), whilst also continuing to operate as a mobile virtual network operator.

Following the receipt of clearance from the Bank of Italy, the Extraordinary General Meeting of Poste Italiane's shareholders held on 29 May 2018 approved the proposed removal of the restriction on the rights and obligations of BancoPosta RFC relating to assets, contractual rights and authorisations that make up the card payments and payment services business unit from the ring-fence that applies to BancoPosta RFC. The transaction as a whole was effective from 1 October 2018. From the same date, Poste Mobile SpA changed its name to PostePay SpA.

Capital injection into BancoPosta RFC

Following on from the Board of Directors' resolution of 25 January 2018 and the subsequent Extraordinary General Meeting of Poste Italiane SpA's shareholders, on 27 September 2018, Poste Italiane injected €210 million of fresh capital into BancoPosta RFC. The aim of the transaction was to align BancoPosta RFC's leverage ratio with the target set by the Risk Appetite Framework. At 31 December 2018 the leverage ratio was 3.2%.

Centralisation of back-office and anti-money laundering activities in Poste Italiane

In implementation of projects involving the reorganisation and centralisation of operational activities in Poste Italiane SpA, on 29 May 2018, based on the decision adopted by the Board of Directors on 25 January 2018, the Extraordinary General Meeting of Shareholders resolved to remove the restriction on the rights and obligation of BancoPosta RFC relating to back-office and anti-money laundering activities. Consequently, from 1 October 2018, 1,082 full time equivalent employees (including 126 middle managers and 9 executives) were transferred from BancoPosta RFC to the Chief Operating Office function of Poste Italiane outside the ring-fence.

A.2 – Part relating to principal financial statement items

The following notes have been numbered in accordance with instructions contained in Bank of Italy Circular 262/2005. Omitted numbers denote information not relevant to the Separate Report.

1 – Financial assets measured at fair value through profit or loss

a) Recognition

Financial assets measured at fair value through profit or loss are initially recognised on the settlement date for debt and equity instruments, whereas, for derivative contracts, on the subscription date. Financial assets are initially recognised at fair value which is generally the price paid. Any changes in fair value occurring between the trade and settlement dates are recognised in the Separate Report.

b) Classification

This item includes all financial assets other than those classified as "Financial assets measured at fair value through other comprehensive income" and as "Financial assets measured at amortised cost". In particular, this item includes: financial assets purchased and held mainly for trading; b) financial assets designated as such on initial recognition, thanks to the fair value option; c) financial assets mandatorily measured at fair value through profit or loss.

This item comprises:

- debt securities and loans that are classified in the "Other/Trading" business model (thus not in the "Hold to Collect" and "Hold to Collect and Sell" business models) or fail to meet the SPPI[140] test;
- equity instruments held for trading or that were not initially recognised at fair value through other comprehensive income;
- derivative contracts, except those designated as hedges, that are classified as assets or liabilities held for trading, depending on whether their fair value is positive or negative; positive and negative fair values arising from transactions with the same counterparties are offset, where allowed by contract.

c) Measurement and recognition of gains and losses

These financial assets are recognised at fair value with any changes in fair value recognised in profit or loss in line "Item 80 - Profits/(Losses) on trading" and in line "Item 110 – Profits/(Losses) on other financial assets and liabilities measured at fair value through profit or loss".

d) Derecognition

Financial assets are derecognised when the contractual rights to the cash flows of those financial assets cease or on the disposal of the financial asset and all risks and rewards relating to the financial asset are substantially transferred.

140. The acronym SPPI - Solely Payments of Principal and Interest defines financial assets held solely to collect the relevant contractual cash flows, as represented by payments of principal and interest accrued on the principal outstanding at specified dates. The SPPI test is intended to check that the characteristics of the instruments are consistent with this objective.

2 – Financial assets measured at fair value through other comprehensive income

a) Recognition

Financial assets measured at fair value through other comprehensive income are initially recognised on the settlement date at fair value which is generally the price paid. Any changes in fair value occurring between the trade and settlement dates are recognised in the Separate Report.

b) Classification

This item includes financial assets held in connection with a business model where financial instruments are held to collect contractual cash flows and for sale ("Hold to Collect and Sell" business model), with the relevant contract calling for the payment, at specified dates, of principal and interest accrued on the principal outstanding (SPPI).

In addition to debt securities that meet the above mentioned characteristics, this item comprises also equity instruments that would otherwise be measured at fair value through profit or loss, for which the election was made to report any subsequent changes in fair value through other comprehensive income (FVTOCI option).

c) Measurement and recognition of gains and losses

Financial assets other than equity instruments are measured at fair value and any subsequent change in fair value is recognised through other comprehensive income ("OCI") until the financial asset is either derecognised or reclassified, except for currency gains and losses recognised in the income statement in "Item 80 – Profits/(Losses) on trading". When the financial asset is derecognised, the related cumulative gains and losses recognised in OCI are reclassified to the income statement in "Item 100 – Profits/(Losses) on disposal or repurchase".

The effects of the application of amortised cost are recognised in the income statement in "Item 10 - Interest and similar income".

Expected credit losses are calculated in relation to these financial assets, as illustrated in the specific section. These expected losses are recognised in the income statement in "Item 130 – Net losses/recoveries due to credit risk" with a contra entry in "Item 110 – Valuation reserves".

Equity instruments which the Company elected to classify in this item are measured at fair value and any changes in such fair value are recognised in line "Item 110 – Valuation reserves" without subsequent recycling to profit or loss, not even in case of sale. The only component that is reported in the income statement is the related dividends.

d) Derecognition

Financial assets are derecognised when the contractual rights to the cash flows of those financial assets cease or on the disposal of the financial asset and substantially all risks and rewards relating to the financial asset are transferred. Any securities received as part of a transaction entailing subsequent re-sale and the delivery of securities as part of a transaction entailing their subsequent repurchase are not either recognised or derecognised.

3 – Financial assets measured at amortised cost

a) Recognition

Financial assets measured at amortised cost are initially recognised on (i) the settlement date for debt securities and investments and (ii) the date on which the service is rendered for trade receivables. They are initially recognised at fair value which is generally the price paid for debt securities or at the contractual value of the service rendered for all the other receivables. Changes in fair value between the trade date and the settlement date are recognised in the Separate report.

b) Classification

This item includes financial assets held in connection with a business model where the objective is the collection of the relevant cash flows ("Hold to Collect" - HTC business model), represented by payments, at specified dates, of principal and interest accrued on the principal outstanding (SPPI). The business model in question permits sales. If sales are not occasional, and their value is not immaterial, it is necessary to consider consistency with the HTC business model.

In addition to debt instruments that reflect the characteristics outlined above, this item comprises mainly the deposits at the MEF and the trade receivables.

c) Measurement and recognition of gains and losses

These assets are measured at amortised cost, that is the value assigned to the financial asset or liability on initial recognition, net of any principal reimbursement, plus or minus the cumulative amortisation by using the effective interest rate method on the difference between the initial value and the value at maturity, after deducting any impairment. Any gains or losses are recognised in profit or loss in "Item 10 - Interest and similar income". The carrying amount of financial assets measured at amortised cost is adjusted to take into account expected credit losses, as illustrated in the specific section. These expected credit losses are recognised in the income statement in "Item 130 – Net losses/recoveries due to credit risk".

d) Derecognition

These financial assets are derecognised when the contractual rights to the cash flows of those financial assets cease or on the disposal of the financial asset and all risks and rewards relating to the financial asset are substantially transferred. Any securities received as part of a transaction entailing subsequent re-sale and the delivery of securities as part of a transaction entailing their subsequent repurchase are not either recognised or derecognised.

4 – Hedges

The Poste Italiane Group elected, in accordance with IFRS 9, to continue to apply hedge accounting in line with IAS 39 to all its hedging transactions.

a) Recognition and classification

Derivative hedges are initially recognised on conclusion of the relevant contract. There are two types of hedge:

- *Fair value hedge*: A hedge of the exposure to a change in fair value of a recognised asset or liability or of an unrecognised firm commitment attributable to a particular risk, and that could have an impact on profit or loss.
- *Cash flow hedge*: A hedge of the exposure to the variability of cash flows attributable to a particular risk associated with an asset or liability or with a highly probable forecast transaction, and that could have an impact on profit or loss.

b) Measurement and recognition of gains and losses

Derivatives are initially recognised at fair value on the date the derivative contract is executed. If derivative financial instruments qualify for hedge accounting, gains and losses arising from changes in fair value after initial recognition are accounted for in accordance with the specific policies described below. The relationship between each hedging instrument and the hedged item is documented, as well as the risk management objective, the strategy for undertaking the hedge transaction and the methods used to assess effectiveness. Assessment of whether the hedging derivative is effective takes place both at inception of the hedge and throughout the term of the hedge.

Fair value hedges

When the hedge is related to recognised assets or liabilities, or an unrecognised firm commitment, changes in the fair values of both the hedging instrument and the hedged item are recognised in profit or loss. Any difference represents the ineffective portion of the hedge and is accounted for as a loss or gain, recognised separately in “Item 90 - Fair value adjustments in hedge accounting”.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges after initial recognition is recognised in a specific equity reserve (the Cash flow hedge reserve, within “Item 110 – Valuation reserve”). A hedging transaction is generally considered highly effective if, both at inception of the hedge and on an ongoing basis, changes in the expected future cash flows of the hedged item are substantially offset by changes in the fair value of the hedging instrument. Amounts accumulated in equity are recycled to profit or loss in the period in which the hedged item affect profit or loss.

In the case of hedges associated with a highly probable forecast transaction (such as, forward purchases of fixed income debt securities), the reserve is reclassified to profit or loss in the period or in the periods in which the asset or liability, subsequently accounted for and connected to the aforementioned transaction, will affect profit or loss (for example, an adjustment to the return on the security).

If the hedging transaction is not fully effective, the gain or loss arising from a change in fair value relating to the ineffective portion is recognised in “Item 90 - Fair value adjustments in hedge accounting”. If, during the life of the derivative, the forecast hedged transaction is no longer expected to occur, the related gains and losses accumulated in the cash flow hedge reserve are immediately reclassified in “Item 80 – Profits/(Losses) on trading” for the relevant year. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the related gains and losses accumulated in the cash flow hedge reserve at that time remain in equity and are recognised in profit or loss at the same time as the original underlying.

9 – Current and deferred taxation

Current income tax expense (IRES and IRAP) is based on the best estimate of taxable profit for the period and the related regulations, applying the rates in force. Deferred tax assets and liabilities are calculated on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts, using tax rates that are expected to apply when the related deferred tax assets are realised or the deferred tax liabilities are settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred taxes are recognised in profit or loss, with the exception of taxes charged or credited directly to equity, in which case the tax effect is recognised directly in equity.

BancoPosta RFC is not a separate legal person and is not either directly or indirectly assessable to taxes. BancoPosta's share of taxes on Poste Italiane SpA's overall income is charged to BancoPosta RFC based on the profit or loss presented in this Separate Report adjusted for deferred taxation. In the case of both IRES and IRAP, the computation takes all permanent and temporary changes in BancoPosta's operations into account. Any items not directly relating to BancoPosta are included in the Poste Italiane computation.

Current tax assets and liabilities form part of intersegment relations and are presented in the Separate Report in "Other assets" and "Other liabilities", as they are settled with the segment of Poste Italiane SpA outside the ring-fence, within the scope of internal relations with Poste Italiane SpA, which continues to be the sole taxable entity.

10 – Provisions for risks and charges

Provisions for risks and charges are recorded to cover losses that are either probable or certain to be incurred, for which, however, there is an uncertainty as to the amount or as to the date on which they will occur. Provisions for risks and charges are made when the entity has a present (legal or constructive) obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation. Provisions are measured on the basis of management's best estimate of the use of resources required to settle the obligation. The value of the liability is discounted at a rate that reflects current market values and takes into account the risks specific to the liability. Under the option granted by the relevant accounting standards, limited disclosure is provided when, in rare cases, disclosure of some or all of the information regarding the risks in question could seriously prejudice BancoPosta RFC's position in a dispute or in ongoing negotiations with third parties.

11 – Financial liabilities measured at amortised cost

a) Recognition and classification

BancoPosta RFC has no outstanding debt securities and has not issued any such securities since its establishment. Due to banks and customers consist of funding provided by customers and obtained from the interbank market. These financial liabilities are recognised at fair value on the date of receipt of the funds. Fair value is normally the amount received.

b) Measurement and recognition of gains and losses

Due to banks and customers are measured at amortised cost, employing the effective interest rate method. If there is a change in expected cash flows and they can be reliably estimated, the value of borrowings is recalculated to reflect the change in estimated future cash flows and the internal rate of return initially applied.

c) Derecognition

Financial liabilities are derecognised when repaid or in the event that BancoPosta RFC transfers all risks and charges associated with the relevant instrument.

12 – Financial liabilities held for trading

a) Classification and recognition

Financial liabilities held for trading consist of derivatives which do not qualify for classification as hedging instruments in accordance with accounting standards, or originally obtained as a hedge which was subsequently discontinued, and financial instruments designated irrevocably at fair value, under the fair value option. Financial liabilities held for trading are recognised on the derivative contract date.

b) Measurement

Financial liabilities held for trading are measured at fair value though profit or loss. Under the fair value option, changes in fair value due to a change in own credit risk are recognised through other comprehensive income, unless such treatment creates or amplifies an asymmetry versus accounting requirements, while the remaining amount of the changes in fair value is recognised through profit or loss.

c) Derecognition

Financial liabilities held for trading are derecognised on the cessation of rights to the cash flows associated with the liability or when BancoPosta RFC has substantially transferred all the related risks and charges.

d) Recognition of gains and losses

Gains and losses arising from movements in the fair value of financial liabilities held for trading are recognised through profit or loss in "Item 80– Profits/(Losses) on trading" while movements in fair value due to changes in credit risk are recognised through other comprehensive income in "Item 30 – Financial liabilities designated at fair value through profit or loss (changes in own credit risk)".

14 – Foreign currency transactions

a) Recognition

Foreign currency transactions are initially recognised in the functional currency by translating the foreign currency amount at the transaction date spot rate.

b) Classification, measurement, derecognition and recognition of gains and losses

Foreign currency items are translated at each reporting date as shown below:

- monetary items at closing exchange rates;
- non-monetary items are recognised at their historical cost translated at the transaction date spot rate;
- non-monetary items measured at fair value at closing exchange rates.

Foreign exchange differences realised on the settlement of monetary items or on the translation of monetary and non-monetary items, using exchange rates other than the rate used to translate the item on initial recognition, are recognised in profit or loss in "Item 80 - Profits/(Losses) on trading".

15 – Other information

Revenue recognition

Revenue deriving from contracts with customers reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

In accordance with IFRS 15, revenue is recognised on the basis of a 5-step framework, which consists of the following:

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

Furthermore:

- interest is evenly accrued over time at the contractual rate of interest or, for items carried at amortised cost, the effective interest rate;
- dividends are recognised in profit or loss when the right to receive payment is established, which generally corresponds with approval of the distribution by the shareholders of the investee company;
- service fee income is recognised in accordance with the underlying contracts in the period in which the services are rendered. Fees are recognised when can be reliably estimated on a percentage of completion basis. Fees on activities carried out in favour of or on behalf of the state are recognised on the basis of the amount effectively accrued, with reference to the laws and agreements in force, taking account, in any event, of the instructions contained in legislation regarding the public finances;
- returns on deposits at the MEF are determined on an accruals basis, using the effective interest rate method, and classified in "Item 10 – Interest and similar income";
- the same classification is applied to income from euro area government securities and securities guaranteed by the Italian government, in which deposits paid into accounts by private customers are invested;

- revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods are transferred by the entity to the buyer.

Impairment

Loans and debt securities classified under "Financial assets measured at amortised cost" and "Financial assets measured at fair value through other comprehensive income" are tested for impairment in accordance with the logics of IFRS 9. The Poste Italiane Group applies the General Deterioration Approach on the basis of varying risk estimate parameters, depending on the counterparty. Specifically:

- if at the reporting date the credit risk related to a financial instrument has not increased significantly since initial recognition, the expected credit loss is recognised over a 12-month time horizon (stage 1);
- if at the reporting date the credit risk related to a financial instrument has increased significantly since initial recognition, the expected credit loss is recognised over the lifetime of the instrument (stage 2);
- if the financial instrument is impaired since initial recognition, or shows objective evidence of impairment at the reporting date, impairment will continue to be recognised over the lifetime of the financial instrument (stage 3).

In determining whether there has been a significant increase in credit risk, it is necessary to compare the default risk of the issuer of the financial instrument at the reporting date with the default risk of the financial instrument at initial recognition.

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

On the other hand, a simplified approach to measure the loss provisions is applied to trade receivables that do not contain a significant financing component pursuant to IFRS 15. The simplified approach is based on a matrix of observed historical losses. No determination is made of any significant increase in credit risk but provisions are set aside for lifetime expected credit losses.

The Group did not use the low credit risk exemption.

For a detailed description of the approaches, reference is made to Part E – Section 1 – Credit risk.

Related parties

Related parties within the Poste Italiane Group are Poste Italiane SpA's functions outside the ring-fence and Poste Italiane SpA's direct and indirect subsidiaries and associates.

Related parties external to the Group include the MEF and its direct and indirect subsidiaries and associates. Related parties also include Poste Italiane SpA's key management personnel and the funds representing poste-employment benefit plans for the personnel of BancoPosta RFC and its related parties. The state and public sector entities other than the MEF are not classified as related parties. Related party transactions do not include those deriving from financial assets and liabilities represented by instruments traded on organised markets.

Employee benefits

Short-term benefits

Short-term employee benefits are those that will be fully paid within twelve months of the end of the year in which the employee provided his or her services. Such benefits include wages, salaries, social security contributions, holiday pay and sick pay.

The undiscounted value of short-term employee benefits, to be paid to employees in consideration of employment services provided over the relevant period, is accrued as personnel expenses.

Post-employment benefits

There are two types of post-employment benefit: defined contribution and defined benefit plans.

Since, for defined benefit plans, the amount of benefits payable can only be determined subsequent to the cessation of employment, the related cost and obligations can only be estimated by actuarial techniques in accordance with IAS 19.

Under defined contribution plans, contributions payable are recognised in profit or loss when incurred, based on the nominal value.

Defined benefit plans

Defined benefit plans include employee termination benefits payable to employees in accordance with article 2120 of the Italian Civil Code. Benefits vesting up to 31 December 2006[141], which are covered by the reform of supplementary pension provision, must, from 1 January 2007, be paid into a supplementary pension fund or into a Treasury Fund set up by INPS. Accordingly, BancoPosta RFC's defined benefit liability is applicable only to the provisions made up to 31 December 2006.

The liability for employee termination benefits (TFR) is calculated using the projected unit credit method and then discounted to recognise the time value of money prior to the liability being settled. The liability recognised in the Separate Report is based on calculations performed by independent actuaries. The calculation takes account of termination benefits accrued for the period of service to date and is based on actuarial assumptions. These primarily regard: demographic assumptions (such as employee turnover and mortality) and financial assumptions (such as rate of inflation and a discount rate consistent with that of the liability). As BancoPosta RFC is not liable for employee termination benefits accruing after 31 December 2006, the actuarial calculation of employee termination benefits no longer takes account of future salary increases. Actuarial gains and losses are recognised directly in equity at the end of each reporting period, based on the difference between the carrying amount of the liability and the present value of the BancoPosta RFC's obligations at the end of the period, due to changes in the actuarial assumptions.

Defined contribution plans

Employee termination benefits payable pursuant to art. 2120, Italian Civil Code fall within the scope of defined contribution plans provided they vested subsequent to 1 January 2007 and were paid into a Supplementary Pension Fund or a Treasury Fund at INPS. Contributions to defined contribution plans are recognised in profit or loss when incurred, based on their nominal value.

141. Where, following entry into effect of the new legislation, the employee has not exercised any option regarding the investment of vested employee termination benefits, BancoPosta RFC has remained liable to pay the benefits until 30 June 2007, or until the date, between 1 January 2007 and 30 June 2007, on which the employee exercised a specific option. Where no option was exercised, from 1 July 2007 vested employee termination benefits have been paid into a supplementary pension fund.

Termination benefits

Termination benefits payable to employees are recognised as a liability when BancoPosta RFC decides to terminate an employee, or group of employees, prior to the normal retirement date or, alternatively, an employee or group of employees accepts an offer of benefits in consideration of a termination of employment. Termination benefits payable to employees are immediately recognised as personnel expenses.

Other long-term employment benefits

Other long-term employment benefits consist of benefits not payable within twelve months of the end of the reporting period during which the employees provided their services. Typically, the calculation of other long-term employment benefits does not have the same degree of uncertainty as that of post-employment benefits and, as such, IAS 19 outlines certain simplifications in the accounting methods: the net change in the value of the liability during the reporting period is recognised in full in profit or loss. Measurement of the other long-term employee benefits liability is recognised in the financial statements on the basis of calculations performed by independent actuaries.

Share-based payments

In the event of share-based payment transactions settled in cash, shares or other financial instruments, BancoPosta RFC is required to measure the goods or services acquired and the liability incurred at fair value. Until the liability is settled, the fair value of the liability must be remeasured at the end of each reporting period, recognising any changes in fair value in profit or loss for the period. In the event of benefits granted to employees, recognition should take place in the period in which the employees render service and the expense accounted for in personnel expenses.

Classification of the costs for services provided by Poste Italiane SpA

Service costs charged by Poste Italiane SpA's functions outside the ring-fence are normally recognised in "Item 160 b) - Other administrative expenses".

Use of estimates

Preparation of the Separate Report requires the application of accounting standards and methods that are at times based on complex subjective judgments and estimates based on historical experience, and assumptions that are considered reasonable and realistic under the circumstances. Use of such estimates and assumptions affects the amounts reported in the financial statements, with reference to the statement of financial position, the income statement, the statement of comprehensive income, the statement of cash flows and the notes. The actual amounts of items for which the above estimates and assumptions have been applied may differ from those reported in previous financial statements, due to uncertainties regarding the assumptions themselves and the conditions on which estimates are based. Estimates and assumptions are periodically reviewed and the impact of any changes is reflected in the financial statements for the period in which the estimate is revised if the revision only influences the current period, or also in future periods if the revision influences both current and future periods.

This section provides a description of accounting treatments that require the use of subjective estimates and for which a change in the conditions underlying the assumptions used could have a material impact on BancoPosta RFC's Separate Report.

Impairment and stage allocation

To calculate impairment, the main factors to be estimated are as follows:

- the parameters of significant increases in credit risk (SICR);
- Probability of Default ("PD") and rating by Sovereign and Banking counterparty through an internal model (internal evaluations are made for certain marginal Corporate counterparties).

Determination of components of variable consideration

One of the main factors in revenue recognition are the components of variable consideration, including in particular penalties (other than damages). The components of variable consideration are identified at contract inception and are estimated at the end of every reporting period throughout the term of the contract, to take into account new circumstances and changes in the circumstances considered for the preceding measurements. Components of variable consideration include, among others, refund liabilities.

Deferred tax assets

The recognition of deferred tax assets is based on the expectation of taxable income in future years. Assessments of expected taxable income depend on factors which may change over time, impacting on the valuation of the deferred tax assets in the Separate Report.

Fair value of unquoted financial instruments

The fair value of financial instruments that are not traded on an active market is based on prices quoted by external dealers or on internal valuation techniques which estimate the transaction price on the measurement date in an arm's length exchange motivated by normal business considerations. The valuation models are primarily based on market variables, considering where possible, the prices in recent transactions and quoted market prices for substantially similar instruments, and of any related credit risk. Further details on the techniques used to measure the fair value of unquoted financial instruments are contained in Part A Section A.4.1.

Provisions for risks and charges

Provisions for risks and charges represent probable liabilities in connection with personnel, customers, suppliers, third parties and, in general, liabilities deriving from present obligations. The amounts of the provisions are based, among other things, on the estimated cost of operating contingencies, such as disputes with customers regarding investment products of a nature and/or performance deemed by customers to be inconsistent with their expectations, seizures incurred and not yet definitively assigned, and the likelihood of paying compensation or refunds to clients in those cases where there is no definitive ascertainment.

Determination of the amounts to be provided involves the use of estimates based on current knowledge of factors that may change over time, potentially resulting in outcomes that may be significantly different from those taken into account when preparing this Separate Report.

Share-based payments

As more fully described in Part I – Share-based payment arrangements, measurement of the fair value of the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan", approved by Poste Italiane SpA's shareholders on 24 May 2016, and the short-term incentive plans assigned in the form of Phantom Stocks (MBO) for BancoPosta RFC's material risk takers (approved by Poste Italiane SpA's shareholders on 27 April 2017 and 29 May 2018) as well as the Employee termination plans was based on the conclusions of independent actuaries. The Plans' terms and conditions require the occurrence of certain future events, such as the achievement of performance targets, performance hurdles and of certain indicators of capital adequacy and short-term liquidity. For these reasons, measurement of the related liabilities requires the application of estimates based on current information about factors that may change over time, thereby resulting in outcomes that may be different from those taken into account during preparation of this Separate Report.

A.3 – Information on transfers between financial asset portfolios

There have been no transfers between portfolios.

A.4 – Information on fair value

Qualitative information

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs

BancoPosta RFC had adopted the Poste Italiane Group's fair value policy. This policy sets out the general principles and rules to be applied in determining fair value for the purposes of preparing the financial statements, conducting risk management assessments and supporting the market transactions carried out by the Finance departments of the various Group entities. The general principles to be applied in measuring the fair value of financial instruments have not changed with respect to 31 December 2017 and have been defined in compliance with indications from the various (banking and insurance) regulators and the relevant accounting standards, ensuring consistent application of the valuation techniques adopted at Group level. The methods used have been revised, where necessary, to take into account developments in operational procedures and in market practices during the year.

In compliance with IFRS 13 - *Fair Value Measurement*, the valuation techniques used are described below.

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

The hierarchy consists of three levels.

Level 1: this level is comprised of fair values determined with reference to (unadjusted) prices quoted in active markets for identical assets or liabilities to which the entity has access on the measurement date. For BancoPosta RFC, the financial instruments included in this category consist of bonds issued by the Italian government, the valuation of which is based on the bid prices, according to a hierarchy of sources where the MTS (the wholesale electronic market for government securities) ranks first, MILA (Milan Stock Exchange) second, for bonds intended for retail customers, and the CBBT (Composite Bloomberg Bond Trader) third. Level 1 bond price quotations incorporate a credit risk component.

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

For BancoPosta RFC, these include the following types of financial instrument:

- Straight Italian and international government and non-government bonds, quoted on inactive markets or not at all: valuation is based on discounted cash flow techniques involving the computation of the present value of future cash flows, inputting rates from yield curves incorporating spreads reflecting credit risk that are based on spreads determined with reference to quoted and liquid benchmark securities issued by the issuer, or by other companies with similar characteristics to the issuer. Yield curves may be slightly adjusted to reflect liquidity risk relating to the absence of an active market.
- Unquoted equities, for which it is to use the price of quoted equities of the same issuer as a benchmark. The price inferred in this manner is adjusted through the application of a discount, quoted by primary market counterparties, representing the cost implicit in the process to align the value of the unquoted shares to the quoted ones.
- Fixed income bonds which are measured with the discounted cash flow method, that is by calculating the present value of all future contractual cash flows. The credit spread for the counterparty is incorporated by using yield curves constructed on the basis of the bond prices specific to the issuer.

- Derivative financial instruments:
  - Plain vanilla interest rate swaps: valuation is based on discounted cash flow techniques, involving the computation of the present value of future differentials between the receiver and payer legs of the swap. The construction of yield curves to estimate future cash flows indexed to market parameters (money market rates and/or inflation) and computation of the present value of future differentials are carried out using techniques commonly used in capital markets.
  - Interest rate swaps with an embedded option: valuation is based on a building block approach, entailing decomposition of a structured position into its basic components: the linear and option components. The linear component is measure using the discounted cash flow techniques described for plain vanilla interest rate swaps above. Using the derivatives held in BancoPosta RFC's portfolio as an example, the option component is derived from interest rate or inflation rate risks and is valued using a closed form expression, as with classical option valuation models with underlyings exposed to such risks.
  - Bond forwards: valuation is based on the present value of the differential between the forward price of the underlying instrument as of the measurement date and the settlement price.

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

- Buy and Sell Back agreements used for the short-term investment of liquidity: valuation is based on discounted cash flow techniques involving the computation of the present value of future cash flows. Buy and Sell Back agreements may be pledged as collateral and the fair value, consequently, need not be adjusted for counterparty risk.
- Financial liabilities either quoted on inactive markets or not at all, consisting of repurchase agreements used to raise finance are valued using discounted cash flow techniques involving the computation of future contractual cash flows. Repos may also be used for collateral and in such cases fair value need not be adjusted for the counterparty credit risk.

Level 3: this category includes the fair value measurement of assets and liabilities using both Level 2 inputs and inputs that cannot be observed. In BancoPosta RFC's case, this category includes equity instruments for which no price is observable directly or indirectly in the market. The measurement of these instruments is based on the quoted price of equity instruments issued by the same issuer, to which a discount is applied, calculated using internal valuation techniques, representing the cost implicit in the process of aligning the value of the unquoted shares to be measured with that of the quoted ones.

A.4.2 Measurement processes and sensitivities

The processes used in recurring and non-recurring fair value measurements of instruments classified in Level 3 are described in paragraphs A.4.1 and A.4.5, respectively, of Part A.

Sensitivity analysis of recurring fair value measurements classified in Level 3 of the hierarchy is conducted for the Series C Visa Incorporated Convertible Participating Preferred Stock. Measurement of these financial instruments is in fact subject to change following alterations that may occur in the discount factor applied in determining fair value, in order to take into account the illiquid nature of the shares. This discount factor, estimated using an internal valuation technique, is above all influenced by the annual volatility of the underlying shares. Applying the maximum volatility according to the technique used, the potential reduction in fair value could reach approximately 28%.

A.4.3 Fair value hierarchy

There were no occurrences during the year resulting in a requirement to transfer financial assets and liabilities measured at fair value on a recurring basis between the various levels of the fair value hierarchy.

A.4.4 Other information

There is no need to provide the additional disclosures required by IFRS 13, paragraphs 51, 93(i) and 96.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.1 Financial assets and liabilities measured at fair value on a recurring basis by fair value level

Assets/Liabilities measured at fair value (€m)	At 31 December 2018			At 31 December 2017		
	Level 1	Level 2	Level 3*	Level 1	Level 2	Level 3*
1. Financial assets measured at fair value through profit or loss	-	13	45	-	-	-
a) financial assets held for trading	-	-	-	-	-	-
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	-	13	45	-	-	-
2. Financial assets measured at fair value through other comprehensive income	31,780	260	-	36,244	2,859	37
3. Hedging derivatives	-	368	-	-	395	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**31,780**	**641**	**45**	**36,244**	**3,254**	**37**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities measured at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	1,829	-	-	1,637	-
Total	**-**	**1,829**	**-**	**-**	**1,637**	**-**

* Notes on this position are provided in Part B, Assets, Table 2.5.

The derivatives held in BancoPosta RFC's portfolio may be pledged as collateral and the fair value, consequently, need not be adjusted for the counterparty's credit risk (Part A, Section A.4.1).

A.4.5.2 Movements during the year in assets measured at fair value on a recurring basis (Level 3)

(€m)	Financial assets measured at fair value through profit or loss - Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balance	**37**	**-**	**-**	**37**	**-**	**-**	**-**	**-**
2. Increases	**8**	**-**	**-**	**8**	**-**	**-**	**-**	**-**
2.1 Purchases	-	-	-	-	-	-	-	-
2.2 Profit recognition:	8	-	-	8	-	-	-	-
2.2.1. Profit or loss	-	-	-	8	-	-	-	-
- of which gains	-	-	-	-	-	-	-	-
2.2.2. Equity	-	X	X	X	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-	-	-
2.4 Other increases	-	-	-	-	-	-	-	-
3. Decreases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 Disposals	-	-	-	-	-	-	-	-
3.2 Repayments	-	-	-	-	-	-	-	-
3.3 Impairment recognition:	-	-	-	-	-	-	-	-
3.3.1. Profit or loss	-	-	-	-	-	-	-	-
- of which loss	-	-	-	-	-	-	-	-
3.3.2. Equity	-	X	X	X	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-	-	-
4. Closing balance	**45**	**-**	**-**	**45**	**-**	**-**	**-**	**-**

Movements during the period in question include the change in the fair value of the Series C Visa Incorporated Convertible Participating Preferred Stock which, as of 1 January 2018, were reclassified in implementation of IFRS 9 from “Financial assets measured at fair value through other comprehensive income” to “Financial assets mandatorily measured at fair value”.

A.4.5.3 Movements during the year in liabilities measured at fair value on a recurring basis (Level 3)

Nil.

A.4.5.4 Assets and liabilities not designated at fair value or not measured at fair value on a recurring basis by fair value level

Assets/Liabilities not designated at fair value or not measured at fair value on a recurring basis by fair value level (€m)	Balance at 31 December 2018				Balance at 31 December 2017			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	33,743	16,780	4,660	10,620	22,014	14,384	-	9,102
2. Property, plant and equipment held for investment purposes	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**33,743**	**16,780**	**4,660**	**10,620**	**22,014**	**14,384**	**-**	**9,102**
1. Financial liabilities measured at amortised cost	64,203	-	8,488	55,729	59,636	-	4,853	54,794
2. Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**64,203**	**-**	**8,488**	**55,729**	**59,636**	**-**	**4,853**	**54,794**

In determining the fair values shown in the table, the following criteria were used:

- debt securities recognised at amortised cost were measured applying the same rules as those used in the fair value measurement of financial assets measured at fair value through other comprehensive income; these instruments are shown in Level 1 of the fair value hierarchy;
- the fair value of repurchase agreements was measured using the discounted cash flow techniques described in paragraph A.4.1; these financial instruments are shown in Level 2 of the fair value hierarchy;
- the carrying amount of other financial assets and liabilities represents a reasonable approximation of fair value and is shown in the column corresponding to Level 3 in the fair value hierarchy.

A.5 – Information on day one profit/loss

This form of profit or loss is not applicable to BancoPosta RFC.

Part B – Information on the statement of financial position

Assets

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: analysis

(€m)	Balance at 31 December 2018	Balance at 31 December 2017
a) Cash	2,980	2,821
b) Central bank deposits	348	396
Total	**3,328**	**3,217**

“Cash” is comprised of cash at post office counters and companies that provide cash transportation services, consisting of cash deposits on postal current accounts, postal savings products (Interest-bearing Postal Certificates and Postal Savings Books) or advances obtained from the Treasury to fund post office operations. This cash may only be used in settlement of these obligations. Cash includes foreign banknotes equivalent to €10 million.

Section 2 – Financial assets measured at fair value through profit or loss – Item 20

2.1 Financial assets held for trading: analysis

BancoPosta RFC had no financial instruments in the trading book either at 31 December 2018 or 31 December 2017.

In the year under review, BancoPosta RFC entered into floating-to-fixed swaps in relation to part of the deposits placed with the MEF. In particular, the transaction stabilised, for 2018, the return on the indexed components of the deposits, through a number of BTP repurchase agreements, without taking delivery of the financial instruments at maturity, but with the settlement of the difference between the pre-established price of the BTP and its market value.

BancoPosta RFC entered into transactions to acquire and immediately dispose of debt securities and equities on behalf of certain customers.

2.2 Financial assets held for trading: by borrower/issuer/ counterparty

Nil.

2.3 / 2.4 Financial assets designated at fair value: analysis and composition by borrower/issuer

There are no financial assets designated at fair value under the fair value option in portfolio.

2.5 Other financial assets mandatorily measured at fair value: analysis

Transaction Type/Amounts (€m)	Balance at 31 December 2018			Balance at 31 December 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity instrumentrs	**-**	**5**	**45**	**-**	**-**	**-**
3. UCIs	**-**	**-**	**-**	**-**	**-**	**-**
4. Loans	**-**	**8**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	8	-	-	-	-
Total	**-**	**13**	**45**	**-**	**-**	**-**

Equity instruments comprise:

- €45 million, reflecting the fair value of 32,059 Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock) received for the sale of the Visa Europe Ltd. share to Visa Incorporated on 21 June 2016 convertible at the rate of 13,886[142] ordinary shares for each C share, minus a suitable illiquidity discount, considering the staggered conversion between the fourth and the twelfth year after the closing;
- €5 million, reflecting the fair value of 11,144 class C shares of Visa Incorporated. These shares are not traded on an organised exchange, but are immediately convertible into Class A shares (at the rate of four ordinary shares for each C share), which are listed on the New York Stock Exchange, if disposal is desired.

The item "Loans/Other" reflects the receivable arisen from the sale of the Visa Europe Ltd share to Visa Incorporated (payable after three years from the transaction date, 21 June 2016). As it did not meet the SPPI test, this receivable has been measured at fair value through profit or loss.

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

2.6 Other financial assets mandatorily measured at fair value: composition by borrower/issuer

(€m)	Balance at 31 December 2018	Balance at 31 December 2017
1. Equity instruments	**50**	**-**
of which: banks	-	-
of which: other finance companies	50	-
of which: non-finance companies	-	-
2. Debt securities	**-**	**-**
a) Central banks	-	-
b) Public Administration entities	-	-
c) Banks	-	-
d) Other finance companies	-	-
of which: insurance companies	-	-
e) Non-finance companies	-	-
3. UCIs	**-**	**-**
4. Loans	**8**	**-**
a) Central banks	-	-
b) Public Administration entities	-	-
c) Banks	-	-
d) Other finance companies	8	-
of which: insurance companies	-	-
e) Non-finance companies	-	-
f) Households	-	-
Total	**58**	**-**

Section 3 – Financial assets measured at fair value through other comprehensive income – Item 30[143]

3.1 Financial assets measured at fair value through other comprehensive income: analysis

Transaction Type/Amounts (€m)	Balance at 31 December 2018			Balance at 31 December 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**31,780**	**260**	**-**	**36,244**	**2,855**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	31,780	260	-	36,244	2,855	-
2. Equity instruments	**-**	**-**	**-**	**-**	**4**	**37**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**31,780**	**260**	**-**	**36,244**	**2,859**	**37**

143. The comparative figures at 31 December 2017 are measured in accordance with IAS 39, the then-applicable standard, and reclassified to the new items indicated by the fifth update of Bank of Italy's Circular 262, which took effect as of 1 January 2018.

Investments in debt securities are recognised at fair value, for €32,040 million (of which €324 million in accrued interest).

3.2 Financial assets measured at fair value through other comprehensive income: composition by borrower/issuer

Transaction Type/Amounts (€m)	Balance at 31 December 2018	Balance at 31 December 2017
1. Debt securities	**32,040**	**39,099**
a) Central banks	-	-
b) Public Administration entities	32,040	36,614
c) Banks	-	-
d) Other finance companies	-	2,485
of which: insurance companies	-	-
e) Non-finance companies	-	-
2. Equity instruments	**-**	**41**
a) Banks	-	-
b) Other issuers:	-	41
- other finance companies	-	41
of which: insurance companies	-	-
- non-finance companies	-	-
- other	-	-
3. Loans	**-**	**-**
a) Central banks	-	-
b) Public Administration entities	-	-
c) Banks	-	-
d) Other finance companies	-	-
of which: insurance companies	-	-
e) Non-finance companies	-	-
f) Households	-	-
Total	**32,040**	**39,140**

Debt securities issued by governments include Eurozone fixed income government bonds, represented by Italian government bonds with a nominal value of €30,229 million. Total fair value losses for the period amount to €1,561 million, with losses of €1,886 million recognised in the relevant equity reserve in relation to the portion of the portfolio not hedged by fair value hedges, and a gain of €325 million recognised through profit and loss in relation to the hedged portion.

During the year under review, bond sales for a total nominal amount of €3,478 million were completed.

Securities with a nominal value of €5,314 million are encumbered as follows:

- €4,742 million, carried at fair value for €5,179 million (Part B, Other Information, Table 3), and delivered to counterparties in connection with repurchase agreements concluded prior to 31 December 2018;
- €535 million, carried at fair value for €588 million, and delivered to the Bank of Italy to secure an intraday line of credit;
- €37 million carried at fair value for €42 million and delivered to the Bank of Italy in relation to the clearing service offered by the central bank for the execution of Sepa Direct Debits.

On first-time adoption of IFRS 9, on 1 January 2018, debt securities issued by other financial institutions were reclassified to financial assets measured at amortised cost while equity instruments were reclassified to “Other financial assets” mandatorily measured at fair value.

3.3 Financial assets measured at fair value through other comprehensive income: gross amount and total value adjustments

(€m)	Gross amount				Total value adjustments			Total partial write-offs*
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	32,053	-	-	-	13	-	-	-
Loans	-	-	-	-	-	-	-	-
Total at 31 December 2018	**32,053**	**-**	**-**	**-**	**13**	**-**	**-**	**-**
of which: acquired or originated impaired financial assets	X	X	-	-	X	-	-	-

* Amount reported for disclosure purposes.

Following the introduction of IFRS 9, fixed income instruments recognised at FVTOCI are adjusted for impairment through the relevant equity reserve, with a matching entry in profit or loss. Accumulated impairments at 31 December 2018 amount to €13 million (€14 million at 1 January 2018).

Section 4 – Financial assets measured at amortised cost – Item 40[144]

4.1 Financial assets measured at amortised cost: breakdown of due from banks

Transaction Type/Amounts (€m)	Balance at 31 December 2018						Balance at 31 December 2017			
	Carrying amount		of which: acquired or originated impaired financial assets	Fair Value			Carrying amount	Fair Value		
	Stage 1 and 2	Stage 3		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from Central Banks	**-**	**-**	**-**				**-**			
1. Time deposits	-	-	-	X	X	X	-	X	X	X
2. Compulsory reserves	-	-	-	X	X	X	-	X	X	X
3. Reverse repurchase agreements	-	-	-	X	X	X	-	X	X	X
4. Other	-	-	-	X	X	X	-	X	X	X
B. Due from banks	**1,400**	**-**	**-**				**1,151**			
1. Loans	1,400	-	-				1,151			
1.1 Current accounts and demand deposits	5	-	-	X	X	X	3	X	X	X
1.2 Time deposits	-	-	-	X	X	X	-	X	X	X
1.3 Other loans:	1,395	-	-	X	X	X	1,148	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	X	X	X
- Other	1,395	-	-	X	X	X	1,148	X	X	X
2. Debt securities	-	-	-				-			
2.1 Structured securities	-	-	-	X	X	X	-	X	X	X
2.2 Other debt securities	-	-	-	X	X	X	-	X	X	X
Total	**1,400**	**-**	**-**	**-**	**-**	**1,400**	**1,151**	**-**	**-**	**1,151**

"Other loans, Other" includes cash collateral held by counterparties for interest rate swaps (€1,275 million as collateral pursuant to Credit Support Annexes), entered into for cash flow and fair value hedging purposes by BancoPosta RFC, and repurchase agreements (€74 million as collateral pursuant to specific Global Master Repurchase Agreements).

In addition, "Other loans, Other" includes trade receivables for €46 million arising from contracts with customers, accounted for in accordance with IFRS 15 (€52 million at 31 December 017) mainly relating to financial services and personal loan distribution.

144. The comparative figures at 31 December 2017 are measured in accordance with IAS 39, the then-applicable standard, and reclassified to the new items indicated by the fifth update of Bank of Italy's Circular 262, which took effect as of 1 January 2018.

4.2 Financial assets measured at amortised cost: breakdown of due from customers

Transaction Type/Amounts (€m)	Balance at 31 December 2018						Balance at 31 December 2017			
	Carrying amount		of which: acquired or originated impaired financial assets	Fair value			Carrying amount	Fair value		
	Stage 1 and 2	Stage 3		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Loans	**9,471**	**-**	**-**				**7,951**			
1.1 Current accounts	9	-	-	X	X	X	9	X	X	X
1.2 Reverse repurchase agreements	251	-	-	X	X	X	-	X	X	X
1.3 Term loans	-	-	-	X	X	X	-	X	X	X
1.4 Credit cards, personal and salary loans	-	-	-	X	X	X	-	X	X	X
1.5 Finance leases	-	-	-	X	X	X	-	X	X	X
1.6 Factoring	-	-	-	X	X	X	-	X	X	X
1.7 Other transactions	9,211	-	-	X	X	X	7,942	X	X	X
2. Debt securities	**22,872**	**-**	**-**				**12,912**			
2.1 Structured securities	-	-	-	X	X	X	-	X	X	X
2.2 Other debt securities	22,872	-	-	X	X	X	12,912	X	X	X
Total	**32,343**	**-**	**-**	**16,780**	**4,660**	**9,220**	**20,863**	**14,384**	**-**	**7,951**

A description of “Loans” is provided below.

The sub-item “Reverse repurchase agreements” refers to transactions for a total nominal amount of €254 million entered into with Cassa di Compensazione e Garanzia SpA (hereinafter Central Counterparty)[145]. At 31 December 2018 the fair value of reverse repurchase agreements is €251 million and is shown in Level 2 of the fair value hierarchy.

“Other transactions” primarily consist of:

- €5,971 million, €41 being accrued interest, in public customers’ current account deposits deposited with the MEF, which earn a variable rate of return, calculated on a basket of government securities and money market indexes[146]. Following the introduction of IFRS 9, the deposits have been adjusted to reflect accumulated impairments of approximately €3 million, to reflect the risk of counterparty default (unchanged compared to 1 January 2018).
- €1,306 million, €1 million of which being accrued net interest, in deposits at the MEF (the “Buffer account”), remunerated at the EONIA rate[147];
- €440 million in fees receivable from Cassa depositi e prestiti during the year in connection with postal savings;
- €303 million in guarantee deposits provided to counterparties for interest rate swaps in the amount of €58 million (with collateral provided by specific Credit Support Annexes) entered into for cash flow and fair value hedging purposes by BancoPosta RFC, repurchase agreement with a Central Counterparty for €111 million and for collateral deposited with the Central Counterparty, in relation to the clearing system, in the amount of €134 million (i.e. the Default Fund)[148];
- €68 million in amounts due for the payment of pensions and vouchers on behalf of INPS (the National Institute of Social Security). In February 2019, following a joint review, Poste Italiane and INPS entered into an agreement whereby the respective credit positions were settled (Part B Section 10);
- €844 million in amounts receivable from Poste Italiane SpA’s functions outside the ring-fence, €842 million of which relates to Poste Italiane SpA’s Finance function’s intersegment financial account, used for the processing of payments to and from third parties.

145. The Central Counterparty is an entity that acts as an intermediary in a transaction between two parties, avoiding the parties’ exposure to the risk that one of the counterparties to the agreement may default and guaranteeing successful completion of the transaction.
146. The rate in question is calculated as follows: 50% is based on the return on 6-month BOTs, with the remaining 50% based on the monthly average Rendistato index. The latter represents the average yield on government securities with maturities greater than one year, which approximates the return on 7-year BTPs.
147. The rate applied in overnight lending and calculated as the weighted average of overnight rates for transactions on the interbank market reported to the ECB by a panel of banks operating in the euro zone (the biggest banks in all the euro zone countries).
148. A guarantee fund established with payments from participants in the derivative, equity and bond markets, as a further guarantee for the transactions carried out. The fund can be used to meet the charges arising from any participant default.

Receivables arisen from contracts with customers, which fall within the scope of IFRS 15, amount to 837 million (€731 million at 31 December 2017). These are mainly due to financial services, pension payments, interest on postal deposits, and personal loan distribution, net of any loss provisions for €152 million (€149 million at 31 December 2017).

"Other debt securities" include Italian fixed income government bonds and securities guaranteed by the Italian State for €20,935 million. Their carrying amount of €22,872 million reflects the amortised cost of unhedged fixed income bonds, totalling €10,309 million, the amortised cost of fair value hedged fixed income bonds, totalling €11,570 million, increased by €993 million to take into account the effects of the hedge. Following the introduction of IFRS 9, fixed income instruments recognised at amortised cost are adjusted to take into account the related impairments. Accumulated impairments at 31 December 2018 amount to approximately €9 million (€7 million at 31 December 2017).

Changes in fair value through profit or loss for 2018 reflect a gain of €342 million, reflecting the impact of fair value hedges.

At 31 December 2018 the total fair value of these instruments, inclusive of €163 million in accrued interest, amounts to €21,189 million, of which €16,780 million classified in Level 1 of the fair value hierarchy and €4,409 million classified in Level 2.

Securities with a nominal value of €3,670 million are encumbered as follows:

- €3,424 million, carried at amortised cost for €3,527 million (Part B, Other Information, Table 3), and delivered to counterparties in connection with repurchase agreements concluded in the year under review;
- €246 million, carried at amortised cost for €246 million (Part B, Other Information, Table 3), and delivered to counterparties in connection with interest rate swaps and repurchase agreements concluded in the year under review.

4.3 Finance leases

Nil.

4.4 Financial assets measured at amortised cost: composition of due from customers by borrower/issuer

Transaction Type/Amounts (€m)	Balance at 31 December 2018 Stage 1 and 2	Stage 3	of which: acquired or originated impaired financial assets	Balance at 31 December 2017 Carrying amount
1. Debt securities	**22,872**	**-**	**-**	**12,912**
a) Public Administration entities	18,333	-	-	12,912
b) Other finance companies	4,539	-	-	-
of which: insurance companies	-	-	-	-
c) Non-finance companies	-	-	-	-
2. Loans to:	**9,471**	**-**	**-**	**7,951**
a) Public Administration entities	7,375	-	-	6.546
b) Other finance companies	1,217	-	-	639
of which: insurance companies	148	-	-	143
c) Non-finance companies	871	-	-	756
d) Households	8	-	-	10
Total	**32,343**	**-**	**-**	**20,863**

Financial assets related to “Other finance companies” for an amortised cost of €4,539 million refer to fixed income bonds for a nominal amount of €4,500 million issued by Cassa depositi e prestiti and guaranteed by the Italian State (a nominal amount of €2,500 million at 31 December 2017 which, following the transition to IFRS 9, was reclassified from financial assets measured at fair value through other comprehensive income to financial assets measured at amortised cost).

4.5 Financial assets measured at amortised cost: gross value and total value adjustments

Item/Amounts (€m)	Gross amount				Total value adjustments			Total partial write-offs*
	Stage 1		Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
		of which: instruments with low credit risk						
Debt securities	22,881	-	-	-	9	-	-	-
Loans	9,991	-	1,049	13	3	166	13	-
Total at 31 December 2018	**32,872**	**-**	**1,049**	**13**	**12**	**166**	**13**	**-**
of which: acquired or originated impaired financial assets	X	X	-	-	X	-	-	-

* Amount reported for disclosure purposes

Section 5 – Hedging derivatives – Item 50

5.1 Hedging derivatives by type of hedge and fair value level

(€m)	Fair value at 31 December 2018			Notional* amount at 31 December 2018	Fair value at 31 December 2017			Notional* amount at 31 December 2017
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	**-**	**368**	**-**	**8,230**	**-**	**395**	**-**	**9,545**
1) Fair value	-	163	-	4,420	-	364	-	9,370
2) Cash flow	-	205	-	3,810	-	31	-	175
3) Net foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flow	-	-	-	-	-	-	-	-
Total	**-**	**368**	**-**	**8,230**	**-**	**395**	**-**	**9,545**

* The settlement price of derivatives involving the exchange of principal (securities or other assets) has been indicated, as required by Bank of Italy Circular 262/2005.

5.2 Hedging derivatives by hedged portfolio and type of hedge

Transaction type/Type of hedge (€m)	Fair Value							Cash flow		Net foreign investment
	Micro						Macro	Micro	Macro	
	Debt securities and interest rates	Equity instruments and equity indexes	Currencies and gold	Credit	Commodities	Other				
1. Financial assets measured at fair value through other comprehensive income	113	-	-	-	X	X	X	50	X	X
2. Financial assets measured at amortised cost	50	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**163**	**-**	**-**	**-**	**-**	**-**	**-**	**50**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	X	155	X	X
2. Portfolio of financial assets and financial liabilities	X	X	X	X	X	X	-	X	-	-

Section 6 – Adjustments for changes in hedged financial assets portfolio – Item 60

No macro-hedges have been arranged at the reporting date.

Section 7 – Investments – Item 70

There are no investments in subsidiaries, joint arrangements or companies subject to significant influence.

Section 8 – Property, plant and equipment – Item 80

BancoPosta does not own property, plant and equipment either for operating or investment purposes.

Section 9 – Intangible assets – Item 90

There are no intangible assets.

Section 10 – Tax assets and liabilities – Assets item 100 and liabilities item 60

Current tax assets and liabilities form part of intersegment relations and are shown in “Other assets” (item 120 in Assets) and “Other liabilities” (item 80 in Liabilities), as they are settled with Poste Italiane SpA’s functions outside the ring-fence, within the scope of internal relations with Poste Italiane SpA, as the sole taxable entity.

Deferred tax assets and liabilities are analysed below:

10.1 Deferred tax assets: analysis

Description (€m)	Financial assets and liabilities		Hedging derivatives		Provisions for credit losses		Provisions for risks and charges		Total IRES	Total IRAP
	IRES	IRAP	IRES	IRAP	IRES	IRAP	IRES	IRAP		
Deferred tax assets through profit or loss	-	-	-	-	24	-	95	18	119	18
Deferred tax assets through equity	286	54	25	5	-	-	-	-	311	59
2018 total	**286**	**54**	**25**	**5**	**24**	**-**	**95**	**18**	**430**	**77**
Deferred tax assets through profit or loss	-	-	-	-	24	-	97	19	121	19
Deferred tax assets through equity	196	37	28	5	-	-	-	-	224	42
2017 total	**196**	**37**	**28**	**5**	**24**	**-**	**97**	**19**	**345**	**61**

10.2 Deferred tax liabilities: analysis

Description (€m)	Financial assets and liabilities		Hedging derivatives		Total IRES	Total IRAP
	IRES	IRAP	IRES	IRAP		
Deferred tax liabilities through profit or loss	-	-	-	-	-	-
Deferred tax liabilities through equity	258	49	55	10	313	59
2018 total	**258**	**49**	**55**	**10**	**313**	**59**
Deferred tax liabilities through profit or loss	-	-	-	-	-	-
Deferred tax liabilities through equity	246	48	12	2	258	50
2017 total	**246**	**48**	**12**	**2**	**258**	**50**

10.3 Movements in deferred tax assets through profit or loss

(€m)	Balance at 31 December 2018	Balance at 31 December 2017
1. Opening balance	**140**	**114**
2. Increases	**12**	**26**
2.1 Deferred tax assets recognised in the year	12	26
a) relating to previous years	-	-
b) due to changes in accounting policies	1	-
c) write-backs	-	-
d) other	11	26
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**(15)**	**-**
3.1 Deferred tax assets derecognised in the year	(15)	-
a) reversals	(10)	-
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting policies	-	-
d) other	(5)	-
3.2 Reduction of tax rate	-	-
3.3 Other decreases:	-	-
a) transformation into tax credit pursuant to Law 214/2011	-	-
b) other	-	-
4. Closing balance	**137**	**140**

The item “Deferred tax assets derecognised during the year – other” under “Decreases”, refers to deferred tax assets related to the card payments and payment services business unit transferred to PostePay SpA from 1 October 2018.

10.3*bis* Movements in deferred tax liabilities under Law 214/2011

Nil.

10.4 Movements in deferred tax liabilities through profit or loss

Nil.

10.5 Movements in deferred tax assets through equity

(€m)	Balance at 31 December 2018	Balance at 31 December 2017
1. Opening balance	**266**	**207**
2. Increases	**364**	**92**
2.1 Deferred tax assets derecognised in the year	364	92
a) relating to previous years	-	-
b) due to changes in accounting policies	71	-
c) other	293	92
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**(260)**	**(33)**
3.1 Imposte anticipate annullate nell'esercizio	(260)	(33)
a) reversals	(31)	(25)
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting policies	(227)	-
d) other	(2)	(8)
3.2 Reduction of tax rate	-	-
3.3 Other decreases	-	-
4. Closing balance	**370**	**266**

10.6 Movements in deferred tax liabilities through equity

(€m)	Balance at 31 December 2018	Balance at 31 December 2017
1. Opening balance	**(308)**	**(530)**
2. Increases	**(755)**	**(34)**
2.1 Deferred tax liabilities recognised in the year	(755)	(34)
a) relating to previous years	-	-
b) due to changes in accounting policies	(686)	-
c) other	(69)	(34)
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**691**	**256**
3.1 Deferred tax liabilities derecognised in the year	690	256
a) reversals	129	192
b) due to changes in accounting policies	293	-
c) other	268	64
3.2 Reduction of tax rate	1	-
3.3 Other decreases	-	-
4. Closing balance	**(372)**	**(308)**

The increases and decreases due to the changes in the accounting treatment of deferred tax assets and liabilities through equity reflect the effects of the transition to IFRS 9 as of 1 January 2018.

The net charge or credit to profit or loss due to movements in deferred tax assets and liabilities through equity is the tax effect on reserves described in Part D.

10.7 Other information

Nil.

Section 11 – Non-current assets held for sale and discontinued operations and associated liabilities - Assets item 110 and liabilities item 70

There are no non-current assets held for sale or discontinued operations at the reporting date.

Section 12 – Other assets – Item 120

12.1 Other assets: analysis

Transaction type/Amounts (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Tax assets other than those included in item 130	326	372
Items in process	715	298
- items in transit between local branches	8	8
- other	707	290
Current account cheques being settled, drawn on other banks	22	130
Current tax assets receivable from Poste Italiane SpA outside the ring-fence	2	22
Other items	1,380	1,242
Total	**2,445**	**2,064**

Tax assets primarily relate to payments on account, €303 million of which for virtual stamp duty payable in 2019 and €10 million for withholding tax on interest paid to current account holders for 2017.

“Items in process, other” includes:

- amounts to be charged to PostePay SpA for €174 million (mainly in the first few days of 2019);
- uses of debit cards issued by BancoPosta to be debited to customer accounts, totalling €131 million;
- amounts due from the commercial partners for providing PostePay top-ups for €110 million;
- €86 million in withdrawals from BancoPosta ATMs yet to be debited to customer accounts or awaiting settlement;
- customer postal cheques of €13 million in collection from banks;
- account maintenance and custody fees of €7 million to be debited to customers.

Movements in current tax assets and liabilities receivable from and payable to Poste Italiane SpA outside the ring-fence are shown below:

	Current taxation 2018			Current taxation 2017		
	IRES	IRAP	Total	IRES	IRAP	Total
Item (€m)	Amounts due from/ (to) Poste Italiane SpA outside the ring-fence	Amounts due from/ (to) Poste Italiane SpA outside the ring-fence		Amounts due from/ (to) Poste Italiane SpA outside the ring-fence	Amounts due from/ (to) Poste Italiane SpA outside the ring-fence	
Opening balance	**27**	**-**	**27**	**28**	**1**	**29**
Payments	156	39	195	158	39	197
payments on account for the current year	156	39	195	158	39	197
balance for previous year	-	-	-	-	-	-
Amount recognised in profit or loss	(197)	(37)	(234)	(170)	(40)	(210)
current taxation	(197)	(37)	(234)	(183)	(40)	(223)
changes in current taxation for previous years	-	-	-	13	-	13
Amount recognised in equity	-	-	-	-	-	-
Other*	-	-	-	6	-	6
Closing balance	**(14)**	**2**	**(12)**	**22**	**-**	**22**
of which:						
Current tax assets due from Poste Italiane outside the ring-fence (Item 120 Assets)	-	2	2	22	-	22
Current tax liabilities due to Poste Italiane outside the ring-fence (Item 90 Liabilities)	(14)	-	(14)	-	-	-

* Primarily due to amounts receivable following the payment of withholding tax on fees received.

"Other items" include mainly:

- €1,190 million in stamp duty accrued to 31 December 2018[149] payable by holders of outstanding Interest-bearing Postal Certificates. An equal amount has been recognised in "Other liabilities" as tax payables (Part B, Liabilities, Table 8.1) until expiration or early extinguishment of Interest-bearing Postal Certificates, which is the date on which the tax must be paid to the authorities;
- €127 million relating to stamp duty charged to Postal Savings Books, which BancoPosta RFC pays in virtual form as required by law.

149. Introduced by article 19 of Law Decree 201/2011 converted with amendments by Law 214/2011 in the manner provided for by the MEF Decree of 24 May 2012: Manner of implementing paragraphs 1 to 3 of article 19 of Decree Law 201 of 6 December 2011 having regard to stamp duty on current accounts and financial products (Official Gazette 127 of 1 June 2012).

Liabilities

Section 1 – Financial liabilities measured at amortised cost – Item 10

1.1 Financial liabilities measured at amortised cost: analysis

Transaction type/Amounts (€m)	Balance at 31 December 2018				Balance at 31 December 2017			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to Central Banks	**-**	**x**	**x**	**x**	**-**	**x**	**x**	**x**
2. Due to banks	**5,985**	**x**	**x**	**x**	**5,950**	**x**	**x**	**x**
2.1 Current accounts and demand deposits	589	x	x	x	1,023	x	x	x
2.2 Time deposits	-	x	x	x	-	x	x	x
2.3 Loans	5,323	x	x	x	4,842	x	x	x
2.3.1 Repurchase agreements	5,323	x	x	x	4,842	x	x	x
2.3.2 Other	-	x	x	x	-	x	x	x
2.4 Obligations to repurchase equity instruments	-	x	x	x	-	x	x	x
2.5 Other payables	73	x	x	x	85	x	x	x
Total	**5,985**	**-**	**5,336**	**662**	**5,950**	**-**	**4,853**	**1,108**

At 31 December 2018, €5,323 million is due to banks under the terms of repurchase agreements entered into with primary financial institutions involving securities with a total nominal value of €5,077 million. These regard €4,648 million in Long Term Repos and €675 million in borrowings, with the resulting proceeds invested in Italian fixed income government securities and utilised as funding for incremental deposits used as collateral.

Repurchase agreements are classified as fair value Level 2 transactions, whereas the fair value of other types of transaction included in this line item approximates to their carrying amounts and they are classified as Level 3.

“Other payables” include €70 million in guarantee deposits provided to counterparties in relation to interest rate swaps (with €14 million in collateral provided by specific Credit Support Annexes), in relation to BancoPosta RFC’s cash flow hedges and fair value hedges and repurchase agreements (€56 million as collateral in accordance with specific Global Master Repurchase Agreements).

BancoPosta RFC has uncommitted overnight lines of credit amounting to €1,059 million and overdraft arrangements of €160 million provided by Poste Italiane SpA, both undrawn at 31 December 2018. From 2014, the Bank of Italy has granted BancoPosta RFC access to intraday credit in order to fund intraday interbank transactions. Collateral for this credit facility is provided by securities with a nominal value of €535 million and the facility is unused at 31 December 2018.

1.2 Financial liabilities measured at amortised cost: composition of due from customers

Tipologia operazioni/Valori (€m)	Balance at 31 December 2018				Balance at 31 December 2017			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and demand deposits	50,618	X	X	X	46,468	X	X	X
2. Time deposits	-	X	X	X	-	X	X	X
3. Loans	6,813	X	X	X	3,497	X	X	X
3.1 Repurchase agreements	3,150	X	X	X	-	X	X	X
3.2 Other	3,663	X	X	X	3,497	X	X	X
4. Obligations to repurchase equity instruments	-	X	X	X	-	X	X	X
5. Other payables	786	X	X	X	3,721	X	X	X
Total	**58,217**	**-**	**3,152**	**55,067**	**53,686**	**-**	**-**	**53,686**

"Current accounts and demand deposits" include €4,271 million in postal current accounts held by PostePay SpA, €526 million in postal current accounts held by PosteVita SpA and €65 million in current accounts held by Poste Italiane outside the ring-fence.

At 31 December 2018 "Loans, repurchase agreements" amount to €3,150 million, reflecting transactions entered into with Central Counterparty in relation to securities with a nominal amount of €3,089 million. These regard €2,036 million in Long Term Repos and €1,114 million in borrowings, with the resulting proceeds invested in Italian fixed income government securities and utilised as funding for incremental deposits used as collateral.

"Loans, Other" refers to the following:

- the net amount of €3,649 million deposited in the MEF account held at the Treasury, which breaks down as follows:
  - the balance of cash flows for advances, amounting to €3,546 million, represents the net amount payable as a result of advances from the MEF to meet the cash requirements of BancoPosta;
  - the balance of cash flows from the management of postal savings, amounting to a positive €89 million, represents the balance of withdrawals less deposits during the last two days of the year and cleared early in the following year. The balance at 31 December 2018 consists of €29 million payable to Cassa depositi e prestiti, less €118 million receivable from the MEF for Interest-bearing Postal Certificates issued on its behalf;
  - amounts payable due to thefts from post offices regard the liability to the MEF on behalf of the Italian Treasury for losses resulting from theft and fraud, totalling €157 million. This liability derives from cash withdrawals from the Treasury to make up for the losses resulting from these criminal acts, in order to ensure that post offices can continue to operate;
  - amounts payable for operational risks (€35 million) regard the portion of advances obtained to fund operations, in relation to which asset under recovery is certain or probable;
- €14 million relating to an amount due to Poste Italiane SpA's functions outside the ring-fence in connection with the creation of BancoPosta RFC.

"Other payables" primarily consist of domestic postal orders, amounting to €615 million, postal money orders for €161 million. Compared to 31 December 2017, the change in this sub-item was due mainly to the transfer to PostePay of all the payment cards outstanding as of 1 October 2018.

The Level 2 fair value refers to the repurchase agreements while the fair value of the remaining instruments of this line item approximates to its carrying amount and it is consequently classified as Level 3.

1.3 Financial liabilities measured at amortised cost: composition of securities in issue

There are no securities in issue.

Nil.

1.4 Detail of subordinated debt/securities

Nil.

1.5 Detail of structured debt

Nil.

1.6 Financial lease payables

Nil.

Section 2 – Financial liabilities held for trading – Item 20

BancoPosta RFC held no financial instruments in the trading book at either 31 December 2018 or 31 December 2017.

Section 3 – Financial liabilities designated at fair value – Item 30

No financial liabilities are held in portfolio designated at fair value through profit or loss (the “fair value option”).

Section 4 – Hedging derivatives – Item 40

4.1 Hedging derivatives by type and fair value level

(€m)	Notional* amount at 31 December 2018	Fair value at 31 December 2018			Notional* amount at 31 December 2017	Fair value at 31 December 2017		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Financial derivatives	**20,105**	**-**	**1,829**	**-**	**13,025**	**-**	**1,637**	**-**
1) Fair value	19,170	-	1,722	-	10,385	-	1,524	-
2) Cash flow	935	-	107	-	2,640	-	113	-
3) Net foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flow	-	-	-	-	-	-	-	-
Total	**20,105**	**-**	**1,829**	**-**	**13,025**	**-**	**1,637**	**-**

* The settlement price for derivatives involving the exchange of principal (securities or other assets) has been indicated, as required by Bank of Italy Circular 262/2005.

4.2 Hedging derivatives by hedged portfolio and type of hedge

Transaction type/Type of hedge (€m)	Fair Value							Cash flow		Net foreign investment
	Micro						Macro	Micro	Macro	
	Debt securities and interest rates	Equity instruments and equity indexes	Currencies and gold	Credit	Commodities	Other				
1. Financial assets measured at fair value through other comprehensive income	678	-	-	-	X	X	X	107	X	X
2. Financial assets measured at amortised cost	1,044	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**1,722**	**-**	**-**	**-**	**-**	**-**	**-**	**107**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and financial liabilities	X	X	X	X	X	X	-	X	-	-

Section 5 – Adjustments for changes in hedged financial liabilities portfolio – Item 50

No macro-hedges have been arranged at the reporting date.

Section 6 – Tax liabilities – Item 60

Please refer to Assets, Section 10.

Section 7 – Liabilities associated with non-current assets held for sale and discontinued operations – Item 70

There are no such liabilities at the reporting date.

Section 8 – Other liabilities – Item 80

8.1 Other liabilities: analysis

Transaction type/Amounts (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Tax liabilities other than those included in item 60	1,236	1,194
Items in process:	728	637
- amounts to be credited to Postal Savings Books	204	243
- items in transit between local branches	5	5
- other	519	389
Amounts payable to Poste Italiane outside the ring-fence:	409	255
- for services rendered by Poste Italiane SpA	322	255
- current tax liabilities	14	-
- contribution of card payments and payment services unit	73	-
Amounts due to customers	68	60
Trade payables	126	55
Due to employees	16	21
Accrued expenses and deferred income	33	36
Other items	76	78
Total	**2,692**	**2,336**

“Tax liabilities other than those included in Item 60” primarily include:

- €1,198 million in stamp duty accrued to 31 December 2018 on outstanding Interest-bearing Postal Certificates in accordance with the requirements referenced in Part B, Assets, Table 12.1;
- €19 million regarding taxes payable to collection agents, the tax authorities and regional authorities for payments made by customers;
- €2 million in tax withholdings on current account interest earned by customers.

“Items in process, other” includes, among other things, domestic and international bank transfers, totalling €69 million, unpaid postal cheques of €47 million and €21 million payable to PostePay SpA mainly in the early days of 2019.

In addition to services rendered, the amounts payable to Poste Italiane SpA outside the ring-fence relate to: (i) taxes payable (for which reference is made to Part B, Section 12); (ii) the sum due to PostePay SpA representing the difference between the carrying amounts of the assets and liabilities of the card payments and payment services unit transferred to this company on 1 October 2018, which will be paid in the early months of 2019.

"Liabilities arising from contracts", pursuant to IFRS 15, are mainly due to the placement of loan products, as shown in the following table:

Item (€m)	Balance at 31 December 2017	IFRS 15 reclassifications	Balance at 1 January 2018	Increases / (Decreases)	Change due to recognition of revenue for period	Balance at 31 December 2018
Liabilities for volume discounts	9	-	9	(9)	4	4
Liablities for fees to be refunded	-	-	-	-	26	26
Deferred income from trading transactions	-	27	27	(27)	3	3
Total	**9**	**27**	**36**	**(36)**	**33**	**33**

Movements in these liabilities reflect mainly the decreases determined by the transfer to PostePay SpA, on 1 October 2018, of €27 million in prepaid commissions related to PostePay cards. Commissions to be repaid relate to the provisions of IFRS 15 whereby, as of 1 January 2018, the commissions to be repaid to the partners for the early repayment of loans are deducted directly from the relevant revenue.

"Other items" relate to prior year balances currently being verified.

Section 9 – Employee termination benefits – Item 90

Movements in employee termination benefits during the year under review are shown below:

9.1 Employee termination benefits: movements during the year

(€m)	Balance at 31 December 2018	Balance at 31 December 2017
A. Opening balance	**17**	**19**
B. Increases	-	**1**
B.1 Provisions for year	-	-
B.2 Other increases	-	1
C. Decreases	**(14)**	**(3)**
C.1 Benefits paid	(1)	(1)
C.2 Other decreases	(13)	(2)
D. Closing balance	**3**	**17**

The current service cost is not applicable to the employee termination benefits attributable to BancoPosta RFC, since this cost is recognised in personnel expenses, as the contributions are paid over to pension funds or other social security institutions.

Payments of termination benefits include the substitute tax withheld.

Other decreases were caused mainly by reorganisation projects carried out within Poste Italiane SpA, for a total of €12 million, and the remaining part to actuarial gains.

Measurement of the liability entails actuarial computations for which the following assumptions were used in 2018 and 2017:

Key economic and financial assumptions

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

Demographic assumptions

	At 31 December 2018
Mortality	RG48 differentiated by gender
Disability	INPS 1998 differentiated by gender
Rate of employee turnover	Specific table with rates differentiated by length of service. The average length of service for participants corresponds to an annual rate of 0.14%
Advance rate	1.25% for lengths of service of at least 8 years
Pensionable age	In accordance with rules set by INPS

Actuarial gains/(losses)

	At 31 December 2018	At 31 December 2017
Change in demographic assumptions	-	-
Change in financial assumptions	-	0.1
Other experience-related adjustments	(0.5)	(0.4)
Total	**(0.5)**	**(0.3)**

Sensitivity analysis

	Employee termination benefits at 31 December 2018	Employee termination benefits at 31 December 2017
Inflation rate +0.25%	3	17
Inflation rate -0.25%	4	16
Discount rate +0.25%	3	16
Discount rate -0.25%	3	17
Turnover rate +0.25%	3	17
Turnover rate -0.25%	3	17

Other information

	At 31 December 2018	At 31 December 2017
Service Cost	-	-
Average duration of defined benefit plan	9.0	9.0
Average employee turnover	0.14%	0.14%

Section 10 – Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: analysis

Transaction type/Amounts (€m)	Balance at 31 December 2018	Balance at 31 December 2017
1. Provisions for credit risk relating to financial commitments and guarantees given	-	-
2. Provisions for other commitments and guarantees given	-	-
3. Provisions for retirement benefits	-	-
4. Other provisions	511	543
4.1 litigation	95	97
4.2 personnel expenses	1	2
4.3 other	415	444
Total	**511**	**543**

The composition of "Other provisions" is provided in Table 10.6, below.

10.2 Provisions for risks and charges: movements during the year

(€m)	Provisions for other commitments and guarantees given	Provisions for retirement benefits	Other provisions	Total
A. Opening balance	**-**	**-**	**543**	**543**
B. Increases	**-**	**-**	**116**	116
B.1 Provisions for the year	-	-	116	116
B.2 Increases due to passage of time	-	-	-	-
B.3 Increases due to changed discount rates	-	-	-	-
B.4 Other increases	-	-	-	-
C. Decreases	**-**	**-**	**(148)**	**(148)**
C.1 Uses during the year	-	-	(113)	(113)
C.2 Decreases due to changed discount rates	-	-	-	-
C.3 Other decreases	-	-	(35)	(35)
D. Closing balance	**-**	**-**	**511**	**511**

The main changes are commented in the remainder of this section.

10.3 Provisions for credit risk related to commitments and financial guarantees provided

Nil.

10.4 Provisions for other commitments and guarantees provided

Nil.

10.5 Company defined benefit pension plan

Nil.

10.6 Provisions for risks and charges - other provisions

Description (€m)	Balance at 31 December 2018	Balance at 31 December 2017
Litigation	**95**	**97**
Provisions for disputes with third parties	95	97
Provisions for disputes with staff	-	-
Provisions for personnel expenses	**1**	**2**
Other provisions	**415**	**444**
Provisions for operational risk	415	430
Provisions for expired and statute barred Postal Certificates	-	14
Total	**511**	**543**

Provisions for disputes with third parties regard expected liabilities deriving from different types of legal and out-of-court disputes with suppliers and third parties, the related legal expenses, administrative and penal sanctions and compensation payable to customers. During the year provisions were made for €11 million related mainly to the estimated value of new liabilities on the basis of the expected outcome.

Provisions for disputes with staff regard liabilities that may arise following labour litigation and disputes of various type.

Provisions for personnel expenses are made to cover expected liabilities arising in relation to the cost of labour.

Provisions for operational risks reflect mainly risks for claims by customers in relation to investment products whose performance is not in line with expectations, risks related to delegated services for social security agencies, compensation and adjustments to income for previous years, the liabilities arising from the reconstruction of operating ledger entries at the time of Poste Italiane SpA's incorporation, risks linked to errors deriving from the distribution of postal saving products created in past years, violations of administrative regulations, probable frauds and estimated risks for charges and expenses to be incurred in connection with seizures effected by BancoPosta as garnishee-defendant.

In the year under review, provisions in the amount of €96 million were made, due mainly to risks linked to errors deriving from the distribution of postal saving products, compensation and adjustments to income for previous years and the adjustment of liabilities for risks linked to claims by customers in relation to investment products whose performance is not in line with expectations. Regarding this last aspect, in 2018 the liquidation of the property funds placed in past years continued and was constantly monitored. Regarding the Europa Immobiliare I fund (which expired on 31 December 2017), on 24 September 2018, following the resolutions adopted by the Board of Directors of Poste Italiane on 19 February and 28 June 2018, the voluntary customer protection initiative was started for the benefit of customers that had invested in the fun. The initiative ended on 7 December 2018.

In 2018, €93 million of the provisions in question was used, including €52 million payable to customers that had invested in the Europa Immobiliare I fund in connection with the foregoing initiative. On the other hand, €17 million was released to the income statement as the liabilities for which provisions had been made failed to materialise.

As to risks related to services rendered on behalf of social security agencies, as explained in Part B, Assets, Section 4 table 4.2, in February 2018, following a joint review, Poste Italiane and INPS entered into an agreement for the settlement of the Company's trade receivables and the amount that Poste owed to INPS in connection with certain claims concerning pension payment services rendered on the basis of agreements that were effective until 31 August 2009. At 31 December 2018, all the liabilities provided for in the agreement are reflected in provisions for operational risk.

Provisions for expired and statute barred Postal Certificates, amounting to €14 million at 31 December 2017, have been made to cover the cost of redeeming certificates relating to specific issues, even after the certificates have become invalid[150], were released to the income statement in 2018, as the terms of the Company's obligations expired.

Section 11 – Redeemable shares – Item 120

Not applicable.

Section 12 – Equity – Items 110, 130, 140, 150, 160, 170 and 180

12.1 Capital and treasury shares: analysis

Nil.

12.2 Capital – Number of shares: movements during the year

Nil.

12.3 Capital – Other information

Nil.

12.4 Revenue reserves: other information

At 31 December 2018, undistributed earnings total €1,057 million. Other revenue reserves amount to €1,210 million, including the initial reserve of €1000 million provided to BancoPosta RFC on its creation and €210 million in additional capital contributions by Poste Italiane SpA.

12.5 Capital instruments: composition and yearly movements

Nil.

12.6 Other information

Nil.

150. Provisions for expired and statute barred Postal Certificates were made in 1998 to cover the cost of redeeming certificates relating to specific issues, the value of which was recognised in revenue in profit or loss in the years in which the certificates became invalid. The provisions were made in response to Poste Italiane SpA's decision to redeem such certificates even if expired and statute barred.

Other information

1. Commitments and guarantees provided (other than those designated at fair value)

Nil.

2. Other commitments and guarantees provided

Nil.

3. Assets pledged as collateral for liabilities and commitments

Portfolio (€m)		Balance at 31 December 2018	Balance at 31 December 2017
1.	Financial assets measured at fair value through profit or loss	-	-
2.	Financial assets measured at fair value through other comprehensive income	5,179	-
3.	Financial assets measured at amortised cost	3,773	4,755
4.	Property, plant and equipment	-	-
	of which: property, plant and equipment constituting inventories	-	-

"Financial assets measured at fair value through other comprehensive income" relate to securities used as collateral in repurchase agreements. "Financial assets measured at amortised cost" relate to securities used as collateral in repurchase agreements and securities provided as collateral to counterparties in interest rate swaps with negative fair value and in repurchase agreements.

4. Information on operating leases

Nil.

5. Brokerage and management on behalf of third parties

Service (€m)	Amount
1. Execution of orders on behalf of customers	**-**
a) purchase	-
1. settled	-
2. not settled	-
b) sale	-
1. settled	-
2. not settled	-
2. Individual portfolio management	**-**
3. Custody and administration of securities	**54,257**
a) third party securities in custody: related to depository bank operations (excluding portfolio management)	-
1. securities issued by the reporting bank	-
2. other securities	-
b) third party securities in custody (excluding portfolio management): other	3,093
1. securities issued by the reporting bank	-
2. other securities	3,093
c) third-party securities deposited with third parties	3,093
d) own securities deposited with third parties	51,164
4. Other transactions	**239,108**
a) Postal Savings Books	105,755
b) Interest-bearing Postal Certificates	133,353

The "Custody and administration of third-party securities deposited with third parties" relates to customers' securities held at primary market operators and presented at their nominal value. Orders received from customers are executed by qualified, designated credit institutions.

"Other transactions" include the principal of postal savings deposits accepted for and on behalf of Cassa depositi e prestiti and the MEF.

6. Financial assets offset in the financial statements or subject to framework master netting agreements or similar arrangements

Technical form (€m)	Amount of gross financial assets (a)	Amount of financial liabilities offset in financial statements (b)	Amount of net financial assets reported in financial statements (c=a-b)	Related amounts not subject to offset in the financial statements		Net amount at 31 December 2018 (f=c-d-e)	Net amount at 31 December 2017
				Financial instruments (d)	Cash collateral received (e)		
1. Derivatives	368	-	**368**	353	14	**1**	**13**
2. Repurchase agreements	251	-	**251**	251	-	**-**	**-**
3. Securities lending	-	-	**-**	-	-	**-**	**-**
4. Other	-	-	**-**	-	-	**-**	**-**
Total at 31 December 2018	**619**	**-**	**619**	**604**	**14**	**1**	**x**
Total at 31 December 2017	**395**	**-**	**395**	**282**	**100**	**x**	**13**

7. Financial liabilities offset in the financial statements or subject to master netting agreements or similar arrangements

Technical form (€m)	Amount of gross financial liabilities (a)	Amount of financial assets offset in financial statements (b)	Amount of net financial liabilities reported in financial statements (c=a-b)	Related amounts not subject to offset in the financial statements		Net amount at 31 December 2018 (f=c-d-e)	Net amount at 31 December 2017
				Financial instruments (d)	Cash collateral given (e)		
1. Derivatives	1,829	-	**1,829**	500	1,326	**3**	**3**
2. Repurchase agreements	8,473	-	**8,473**	8,423	50	**-**	**4**
3. Securities lending	-	-	**-**	-	-	**-**	**-**
4. Other	-	-	**-**	-	-	**-**	**-**
Total at 31 December 2018	**10,302**	**-**	**10,302**	**8,923**	**1,376**	**3**	**x**
Total at 31 December 2017	**6,479**	**-**	**6,479**	**5,386**	**1,086**	**x**	**7**

The above tables have been compiled in accordance with IFRS 7 – Financial Instruments: Disclosure, which requires a specific disclosure regardless of whether or not the financial instruments have been offset in the financial statements.

BancoPosta RFC is not a party to enforceable master netting agreements or similar arrangements meeting the requirements of IAS 32, paragraph 42 for offsetting in the financial statements but used standard bilateral netting agreements that allow, in the event of the counterparty's default, the offsetting of debit and credit positions in relation to derivative financial instruments and securities financing transactions (SFT). In particular, there are ISDA agreements for derivative transactions and GMRAs for repurchase agreements.

To compile the tables – in line with the IFRS 7 and the update of the Circular of the Bank of Italy 262 relating to the provisions governing banks' financial statements – it is noted that repurchase agreements are measured at amortised cost while derivative transactions are measured at fair value. The relevant financial guarantees are measured at fair value.

8. Securities lending

Nil.

Part C – Information on the income statement

Section 1 – Interest – Items 10 and 20

1.1 Interest and similar income: analysis

Asset/Technical form (€m)	Debt securities	Loans	Other transactions	For the year ended 31 December 2018	For the year ended 31 December 2017
1. Financial assets measured at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**
1.1 Financial assets held for trading	-	-	-	-	-
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	**981**	**-**	**x**	**981**	**992**
3. Financial assets measured at amortised cost	**485**	**65**	**-**	**550**	**527**
3.1 Due from banks	-	2	-	2	-
3.2 Due from customers	485	63	-	548	527
4. Hedging derivatives	**x**	**x**	**7**	**7**	**(49)**
5. Other assets	**x**	**x**	**-**	**-**	**-**
6. Financial liabilities	**x**	**x**	**x**	**17**	**7**
Total	**1,466**	**65**	**7**	**1,555**	**1,477**
of which: interest income on impaired financial assets	-	-	-	-	-

The sub-item “Financial liabilities” reflects mainly interest income accruing during the year on reverse repos.

1.2 Interest and similar income: other information

Nil.

1.2.1 Interest income on foreign-denominated financial assets

Nil.

1.2.2 Interest income on finance lease transactions

Nil.

1.3 Interest and similar expense: analysis

Liability/Technical form (€m)	Payables	Securities	Other transactions	For the year ended 31 December 2018	For the year ended 31 December 2017
1. Financial liabilities measured at amortised cost	**(21)**	**-**	**-**	**(21)**	**(25)**
1.1 Due to Central Banks	-	x	x	-	-
1.2 Due to banks	(10)	x	x	(10)	(15)
1.3 Due to customers	(11)	x	x	(11)	(10)
1.4 Debt securities in issue	x	-	x	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
3. Financial liabilities measured at fair value	**-**	**-**	**-**	**-**	**-**
4. Other liabilities and provisions	**x**	**x**	**-**	**-**	**-**
5. Hedging derivatives	**x**	**x**	**-**	**-**	**-**
6. Financial assets	**x**	**x**	**x**	**(7)**	**(4)**
Total	**(21)**	**-**	**-**	**(28)**	**(29)**

“Financial assets” includes interest payable to Poste Italiane SpA’s functions outside the ring-fence, totalling €4 million.

1.4 Interest and similar expense: other information

Nil.

1.4.1 Interest expense on foreign-denominated financial liabilities

Nil.

1.4.2 Interest expense on finance lease transactions

Nil.

1.5 Differentials related to hedge transactions

Item (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
A. Positive hedge differentials	12	15
B. Negative hedge differentials	(5)	(64)
C. Net (A-B)	**7**	**(49)**

Section 2 – Fees and commissions – Items 40 and 50

2.1 Fee and commission income: analysis

Service/Amounts (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
a) Guarantees issued	-	-
b) Credit derivatives	-	-
c) Management, brokerage and advisory services:	2,617	2,309
1. Financial instrument trading	-	-
2. FX trading	1	1
3. Portfolio management:	-	-
3.1 Individual	-	-
3.2 Collective	-	-
4. Securities custody and administration	4	5
5. Depository banking	-	-
6. Securities placements	52	42
7. Order receipt and transmission	3	3
8. Advisory services:	-	-
8.1 Relating to investments	-	-
8.2 Relating to financial structuring	-	-
9. Arrangement of third-party services:	2,557	2,258
9.1 Portfolio management:	-	-
9.1.1 Individual	-	-
9.1.2 Collective	-	-
9.1 Insurance products	407	468
9.2 Other products	2,150	1,790
d) Collection and payment services	994	1,069
e) Securitisation servicing	-	-
f) Factoring services	-	-
g) Tax collection	-	-
h) Multilateral trading services	-	-
i) Current account maintenance and management	239	240
j) Other services	11	11
Total	**3,861**	**3,629**

"Management, brokerage and advisory services" include, within the context of the distribution of other products, fees receivable in return for the collection of postal savings deposits, totalling €1,827 million. This service relates to the provision and redemption of Interest-bearing Postal Certificates and payments into and withdrawals from Postal Savings Books, carried out on behalf of Cassa depositi e prestiti under the Agreement of 14 December 2017, for the three-year period 2018-2020. In addition, the increase in fees for the services in question, €47 million is attributable to the placement of PostePay SpA products begun as of 1 October 2018. Reference is made to Part H for a description of dealings between BancoPosta RFC and PostePay SpA.

Revenue from contracts with customers

Description (€m)	For the year ended 31 December 2018
Management, brokerage and advisory services	**2,617**
Recognised at a point in time	1
Recognised over time	2,616
Collection and payment services	**994**
Recognised at a point in time	502
Recognised over time	492
Current account maintenance and management	**239**
Recognised at a point in time	-
Recognised over time	239
Other services	**11**
Recognised at a point in time	-
Recognised over time	11
Total	**3,861**

Revenue from contracts with customers relate mainly to: (i) revenue from management, brokerage and advisory services these are recognised over time and measured on the basis of the volumes placed, quantified on the basis of commercial agreements with financial institutions. In terms of payment for the collection of postal savings, the agreement entered into with Cassa depositi e prestiti envisages payment of a variable consideration on achieving certain levels of inflows, determined annually on the basis of the volume of inflows and expected redemptions; certain commercial agreements, entered into with leading financial partners for the placement of financial products, envisage the return of placement fees in the event of early termination or surrender by the customer; (ii) revenue from current account maintenance and management: these are recognised over time, measured on the basis of the service rendered and quantified on the basis of the contract terms and conditions offered to the customer; (iii) revenue from fees on collection and payment services: these are recognised at a point in time given the number of transactions handled by post offices (e.g. fees on postal current account payments slips) and quantified on the basis of the terms and conditions in the contract of sale. These services include, for the first nine months, revenue from card payments and payment services, relating mainly to the issue of Postepay cards (recognised at a point in time, upon issue) and the related services (recognised over time on the basis of use by the customer). Other revenue recognised over time refers mainly to delegated services and debit cards.

2.2 Fee and commission income by product and service distribution channel

Channel/Amounts (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
A. Own counters:	**2,609**	**2,300**
1. Portfolio management	-	-
2. Securities placements	52	42
3. Third-party products and services	2,557	2,258
B. Door-to-door:	**-**	**-**
1. Portfolio management	-	-
2. Securities placements	-	-
3. Third-party products and services	-	-
C. Other distribution channels:	**-**	**-**
1. Portfolio management	-	-
2. Securities placements	-	-
3. Third-party products and services	-	-

"Own counters" means Poste Italiane SpA's post office network.

2.3 Fee and commission expense: analysis

Service/Amounts (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
a) Guarantees received	-	-
b) Credit derivatives	-	-
c) Management and brokerage services:	(2)	(2)
1. Financial instrument trading	-	-
2. FX trading	-	-
3. Portfolio management:	-	-
3.1 Own	-	-
3.2 For third parties	-	-
4. Securities custody and administration	(1)	(1)
5. Financial instrument placements	(1)	(1)
6. Door-to-door marketing of financial instruments, products and services	-	-
d) Collection and payment services	(136)	(61)
e) Other services	(2)	(2)
Total	**(140)**	**(65)**

As of 1 October 2018, costs in the amount of €82 million have been incurred for services rendered by PostePay SpA, in relation to BancoPosta products managed by outsourcers. Reference is made to Part H for a description of dealings between BancoPosta RFC and PostePay SpA.

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: analysis

During the year, BancoPosta RFC received dividends on its shares in Visa Incorporated, accounted for in "Financial assets measured at fair value through profit or loss".

Asset/income (€m)	For the year ended 31 December 2018		For the year ended 31 December 2017	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	-	-	-
B. Other financial assets mandatorily measured at fair value	-	-	1	-
C. Financial assets measured at fair value through other comprehensive income	-	-	-	-
D. Investments	-	X	-	X
Total	**-**	**-**	**1**	**-**

Section 4 – Profits/(Losses) on trading – Item 80

4.1 Profits/(Losses) on trading: analysis

Asset-Liability/Profit component (€m)	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net income/(loss) [(A+B) – (C+D)]
1. Financial assets held for trading	**-**	**4**	**-**	**-**	**4**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 UCIs	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	4	-	-	4
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Debts	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
4. Derivative instruments	**-**	**3**	**-**	**(1)**	**2**
4.1 Financial derivatives:	-	3	-	(1)	2
- on debt securities and interest rates	-	3	-	(1)	2
- on equity instruments and share indices	-	-	-	-	-
- on foreign exchange and gold	X	X	X	X	-
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges linked to the fair value option	X	X	X	X	-
Total	**-**	**7**	**-**	**(1)**	**6**

Section 5 – Fair value adjustments in hedge accounting – Item 90

5.1 Fair value adjustments in hedge accounting: analysis

Profit component/Amounts (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
A. Income on:		
A.1 Fair value hedge derivatives	6	525
A.2 Hedged financial assets (fair value)	700	27
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash flow hedge derivatives	-	-
A.5 Foreign currency assets and liabilities	-	-
Gross hedging income (A)	**706**	**552**
B. Cost of:		
B.1 Fair value hedge derivatives	(702)	(27)
B.2 Hedged financial assets (fair value)	(6)	(523)
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash flow hedge derivatives	-	-
B.5 Foreign currency assets and liabilities	-	-
Gross hedging cost (B)	**(708)**	**(550)**
C. Net hedging income (A – B)	**(2)**	**2**
of which: result of hedging net positions	-	-

Section 6 – Profits/(Losses) on disposal or repurchase – Item 100

6.1 Profits/(Losses) on disposal or repurchase: analysis

Asset-Liability/Profit component (€m)	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Profit	Loss	Net profit	Profit	Loss	Net profit
A. Financial assets						
1. Financial assets measured at amortised cost	4	(3)	1	-	-	-
1.1 Due from banks	-	-	-	-	-	-
1.2 Due from customers	4	(3)	1	-	-	-
2. Financial assets measured at fair value through other comprehensive income	400	(22)	378	638	(14)	624
2.1 Debt securities	400	(22)	378	547	(14)	533
2.2 Loans	-	-	-	-	-	-
Equity instruments (under IAS 39)	x	x	x	91	-	91
Total assets (A)	**404**	**(25)**	**379**	**638**	**(14)**	**624**
B. Financial liabilities measured at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	-	-	-	-	-	-
Total liabilities (B)	**-**	**-**	**-**	**-**	**-**	**-**

Section 7 – Profits/(Losses) on other financial assets and liabilities measured at fair value through profit or loss – Item 110

7.1 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: composition of other financial assets and liabilities designated at fair value

Nil.

7.2 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: composition of other financial assets and liabilities mandatorily measured at fair value

Transactions/Profit component (€m)	Gains (A)	Realised gains (B)	Losses (C)	Realised losses (D)	Net result [(A+B)-(C+D)]
1. Financial assets	**7**	**-**	**-**	**-**	**7**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	7	-	-	-	7
1.3 UCIs	-	-	-	-	-
1.4 Loans	-	-	-	-	-
2. Foreign currency financial assets: exchange differences	**x**	**x**	**x**	**x**	**2**
Total	**7**	**-**	**-**	**-**	**9**

Section 8 – Net losses/recoveries due to credit risk – Item 130

8.1 Net losses/recoveries due to credit risk related to financial assets measured at amortised cost: analysis

Transactions/Profit component (€m)	Impairment losses (1)			Recoveries (2)		For the year ended 31 December 2018	For the year ended 31 December 2017
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-off	Other				
A. Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Loans	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-
of which: acquired or originated impaired financial assets	-	-	-	-	-	-	-
B. Due from customers	**(28)**	**-**	**-**	**6**	**-**	**(22)**	**(15)**
- Loans	(25)	-	-	5	-	(20)	(15)
- Debt securities	(3)	-	-	1	-	(2)	-
of which: acquired or originated impaired financial assets	-	-	-	-	-	-	-
Total	**(28)**	**-**	**-**	**6**	**-**	**(22)**	**(15)**

8.2 Net losses/recoveries due to credit risk related to financial assets measured at fair value through other comprehensive income: analysis

Transactions/Profit component (€m)	Impairment losses (1)			Recoveries (2)		For the year ended 31 December 2018
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3	
		Write-off	Other			
A. Debt securities	**(1)**	**-**	**-**	**2**	**-**	**1**
B. Loans	**-**	**-**	**-**	**-**	**-**	**-**
- to customers	-	-	-	-	-	-
- to banks	-	-	-	-	-	-
of which: acquired or originated impaired financial assets	-	-	-	-	-	-
Total	**(1)**	**-**	**-**	**2**	**-**	**1**

Section 9 – Profits/(Losses) from contract amendments without termination – Item 140

Not applicable

Section 10 – Administrative expenses – Item 160

10.1 Personnel expenses: analysis

Expense/Amounts (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
1) Employees	(82)	(93)
a) wages and salaries	(53)	(64)
b) social security	(14)	(18)
c) employee termination benefits	(3)	(4)
d) social security costs	-	-
e) provision for employee termination benefits	-	-
f) provisions for post- employment benefits	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	(1)	(1)
- defined contribution plans	(1)	(1)
- defined benefit plans	-	-
h) cost of share-based payments	(1)	-
i) other employee benefits	(10)	(6)
2) Other active personnel	-	-
3) Directors and Statutory Auditors	-	-
4) Retirees	-	-
5) Recovery of employment costs of staff seconded to other companies	-	-
6) Refund of costs of third party employees seconded to the company	-	-
Total	**(82)**	**(93)**

Starting 1 October 2018, the number of BancoPosta RFC's staff fell by 1,205 full time equivalent employees (including 20 executives and 215 middle managers) following: (i) the reorganisation and centralisation of the back office and anti-money-laundering activities in the Chief Operating Office function of Poste Italiane outside the ring-fence and (ii) the transfer to PostePay SpA of employees attributable to the the card payments and payment services unit (table 10.2 of this Section).

10.2 Average number of employees by category*

	For the year ended 31 December 2018	For the year ended 31 December 2017
Employees	**1,343**	**1,730**
a) executives	48	55
b) middle managers	426	479
c) other employees	869	1,196
Other employees	**-**	**-**
Total	**1,343**	**1,730**

* Figures expressed in full time equivalent terms.

10.3 Post-employment defined benefit plans: costs and revenues

Nil.

10.4 Other employee benefits

This primarily relates to redundancy payments.

10.5 Other administrative expenses: analysis

Expense/Amounts (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
1) Cost of services provided by Poste Italiane SpA:	(4,509)	(4,418)
- commercial services	(4,089)	(4,032)
- support services	(312)	(300)
- staff services	(108)	(86)
2) Cost of goods and non-professional services:	(41)	(44)
- printing and postage	(35)	(35)
- credit and debit card supply services	(6)	(9)
3) Advisory and other professional services	(44)	(54)
4) Taxes, penalties and duties	(10)	(6)
5) Other expenses	-	-
Total	**(4,604)**	**(4,522)**

The cost of services provided by Poste Italiane functions outside the ring-fence relates to those services described in Part A - *Accounting policies*, A.1, Section 4 - *Other information*.

Section 11 – Net provisions for risks and charges – Item 170

11.1 Net provisions for credit risk related to commitments to disburse funds and financial guarantees provided: analysis

Nil.

11.2 Net provisions related to other commitments and other guarantees provided: analysis

Nil.

11.3 Net provisions for other risks and charges: analysis

Asset-Liability/Profit component (€m)	Provisions	Reversals	Net provisions
Provisions for litigation	(11)	3	(8)
Provisions for risks and charges	(96)	32	(64)
Total	**(107)**	**35**	**(72)**

The main provisions and releases are discussed in Part B – Liabilities and Equity, Section 10.

Section 12 – Net losses/recoveries on property, plant and equipment – Item 180

Not applicable.

Section 13 – Net losses/recoveries on intangible assets – Item 190

Not applicable.

Section 14 – Other operating income/(expenses) – Item 200

14.1 Other operating expenses: analysis

Profit component/Amounts (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
1. Burglaries and theft	(5)	(5)
2. Other charges	(41)	(57)
Total	**(46)**	**(62)**

“Other charges” relates primarily to post office operating losses.

14.2 Other operating income: analysis

Profit component/Amounts (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
1. Statute barred money orders	-	-
2. Other operating income	15	4
Total	**15**	**4**

Other operating income includes revenue from contracts with customers for €2 million recognised at a point in time and relating to revenue document copies and to statute-barred money orders.

Section 15 – Profits/(Losses) on investments – Item 220

Not applicable.

Section 16 – Profits/(Losses) on fair value measurement of property, plant and equipment and intangible assets – Item 230

Not applicable.

Section 17 – Impairment of goodwill – Item 240

Not applicable.

Section 18 – Profits/(Losses) on disposal of investments – Item 250

Not applicable.

Section 19 – Taxes on income from continuing operations – Item 270

19.1 Taxes on income from continuing operations: analysis

Profit component/Amounts (€m)	For the year ended 31 December 2018	For the year ended 31 December 2017
1. Current taxes (-)	(234)	(223)
2. Increase/(decrease) in current taxes of prior period taxation (+/-)	-	13
3. Reduction in current taxes (+)	-	-
3. bis Reduction in current taxation due to tax credit pursuant to Law 214/2011 (+)	-	-
4. Increase/(decrease) in deferred tax assets (+/-)	1	25
5. Increase/(decrease) in deferred tax liabilities (+/-)	-	-
6. Taxation for year (-) (-1+/-2+3+/-4+/-5)	**(233)**	**(185)**

19.2 Reconciliation between theoretical tax charge at statutory rate and effective tax charge

Description (€m)	For the year ended 31 December 2018		For the year ended 31 December 2017	
	IRES	% rate	IRES	% rate
Income before tax	826		770	
Theoretical tax charge	198	24.0%	185	24.0%
Effect of increases/(decreases) on theoretical tax charge				
Net provisions for risks and charges and impairments of receivables	1	0.1%	2	0.3%
Taxation for previous years	-	0.0%	(13)	-1.7%
Capital gains and dividends	-	0.0%	(21)	-2.7%
Other	(5)	-0.6%	(4)	-0.5%
Effective tax charge	**194**	**23.5%**	**149**	**19.3%**

Description (€m)	For the year ended 31 December 2018		For the year ended 31 December 2017	
	IRAP	% rate	IRAP	% rate
Income before tax	826		770	
Theoretical tax charge	37	4.5%	35	4.6%
Provisions for risks and charges	1	0.1%	-	0.0%
Personnel expenses	-	0.0%	1	0.1%
Effective tax charge	**38**	**4.6%**	**36**	**4.7%**

Section 20 – Income/(Loss) after tax from discontinued operations – Item 290

Not applicable.

Section 21 – Other information

All information has been presented above.

Section 22 – Earnings per share

Not applicable.

Part D – Comprehensive income

ANALYSIS OF COMPREHENSIVE INCOME

Items (€m)		For the year ended 31 December 2018	For the year ended 31 December 2017
10.	**Profit/(Loss) for the year**	**597**	**585**
	Other components of comprehensive income not reclassified to profit or loss		
20.	Equity instruments designated at fair value through other comprehensive income	-	-
	a) movements in fair value	-	-
	b) transfers to other equity	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit ratings)	-	-
	a) movements in fair value	-	-
	b) transfers to other equity	-	-
40.	Hedges of equity instruments designated at fair value through other comprehensive income:	-	-
	a) movements in fair value (hedged instrument)	-	-
	b) movements in fair value (hedging instrument)	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	-	-
80.	Non-current assets held for sale and discontinued operations	-	-
90.	Share of valuation reserve attributable to equity-accounted investments	-	-
100.	Tax expense on other comprehensive income not reclassified to profit or loss	-	-
	Other components of comprehensive income after taxes reclassified to profit or loss		
110.	Hedges of foreign investments:	-	-
	a) movements in fair value	-	-
	b) reclassified to profit or loss	-	-
	c) other movements	-	-
120.	Foreign exchange differences:	-	-
	a) movements in fair value	-	-
	b) reclassified to profit or loss	-	-
	c) other movements	-	-
130.	Cash flow hedges:	210	(63)
	a) movements in fair value	192	(57)
	b) reclassified to profit or loss	18	(6)
	c) other movements	-	-
	of which: result from net positions	-	-
140.	Hedges (elements not designated):	-	-
	a) movements in fair value	-	-
	b) reclassified to profit or loss	-	-
	c) other movements	-	-
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income:	(2,272)	(974)
	a) movements in fair value	(1,886)	(312)
	b) reclassified to profit or loss	(386)	(662)
	- impairment losses for credit risk	(1)	-
	- realised gains/(losses)	(385)	(662)
	c) other movements	-	-
160.	Non-current assets held for sale and discontinued operations:	-	-
	a) movements in fair value	-	-
	b) reclassified to profit or loss	-	-
	c) other movements	-	-
170.	Share of valuation reserve attributable to equity-accounted investments	-	-
	a) movements in fair value	-	-
	b) reclassified to profit or loss	-	-
	- impairment losses	-	-
	- realised gains/(losses)	-	-
	c) other movements	-	-
180.	Tax expense on other comprehensive income reclassified to profit or loss	589	282
190.	**Total other comprehensive income**	**(1,473)**	**(755)**
200.	**Comprehensive income (Items 10+190)**	**(876)**	**(170)**

Part E – Information on risks and related hedging policies

Background

BancoPosta's operations, conducted in accordance with Presidential Decree 144/2001, consist in the management of liquidity generated by postal current account deposits, carried out in the name of BancoPosta but subject to statutory restrictions, and collections and payments on behalf of third parties.

The funds deposited by private account holders in postal current accounts are invested in euro zone government securities, with the option of investing up to 50% of the deposits in securities guaranteed by the Italian government[151], whilst deposits by Public Administration entities are deposited with the MEF. In 2018, BancoPosta RFC's operations focused on investment of the significantly increased volume of current account deposits, the reinvestment of funds deriving from maturing government securities and in the active management of financial instruments.

The first five months of the year just ended were characterised by a slight decrease of Italian government bond yields, which resulted in an increase in unrealised capital gains. Starting from the end of May, the trend reversed and BTP yields began to rise, driving unrealised yields below the levels reached at the start of 2018. The BTP-Bund spread ended the year around 250 bps, reflecting an increase on the comparable figure of last year (159 bps. at 31 December 2017).

Following the positive performance of current account deposits in 2018, from March onwards, the process of monitoring the risk profile indicated that there had been a decline in the leverage ratio to below the threshold set in the Risk Appetite Framework (RAF). The €210 million capital injection by Poste Italiane on 27 September 2018, in accordance with the Board of Directors' resolution of 25 January 2018 approving the recapitalisation of BancoPosta, contributed to the improvement of the leverage ratio which, at 31 December 2018, stands at approximately 3.2% (3% regulatory minimum). The relevant functions will continue to keep a close eye on the leverage ratio throughout 2019 to ensure, over time, that it continues to meet the related targets, thresholds and limits established in the RAF.

The investment profile is based on the constant monitoring of habits of current account holders and a use of a leading market operator's statistical/econometric model of typical postal current account interest rates and maturities, based on a prudent projection of the future volume of deposits. The above-mentioned model is thus the general reference for the investments (the limits of which are determined by specific guidelines approved by the Board of Directors) in order to limit exposure to interest rate and liquidity risks.

Financial Risk Management

Balanced financial management and monitoring of the main risk/return profiles are carried out and ensured by dedicated organisational structures, both within and without the BancoPosta ring-fence, that operate separately and independently. In addition, specific processes are in place governing the assumption and management of and control over financial risks, including through the progressive implementation of adequate IT tools. In this regard, on 19 February 2018, Poste Italiane SpA's Board of Directors adopted a revised version of the Guidelines for Internal Control and Risk Management System (SCIGR), which contains integrated guidelines for Poste Italiane SpA's Internal Control and Risk Management System. From an organisational viewpoint, the model consists of:

- the **Audit, Risk and Sustainability Committee** established in 2015 to support – thanks an adequate research, recommendation and advisory activity - the assessments and decisions of the Board of Directors on the internal control system, risk management and, starting from February 2018, issues pertaining to Poste Italiane's sustainability;

151. Amendment of art. 1, paragraph 1097 of Law 296 of 27 December 2006, introduced by art. 1, paragraph 285 of the 2015 Stability Law (Law 190 of 23 December 2014).

- the **Financial and Insurance Services Committee**, established on 19 March 2018 to replace the previous Finance, Savings and Investment Committee, with the aim of overseeing the process of developing the products and services distributed by BancoPosta, in order to take a uniform, integrated view of the entire offering and to monitor the performance of the financial investments in which private customer deposits are invested;
- Poste Italiane SpA's **Coordination of Investment Management function**, the work of which is regulated by specific operating guidelines, oversees investment strategy and the hedging of capital market risks in respect of the liquidity deriving from BancoPosta current account deposits, in accordance with the guidelines established by the various corporate bodies. As of 1 January 2019, the investment management activities of BancoPosta RFC have been attributed to the specialist functions of BancoPosta Fondi SGR, a Poste Italiane Group company;
- the BancoPosta's **Risk Management function**, responsible for measuring and controlling risk and duly observing the independence of control functions from management.

In constructing the Risk Model used by BancoPosta RFC, account was also taken of the existing prudential supervisory standards for banks and the specific instructions for BancoPosta, published by the Bank of Italy on 27 May 2014 with the third revision of Circular 285 of 17 December 2013.

The above prudential standards have imposed the same obligations on BancoPosta as those applicable to banks in terms of corporate governance, internal controls and risk management, requiring, among other things, achievement of the following objectives:

- definition of a Risk Appetite Framework (RAF);
- oversight of implementation of Poste Italiane SpA's strategies and policies;
- the containment of risks within the limits set by the RAF;
- protection of the value of assets and against losses;
- identification of material transactions to be subject to prior examination by the risk control function;
- application of the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP).

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

Section 1 – Credit risk

Credit risk regards the types of risk described below.

Credit risk relates to the possibility that a change in a borrower's credit rating could result in a loss, i.e., the risk that a debtor comes into full or partial breach of its repayment obligations for principal and interest.

Counterparty risk is the risk that a counterparty could default on obligations of a financial instrument during its term. This risk is inherent in certain types of transaction which, for BancoPosta RFC, would be derivatives and repurchase agreements.

Concentration risk is related to the overexposure to counterparties, groups of related counterparties and counterparties in the same business segment or that engage in the same business or operate in the same geographic region.

Qualitative information

1. Generalities

Presidential Decree 144/2001 prohibits BancoPosta RFC from making loans to members of the public. As a result, there are no credit policies.

The nature of BancoPosta RFC's operations, however, results in a considerable concentration of exposure to Republic of Italy risk, as a result of its investments in Government securities and its deposits at the MEF. Credit risk models, explained below, show, however, that for capital requirements this type of investment does not determine capital absorption.

2. Credit risk management policies

2.1 Organisational aspects

The role of BancoPosta RFC's Risk Management function is the management and control of credit, counterparty and concentration risks.

Monitoring credit risk is particularly focused on the following exposures:

- euro area government securities (or those guaranteed by the government) in which private customer account deposits are invested;
- deposits at the MEF in which Public Administration account deposits are invested;
- any eventual amounts due from the Italian Treasury as a result of depositing funds gathered less payables for advances disbursed;
- items in process: cheque clearing, use of electronic cards, collections;
- temporarily overdrawn post office current accounts caused by debiting fees: limited to those which were not classified as impaired since the accounts were in funds in the early days of 2019;
- cash collateral for outstanding transactions with banks and customers, in accordance with agreements intended to mitigate counterparty risk (CSA - Credit Support Annexes and GMRA – Global Master Repurchase Agreements);
- cash collateral provided to the guarantee fund of the Central Counterparty "Cassa di Compensazione e Garanzia" for repurchase agreement transactions;
- securities provided as collateral in accordance with agreements intended to mitigate counterparty risk (CSAs and GMRAs);
- trade receivables payable for financial/insurance product arrangement.

Monitoring counterparty risk particularly regards hedging derivatives and repurchase agreements.

BancoPosta RFC's concentration risk is monitored to limit the instability that could be caused by the default of one customer or a group of related customers to which BancoPosta has a significant credit and counterparty risk exposure.

2.2 Management, measurement and control systems

Credit risk is controlled through the following:

- minimum rating requirements for issuers/counterparties, based on the type of instrument;
- concentration limits per issuer/counterparty;
- monitoring of changes in the ratings of counterparties.

The above limits for BancoPosta RFC are set out in Poste Italiane SpA's "Guidelines for financial transactions"[152], which also contain rating limits that only permit dealings with investment grade counterparties and governments of the euro zone with a rating at least equal to that of the Italian Republic.

Regarding monitoring concentration, limits are applied as required by prudential standards[153].

The standardised approach[154], as defined by EU Regulation 575/2013, is used by BancoPosta to measure credit and counterparty risks. The method entails the use of Standard & Poor's, Moody's and Fitch for the computation of counterparty credit rating classes.

152. On 18 October 2018, Poste Italiane SpA's Board of Directors approved new "Guidelines for financial transactions" for Poste Italiane SpA, upon proposal of the CEO and with the prior consent of the Audit, Risk and Sustainability Committee.
153. According to the prudential requirements, weighted risk exposure must at all times be below 25% of own funds. Exposures are normally equal to an asset's nominal value adjusting for any credit risk mitigation. Lower risk borrowers are assigned lower risk weightings.
154. The standardized approach entails risk weightings in accordance with the nature of the exposure and the identity of the counterparty and the counterparty's external credit rating.

In terms of prudential oversight, the following methods are used to estimate the exposure to counterparty risk inherent in each of the following types of transaction:

- the "Market Value" method[155], is used for interest rate swaps and forward purchases of government securities;
- Credit Risk Mitigation (CRM) techniques, the Full Method[156], are used for repurchase transactions.

Concentration risk is measured using the method described in EU Regulation 575/2013 with regard to large exposures.

2.3 Measurement of expected credit losses

The new Expected Credit Loss (ECL) method introduced by IFRS 9 applies to financial assets measured at amortised cost and to financial assets measured at fair value through other comprehensive income.

For financial assets other than trade receivables, BancoPosta RFC applies the General deterioration approach, with models to estimate risk parameters depending on the type of counterparty:

- Internal risk parameter estimation models for debt securities and deposits with sovereign and banking counterparties (and certain marginal corporates);
- Risk parameters furnished by an external provider and average sector default rates for the other financial instruments with corporate and government counterparties.

Expected credit losses are determined either over a 12-month horizon or a lifetime horizon, depending on the stage of the exposure, on the basis of the following metrics:

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

Below, the main assumptions adopted in determining the single factors are illustrated:

- PD: as indicated from the standard a Point in Time (PIT) or forward-looking PD has been adopted, depending on the stage of the exposure;
- LGD: use has been made of the Internal Ratings-Based (IRB) approach under the Basel guidelines (45% for senior risk assets, 75% for subordinated risk assets);
- EAD: exposure calculated prospectively until maturity of the instrument, starting from the development of projected cash flows. In the development account was taken of specific indexation assumptions for every asset class (fixed income securities, floating-rate securities, inflation-indexed securities, etc.);
- TF: the effective interest rate of each exposure was used as discount factor.

The collective impairment of a homogenous group of financial assets defines the expected credit loss (ECL) of the instrument, even though it cannot be associated with a specific exposure. Grouping takes place in relation to the type of counterparty on the basis of the estimated PD.

BancoPosta RFC elected not to adopt the low credit risk exemption and to proceed instead with the staging allocation of the financial instruments concerned.

Based on the impairment models described above, to allocate properly performing exposures in stage 1 or stage 2, the significant increase in exposures other than trade receivables is determined on the basis of the change in notches between the rating at the time of investment and the rating at the reporting date.

This change in notches is compared with a threshold that takes into account the following factors:

- the rating of the financial instrument at the time of investment;

155. The "Market Value" method to measure the risk inherent in derivatives entails summing two components: the current replacement cost, represented by fair value, if positive, and an add-on equal to the product of the nominal value and the probability that the fair value, if positive, increases the value or, if negative, turns positive.
156. The full CRM method entails reducing risk exposure by the value of the guarantee. Specific rules are applied to take into account market price volatility of the guaranteed asset as well as the collateral received.

- the rating of the financial instrument at the reporting date;
- the seniority of the position within the portfolio (vintage factor);
- an additive factor to mitigate the non-linearity of the PD vis-à-vis the rating classes[157];
- a judgmental factor to be used only in the presence of sudden changes in the creditworthiness not yet reflected by the rating[158].

Based on the above information, BancoPosta RFC does not apply the presumption that an exposure past due for over 30 days indicates automatically significant increases in credit risk after initial recognition.

BancoPosta RFC defines a default on the basis of ad hoc assessments that take into consideration:

- significant payment delays;
- market information such as a default rating by the rating agencies;
- internal analyses of specific credit exposures.

With respect to payment delays, the definition of default is based on the following approach:

- late payments, even by one day, or debt renegotiation for financial instruments with sovereign counterparties:
- payments 90 days past due, for financial instruments with banking and corporate counterparties.

In keeping with IFRS 9, in determining ECL consideration was given also to forward looking elements based on broad-consensus scenarios.

The approach followed involves inclusion of forward-looking information in the estimation of the PD. In particular, the internal approach adopted allows completion of the input dataset necessary to calculate PD starting from a number of scenario values related to the approach. The objective of the approach is to estimate the unknown variables by using the historical correlation of the available information[159].

As to the estimation techniques used, it is noted that since the approaches to calculate the PD for sovereign and banking counterparties cannot use default events, as they are not frequent, a shadow rating approach was adopted.

This method entails the use of target variables related to the level of external rating produced by the agencies. The target could be directly the rating or, alternatively, the default rate linked to the rating level. The target was constructed on the basis of a rating agency selected as reference, considering both the large number of counterparties rated and the availability of historical data over a time horizon considered adequate.

The models have been constructed by extracting and utilising the following types of data for each country in the sample:

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

To determine the rating of financial assets with corporate counterparties reference is made to the public rating one of the main rating agencies. In the absence of such information, the rating is estimated by compiling a scorecard which takes into consideration, among others:

- the risk specific to the company;
- the risk specific to the sector in which it operates;
- the specific and generic risk of the country where it is headquartered.

157. The additive factor is constructed as a function of the rating level achieved by the reporting date: the higher the rating, the higher the threshold for the transition to stage 2.
158. The judgmental factor can summarise significant aspects in determining the significant increase of credit risk, considering such elements as:
   - an actual or expected significant change of the internal/external credit rating of the financial instrument;
   - actual or expected negative changes in economic, financial or business conditions that might cause a significant change in the borrower's ability to honour its obligations, such as an actual or expected increase in interest rates or an actual or expected significant increase in the unemployment rate.
159. In particular, the use of such approach is limited to situations where, actually, the available data are deemed to be no longer representative of the counterparty's risk.

For trade receivables BancoPosta RFC applies the simplified approach, where no significant increase in credit risk is expected. However, the loss provisions are calculated for an amount equal to lifetime expected credit loss.

Such approach is implemented through the following process:

- based on total revenue or the historical credit exposure, a credit threshold is identified beyond which the single receivables or the single exposure is evaluated. The analytical evaluation of the exposures entails an analysis of the borrower's credit quality and solvency, as determined on the basis of internal and external supporting evidence;
- for receivables falling below the threshold set, through the preparation of a matrix with the different impairment percentages determined on the basis of historical losses, or on the historical pattern of collections. In constructing the impairment matrix, receivables are grouped by homogeneous categories, based on their characteristics, to take into account the historical loss experience.

2.4 Credit risk mitigation techniques

BancoPosta RFC adopts credit and counterparty risk mitigation techniques. In particular:

- regarding hedging derivatives and repurchase agreements, credit and counterparty risks are mitigated by entering into a master netting agreement and requiring collateral in the form of cash or government bonds;
- in relation to trade receivables credit terms are extended for customers, requesting, in certain cases, guarantees or sureties issued by prime banks or insurance companies.

At 31 December 2018, BancoPosta RFC does not hold financial assets secured by guarantees or other credit risk mitigating instruments for which no loss provisions have been made (except for the temporary use of liquidity in reverse repurchase agreements).

The main types of instrument used by BancoPosta RFC to mitigate credit and counterparty risk are described below:

Fixed income securities

Debt instruments secured by guarantees or other credit risk mitigation instruments are bonds issued by CDP SpA guaranteed by the Italian State and subscribed by BancoPosta RFC, amounting to a nominal value of €4,500 million. These are recognised as financial assets measured at amortised cost and, in determining the associated expected credit losses, account was taken of the PD of the Italian Republic.

Derivative financial instruments and repurchase agreements

In order to limit the counterparty risk exposure, BancoPosta RFC has concluded standard ISDA master agreements (with attached CSA) and GMRAs which govern the collateralization of derivative transactions and repurchase agreements, respectively.

In addition, in order to mitigate counterparty risk and gain readier access to the market, from December 2017, BancoPosta RFC has begun to enter into repurchase agreements with the Central Counterparty, the *Cassa di Compensazione e Garanzia*.

The calculation of positions in derivatives and repurchase agreements and the related risk mitigation instruments are illustrated in Part B – Other Information, tables 6 and 7, to which reference is made.

Trade receivables

To mitigate the risks arising from the extension of payment terms to its customers, BancoPosta RFC has implemented a policy and suitable guidelines that govern the management of trade receivables, the terms and conditions of payment applicable to customers and defines the corporate process aimed at checking the customer's creditworthiness, as well as the sustainability of the business risk inherent in the contract involving extended payment terms.

Depending on the evaluations, the contracts entered into with customers may require a suitable guarantee. Guarantees are also requested if they are required by rules and regulations and/or implementing rules of specific services.

BancoPosta RFC accepts mainly guarantees issued by primary banks or insurance companies. Alternatively, upon request of the customer and after a risk analysis, it accepts sureties issued by other institutions, security deposits or the opening of postal escrow account.

Considering the limited risk of insolvency of government customers, BancoPosta RFC as a rule exempts the Public Administration from the provision of guarantees to secure trade receivables arising from transactions with it, save for the cases when such guarantees are mandatory by law or due to implementing rules of specific services.

Accordingly, the guarantees held are related mainly to private customers.

For all the credit exposures evaluated individually, to calculate loss provisions, guarantees reduce the amount of the exposure at risk.

At 31 December 2018 unsecured trade receivables minus the relevant loss provisions amount to €883 million.

3. Non-performing exposure

BancoPosta RFC holds a single non-performing financial asset relating to misappropriated items which are currently being recovered. The relevant amount of €13 million has been written off.

Quantitative information

A. Credit quality

A.1 Performing and non-performing credit exposures: amounts, value adjustments, movements and economic distribution

A.1.1 Distribution of financial assets by portfolio and credit quality by carrying amount

Portfolio/Credit quality (€m)	Doubtful loans	Unlikely to pay	Non-performing past-due	Performing past-due	Other performing exposures	Total
1. Financial assets measured at amortised cost	-	-	-	43	33,700	**33,743**
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	32,040	**32,040**
3. Financial assets designated at fair value	-	-	-	-	-	**-**
4. Other financial assets mandatorily measured at fair value	-	-	-	-	8	**8**
5. Financial assets held for sale	-	-	-	-	-	**-**
Total at 31 December 2018	**-**	**-**	**-**	**43**	**65,748**	**65,791**
Total at 31 December 2017		**-**	**-**	**-**	**61,113**	**61,113**

A.1.2 Distribution of gross and net credit exposure by portfolio and credit quality

Portfolio/Credit quality (€m)	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total value adjustments	Net exposure	Total partial write-offs*	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets measured at amortised cost	13	13	-	-	33,921	178	33,743	**33,743**
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	32,053	13	32,040	**32,040**
3. Financial assets designated at fair value	-	-	-	-	X	X	-	**-**
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	8	**8**
5. Financial assets held for sale	-	-	-	-	-	-	-	**-**
Total at 31 December 2018	**13**	**13**	**-**	**-**	**65,974**	**191**	**65,791**	**65,791**
Total at 31 December 2017	**-**	**-**	**-**	**-**	**61,290**	**177**	**61,113**	**61,113**

* Amount reported for disclosure purposes

Portfolio/Credit quality (€m)	Assets of evidently low credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	-
2. Hedging derivatives	-	-	368
Total at 31 December 2018	**-**	**-**	**368**
Total at 31 December 2017		**-**	**395**

A.1.3 Distribution of financial assets by past due categories (carrying amount)

Portafolio/stages of risk (€m)	Stage 1			Stage 2			Stage 3		
	Between 1 and 30 days	From over 30 days to 90 days	Over 90 days	Between 1 and 30 days	From over 30 days to 90 days	Over 90 days	Between 1 and 30 days	From over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost	-	-	-	25	5	13	-	-	-
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total at 31 December 2018	**-**	**-**	**-**	**25**	**5**	**13**	**-**	**-**	**-**

A.1.4 Financial assets, commitments to disburse funds and provide guarantees: changes in total value adjustments and total loss provisions

Causes/stages of risk (€m)	Total value adjustments													Total provisions for commitments to disburse funds and financial guarantees given			Total
	Assets in stage 1				Assets in stage 2				Assets in stage 3				of which: acquired or originated impaired financial assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual provisions	of which: collective provisions	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual provisions	of which: collective provisions	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual provisions	of which: collective provisions		Stage 1	Stage 2	Stage 3	
Opening balances	**10**	**14**	**-**	**24**	**164**	**-**	**145**	**19**	**13**	**-**	**13**	**-**	**-**	**-**	**-**	**-**	**201**
Increases in financial assets acquired or originated	3	1	-	4	14	-	-	14	-	-	-	-	-	-	-	-	18
Derecognition other than write-off	(1)	(1)	-	(2)	(14)	-	-	(14)	-	-	-	-	-	-	-	-	(16)
Net losses/recoveries for credit risk (+/-)	-	(1)	-	(1)	2	-	2	-	-	-	-	-	-	-	-	-	1
Contract amendments without termination	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balances	**12**	**13**	**-**	**25**	**166**	**-**	**147**	**19**	**13**	**-**	**13**	**-**	**-**	**-**	**-**	**-**	**204**
Recovery of amounts on written-off financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Stage 2 reflects mainly value adjustments related to trade receivables for which the loss provisions are measured in accordance with the simplified approach.

A.1.5 Financial assets, commitments to disburse funds and provide guarantees: transfers between the different credit risk stages (gross and nominal amounts)

Nil.

A.1.6 On and off-balance sheet credit exposures to banks: gross and net amounts

Type of exposure/Amounts (€m)	Gross exposure		Total value adjustments	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. On-balance sheet exposures					
a) Doubtful loans	-	X	-	**-**	-
- of which: forborne exposures	-	X	-	**-**	-
b) Unlikely to pay	-	X	-	**-**	-
- of which: forborne exposures	-	X	-	**-**	-
c) Non-performing past-due exposures	-	X	-	**-**	-
- of which: forborne exposures	-	X	-	**-**	-
d) Performing past-due exposures	X	12	-	**12**	-
- of which: forborne exposures	X	-	-	**-**	-
e) Other performing exposures	X	1,388	-	**1,388**	-
- of which: forborne exposures	X	-	-	**-**	-
Total A	**-**	**1,400**	**-**	**1,400**	**-**
B. Off-balance sheet exposures					
a) Non-performing	-	X	-	**-**	-
b) Performing	X	589	-	**589**	-
Total B	**-**	**589**	**-**	**589**	**-**
Total A+B	**-**	**1,989**	**-**	**1,989**	**-**

* Amount reported for disclosure purposes.

"Off-balance sheet exposures, Performing" relates to the counterparty risk associated with derivatives registering fair value gains, securities provided as collateral under counterparty risk mitigation agreements and for Repo financing with Securities Financing Transactions (SFT)[160] margins.

A.1.7 On and off-balance sheet credit exposures to customers: gross and net amounts

Type of exposure/Amounts (€m)	Gross exposure		Total value adjustments	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. On-balance sheet exposures					
a) Doubtful loans	-	X	-	**-**	-
- of which: forborne exposures	-	X	-	**-**	-
b) Unlikely to pay	-	X	-	**-**	-
- of which: forborne exposures	-	X	-	**-**	-
c) Non-performing past-due exposures	13	X	13	**-**	-
- of which: forborne exposures	-	X	-	**-**	-
d) Performing past-due exposures	X	196	165	**31**	-
- of which: forborne exposures	X	-	-	**-**	-
e) Other performing exposures	X	64,386	26	**64,360**	-
- of which: forborne exposures	X	-	-	**-**	-
Total A	**13**	**64,582**	**204**	**64,391**	**-**
B. Off-balance sheet exposures					
a) Non-performing	-	X	-	**-**	-
b) Performing	X	1,539	-	**1,539**	-
Total B	**-**	**1,539**	**-**	**1,539**	**-**
Total A+B	**13**	**66,121**	**204**	**65,930**	**-**

* Amount reported for disclosure purposes.

"Off-balance sheet exposures, Performing" relates to the counterparty risk associated with derivatives registering fair value gains.

160. As defined in the prudential requirements.

A.1.8 On-balance sheet credit exposures to banks: changes in gross non-performing exposures

Nil.

A.1.8*bis* On-balance sheet credit exposures to banks: changes in gross forborne exposures by credit quality

Nil.

A.1.9 On-balance sheet credit exposures to customers: changes in gross non-performing exposures

Causes/Categories (€m)	Doubtful	Unlikely to pay	Non-performing past-due
A. Opening gross exposure	**-**	**-**	**13**
- of which: exposures sold but not derecognised	-	-	-
B. Increases	**-**	**-**	**-**
B.1 Inflows from performing exposures	-	-	-
B.2 Inflows from acquired or originated impaired financial assets	-	-	-
B.3 Transfers from other categories of non-performing exposure	-	-	-
B.4 Contract amendments without termination	-	-	-
B.5 Other increases	-	-	-
C. Decreases	**-**	**-**	**-**
C.1 Transfers to performing exposures	-	-	-
C.2 Write-offs	-	-	-
C.3 Collections	-	-	-
C.4 Profit on disposal	-	-	-
C.5 Losses on disposal	-	-	-
C.6 Transfers to other categories of non-performing exposure	-	-	-
C.7 Contract amendments without termination	-	-	-
C.8 Other decreases	-	-	-
D. Closing gross exposure	**-**	**-**	**13**
- of which: exposures sold but not derecognised	-	-	-

A.1.9*bis* On-balance sheet credit exposures to customers: changes in gross forborne exposures by credit quality

Nil.

A.1.10 On-balance sheet non-performing credit exposures to banks: changes in total value adjustments

Nil.

A.1.11 On-balance sheet non-performing credit exposures to customers: changes in total value adjustments

Causali / Categorie (€m)	Doubtful		Unlikely to pay		Non-performing past-due	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments	**-**	**-**	**-**	**-**	**13**	**-**
- of which: exposures sold but not derecognised	-	-	-	-	-	-
B. Increases	-	**-**	-	**-**	-	**-**
B.1 Value adjustments to acquired or originated impaired financial assets	-	X	-	X	-	X
B.2 Other value adjustments	-	-	-	-	-	-
B.3 Losses on disposal	-	-	-	-	-	-
B.4 Transfers from other categories of non-performing exposure	-	-	-	-	-	-
B.5 Contract amendments without termination	-	X	-	X	-	X
B.6 Other increases	-	-	-	-	-	-
C. Decreases	-	**-**	-	**-**	-	**-**
C.1 Recoveries on valuation	-	-	-	-	-	-
C.2 Recoveries on collection	-	-	-	-	-	-
C.3 Profit on disposal	-	-	-	-	-	-
C.4 Write-offs	-	-	-	-	-	-
C.5 Transfers to other categories of non-performing exposure	-	-	-	-	-	-
C.6 Contract amendments without termination	-	X	-	X	-	X
C.7 Other decreases	-	-	-	-	-	-
D. Total closing adjustments	**-**	**-**	**-**	**-**	**13**	**-**
- of which: exposures sold but not derecognised	-	-	-	-	-	-

A.2 Classification of financial assets, commitments to disburse funds and financial guarantees issued based on external and internal ratings

A.2.1 Distribution of financial assets, commitments to disburse funds and financial guarantees issued by external rating classes (gross amounts)

Exposures (€m)	External rating class						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	**172**	**736**	**32,130**	**-**	**15**	**-**	**881**	**33,934**
- Stage 1	172	735	31,444	-	15	-	506	32,872
- Stage 2	-	1	686	-	-	-	362	1,049
- Stage 3	-	-	-	-	-	-	13	13
B. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**32,053**	**-**	**-**	**-**	**-**	**32,053**
- Stage 1	-	-	32,053	-	-	-	-	32,053
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A + B)	**172**	**736**	**64,183**	**-**	**15**	**-**	**881**	**65,987**
of which: acquired or originated impaired financial assets	-	-	-	-	-	-	-	-
C. Commitments to disburse funds and financial guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (C)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A + B + C)	**172**	**736**	**64,183**	**-**	**15**	**-**	**881**	**65,987**

Stage 2 reflects mainly financial assets represented by trade receivables for which loss provisions are measured with the simplified approach.

Financial assets allocated to stage 1 in the "Without rating" category refer mainly to the exposure to the Central Counterparty, "Cassa di Compensazione e Garanzia".

The rating agency equivalents of credit rating classes are shown below:

Credit rating class	Fitch	Moody's	S&P
1	from AAA to AA-	from Aaa to Aa3	from AAA to AA-
2	from A+ to A-	from A1 to A3	from A+ to A-
3	from BBB+ to BBB-	from Baa1 to Baa3	from BBB+ to BBB-
4	from BB+ to BB-	from Ba1 to Ba3	from BB+ to BB-
5	from B+ to B-	from B1 to B3	from B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below

The nature of BancoPosta's operations exposes it to a substantial degree of concentration in respect of the Italian state. The concentration can be seen in Table A.2.1 under External Rating Class 3, which includes the Italian state.

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 On- and off-balance-sheet guaranteed credit exposures to banks

	Gross exposure	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
			Mortgages	Finance leases	Securities	Other collateral	Credit derivatives					Unsecured				
							CLNs	Other derivatives				Public Admin. entities	Banks	Other finance companies	Other entities	
(€m)								Central Counter-parties	Banks	Other finance companies	Other entities					
1. Guaranteed on-balance sheet credit exposures:																
1.1 guaranteed in full	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
1.2 partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2. Guaranteed off-balance sheet credit exposures:																
2.1 guaranteed in full	10	10	-	-	-	10	-	-	-	-	-	-	-	-	-	**10**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2.2 partially guaranteed	4	4	-	-	-	4	-	-	-	-	-	-	-	-	-	**4**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

Off-balance-sheet credit exposures refer to derivatives are shown after the effects of netting agreements, regardless of whether they have been offset in the financial statements pursuant to IAS 32, paragraph 42.

A.3.2 On- and off-balance-sheet guaranteed credit exposures to customers

	Gross exposure	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
			Mortgages	Finance leases	Securities	Other collateral	Credit derivatives					Unsecured				
							CLNs	Other derivatives				Public Admin. entities	Banks	Other finance companies	Other entities	
(€m)								Central Counter-parties	Banks	Other finance companies	Other entities					
1. Guaranteed on-balance sheet credit exposures:																
1.1 guaranteed in full	251	251	-	-	251	-	-	-	-	-	-	-	-	-	-	**251**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
1.2 partially guaranteed	4,541	4,539	-	-	-	-	-	-	-	-	-	4,499	-	-	-	**4,499**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2. Guaranteed off-balance sheet credit exposures:																
2.1 guaranteed in full	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2.2 partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

Off-balance-sheet credit exposures refer to derivatives are shown after the effects of netting agreements, regardless of whether they have been offset in the financial statements pursuant to IAS 32, paragraph 42.

B. Distribution and concentration of credit exposures

B.1 Distribution of on and off-balance sheet credit exposures to customers by economic sector

Exposures/Counterparty (€m)	Public Administration entities		Finance companies		Finance companies (of which: insurance companies)		Non-finance companies		Households	
	Net expos.	Total value adjustments	Net expos.	Total value adjustments	Net expos.	Total value adjustments	Net expos.	Total value adjustments	Net expos.	Total value adjustments
A. On-balance sheet exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing exposures	-	-	-	-	-	-	-	13	-	-
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	57,747	31	5,764	3	-	-	872	28	8	129
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
Total A	**57,747**	**31**	**5,764**	**3**	**-**	**-**	**872**	**41**	**8**	**129**
B. Off-balance sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	1,491	-	48	-	-	-	-	-	-	-
Total B	**1,491**	**-**	**48**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31 December 2018	**59,238**	**31**	**5,812**	**3**	**-**	**-**	**872**	**41**	**8**	**129**
Total (A+B) at 31 December 2017	**56,072**	**16**	**3,001**	**-**	**143**	**-**	**756**	**21**	**10**	**140**

B.2 Distribution of on and off-balance sheet credit exposures to customers by geographic area

Exposures/ Geographic area (€m)	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net expos.	Total value adjustments	Net expos.	Total value adjustments	Net expos.	Total value adjustments	Net expos.	Total value adjustments	Net expos.	Total value adjustments
A. On-balance sheet exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	13	-	-	-	-	-	-	-	-
A.4 Performing exposures	64,326	190	57	1	8	-	-	-	-	-
Total A	**64,326**	**203**	**57**	**1**	**8**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	1,491	-	48	-	-	-	-	-	-	-
Total B	**1,491**	**-**	**48**	**-**	-	-	**-**	**-**	-	-
Total (A+B) at 31 December 2018	**65,817**	**203**	**105**	**1**	**8**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31 December 2017	**59,868**	**177**	**106**	**-**	**8**	**-**	**-**	**-**	**-**	**-**

B.2 Distribution of on and off-balance sheet credit exposures to customers by geographic area

Exposures/ Geographic area (€m)	ITALY, NORTHWEST		ITALY, NORTHEAST		ITALY, CENTRE		ITALY, SOUTH AND ISLANDS	
	Net expos.	Total value adjustments	Net expos.	Total value adjustments	Net expos.	Total value adjustments	Net expos.	Total value adjustments
A. On-balance sheet exposures								
A.1 Doubtful loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	13	-	-	-	-
A.4 Performing exposures	4	27	1	16	64,317	76	4	71
Total A	**4**	**27**	**1**	**29**	**64,317**	**76**	**4**	**71**
B. Off-balance sheet exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	1,491	-	-	-
Total B	**-**	**-**	**-**	**-**	**1,491**	**-**	**-**	**-**
Total (A+B) at 31 December 2018	**4**	**27**	**1**	**29**	**65,808**	**76**	**4**	**71**
Total (A+B) at 31 December 2017	**7**	**5**	**-**	**16**	**59,857**	**145**	**4**	**11**

The concentration in central Italy is due to the fact that nearly all exposures consist of Italian Government securities and deposits at the MEF.

B.3 Distribution of on and off-balance sheet credit exposures to banks by geographic area

Exposures/ Geographic area (€m)	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net expos.	Total value adjustments	Net expos.	Total value adjustments	Net expos.	Total value adjustments	Net expos.	Total value adjustments	Net expos.	Total value adjustments
A. On-balance sheet exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	152	-	1,248	-	-	-	-	-	-	-
Total A	**152**	**-**	**1,248**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	312	-	242	-	-	-	-	-	-	-
Total B	**312**	**-**	**242**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31 December 2018	**464**	**-**	**1,490**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31 December 2017	**318**	**-**	**1,238**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

B.3 Distribution of on and off-balance sheet credit exposures to banks by geographic area

Exposures/ Geographic area (€m)	ITALY, NORTHWEST		ITALY, NORTHWEST		ITALY, CENTRE		ITALY, SOUTH AND ISLANDS	
	Net expos.	Total value adjustments	Net expos.	Total value adjustments	Net expos.	Total value adjustments	Net expos.	Total value adjustments
A. On-balance sheet exposures								
A.1 Doubtful loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	60	-	-	-	92	-	-	-
Total A	**60**	**-**	**-**	**-**	**92**	**-**	**-**	**-**
B. Off-balance sheet exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	283	-	-	-	29	-	-	-
Total B	**283**	**-**	**-**	**-**	**29**	**-**	**-**	**-**
Total (A+B) at 31 December 2018	**343**	**-**	**-**	**-**	**121**	**-**	**-**	**-**
Total (A+B) at 31 December 2017	**248**	**-**	**-**	**-**	**67**	**-**	**3**	**-**

B.4 Large exposures

In compliance with the supervisory standards in force, the table for "Large exposures" shows information on exposures to customers or groups of connected customers that exceed 10% of total own funds. The exposures are determined with reference to total on-balance sheet risk assets and off-balance sheet transactions, without applying any risk weightings. Based on these criteria, the table includes entities that, despite having a risk weighting of 0%, represent an unweighted exposure in excess of 10% of own funds. Exposures to the Italian state shown in the table represent approximately 84% of the total carrying amount. The remaining exposures regard primary counterparties represented by European banks and other central counterparties in Italy. However, in view of the fact that it cannot lend to the public, the Bank of Italy has exempted BancoPosta RFC from application of the requirements regarding limits on large exposures. No further exemptions from the remaining obligations have been granted.

Large exposures	
a) Carrying amount (€m)	78,153
b) Weighted amount (€m)	1,464
c) Number	9

C. Securitisations

Nil.

D. Information on unconsolidated structured entities (other than securitisation vehicles)

Nil.

E. Disposal of assets

A. Financial assets sold but not fully derecognised

Qualitative information

In the case of BancoPosta RFC, this category only regards Italian government securities provided as collateral for repurchase agreements. BancoPosta uses these transactions to access the interbank market to raise funds, with the aim of funding the purchase of government securities and the deposits necessary for margin lending.

Quantitative information

E.1 Financial assets sold recognised for their full amount and associated financial liabilities: carrying amounts

	Full recognition of financial assets sold				Related financial liabilities		
(€m)	Carrying amount	of which: involved in securitisation transactions	of which: involved in repurchase agreements	of which non-performing	Carrying amount	of which: involved in securitisation transactions	of which: involved in repurchase agreements
A. Financial assets held for trading	**-**	**-**	**-**	**X**	**-**	**-**	**-**
1. Debt securities	-	-	-	X	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**5,179**	**-**	**5,179**	**-**	**5,195**	**-**	**5,195**
1. Debt securities	5,179	-	5,179	-	5,195	-	5,195
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**3,527**	**-**	**3,527**	**-**	**3,278**	**-**	**3,278**
1. Debt securities	3,527	-	3,527	-	3,278	-	3,278
2. Loans	-	-	-	-	-	-	-
Total at 31 December 2018	**8,706**	**-**	**8,706**	**-**	**8,473**	**-**	**8,473**
Total at 31 December 2017	**4,486**	**-**	**4,486**	**-**	**4,842**	**-**	**4,842**

Section 2 – Market risk

Market risk relates to:

- price risk: the risk that the value of a financial instrument fluctuates as a result of market price movements, deriving from factors specific to the individual instrument or the issuer, and factors that influence all instruments traded on the market;
- foreign exchange risk: the risk that the value of a financial instrument fluctuates as a result of movements in exchange rates for currencies other than the functional currency;
- fair value interest rate risk: the risk that the value of a financial instrument fluctuates as a result of movements in market interest rates;
- spread risk: the risk relates to the potential fall in the value of bonds held, following a deterioration in the creditworthiness of issuers;
- cash flow interest rate risk: the risk that the cash flows from a financial instrument will fluctuate because of movements in market interest rates;
- cash flow inflation rate risk: the risk that the cash flows from a financial instrument will fluctuate because of movements in inflation rates.

2.1 Interest rate and price risks - supervisory trading book

There were no supervisory trading book assets or liabilities at 31 December 2018. Poste Italiane SpA's "Guidelines for financial transactions" for BancoPosta RFC prohibit the acquisition of assets and liabilities with the intention to trade, as defined by article 104 of EU Regulation 575/2013 in relation to classification of the "supervisory trading book".

2.2 Interest rate and price risks - banking book

Qualitative information

A. Generalities, operating procedures and interest rate and price risk measurement methods

Interest rate risk

Interest rate risk is inherent in the operations of a financial institution and can affect income (cash flow interest rate risk) and the value of the firm (fair value interest rate risk). Movements in interest rate can affect the cash flows associated with variable rate assets and liabilities and the fair value of fixed rate instruments.

Cash flow interest rate risk arises from the mismatch – in terms of interest rate, interest rate resets and maturities – of financial assets and liabilities until their contractual maturity and/or expected maturity (banking book), with effects in terms of interest spreads and, as such, an impact on future results. This risk is of particular relevance to variable rate assets and liabilities or assets and liabilities which have been transformed into variable rate by fair value hedges.

Fair value interest rate risk primarily refers to the effects of changes in interest rates on the price of fixed rate financial instruments or variable rate financial instruments converted to fixed rate via cash flow hedges and, to a lesser degree, the effects of changes in interest rates on the fixed components of floating rate financial instruments or fixed rate financial instruments converted to variable rate via fair value hedges. There is a positive correlation between the significance of these effects and the duration of the financial instrument.

Interest rate risk is measured internally using the economic value method. This results in a need to develop an amortisation schedule for the funding consistent with its nature and to select a time horizon and confidence levels for the estimates. A maximum time horizon (cut-off point) of 20 years is used for retail customer deposits, 10 years for business customer deposits and

Postepay cards[161], and 5 years for Public Administration deposits, based on a 99% confidence level. This approach entails the computation of an ALM rate risk through the determination of asset/liability maturity gaps.

The exposure to interest rate risk, as measured internally, is subject to stress tests of the principal risk factors – such as the duration of deposits, the value of investments and interest rate trends – that contribute to determining the measurement of exposure. In particular, the stress tests are based on an assumed reduction in the maximum time horizon (cut-off point) for retail and business customer deposits, revaluation of the asset portfolio in response to adverse market movements, and non-parallel shifts in the interest rate curve.

Interest rate risk management and mitigation is based on the conclusions of the measurement of risk exposure and compliance - in line with the risk appetite and thresholds and limits established in the RAF - with financial operations guidelines as approved from time to time by Poste Italiane SpA's Board of Directors.

Details on the risk management model are contained in the note on financial risks in Part E.

BancoPosta RFC monitors market risk, including fair value interest rate and spread risks, inherent in financial assets measured at fair value through other comprehensive income and derivative financial instruments through the computation of Value at Risk (VaR) over a time horizon of 1 day at a 99% confidence level.

Spread risk

Spread risk regards bonds issued or guaranteed by the Italian government and classified as financial assets measured at fair value through other comprehensive income. On average, 2018 witnessed an increase in the yields on Italian government bonds, which caused the spread between ten-year Italian government bonds and German bunds to rise to approximately 250 bps, compared to 159 bps at 31 December 2017.

Over the period under review, the above situation resulted in a net reduction in the fair value of BancoPosta RFC's financial assets measured at fair value through other comprehensive income by approximately €1.6 billion (a nominal value of approximately €30 billion). The increase in the fair value of instruments hedged against interest rate risk, amounting to approximately €0.3 billion, was offset by a decrease in the fair value of the related derivatives, whilst the reduction in the fair value of unhedged instruments and of the component subject to spread risk (unhedged) was reflected in consolidated equity by approximately €1.9 billion;

Price risk

Price risk relates to financial assets measured at fair value through profit or loss.

This sensitivity analysis takes into account the main positions potentially exposed to the greatest risk of price movements.

BancoPosta RFC monitors the price risk to which its shareholdings are exposed by computing Value at Risk (VaR) over a time horizon of 1 day at a 99% confidence level.

161. As of 1 October 2018, prepaid cards fall within the purview of PostePay SpA, the electronic money institution that has brought together Poste Italiane's operations and competences in payments and telecommunications. The liquidity raised through these cards is transferred to BancoPosta, which invests it in euro area government bonds or bonds guaranteed by the Italian State. As such, for the purposes of specific risk analyses, the rationales related to each model underlying the different types of deposit inflow continue to apply.

Quantitative information

1. Banking book: distribution of residual terms to maturity of financial assets and liabilities by repricing date

CURRENCY: EURO

Asset - Liability / Residual term to maturity (€m)		Demand	3 months or less	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	Over 10 years	Unspecified maturity
1.	**On-balance sheet assets**	**8,965**	**6,900**	**713**	**1,244**	**9,610**	**11,895**	**26,461**	**-**
1.1	Debt securities	-	4,997	705	1,244	9,610	11,895	26,461	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	4,997	705	1,244	9,610	11,895	26,461	-
1.2	Due from banks	48	1,349	-	-	-	-	-	-
1.3	Due from customers	8,917	554	8	-	-	-	-	-
	- current accounts	8	-	-	-	-	-	-	-
	- other loans	8,909	554	8	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	8,909	554	8	-	-	-	-	-
2.	**On-balance sheet liabilities**	**54,882**	**2,749**	**-**	**191**	**5,603**	**-**	**-**	**-**
2.1	Due to customers	54,292	1,307	-	191	1,652	-	-	-
	- current accounts	50,619	-	-	-	-	-	-	-
	- other deposits	3,673	1,307	-	191	1,652	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	3,673	1,307	-	191	1,652	-	-	-
2.2	Due to banks	590	1,442	-	-	3,951	-	-	-
	- current accounts	590	-	-	-	-	-	-	-
	- other deposits	-	1,442	-	-	3,951	-	-	-
2.3	Debt securities	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
2.4	Other liabilities	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
3.	**Financial derivatives**								
3.1	With underlying securities								
	- Options								
	+ long positions	-	-	-	-	-	-	-	-
	+ short positions	-	-	-	-	-	-	-	-
	- Other derivatives								
	+ long positions	-	1,645	-	-	-	930	662	-
	+ short positions	-	1,491	-	-	-	1,469	107	-
3.2	Without underlying securities								
	- Options								
	+ long positions	-	-	-	-	-	-	-	-
	+ short positions	-	-	-	-	-	-	-	-
	- Other derivatives								
	+ long positions	915	1,695	21,865	350	375	-	-	-
	+ short positions	1,375	500	-	800	22,525	-	-	-
4.	**Other off-balance sheet transactions**								
	+ long positions	-	-	-	-	-	-	-	-
	+ short positions	-	-	-	-	-	-	-	-

1. Banking book: distribution of residual terms to maturity of financial assets and liabilities by repricing date

CURRENCY: US DOLLAR

Asset - Liability / Residual term to maturity (€m)		Demand	3 months or less	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	Over 10 years	Unspecified maturity
1.	**On-balance sheet assets**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1	Debt securities	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
1.2	Due from banks	1	-	-	-	-	-	-	-
1.3	Due from customers	-	-	-	-	-	-	-	-
	- current accounts	-	-	-	-	-	-	-	-
	- other loans	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
2.	**On-balance sheet liabilities**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1	Due to customers	-	-	-	-	-	-	-	-
	- current accounts	-	-	-	-	-	-	-	-
	- other deposits	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
2.2	Due to banks	-	-	-	-	-	-	-	-
	- current accounts	-	-	-	-	-	-	-	-
	- other deposits	-	-	-	-	-	-	-	-
2.3	Debt securities	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
2.4	Other liabilities	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
3.	**Financial derivatives**								
3.1	With underlying securities								
	- Options								
	+ long positions	-	-	-	-	-	-	-	-
	+ short positions	-	-	-	-	-	-	-	-
	- Other derivatives								
	+ long positions	-	-	-	-	-	-	-	-
	+ short positions	-	-	-	-	-	-	-	-
3.2	Without underlying securities								
	- Options								
	+ long positions	-	-	-	-	-	-	-	-
	+ short positions	-	-	-	-	-	-	-	-
	- Other derivatives								
	+ long positions	-	-	-	-	-	-	-	-
	+ short positions	-	-	-	-	-	-	-	-
4.	**Other off-balance sheet transactions**								
	+ long positions	-	-	-	-	-	-	-	-
	+ short positions	-	-	-	-	-	-	-	-

1. Banking book: distribution of residual terms to maturity of financial assets and liabilities by repricing date

CURRENCY: SWISS FRANC

Asset - Liability / Residual term to maturity (€m)		Demand	3 months or less	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	Over 10 years	Unspecified maturity
1.	**On-balance sheet assets**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1	Debt securities	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
1.2	Due from banks	2	-	-	-	-	-	-	-
1.3	Due from customers	-	-	-	-	-	-	-	-
	- current accounts	-	-	-	-	-	-	-	-
	- other loans	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
2.	**On-balance sheet liabilities**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1	Due to customers	-	-	-	-	-	-	-	-
	- current accounts	-	-	-	-	-	-	-	-
	- other deposits	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
2.2	Due to banks	-	-	-	-	-	-	-	-
	- current accounts	-	-	-	-	-	-	-	-
	- other deposits	-	-	-	-	-	-	-	-
2.3	Debt securities	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
2.4	Other liabilities	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
3.	**Financial derivatives**								
3.1	With underlying securities								
	- Options								
	+ long positions	-	-	-	-	-	-	-	-
	+ short positions	-	-	-	-	-	-	-	-
	- Other derivatives								
	+ long positions	-	-	-	-	-	-	-	-
	+ short positions	-	-	-	-	-	-	-	-
3.2	Without underlying securities								
	- Options								
	+ long positions	-	-	-	-	-	-	-	-
	+ short positions	-	-	-	-	-	-	-	-
	- Other derivatives								
	+ long positions	-	-	-	-	-	-	-	-
	+ short positions	-	-	-	-	-	-	-	-
4.	**Other off-balance sheet transactions**								
	+ long positions	-	-	-	-	-	-	-	-
	+ short positions	-	-	-	-	-	-	-	-

2. Banking book: internal models and other methods of sensitivity analysis

Fair value interest rate risk

The sensitivity of exposures to fair value interest rate risk was tested by assuming a parallel shift of the market yield curve of +/- 100 bps. The sensitivities data shown by the analysis provide a base scenario that can be used to measure potential changes in fair value, in the presence of changes in interest rates.

BancoPosta's financial assets measured at fair value through other comprehensive income at 31 December 2018 had a duration of 4.80 (31 December 2017: 5.34). The sensitivity analysis is shown in the table.

FAIR VALUE INTEREST RATE RISK

Analysis date (€m)	Nominal value*	Fair value	Changes in value		Net interest and other banking income		Equity reserves before taxes	
			+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
2018 effect								
Financial assets measured at fair value through other comprehensive income								
Fixed income instruments	30,229	32,040	(798)	753	-	-	(798)	753
Assets - Hedging derivatives	3,135	155	(4)	4	-	-	(4)	4
Liabilities - Hedging derivatives	-	-	-	-	-	-	-	-
31 December 2018 variability	**33,364**	**32,195**	**(802)**	**757**	**-**	**-**	**(802)**	**757**
2017 effect								
Financial assets measured at fair value through other comprehensive income								
Fixed income instruments	35,738	39,099	(1,009)	931	-	-	(1,009)	931
Assets - Hedging derivatives	-	-	-	-	-	-	-	-
Liabilities - Hedging derivatives	1,705	(23)	91	(97)	-	-	91	(97)
31 December 2017 variability	**37,443**	**39,076**	**(918)**	**834**	**-**	**-**	**(918)**	**834**

* For derivatives involving the exchange of principal (securities or other assets), the settlement price was reported as indicated in the relevant contracts, in accordance with Circular 262/2005 of the Bank of Italy.

All of BancoPosta RFC's investments are classified as either "Financial assets measured at amortised cost" or "Financial assets measured at fair value through other comprehensive income". The sensitivity analysis shown above is for the last of these categories.

In particular, the risk in question concerns:

- In relation to financial assets measured at fair value through other comprehensive income, fixed income Government bonds for €32,040 million, consisting of fixed income bonds for €15,006 million, floating-rate bonds swapped into fixed income bonds through interest rate swaps of cash flow hedges for €1,823 million, inflation-indexed bonds for €2,047 million and fixed income bonds swapped into floating rate instruments through fair value hedge derivatives for €13,164 million (of which €11,163 million with forward starts);
- In relation to hedge derivatives, forward sales of government bond for a notional amount of €1,644 million and forward purchases of government bonds for a notional amount of €1,491 million, classified as cash flow hedges.

Spread risk

Spread risk reflects the impact of the difference between yields on sovereign debt and the fair value of euro area government bonds, where such difference, or spread, reflects the perception of markets regarding issuers' creditworthiness.

The value of the portfolio of bonds issued or guaranteed by the Italian government is much more sensitive to the credit risk associated with the Italian Republic than to changes in so-called risk-free interest rates. This is due to the fact that changes in credit spreads are not hedged and concern the portfolio as a whole, with both fixed- and floating rate bonds. In fact, in this case, fair value derivatives, which change the bond to floating rate, hedge only the risk-free rate and not the credit risk. Accordingly, a change in the credit spread has an impact on both fixed- and floating-rate bonds.

The sensitivity to the spread has been calculated by applying a shift of +/- 100 bps to the risk factor that affects the different types of bonds held represented by the yield curve of Italian government bonds.

The sensitivity analyses are shown below.

FAIR VALUE SPREAD RISK

Analysis date (€m)	Nominal value*	Fair value	Changes in value		Net interest and other banking income		Equity reserves before taxes	
			+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
2018 effect								
Financial assets measured at fair value through other comprehensive income								
Fixed income instruments	30,229	32,040	(2,587)	3,025	-	-	(2,587)	3,025
Assets - Hedging derivatives	3,135	155	(4)	4	-	-	(4)	4
Liabilities - Hedging derivatives	-	-	-	-	-	-	-	-
31 December 2018 variability	**33,364**	**32,195**	**(2,591)**	**3,029**	**-**	**-**	**(2,591)**	**3,029**
2017 effect								
Financial assets measured at fair value through other comprehensive income								
Fixed income instruments	35,738	39,099	(3,877)	4,606	-	-	(3,877)	4,606
Assets - Hedging derivatives	-	-	-	-	-	-	-	-
Liabilities - Hedging derivatives	1,705	(23)	92	(98)	-	-	92	(98)
31 December 2017 variability	**37,443**	**39,076**	**(3,785)**	**4,508**	**-**	**-**	**(3,785)**	**4,508**

* The settlement price of derivatives involving the exchange of principal (securities or other assets) has been indicated, as required by Bank of Italy Circular 262/2005.

It is worthy of note that any change in the spread would not entail any accounting effect on financial assets measured at amortised cost but would affect solely unrealised gains/losses. In other words, fixed income bonds measured at amortised cost that at 31 December 2018 amount to €22,872 million (nominal €20,935 million), and have a fair value of €21,189 million, would experience a negative change in fair value of approximately €2 billion following a 100 bps increase of the spread.

Changes in the spread do not impact the capital requirements of BancoPosta RFC, as the fair value reserve is not part of Own Funds considered for supervisory purposes.

In addition to sensitivity analyses, BancoPosta RFC monitors fair value interest rate risk by computing maximum potential loss or VaR - Value at Risk. The results of the VaR analysis regarding the variability of spread risk are shown below.

SPREAD RISK - VAR ANALYSES

Analysis date (€m)	Risk exposure		Spread VaR
	Nominal value*	Fair value	
2018 effect			
Financial assets measured at fair value through other comprehensive income			
Fixed income instruments**	30,229	32,040	377
Assets - Hedging derivatives**	1,491	94	24
Liabilities - Hedging derivatives	-	-	-
31 December 2018 variability	**31,720**	**32,134**	**401**
2017 effect			
Financial assets measured at fair value through other comprehensive income			
Fixed income instruments	35,738	39,099	345
Assets - Hedging derivatives	-	-	-
Liabilities - Hedging derivatives	1,705	(23)	8
31 December 2017 variability	**37,443**	**39,076**	**353**

* The settlement price of derivatives involving the exchange of principal (securities or other assets) has been indicated, as required by Bank of Italy Circular 262/2005.

** The VAR indicated for derivative financial instruments refers solely to forward purchases while the VAR related to fixed-income bonds takes into account also forward sales.

Maximum potential loss (VaR - Value at Risk), a statistical estimation with a time horizon of 1 day and a confidence level of 99%, is also computed by BancoPosta RFC to monitor market risk. Risk analysis performed through VaR takes into account the historical variability of the risk (spread) in question, in addition to modelling parallel shifts of the yield curve.

In order to jointly monitor spread and fair value interest rate risks, the following table shows the results of the VaR analysis conducted with reference to financial assets measured at fair value through other comprehensive income and the relevant derivative financial instruments (except forward purchases), taking into account the variability of both risk factors:

(€m)	2018	2017
Average VaR	(417)	(356)
Minimum VaR	(189)	(210)
Maximum VaR	(822)	(523)

Taking into account both financial assets measured at fair value through other comprehensive income (including the related hedges outstanding) and forward purchases and sales, the combined analysis of spread risk and fair value interest rate risk at 31 December 2018 results in a potential loss of €402 million (VaR at the end of the period).

The increase in VaR at the end of the period, compared with the €318 million at 31 December 2017, primarily reflects the increase in market volatility.

Cash flow interest rate risk

The sensitivity to cash flow interest rate risk at 31 December 2017 and 31 December 2018 is summarised in the table below and was computed assuming a +/- 100 bps parallel shift in the market forward interest rate curve.

CASH FLOW INTEREST RATE RISK

	2018			2017		
	Exposure	Net interest and other banking income		Exposure	Net interest and other banking income	
(€m)		+100 bps	-100 bps		+100 bps	-100 bps
Cash						
- Account held at Bank of Italy	348	3	(3)	396	4	(4)
Financial assets measured at amortised cost						
Due from banks						
- Collateral guarantees	1,349	13	(13)	1,096	11	(11)
- Deposits	5	-	-	3	-	-
Due from customers						
- Deposits at MEF (PA deposits)	5,930	59	(59)	6,011	60	(60)
- Deposits at MEF (private customer deposits)	1,306	13	(13)	379	4	(4)
- Collateral guarantees	303	3	(3)	83	1	(1)
- Due from Poste Italiane SpA outside the ring-fence	843	8	(8)	732	7	(7)
- Fixed income instruments	425	4	(4)	-	-	-
Financial assets measured at fair value through other comprehensive income						
- Fixed income instruments	1,740	17	(17)	1,710	17	(17)
Financial liabilities measured at amortised cost						
Due from banks						
- Collateral guarantees	(70)	(1)	1	(82)	(1)	1
Due from customers						
- Collateral guarantees	-	-	-	(18)	-	-
- Due from Poste Italiane SpA outside the ring-fence	(14)	-	-	(14)	-	-
Total variability	**12,165**	**119**	**(119)**	**10,296**	**103**	**(103)**

Cash flow interest rate risk at 31 December 2018 was primarily due to:

- the placement of Public Administration deposits with the MEF;
- fixed income bonds issued by the Italian State swapped in floating-rate bonds through fair value hedge derivatives for a total nominal amount of €2,165 million including: (i) Italian government bonds for €1,900 million, whose fair value hedge will start to take effect in the 12 months following the period under review; (ii) inflation-linked bonds issued by the Italian Republic with a nominal amount of €100 million;
- receivables for a total amount of €1,652 million for security deposits provided as collateral for derivative liabilities.

Cash flow inflation risk

Cash flow inflation rate risk at 31 December 2018 relates to government inflation indexed bonds which were not hedged through the arrangement of cash flow hedges or fair value hedges entered into by BancoPosta RFC, having a nominal value of €1,875 million and a fair value of €2,126 million. The effects of sensitivity analysis are immaterial.

Price risk

The sensitivity of financial instruments to price risk is analysed using a variability stress calculated with reference to one-year historical volatility, considered to be representative of potential market movements.

PRICE RISK

Analysis date (€m)	Exposure	Changes in value		Net interest and other banking income		Equity reserves before taxes	
		+ Vol	- Vol	+ Vol	- Vol	+ Vol	- Vol
2018 effect							
Financial assets measured at fair value through profit or loss							
Equity instruments	50	13	(13)	13	(13)	-	-
31 December 2018 variability	**50**	**13**	**(13)**	**13**	**(13)**	**-**	**-**
2017 effect							
Financial assets measured at fair value through other comprehensive income							
Equity instruments	41	5	(5)	-	-	5	(5)
31 December 2017 variability	**41**	**5**	**(5)**	**-**	**-**	**5**	**(5)**

Notes on the related equity instruments (shares) are contained in Part B, Assets, Table 2.5.

The Class C Visa Incorporated shares and the Series C Convertible Participating Preferred Stock issued by Visa Incorporated held in portfolio were sensitivity tested using similar Class A shares, after adjusting for the volatility of the shares traded on the NYSE. The shares' price risk is also monitored through the computation of VaR.

The VaR sensitivity analyses are shown below:

(€m)	2018	2017
Closing VaR	(3)	-
Average VaR	(2)	(2)
Minimum VaR	(1)	-
Maximum VaR	(3)	(3)

2.3 Foreign exchange risk

Qualitative information

A. Generalities, management policies and foreign exchange risk measurement methods

Foreign exchange risk relates to losses that could be incurred on foreign currency positions, regardless of portfolio, through fluctuations in foreign exchange rates. BancoPosta RFC is exposed to this risk principally through foreign currency bank accounts, foreign currency cash and its VISA shares.

Foreign exchange risk is controlled by the Risk Management function using the measurement of exposure to the risk in accordance with financial operations guidelines which restrict currency trading to the foreign exchange service and international bank transfers.

Foreign exchange risk is measured using the Bank of Italy prudential methodology currently recommended for banks (see EU Regulation 575/2013). Furthermore, sensitivity stress tests are regularly conducted for the most important exposures with reference to hypothetical levels of exchange rate volatility for each currency position. Movements in exchange rates equal to the historical volatility are assumed to emulate market fluctuations.

B. Foreign exchange hedges

Quantitative information

1. Distribution of assets, liabilities and derivatives by currency

Items (€m)	Currency					
	US Dollar	Swiss Franc	Sterling	Japanese Yen	Tunisian Dinar	Other currencies
A. Financial assets	**51**	**2**	**-**	**-**	**-**	**-**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity instruments	50	-	-	-	-	-
A.3 Due from banks	1	2	-	-	-	-
A.4 Due from customers	-	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**6**	**2**	**2**	**-**	**-**	**-**
C. Financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Due to banks	-	-	-	-	-	-
C.2 Due to customers	-	-	-	-	-	-
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives						
- Options						
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives						
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
Total assets	**57**	**4**	**2**	**-**	**-**	**-**
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Net position (+/-)	**57**	**4**	**2**	**-**	**-**	**-**

“Other assets” relate to foreign currencies held in post offices for the foreign exchange service.

2. Internal models and other methods of sensitivity analysis

Application of the foreign exchange rate volatility during the period to the most important equity instruments held by BancoPosta are shown in the following table.

FOREIGN EXCHANGE RISK - US DOLLAR

Analysis date (€m)	US dollar position ($000)	EUR position (€000)	Changes in value		Net interest and other banking income		Equity reserves before taxes	
			+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days
2018 effect								
Financial assets measured at fair value through profit or loss								
Equity instruments	58	50	4	(4)	4	(4)	-	-
31 December 2018 variability	**58**	**50**	**4**	**(4)**	**4**	**(4)**	**-**	**-**
2017 effect								
Financial assets measured at fair value through other comprehensive income								
Equity instruments	49	41	3	(3)	-	-	3	(3)
31 December 2017 variability	**49**	**41**	**3**	**(3)**	**-**	**-**	**3**	**(3)**

Section 3 – Derivative instruments and hedging policies

3.1 Trading derivatives

A. Derivative financial instruments

At 31 December 2018 and 31 December 2017 there were no derivatives in the trading book. In 2018 derivative contracts were entered into to exchange the floating rate of part of the postal deposits placed with the MEF for a fixed rate (Part B, Assets, Section 2).

B. Credit derivatives

Not applicable.

3.2 Hedge accounting

BancoPosta RFC has fair value and cash flow hedge policies for which it elected, under IFRS 9, to maintain the accounting treatment provided for by IAS 39.

Qualitative information

A. Fair value hedges

BancoPosta RFC has a government bond portfolio – made up of fixed income BTPs and inflation-linked BTPs – subject to movements in fair value due to changes in interest rates and in the inflation rate.

To limit the effects of interest rates on fair value, BancoPosta RFC enters into interest rate swaps Over the Counter (OTC) to hedge the fair value of the bonds held in portfolio. The objective of these transactions is to have instruments that can offset changes in fair value of the portfolio due to interest rate fluctuations and the rate of inflation.

B. Cash flow hedges

BancoPosta RFC enters into:

- forward purchases of government bonds, to limit the exposure to interest rate risk deriving from the need to reinvest the cash generated by maturing bonds held in portfolio;
- forward sales of government bonds to pursue the stabilisation of returns.

These derivatives qualify as cash flow hedges of forecast transactions.

In addition, BancoPosta RFC has a portfolio of inflation-linked BTPs subject to cash flow variability in relation to inflation.

To limit the effects of interest rates on cash flows, BancoPosta RFC enters into OTC interest rate swaps to hedge the cash flows of the bonds held in portfolio. The objective of these transactions is to stabilise until maturity the return of the instrument, regardless of movements of the variable parameter.

C. Hedges of foreign operations

BancoPosta RFC does not have a policy for hedges of foreign operations.

D. Hedging instruments

Regarding **fair value hedge instruments**, the main source of ineffectiveness is the use of different spreads in determining the fair value of the hypothetical derivative and the derivative actually entered into. In particular, to evaluate the effectiveness of the hedge relationship, for the hypothetical derivative use is made of the mid-market spread, which makes the present value at the settlement date equal to zero, and for the actual derivative the interest rate agreed upon with the counterparty.

As to **cash flow hedge instruments**, the main source of ineffectiveness is the use of the fixed income component used in determining the fair value of the hypothetical derivative and the actual derivative. In particular, to evaluate the effectiveness of the hedge relationship use is made, for the hypothetical derivative, the fixed rate that makes the present value at the settlement date equal to zero while for the actual derivative the calculation is performed with the interest rate agreed upon with the counterparty.

With respect to the hedges of forecast transactions, no source of ineffectiveness was identified, as the forward prices of the counterparties were assumed to be perfectly equal to the theoretical forward prices.

E. Hedged items

BancoPosta RFC designates as hedged items:

- fixed income and index-linked bonds, in connection the fair value hedge policy;
- inflation-linked bonds and forecast transactions, in connection with cash flow hedge policies.

In particular, in fair value hedges, the credit risk of the Italian Republic is not hedged and is set for the duration of the swap. In addition, full hedges and partial hedges are implemented, with the start date equal to the date of purchase of the instrument (swap spot start) and after the purchase of the instrument (swap forward start), respectively.

Regarding **fair value hedges**, BancoPosta RFC evaluates the effectiveness of every hedging relationship in offsetting movements in fair value through a retrospective effectiveness test and a prospective effectiveness test[162], using the approaches illustrated in the following notes.

The retrospective effectiveness test is run by utilising the "dollar offset approach through the hypothetical derivative[163]". With this approach, consideration is given to the hedge ratio of the change in fair value of the actual derivative to the change in fair value of the hypothetical derivative occurred between inception and the valuation date. The hedge is considered effective if the hedge ratio ranges from 80% to 125%.

The hypothetical derivative and the actual hedging instrument have a settlement date consistent with the hedge inception (spot or forward start) and differ solely in their spread which is considered, as already indicated, the main source of ineffectiveness. The partial ineffectiveness of the hedge, equal to the difference between the changes in value of the two derivatives (hypothetical and actual) represents the net effect of the hedge recognised separately in profit or loss.

For the purposes of the prospective effectiveness test, different approaches have been adopted, depending on the characteristics of the hedging swap. In particular:

- the "*Critical terms*[164]" approach for swap spot start, for which it has been determined at inception that the characteristics of the fixed leg make it possible to replicate exactly the fixed cash flows generated by the hedged item;
- the "Dollar offset through the hypothetical derivative" approach for forward start swaps, for which the prospective effectiveness test is performed by calculating the hedge ratio between the change in fair value of the hypothetical derivative and the change in fair value of the actual derivative[165]. The hedge is considered effective if the hedge ratio falls in the interval between 80%and 125%.

Regarding **cash flow hedges**, BancoPosta RFC evaluates the effectiveness of the designated derivative in every hedging relationship through a retrospective effectiveness test and a prospective effectiveness test.

As to the hedges of forecast transactions, the retrospective effectiveness test involves the calculation of a hedge ratio defined as the ratio of the difference between the fair value of the forward transaction entered into with the counterparty on the test and inception date and the present value of the difference between the theoretical forward price of the BTP calculated as of the test and inception date. Assuming a perfect match between the forward prices of the counterparties and the theoretical forward prices, the hedge ratio is always equal to 100%. As such, there are no sources of ineffectiveness.

For the purposes of the prospective effectiveness test, the critical terms approach is applied, considering at inception the consistency between the hedging instrument and the hedged item on the basis of the qualitative characteristics of the contracts[166].

With respect to the inflation-indexed bonds, the retrospective effectiveness test considers the hedge ratio between the change in fair value of the actual derivative to the change in fair value of the hypothetical derivative occurred between the date of inception and the valuation date. The hedge is considered effective if the hedge ratio ranges from 80% to 125%.

The hypothetical derivative and the actual derivative have the settlement date that matches the inception of the hedge and differ in terms of their fixed income component. Moreover, for the derivatives used to hedge inflation-linked BTP, the fair value at the settlement date reflects also the interest accrued of the instrument accrued from the latest interest payment date to the date of settlement of the derivative. As such, both are considered the main sources of ineffectiveness.

162. IAS 39 requires two effectiveness tests:
• prospective effectiveness test: attests that the hedging relationship is expected to be highly effective in future periods;
• retrospective effectiveness test: attests that the hedging relationship has been effective from inception to the reporting date.
For a hedge to be effective, the prospective effectiveness test must show that the hedge is highly effective in offsetting fair value or cash flow movements attributable to the hedged instrument during the designation period, while the result of the retrospective test must show offset ratios ranging from 80% to 125%. A hedge can be ineffective when the hedging instrument and the hedged item: are in different currencies; have different maturities; use different underlying interest rates; are exposed to different counterparty risks; and when the derivative is not equal to zero at inception.
163. The dollar offset approach is a quantitative method that involves a comparison between movements in the fair value or cash flow of the hedging instrument and the movements in the fair value or cash flow of the hedged instrument attributable to the risk hedged. Depending on the policy selected, this approach can be used:
• on a cumulative basis, by observing the performance of the hedge since inception;
• on a periodic basis, by comparing the hedge performance with that of the last test.
The dollar offset approach can be implemented through a hypothetical derivative, that is by constructing a theoretical derivative to compare the relevant theoretical movements in far value or cash flow with those of the hedged instrument (actual derivative).
164. The critical terms approach involves a comparison between the critical terms of the hedging instrument with those of the hedged item. The hedging relationship is highly effective when all the critical terms of the two instruments match perfectly and there are no features or options that might invalidate the hedge. Critical terms include, among others: notional amount of the derivative and principal of the underlying, credit risk, timing, currency of the cash flows.
165. Calculated by assuming a parallel shift of + / - 100 bps of the yield curves.
166. The notional amount of the forward contract must be set, at the settlement date, as equal to the nominal amount of the instrument in case of purchase, and equal or lower than the nominal amount of the instrument in case of sale. The underlying of the forward contract must coincide with the instrument that must be purchased or sold (in this case it must be an instrument in the portfolio) at the settlement date. The settlement date must be the same as the date on which the cash flow to be hedged is expected, in case of forward purchase, or must be related to the year in which the total return must be stabilised, in case of forward sale.

The change is fair value of the actual derivative is recognised through equity, for the effective portion of the hedge, while the change in fair value of the ineffective portion is recognised through profit or loss.

For the purposes of the prospective effectiveness test, different approaches have been applied, depending on the characteristics of the hedging swap. In particular:

- the "*Critical terms*" approach for derivatives for which it has been determined at inception that the characteristics of the indexed leg of the swap make it possible to replicate exactly the variable cash flows generated by the hedged item;
- the "Dollar offset through the hypothetical derivative" approach for derivative contracts with a fixed rate applicable to a nominal amount growing constantly at six-month intervals until the derivative expires. For these contracts the prospective effectiveness test is performed by calculating the hedge ratio between the change in fair value of the hypothetical derivative and the change in fair value of the actual derivative[167]. The hedge is considered effective if the hedge ratio falls in the interval between 80% and 125%.

Quantitative information

A. Hedging derivative financial instruments

A.1 Hedging derivative financial instruments: notional amounts at period end

Underlyings / Type of derivative (€m)	Balance at 31 December 2018				Balance at 31 December 2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	**-**	**28,335**	**-**	**-**	**-**	**22,570**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	25,200	-	-	-	20,865	-	-
c) Forwards	-	3,135	-	-	-	1,705	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and equity indexes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**28,335**	**-**	**-**	**-**	**22,570**	**-**	**-**

167. Calculated by assuming a parallel shift of + / - 100 bps of the yield curves.

A.2 Hedging derivative financial instruments: gross positive and negative fair value - breakdown by product

Type of derivative (€m)	Fair value gains and losses								Change in value used to recognise ineffective portion of hedge
	Balance at 31 December 2018				Balance at 31 December 2017				Balance at 31 December 2018
	Over the counter			Organised markets	Over the counter			Organised markets	
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties			
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements		
1. Fair value gains									
a) Options	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	213	-	-	-	395	-	-	(106)
c) Cross currency swaps	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-
e) Forwards	-	155	-	-	-	-	-	-	155
f) Futures	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-
Total	**-**	**368**	**-**	**-**	**-**	**395**	**-**	**-**	**49**
2. Fair value losses									
a) Options	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	(1,829)	-	-	-	(1,614)	-	-	(590)
c) Cross currency swaps	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	(23)	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-
Total	**-**	**(1,829)**	**-**	**-**	**-**	**(1,637)**	**-**	**-**	**(590)**

A.3 OTC hedging derivatives: notional amounts, gross positive and negative fair value by counterparty

Underlying asset (€m)	Central counterparties	Banks	Other finance companies	Other entities
Contracts not falling within the scope of netting agreements				
1) Debt securities and interest rates				
- notional amount	x	-	-	-
- positive fair value	x	-	-	-
- negative fair value	x	-	-	-
2) Equity instruments and equity indexes				
- notional amount	x	-	-	-
- positive fair value	x	-	-	-
- negative fair value	x	-	-	-
3) Currencies and gold				
- notional amount	x	-	-	-
- positive fair value	x	-	-	-
- negative fair value	x	-	-	-
4) Commodities				
- notional amount	x	-	-	-
- positive fair value	x	-	-	-
- negative fair value	x	-	-	-
5) Other				
- notional amount	x	-	-	-
- positive fair value	x	-	-	-
- negative fair value	x	-	-	-
Contracts falling within the scope of netting agreements				
1) Debt securities and interest rates				
- notional amount	-	24,755	3,580	-
- positive fair value	-	320	48	-
- negative fair value	-	(1,724)	(105)	-
2) Equity instruments and equity indexes				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Remaining life of OTC hedging derivatives: notional amounts

Underlyings/Residual term to maturity (€m)	1 year or less	1 - 5 years	over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	3,580	440	24,315	28,335
A.2 Financial derivatives on equity instruments and equity indexes	-	-	-	-
A.3 Financial derivatives on currencies and gold	-	-	-	-
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total at 31 December 2018	**3,580**	**440**	**24,315**	**28,335**
Total at 31 December 2017	**1,705**	**745**	**20,120**	**22,570**

B. Hedging credit derivatives

Not applicable.

C. Non-derivative hedging instruments

Not applicable.

D. Hedged instruments

D.1 Fair value hedges

(€m)	Specific hedges: carrying amount	Specific hedges - net positions: carrying amount of assets or liabilities (before netting)	Specific hedges			Generic hedge: carrying amount
			Accumulated movements in fair value of hedged instrument	Termination of hedge: residual accumulated movements in fair value	Change in value use to recognise ineffective portion of hedge	
A. Assets						
1. Financial assets measured at fair value through other comprehensive income - hedging:						
1.1 Debt securities and interest rates	13,164	-	568	-	353	X
1.2 Equity instruments and equity indexes	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Receivables	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
2. Financial assets measured at amortised cost - hedging:						
1.1 Debt securities and interest rates	12,563	-	993	-	341	X
1.2 Equity instruments and equity indexes	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Receivables	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
Total at 31 December 2018	**25,727**	**-**	**1,561**	**-**	**694**	**-**
B. Liabilities						
2. Financial liabilities measured at amortised cost - hedging:						
1.1 Debt securities and interest rates	-	-	-	-	-	X
1.2 Currencies and gold	-	-	-	-	-	X
1.3 Other	-	-	-	-	-	X
Total at 31 December 2018	**-**	**-**	**-**	**-**	**-**	**-**

D.2 Cash flow and hedges of net investments in foreign operations

(€m)	Change in value use to recognise ineffective portion of hedge	Hedge reserve	Termination of hedge: residual value of hedge reserve
A. Cash flow hedges			
1. Assets			
1.1 Debt securities and interest rates	(155)	123	-
1.2 Equity instruments and equity indexes	-	-	-
1.3 Currencies and gold	-	-	-
1.4 Receivables	-	-	-
1.5 Other	-	-	-
2. Liabilities			
1.1 Debt securities and interest rates	-	-	-
1.2 Currencies and gold	-	-	-
1.3 Other	-	-	-
Total (A) at 31 December 2018	**(155)**	**123**	**-**
B. Hedges of net investments in foreign operations	**X**	**-**	**-**
Total (A + B) at 31 December 2018	**(155)**	**123**	**-**

E. Effects of hedging transactions through equity

E.1 Reconciliation of equity components

(€m)	Cash flow hedge reserve					Reserve for hedges of net investments in foreign operations				
	Debt securities and interest rates	Equity instruments and equity indexes	Currencies and gold	Receivables	Other	Debt securities and interest rates	Equity instruments and equity indexes	Currencies and gold	Receivables	Other
Opening balance	**(87)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Movements in fair value (effective portion)	192	-	-	-	-	-	-	-	-	-
Reclassifications to profit or loss	18	-	-	-	-	-	-	-	-	-
of which: future transactions no longer expected	-	-	-	-	-	X	X	X	X	X
Other movements	-	-	-	-	-	-	-	-	-	-
of which: transfers to initial carrying amount of hedged instruments	-	-	-	-	-	X	X	X	X	X
Closing balance	**123**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

3.3 Other information on trading and hedging derivatives

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

At 31 December 2018 Banco Posta RFC had no master netting or similar agreements in place that meet the requirements of IAS 32, paragraph 42, regarding offsetting financial assets and liabilities.

Section 4 – Liquidity risk

Qualitative information

A. Generalities, management policies and liquidity risk measurement methods

Liquidity risk is the risk that an entity may have difficulties in raising sufficient funds, at market conditions, to meet its obligations deriving from financial instruments. Liquidity risk may derive from the inability to sell financial assets quickly at an amount close to fair value or the need to raise funds at off-market rates.

It is policy to minimise liquidity risk through:

- diversification of the various forms of short-term and long-term borrowings and counterparties;
- gradual and consistent distribution of the maturities of medium/long-term borrowings;
- use of dedicated analytical models to monitor the maturities of assets and liabilities;
- the availability of the interbank markets as a source of repurchase agreement finance, with collateral in the form of securities held in portfolio, due to the fact that such assets consist of financial instruments deemed to be highly liquid assets by current standards.

In terms of BancoPosta RFC's specific operations, liquidity risk regards the investment of current account and prepaid card[168] deposits in bonds issued by euro area governments and/or guaranteed by the Italian Republic, and the margins on derivative transactions. The potential risk derives from a mismatch between the maturities of investments in securities and those of liabilities, represented by current accounts where the funds are available on demand, thus compromising the ability to meet its obligations to current account holders. This potential mismatch between assets and liabilities is monitored via comparison of loan and deposit maturities, using the statistical model of the performance of current account deposits, in accordance with the various likely maturity schedules and assuming the progressive total withdrawal of deposits over a period of 20 years for retail customers, 10 years for business customers and PostePay cards and 5 years for Public Administration customers. BancoPosta RFC closely monitors the behaviour of deposits taken in order to assure the model's validity.

In addition to postal deposits, BancoPosta also funds itself through:

- long-term repos, amounting to an outstanding €6.7 billion;
- short-term deposits created through repurchase agreements as funding for incremental deposits used as collateral for interest rate swaps and Repos (collateral provided, respectively, under CSAs and GMRAs).

BancoPosta RFC's maturity mismatch approach entails an analysis of the mismatch between cash in and outflows for each time band of the maturity ladder.

BancoPosta RFC's cash is dynamically managed by treasury for the timely and continual monitoring of private customer postal current account cash flows and the efficient management of short-term cash shortfalls and excesses. In order to assure flexible investments in securities consistent with the dynamic nature of current accounts, BancoPosta RFC can also use the MEF buffer account within certain limits and subject to payment of a fee.

Details on the risk management model are contained in the note on financial risk at the beginning of this Part E.

The liquidity risk resulting from contract terms requiring the provision of additional collateral in the event of a downgrade of Poste Italiane SpA is negligible. Such contracts include those for margin lending of derivatives, which require the threshold amount[169] to be reduced to zero in the event that Poste Italiane SpA's rating is downgraded to below "BBB-". The threshold amounts relating to margin lending contracts included in repurchase agreements are equal to zero, meaning that these transactions are not subject to liquidity risk.

168. As of 1 October 2018, prepaid cards fall within the purview of PostePay SpA, the electronic money institution that has brought together Poste Italiane's operations and competences in payments and telecommunications. The liquidity raised through these cards is transferred to BancoPosta, which invests it in euro area government bonds or bonds guaranteed by the Italian State. As such, for the purposes of specific risk analyses, the rationales related to each model underlying the different types of deposit inflow continue to apply.
169. The threshold amount is the amount of collateral that is not required to be provided under the contract; it therefore represents the residual counterparty risk to be borne by a counterparty.

BancoPosta RFC's liquidity is assessed, in the form of stress tests, through risk indicators (the Liquidity Coverage Ratio and Net Stable Funding Ratio) defined by the Basle 3 prudential regulations. These indicators aim to assess whether or not the entity has sufficient high-quality liquid assets to overcome situations of acute stress lasting a month, and to verify that assets and liabilities have sustainable maturity profiles assuming a stress scenario lasting one year. Thanks to the nature of its balance sheet (significant holdings of EU government securities and a preponderance of retail deposits), in BancoPosta's case the indicators are well above the limits imposed by the prudential regulations.

Moreover, liquidity risk is monitored through the development of early warning indicators that, in addition to taking into account the level of deposit withdrawals under conditions of stress, aim to monitor funding outflows in line with the estimated performance of deposits at a 99% confidence level.

Quantitative information

1. Distribution of residual terms to maturity of financial assets and liabilities

The time distribution of assets and liabilities is shown below, as established for banks' financial statements (Bank of Italy Circular 262/2005, third Revision and relevant clarifications provided by the Supervisory Body), using accounting data reported for the residual contractual term to maturity.

Management data, such as the modelling of demand deposits and the reporting of cash and cash equivalents taking account of their degree of liquidity, has, consequently, not been used.

CURRENCY: EURO

Asset - Liability/Residual terms to maturity (€m)	Demand	1 - 7 days	7 - 15 days	15 days - 1 month	1 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	> 5 years	Unspecified maturity
A. On-balance sheet assets	**9,135**	**1,517**	**226**	**159**	**2,136**	**360**	**2,177**	**10,250**	**37,860**	**13**
A.1 Government securities	-	-	-	-	2,114	342	1,385	9,500	34,860	-
A.2 Other debt securities	-	-	-	-	22	10	792	750	3,000	-
A.3 UCIs	-	-	-	-	-	-	-	-	-	-
A.4 Loans	9,135	1,517	226	159	-	8	-	-	-	13
- Banks	48	1,349	-	-	-	-	-	-	-	-
- Customers	9,087	168	226	159	-	8	-	-	-	13
B. On-balance sheet liabilities	**55,659**	**302**	**790**	**327**	**1,328**	**-**	**191**	**5,606**	**-**	**-**
B.1 Deposits and current accounts	51,207	-	-	-	-	-	-	-	-	-
- Banks	589	-	-	-	-	-	-	-	-	-
- Customers	50,618	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	4,452	302	790	327	1,328	-	191	5,606	-	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of principal										
- Long positions	-	-	1,262	383	-	-	-	-	1,545	-
- Short positions	-	-	271	-	1,220	-	-	-	1,340	-
C.2 Financial derivatives without exchange of principal										
- Long positions	-	-	-	2	31	5	47	-	-	-
- Short positions	-	-	-	-	18	2	112	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1. Distribution of residual terms to maturity of financial assets and liabilities

CURRENCY: US DOLLAR

Asset - Liability/Residual terms to maturity (€m)		Demand	1 - 7 days	7 - 15 days	15 days - 1 month	1 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	> 5 years	Unspecified maturity
A.	**On-balance sheet assets**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1	Government securities	-	-	-	-	-	-	-	-	-	-
A.2	Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3	UCIs	-	-	-	-	-	-	-	-	-	-
A.4	Loans	1	-	-	-	-	-	-	-	-	-
	- Banks	1	-	-	-	-	-	-	-	-	-
	- Customers	-	-	-	-	-	-	-	-	-	-
B.	**On-balance sheet liabilities**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1	Deposits and current accounts	-	-	-	-	-	-	-	-	-	-
	- Banks	-	-	-	-	-	-	-	-	-	-
	- Customers	-	-	-	-	-	-	-	-	-	-
B.2	Debt securities	-	-	-	-	-	-	-	-	-	-
B.3	Other liabilities	-	-	-	-	-	-	-	-	-	-
C.	**Off-balance sheet transactions**										
C.1	Financial derivatives with exchange of principal										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.2	Financial derivatives without exchange of principal										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.3	Deposits and loans to be received										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.4	Commitments to disburse funds										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.5	Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6	Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7	Credit derivatives with exchange of principal										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.8	Credit derivatives without exchange of principal										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-

1. Distribution of residual terms to maturity of financial assets and liabilities

CURRENCY: SWISS FRANC

Asset - Liability/Residual terms to maturity (€m)		Demand	1 - 7 days	7 - 15 days	15 days - 1 month	1 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	> 5 years	Unspecified maturity
A.	**On-balance sheet assets**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1	Government securities	-	-	-	-	-	-	-	-	-	-
A.2	Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3	UCIs	-	-	-	-	-	-	-	-	-	-
A.4	Loans	2	-	-	-	-	-	-	-	-	-
	- Banks	2	-	-	-	-	-	-	-	-	-
	- Customers	-	-	-	-	-	-	-	-	-	-
B.	**On-balance sheet liabilities**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1	Deposits and current accounts	-	-	-	-	-	-	-	-	-	-
	- Banks	-	-	-	-	-	-	-	-	-	-
	- Customers	-	-	-	-	-	-	-	-	-	-
B.2	Debt securities	-	-	-	-	-	-	-	-	-	-
B.3	Other liabilities	-	-	-	-	-	-	-	-	-	-
C.	**Off-balance sheet transactions**										
C.1	Financial derivatives with exchange of principal										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.2	Financial derivatives without exchange of principal										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.3	Deposits and loans to be received										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.4	Commitments to disburse funds										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.5	Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6	Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7	Credit derivatives with exchange of principal										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.8	Credit derivatives without exchange of principal										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-

Section 5 – Operational risk

Qualitative information

A. Generalities, management policies and operational risk measurement methods

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. This category of risk includes losses resulting from fraud, human error, business disruption, systems failures, breach of contracts and natural disasters. Operational risk includes legal risk, but not strategic and reputational risks.

To protect against this form of risk, BancoPosta RFC has formalised a methodological and organisational framework to identify, measure and manage the operational risk related to its products/processes.

The framework, which is based on an integrated (qualitative and quantitative) measurement model, makes it possible to monitor and manage risk on an increasingly informed basis.

In 2018, activities continued to refine the operational risk management framework, with the aim of making the process of recording operational losses more efficient and mitigating such risks by cross-functional working groups. Support has also been provided to the specialist units and the owner of the process of analysing and assessing IT risk, in keeping with the approach adopted in 2017.

Quantitative information

At 31 December 2018, the risk map prepared in accordance with the aforementioned framework shows the type of operational risks BancoPosta RFC's products are exposed to. These are as follows:

OPERATIONAL RISK

Event type	Number of types
Internal fraud	29
External fraud	49
Employee practices and workplace safety	7
Customers, products and business practices	32
Damage caused by external events	4
Business disruption and system failure	7
Execution, delivery and process management	122
Total at 31 December 2018	**250**

For each type of mapped risk, the related sources of risk (internal losses, external losses, scenario analysis and risk indicators) have been recorded and classified in order to construct complete inputs for the integrated measurement model.

Systematic measurement of the mapped risks has enabled the prioritization of mitigation initiatives and the attribution of responsibilities in order to contain any future impact.

Part F – Information on equity

Section 1 – BancoPosta RFC's equity

A. Qualitative information

The prudential regulations applicable to banks and investment firms from 1 January 2014 are contained in Bank of Italy Circular 285/2013, the purpose of which was to implement EU Regulation 575/2013 (the so-called Capital Requirements Regulation, or "CRR") and Directive 2013/36/EU (the so-called Capital Requirements Directive, or "CRD IV"), containing the reforms required in order to introduce the "Basel 3" regulations. In the third revision of the above Circular, the Bank of Italy has extended the prudential requirements applicable to banks to BancoPosta, taking into account the specific nature of the entity. As a result, BancoPosta RFC is required to comply with Pillar 1 capital requirements (credit, counterparty, market and operational risks) and those regarding Pillar 2 internal capital adequacy (Pillar 1 and interest rate risks), for the purposes of the ICAAP process. The relevant definition of capital in both cases is provided by the above supervisory standards.

In view of the extension of prudential standards to BancoPosta, BancoPosta RFC is now required to establish a system of internal controls in line with the provisions of Bank of Italy Circular 285/2013, which, among other things, requires the definition of a Risk Appetite Framework (RAF) and the containment of risks within the limits set by the RAF[170]. Compliance with the objective, threshold and limit system established by the RAF influences decisions regarding profit distributions as part of capital management.

170. A definition of the RAF is provided in the "Introduction" to Part E.

B. Quantitative information

B.1 Equity: analysis

Transaction type/Amounts (€m)	Balance at 31 December 2018	Balance at 31 December 2017
1. Share capital	-	-
2. Share premium reserve	-	-
3. Reserves	2,267	2,059
- revenue reserves	1,057	1,059
a) legal	-	-
b) required by articles	-	-
c) treasury shares	-	-
d) other	1,057	1,059
- Other	1,210	1,000
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves	15	115
- Equity instruments designated at fair value through other comprehensive income	-	-
- Hedges of equity instruments designated at fair value through other comprehensive income	-	-
- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(71)	179
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedges of net investments in foreign operations	-	-
- Cash flow hedges	88	(62)
- Hedging instruments (undesignated elements)	-	-
- Translation differences	-	-
- Non-current assets and disposal groups held for sale	-	-
- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-
- Actuarial profits/(losses) on defined benefit plans	(2)	(2)
- Valuation reserves relating to equity accounted investments	-	-
- Special revaluation laws	-	-
7. Net profit/(loss) for the year	597	585
Total	**2,879**	**2,759**

"Reserves, other" consists of the initial reserve of €1 billion provided to BancoPosta RFC on its creation, through the attribution of Poste Italiane SpA's retained earnings and the €210 million equity injection, resolved by the Extraordinary General Meeting of 29 May 2018, through the allocation of Poste Italiane SpA's available reserves (Part A, Section 4, paragraph 4.4).

B.2 Valuation reserve for financial assets measured at fair value through other comprehensive income: analysis

Asset/Amounts (€m)	Balance at 31 December 2018		Balance at 31 December 2017	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	773	(844)	731	(567)
2. Equity instruments	-	-	15	-
3. Loans	-	-	-	-
Total	**773**	**(844)**	**746**	**(567)**

B.3 Valuation reserve for financial assets measured at fair value through other comprehensive income: movements during the year

(€m)	Debt securities	Equity instruments	Loans
1. Opening balance	**1,552**	**-**	**-**
2. Increases	**75**	**-**	**-**
2.1 Increases in fair value	35	-	-
2.2 Impairments due to credit risk	1	X	-
2.3 Reclassification to profit or loss of negative reserve for realised losses	38	X	-
2.4 Transfers to other equity (equity instruments)	-	-	-
2.5 Other movements	1	-	-
3. Decreases	**(1,698)**	**-**	**-**
3.1 Decreases in fair value	(1,383)	-	-
3.2 Reversal of impairments due to credit risk	(2)	-	-
3.3 Reclassification to profit or loss of positive reserve for realised gains	(313)	X	-
3.4 Transfers to other equity (equity instruments)	-	-	-
3.5 Other movements	-	-	-
4. Closing balance	**(71)**	**-**	**-**

The opening balance reflects the effects of the transition to IFRS 9. In particular, the new financial reporting standard resulted in an increase of the Reserve in question as of 31 December 2017 in the amount of €1,372 million (net of the tax effect) due to: (i) reclassifications of financial instruments for €1,358 million and (ii) adjustments due to expected losses for €14 million.

B.4 Defined benefits plans valuation reserve: movements during the year

(€m)	Balance at 31 December 2018	Balance at 31 December 2017
Opening actuarial gains/(losses)	**(2)**	**(3)**
Actuarial gains/(losses)	-	1
Taxation of actuarial gains/(losses)	-	-
Closing actuarial gains/(losses)	**(2)**	**(2)**

Section 2 – Own funds and capital ratios

2.1 Own funds

A. Qualitative information

BancoPosta RFC's own funds are all Common Equity Tier 1 (CET 1) and consist of:

- other reserves, being revenue reserves, amounting to €1 billion originating from the creation of the ring-fence, and any further amounts attributed by Poste Italiane SpA that meet the requirements for inclusion in own funds[171];
- undistributed earnings, being BancoPosta RFC's profits appropriated on approval of Poste Italiane SpA's financial statements.

At 31 December 2018 CET1 amounts to €2,286 million. Profit for the year has not been computed in accordance with article 26 of EU Regulation 575/2013.

Based on prudential standards, BancoPosta is required to comply with the following minimum capital ratios:

- Total *capital ratio* (the ratio of total own funds to total risk weighted assets - RWA[172]), equal to 10.5% (8% being the minimum requirement and 2.5% being the capital conservation buffer[173]);
- Common Equity Tier 1 ratio (the ratio of CET1 to total RWA): equal to 7.0% (4.5% being the minimum requirement and 2.5% being the capital conservation buffer);
- Tier 1 ratio (the ratio of T1 to total RWA): equal to 8.5% (6.0% being the minimum requirement and 2.5% being the capital conservation buffer).

At 31 December 2018, BancoPosta RFC complies with the prudential requirements, with a CET 1 ratio of 18.4%.

For more details, reference is made, as provided for by Circular no 262 of the Bank of Italy, to the information on own funds and capital adequacy contained in the public disclosure ("Pillar 3").

Part G – Business combinations

No business combinations took place either during or subsequent to the period under review.

171. Contributions from non-controlling shareholders to BancoPosta RFC are excluded, as they are not provided for in the special regulations governing the ring-fence.
172. Risk weighted assets, or RWAs, are calculated by applying a risk weighting to the assets exposed to credit, counterparty, market and operational risks.
173. Applicable as of 1 January 2019. For 2018, the transitional provisions call for a ratio of 1.875%.

Part H – Related party transactions

1. Payments to key management personnel

Key management personnel consist of Directors of Poste Italiane SpA and first-line managers, whose compensation before social security and welfare charges and contributions are disclosed in table 4.4.5 in the notes on Poste Italiane SpA's financial statements and have been charged to BancoPosta RFC as part of the services provided by Poste Italiane functions outside the ring-fence (see Part C, Table 9.5). The charges are calculated in accordance with specific operating guidelines (Part A, paragraph A.1, Section 4).

2. Related party transactions

IMPACT OF RELATED PARTY TRANSACTIONS ON THE FINANCIAL POSITION AT 31 DECEMBER 2018

	Balance at 31 December 2018						
Name (€m)	Financial assets	Due from banks and customers	Hedging derivative assets and liabilities	Other assets	Financial liabilities	Due to banks and customers	Other liabilities
Poste Italiane SpA	**-**	**844**	**-**	**2**	**-**	**79**	**410**
Direct subsidiaries							
BancoPosta Fondi SpA SGR	-	15	-	-	-	20	-
CLP ScpA	-	-	-	-	-	1	-
Consorzio PosteMotori	-	13	-	-	-	45	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	1	-
EGI SpA	-	-	-	-	-	7	-
Mistral Air Srl	-	-	-	-	-	-	-
PatentiViaPoste ScpA	-	-	-	-	-	9	-
Poste Tributi ScpA	-	2	-	-	-	1	-
Poste Tutela SpA	-	-	-	-	-	-	-
Poste Vita SpA	-	140	-	-	-	539	-
Postecom SpA	-	-	-	-	-	-	-
Postel SpA	-	-	-	-	-	6	25
PostePay SpA	-	47	-	176	-	4,271	103
SDA Express Courier SpA	-	-	-	-	-	3	-
Indirect subsidiaries							
Poste Assicura SpA	-	7	-	-	-	5	-
Poste Welfare Servizi Srl	-	-	-	-	-	9	-
Joint ventures							
SIA Group	-	-	-	-	-	-	1
Associates							
Anima Holding SpA	-	-	-	-	-	-	-
Related parties external to the Group							
Ministry of the Economy and Finance	-	7,312	-	4	-	3,649	1
Cassa depositi e prestiti Group	4,541	440	-	-	-	-	-
Enel Group	-	-	-	-	-	-	-
Monte dei Paschi Group	-	15	9	-	-	317	-
Equitalia Group	-	-	-	-	-	-	-
Other related parties external to the Group	-	-	-	-	-	-	-
Provision for doubtful debts owing from external related parties	(2)	(5)	-	-	-	-	-
Total	**4,539**	**8,830**	**9**	**182**	**-**	**8,962**	**540**

IMPACT OF RELATED PARTY TRANSACTIONS ON THE FINANCIAL POSITION AT 31 DECEMBER 2017

Name (€m)	Balance at 31 December 2017						
	Financial assets	Due from banks and customers	Hedging derivative assets and liabilities	Other assets	Financial liabilities	Due to banks and customers	Other liabilities
Poste Italiane SpA	-	734	-	22	-	256	254
Direct subsidiaries							
BancoPosta Fondi SpA SGR	-	21	-	-	-	19	-
CLP ScpA	-	-	-	-	-	10	1
Consorzio PosteMotori	-	5	-	-	-	41	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	6	-
EGI SpA	-	-	-	-	-	12	-
Mistral Air Srl	-	-	-	-	-	-	-
PatentiViaPoste ScpA	-	-	-	-	-	8	-
Poste Tributi ScpA	-	2	-	-	-	7	-
Poste Tutela SpA	-	-	-	-	-	7	-
Poste Vita SpA	-	137	-	-	-	570	-
Postecom SpA	-	-	-	-	-	-	-
Postel SpA	-	-	-	-	-	5	10
PosteMobile SpA*	-	2	-	-	-	15	5
SDA Express Courier SpA	-	-	-	-	-	3	-
Indirect subsidiaries							
Poste Assicura SpA	-	5	-	-	-	2	-
Poste Welfare Servizi Srl	-	-	-	-	-	3	-
Joint ventures							
SIA Group	-	-	-	-	-	-	9
Associates							
Anima Holding SpA	-	-	-	-	-	-	-
Related parties external to the Group							
Ministry of the Economy and Finance	-	6,491	-	-	-	3,483	1
Cassa depositi e prestiti Group	2,485	374	-	-	-	-	-
Enel Group	-	-	-	-	-	-	5
Monte dei Paschi Group	-	-	-	-	-	-	-
Equitalia Group	-	-	-	-	-	-	-
Other related parties external to the Group	-	-	-	-	-	-	2
Provision for doubtful debts owing from external related parties	-	(8)	-	-	-	-	-
Total	**2,485**	**7,763**	**-**	**22**	**-**	**4,447**	**287**

* On 26 September 2018, PosteMobile was entered in the Register of electronic money institutions (article 114 – *quater* of the Consolidated Banking Act) and, as of 1 October 2018, changed its name to PostePay SpA.

IMPACT OF RELATED PARTY TRANSACTIONS ON PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2018

	For the year ended 31 December 2018							
Name (€m)	Interest and similar income	Interest and similar expense	Fee income	Fee expenses	Dividends and similar income	Net losses/ recoveries on impairments	Administrative expenses	Other operating income/ (expenses)
Poste Italiane SpA	-	(4)	-	-	-	-	(4,508)	-
Direct subsidiaries								
BancoPosta Fondi SpA SGR	-	-	51	-	-	-	-	-
CLP ScpA	-	-	-	-	-	-	-	-
Consorzio PosteMotori	-	-	36	-	-	-	-	-
Poste Vita SpA	2	-	402	-	-	-	-	-
Postecom SpA	-	-	-	-	-	-	-	-
Postel SpA	-	-	-	-	-	-	(40)	-
PostePay SpA	-	(4)	48	(82)	-	-	(1)	1
Indirect subsidiaries								
Poste Assicura SpA	-	-	29	-	-	-	-	-
Joint ventures								
SIA Group	-	-	-	-	-	-	(24)	-
Associates								
Anima Holding SpA	-	-	-	-	-	-	-	-
Related parties external to the Group								
Ministry of the Economy and Finance	62	(3)	99	-	-	-	(2)	4
Cassa depositi e prestiti Group	64	-	1,827	-	-	1	-	-
Enel Group	-	-	7	-	-	-	-	-
Eni Group	-	-	3	-	-	-	-	-
Monte dei Paschi Group	-	-	1	-	-	-	-	-
Equitalia Group	-	-	-	-	-	-	-	-
Other related parties external to the Group	-	-	-	-	-	-	(4)	-
Total	**128**	**(11)**	**2,503**	**(82)**	**-**	**1**	**(4,579)**	**5**

IMPACT OF RELATED PARTY TRANSACTIONS ON PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2017

	For the year ended 31 December 2017							
Name (€m)	Interest and similar income	Interest and similar expense	Fee income	Fee expenses	Dividends and similar income	Net losses/ recoveries on impairments	Administrative expenses	Other operating income/ (expenses)
Poste Italiane SpA	1	(3)	-	-	-	-	(4,418)	-
Direct subsidiaries								
BancoPosta Fondi SpA SGR	-	-	41	-	-	-	-	-
CLP ScpA	-	-	-	-	-	-	(2)	-
Consorzio PosteMotori	-	-	36	-	-	-	-	-
Poste Vita SpA	-	-	462	-	-	-	-	-
Postecom SpA	-	-	-	-	-	-	(1)	-
Postel SpA	-	-	-	-	-	-	(42)	-
PosteMobile SpA*	-	-	2	-	-	-	(2)	-
Indirect subsidiaries								
Poste Assicura SpA	-	-	21	-	-	-	-	-
Joint ventures								
SIA Group	-	-	-	-	-	-	(27)	-
Associates								
Anima Holding SpA	-	-	-	-	-	-	-	-
Related parties external to the Group								
Ministry of the Economy and Finance	27	(4)	118	-	-	(1)	(3)	-
Cassa depositi e prestiti Group	10	-	1,566	-	-	-	-	-
Enel Group	-	-	8	-	-	-	-	-
Eni Group	-	-	3	-	-	-	-	-
Monte dei Paschi Group	-	-	-	-	-	-	-	-
Equitalia Group	-	-	-	-	-	-	-	-
Other related parties external to the Group	-	-	-	-	-	-	-	-
Total	**38**	**(7)**	**2,257**	**-**	**-**	**(1)**	**(4,495)**	**-**

* On 26 September 2018, PosteMobile was entered in the Register of electronic money institutions (article 114 – *quater* of the Consolidated Banking Act) and, as of 1 October 2018, changed its name to PostePay SpA.

Other related party disclosures

Material transactions carried out in 2018

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

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

Moreover, in connection with the process that resulted in the establishment of the Electronic Money Institution, the Related and Connected Parties Committee issued a favourable opinion to the Board of Directors on two contracts with PostePay SpA that qualify as material under the Bank of Italy's regulations. These regard the contract governing the outsourcing of BancoPosta's activities to the electronic money institution and the agreement on the promotion and placement of the EMI's products by BancoPosta. Both were approved by the Board of Directors and took effect on 1 October 2018.

Information on the transfer of a business unit to PostePay SpA

As described in Part A, Section 4, paragraph 4.4, on 1 October 2018, following the removal of the ring-fence restrictions from BancoPosta RFC, Poste Italiane SpA transferred to PostePay SpA the assets, liabilities and legal rights and obligations that make up the card payments and payment services business unit. On the same date, PostePay SpA established a ring-fence for the card payments and payment services contained in the contribution-in-kind by Poste Italiane SpA, following the capital increase with a value of €140 million subscribed and reserved for Poste Italiane SpA outside the ring-fence.

The table below provides details of the assets and liabilities removed from BancoPosta RFC.

(€m)		At 1 October 2018
Assets		
40.	Financial assets measured at amortised cost	(10)
100.	Tax assets	(5)
	A Total assets	**(15)**
Liabilities		
10.	Financial liabilities measured at amortised cost	9
	Postal current accounts	*3,515*
	Prepaid cards and other products	*(3,506)*
80.	Other liabilities	(91)
90.	Employee termination benefits	(1)
100.	Provisions for risks and charges	(4)
	B Total liabilities	**(87)**
	A-B Net liabilities contributed	**72**

As a result of this transfer, PostePay SpA sells its own products/services[174] as well as, in the capacity of service provider, the products and services of BancoPosta[175].

With respect to the EMI's own products, PostePay SpA is responsible for their conception, development and management, while BancoPosta acts as distributor through the Group's physical network. Accordingly, starting from 1 October 2018, BancoPosta RFC's commission income includes also revenue from the distribution of products/services associated with the business unit transferred.

In addition, BancoPosta RFC outsourced to the electronic money institution the management of payment products and services not included in the business unit transferred, which are sold through the Group's distribution network. As such, BancoPosta RFC's commission expenses include the costs for the services rendered to the electronic money institution, while its commission income reflects also revenue from sales of these products.

Regarding activities relating to its own products and products handled under service agreements, the EMI uses services provided by Poste Italiane functions outside the ring-fence (primarily by the Chief Operating Office function) relating to the development and management of payment services in such areas as information systems, IT security, operations (back-office, customer service and complaints management), monitoring and fraud management.

174. *Own products*: prepaid cards (card payments), payment services, acquiring services, tax payments using forms F23/F24 and international money transfers (Moneygram) forming part of the operations carried out independently by the EMI.
175. *Products handled under service agreements:* payment products and services and money transfers carried out exclusively within the scope of BancoPosta RFC's operations, as they are "reserved to" the ring-fence by Presidential Decree 144/01.

Part I – Share-based payment arrangements

A. Qualitative information

1. Description of share-based payment arrangements

Long-term incentive scheme: Phantom stock plan

The Annual General Meeting of Poste Italiane SpA's shareholders held on 24 May 2016 approved the information circular for the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan", prepared in accordance with art 84-*bis* of the Regulations for Issuers. The LTIP, set up in line with market practices, aims to link a portion of the variable component of remuneration to the achievement of earnings targets and the creation of sustainable shareholder value over the long term.

Description of the Plan

As described in the above information circular for the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan", prepared in accordance with art 84-*bis* of the Regulations for Issuers, the Phantom Stock Plan for the period 2016-2018 entails the award to Beneficiaries of phantom stocks granting them the right to receive stock representing the value of Poste Italiane's shares and the related cash bonus at the end of a vesting period. The number of phantom stocks awarded to each Beneficiary is dependent on achieving the Performance Hurdle and meeting the Qualifying Conditions and the related Performance Targets over a three-year period. The Plan covers a medium- to long-term period. In particular, the plan includes three award cycles, corresponding to the financial years 2016, 2017 and 2018, each with a duration of three years.

The phantom stocks are awarded if the performance targets are achieved, and converted into a cash bonus based on the market value of the shares in the thirty stock exchange trading days prior to the grant date for the phantom stocks or at the end of a retention period (as specified below). The key characteristics of the Plan are described below.

Beneficiaries

The beneficiaries of the Plan are BancoPosta RFC's Material Risk Takers.

Plan terms and conditions

The Performance Targets, to which receipt of the cash bonus is subject, are as follows:

- an indicator of earnings over e three-year period, based on the RORAC (Return On Risk Adjusted Capital), used for the LTIP with the aim of taking into account the continuity and sustainability of the long-term performance after appropriately adjusting for risk;
- an indicator of shareholder value creation, based on the Total Shareholder Return, used to measure performance based on the value created for Poste Italiane's shareholders compared with other FTSE MIB-listed companies.

Vesting of the phantom stocks is subject to achievement of the Performance Hurdle, designed to ensure sustainability of the Plan. The Performance Hurdle corresponds with achievement of a certain target for the Group's cumulative EBIT over a three-year period at the end of each Performance Period. In addition, vesting of the phantom stocks is also subject to achievement of Qualifying Conditions, designed to ensure the stability of BancoPosta RFC's capital and liquidity position, as follows:

- Indicator of capital adequacy, based on CET 1 at the end of the period;
- Indicator of short-term liquidity, based on LCR at the end of the period.

The phantom stocks will be awarded by the end of the year following the end of the Performance Period, and are subject to a one-year retention period before they can be converted into cash, following confirmation that the Qualifying Conditions have been met.

Determination of fair value and effects on profit or loss

First Cycle 2016-2018

The total number of phantom stocks awarded to the 4 Beneficiaries of the First Cycle of the Plan amounted to 33,298 units.

Second Cycle 2017-2019

The total number of phantom stocks awarded to the 7 Beneficiaries of the Second Cycle of the Plan amounted to 53,118 units.

Third Cycle 2018-2020

The total number of phantom stocks awarded to the 7 Beneficiaries of the Third Cycle of the Plan amounted to 50,188 units. An independent expert was appointed to measure the value of the stocks and this was done using Monte Carlo simulations. The liability recognised as amount due to staff for the 3 cycles totals approximately €0.5 million.

Short-term incentive schemes: MBO

On 27 May 2014, the Bank of Italy issued specific Supervisory Standards for BancoPosta (Part IV, Chapter I, "BancoPosta" including in Circular 285 of 17 December 2013 "Prudential supervisory standards for banks") which, in taking into account BancoPosta's specific organisational and operational aspects, has extended application of the prudential standards for banks to include BancoPosta. This includes the standards relating to remuneration and incentive policies (Part I, Title IV, Chapter 2 "Remuneration and incentive policies and practices" in the above Circular 285/2013). These standards provide that a part of the bonuses paid to BancoPosta RFC's Material Risk Takers may be awarded in the form of financial instruments over a multi-year timeframe. As a result, with regard to the management incentive schemes adopted for BancoPosta RFC, where the incentive is above a certain materiality threshold, the MBO management incentive scheme envisages the award of 50% of the incentive in the form of phantom stocks, representing the value of Poste Italiane's shares, and application of the following deferral mechanisms:

- 60% of the award to be deferred for a 5-year period on a pro-rata basis, in the case of Material Risk Takers who are beneficiaries of both the short-term incentive scheme and the third cycle 2018-2020 of the "LTI Phantom Stock Plan";
- 40% of the award to be deferred for a 3-year period on a pro-rata basis for the remaining Material Risk Takers.

The award of phantom stocks is subject to meeting the Performance Hurdle (Group earnings: EBIT) and certain Qualifying Conditions, as follows:

- Capital adequacy: CET 1, risk tolerance level approved in the Risk Appetite Framework (RAF);
- Short-term liquidity: LCR, risk tolerance level approved in the Risk Appetite Framework (RAF).

Payment of the deferred portion will take place each year, provided that BancoPosta RFC's minimum regulatory capital and liquidity requirements have been met. The effects on profit or loss and on equity are recognised in the period in which the instruments vest[176].

Determination of fair value and effects on profit or loss

An independent expert was appointed to measure the value of the stocks, based on best market practices. The liability recognised in amounts due to staff totals €0.6 million.

176. The transfer of the card payments and payment services business unit from BancoPosta RFC entailed the transfer of employees who are beneficiaries of the share-based plan.

Part L – Operating segments

The economic flows and performance of the operations are reported internally on a regular basis to executives without identifying segments. BancoPosta RFC's results are consequently evaluated by senior management as one business division.

Furthermore, in accordance with IFRS 8.4, when separate and consolidated financial statements are combined segment information is only required for the consolidated statements.

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03

REPORTS AND ATTESTATIONS

Contents

Attestation of the Poste Italiane Group's consolidated financial statements for the year ended 31 December 2018 pursuant to art. 154-*bis* , paragraph 5 of Legislative Decree 58/1998 and art. 81-*ter* of CONSOB Regulation 11971 of 14 May 1999

1. The undersigned, Matteo Del Fante, as Chief Executive Officer, and Tiziano Ceccarani, as Manager responsible for Poste Italiane SpA's financial reporting, having also taken account of the provisions of art.154-*bis*, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998, hereby attest to:

- the adequacy with regard to the nature of the Poste Italiane Group and
- the effective application of the administrative and accounting procedures adopted in preparation of the Poste Italiane Group's consolidated financial statements during the period from 1 January 2018 to 31 December 2018.

2. In this regard, it should be noted that:
- the adequacy of the administrative and accounting procedures adopted in preparation of the Poste Italiane Group's consolidated financial statements was verified by assessment of the internal control system over financial reporting. This assessment was conducted on the basis of the criteria contained in the Internal Control–Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO);
- the assessment of the internal control system over financial reporting did not identify any material issues.

3. We also attest that:

3.1 the Poste Italiane Group's consolidated financial statements for the year ended 31 December 2018:

a) have been prepared in compliance with the International Financial Reporting Standards endorsed by the European Union through EC Regulation 1606/2002, issued by the European Parliament and by the Council on 19 July 2002;
b) are consistent with the underlying accounting books and records;
c) give a true and fair view of the financial position and results of operations of the issuer and the companies included in the scope of consolidation.

3.2 the Directors' Report on Operations includes a reliable analysis of the operating and financial performance and situation of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Rome, Italy

19 March 2019

Chief Executive Officer	Manager responsible for financial reporting
Matteo Del Fante	Tiziano Ceccarani
(original signed)	(original signed)

Attestation of the separate financial statements for the year ended 31 December 2018 pursuant to art. 154-*bis* , paragraph 5 of Legislative Decree 58/1998 and art. 81-*ter* of CONSOB Regulation 11971 of 14 May 1999

1. The undersigned, Matteo Del Fante, as Chief Executive Officer, and Tiziano Ceccarani, as Manager responsible for Poste Italiane SpA's financial reporting, having also taken account of the provisions of art.154-*bis*, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998, attest to:

- the adequacy with regard to the nature of the Company and
- the effective application of the administrative and accounting procedures adopted in preparation of the separate financial statements during the period from 1 January 2018 to 31 December 2018.

2. In this regard, it should be noted that:
- the adequacy of the administrative and accounting procedures adopted in preparation of Poste Italiane SpA's separate financial statements was verified by assessment of the internal control system over financial reporting. This assessment was conducted on the basis of the criteria contained in the Internal Control–Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO);
- the assessment of the internal control system over financial reporting did not identify any material issues.

3. We also attest that:

3.1 the separate financial statements for the year ended 31 December 2018:

a) have been prepared in compliance with the International Financial Reporting Standards endorsed by the European Union through EC Regulation 1606/2002, issued by the European Parliament and by the Council on 19 July 2002;
b) are consistent with the underlying accounting books and records;
c) give a true and fair view of the financial position and results of operations of the issuer.

3.2 the Directors' Report on Operations includes a reliable analysis of the operating and financial performance and situation of the issuer, as well as a description of the main risks and uncertainties to which it is exposed.

Rome, Italy

19 March 2019

Chief Executive Officer	Manager responsible for financial reporting
Matteo Del Fante	Tiziano Ceccarani
(original signed)	(original signed)

REPORT TO SHAREHOLDERS BY THE
BOARD OF STATUTORY AUDITORS of POSTE ITALIANE SPA
pursuant to art. 153 of Legislative Decree 58/1998

Dear Shareholders,

During the year ended 31 December 2018, Board of Statutory Auditors of Poste Italiane SpA (hereinafter also the "Company" or the "Parent Company") fulfilled its statutory duties in accordance with the Italian Civil Code and Legislative Decree 39/2010, as amended by Legislative Decree 135/2016, Legislative Decree 58/1998 (*Testo Unico della Finanza*, the Consolidated Law on Finance), pursuant to Presidential Decree 144/2001 "Regulations governing the services provided by BancoPosta", and in accordance with the provisions applied to BancoPosta by the relevant authorities. In conducting its duties, the Board also took into account the indications contained in the Corporate Governance Code for Listed Companies, which the Company formally adopted with the Board of Directors' resolution of 31 July 2015. The oversight activities required by law were also conducted in accordance with the standards for boards of statutory auditors drawn up by the Italian accounting profession (*Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*) on 15 April 2018.

Election and activities of the Board of Statutory Auditors

The undersigned members of the Company's Board of Statutory Auditors, elected by the Annual General Meeting of shareholders held on 24 May 2016, are Mauro Lonardo, Chairman, and Alessia Bastiani and Maurizio Bastoni, standing Auditors.

The Board of Statutory Auditors obtained the information necessary in order to carry out its appointed duties by attending all Board of Directors' and Board Committee meetings, by taking part in the induction sessions organised by the Company, by holding meetings with the Company's principal functions and - above all with internal auditing staff and the Supervisory Board - and with the Company's management, as well as through ongoing contact with the Manager responsible for financial reporting and with the Independent Auditor, PricewaterhouseCoopers SpA, who are responsible for auditing the separate and consolidated financial statements.

On the above basis, the following information is provided in accordance with the provisions of CONSOB announcement DEM/1025564/2001, following the numerical order established thereby, as amended by announcement DEM/3021582 of 4 April 2003 and then by announcement DEM/6031329 of 7 April 2006.

A) *Oversight of compliance with the law and the Company's By-laws and with correct corporate governance principles, the adequacy of the organisational structure and the administrative and accounting systems adopted by the Company, and with Legislative Decree 39/2010, as amended.*

1. The most significant transactions having an impact on the results of operations and financial position and their compliance with the law and the By-laws.

The Board of Statutory Auditors verified compliance with the law and the By-laws, periodically receiving information from the Directors on the overall operating performance, the outlook for the Company and on the most significant transactions having an impact on the results of operations and financial position decided on and carried out by the Company and other Poste Italiane Group companies during the year.

Full disclosure regarding these transactions is provided in the Directors' Report on Operations, to which reference should be made.

The meetings were conducted in accordance with the By-laws, the related legislation and regulations governing their conduct and, within the scope of our responsibilities, the Board can provide reasonable assurance that the actions approved comply with the law, the By-laws and correct corporate governance principles and were not manifestly imprudent, risky or in conflict with resolutions approved by General Meeting, or such as to compromise the value of the Company; from the information provided during the Board of Directors' meetings, there is no evidence that the Directors have carried out transactions giving rise to a potential conflict of interest with the Company.

2. and 3. Exceptional or unusual transactions, including those with Group companies or related parties.

In this regard, the Board declares that:

- ✓ based on the assessments conducted, we are not aware of exceptional or unusual transactions with Group companies, third parties or other related parties;
- ✓ the procedures applied by the Company in conducting related party transactions comply with the principles contained in CONSOB Regulation 17221 of 12 March 2010, as amended by CONSOB Resolution 19974 of 27 April 2017 and by the provisions of Bank of Italy Circular 263/2006 (Title V, Chapter 5), with reference to transactions between BancoPosta and Poste Italiane's related parties;
- ✓ infra-group or related party transactions did not give rise to critical issues;

- ✓ with regard to transactions conducted by relevant persons and by persons closely associated with them (provisions relating to "Internal Dealing"), the Board verified that the Company has adopted specific internal regulations and procedures for such disclosures following the revised interpretation provided by ESMA and the changes introduced by CONSOB Resolution 19925 of 22 March 2017.

The Board oversaw effective implementation of the rules governing related party transactions, by attending meetings of the Related and Connected Parties Committee. The Directors have provided adequate disclosure on intra-group and related party transactions in the Report on Operations and the notes to the separate and consolidated financial statements.

In 2018, the Company revised its "Guidelines for the management of transactions with related and connected parties" (the "Guidelines"). The Guidelines, adopted for the first time in 2015 as part of the process of preparing for the Initial Public Offering, are reviewed every three years.

Bank of Italy regulations call for the Board of Statutory Auditors' involvement when the procedures are drawn up or in the event of material changes or amendments, requiring the Board to issue a detailed and reasoned opinion on the overall adequacy of the procedures in relation to meeting the objectives set out in the supervisory standards.

At the Committee meetings held on 19 September and 17 October 2018, the Board of Statutory Auditors presented its assessment and recommendations regarding the proposed changes, which can be summarised as follows: i) in adherence with the Bank of Italy's instructions received during the clearance process for the EMI, it was decided that the exemption applicable to infra-group transactions in which related or connected parties do not have significant interests should not apply to transactions between BancoPosta RFC and the Poste Italiane Group's product companies; ii) the materiality threshold for natural persons and persons connected with Directors, Statutory Auditors and senior management personnel of the Company has been raised to €300,000; iii) the definition of key management and senior management personnel has been clarified with respect to the permanence of the role; iv) low-value transactions have been excluded from the deliberation procedures, although the requirement for periodic reporting to the Committee remains; v) it has been clarified that transactions concluded following transparent, competitive procedures governed by general internal regulations are to be included in ordinary transactions, in keeping with legal procedures; vi) a reorganisation of the various sections was proposed with a view to improving consistency of presentation and incorporate the text in the Company's Regulatory System.

On 6 November 2018, the Board of Statutory Auditors, having analysed the text of the Guidelines, issued an opinion in favour of their approval by the Company's Board of Directors, deeming the Guidelines to be in compliance with the relevant statutory requirements, appropriate to the size, complexity and specific nature of the Company, including with regard to BancoPosta RFC, and suitable to ensure the transparency and correctness of transactions with related and connected parties. Briefly, also on the basis of the provisions in Bank of Italy Circular 263 of 2006 (Title V, Chapter 5 "Risky transactions and conflicts of interest involving connected parties", section III, para. 2.2, the Board of Statutory Auditors deems that the procedure, as revised, is on the whole fit for the purpose of meeting the objectives for managing conflicts of interest with related parties.

Considering the very high number of related parties, the Board welcomes the fact that:

- computerisation of the system for managing related party transactions, using a secure IT platform, was completed in 2018. The system consists of a register of Poste Italiane SpA's related and connected parties, the "Central Database", and a "Database of Transactions";
- the "Central Database" hosted on a secure IT platform, and including approximately 2,600 persons, is periodically updated and automatically cross-checked against the Sogei database to verify the match between tax data and the correct name of the person concerned;
- to facilitate updates of the "Central Database", senior managers are required to promptly communicate any changes in circumstances that might require modification of the Central Database;
- senior managers are, in any event, invited to access the Central Database each year to check that their data is complete and correct;
- during 2018, integration of the "Central Database" with other databases within the Company was also completed thus ensuring closer monitoring of related party transactions;
- migration of the Database of Transactions to a secure platform has been completed. The IT system enables transactions to be loaded directly via a guided web interface, entering the contracts that are the responsibility of the department and, at the same time, automatically notifying the relevant function of any aspects that are of relevance

with regard to related parties and for the correct reporting and management of the eventual authorisation process by the related committee.

The meeting of the Related and Connected Parties Committee held on 6 November 2018, in which the Board took part, included a demonstration of how the system works. The Board believes that the system is fit for the purpose of tracking related party transactions, in accordance with the statutory and regulatory requirements in force, as applied in the Guidelines adopted by Poste Italiane SpA.

4. Oversight of the financial reporting process. Observations and proposals regarding any qualifications or emphases of matter contained in the Independent Auditor's report.

The Board of Statutory Auditors, identified by art. 19, paragraph 2 of the Consolidated Law as the "Committee responsible for internal and statutory auditing", oversaw the financial reporting process.

The Board of Statutory Auditors has verified the existence of adequate regulations and processes relating to the financial reporting process, examining the process that enables the Manager responsible for financial reporting, appointed pursuant to Law 262/2005, and the Company's and the Group's Chief Executive Officer to issue the attestations required by art. 154-*bis* of the Consolidated Law on Finance.

On 29 November 2018, the Board of Statutory Auditors arranged a specific meeting with the Manager responsible for financial reporting to examine the Poste Italiane Group's financial reporting process. The administrative and accounting procedures adopted in preparation of the separate and consolidated financial statements, and of any other financial communication, have been drawn up under the responsibility of the Manager responsible for financial reporting who, together with the Chief Executive Officer, has attested to their adequacy with regard to the nature of Poste Italiane and to their effective application.

The Board of Statutory Auditors has also examined the reports prepared by the Independent Auditor, PricewaterhouseCoopers SpA, appointed by Annual General Meeting of Poste Italiane's shareholder to audit the separate and consolidated financial statements for the financial years from 2011 to 2019.

The Independent Auditor issued its reports on the separate and consolidated financial statements for the year ended 31 December 2018, prepared pursuant to art. 14 of Legislative Decree 39/2010 and art. 10 of Regulation (EU) 537/2014, on 17 April 2019.

Details of the opinions and statements are provided in the reports issued by the Independent Auditor.

In its audit reports on the financial statements, the Independent Auditor has:

- ✓ issued an opinion stating that Poste Italiane' separate and consolidated financial statements provide a true and fair view of the financial position of the Company and the Group at 31 December 2018 and of the results of operations and cash flows for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union and with the regulations issued in implementation of article 9 of Legislative Decree 38/05;
- ✓ stated that, as required by art. 14, paragraph 2.e) of Legislative Decree 39/10 and article 123-*bis*, paragraph 4 of Legislative Decree 58/98, it has performed the audit procedures required under auditing standard (SA Italia) no. 720B in order to express an opinion of the consistency of the report on operations and of the specific information included in the report on corporate governance and the ownership structure, referred to in article 123-bis, paragraph 4 of Legislative Decree 58/98, with Poste Italiane's separate and consolidated financial statements for the year ended 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any. As a result, the Independent Auditor has also confirmed that the above report on operations and specific information included in the report on corporate governance and the ownership structure are consistent with Poste Italiane's separate and consolidated financial statements for the year ended 31 December 2018 and have been prepared in compliance with the law.

  The Independent Auditor's reports do not contain qualifications or emphases of matter.

  The Independent Auditor's reports, issued in compliance with art. 10 of Regulation (EU) 537/2014, include information on key matters covered by the audit and the related audit procedures applied. As referred to in the reports on the separate and consolidated financial statements, these key matters (the Recoverable amount of the "Mail, Parcels and Distribution" segment, Measurement of the technical provisions for the insurance business, and Valuation of unlisted financial instruments measured at fair value), and the opinions on the separate and consolidated financial statements are in line with the contents of the supplementary report to the for the Board of Statutory Auditors in its role as committee responsible for internal and statutory auditing, prepared pursuant to article 11 of the above Regulation.

With regard to the recommendations made by the Independent Auditor in relation to 2016, as referred to in the previous Board of Statutory Auditors' report for 2017 (the need to further improve the adequacy of the design and effective functionality of the overall system of internal controls, and the need to strengthen implementation and development of the IT systems and supports used in the Company's and the Group's financial reporting), following the progress made by the Company in 2017 and the steps taken by management in 2018, the Independent Auditor does not believe that the related issues constitute significant shortcomings in internal controls in 2018, partly in view of the targeted audit procedures carried out by Poste Italian's Internal Auditing function at the specific request of the Board of Statutory Auditors. Therefore, from an assessment of the Independent Auditor's recommendations with regard to 2016, in the light of the evidence made available to the Independent Auditor by the Company and the checks conducted by the former, any significant shortcomings that had already been reduced in 2017 were eliminated in 2018. In addition, the three observations in the letter of recommendations for 2016 (the management of utilities and application profiles, the transport of cash by service companies and intercompany postal current accounts), and which were followed up on in the letter of recommendations for 2017, are, as of today's date, not considered by the Independent Auditor to be significant deficiencies.

In addition, the Independent Auditor has not reported any events or circumstances identified during the audit that might cast significant doubt on the entity's ability to continue as a going concern, nor has it reported any significant deficiencies in the internal control system over financial reporting and/or in the accounting system, or any significant instances of non-compliance, whether effective or assumed, with laws and regulations or the By-laws, that have come to light during its audit.

The Independent Auditor has also today issued its report on the non-financial statement prepared pursuant to article 3, paragraph 10 of Legislative Decree 254/2016 and article 5 of CONSOB Regulation 20267. Based on the work performed, the Independent Auditor has stated that nothing has come to its attention that would cause it to believe that the Poste Italiane Group's non-financial statements for the year ended 31 December 2018 have not been prepared, in all material respects, in compliance with articled 3 and 4 of the Decree and with the GRI Standards. Through a specific meeting with both the Independent Auditor and the function involved in preparing the statement, the Board of Statutory Auditors has overseen compliance with the provisions of Legislative Decree 254/2016, within the scope of the responsibilities assigned to us by law.

5. and 6. Information on any complaints presented pursuant to art. 2408 and petitions

During the year, the Board received two complaints pursuant to art. 2408 of the Italian Civil Code, all lodged by the same shareholder:

i. *The complaint dated 15 January 2018,* regarding the fine of over €20 million imposed by the AGCM (*Autorità Garante della Concorrenza e del Mercato* – the Antitrust Authority) on 13 December 2017 for an abuse of Poste Italiane's dominant market position as per art. 102 of the TFEU. This followed an investigation of the Company's alleged anti-competitive behaviour in respect of the multi-item ordinary mail delivery market. The Board of Statutory Auditors had already carried out a preliminary examination of the matter, following a complaint from the sale shareholder dated 9 June 2016, in the period in which the AGCM was conducting its investigation. Based on the information obtained during meetings with the head of the Legal Affairs unit and our examination of the documentation prepared by him, in its report to shareholders on 2016, the Board reported that it had found no evidence of irregularities, but that it would continue to monitor developments as the investigation proceeded. The Board has continued to monitor the litigation: Poste Italiane lodged an appeal against the ruling of 13 December 2017 before the Lazio Regional Administrative Court with a request for suspension, which was not granted at the hearing held on 14 March 2018. At the same hearing, the Company agreed to enter into dialogue with the Antitrust Authority to define the compliance proposals. The Court also scheduled a hearing on the merits for 5 December 2018. This hearing did not take place and the case was removed from the roll, but may be reinstated at the Company's request by the deadline of 5 June 2019. The Board believes that there are no grounds for criticising the actions of the Company's management, which has acted in the interests of the Company in taking steps to protect its postal business.

   The Board of Statutory Auditors has, however, recommended the arrangement of a process requiring that, prior to the launch of any new products or services, the marketing and commercial functions request an *ex-ante* assessment of the related antitrust risk on the part of the relevant legal affairs function. In addition, the Company has already included in the new Regulations for BancoPosta's organisation and operations, approved by the Board of Directors on 29 March 2018, a process for overseeing the launch of new products and services. This involves *ex-ante* assessments by BancoPosta's control functions and the resulting issue of a binding opinion, with each function focusing on its respective area of responsibility, in order to validate the new product and implement any subsequent initiatives or further action.

ii. *The complaint dated 4 July 2018*, in which the complainant laments the different treatment of pension contributions for management and non-management staff which, according to the complainant, results in a loss of income when computing the pensions payable. This was then followed by a further complaint dated 16 July, in which the complainant noted that the contract for managers adopted by Poste Italiane in 2004 has, in effect, included the individual pay packages awarded to executives in the calculation of their pensions. The complainant went on to request an assessment of whether or not this privileged arrangement for management has resulted in ongoing, material damage to the public finances and whether or not such a method of calculation in favour of management is legitimate. After a series of meetings and examination of the facts, and with the support of two legal opinions obtained, at the Board's request, from leading experts in employment law, the Board believes that there are no grounds for criticising the Company's actions. The above legal opinions, which involved an analysis of the relevant legislation, the laws governing collective labour agreements and legal precedents, confirmed that inclusion of the individual pay packages awarded to managers in the calculation of their pension entitlements was correct and lawful.

Briefly, in response to the complaints received, the Board of Statutory Auditors has conducted appropriate investigations with the support of the relevant functions, assessing the grounds for the complaints, the adequacy of the actions taken, and monitoring the process of identifying any individual responsibility. As a result of our checks, we have concluded that there are no irregularities to report to the Annual General Meeting.
A further two complaints, dated 2 and 24 January, have been received in 2019. The Board has opened an investigation into the complaints and will report back to shareholders at next Annual General Meeting, as required by article 2408 of the Italian Civil Code.
In addition, during the year and to date, the Board of Statutory Auditors has received five reports/petitions from third parties, in response to which the Board requested action by the relevant functions. In all of these cases, following the checks carried out, we did not identify any irregularities to be reported to the Annual General Meeting.

7. and 8. Oversight of the independence of the Independent Auditor. Disclosure of any additional non-audit engagements or ongoing relations with associates of the Independent Auditor and the related costs.

The Board of Statutory Auditors has received the Independent Auditor's annual declaration confirming its, prepared pursuant to art. 6, paragraph 2.a) of Regulation (EU) 537/2014 and paragraph 17 of ISA Italia 260, which confirms compliance with the ethical principles required by articles 9 and 9-*bis* of Legislative Decree 39/2010, not having identified situations that could compromise the Independent Auditor's independence in the period from 1 January 2018 until the date of issue of the declaration (17 April 2019).

Attached to the notes to the Company's separate financial statements is a section entitled "Disclosure of fees paid to the Independent Auditors in accordance with art. 149 *duodecies* of the CONSOB Regulations for Issuers", which includes a table showing the fees payable to the Independent Auditors, PricewaterhouseCoopers SpA, and companies within its network for the year under review.

In view of:

- ✓ the declaration of independence issued by PricewaterhouseCoopers SpA pursuant to art. 6, paragraph 2.a) of Regulation (EU) 537/2014 and the transparency report prepared by them and published on their website pursuant to art. 13 of the above Regulation;
- ✓ the engagements assigned to the Independent Auditors and companies within its network by Poste Italiane SpA and Group companies;

the Board is not aware of any situations in which the Independent Auditors' independence has been compromised.

In line with Regulation (EU) 537/2014 and in accordance with the Poste Italiane Group's "Guidelines for the assignment of engagements to Poste Italiane's Independent Auditor", approved by the Board of Directors on 15 March 2017, the Board of Statutory Auditors has, during 2018 and through to the date of issue of this report, issued favourable opinions on the following additional engagements of the Independent Auditor, or of companies within its network, by the Parent Company and its subsidiaries and recognised on an accruals basis in 2018:

Engagement	Amount
Issue of attestations regarding the accounts at 31 December 2017 relating to the demerged operations (the management of government securities underlying Class I insurance products) transferred to Anima SGR from	€20,000

BancoPosta Fondi SGR as a result of the partial demerger carried out by the latter	
Conduct of an audit, at the request of Cassa Depositi e Prestiti, regarding the distribution and management of postal savings products in 2017 (a descriptive report on the accounting system and controls connected with Postal Savings – BancoPosta RFC's operations and a report prepared by the Independent Auditor of Poste Italiane's financial statements on specific audits of the procedures that make up the above system within the scope of the services provided by Poste Italiane to CDP).	€55,000 (plus out-of-pocket and administrative expenses capped at 5% of the fees and VAT)
With regard to the annual update of Poste Italiane SpA's Euro Medium Term Note Programme (bonds listed on the Luxembourg Stock Exchange, issued in June 2013 and reaching maturity on 30 June 2018). On 19 April 2018, the Board of Directors approved a new issue to be launched within 12 months of the resolution. The following documents were thus issued: 1) a Comfort Letter on the Prospectus in July, for the benefit of Poste Italiane and the dealer banks; 2) a Comfort Letter on the Supplement in September; 3) an eventual Comfort Letter in the event of a further Supplement (between October and March 2019); 4) a Comfort Letter on the bond issue; 5) a review of the English translation of the consolidated financial statements for the year ended 31 December 2017 and of the interim report for the six months ended 30 June 2018.	€37,000 (plus expenses capped at 5% of the fees and VAT) for the Comfort Letter referred to in point1); then €30,000, €25,000 and €10,000, respectively, for the subsequent Comfort Letters referred to in points 2), 3) and 4). €30,000 (plus expenses capped at 5% of the fees and VAT) for the review of the financial statements in English
Review of the annual report on management of the Internal Insurance Fund called "Poste Vita Balanced Management" for the years ended 31 December 2018 and 31 December 2019.	€15,000 (plus out-of-pocket and administrative expenses capped at 5% of the fees and VAT)
Review of Poste Vita's and the Group's Solvency II Report at 31 December 2018 and review of the individual and Group solvency capital requirements (SCR) and minimum capital requirements (MCR) at 31 December 2018	€231,000 (plus expenses capped at 5% of the fees and VAT)
Review of Poste Assicura's Solvency Report at 31 December 2018 and review of the company's solvency capital requirement (SCR) and minimum capital requirement (MCR) at 31 December 2018	€75,000 (plus expenses capped at 5% of the fees and VAT)
PostePay: attestation of the consistency of the data in the Report on the Ring-fence	€30,000 (plus administrative and out-of-pocket expenses and VAT)
Consorzio Poste Motori: Professional assistance from PwC Advisory's Forensic Team in conducting a critical assessment of transactions with consortium members	€60,000 (plus out-of-pocket and administrative expenses and VAT, where applicable)

From the annual reporting periods after 1 January 2020, the obligation to check application of the caps on the value of non-audit engagements will be binding. As required by art. 4, paragraph 2 of Regulation (EU) 537/2014, such engagements must be capped at 70% of the average fees paid in the previous consecutive three-year period for the audit of the accounts of the audited entity. Although this requirement is not yet binding, we have been monitoring this cap on a quarterly basis.

In view of the approaching expiry of PwC's nine-year engagement as the Company's Independent Auditor (the financial statements for the year ended 31 December 2019), in 2018, the Company, under the Board of Statutory Auditors' responsibility and supervision, began the process of selecting a new sole auditor for the Group for the nine-year period 2020-2028.

The above selection process was completed in early 2019 and, on 15 March 2019, the Board of Statutory Auditors formally set out our recommendation to be presented to the General Meeting of shareholders for the Meeting to vote on the engagement of the Poste Italiane Group's Independent Auditor for the financial years 2020-2028. We have identified two potential companies and have expressed a preference for one of them which, based on a comparative, overall analysis of the proposals put forward, is the most suitable to carry out the engagement in line with the Company's requirements.

9. Disclosure of opinions issued pursuant to the law during the year.

Pursuant to art. 154-*bis* of Legislative Decree 58/1998, the Board issued an opinion on the appointment of the new Manager responsible for financial reporting in 2018.

In accordance with Bank of Italy Circular 263 of 2006 (Title V, Chapter 5, Section III, paragraph 2.2) and paragraph 6.4 of the "Guidelines for the management of transactions with related and connected parties", the Board issued a prior, reasoned opinion on the fact that, on the whole, the Guidelines are fit for the purpose of meeting the objectives set out in the regulations for managing conflicts of interest with related and connected parties.

In addition, the Board has issued a reasoned opinion for the next General Meeting of shareholders on the payment of supplementary fees to the Independent Auditor to cover the cost of the additional activities involved in preparing for first-time adoption of the new accounting standard, IFRS 16.

Lastly, with regard to the engagement of an Independent Auditor for the nine-year period 2020-2028, the Board has issued a reasoned recommendation for the next General Meeting of shareholders, presenting two potential alternatives and expressing our appropriately justified preference for one of the two.

10. Disclosure of the frequency and number of meetings of the Board of Directors, the Executive Committee and the Board of Statutory Auditors

During the year, the Board of Statutory Auditors took part in a total of 78 meetings. The Board met on 36 occasions as the Board of Statutory Auditors (including 13 held jointly with the Audit, Risk and Sustainability Committee), with the meetings having an average duration of approximately 2 hours and 57 minutes. We attended all Board of Directors' meetings and all those of Board Committees. Specifically, the Board of Statutory Auditors attended 14 Board of Directors' meetings, 14 meetings of the Audit, Risk and Sustainability Committee (including 13 held jointly with the Board of Statutory Auditors), 10 meetings of the Nominations and Corporate Governance Committee, 9 meetings of the Related and Connected Parties Committee, 7 meetings of the Remuneration Committee, attended by at least one Statutory Auditor, and 1 Ordinary General Meeting.

The overall commitment for each member, including any further duties carried out by the Board of Statutory Auditors, amounts to approximately 450 hours per Statutory Auditor and approximately 590 hours in the case of the Chairman, marking a significant increase with respect to the volume of activity envisaged at the time of the Board's election in 2016. The difference reflects the fact that, at the time of our election in 2016, shareholders were not presented with details of the tasks to be carried by the Board and, as a result, the overall volume of work assigned to the Board of Statutory Auditors was underestimated, above all in relation to the Corporate Governance Code and due to the impact of the various new regulatory and statutory requirements on the Board's duties (the Non-financial Statement and the adoption of new accounting standards) and the increase in activities related to inspections by supervisory authorities. In this regard, in accordance with rule of conduct 1.6 for the boards of statutory auditors of listed companies, we have drawn up a report detailing the work carried out so as to enable shareholders and the auditors standing for election to assess the adequacy of the proposed fees for members of the Board of Statutory Auditors to be elected by the Annual General Meeting of 29 May 2019.

The Magistrate appointed by the Italian Court of Auditors to oversee Poste Italiane was always invited to attend meetings of the Board of Statutory Auditors concerning the control system.

11. and 12. Observations on compliance with correct corporate governance principles and the adequacy of the organisational structure

The Board of Statutory Auditors oversaw, within the scope of our responsibilities, the adequacy of the Company's organisational structure and, more generally, that of the Poste Italiane Group as a whole, based on the information and constant updates provided by the Company's on its organisational arrangements. Given the complexity of the Company's and the Group's organisational structure, which is subject to continuous change, the Board of Statutory Auditors judges the organisational structure to be adequate. With regard to art. 1 of the Corporate Governance Code, and considering the new structure of the authorities assigned by the Board of Directors on 25 January 2018 and approval of the new strategic plan for the period 2018/2022, the Board of Statutory Auditors wishes to stress the need for the Board of Directors to periodically monitor the adequacy of the organisational structure.

13. Oversight of adequacy of the internal control system

With regard to the internal control and risk management system, the Board has noted the information on the system provided in the "Annual Report on Corporate governance and the Ownership Structure".

We held periodic meetings with the Head of Poste Italiane's Internal Auditing function and examined the Report for 2018 prepared by the function, and the corresponding annual report prepared by BancoPosta's Internal Auditing function. The document resulting from the assessment of Poste Italiane's internal control system, conducted by Poste Italiane's Internal Auditing, states that "*at the date of this report and for the relevant reporting period, the internal control and risk management system, taken as a whole, is fit for the purpose of mitigating the risks constituting a threat to the successful pursuit of the Company's business objectives*". The results of the audit show evidence of widespread improvement which, on a forward-looking basis and in the case of certain areas, is connected with a progressive strengthening of controls due to current and future initiatives of a more markedly structural nature.

In this context, moreover, continued efforts are being made to mitigate the risks linked to non-compliance and fraud.

In general, during the period under review, there was renewed attention to remedying shortcomings and strengthening controls, above all in terms of keeping up with the related deadlines and ensuring completion in the shortest time possible. The Internal Auditing function's assessment of the steps taken to overcome concerns regarding the internal control system over management of the logistics processes for letter and parcel post was of particular importance.

The actions taken by the Corporate Affairs department were also important in this regard, ensuring a consistent approach to managing the Poste Italiane Group's legal affairs and corporate governance, defining the Group's procurement policies, supporting senior management in effectively implementing and conducting risk management at Group level, and ensuring definition of the Poste Italiane Group's corporate social responsibility guidelines and objectives.

With regard to the need to strengthen both the internal control system and Poste Italiane SpA's role in providing guidance, coordination and control, as recommended by the Board in our report to shareholders on 2016, it should be noted that the Company, through its Corporate Affairs department, has implemented a number of important initiatives, as described below.

The Guidelines for the Internal Control and Risk Management System were revised in February 2018. From a formal viewpoint, account was taken of the separation of the functions assigned to the Supervisory Board from those of the Board of Statutory Auditors whilst, in terms of substance, additional risk information flows of a structural nature, between corporate functions and the Board, were implemented.

The Board also welcomes, in accordance with the corporate governance code, the Board of Directors' definition of criteria for identifying strategically important transactions entered into by the Company, with a significant impact on the financial position, results of operations and cash flow. The Company now requires such transactions to be examined and approved by the Board of Directors and prior information to be provided in the event of transactions carried out by other Group companies.

In addition, the Board of Directors has implemented various organisational initiatives designed to strengthen the internal control system, as follows:

- new guidelines for the "Corporate Governance System" were approved on 8 February 2018, with the aim of establishing the basic principles, the structure and the lifecycles of the various classes of document and the roles and responsibilities of the various person involved, providing guidance for management of the system itself, including with a view to ensuring compliance with the rules set out in the integrated management system;
- new Group Risk Management Guidelines, setting out the Group Risk Management process, were approved on 20 March 2018;
- new Guidelines for the Internal Control and Risk Management System (*SCIGR*) were approved on 19 February 2018;
- the new "Poste Italiane Group Code of Ethics" was approved on 19 April 2018, strengthening the criteria to be followed in relation to conduct and stakeholder engagement, including in response to a concern raised by the Board with regard to potential conflicts of interest;

- new whistleblowing guidelines, governing the channels and procedures to be used for reporting and handling irregularities or violations of the law or regulations (including for the purposes of Legislative Decree 231/2001), were approved on the same date, accompanied by implementation of a specific web portal, guaranteeing the anonymity of whistleblowers;
- the new Privacy Guidelines were approved on 19 April 2018, in implementation of the new EU Data Protection regulations (GDPR, Regulation (EU) 2016/679);
- the new organisational model required by Legislative Decree 231/2001 was approved on 28 June 2018;
- on the same date, the new Guidelines for the application of Legislative Decree 231/2001 by the Poste Italiane Group was approved, setting out the general requirements to be met by all Group companies when adopting and revising their 231 models;
- the Group's new Money Laundering Prevention Guidelines were approved on 1 August 2018;
- the new Sustainability Guidelines were also approved on 1 August 2018;
- the guidelines for the "Poste Italiane Group's ESG (Environmental, Social and Governance) process" were approved in August 2018;
- the "Guidelines for assessing the independence of members of the Board of Directors" were approved on 1 August 2018;
- revised "Financial Management Guidelines for Poste Italiane" were approved on 18 October 2018;
- the new "Guidelines for the management of transactions with related and connected parties" were approved on 7 November 2018.

With regard to revision of the procurement model, a process that began in 2017 and proceeded in 2018, the Board was kept up-to-date on the progress made in centralising procurement at Group level, noting the introduction of the following procurement procedures: i) the "Group Supplier Qualification System" and "Group Supplier Register Regulations" (February 2018); ii) the "Group Supplier Qualification System Guidelines" (March 2018); iii) the "Management of infra-group contracts" (April 2018); iv) "Preparation, authorisation and issue of Purchase Requests" (May 2018); v) "Group framework agreements" (May 2018); vi) "Sponsorship and Donations" (June 2018); vii) "Operational Instructions for the composition and appointment of bid committees to handle tenders" (August 2018); viii) the "General Procedure for the purchase of works, services and goods" (August 201\8); ix) "Requirements for tender managers and project managers during the execution of integrated service contracts" (December 2018).

With regard to Group companies, rules for drawn up in 2018 governing the centralisation of procurement for PostePay and the Poste Vita Group.

Following discussions with the Bank of Italy, in 2018 the Company adopted a centralised approach to risk coordination, control and management and to ensuring compliance with the regulations designed to prevent money laundering and the financing of terrorism at Group level.

The main changes with respect to the previous version regard:

- the assignment of greater responsibility to Poste Italiane's Board of Directors, which is responsible for establishing the related strategic guidelines and appoints the Group's Head of Money Laundering Prevention and the person in charge of flagging suspect transactions at Group level;
- stricter requirements governing the separation and independence of the Group's Head of Money Laundering Prevention and of the person in charge of flagging suspect transactions at Group level;
- continuous, independent oversight of these areas of risk by Group personnel subject to the related statutory requirements.

In terms of risk management, the Board of Statutory Auditors notes that the risk management model is being modified with the aim of centralising the assessment and monitoring of all the Group's risks. In this regard, we wish to reiterate our earlier recommendation that the Board of Directors should periodically monitor above all financial risk on a forward-looking, multi-year basis, periodically revising the assessment of such risks and examining investment and hedging policies via regular investigation by the Audit, Risk and Sustainability Committee. In this connection, in view of the composition of the Group's securities portfolio, which has a high concentration of government securities, persistently low interest rates, spread risk and the resulting impact on capital gains, which led to a sharp fall in unrealised gains in 2018, as described in the notes to the financial statements, the Board recommends that the Board of Directors constantly monitor the key drivers in the Strategic Plan and the related sensitivities, verifying the necessary controls and assessing the level of residual risk, with a specific focus on a long-term, multi-year basis.

The Board of Statutory Auditors periodically met with the Supervisory Board to obtain information on its activities in 2018. The Board notes that, in line with the new 231 Organisational Model (adopted in compliance with Legislative Decree 231/01), approved by the Board of Directors on 28 June 2018, and the Group's 231 Guidelines, the structure of the flow of information between the Company's management and the Supervisory Board has been subjected to a general review. This resulted in the definition of new "Guidelines for reporting to the Supervisory Board", which reflects suggestions made by the Supervisory Board itself. The most significant changes made to the 231 Model regard a revised description of two of the Board Committees following their renaming and changes to their responsibilities, to application of the Whistleblowing Guidelines, which have simplified the disclosure process, and elimination of references to the Suppliers and Partners Code of Conduct following adoption of the new Code of Ethics, which has replaced and expanded on the previous codes of conduct used by the Company. Finally, with regard to 231-related matters, in 2018, the Company conducted a risk assessment and gap analysis to check up on the effectiveness of its Model and strengthen the related controls. The process did not highlight any critical issues regarding correct implementation of the organisational model requiring mention in this report.

In brief, the Board of Statutory Auditors is not aware of critical situations or events that might suggest shortcomings in the internal control system, taken as a whole.

14. Observations on the adequacy of the Company's administrative/accounting system and its reliability in representing operating activities

The Board of Statutory Auditors examined and oversaw, within the scope of our responsibilities, the adequacy of the Company's administrative/accounting system in reliably representing operating activities, the effectiveness of the internal control and risk management system and the financial reporting process, by: (i) gathering information from the heads of the various functions, from the Independent Auditor and from the Manager responsible for financial reporting; (ii) examining the annual report of the Manager responsible for financial reporting; (iii) taking part in the work of the Audit, Risk and Sustainability Committee and the Related and Connected Parties Committee; (iv) examining the annual report on the activities of Poste Italiane SpA's Internal Auditing function and on those of BancoPosta's Internal Auditing function; (v) examining the proposed Audit Plan for 2019, prepared by both Poste Italiane SpA's Internal Auditing function and BancoPosta's Internal Auditing function; (vi) examining reports prepared by Poste Italiane SpA's Internal Auditing function and BancoPosta's Internal Auditing function; (vii) by obtaining information and details of inspections and proceedings conducted by Italian government or European Union bodies and authorities, including those of an independent nature, details of which are provided in the section, “Principal relations with the authorities”, in the notes to the financial statements.

The Board also notes the Attestations, dated 19 March 2019, of the separate and the consolidated financial statements for the year ended 31 December 2018 pursuant to art.154-*bis*, paragraph 5 of Legislative Decree 58/1998 and art. 81-ter of CONSOB Regulation 11971 of 14 May 1999, in which the Chief Executive Officer and the Manager responsible for financial reporting declare, among other things, that the separate and consolidated financial statements:

- ✓ have been prepared in compliance with the International Financial Reporting Standards endorsed by the European Union through EC Regulation 1606/2002, issued by the European Parliament and by the Council on 19 July 2002;
- ✓ are consistent with the underlying accounting books and records;
- ✓ give a true and fair view of the financial position and results of operations of the issuer and the companies included in the scope of consolidation.

The Chief Executive Officer and the Manager responsible for financial reporting also declare that the Directors’ Report on Operations includes a reliable analysis of the operating and financial performance and situation of the issuer and the companies included in the scope of consolidation, as well as a description of the main risks and uncertainties to which they are exposed.

15. Observations on the adequacy of the guidelines communicated by the Company to its subsidiaries pursuant to art. 114, paragraph 2 of Legislative Decree 58/1998

The Board verified, partly in the course of a specific meeting, the adequacy of the guidelines communicated by the Company to its subsidiaries pursuant to art. 114, paragraph 2 of the Consolidated Law on Finance, following revision of the “Guidelines for management and publication of confidential information, and creation and maintenance of a register of persons with access to confidential information”, approved by the Board of Directors on 22 June 2017 and later revised on 2 October 2018.

These Guidelines and the “Internal Dealing Guidelines”, also approved by the Board of Directors on 22 June 2017 and later revised on 2 October 2018, are in compliance with the amendments to Italian legislation introduced from July 2016, in compliance with Regulation (EU) 596/2014 of the European Parliament and Council of 16 April 2014 relating to market abuse.

The Corporate Affairs function is currently conducting a review designed evaluate the need for a further revision of the Guidelines, partly in response to the recent organisational changes.

In addition, the Board of Statutory Auditors periodically held meetings with the boards of statutory auditors of the principal Group companies. In particular, the Board has noted the Company's issue of attestations regarding its binding commitment to provide financial support, in 2019, for SDA Express Courier SpA, Mistral Air Srl and, throughout its liquidation, a Poste Tributi ScpA (in liquidation).

16. Oversight of the statutory audit of the annual and consolidated accounts and observations on any key aspects that came to light during meetings with the auditors pursuant to art. 150, paragraph 2 of Legislative Decree 58/1998

The Independent Auditor, with whom the Board held meetings on a periodic basis in compliance with art. 150, paragraph 3 of Legislative Decree 58/1998 (the Consolidated Law on Finance) in order to exchange information in the Board's possession, has not informed us of any actions or events deemed to merit criticism or to be of an irregular nature, requiring specific reports pursuant to art. 155, paragraph 2 of Legislative Decree 58/1998 (the Consolidated Law on Finance).

On 17 April 2019, the Independent Auditors issued the Additional Report required by article 11 of the Regulation (EU) 537/2014, of which the annual confirmation of independence and the Audit Plan for 2018 (the latter previously presented to us by the Independent Auditor) are an integral part. The Board has already examined the contents of such documents during its meetings.

The Additional Report presents a decidedly positive view, so much so that the Independent Auditor did not issue the Company's management with a letter of recommendations.

We Independent Auditor has not informed us of any events or circumstances identified during the performance of the audit that might raise significant doubts about the ability of the Company or the Group to continue to operate as a going concern, nor regarding material shortcomings in its internal control system over financial reporting and/or in its accounting system, or any significant doubts over instances of non-compliance, whether effective or presumed, with laws, regulations or statutory requirements identified during the performance of the audit.

In any event, accounting aspects exposed to major risks of a recurring nature have been dealt with in the course of our meetings with the Independent Auditor, during which the following issues were discussed: i) impairment testing and above all the recoverable value of the "Mail, Parcels and Distribution" business; ii) the fair value measurement of unlisted financial instruments; iii) measurement of the technical provisions for the insurance business. The Board has recommended that the Board of Directors periodically monitor these aspects of the accounts, potentially on a six-monthly basis.

17. Oversight of application of the Corporate Governance Code for list companies

Pursuant to art. 149, paragraph 1, letter c-*bis* of the Consolidated Law on Finance, the Board oversaw the procedures involved in effective implementation of the rules provided for in the Corporate Governance Code adopted by the Board of Directors.

- ✓ With regard to the activities provided for in the Corporate Governance Code, during the year, the Board of Statutory Auditors not only held 36 of its own meetings, but also ensured its participation in all meetings of the Board of Directors and at all Board Committee meetings, in addition to general meetings of shareholders, making a total of 78 meetings. Given the large number and the complexity of such meetings, the Board notes that Board Committee meetings should be scheduled so as to leave a reasonable period of time between them and Board of Directors' meetings and, despite the positive progress made, we reiterate our view that information could be provided further in advance of meetings, above all when there is a particularly large volume of material to be examined.
- ✓ With regard to the observation made by the Board in last year's report, regarding the approval of guidelines for significant transactions in compliance with application criterion 1.C.1. letter f) of the Corporate Governance Code, the Board of Directors has approved, within the scope of the powers assigned to it, guidelines for the identification of transactions, carried out by the issuer and its subsidiaries, of strategic, economic or financial importance for the Parent Company, to be submitted for examination and/or approval by the Parent Company's Board of Directors. In this regard, the Board of Statutory Auditors has recommended that the scope of application be extended to include investment transactions carried out by regulated companies within the scope of separately managed accounts, and material purchases, including during calls for public tenders.
- ✓ With reference to the recommendation made by the Board in previous reports, regarding the establishment of specific guidelines setting out the adopted procedure for assessing the independence of members of the Board of Directors, defining materiality

thresholds for the trading, financial or professional relations that could compromise their status as independent, on 1 August 2018, the Board of Directors approved "Guidelines for assessing the independence of members of Poste Italiane SpA's Board of Directors", aimed at establishing general principles and procedures to be applied in assessing and verifying the independence requirements, and at providing detailed guidance regarding the principles and application criteria governing the independence of Directors set out in Corporate Governance Code (art. 3.C.4), within the context of the specific nature of the issuer, also with a view to facilitating practical application.

- ✓ In view of the complexity of the relevant transactions and the large number and varied nature of related parties, the Board of Statutory Auditors welcomes the strengthening of the relevant legal and corporate procedures, above all in terms of the recording, assessment and authorisation of related party transactions, which has taken place alongside a revision of the process following implementation of the new IT platform for related parties. We noted increased awareness, in 2018, of the need to oversee this area compared with the previous year.
- ✓ We welcome the Board of Directors' decision, in January 2018, to extend the responsibilities of the Nominations and Corporate Governance Committee, also giving the Committee the task of aiding the Board of Directors in conducting assessments, making recommendations and providing advice regarding the Company's and the Group's corporate governance.
- ✓ Likewise, we welcome the Board of Directors' decision, again in January 2018, to give the Audit and Risk Committee, now renamed the Audit, Risk and Sustainability Committee, responsibility of overseeing matters relating to the sustainability of the Company's businesses.

The Board of Statutory Auditors, within the scope of our responsibilities, and in accordance with the Corporate Governance Code, verified the content of the above "Annual Report on Corporate governance and the Ownership Structure", prepared by the Directors in accordance with the instructions contained in Borsa Italiana SpA's Market Regulations and in the Consolidated Law on Finance. The Board, within the scope of our responsibilities, and in accordance with the Corporate Governance Code, also verified the content of the "Remuneration Report" prepared by the Directors. Section I of the report, which is also submitted for express approval by the Annual General Meeting of shareholders, has also been prepared in accordance with the instructions contained in Borsa Italiana SpA's Market Regulations and in the Consolidated Law on Finance. With regard to section II, the Board of

Statutory Auditors, as we did in our previous report, wishes to state that, in our judgement, it is necessary to disclose Directors' pay on an individual basis, showing the amounts received for different reasons regardless of their nature or origin.

In 2018, the Board of Statutory Auditors verified correct application of the criteria and procedures used by the Board of Directors to assess the independence of Directors; the annual assessment was conducted on the basis of the "Guidelines for assessing the independence of members of Poste Italiane SpA's Board of Directors", and based on assurances provided by the Directors and information obtained directly from the Company on any economic or financial transactions and/or relationships between Poste Italiane Group companies, Directors and their related parties, in accordance with the provisions relating to independence requirements set out in art. 3.C.1, letter c) of the Corporate Governance Code. The Board of Directors conducted an assessment of the functionality, size and composition of the Board itself and of Board Committees with the support of a leading consulting firm, reporting on its findings in the "Annual Report on Corporate Governance and the Ownership Structure". With regard to assessment of the independence of the Board's members, the Board of Statutory Auditors verified that all its members meet the related requirements provided for in both the Consolidated Law on Finance and the Corporate Governance Code. The process also took into account the outcome of checks conducted by the entity with regard to any outstanding economic or financial transactions and/or relationships with Poste Italiane Group companies.

The Board of Statutory Auditors, on the basis of the rules of conduct for listed companies and the regulations issued by the Bank of Italy, also conducted our own annual self-assessment, confirming an entirely positive evaluation of the composition, diversity, structure and functionality of the Board and of the flow of information between the Board and the Board of Directors. In particular, in view of the approaching end of our three-year term of office, we wish, on the one hand, to express our view that there is a need for candidates capable of dealing with the complexity of the Company and, in this sense, recommend that such candidates should possess at least three years' experience in listed companies and have experience in the banking and/or insurance sectors and, on the other, as noted during our self-assessment, to highlight the previously mentioned discrepancy between the volume of work expected at the time of our election and the actual commitment required of us.

Pursuant to the Corporate Governance Code, the Board of Statutory Auditors was also consulted by the Audit, Risk and Sustainability Committee in 2018 regarding the following:

- approval of the MBO plan for the Head of the Internal Auditing function;
- definition of the audit plan;
- assessment of the results described in the Independent Auditor's letter of recommendations and the section of its report on key audit matters in the financial statements for 2018;
- assessment of the correct use of accounting standards and their consistency for the purposes of preparation of the consolidated financial statements;
- the revision of the Guidelines for the Internal Control and Risk Management System and the annexed information flows;
- appointment of the Head of Money Laundering Prevention and of the person in charge of flagging suspect transactions;
- the proposed Risk Appetite Framework for 2018.

A) Oversight of BancoPosta RFC

During 2018, and through to today's date, the Board of Directors has approved various regulations and guidelines designed to strengthen the nature and effective functionality of the overall system of internal controls over BancoPosta RFC:

i) the new "General Guidelines governing the process of contracting out BancoPosta's corporate functions to Poste Italiane";
ii) BancoPosta RFC's Regulation
iii) the Risk Appetite Framework;
iv) the "Guidelines governing BancoPosta RFC's outsourcing process";
v) the Investment Services Procedure;
vi) the "Guidelines for the management of transactions with related and connected parties";
vii) the "Guidelines for conflict of interest transactions";
viii) revised "Financial Management Guidelines for Poste Italiane".

In addition, on 31 January 2019, the Board of Directors approved new "Regulations for BancoPosta's organisation and operations", defining BancoPosta's operating model, its current organisational structure and the related responsibilities assigned to the various functions, and the new "General guidelines governing BancoPosta RFC's outsourcing and contracting out process".

Finally, on 18 march 2019, the Board of Directors approved the "Guidelines for the identification of BancoPosta RFC's Material Risk Takers".

The Board of Statutory Auditors oversaw BancoPosta RFC in accordance with:

– Presidential Decree 144/2001 "Regulations governing the services provided by BancoPosta", the relevant regulations contained in the Consolidated Banking Law and in the Consolidated Law on Finance and the implementing regulations for banks, deemed applicable to BancoPosta by the relevant authorities, and in compliance with the BancoPosta RFC Regulation approved by the General Meeting of shareholders held on 14 April 2011 and amended by the Extraordinary General Meeting of 31 July 2015 and subsequently revised by the Board of Directors' resolution of 25 January 2018. As required by the above Regulation, the Board of Statutory Auditors examined the specific issues regarding BancoPosta RFC separately, reporting the results in the minutes of Board meetings;
– the Supervisory Standards issued by the Bank of Italy on 27 May 2014 and, more generally, those in Circular 285 of 17 December 2013, as amended.

Based on the information received from the Manager responsible for financial reporting, the Independent Auditors, the management of BancoPosta and the heads of BancoPosta's control functions, and the Board's examination of the annual report of the Manager responsible for the internal control system relating to financial reporting, it should be noted that:

i) BancoPosta RFC's organisation and accounts have been unbundled with respect to the Company's operations. In preparing the Separate Report for BancoPosta RFC, in compliance with the provisions of Law Decree 225/10, converted into Law 10/11, which introduced regulations applicable to BancoPosta RFC, requiring the accounting separation provided for in articles 2214 *et seq.* of the Italian Civil Code and preparation of a separate report, the Company introduced a specific dedicated system. We were provided with extensive information on the system at a specifically arranged meeting, during which both the Independent Auditor and the Administration and Financial Reporting function, which is part of the Chief Financial Office, confirmed the solidity of the system, which is designed to ensure that transactions carried out by BancoPosta RFC are recorded separately from those forming part of the Company's operations.

relating to Point 2 of Bank of Italy Circular 285/2013 – part IV of the Standards for particular intermediaries: BancoPosta section II – requires that, in addition to directly attributable revenues and costs, also the charges incurred for the services provided by Poste Italiane in order to enable BancoPosta to operate should be allocated to BancoPosta RFC, and that the allocation of these charges should be based on criteria that reflect the real contribution of the various functions to BancoPosta RFC's results and to those of the Company as a whole. The Board of Statutory Auditors verified, at least every six months, the adequacy of the criteria adopted and, within the scope of our responsibilities as an oversight body, without responsibility for accounting controls, compliance with the applicable statutory and regulatory requirements. Based on the available data and information, the Board of Statutory Auditors believes that the level of control over management of BancoPosta RFC's accounts is adequate;

ii) as noted by the Directors, Poste Italiane has transferred a part of BancoPosta RFC to Poste Mobile, which has in turn created a separate, ring-fenced entity specialising in card payments and payment services, enabling it to operate as a hybrid electronic money institution ("EMI"), following receipt of all the necessary consents from the Bank of Italy. The establishment of the EMI, and thus the date on which the new EMI's distribution of the related products and services (primarily Postepay, acquiring, international money transfers) began, took place on 1 October 2018.

The Board periodically received information from BancoPosta's control functions and studied the outcomes of their audit activities, examining the annual reports prepared by the functions, which it oversaw in accordance with CONSOB Resolution 17297 of 2010.

Based on the activities carried out with regard to BancoPosta RFC, the Board reports that:

There were significant changes to BancoPosta's organisational structure in 2018. During the year, and through to today's date, the structure of internal controls over BancoPosta RFC has been further strengthened, including measures already implemented.

The Board of Statutory Auditors held periodic meetings with BancoPosta's internal auditing function ("Internal Auditing"), which has confirmed that the framework for BancoPosta RFC's internal controls is adequate overall and able to rapidly respond to the organisational and corporate changes that have occurred. is under continuous development. The Board of

Statutory Auditors notes the corrective measures implemented by BancoPosta following the Bank of Italy's inspection of 2017, the CONSOB Plan and the process of ensuring compliance with MiFID2 requirements.

During the year, the Board oversaw, partly with reference to compliance with the Supervisory Standards contained in Bank of Italy Circular 285/2013, and in close conjunction with the Remuneration Committee, correct application of the regulations governing the remuneration of the heads of the Company's control functions.

With regard to control activities contracted out to Poste Italiane functions, the Board of Statutory Auditors, in line with the relevant Supervisory Standards, examined the costs, risks and benefits of the contract. The outsourcing of a further area of operation was approved by the Board of Directors on 18 October 2018. This regards a plan to outsource "BancoPosta's financial management" from BancoPosta to BancoPosta Fondi SGR. The plan has involved the transformation of BancoPosta Fondi SpA SGR, which currently specialises in asset management, into a Group competence centre for the management of financial investments. This role was strengthened following its receipt of the mandate to take charge of BancoPosta's financial management from 1 January 2019.

Without prejudice to the information provided above in relation to the Group's anti-money laundering initiatives, in terms of the measures taken by BancoPosta in order to combat money laundering, as described in the annual report prepared by the relevant function, despite the "medium to low" degree of inherent risk exposure deriving primarily from qualitative and quantitative elements linked to the large size and complexity of BancoPosta's operations, the vulnerability of BancoPosta's organisational structure and business processes was judged by the function to be of "little significance", thus resulting in a "low" level of residual risk. The Board of Statutory Auditors has noted both the action plan implemented in 2018 and the new action plan for 2019, designed to strengthen internal controls and risk mitigation. We recommend that action be taken by the function, in line with the proposed timing, to address matters regarding i) adequate routine and enhanced customer checks and profiling; ii) the issue of objective communications, with implementation of an application for notifying the Bank of Italy's Financial Intelligence Unit (*UIF*) of cash transactions involving sums equal to or in excess of €10,000; iii) the Centralised Database (*Archivio Unico Informatico*); iv) the control instruments used by the Anti-money Laundering function; v) the implementation of data quality tools to analyse the records created by the anti-money laundering platform; vi) governance and the organisational structure; vii) legal checks; and viii) training. In addition, the Board recommends close monitoring of the process for reporting suspect transactions and the timing of the internal procedures involving in handling such reports. With regard to the model adopted by BancoPosta in order to combat money laundering, a Head of Money Laundering Prevention has been appointed within the Risk Management function and separate controls have been introduced in order:

- to provide, in coordination with the Group's Anti-money Laundering function, advice and assistance to the various business and operational functions, conducting *ex ante* assessments of the risks relating to money laundering and the financing of terrorism as part of the process of developing new products and services and/or modifying the processes involved in their distribution and provision;
- to collaborate in continuous reviews of the organisational, procedural and IT-related aspects of efforts to combat money laundering and the financing of terrorism and the related operational restrictions, in cooperation with the Group's Anti-money Laundering function and in keeping with this function's annual plan, contributing to the process of identifying the relevant requirements and the necessary compliance initiatives;
- to ensure the fulfilment of specific analyses and controls in coordination with the Group's Anti-money Laundering function;
- to guarantee, with reference to the tasks assigned within the Group's money laundering risk control model and in line with the related Operating Guideline, the continuous monitoring of the levels of service rendered, proposing any identified changes. For this purpose, the Head of Money Laundering Prevention has access to all the databases used by the Group's Anti-money Laundering function, containing information for use in carrying out his or her tasks and in verifying the correct operation of the IT platform.

In 2018, the centralisation of responsibility for anti-money laundering compliance within the Group's Anti-money Laundering function resulted in the function's assumption of operational responsibility for the local units tasked with handling the procedures involved in reporting suspect transactions.

In the period between October and December 2017, the Bank of Italy conducted a follow-up inspection of efforts to combat money laundering and the financing of terrorism, as required by art. 53 of Legislative Decree 231/2007. The inspection process, which took in 14 post offices around the country, was monitored by the Board of Statutory Auditors and we noted that work is proceeding according to the planned timing of compliance initiatives.

The Compliance and Risk Management functions have periodically prepared their respective reports on compliance risk and significant risk exposures for BancoPosta, and on the state of progress of the initiatives undertaken as a result of the commitments given to the Bank of Italy (following the inspection conducted in 2017 with the aim of assessing the governance, control and operational and IT risk management systems in relation to BancoPosta's operations) and to the CONSOB (regarding the provision of investment services). In this regard, the Board of Statutory Auditors checked on the state of progress in implementing the corrective measures introduced in response to the Bank of Italy's findings. In addition, in a letter from the CONSOB dated 17 January 2018, requesting data and information pursuant to art. 6-*bis*, paragraph 4, letter a) of Legislative Decree 58/1998, the Board was asked to provide the supervisory authority with its views on and an assessment of specific aspects of investment services, and to provide updates on the actions taken by Poste Italiane with regard to MiFID2 compliance, a process completed in 2018. The Board, following a close examination of the Company's response to the CONSOB, which also contained the observations and views of BancoPosta's Compliance function, and having examined the documentation obtained, submitted a document containing our observations on and assessment of each of the aspects referred to by the CONSOB. This document was then passed on to the authority.

In its annual report, BancoPosta's Compliance function reported on the checks carried out in each area, setting out the results of the checks, any weaknesses identified and the corrective measures to be implemented in 2019 in order to address such weaknesses. Overall, the checks resulted in a positive assessment of the activities carried out in 2018, including those relating to Information Systems and Privacy, areas in which improvements have been observed following the assessments conducted.

In 2018, the Compliance function took part in the reorganisation of Poste Italiane (the transfer of the business unit to PostePay SpA, the centralisation of back-office activities, including complaints management, within the Chief Operating Office function, the creation of a Group anti-money laundering function within Corporate Affairs, the centralisation of BancoPosta Fondi SGR's Risk Management and Internal Auditing functions within BancoPosta), providing *ex ante* support in designing the related operating models and participating in the definition of: i) the guidelines for contracting out services to Poste Italiane functions; ii) the service agreements with Postepay SpA and BancoPosta Fondi SGR; iii) the key performance,

compliance and risk indicators measuring the quality of the services covered by the guidelines and service agreements.
The Board recommends implementation, in 2019, of all the corrective measures identified in relation to the investment services covered by MiFID 2, to insurance broking in connection with the IDD Directive, to banking services and postal savings (above all with regard to efforts to strengthen and improve the management of complaints), to the payment services regulated by the PSD2 Directive, to action on cross-functional areas with an indirect impact, above all efforts to strengthen the information system (with particular regard to the definition of Data Governance standards and the management of business continuity and the IT security aspects of financial services), cash management and occupational health and safety.
The Board recommends continuing to closely monitor the underlying causes of complaints and fraud, giving priority to completion of the initiatives being implemented in order to comply with EBA guidance on the security of payments in terms of mitigation measures and control mechanisms designed to manage operational and security risks, to monitor and report on frauds linked to the different forms of payment, and the reporting of serious operational or security incidents. In particular, with regard to Business Continuity Management, in 2018, the Board checked on the progress made, in relation to the related timing, in implementing the action plan drawn up following the Bank of Italy's inspection in the first half of 2017, regarding operational and IT risk. Whilst acknowledging that the process will continue in 2019, we have recommended that implementation of the measures needed to complete the Data Centre Transformation, which will upgrade the IT architecture used in Poste Italiane's operations and for disaster recovery purposes, should be speeded up.
In view of the above, the Board has monitored the progress of preparations for the implementation, from 2018, of the new requirements contained in the new European directives regarding investment services (MiFID2), insurance broking (IDD) and the security of payment services (PSD2). In this regard, we have recommended that the further actions needed in order to ensure alignment with the above EU directives be completed in 2019.

The Risk Management function reported periodically to the Board of Statutory Auditors on its monitoring activities and developments affecting BancoPosta's significant risk exposures. In keeping with the Group's new money laundering risk control model, from 20 December 2018, BancoPosta's Anti-money Laundering function has ceased to exist and the Head of Risk Management has assumed the role of Head of BancoPosta's Money Laundering Prevention, accompanied by the establishment, within the Risk Management function, of the Anti-money

Laundering function. Since the end of 2018, BancoPosta's newly created Risk Management/Anti-money Laundering function has been involved in preparations for a self-assessment of the related risk and preparation of the annual anti-money laundering report. Working groups have also been engaged in feasibility studies regarding the creation of specific money laundering controls for certain at-risk products (payment slips, money orders and cash).

The Risk Management function took an active part in planning for the outsourcing of BancoPosta's financial management, until the end of 2018 contracted out to Poste Italiane's Coordination of Investment Management function under a specific Operating guideline. This role has now been outsourced to BancoPosta Fondi SGR, which has, in parallel, outsourced its Risk Management operations to BancoPosta's Risk Management function.

The Board notes the activities carried out by BancoPosta's Risk Management function in 2018 and the initiatives planned for 2019. We verified the levels of risk to which BancoPosta is exposed, with particular regard to financial leverage and the cost of operational risks, which declined in 2018 compared with 2017. In addition to those of an operational nature, financial leverage and spread risk, from this year one of the most important risks for BancoPosta is regulatory risk. Interest rate risk, on the other hand, is this year classed as medium, reflecting the ongoing low level of rates that has led the measured exposure to be negative. At 31 December 2018, all the Risk Appetite Framework metrics are in line with the predetermined targets, thresholds and limits for the year, with the sole exception of the operational risk capital requirement, which stands at 34.6%, slightly above the risk appetite (33%) but well within the level of tolerance (43%). At 31 December 2018, indicators of capital adequacy show a high capital ratio (a CET1 of 18.4%) and a high level of own funds which, thanks to a reduction in the exposure to interest rate risk, are double the Pillar 2 free capital requirement of 51%. In this regard, the Board recommends continuous and close monitoring of the key indicators set out in the Company's Risk Appetite Framework ("RAF") for 2019.

Operational risk losses recognised in profit or loss for the year are well down on 2017, falling from 3.33% to 1.73% of net interest and other banking income, primarily due to a significant reduction in provisions for liabilities connected to the distribution of real estate funds in previous years, despite the initial prudential provisions made to cover the cost if disputes with customers regarding returns on Interest-bearing Postal Certificates.

In terms of financial leverage, the leverage ratio in the first half of the year was slightly below the regulatory minimum of 3%, reflecting first-time adoption of the new accounting standard, IFRS 9 and the growth of the business. Return of the ratio to within the target set in the RAF

(3.15%) was achieved via a further injection of capital by Poste Italiane, totalling €210 million, in September.

In the Board's view, these events should be closely monitored on a periodic basis by the Risk Management function to both analyse the related trends and the effects in terms of provisions and the assessment of reputational risk.

The Board acknowledges the effectiveness of the capital injection carried out by Poste Italiane, which has raised the leverage ratio to 3.2% at the end of the year. This level is compatible with the risk appetite of 3.15%, thus returning the ratio to a level in keeping with the targets in the RAF.

In view of the assessment carried out, the ICAAP report for 2017, approved in April 2018, shows that BancoPosta RFC's capital is adequate with respect to its current and future risk profile and under stress conditions. This reflects its ability to boost its capital by generating own funds, linked to strong earnings and resilience under stress scenarios.

An addendum to the report was produced in June 2018. This contained the results of the stress tests required by the new supervisory standards, which were extended over a two-year time horizon and based in part on so-called reverse stress tests. The Board examined the above ICAAP/ILAAP addendum which, following its approval by the Board of Directors on 28 June 2018, was submitted to the Bank of Italy.

Lastly, the ICAAP/ILAAP report for 2018, examined during a meeting of the Audit, Risk and Sustainability Committee in April 2019, shows how, after the significant increase in own funds over the years as a result of retained earnings and the recent capital injection (completed in September 2018 via Poste Italiane's contribution of distributable reserves to BancoPosta RFC), BancoPosta's capital is adequate in view of the risks assumed on both a current and prospective basis. Capital adequacy is solid, despite the fact that the potential shocks resulting from the stress tests conducted, judged by the relevant functions to be severe but plausible, require constant monitoring by the Board of Directors, with the support of the Audit, Risk and Sustainability Committee, in order to identify the potential need to strengthen the entity's own funds.

Finally, in compliance with Bank of Italy's Supervisory Standards, and the Code of Conduct for the Statutory Auditors of Listed Companies issued by the Italian Accounting Profession (*Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*) in April 2018, the Board conducted a self-assessment in February and March 2019. This focused on whether or not the Board was fit for purpose in terms of authority, functionality and composition in 2018, with the outcome disclosed in a specific report that was submitted to the Board of Directors.

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18. and 19 Final considerations on the audit procedures performed and an indication of any proposals to be presented to the Annual General Meeting pursuant to art. 153, paragraph 2 of Legislative Decree 58/1998

In accordance with CONSOB requirements, we declare that in the performance of our duties we have not been made aware of omissions, instances of negligence, irregularities or evidence of inadequacies in the organisational structure, the internal control system or the administrative and accounting system.

In view of the fact that our term of office has come to an end, the Board has prepared a summary report on the activities carried out over the three years, as required by Rule Q.1.6. in the Code of Conduct for the Statutory Auditors of Listed Companies. The report has been submitted to the Company, with the aim of enabling candidates for the role of Statutory Auditor and shareholders to assess the activities carried out the adequacy of the proposed fees.

Based on the results of the oversight activities conducted during the year, the Board is not aware of any reason that should prevent approval of Poste Italiane SpA's separate financial statements or the Poste Italiane Group's consolidated financial statements for the year ended 31 December 2018, or of the Board of Directors' proposal to distribute a dividend.

The Annual General Meeting's approval of the financial statements for the year ended 31 December 2018 marks the end of our three-year term of office. We should like to thank shareholders for your confidence.

17 April 2019

Mauro Lonardo - Chairman

Alessia Bastiani - Auditor

Maurizio Bastoni - Auditor

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Independent auditor's report

Poste Italiane SpA

Consolidated Financial Statements as of 31 December 2018

Independent auditor's report

To the shareholders of
Poste Italiane SpA

Opinion

We have audited the consolidated financial statements of the Poste Italiane Group (the Group), which comprise the consolidated statement of financial position as of 31 December 2018, consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Poste Italiane SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recoverable amount of the "Mail, Parcels and Distribution" business segment of the Parent Company	
Note 2.3 to the consolidated financial statements as of 31 December 2018 "Accounting policies adopted – Impairment of assets" *Note 2.5 to the consolidated financial statements as of 31 December 2018 "Use of estimates", paragraphs "Impairment test of cash generating units and equity investments" and "Measurement of other non-current assets"* *Note C1 to the consolidated financial statements as of 31 December 2018 "Statement of profit or loss – Revenue from letter post, parcels and other"* The persistent decline of the postal market in which the Poste Italiane Group operates makes the ability to forecast future cash flows and the related prospective operating results of the "Mail, Parcels and Distribution" business segment of the Parent Company significantly complex. Within this context, based on the Group Business Plan for the period 2018 – 2022 (the "Business Plan"), the Cash Generating Unit ("CGU") represented by the "Mail, Parcels and Distribution" business segment of the Parent Company was subject to an impairment test, in compliance with IAS36 "*Impairment of assets*". Such test was aimed at verifying that the book value of the assets allocated to the CGU, which also includes properties used as post offices and sorting centres, can be recovered through their use in operations. In this regard, the "value in use" of the CGU was calculated, which represented the estimate of the future cash flows expected from the use of the assets included in the CGU within the context of regular corporate operations and considering the Universal Postal Service	As part of our audit activities, also supported by experts within the PwC network, we carried out the following main activities in order to address this key audit matter: • in-depth technical analysis of the principal hypotheses and assumptions of the Business Plan with reference to the "Mail, Parcels and Distribution" business segment of the Parent Company, also through discussions with management of Poste Italiane SpA; analysis of the final results compared with the forecasts, verification of the events after the end of the reporting period and reading of the minutes of the corporate governance bodies' meetings; • update of our understanding of the method to identify the CGU "Mail, Parcels and Distribution" at the level of the parent company Poste Italiane SpA and the method to determine the related recoverable amount in compliance with IAS36 "Impairment of assets" and valuation best practices, verifying that the criteria adopted in prior years have continued to be applied; • obtainment and critical analysis of the impairment test prepared by Poste Italiane SpA based on the aforementioned method, as well as verification of the consistency between the cash flows considered in the abovementioned test with the related book values and data in the Business Plan;

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obligation. Such cash flows were discounted at an appropriate rate and account was taken of the transfer prices by which Banco Posta's Ring-fenced Capital is expected to remunerate the services provided, through the sole and widespread network used by the Group and allocated to the CGU. Therefore, as part of our audit for the financial year 2018, we focused on the determination of the recoverable amount of the "Mail, Parcels and Distribution" business segment of the Parent Company, as well as the reasonableness of the most significant underlying assumptions and hypotheses.	• verification of the logical and mathematical correctness of the determination of the cash flows in the context of the impairment test mentioned above, as well as of the overall reasonableness of the calculation of the weighted average cost of capital ("WACC") and of the consistency of the assumptions related to the "terminal value", that is the value that represents the ability of the company to generate cash flows, estimated beyond the explicit forecast period 2018 – 2022 in the Business Plan; • verification of the sensitivity analyses prepared by Poste Italiane SpA vis-à-vis any change in key assumptions, comparing the reasonableness of the related results with those deriving from the sensitivity analyses performed by us independently; • verification of disclosures provided in the consolidated financial statements as of 31 December 2018.
Measurement of the technical provisions for insurance business *Note 2.3 to the consolidated financial statements as of 31 December 2018 "Accounting policies adopted– Insurance contracts"* *Note 2.5 to the consolidated financial statements as of 31 December 2018 "Use of estimates – Technical provisions for insurance business"* *Note B5 to the consolidated financial statements as of 31 December 2018 "Liabilities – Technical provisions for insurance business"* *Note C4 to the consolidated financial statements as of 31 December 2018 "Statement of profit or loss – Revenue from insurance services net of*	 As part of our audit activities, also supported by experts within the PwC network, we carried out the following main activities in order to address this key audit matter: • update of the walkthrough analysis and of our understanding of the insurance "provisioning" process, that is the corporate process aimed at determining the liabilities representing the contractual obligations undertaken at the reporting date and in relation to the issued premiums, on the part of an insurance company towards its policyholders;

changes in technical provisions for insurance business and cost of claims"

Note 7 to the consolidated financial statements as of 31 December 2018 "Risk management –Other risks – Insurance risks"

The technical provisions for the insurance business represent the estimate at the reporting date of the obligations in relation to the issuance of premiums towards the holders of insurance policies entered into by the subsidiaries Poste Vita SpA and Poste Assicura SpA (hereinafter also the "Companies").

The technical provisions for the insurance business, equal to about Euro 125,149 million, represent about 60% of total liabilities and equity of the Poste Italiane Group as of 31 December 2018. In particular, the mathematical provisions for life insurance amount approximately to Euro 119,419 million, thus constituting almost all of the abovementioned technical provisions for the insurance business recognised in the consolidated financial statements of the Poste Italiane Group as of 31 December 2018.

The technical provisions for the insurance business represent an item the estimate of which is predominant and requires a significant level of professional judgement, depending on diverse and significant assumptions of a technical, actuarial, demographic and financial nature, as well as on the forecasts of future cash flows deriving from the insurance contracts entered into by the Companies and existing at the reporting date.

Therefore, as part of our audit activity, we paid particular attention to the analysis of the measurement techniques and methods of the technical provisions for the insurance business in the consolidated financial statements as of 31 December 2018.

- update of the analysis of the design and effectiveness, on a sample basis, of the key controls performed on said provisioning process, also with reference to the quality of the input data used and the consistency between information in the IT systems used by the Companies and the related supporting documentation obtained;

- performance of procedures aimed at verifying the agreement of the management information with the accounting information used by the Companies, for the purpose of estimating the technical provisions;

- critical analysis of the methods, hypotheses and assumptions adopted by the Companies for estimating the insurance technical provisions;

- comparison of the methods and assumptions mentioned above with the sector regulations and with valuation best practices, as well as verification of whether the criteria adopted in prior years have continued to be applied;

- obtainment and analysis of the documentation prepared by Poste Vita SpA to measure the ability of future cash flows, deriving from the assets in the investment portfolio, to cover obligations towards the policyholders as at 31 December 2018 and, therefore, to verify the adequacy of the measurement of the technical provisions recognised in the consolidated financial statements of the Poste Italiane Group at such date (the so-called: "Liability Adequacy Test").

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Valuation of the unlisted financial instruments measured at fair value

Note 2.5 to the consolidated financial statements as of 31 December 2018 "Use of estimates – Fair value of unquoted financial instruments"

Note 2.6 to the consolidated financial statements as of 31 December 2018 "Determination of fair value"

Note A5 to the consolidated financial statements as of 31 December 2018 "Financial assets - Fair value hierarchy"

Note B8 to the consolidated financial statements as of 31 December 2018 "Financial liabilities – Fair value hierarchy"

Note 7 to the consolidated financial statements as of 31 December 2018 "Risk management"

Financial assets classified in levels 2 and 3 of the fair value hierarchy were recognised for an amount of approximately Euro 35,078 million and Euro 2,667 million respectively in the financial statements as of 31 December 2018; moreover, financial liabilities classified in level 2 of the fair value hierarchy were recognised for an amount of approximately Euro 1,859 million.

Level 2 of the fair value hierarchy comprises the measurement of financial instruments based on inputs other than quoted prices in organised and regulated markets ("level 1"), and directly and indirectly observable in the market with reference to the same instruments. On the contrary, level 3 of the fair value hierarchy includes the measurement of financial instruments based also on inputs that are not directly or indirectly observable in the market.

As part of our audit activity, we paid particular attention to the analysis of the measurement

As part of our audit activities, also supported by experts within the PwC network, we carried out the following main activities in order to address this key audit matter:

- update of the analyses of the design and the effectiveness of the internal control system and the specific corporate guidelines governing IT systems and applications used by the Group for the calculation of the fair value under levels 2 and 3;
- verification, on a sample basis, of the reasonableness of the input assumptions and parameters underlying the valuation techniques used to determine level 2 and level 3 fair value of the financial instruments;
- autonomous recalculation of the fair value for a sample of instruments and comparison with the values determined by the Company;
- requests for confirmation and for information from external banks and financial counterparties about financial instrument transactions carried out in 2018;
- verification of disclosures provided in the consolidated financial statements as of 31 December 2018, in compliance with IFRS7 "*Financial instruments: disclosures*".

techniques and methods of financial instruments that are unquoted on regulated markets and measured at fair value in the financial statements as of 31 December 2018. In particular, the use of estimates mainly concerns specific types of structured securities and derivatives classified in levels 2 and 3 of the fair value hierarchy in compliance with IFRS9 "*Financial instruments*" and IFRS13 "*Fair value measurement*".

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Poste Italiane SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.
We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Rome, 17 April 2019

PricewaterhouseCoopers SpA

Signed by

Corrado Testori
(Partner)

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Poste Italiane SpA

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Edited by
Corporate Affairs - Communication
Poste Italiane SpA

May 2019

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www.posteitaliane.it

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