2016

Interim Report for the six months ended 30 june 2016

Posteitaliane

2016

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Posteitaliane

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INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2016

Group financial and operational highlights

1 Group financial and operational highlights

RESULTS OF OPERATIONS

(€m)	for the six months ended 30 June	
	2016	**2015**
Total revenue	17,682	15,950
of which:		
from Postal and Business Services	*1,884*	*1,933*
from Financial Services	*2,830*	*2,664*
from Insurance Services and Asset Management	*12,854*	*11,230*
from Other Services	*114*	*123*
EBITDA	1,142	927
Operating profit/(loss)	843	638
Profit for the period	565	435
Gross ROE	9.4%	8.0%

FINANCIAL POSITION

(€m)	**at 30 June 2016**	**at 31 December 2015**
Non-current assets	2,855	3,010
Working capital	1,773	1,301
Net invested capital	1,617	999
Equity	8,658	9,658
Net funds/(debt)	7,041	8,659
Industrial net funds/(debt) (before adjusting for intersegment transactions)	276	307

INVESTMENT

(€m)	for the six months ended 30 June	
	2016	**2015**
Capital expenditure	**151**	**137**

AVERAGE WORKFORCE

	for the six months ended 30 June	
	2016	**2015**
Total permanent and flexible workforce expressed in full-time equivalent terms	**142,014**	**143,488**

OTHER OPERATIONAL DATA

	at 30 June 2016	at 31 December 2015
Outstanding customer current accounts ('000) (1)	6,369	6,362
Client assets (€bn) (2)	488	476
Number of post offices	12,843	13,048

	for the six months ended 30 June	
	2016	**2015**
Letters handled by Group *(volumes in million)*	1,799	2,006
Express Delivery items and Parcels handled by Group *(volumes in million)*	46	40
Current account deposits (average for the period in €m) (3)	48,101	45,157
Poste Vita group *(net premium revenue in €m)*	10,551	9,474
Number of PosteMobile SIM cards *(average for the period in '000)*	3,619	3,394

(1) This figure does not include transaction accounts.

(2) These amounts include postal savings deposits, the mutual investment funds marketed, Poste Vita's technical provisions and average current account deposits (average current account deposits include Long-Term RePos).

(3) These amounts include both private customer deposits (including the investment of liquidity by Group companies and amounts payable to financial institutions under repurchase agreements), and deposits by the Public Administration.

Interim report on operations

for the six months ended

30 june 2016

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1 Management and supervisory bodies

Chairwoman

LUISA TODINI

Chief Executive Officer and
General Manager

FRANCESCO CAIO

BOARD OF DIRECTORS[1]

Chairwoman	Luisa Todini	
Chief Executive Officer and General Manager	Francesco Caio	
Directors	Giovanni Azzone Mimi Kung Chiara Palmieri Roberto Rao	Elisabetta Fabri Umberto Carlo Maria Nicodano Filippo Passerini

BOARD OF STATUTORY AUDITORS[2]

Chairman	Mauro Lonardo	
Auditors	Alessia Bastiani	Maurizio Bastoni
Alternates	Marina Colletta Ermanno Sgaravato	Andrea Bonechi

SUPERVISORY BOARD[3]

Chairwoman	Nadia Fontana	
Members	Gennaro Terracciano	Paolo Casati[4]

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

Francesco Petronio

INDEPENDENT AUDITORS

PricewaterhouseCoopers S.p.A.

At the meeting held on 10 September 2015, the Board of Directors established 3 Board committees with responsibility for making recommendations and providing advice to the Board. Members of the committees are as follows at 30 June 2016:

Nominations Committee	Remuneration Committee	Audit and Risk Committee
– Roberto Rao – Chairman	– Filippo Passerini – Chairman	– Umberto Carlo Maria Nicodano – Chairman
– Chiara Palmieri	– Elisabetta Fabri	– Chiara Palmieri
– Filippo Passerini	– Umberto Carlo Maria Nicodano	– Roberto Rao
– Giovanni Azzone	– Mimi Kung	– Giovanni Azzone

(1) In order to fulfil the undertakings given by the Company and the Ministry of the Economy and Finance at the time of the Company's privatisation, the Ordinary General Meeting held on 24 May 2016 elected additional members of the Board of Directors, increasing the number of Directors from seven to nine and electing Giovanni Azzone and Mimi Kung as the new members of the Board.

The Board of Directors will remain in office until the General Meeting's approval of the financial statements for the year ended 31 December 2016.

(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.

(3) At its meeting of 17 May 2016, the Board of Directors voted to assign supervisory responsibilities to two separate bodies: the Board of Statutory Auditors, which has maintained its existing responsibilities, and the Supervisory Board. As a result, the Board of Directors appointed the new Supervisory Board with effect from 24 May 2016. The Supervisory Board will remain in office for three years.

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

2 Mission and key aspects of strategy

Poste Italiane aims to be a driving force for inclusive development in Italy, helping citizens, businesses and the Public Administration through the transition to a digital economy by offering high-quality, simple, transparent and reliable services.

The Group's strategies focus primarily on achieving growth in its three areas of business:

(i) Postal and Business Services;

(ii) Financial Services;

(iii) Insurance Services and Asset Management;

and on developing key business enablers (digital channels, technology platforms and human resources).

In the first half of 2016, the Group was engaged in the completion of a number of projects begun last year and in the implementation of new initiatives designed primarily:

- to refresh the offerings of its traditional businesses;
- to ensure further development of its service model, adopting a more customer-centric approach;
- to support the Group's role as a driving force behind the country's digital transformation.

During the first half, the Postal and Business Services segment began to see the initial effects of the implementation, in previous months, of plans to renew and simplify the offering. This has resulted in positive growth in the Parcels segment, which has offset the expected decline in traditional letter post.

Our strategies in the Financial Services segment have allowed us:

- to launch our full acquiring service for Business and Public Administration customers;
- to introduce new specific solutions for citizens (e.g., salary loans and new forms of loan);
- to renew the Postepay App by introducing new functions, including an innovative means of sending money using a P2P app, and a complete redesign of the user experience.

Finally, the Insurance Services and Asset Management segment witnessed the following during the first half:

- the launch of a new Class III product that has enabled us to give a significant boost to inflows;
- the release of new investment solutions.

In terms of the new retail service model and the digital transformation programme, the activities envisaged in the Business Plan and implemented during the first half are specifically described in this Report.

3 Group organisational structure

1 Postal and Business Services	2 Financial Services	3 Insurance Services and Asset Management	4 Other Services
Letters Express Delvery. Logistics and Parcels, Philately and the activities carried out by the **Parent Company** for the other operating segments. This segment also includes the following companies:	The provision of current accounts and payment services, financial products and loan products arranged by third parties	The sale of Class I, III, IV and V life insurance products through Poste Vita and, from 2010, of non-life insurance products through Poste Assicura. The marketing and distribution of mutual investment funds	The activities carried out by Poste Mobile (MVNO and operator of the Group's telecommunications infrastructure)
Postel, SDA Express Courier, Mistral Air, EGI, Postecom, Postetutela	BancoPosta, Banca del Mezzogiorno	BancoPostaFondi SGR, Postevita, Posteassicura	Poste mobile

Following a number of organisational changes, from 2016, the allocation of certain companies to the related operating segments has been updated. Specifically, BancoPosta Fondi SpA SGR, which was previously allocated to the Financial Services segment, now forms part of the Insurance Services and Asset Management segment, whilst Poste Tributi ScpA, which was previously allocated to the Postal and Business Services segment, has been transferred to the Financial Services segment. The relevant comparative amounts for the first quarter of 2015 have been reclassified accordingly in this interim report.
In addition, during the first half of 2016, as part of a wider reorganisation of the Group's structure, the following corporate actions took place:

- on 18 April 2016, a general meeting of SDS System Data Software Srl's shareholders approved the merger of SDS Nuova Sanità Srl with and into the company and the renaming of the merged entity, with effect from the effective date of the merger deed (executed on 25 July), as Poste Welfare Servizi Srl. The merger was effective for accounting and tax purposes from 1 January 2016;
- the deed for the merger of PosteShop SpA with and into Postel SpA was executed on 22 April 2016. The merger was effective for legal, accounting and tax purposes from 1 May 2016;
- the partial demerger of the fixed line telecommunications business of the subsidiary, PosteMobile SpA, to Poste Italiane was executed on 27 April 2016 and the transaction was effective from 1 May 2016.

Transactions involving other Group companies are as follows:

- The subsidiary, SDA Express Courier SpA, ended the first half with a loss of €13.9 million (a loss of €14.9 million for the first half of 2015), requiring the company to apply art. 2447 of the Italian Civil Code (capital below the legal minimum). A general meeting of the company's shareholders has been called to proceed with the company's recapitalisation[(1)] ;
- on 11 July 2016, the chairman of the board of Poste Tributi ScpA called an extraordinary general meeting of the consortium's shareholders for 3 August 2016 in order to approve its winding up and liquidation.

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(1) Poste Italiane SpA is committed to providing financial support to the subsidiaries, SDA Express Courier SpA and Mistral Air Srl, at least until 31 December 2016.

On 31 May 2016, the Italian cabinet approved a draft Cabinet Office Decree – currently being examined by the relevant parliamentary committees – setting out the terms of Poste Italiane SpA's privatisation and the method for selling a further tranche of shares in the Company held by the Ministry of the Economy and Finance – MEF (which currently holds a 64.7% interest). The plan is to retain a stake of not less than 35% in the Company, (to be held through and managed separately by Cassa Depositi e Prestiti SpA (CDP)) which will continue to be under the control of the MEF. On 24 June 2016, the extraordinary general meeting of Cassa Depositi e Prestiti SpA's shareholders approved the issue of new shares to the MEF amounting to €2.930 billion, inclusive of a share premium. The new shares will be paid for via the MEF's transfer of a 35% interest in Poste Italiane SpA to Cassa Depositi e Prestiti. The share issue and the transfer of the stake in Poste Italiane will take place by 31 December 2016, once the procedure for authorising the transfer of the investment has been completed. On completion of the transaction, the MEF will continue to hold an interest of approximately 29.7% in Poste Italiane. It is expected that this interest will be sold off in the form of a public offering of shares to Italian retail investors, including employees of the Poste Italiane Group, and/or Italian and international institutional investors.

DISTRIBUTION CHANNELS AND MULTI-CHANNEL STRATEGY

During the first half of the year, work continued on initiatives designed to offer a more effective organisational and commercial approach to the retail and SME segments(2).
The principal organisational initiatives regarded:

- changes to the sales formats (consulting rooms and corners) present within the Group's 12,843 (3) post offices (13,048 offices at 31 December 2015), in order to maximise their effectiveness and coverage in keeping with the growth potential for these target customers. In this regard, the "Insurance Corner" format was discontinued during the first half, with the related sales activities now carried out by specialist "Insurance Consulting Rooms" (at 30 June 2016, the number of post offices with these consulting rooms numbers 174). In addition, the new "UP Corner" sales format was introduced into approximately 56 post offices with high growth potential, with the aim of promoting the offer of ancillary current account services and providing information on the insurance offering, directing interested customers to the relevant insurance specialists;
- implementation of the "new retail service model" at a further 609 post offices (when added to the 900 at the end of 2015, at 30 June 2016, a total of 1,509 post offices use the model). The model provides for a more focused approach to customers with the introduction of consultants specialised in terms of target customers, and a new staff role dedicated to welcoming and guiding customers inside post offices;
- the introduction of a network of 50 Philately experts at Branch Offices, designed to strengthen the marketing of philately products by managing the related commercial initiatives; these staff also provide support for post offices that specialise in the sale of philately products, as well as developing relations within the areas for which they are responsible.

(2) Management of the sales and contact channels for retail customers and Small and Medium Enterprises (SMEs) has been assigned to the Private Customer function, which coordinates the network of post offices and contact centre services.

(3) Rationalisation of the post office network, aimed at reducing universal service provision costs, is being carried out in accordance with the criteria laid down by the Ministerial Decree of 7 October 2008 and AGCom Resolution 342/14/CONS.

Further changes to the post office network regarded an increase in the number of Consulting Rooms, which total 6,337 at 30 June 2016. This includes 1,500 rooms with staff dedicated to affluent customers (900 at 31 December 2015), 169 with staff specialising in loan products (159 at 31 December 2015) and 174 with staff having expertise in insurance products (47 at 31 December 2015). In addition:

- new "Postamat windows" have been created at post offices (2,829 at 30 June 2016, compared with 2,808 at 31 December 2015);
- the "New queue management" system has been extended to further post offices, with 1,272 offices using the system at 30 June 2016 (720 at 31 December 2015);
- the number of Specialist Commercial Financial Promoters has been increased (237 staff at 30 June 2016, compared with 206 at 31 December 2015);
- the network of PosteMobile corners has been increased, which 340 in operation at 30 June 2016 (339 at 31 December 2015);
- free Wi-Fi has been made available to customers at a further 641 offices (at 30 June 2016, the number of offices equipped with Wi-Fi totals 1,558);
- with regard to the Business Channel, efforts to improve commercial effectiveness continued by increasing the number of specialist Business Finance Consultants and expanding the Business Sales Force, which at 30 June 2016 total 479 (464 at 31 December 2015) and focus on development business with SMEs.

During the first half of 2016, the "Poste Risponde" Contact Centre handled more than 9.6 million contacts (11.8 million contacts in the same period of 2015), including 91% for the captive market. Alongside the usual customer relationship management and commercial network support services, the centre launched new initiatives designed to support the Group's businesses. With regard to financial services, this included the introduction of new forms of contact by enabling private messages to be sent to customers from Poste Italiane's Facebook page and use of the new multi-channel access taskbar to allow customers to manage contacts. This tool enables the user to manage contacts from any channel (phone, e-mail and innovative channels, such as social networks or apps) in order to improve the customer experience.
The number of specialist insurance advisors has been increased, whilst, in the postal segment, the channel provides support for citizens wishing to enable the Public System for Digital Identity Management (*SPID*). In this regard, Poste Italiane, in the role of Digital Identity Manager accredited by the Agency for Digital Italy, completed the process of launching the *SPID*, which allows all citizens and companies to access any service provided by the Public Administration or participating businesses using a single PIN and certifying their identity only once.
Poste Italiane's Digital Identity solution is called "*PosteID abilitato a SPID*" and can be requested, depending on the customer's requirements, either on line or at any post office in Italy.

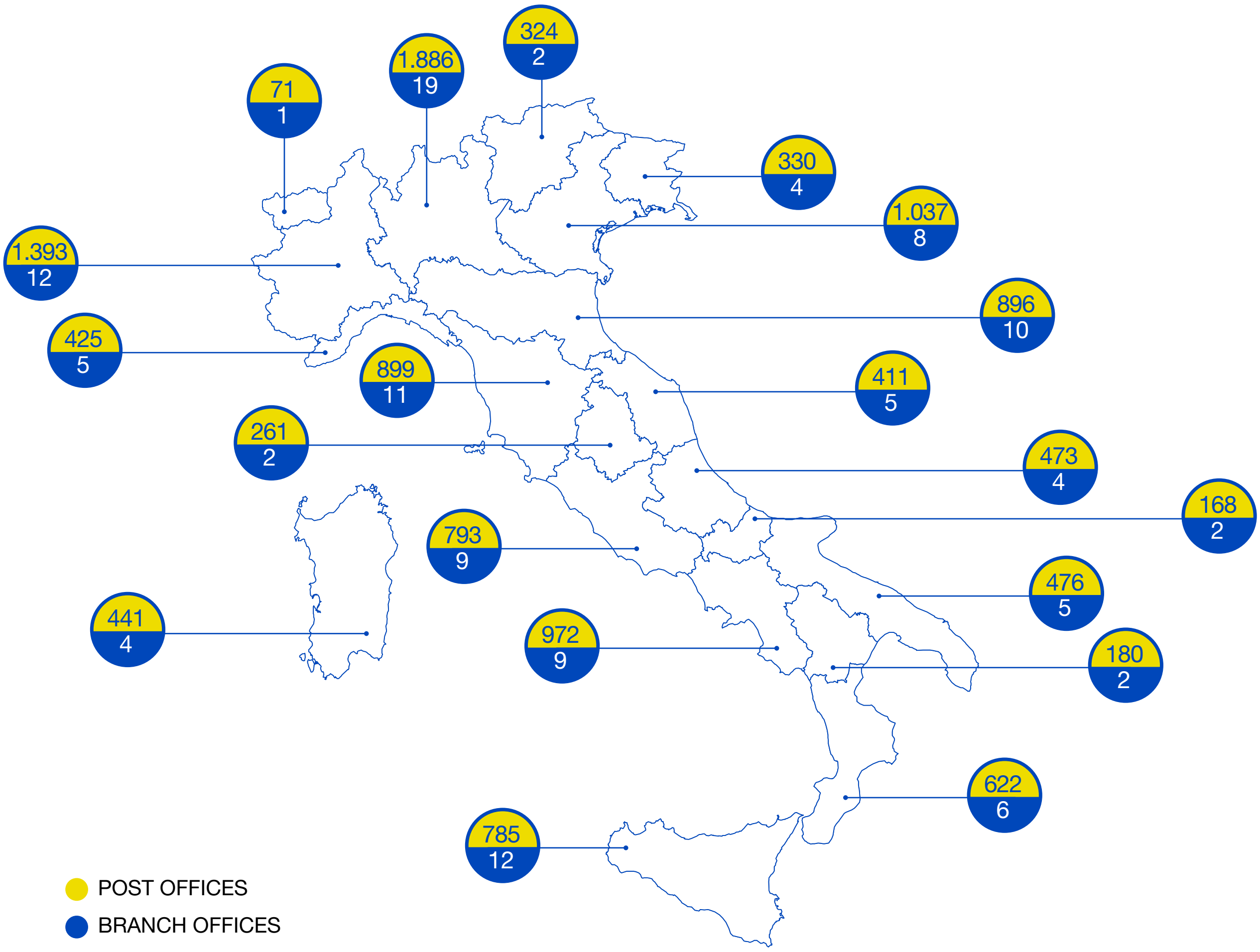
In terms of customer satisfaction, with the aim of offering increasingly better support services, the Group has begun a structured process designed to analyse the channel's perceived quality, based on surveys conducted with customers who contact the Contact Centre. Customers for all services are automatically asked if they wish to take part in the surveys on a daily and permanent basis.

The web distribution channel, via the website www.poste.it and other dedicated web portals, provides access to online services for 11.4 million(4) retail and business customers (10.7 million at 31 December 2015), operating as a direct end-to-end sales channel and as a support provider for other channels.
As well as carrying out evolutionary maintenance work on the portal in the first half, a series of initiatives was carried out, as part of the digital transformation process, with the aim of improving the Group's online offering.
In particular, new functions were added to the www.postepay.it website, including the ability to view historical transactions over the last year, the option of carrying out an international bank transfer from the new PostePay Evolution prepaid card and of activating the Postepay card directly on line. The www.postevita.it website also saw the addition of new functions for customers, including the introduction of new simulation apps linked to the launch of certain products and the possibility of making a claim on the customer's personal insurance policy and following its progress through to the outcome.

(4) The figure refers to registered and active users.

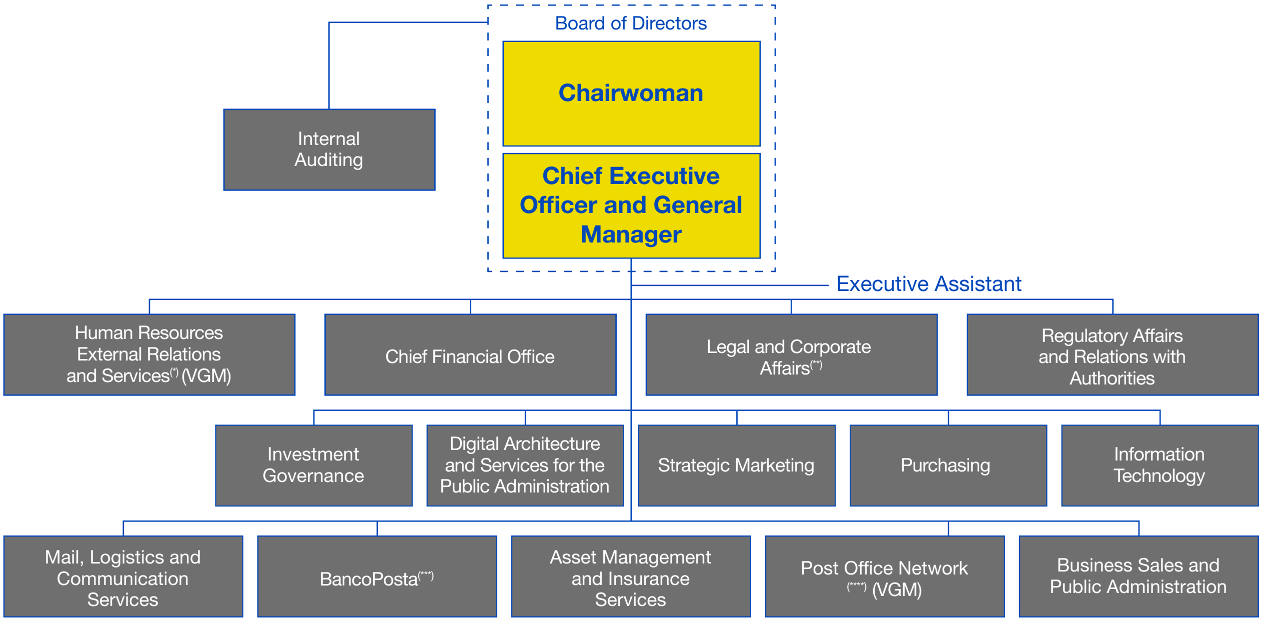
In the Large Account, Business and Central and Local Government segment[5] implementation of the business and organisational introduced in 2015 continued during the first half. This is based on approaches that differ in terms of the characteristics of the sectors in which customers operate, and the actual and potential value of the various identified targets. In particular, following the decision to transfer responsibility for Local Government customers to the Business Sales and Public Administration function, a specific commercial network has been put in place. Finally, with regard to the insurance business, the sales force was asked to also focus on welfare services for large companies.

GEOGRAPHICAL DISTRIBUTION OF POST OFFICES AND BRANCH OFFICES



(5) The Business Sales and Public Administration function is responsible for managing the sales and contact channels for Large Account, Business and Central and Local Government customers.

ORGANISATIONAL STRUCTURE



(*) Human Resources and Organization, Real Estate, Communication, Institutional Relations and Security and Safery functions are part of the Vice General Manager area of responsibilities.

(**) Legal Affairs, Corporate Affairs and Corporate Assurance & General Affairs functions are part of Legal and Corporate Affairs function.

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

(****) The Vice General Manager leads Customer Operations and Financial Back Office Integration Projects.

Poste Italiane's stock market listing represented a major first step in the process of radically transforming the Company. In order to successfully complete the listing, it was necessary, in 2015, to embark on a review of the organisational structure and governance processes in order to align them with the strategic priorities set out in the Business Plan and with the new status as a listed company. Having completed this phase, during the first half of 2016, initiatives focused on strengthening the Group's organisational and operating model in order to further improve its quality and efficiency.

In addition, the majority shareholder's decision to offer further shares for sale on the market, in line with the process undertaken and the related timing, has accelerated its implementation. As was the case with the initial public offering, this second offering of shares on the market will, during the second half of the year, place significant demands on the Chief Executive Officer and General Manager and on the CFO and his team, who will be responsible for preparing a new offering circular and presenting the offering to investors.
Against this backdrop, the main initiatives regarded:

- the appointment of two Deputy General Managers who have been assigned, in addition to significant organisational responsibilities, the role of implementing a series of initiatives across the Group that will be key to achieving the strategic objectives set out in the Plan. The Human Resources, External Relations and Services function has been created, coordinated by one of the two Deputy General Managers, to which responsibility for Human Resources and Organisation, Property, Security and Safety, Communication and Government Relations has been allocated;
- the centralisation of central and local administrative and accounting functions within the Chief Financial Office as part of the plan to progressively centralise administrative services and the accounting cycle within the Group, and to strengthen Mergers and Acquisitions activities by setting up a specific unit to evaluate and carry out transactions;
- the creation, within the Information Technology function, of a unit specialising in the design, development and operation of the fixed line telecommunications business ("Rete Fissa TLC") transferred to the Parent Company following its demerger by Poste Mobile SpA.

In addition, the process of rationalising the Mail, Logistics and Communication function, as envisaged in the Business Plan and the union agreements of 25 September 2015 and 24 February 2016, has continued. This has involved the implementation of the new alternate-day delivery model in the selected areas and efficiency improvements to the number of delivery areas. 28% of the total number of Distribution Centres has been reorganised so far.

4 Performance indicators

The recognition, measurement and classification criteria used are consistent with those used in the preparation of the Annual Report for 2015 and are those established by the International Financial Reporting Standards (IFRS) adopted by the European Union and contained in the related EU regulations published up to 2 August 2016, the date on which Poste Italiane SpA's Board of Directors approved this interim report for the six months ended 30 June 2016.
The disclosures in the interim report are designed to provide an update on operations, events and circumstances taking place solely in the first half of 2016. Full disclosure is provided in the Annual Report for 2015.
In keeping with the guidelines published by the European Securities and Markets Authority on 5 October 2015 (ESMA/2015/1415), which, as announced by the CONSOB[6], have, from 3 July 2016, replaced the Committee of European Securities Regulators' Recommendation CESR/05-178b, 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 performances of the Parent Company and its subsidiaries.
In particular, in addition to the operating segment disclosures required by IFRS 8, management has proceeded to reclassify the income statement for the Financial Services and Insurance Services and Asset Management segments solely for the purpose of integrating and enhancing its assessment of the operating performance of the specific segments in which the Group operates.

The following alternative performance indicators are used:

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

Gross ROE (Return On Equity) – the ratio of pre-tax profit to the average value of equity at the beginning and end of the reporting period. The performance of this indicator reflects, among other things, the change in the fair value reserves for financial assets classified as available-for-sale. In order to facilitate comparison of the Group's profitability, pre-tax profit has been used in calculating this indicator, rather than net profit for the period, given the different forms of taxation to which the Group's operating segments are subject.

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

WORKING CAPITAL – the sum of inventories, trade receivables and other receivables and assets, current tax assets, trade payables and other liabilities, and current tax liabilities.

NET INVESTED CAPITAL – the sum of non-current assets and working capital, deferred tax assets, deferred tax liabilities, provisions for risks and charges and provisions for employee termination benefits and pension plans.

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

INDUSTRIAL NET FUNDS/(DEBT), IN ACCORDANCE WITH ESMA GUIDELINES, for the Postal and Business Services and Other Services segments - 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.

INDUSTRIAL NET (DEBT)/FUNDS, before adjusting for intersegment transactions: this is the sum of net debt attributable to the sum of net (debt)/funds for the Postal and Business Services and Other Services segments before adjusting for intersegment transactions.

(6) Announcement 0092543 of 3 December 2015.

5 Group operating results

MACROECONOMIC ENVIRONMENT

The first half of 2016 has confirmed the trends seen in the closing months of 2015: moderate growth in the global economy and in international trade, held back by weak global demand and, in particular, reduced trade with China.
Declining confidence in the outlook for the international economy had a significant impact on financial markets at the beginning of the year, accompanied by sharp falls in commodity prices. The tensions proved temporary, however, as equities began to slowly regain ground from mid-February. This was followed, at the end of June, by victory for Leave (Brexit) campaigners in the UK's EU referendum, resulting in a renewed sell-off on financial markets and further falls in equities, as investors fretted over the potential consequences of the vote. The situation is expected to remain highly uncertain for some time, as talks leading to the negotiation of a new trade deal between the EU and the UK could take several years.
Oil prices were volatile, with a sharp fall at the beginning of the year followed by an increase as a number of countries reduced production to bring supply into line with demand.
Among the industrialised economies, the USA continues to grow, even though at a slower rate due to weak overseas demand which, together with the sharp rise in the value of the US dollar, has hit exports. Uncertainty over the global economy has influenced the Federal Reserve's decisions, leading it to once again put off any rise in interest rates.
The UK continued to see growth, but uncertainty and political risk following the referendum result will take centre stage in the coming months. GDP growth in Japan was modest, despite the expansionary policies put in place by the government and central bank.
The situation in emerging countries remains fragile, with the slowdown in the China continuing, even if fears that the economy would hit a brick wall have eased in recent months.
Europe continues to see modest GDP growth and inflation that remains below expectations. Indications are that the expansionary measures introduced by the European Central Bank (ECB) are beginning to strengthen internal demand, helping to offset the weakness in net exports. The OECD's leading indicators suggest that growth is stable, although Brexit could give rise to uncertainty, with potential for negative fallout.
Italy recorded growth in GDP in the first half, registering an improvement with respect to the rate of growth seen towards the end of 2015. Rises in employment and household disposable income have continued to support consumer spending. Confirmation of the increase in economic activity is provided by the performance of the credit market, where demand for loans has picked up among both households, reflecting increases in house purchases and in consumer credit, and businesses, with an increase, albeit modest, in investment. To encourage banks to lend more to businesses, the government is looking at a range of measures designed to create a secondary market for risky loans and to bolster banks' balance sheets, a key precondition for an increase in the supply of credit.
Recent projections point to a slight acceleration of economic growth in the coming months, with increases in GDP and consumer spending accompanied by a rise in disposable income. In line with a forecast pick-up in financial markets driven by an increase in savings, household investments in financial assets are expected to rise over the same period.

CONSOLIDATED OPERATING RESULTS

Profit for the first half of 2016 amounts to €565 million, an improvement of €130 million on the same period of 2015.
Operating profit is up 32.1% from €638 million for the first half of 2015 to €843 million for the first six months of 2016, benefitting from the positive performances of all the Group operating segments.
The Postal and Business Services segment made a positive contribution of €74 million to operating profit (an operating loss of €89 million in the same period of the previous year), essentially reflecting the positive contribution from the fees paid by BancoPosta RFC in return for use of the Group's distribution network.

The Financial Services segment recorded a strong performance, with operating profit of €485 million (€456 million in the first half of 2015), primarily linked to non-recurring income generated by the sale of the Group's investment in Visa Europe Ltd.[(7)], which took place as part of Visa Inc.'s acquisition of this company, and to returns on BancoPosta RFC's investments. The Insurance Services and Asset Management segment reports operating profit of €270 million (up 8.9%) and an excellent operating performance, with €10.6 billion in premium revenue during the period (€9.5 billion in the first half of 2015).

RECLASSIFIED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(€m)	for the six months ended 30 June		Increase/(decrease)	
	2016	**2015**		
Revenue from sales and services and insurance premium revenue	**14,867**	**13,864**	**1,003**	**7.2%**
Postal and Business Services	1,855	1,906	(51)	-2.7%
Financial Services	2,315	2,341	(26)	-1.1%
Insurance Services and Asset Management	10,583	9,495	1,088	11.5%
Other Services	114	122	(8)	-6.6%
Other income from financial and insurance activities	**2,781**	**2,055**	**726**	**35.3%**
Financial Services	512	320	192	60.0%
Insurance Services and Asset Management	2,269	1,735	534	30.8%
Other operating income	**34**	**31**	**3**	**9.7%**
Postal and Business Services	29	27	2	7.4%
Financial Services	3	3	–	n/s
Insurance Services and Asset Management	2	–	2	n/s
Other Services	–	1	(1)	n/s
Total revenue	**17,682**	**15,950**	**1,732**	**10.9%**
Cost of goods and services	1,215	1,239	(24)	-1.9%
Net change in technical provisions for insurance business and other claims expenses	11,944	10,385	1,559	15.0%
Other expenses from financial and insurance activities	309	305	4	1.3%
Personnel expenses	2,985	2,983	2	0.1%
Capitalised costs and expenses	(8)	(12)	4	-33.3%
Other operating costs	95	123	(28)	-22.8%
Total costs	**16,540**	**15,023**	**1,517**	**10.1%**
EBITDA	**1,142**	**927**	**215**	**23.2%**
Depreciation, amortisation and impairments	299	289	10	3.5%
Operating profit/(loss)	**843**	**638**	**205**	**32.1%**
Finance income/(costs)	9	27	(18)	-66.7%
Profit/(loss) on investments accounted for using the equity method	6	–	6	n/s
Profit/(Loss) before tax	**858**	**665**	**193**	**29.0%**
Income tax expense	293	230	63	27.4%
Profit for the period	**565**	**435**	**130**	**29.9%**

n/s: not significant

(7) On 21 December 2015, Visa Europe informed its Principal Members, including Poste Italiane which held an ordinary share previously allocated at the time of the company's incorporation, that each of them would be paid a consideration as a result of the acquisition and merger of Visa Europe Ltd with the US-registered company, Visa Incorporated. This transaction was completed on 21 June 2016 and, as a result, Poste Italiane was paid the above consideration, based on a total fair value of the investment of €121 million.

TOTAL REVENUE BY OPERATING SEGMENT

(€m)	for the six months ended 30 June		Increase/(decrease)	
	2016	**2015**		
Postal and Business Services	1,884	1,933	(49)	-2.5%
Financial Services	2,830	2,664	166	6.2%
Insurance Services and Asset Management	12,854	11,230	1,624	14.5%
Other Services	114	123	(9)	-7.3%
Total revenue	**17,682**	**15,950**	**1,732**	**10.9%**

Total revenue of €17.7 billion is up 10.9% on the same period of 2015. The improvement primarily reflects the positive performance of insurance services and asset management, where total revenue amounts to €12.9 billion (up 14.5% on the first half of 2015).

Postal and Business Services contributed total revenue €1,884 million, registering a reduction of 2.5% (€1,933 million in the first half of 2015) due to the expected decline in traditional letter post. It should be noted that there has been an ongoing slowdown in the pace of decline in this segment's total revenue over a number of quarters. This reflects the partial replacement of revenue from traditional letter post with revenue from the parcels business.

Total revenue from Financial Services amounts to €2,830 million, marking an increase of 6.2% due to a rise in "Other income from financial activities", which is up from €320 million in the first half of 2015 to €512 million in the same period of 2016. This income includes €121 million in non-recurring income generated by the sale of the Group's investment in Visa Europe Ltd.. Other income from financial activities also benefits from income generated by the active management of available-for-sale financial assets, in which the postal current account deposits of BancoPosta RFC's private customers are invested.

As noted above, the Insurance Services and Asset Management segment which, from 1 January 2016, also includes the activities of BancoPosta Fondi Sgr, delivered excellent results during the period, with Poste Vita and its subsidiary, Poste Assicura, recording premium revenue of €10.6 billion (premium revenue of €9.5 billion in the same period of 2015). This primarily reflects the performances of traditional Class I investment and savings products, where the Group has built up a strong presence.

Total revenue from Other Services amounts to €114 million (€123 million in the same period of 2015) and is generated by Poste Mobile.

COST OF GOODS AND SERVICES

(€m)	for the six months ended 30 June		Increase/(decrease)	
	2016	**2015**		
Services	952	943	9	1.0%
Lease expense	170	179	(9)	-5.0%
Raw, ancillary and consumable materials and goods for resale	74	83	(9)	-10.8%
Interest expense	19	34	(15)	-44.1%
Total	**1,215**	**1,239**	**(24)**	**-1.9%**

The cost of goods and services is down 1.9% from €1,239 million in the first half of 2015 to €1,215 million in the first half of 2016, primarily reflecting a reduction in the cost of funding, represented by interest paid to customers by BancoPosta RFC.

The net change in technical provisions for the insurance business and other claims expenses, which is closely linked to the above growth in premium revenue recorded by Poste Vita, amounts to €11.9 billion (€10.4 billion in the first half of the previous year).

Other expenses from financial and insurance activities are up from €305 million in the first half of 2015 to €309 million in the same period of 2016, reflecting the impact of movements in the fair value of financial instruments held by the subsidiary, PosteVita and by BancoPosta RFC.

PERSONNEL EXPENSES

(€m)	for the six months ended 30 June		Increase/(decrease)	
	2016	**2015**		
Salaries, social security contributions and sundry expenses(*)	2,975	2,969	6	0.2%
Redundancy payments	11	17	(6)	-35.3%
Net provisions (uses) for disputes	(1)	(3)	2	-66.7%
Total personnel expenses	**2,985**	**2,983**	**2**	**0.1%**

(*) This includes the following items described in note C8 to the condensed interim financial statements: salaries and wages; social security contributions; employee termination benefits; temporary work; Directors' fees and expenses; other costs (cost recoveries).

Ordinary personnel expenses, linked to salaries, contributions and sundry expenses, amount to €2,975 million, broadly in line with the first half of 2015 (up 0.2% or €6 million).
The cost of early retirement incentives during the quarter amounts to €11 million (€17 million in the same period of the previous year) and regards management personnel. The cost of early retirement incentives for non-management staff was covered by a portion of the provisions for restructuring charges, made at the end of the previous year to cover the estimated costs to be incurred by Poste Italiane for early retirement incentives for employees leaving the Company by 31 December 2017.

OPERATING RESULTS BY OPERATING SEGMENT

for the six months ended 30 June 2016 *(€m)*	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Adjustments and eliminations	Total
External revenue	1,884	2,830	12,854	114	–	17,682
Intersegment revenue	2,440	280	–	33	(2,753)	–
Total revenue	**4,324**	**3,110**	**12,854**	**147**	**(2,753)**	**17,682**
Costs	4,197	203	12,316	123	–	16,839
Intersegment costs	53	2,422	268	10	(2,753)	–
Total costs	**4,250**	**2,625**	**12,584**	**133**	**(2,753)**	**16,839**
Operating profit/(loss)	**74**	**485**	**270**	**14**	**–**	**843**

for the six months ended 30 June 2015 *(€m)*	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Adjustments and eliminations	Total
External revenue	1,933	2,664	11,230	123	–	15,950
Intersegment revenue	2,257	254	–	44	(2,555)	–
Total revenue	**4,190**	**2,918**	**11,230**	**167**	**(2,555)**	**15,950**
Costs	4,216	223	10,740	133	–	15,312
Intersegment costs	63	2,239	242	11	(2,555)	–
Total costs	**4,279**	**2,462**	**10,982**	**144**	**(2,555)**	**15,312**
Operating profit/(loss)	**(89)**	**456**	**248**	**23**	**–**	**638**

POSTAL AND BUSINESS SERVICES

POSTAL SERVICES MARKET

All the main European incumbents continued to register falling letter volumes in the first half of 2016. The pace and extent of the decline varies from one operator to another depending on a range of factors, such as the level of internet penetration, the degree to which public and private organisations have shifted to electronic invoicing and billing (e-substitution), the level of market competition and deregulation, the degree of demand elasticity to price changes and other macroeconomic factors.
In Italy, the approach adopted by the regulator (the Autorità per le Garanzie nelle Comunicazioni or AGCom) to provision of the Universal Service has allowed Poste Italiane to proceed with its planned transformation of the postal service, necessary in order to continue to effectively meet the changing needs of citizens in the digital age.
In contrast, the market for Express Delivery and Parcel services continues to grow, primarily driven by the expansion of e-commerce, with further growth expected in the second half of 2016[8].

POSTAL AND BUSINESS SERVICES SEGMENT PROFIT OR LOSS

(€m)	for the six months ended 30 June		Increase/(decrease)	
	2016	**2015**		
Revenue from sales and services	1,855	1,906	(51)	-2.7%
Other operating income	29	27	2	7.4%
Total external revenue	**1,884**	**1,933**	**(49)**	**-2.5%**
Intersegment revenue	2,440	2,257	183	8.1%
Total revenue	**4,324**	**4,190**	**134**	**3.2%**
Cost of goods and services	994	1,013	(19)	-1.9%
Personnel expenses	2,893	2,894	(1)	n/s
Depreciation, amortisation and impairments	274	265	9	3.4%
Capitalised costs and expenses	(8)	(12)	4	-33.3%
Other operating costs	44	56	(12)	-21.4%
Intersegment costs	53	63	(10)	-15.9%
Total costs	**4,250**	**4,279**	**(29)**	**-0.7%**
Operating profit/(loss) (EBIT)	**74**	**(89)**	**163**	**n/s**

n/s: not significant

The Postal and Business Services segment reports operating profit of €74 million (an operating loss of €89 million for the same period of 2015).
This reflects an increase in intersegment revenue (up €183 million or 8.1% compared with the same period of 2015), which is regulated by specific internal operating guidelines governing the fees payable for services provided to the Financial Service segment. This more than made up for the reduction in volumes and revenue generated by the external market (down 51 million or 2.7% compared with the first half of the previous year), primarily attributable to traditional letter post and philately. The increase in intersegment revenue from distribution services also reflects the results generated by active management of BancoPosta's investment portfolio and the above gain on the sale of the investment in Visa Europe.
The segment's positive performance during the period also reflects both a lower cost of goods and services (down €19 million on the same period of 2015) and a reduction in other operating costs, which are down from €56 million in the first half of 2015 to €44 million.

(8) Source: E-commerce B2C Observatory – School of Management of the Polytechnic University of Milan and Netcomm.

Operating results

GROUP LETTER POST

for the six months ended 30 june	Volumes *(in millions)*				Revenue *(€m)*			
	2016	2015	Increase/ (decrease)		2016	2015	Increase/ (decrease)	
Unrecorded Mail and Philately	788	795	(7)	-0.9%	503	525	(22)	-4.2%
Recorded Mail	101	103	(2)	-1.9%	485	481	4	0.8%
Direct Marketing and Unaddressed Mail	388	492	(104)	-21.1%	86	97	(11)	-11.3%
Integrated Services	18	22	(4)	-18.2%	103	112	(9)	-8.0%
Other(*)	504	594	(90)	-15.2%	131	146	(15)	-10.3%
Universal Service Obligation (USO) compensation(**)					131	131	–	n/s
Total	**1,799**	**2,006**	**(207)**	**-10.3%**	**1,439**	**1,492**	**(53)**	**-3.6%**

n/s: not significant

(*) Includes services for publishers, multi-cnannel services, printing, document management, other basic services.

(**) Universal Service compensation also includes compensation relating to the ordinary parcels service.

GROUP EXPRESS DELIVERY AND PARCELS

for the six months ended 30 june	Volumes *(in millions)*				Revenue *(€m)*			
	2016	2015	Increase/ (decrease)		2016	2015	Increase/ (decrease)	
Express delivery	**44.7**	**39.1**	**5.6**	**14.3%**	**267.8**	**236.2**	**31.6**	**13.4%**
Domestic Express delivery	35.6	30.9	4.7	15.2%	210.9	185.7	25.2	13.6%
International Express delivery	9.1	8.2	0.9	11.0%	56.9	50.5	6.4	12.7%
Parcels	**1.0**	**1.0**	**–**	**n/s**	**17.5**	**19.0**	**-1.5**	**-7.9%**
Domestic Parcels	0.7	0.7	–	n/s	7.0	6.4	0.6	9.4%
International Parcels	0.3	0.3	–	n/s	10.5	12.6	-2.1	-16.7%
Other(*)					**28.2**	**37.4**	**-9.2**	**-24.6%**
Total Express delivery, Logistics and Parcels	**45.7**	**40.1**	**5.6**	**14.0%**	**313.5**	**292.6**	**20.9**	**7.1%**

(*) The item, "Other", includes Dedicated Services, Logistics, other SDA Express Courier SpA services and other revenue attributable to Consorzio Logistica Pacchi ScpA.

n/s: not significant

The performances of the Group's Letter and Philately services in the first half of 2016 registered reductions in volumes of 10.3% (207 million fewer items) and 3.6% (53 million fewer items), respectively, compared with the same period of 2015. This essentially due to the structural decline in traditional postal services, in part reflecting the progressive shift away from paper-based communication towards digital forms (letter post replaced by e-mail, electronic billing, etc.).
The decline in Unrecorded Mail (7 million fewer items, down 0.9% on the first half of 2015) generated a matching reduction in revenue of €22 million (down 4.2%), reflecting growing competition in the sector.
Recorded Mail generated revenue of €485 million, marking a slight increase (up 0.8% or €4 million) on the same period of the previous year. This primarily reflects price increases for Registered Mail introduced from 1 December 2015.
Direct Marketing and Unaddressed Mail volumes are down 21.1% and 11.3%, respectively, due to customers rationalising their mail spend.
Other revenue includes, among other things, services for publishers, which fell as a result of the continuing decline in the number of subscribers for printed publications and the increase in digital subscriptions.
The compensation partially covering the cost of the Universal Service for the first half of 2016 was set at €131 million, awarded within the limits of the amount earmarked in the government's budget by the 2015 Stability Law.

The Express Delivery, Logistics and Parcels segment saw growth in the volume of items transported and in revenue, registering increases of 14.0% (5.6 million more items handled) and 7.1% (up €20.9 million), respectively, compared with the first half of

2015. This good performance is essentially due to growth in the National Express Delivery segment, which registered a rise of 4.7 million in the number of items handled and a €25.2 million increase in revenue (volumes up 15.2% and revenue up 13.6%, compared with the first half of 2015), due to the good performance posted by e-commerce in the B2C segment.
The International Express Delivery segment performed well (volumes up 11.0%, and revenue up 12.7%) thanks to a similar increase in international shipments linked to e-commerce.

POSTAL SECTOR REGULATION

Responsibility for providing the Universal Service was assigned to Poste Italiane SpA by Legislative Decree 261/1999 (art. 23, paragraph 2). This was later confirmed by Ministerial Decree of 17 April 2000 for a maximum period of up to fifteen years, subject to reduction as a result of deregulation of the sector. Legislative Decree 58/2011 then provided that Poste Italiane SpA should be the Universal Service provider for fifteen years from the date of entry into effect of the decree. This legislation also requires five-yearly assessments designed to ensure that provision of the service meets the criteria set out in the decree and to evaluate improvements to the efficiency of service provision. On 11 May 2016, AGCom announced commencement of this five-yearly assessment, as part of which the regulator is required, among other things, to define and quantify the indicators on which it will base its evaluation of the efficiency improvements made to Universal Service provision.

On 26 January 2015, the Ministry for Economic Development issued a Decree regarding "Calculation and procedures for the payment of contributions by postal operators to AGCom for the years 2012, 2013 and 2014", regarding the contribution that all postal service operators are obliged to pay to AGCom to fund the regulator's activities, in accordance with the provisions of Legislative Decree 261/99, art. 2, paragraph 14, letter b). Poste Italiane paid the contributions for 2012 and 2013 to the regulator on 30 March 2015. The contribution for 2014 was paid on 11 December 2015, subject to the right to request a recalculation depending on the outcome of the appeal lodged by the Italian Association of International Air Couriers (AICAI) and other postal operators, requesting cancellation of the relevant Decree. On 10 February 2016, with sentence no. 1930 in first instance, the First Section of the Lazio Regional Administrative Court ruled that the retroactive nature of the contribution for the years 2012-2014 was illegitimate, and therefore the final outcome of the dispute is awaited.

On 10 March 2016, the Ministry for Economic Development issued an Interministerial Decree (published in Official Bulletin 72 of 26 March 2016) regulating payment of the contribution payable, by postal operators, to AGCom for 2016, whilst awaiting the Ministry's issue of the decree determining the contribution for 2015 and 2016, in accordance with the provisions of Legislative Decree 261/99, art. 2, paragraph 14, letter b).
In May 2016, Poste Italiane paid the amount due in accordance with the indications provided by AGCom in Resolution 145/16/CONS of 19 April 2016.
A further Interministerial Decree of 10 March 2016 redefined the contributions due to the Ministry for Economic Development, for 2016 and 2017, for the procedure involved in the issue of the various authorisations (the individual licence and general authorisation) and the controls and checks made to ensure that the related requirements continue to be met. In May 2016, Poste Italiane paid the amount due for 2016 and the payment on account for 2017.

On 29 July 2016, AGCom published Resolution 166/16/CONS, launching a public consultation on the draft ruling concerning assessment of the net cost of the universal postal service in 2013 and 2014.
Other regulatory measures regarding the sector include the draft of Law 3012 "Annual market and competition law", presented by the government in June 2015, which in art. 18 provides for the repeal, from 10 June 2017, of art. 4 of Legislative Decree 261/99, giving Poste Italiane SpA exclusive rights (as the Universal Service provider) to offer services relating to legal process and the notification of violations of the Highway Code. To date, the parliamentary procedure has yet to be completed, so the rights are still attributed to Poste Italiane.

OPERATING REVIEW

Continuing the process launched in 2015, the Group has proceeded with its restructuring of its postal and logistics operations. As previously mentioned in the section, "Organisational structure", the aim is to develop a new, quality Universal Service that is sustainable and in keeping with the changing needs of citizens.
In this regard, as part of the optimisation, digital transformation and automation process, the following have been completed:

- the "Digital signature for postmen and women" project, which enables the addressee's signature to be obtained directly on the handheld device as proof of delivery of the letter or package, alongside the GPS coordinates of the place of delivery;

- implementation, at Delivery Centres, of an ICT solution for managing, accounting for and reporting payment-on-delivery transactions carried out by postmen and women (e.g., cash or POS payments for the door-to-door sale of services, such as registered mail, Postepay topups, etc.);
- the activation of 6 Driven Parcel Sorting machines for automating and tracking parcels at the CMP Bologna, Florence, Milan Peschiera Borromeo, Turin, Padua and Rome Fiumicino sorting centres;
- completion of the process of insourcing the *Crono1 lento* and *Promopacco Plus J1* products (10,000 items a day across 8 regions) to be delivered by postmen and women.

Renewal of the delivery fleet proceeded, with the award of a contract to supply around 17 thousand vehicles over the next 4 years. The vehicles will be located at Network Centres and used for the transport and delivery of postal products.

Finally, in terms of initiatives designed to improve the quality performance, the monitoring of the most important service provision processes continued via the introduction, at local level, of the quality dashboard(9) . Each dashboard indicator enables assessment of the performances of both the organisation as a whole and each organisational unit (Distribution Centre/Primary/Secondary/Decentralised Distribution Centres) against their assigned targets.

With regard to Contact Centre activities carried out within the Group, calls for tenders were launched in 2015 to find a suitable provider to manage the entire service for all Group companies, with the aim of optimising the use of internal and external resources. On completion of the tender process, the companies to which SDA Express Courier had outsourced the services until the end of 2015 – Uptime SpA, a jointly controlled entity, and Gepin Contact SpA (the other shareholder in Uptime SpA) – were not awarded the contract and, on 30 December 2015, SDA terminated its relationships with these companies, as provided for in the relevant contracts with effect from 1 July 2016.
With the regard to the transaction's impact on jobs, on 16 March 2016, an Extraordinary General Meeting of Uptime SpA's shareholders determined, with the vote of the majority shareholder (Gepin) alone, to terminate operations and wind-up the company. The shareholder, SDA, abstained. Following the start of the process that will make all 93 employees redundant, on 31 May 2016, Poste Italiane and labour unions representing most of the workers involved reached agreement on the redeployment of the workers involved. This envisages, among other things, that Poste Italiane will hire all former Uptime employees who have failed to find alternative employment by 31 December 2016 on permanent part-time contracts. As regards Gepin, negotiations involving the companies awarded the new contract, Poste Italiane and the labour unions, with a view to resolving employment issues, are still in progress.
Strictly in terms of employment law, in June and July 2016, Poste Italiane and SDA were served with two separate letters of notice pursuant to art. 29 of Legislative Decree 276/2003, requesting, among other things: (i) clarification regarding Uptime's failure to complete the redundancy procedure, and (ii) that SDA make further payments to the company. Potential liabilities for the Group at 30 June 2016 have been taken into account in the financial statements, in accordance with the relevant accounting standards.
As reported in the Annual Report for the year ended 31 December 2015, from a civil law standpoint, Gepin has claimed consequential damages of €10.5 million from SDA, in addition to a further claim for non-economic damages of €5 million. Finally, in May 2016, Gepin obtained a court order requiring SDA to make good its failure to pay invoices totalling approximately €3.7 million, which was immediately appealed by SDA. The claim is entirely devoid of any supporting contractual provisions or of any proof of costs effectively incurred in providing the service. Based on the advice of its legal counsel, SDA believes that the claims have no legal basis.

Postal service quality targets

With regard to the audit of quality targets for 2014, published by the regulator on 22 December 2015, AGCom has identified a slight shortfall (0.1%) with respect to the national regulatory target for extra-regional Priority Mail. Furthermore, with Resolution 5/16/CONS of 14 January 2016, notified to Poste Italiane on 3 February 2016, AGCom confirmed the application of a €50,000 penalty for the failure, in 2014, to meet the regional target in Abruzzo (a 1.12% shortfall with respect to the regulatory target). Poste Italiane paid the above penalty on 7 March 2016.

(9) The dashboard is a system for summarising and aggregating data regarding a company, in order to present the information in a chart or in number form, thereby providing an immediate and readibly understandable visual format.

In a memorandum dated 27 November 2015, AGCom asked IZI SpA to transfer its sample quality checks on Priority Mail to the Ordinary Mail service from December 2015. Furthermore, with Resolution 699/15/CONS issued on 15 January 2016, regarding the contract with IZI SpA, the regulator extended the contract to include additional services relating to the survey of Ordinary Mail delivery times in municipalities where alternate day delivery is in operation (the first stage of the rollout of such a service) for the period 1 February – 30 June 2016.

On 31 March 2016, the results for registered, bulk and priority mail(10) (for the period October-December 2015) and ordinary parcel post in the second half of 2015 were submitted to AGCom. All the results are in line with the relevant regulatory targets.
On 30 June 2016, in compliance with art. 9, paragraph 1, letters b) and c) of annex A to AGCom Resolution 413/14/ CONS, the Group submitted the report, containing the results for the quality of deregulated delivery services provided in 2015, to the regulator. The report was also published on Poste Italiane's website.

On 29 May 2015, in response to certain press reports, Italy's Data Protection Authority asked Poste Italiane to provide information regarding alleged processing of the personal data of persons operating at companies (in particular IZI SpA) appointed to monitor postal service quality standards. According to the Authority, the data was processed without providing the parties concerned with the relevant privacy notices and without obtaining their consent to use of the data. Poste Italiane has met all of the Authority's requests, providing a full and documented response and setting out details of the resulting internal audit carried out, the disciplinary proceedings regarding the staff involved and the organisational and procedural steps taken or in the process of being implemented. In the light of this, on 23 March 2016, the Authority, in view of the provisions of Authority regulation 1/2007 (art. 11, paragraph 1, letter d), announced that, at that time, there were no grounds for applying restrictions or prohibitions. From the findings of the internal audit, it appears, however, that certain members of staff interfered with quality control systems in violation of the Company's policy. It is currently impossible to ascertain whether this behaviour may have influenced determination of the service quality indicators recorded, and the possibility that the impact of such events may give rise to legal proceedings and fines cannot be ruled out. In response to the above findings, 246 reprimands have been notified and, at 31 March 2016, there have been 15 dismissals and 156 disciplinary measures without dismissal relating to managerial and non-managerial staff.
A technical committee was set up to manage these proceedings in order to verify the findings regarding the contested audits, taking into account the defence arguments put forward by the parties concerned and any other evidence that may emerge. All these measures also refer to the Company's right to take action to protect its rights and interests with respect to findings that may yet emerge and damages the Company may suffer for any reason or cause whatsoever.
For the sake of completeness – and again with regard to the disciplinary measures taken –, following completion of the audit carried out in the meantime, a further in-depth investigation was conducted. This identified specific evidence of wrongdoing by the personnel involved.
As a result, disciplinary action was taken against a further 988 people from early May 2016 onwards. On completion of the related procedures, which were carried out with the aid of the above technical committee, there were a total of 976 disciplinary measures without dismissal relating to managerial and non-managerial staff. This marks the end of any possible disciplinary action, given that there are no further irregularities to be penalised.
In 2015, a long-term transformation programme was launched aimed at increasing the level of automation of mail and parcel logistics procedures, in all processing phases, from collection to delivery, partly through the development of ICT support systems and platforms. This programme will enable a substantial strengthening of performance monitoring.
In this context, the Company has submitted a statement to the judiciary, appearing as the injured party and submitting a report prepared by Internal Auditing, in which the measures taken by the Company, including action against the personnel involved, are described. The report has also been filed with the other independent authorities.

(10) With regard to the figures for piority mail in 2015, on 18 December 2015, the regulator informed Poste Italiane that the performance was not monitored from 1 October 2015 (the date on which the new prices and replacement of the product with the Posta1 product came into effect). From this date, therefore, the monitoring of Posta1 quality targets is based on the Company's own monitoring systems.

MAIL

	for the six months ended 30 June 2016		
	Delivery within	Target	Actual
Posta 1 - Prioritary[1]	1 day	80.0%	87.7%
Posta 4[2]	4 days	90.0%	97.0%
International Mail[3]			
inbound	3 days	85.0%	85.0%
outbound	3 days	85.0%	66.0%
Registered Mail[1]	4 days	90.0%	98.0%
Insured Mail[1]	4 days	90.0%	99.8%

(1) Monitored by the electronic tracking system.

(2) Based on data certified by IZI at the request of AGCom. The result reflects cumulative data to May 2016.

(3) IPC – UNEX End-to-End Official data.

The performance of outbound international mail was well below the related quality targets during the first half. This was due to problems with logistics, now resolved, that temporarily prevented the correct separation of domestic and international mail. However, the indicator shows that there was a progressive improvement in the quality of service provided in the closing months of the first half.

EXPRESS DELIVERY AND PARCELS

	for the six months ended 30 June 2016		
	Delivery within	Target	Actual
Standard Parcels	4 days	90.0%	97.0%
Postacelere Express Delivery	1 day	90.0%	90.0%
Paccocelere	3 days	98.0%	98.0%

All products are monitored with an electronic tracking system.

FINANCIAL SERVICES

FINANCIAL MARKET TRENDS

The European Central Bank (ECB) adopted further expansionary monetary policies in March. In addition to cuts in the main refinancing operations rate for the Eurosystem (from 0.05% to 0.00%) and in the deposit facility rate for banks (from -0.30% to -0.40%), this included an increase, from April, in its monthly purchases of government securities from €60 to €80 billion and the introduction, from June 2016, of four new Targeted Longer-Term Refinancing Operations (TLTRO2) with four-year terms and incentives designed to encourage banks to lend to the private sector (on 29 June, as the first of the four TLTRO2s was taking place, funds totalling approximately €400 billion were made available to banks). These measures helped to contain the widening of sovereign spreads in a number of euro area countries seen in the first few weeks of 2016 and towards the end of June: immediately following the Brexit referendum, the spread between 10-year Treasury Notes (BTPs) and 10-year German Bunds exceeded 160 basis points, before falling back to around 130 basis points in early July.
Against this backdrop, the international equity markets were subject to a high degree of volatility and a significant increase in risk aversion among investors.
Overall, the US markets significantly outperformed their European counterparts: at 30 June, the S&P 500 is up 5.4% from the beginning of the year, whilst European stock exchanges (the Eurostoxx 500 index) have lost 5%. The Italian market was the worst performer, falling 19% since the beginning of the year.

In addition to macroeconomic factors (the weak economic recovery, geopolitical instability, the outcome of the Brexit referendum), the above falls were driven by banking stocks, reflecting the high amount of doubtful loans as a proportion of total lending (Italian banking stocks lost approximately 53% of their value in the first half).
Unlike 2015, when there was a large difference between the monetary policies of the two principal central banks, in the first half of 2016 the Federal Reserve halted the process of raising interest rates. This was reflected in the currency markets, leading the US dollar to fall (the average euro/USD exchange rate in June 2016 was 1.12, compared with 1.09 in December 2015).
Following the UK referendum, the value of sterling also fell against all other major currencies, including the euro (the GBP/euro exchange rate at 30 June was 0.827, compared with the previous rate of around 0.78).

BANKING SYSTEM

Bank deposits by resident Italian savers fell in the first half of 2016, with aggregate deposits totalling approximately €1,669 billion in June 2016 (down 1.1% year on year). This negative performance is due to falling investment in bonds, only partially offset by growth in deposits by resident customers.
Funding costs (deposits, bonds and repurchase agreements) were also slightly down in the first half of 2016: the average cost of customer deposits in June 2016 is 1.07%, compared with the 1.19% of December 2015 and 1.32% of June 2015.
Bank lending is stable. In June 2016, total lending to Italian residents - excluding interbank loans – amounted to €1,826 billion, marking a year-on-year decrease of 0.03%. The mortgage market is also showing signs of picking up (in May 2016, total mortgage lending to households was up 1.5%).
Doubtful loans within the banking system, after impairments, amounted to €85 billion in May 2016 (up €1.5 billion on May 2015). In percentage terms, doubtful loans amounted to 4.72% of total loans in May 2016 (4.62% in May 2015 and 4.94% in December 2015). The average interest rate applied to consumer and corporate loans continued to fall the first half of 2016, with the rate at 3.02% in June 2016, compared with 3.25% in December 2015 and 3.43% in June 2015.

REGULATORY ENVIRONMENT

With regard to the steps taken to ensure compliance with the Supervisory Standards issued by the Bank of Italy (Circular 285 of 17 December 2013, 16th update of 17 May 2016), which fully apply the "Final guidance on the security of online payments", work has continued (and is to be completed by the end of September 2016) on strengthening the measures designed to prevent, monitor and combat fraud. This has involved a rationalisation of the organisational structure, improvements to the systems used in monitoring fraudulent transactions, changes to procedures and providing better information to customers.
Changes to procedures and IT systems also continued with a view to strengthening business continuity and information systems, as part of a two-year review plan.
In terms of payment services, the process of implementing the SEPA (Single Euro Payments Area) scheme has been completed, with migration to the new system of the procedures for financial direct debits (direct debits within Italy for payments linked to the management of financial instruments) and for fixed-amount direct debits (involving the debit of a fixed amount determined at the time of authorising the account debit).
With regard to insurance broking, implementation of the "Compliance Plan" drawn up by Poste Italiane and PosteVita in 2015, following the joint communication from IVASS and the Bank of Italy dated 26 August 2015, was completed in the first half. The Plan, drawn up in response to a request for enhanced protection for customers when selling PPI (Payment Protection Insurance) alongside mortgages and/or other loans, primarily entailed the following:

- improving the transparency of the information provided and the preventive checks carried out (including computerised checks) at the distribution stage;
- improvements to "post-sales" procedures, automating and simplifying the process for withdrawal from or early termination of a loan agreement;
- updates to internal procedures and training of the relevant post office staff.

Finally, following the entry into effect of the MEF Decree of 29 February 2016, providing for the introduction, from 15 November 2016, of dematerialised Savings Books, the process of deciding on the necessary changes to contracts, procedures and IT systems got underway. The change aims to make it easier to access savings by offering an instrument represented solely by accounting entries, in addition to books in paper form.

With regard to the provision of investment services, CONSOB Resolution 19602 of 4 May 2016 has established the Financial Services Ombudsman (*Arbitro per le Controversie Finanziarie or ACF*), with responsibility for resolving disputes with investors in connection with the provision of investment and collective asset management services. The Resolution also sets out the related Terms of Reference. As with the Bank of Italy's Banking Ombudsman (*Arbitro Bancario Finanziario or ABF*), intermediaries' participation in the CONSOB's new system for the out-of-court settlement of disputes is mandatory and this applies to Poste Italiane – BancoPosta RFC. The procedure is of a decision-making nature. The new Ombudsman will begin operating following the issue of further organisational and functional guidelines by the CONSOB.

FINANCIAL SERVICES SEGMENT PROFIT OR LOSS

(€m)	for the six months ended 30 June		Increase/(decrease)	
	2016	2015		
Net interest income	**760**	**765**	**(5)**	**-0.7%**
Interest and similar income	782	799	(17)	-2.1%
Interest and similar expense	(22)	(34)	12	-35.3%
Net fee and commission income	**1,780**	**1,765**	**15**	**0.8%**
Fee and commission income	1,807	1,791	16	0.9%
Fee and commission expense	(27)	(26)	(1)	3.8%
Profits/(Losses) on trading, on disposals or repurchases and fair value adjustments in hedge accounting	**499**	**316**	**183**	**57.9%**
Net interest and other banking income	**3,039**	**2,846**	**193**	**6.8%**
Net losses /recoveries on impairment of loans and advances	**(5)**	**(6)**	**1**	**-16.7%**
Net income from banking activities	**3,034**	**2,840**	**194**	**6.8%**
Administrative expenses:	**(2,521)**	**(2,337)**	**(184)**	**7.9%**
personnel expenses	(64)	(63)	(1)	1.6%
other administrative expenses	(2,457)	(2,274)	(183)	8.0%
Net provisions for risks and charges	**(16)**	**(30)**	**14**	**-46.7%**
Other operating income/(expenses)	**(12)**	**(17)**	**5**	**-29.4%**
Operating expenses	**(2,549)**	**(2,384)**	**(165)**	**6.9%**
Operating profit/(loss) (EBIT)	**485**	**456**	**29**	**6.4%**

Operating profit generated by the Financial Services segment in the first six months of 2016 amounts to €485 million, up 6.4% on the same period of the previous year (€456 million for the first half of 2015). This was essentially generated by BancoPosta RFC, whose performance benefitted from the previously mentioned non-recurring income from the sale of the investment in Visa Europe Ltd., and fees generated by the distribution of loan products and insurance broking.
Net interest income of €760 million marks a slight reduction of 0.7% (€765 million in the first half of 2015), essentially reflecting a reduction in the return on deposits with the Ministry of the Economy and Finance, in line with market rates.
Net fee and commission income is up from €1,765 million in the first half of 2015 to €1,780 million in the same period of 2016. This income primarily consists of commissions earned on the distribution of postal savings products, totalling €771 million, and €1,012 million from the processing of bills paid by payment slip, insurance broking, the distribution of loan products and other collection and payment services.
Net interest and other banking income is up from €2,846 million in the first half of 2015 to €3,039 million (up 6.8%), primarily due to gains on the sale of available-for-sale financial assets held by BancoPosta RFC, totalling €506 million (€309 million in the same period of the previous year). This figure includes the income from the above sale of the investment in Visa Europe Ltd. to Visa Incorporated on 21 June 2016, which resulted in non-recurring income of €121 million, in recognition of Poste Italiane's contribution over the years as a provider of electronic money services.
Net interest and other banking income also reflects €11 million in impairment losses on non-performing loans recognised by Banca del Mezzogiorno-MCC.
Net income from banking activities is up €194 million from the €2,840 million of the first half of 2015 to €3,034 million in the same period of 2016, after impairment losses on loans of €5 million. This regards the impairment of overdrawn current accounts held by BancoPosta's customers.

Operating expenses are up 6.9% on the same period of the previous year, due primarily to an increase in intersegment costs paid for the services provided by the distribution network to the Financial Services segment.

OPERATING RESULTS

(€m)	for the six months ended 30 June		Increase/(decrease)	
	2016	2015		
Revenue from:				
management of deposits taken and related investments(1)	1,143	1,082	61	5.6%
postal savings	771	809	(38)	-4.7%
fees for collection and payment services(2)	520	525	(5)	-1.0%
the placement and distribution of financial products(3)	166	135	31	23.0%
electronic money services(4)	230	113	117	n/s
Total	**2,830**	**2,664**	**166**	**6.2%**

n/s: not significant

(1) Includes returns and capital gains from sales.

(2) Includes fees for the acceptance of payment slips, delegated services, fund transfers and other revenue from bank accounts.

(3) Includes revenue related to loans, credit cards, other investment products and Banca del Mezzogiorno.

(4) Includes fees on prepaid cards, debit cards and acquiring services.

Revenue generated by the Financial Services segment is up from €2,664 million in the first half of 2015 to €2,830 million in the first half of 2016. In detail, revenue from the investment of liquidity is up 5.6% from €1,082 million in the first half of 2015 to €1,143 million in the first half of 2016, reflecting returns on the investment of customer deposits which, despite not particularly favourable market conditions, resulted in gains of €386 million on the sale of securities held by the Group (€309 million in the same period of 2015). This result more than offset the reduction in interest income on investments, which is down from €771 million in the first half of 2015 to €757 million in the first half of 2016. Despite a rise in the amount invested due to an increase in deposits[11] , this figure reflects a reduction in average interest rates on deposits with the Ministry of the Economy and Finance.
Sales of postal savings products, where revenue is linked to a mechanism agreed with Cassa Depositi e Prestiti SpA (tied to the achievement of targets in terms of net savings inflows and average deposits), contributed €771 million to revenue (€809 million in the first half of 2015). At 30 June 2016, Savings Book deposits amount to €118 billion (€117 billion at 30 June 2015), whilst savings in the form of Interest-bearing Postal Certificates amount to €206 billion (€210 billion at 30 June 2015).
Revenue from collection and payment services is down 1.0% (€520 million in the first half of 2016, compared with €525 million in the same period of the previous year). This reflects a reduction in revenue from delegated services, due to a decline in the payment of vouchers for occasional services and a decrease in the fee charged on payments into current accounts, following a review of the agreement with INPS in June 2015. The decline in this revenue offset increased income from the processing of payment slips and tax payments using forms F23/F24.
Revenue from the placement and distribution of third-party financial products is up 23%, benefitting from increased revenue from the sale of loan products (€98 million in the first half of 2016, compared with €60 million in the first half of 2015).
Revenue from the provision of electronic money services is up from €113 million in the first half of 2015 to €230 million in the first half of 2016, primarily due to Visa Inc.'s acquisition of Visa Europe, which resulted in the former's payment to Poste Italiane of a gain of €121 million in return for the sale of the share held in Visa Europe. The Postepay product also performed well, generating revenue of €69 million (€61 million in the first half of 2015) and benefitting from an increase in income linked to the issue and use of Postepay Evolution cards.

OPERATING REVIEW

In the Financial Services segment, efforts aimed at developing the commercial offering and foster the cross-selling of products continued in the first half of 2016, taking advantage of a business model centred around the construction of long-term relationships with customers and building customer loyalty.

(11) Average deposits are up from €45 billion in the first half of 2015 to €48 billion in the first half of 2016.

In this context, the main initiatives aimed at developing the offering of Postal Savings products. This entailed a review of the product range, relaunching the offer of retail loans and increasing the range of transaction banking services on offer, including electronic money, collection and payment services. With regard to collection and payment services, the process of updating and refreshing the traditional payment of bills using payment slips, so as to enable payments to be made via multiple digital channels, continued. The new Payments section, accessible from the "poste.it" site, was launched, providing a single digital channel for the payment of payments slips, utility bills and amounts due to businesses and the Public Administration. In a few simple steps, customers can pay their bills on line, by transferring the amount from their Bancoposta current account or by Postepay or credit card using a PC, a smartphone or a tablet. Once the payment has been processed, it is possible to request that proof of payment be sent to an email address of the customer's choice.
In the electronic money sector, the number of Postamat cards in circulation is stable at 7.1 million, whilst the number of Postepay cards has exceeded 15 million, including over 2.5 million of the new Postepay Evolution cards. Moreover, the release of a new version of the app in June means that, in addition to new graphics and greater ease of use, the app now offers the new real-time money transfer service.
With regard to third-party loan products, new solutions have been introduced, including an expanded range of salary loans for retail customers and the offer of new types of business loan (Postal Savings Books holders and professionals) for people looking, for example, to purchase operating assets or renovate a property for commercial use.

In July, the Bank of Italy published the results of its inspection of Banca del Mezzogiorno (MCC), completed in April. Further information is provided in the section, "Proceedings pending and relations with the authorities".

INSURANCE SERVICES AND ASSET MANAGEMENT

INSURANCE MARKET

According to the available data from ANIA (the trade body representing Italian insurance companies) at the date of this Report, new business for life policies sold in Italy during the first three months of 2016 amounts to €30 billion, down 5.2% on the same period of the previous year. This primarily reflects a significant reduction in sales of Class III policies, above all unit-linked policies which, with premium revenue of approximately €5.5 billion, are down by around 33% compared with the same period of the previous year. Premium revenue generated by Class I products has, on the other hand, increased to €23.5 billion, up 7% on the same period of the previous year.
New business in terms of Class VI and Class IV products, regarding pension funds and long-term health insurance, respectively, remains marginal with respect to total premium revenue.
This performance therefore confirms the significant demand from customers for traditional policies, considered a safer form of investment during periods of high market volatility.
Net premium revenue amounts to approximately €14 billion, whilst technical provisions total approximately €585 billion, marking an increase of 8% compared with the first three months of 2015.
The non-life insurance market registered a 1.2% decline in premium revenue in the first three months of 2016, compared with the first quarter of 2015, with a total portfolio of €8.9 billion. The reduction reflects a fall in vehicle insurance premiums (down 4.7%), partly offset by growth in other non-life classes (up 2.3%).

INSURANCE SERVICES AND ASSET MANAGEMENT SEGMENT PROFIT OR LOSS

(€m)	for the six months ended 30 June		Increase/(decrease)	
	2016	2015		
Net insurance premium revenue	**10,551**	**9,474**	**1,077**	**11.4%**
gross premium revenue	10,573	9,496	1,077	11.3%
outward reinsurance premiums	(22)	(22)	–	n/s
Fee and commission income	**28**	**21**	**7**	**33.3%**
Net financial income from assets related to traditional products	**2,101**	**1,255**	**846**	**67.4%**
Net financial income from assets related to index – and unit-linked products	**(113)**	**191**	**(304)**	**n/s**
Net change in technical provisions for insurance business and other claims expenses	**(11,944)**	**(10,385)**	**(1,559)**	**15.0%**
Claims paid	(3,693)	(3,756)	63	-1.7%
Net change in technical provisions for insurance business	(8,262)	(6,642)	(1,620)	24.4%
Change in technical provisions where investment risk is transferred to policyholders	11	13	(2)	-15.4%
Investment management expenses	**(9)**	**(7)**	**(2)**	**28.6%**
Acquisition and administration costs	**(329)**	**(284)**	**(45)**	**15.8%**
Net commissions and other acquisition costs	(250)	(227)	(23)	10.1%
Operating costs	(79)	(57)	(22)	38.6%
Other revenues/(costs), net	**(15)**	**(17)**	**2**	**-11.8%**
Operating profit/(loss) (EBIT)	**270**	**248**	**22**	**8.9%**

n/s: not significant

Operating profit generated by the Financial Services and Asset Management segment amounts to €270 million, marking an increase of 8.9% on the same period of the previous year. This primarily reflects the positive performance of the Poste Vita Group, whose operations resulted in total premium revenue of €10.6 billion, after the portion ceded to reinsurers (€9.5 billion in premium revenue in the first half of 2015).
Of this, €10.5 billion (€9.4 billion in the same period of the previous year) is attributable to sales of life products and €38 million to sales of non-life products.
With regard to assets under management, the quarter saw an increase in inflows into mutual investment funds, generating commission income of €28 million (up 33.3% on the same period of the previous year).
Despite a market scenario marked by falling yields on government securities, net finance income from securities related to traditional products amounts to €2,101 million, up €1,255 million on the figure for 2015. This reflects both an increase in ordinary income, thanks to growth in assets under management, and above all financial market trends, which resulted in the recognition of net unrealised gains of €698 million, compared with losses of €150 million in 2015. However, given that these investments are included in the separately managed accounts covering the matching insurance liabilities, this amount has been attributed in full to policyholders under the shadow accounting method.
Heightened Financial market volatility, together with the reduction in volumes due to a number of Class III products reaching maturity, are also reflected in investments linked to index- and unit-linked products, which generated total losses of €113 million (gains of €191 million in the first half of 2015). This amount is almost entirely matched by a corresponding change in technical provisions.
As a result of the above operating performance and the corresponding revaluation of insurance liabilities due to the positive financial performance, the matching change in technical provisions, after the portion ceded to reinsurers, amounts to €11.9 billion, compared with €10.4 billion in the same period of the previous year. Of the above change, claims paid to customers, inclusive of policy expirations of approximately €2.3 billion, amount to approximately €3.7 billion (€3.8 billion in the same period of 2015). Total surrenders accounted for 3.0% of initial provisions (3.3% in the first half of 2015), a figure that continues to be far lower than the industry average.
Investment management expenses (€9 million in the first half of 2016, compared with €7 million in the same period of 2015) primarily regard portfolio management fees and fees for the custody of securities. The increase is due to growth in the portfolio.

Given the positive operating performance, infra-group commissions for distribution and collection amount to €250 million (€227 million in the first half of 2015). The increase has benefitted the Group's Financial Services segment, which is responsible for marketing the products, and the Postal and Business Services segment in return for the distribution services provided.
Operating expenses of €79 million are up 38.6% compared with the €57 million of the first half of 2015. This reflects increases in the quality and size of the company's workforce, needed in order to respond to the continuous growth in size and business volumes, and its investment in ongoing functional/infrastructural improvements to key business support systems. However, operating expenses continue to be far lower than the industry average at 0.7% of premium revenue and 0.1% of provisions.

OPERATING REVIEW

In keeping with the strategic objectives pursued in previous years, in the first six months of 2016 the Poste Vita insurance group primarily focused its efforts on:

- strengthening its leadership in the life insurance market and consolidating its competitive position;
- boosting its position in the welfare segment, investing in health insurance products, thanks in part to the acquisition of SDS Srl at the end of 2015.

In a market environment marked by low interest rates and high volatility, the group aims to progressively rebalance its offering towards products with a significant investment component without guarantees ("multi-line" and "unit-linked" products), but providing a moderate risk-return profile, in line with the type of customer served by the group, whilst potentially providing more attractive returns on investment. At the same time, the group is committed to developing new instruments and training network staff in the provision of advice, sales and long-term customer relationship management.
Total premium revenue exceeded €10.5 billion (€9.5 billion in the first half of 2015), including approximately €10 billion from sales of Class I and V investment and savings products (traditional separately managed accounts), compared with €9.3 billion in the same period of 2015. Premium revenue from multi-line products and the unit-linked product launched in April amounts to €472 million, compared with €189 million in the same period of the previous year.
Sales of regular premium products also performed well (*Multiutile Ricorrente, Long Term Care, Posta Futuro Da Grande*), with around 68 thousand policies sold during the period, as did sales of the *PostaPrevidenzaValore* product which, with over 43 thousand policies sold and a total number of members amounting to 824 thousand, has enabled Poste Vita to consolidate its role in the pensions market.
Sales of pure risk policies (term life insurance) also performed well. These are sold in stand-alone versions (not bundled together with products of a financial nature), with over 10 thousand new policies sold during the first six months of 2016, whilst more than 40 thousand were new policies, again of a pure risk nature, sold bundled together with financial obligations deriving from mortgages and loans sold through Poste Italiane's network.

Management of the non-life business was also along the lines set out in the business plan, above all seeking to meet the new needs of customers in the areas of welfare and health insurance.
The company has identified specific marketing and commercial initiatives aimed at a product offering increasingly based on a modular approach, capable of meeting the different needs of a very large customer base. In this context, the company has moulded its offering so as to offer modular health and protection products, *PosteProtezione Innova Salute* and *PosteProtezione Innova Infortuni*. While the contribution to the Group's results is still limited, the segment recorded a positive performance, with total premium revenue for the period of €57.2 million, up 19.8% compared with the figure for the same period of 2015 (€47.7 million), accompanied by a positive technical performance as a result of a reduced volume of claims compared with the previous year.
In terms of investments during the period, against a backdrop of falling interest rates and declining yields on government securities, the investment policy continues to be marked by the utmost prudence, with the portfolio primarily invested in Italian government securities and highly-rated corporate bonds, and with an overall exposure that, whilst lower than in 2015, represents over 88% of the entire portfolio. In addition, also in line with the new Solvency II requirements, during the first half of 2016, whilst maintaining a moderate risk appetite, the company continued with the gradual process of diversifying investments by increasing its exposure to equities (up from 10.6% to 11.1%), above all multi-asset, harmonised open-end funds of the UCITS (Undertakings for Collective Investment in Transferable Securities) type. In line with its strategic asset allocation policy, moreover, the company continued to invest in real estate funds (targeting retail and office properties) in Europe.
Again with a view to diversifying its investments, and in the light of the current financial environment, the company decided to invest approximately €260 million in a closed-end alternative investment fund called "Atlante", managed by Quaestio

Capital Management, with subscriptions restricted to professional investors. The fund invests primarily in issuers with a lower capital ratio than their minimum capital requirement (and which are, therefore, required by the supervisory authority to strengthen their balance sheets by raising fresh capital) and non-performing loans held by various Italian banks. At the date of this report, the fund has called up €155.0 million, including €137.1 million allocated to the separately managed account, *PostaValorePiù*, and €17.9 million allocated to the company's free capital.

As a result of the above operating and financial performance, technical provisions for the direct Italian portfolio amount to €97.4 billion (€90.5 billion at the end of 2015), including €89.1 billion for Class I and V products (€81.7 billion at the end of 2015). Provisions for products where the investment risk is borne by policyholders amount to €7.3 billion (€7.2 billion at 31 December 2015). Deferred Policyholder Liability (DPL) provisions, linked to the change in the fair value of the financial instruments covering the provisions, are up from €9.7 billion at the end of 2015 to €11.8 billion, reflecting an increase in fair values as a result of the more positive performance of financial markets compared with the end of the previous year.
Technical provisions for the non-life business, before the portion ceded to reinsurers, amount to €0.1 billion at the end of the period, up 5% compared with the end of 2015.
With regard to organisational aspects, during the first half of 2016, work continued on initiatives designed to drive growth of the business, as did investment in ongoing functional/infrastructural improvements to key business support systems. In particular, all the activities designed to ensure compliance with the prudential Solvency II regulations, which has come into effect from 2016, continued. This included adaptation of the Company's governance model and organisational and operating structure, with a view to strengthening decision-making processes and optimising risk management procedures, in order to increase and safeguard value creation.

Finally, with regard to the mutual investment funds business, gross inflows during the period amount to €1.1 billion, up 12% on the same period of the previous year, whilst the significant reduction in redemptions was reflected in an increase in net inflows, which are up from €195 million in the first half of 2015 to €716 million. As a result, the assets of retail customers managed by Banco Posta Fondi Sgr are up from €5.7 billion at the end of December 2015 to €6.4 billion at 30 June 2016. Taking into account the portion of the Poste Vita group's technical provisions under management, total assets under management at 30 June 2016 have risen to €79.7 billion, representing growth of 13% compared with the €70.1 billion of the end of 2015.

OTHER SERVICES

THE MOBILE TELECOMMUNICATIONS MARKET

In early 2016, the mobile telecommunications market appears to be continuing where it left off towards the end of 2015: further rationalisation of price offerings, with bundles that include even more traffic (primarily mobile data). Basing their strategies around triple and quad play bundles[(12)], operators are expanding their offerings with the introduction of on-demand TV/video and streaming packages, with a view to capturing a large portion of consumers' communication and entertainment spend. The trend towards convergent landline and mobile services has continued, as has the development of partnerships, of different entity, between the suppliers of digital content and the operators of telecommunications networks. A number of retail market trends have continued, with the use of social media due for further expansion in all key markets, both for recreational purposes and for online searches, above all in connection with m-commerce. In the business market, operators aim to play a leading role in the digital transformation of Italian companies across all sectors, including the Public Administration.

(12) Operators that use telecommunications networks can exploit the convergence between telecommunications and TV to offer triple play bundles (fixed line, broadband and pay-TV) and quad play bundles (fixed line, mobile, broadband and pay-TV).

OTHER SERVICES SEGMENT PROFIT OR LOSS

(€m)	for the six months ended 30 June		Increase/(decrease)	
	2016	2015		
Revenue from sales and services	114	122	(8)	-6.6%
Other operating income	–	1	(1)	n/s
Total external revenue	**114**	**123**	**(9)**	**-7.3%**
Intersegment revenue	33	44	(11)	-25.0%
Total revenue	**147**	**167**	**(20)**	**-12.0%**
Cost of goods and services	94	101	(7)	-6.9%
Personnel expenses	10	11	(1)	-9.1%
Depreciation, amortisation and impairments	17	18	(1)	-5.6%
Other operating costs	2	3	(1)	-33.3%
Intersegment costs	10	11	(1)	-9.1%
Total costs	**133**	**144**	**(11)**	**-7.6%**
Operating profit/(loss) (EBIT)	**14**	**23**	**(9)**	**-39.1%**

n/s: not significant

The Other Services segment, which includes the company, PosteMobile, reports operating profit of €14 million for the first half of 2016, down €9 million on the same period of the previous year (€23 million in the first half of 2015). The reduction reflects the performance of revenue, which is down 12% to €147 million as a result of both reduced revenue from non-recurring items in the first half of 2016 (€2.8 million, compared with €8 million in the first half of 2015), and the extraordinary transaction consisting of the demerger of the fixed line telecommunications business(13) and its transfer to Poste Italiane SpA, reducing intersegment revenue by €11 million.
The cost of goods and services is down 6.9% compared with the same period of the previous year to €94 million, having benefitted from the cost efficiencies resulting from the contract with the new operator that has enabled PosteMobile to operate as a Full MVNO.
Personnel expenses are down 9.1% or €1.5 million compared with the first half of 2015, primarily reflecting the above demerger of the fixed line telecommunications business, which reduced the workforce (282 FTEs employed in the first half of 2016, compared with 309 in the first half of 2015).

At the end of June 2016, PosteMobile's customer base totals 3.6 million lines (approximately 3.6 million at 31 December 2015). Good performances were registered both by voice services, with over 2.7 billion minutes used during the period (up 5% on the same period of 2015), and above all by data services, with substantial growth of more than 2.8 thousand terabytes (up almost 80% on the same period of 2015).
In the first six months of 2016, PosteMobile further strengthened its position in the mobile payment services market, registering total transactions of in excess of €448 million, double the figure for the first half of 2015.
This growth was made possible by the role played by the PosteMobile App which, thanks to ongoing updates of the functions and user experiences offered, continues to be one of the most popular and widely used apps in the segment. With almost 1.7 million downloads, presence across all the devices available in the market and an average customer rating in stores of over 4.2 (on a scale of 1-5), it is one of the leading mobile wallet services in the Italian mobile market.
The BancoPosta App, made available to all Poste Italiane customers from July 2015, regardless of their mobile operator, also consolidated its position, with over 1.7 million downloads and 430 thousand customers enabled to use its payment services. The specific channel handled transactions worth almost €200 million during the period.

(13) On 26 January 2016, Poste Italiane's Board of Directors approved the partial demerger of PosteMobile's fixed line telecommunications business to the Parent Company. The deed was formally executed on 27 April 2016.

6 Group financial position and cash flow

GROUP FINANCIAL POSITION AND CASH FLOW

NET INVESTED CAPITAL AND RELATED FUNDING

(€m)	at 30 June 2016	at 31 December 2015	Increase/(decrease)	
Non-current assets:				
Property, plant and equipment	2,087	2,190	(103)	-4.7%
Investment property	58	61	(3)	-4.9%
Intangible assets	498	545	(47)	-8.6%
Investments accounted for using the equity method	212	214	(2)	-0.9%
Total non-current assets (a)	**2,855**	**3,010**	**(155)**	**-5.1%**
Working capital:				
Inventories	137	134	3	2.2%
Trade receivables and other receivables and assets	5,892	5,546	346	6.2%
Trade payables and other liabilities	(4,150)	(4,398)	248	-5.6%
Current tax assets and liabilities	(106)	19	(125)	n/s
Total working capital: (b)	**1,773**	**1,301**	**472**	**36.3%**
Gross invested capital (a+b)	**4,628**	**4,311**	**317**	**7.4%**
Provisions for risks and charges	(1,370)	(1,397)	27	-1.9%
Provisions for employee termination benefits and pension plans	(1,457)	(1,361)	(96)	7.1%
Deferred tax assets/(liabilities)	(184)	(554)	370	-66.8%
Net invested capital	**1,617**	**999**	**618**	**61.9%**
Equity	**8,658**	**9,658**	**(1,000)**	**-10.4%**
Net funds	**7,041**	**8,659**	**(1,618)**	**-18.7%**

n/s: not significant

The Poste Italiane Group's net invested capital at 30 June 2016 amounts to €1,617 million, amply financed by equity. A comparison with the end of the previous year, when the figure was €999 million, shows an increase of €618 million.

Non-current assets of €2,855 million are down €155 million compared with the end of 2015. In addition to depreciation, amortisation and impairments (after reversals of impairments) during the period, amounting to €299 million, the movement in this indicator reflects capital expenditure of €151 million, including €118 million invested by Poste Italiane in IT assets, such as: expansion of the new Server Farm, continued work on consolidating the Group's Data Centre infrastructure and alignment of the Group's systems with its business requirements and the related centralised infrastructure. The Group also has a major commitment to digital transformation. There was further investment in the modernisation and renovation of buildings, in keeping with Poste Italiane's property development strategy, with the main focus on property used in operations. In particular, work continued on planned renovation and non-routine maintenance work, with the aim of upgrading and improving property used in operations in order to meet workplace needs and those related to the services provided, as well as initiatives designed to improve staff health and safety. Furthermore, around 760 non-routine maintenance works (heating and air-conditioning units, electrical and fire prevention equipment, etc.) were carried out during the first half of 2016, as well as work on restoring normal service at post offices where criminal acts had taken place.

Working capital amounts to €1,773 million at 30 June 2016, an increase of €472 million compared with the end of 2015. This essentially reflects the movement in receivables in the form of payments of tax on account and tax withholdings on capital gains on life policies.

The reduction in net deferred tax liabilities, after offsetting against deferred tax assets, amounts to €370 million. This is largely due to the net positive effect on taxation (an increase in deferred tax assets and/or a reduction in deferred tax liabilities) of increased fair value losses on investments in available-for-sale financial assets.

Equity amounts to €8.7 billion at 30 June 2016, a reduction of €1 billion compared with 31 December 2015. This reflects movements in the fair value reserves (€1,052 million, after tax), reflecting positive and negative movements in the fair value of investments in available-for-sale financial assets held by the Financial Services segment. The reduction in equity also reflects the payment of dividends totalling €444 million, as approved by the Annual General Meeting of 24 May 2016 (€0.34 per share, paid to shareholders on 22 June 2016).
The above reductions were partially offset by profit for the period of €565 million.

ANALYSIS OF NET FUNDS/ (DEBT)

GROUP NET (DEBT)/FUNDS BY OPERATING SEGMENT

at 30 June 2016 *(€m)*	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Eliminations	Consolidated amount
Financial liabilities	(1,808)	(61,735)	(1,206)	(4)	1,638	(63,115)
Technical provisions for insurance business	–	–	(109,397)	–	–	(109,397)
Financial assets	1,460	62,603	112,351	32	(1,257)	175,189
Technical provisions for claims attributable to reinsurers	–	–	65	–	–	65
Net financial assets/(liabilities)	(348)	868	1,813	28	381	2,742
Cash and deposits attributable to BancoPosta	–	2,556	–	–	–	2,556
Cash and cash equivalents	584	838	690	12	(381)	1,743
Net funds/(debt)	236	4,262	2,503	40	–	7,041

at 31 December 2015 *(€m)*	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Eliminations	Consolidated amount
Financial liabilities	(2,442)	(55,418)	(1,218)	(4)	1,604	(57,478)
Technical provisions for insurance business	–	–	(100,314)	–	–	(100,314)
Financial assets	1,396	57,574	102,409	26	(1,315)	160,090
Technical provisions for claims attributable to reinsurers	–	–	58	–	–	58
Net financial assets/(liabilities)	(1,046)	2,156	935	22	289	2,356
Cash and deposits attributable to BancoPosta	–	3,161	–	–	–	3,161
Cash and cash equivalents	1,315	485	1,615	16	(289)	3,142
Net funds/(debt)	269	5,802	2,550	38	–	8,659

Total net funds at 30 June 2016 amount to €7,041 million, down from the €8,659 million of 31 December 2015. This reflects, among other things, the component linked to fair value measurement of investments in securities, totalling approximately €2,352 million (€3,775 million at 31 December 2015), primarily by BancoPosta RFC, and, to a lesser extent, by the subsidiary, Poste Vita.

LIQUIDITY

(€m)	for the six months ended 30 June	
	2016	**2015**
Cash and cash equivalents at beginning of period	**3,142**	**1,704**
Cash flow from/(for) operating activities	(292)	(212)
Net cash flow generated by/(used in) non-financial operating activities	342	552
Cash generated by/(used for) assets and liabilities attributable to financial activities	225	(1,006)
Cash generated by/(used for) assets and liabilities attributable to insurance activities	(859)	242
Cash flow from/(for) investing activities	(152)	(342)
Cash flow from/(for) financing activities and shareholder transactions	(955)	235
Movement in cash	(1,399)	(319)
Cash and cash equivalents at end of period	**1,743**	**1,385**
of which:		
Cash subject to investment restrictions	*202*	*–*
Cash attributable to technical provisions for insurance business	*487*	*999*
Other cash subject to restrictions	*36*	*43*

INDUSTRIAL NET FUNDS/(DEBT), IN ACCORDANCE WITH ESMA GUIDELINES

An analysis of the industrial net funds/(debt) of the Postal and Business Services and Other Services segments at 30 June 2016, in accordance with ESMA guidelines, computed on the basis of paragraph 127 of the recommendations contained in ESMA document 319 of 2013, is provided below:

(€m)	**at 30 June 2016**	**at 31 December 2015**
A. Cash	3	2
B. Other cash equivalents	593	1,329
C. Securities held for trading	–	–
D. Liquidity (A+B+C)	**596**	**1,331**
E. Current loans and receivables	**69**	**169**
F. Current bank borrowings	(6)	(515)
G. Current portion of non-current debt	(1)	(16)
H. Other current financial liabilities	(20)	(20)
I. Current financial debt (F+G+H)	**(27)**	**(551)**
J. Current net funds/(debt) (I+E+D)	**638**	**949**
K. Non-current bank borrowings	(400)	(400)
L. Bond issues	(797)	(797)
M. Other non-current liabilities	(64)	(57)
N. Non-current financial debt (K+L+M)	**(1,261)**	**(1,254)**
O. Industrial net funds/(debt) (ESMA guidelines) (J+N)	**(623)**	**(305)**
Non-current financial assets	659	553
Industrial net funds/(debt)	**36**	**248**
Intersegment loans and receivables	732	674
Intersegment financial liabilities	(492)	(615)
Industrial net funds/(debt) including intersegment transactions	**276**	**307**
of which:		
– Postal and Business Services	*236*	*269*
– Other	*40*	*38*

Net funds in accordance with ESMA guidelines amount to €276 million and reflect, on the one hand, the positive contribution from operating activities and, on the other, the movement in net working capital linked to gains realised in the first half of 2016, which will, however, be reversed in the second half of the year.

The dividends received from subsidiaries and the contribution from Bancoposta RFC have enabled the payment of dividends of €444 million to shareholders and offset the cash outflow for investment.

7 Human resources

HEADCOUNT

The workforce employed by the Group breaks down as follows:

Permanent workforce	Average number of employees(*)		
	For the six months ended 30 June 2016	For the year ended 31 December 2015	For the six months ended 30 June 2015
Executives	782	793	783
Middle managers	16,064	16,042	16,027
Operational staff	119,467	121,487	121,789
Back-office staff	1,129	1,408	1,548
Total workforce on permanent contracts	**137,442**	**139,730**	**140,147**
Apprenticeships	35	43	46
Total	**137,477**	**139,773**	**140,193**

Flexible workforce	Average number of employees(*)		
	For the six months ended 30 June 2016	For the year ended 31 December 2015	For the six months ended 30 June 2015
Temporary contracts	21	120	126
Fixed-term contracts	4,516	3,807	3,169
Total	**4,537**	**3,927**	**3,295**
Total permanent and flexible workforce	**142,014**	**143,700**	**143,488**

(*) Expressed in full-time equivalent terms.

External recruitment and selection of business and finance graduates, to work as commercial specialists and financial promoters, continued during the first half of 2016, with a view to strengthening frontline commercial activities.
Staff numbers were also boosted at multi-ethnic post offices.
At the Corporate level, the Strategic Marketing, Information Technology and BancoPosta functions were strengthened with the specific addition of personnel with digital expertise.
External recruitment also regarded the specific business requirements of Group companies, especially Poste Vita.

Various development initiatives carried out in the first half were aimed at the entire workforce, in continuation of the plans implemented in 2015.
Young recruits with high potential but limited seniority continued to take part in the Professional Guidance Programme. This assessment and professional guidance process focused on career pathing towards middle management roles, involved 195 participants.
For middle managers, the "MLab" (Managerial Lab) process, aimed at identifying managers with development potential and putting them on the path towards more demanding positions, saw the participation by 160 staff.
With a view to upgrading and developing core business skills, mapping and assessment processes regarding "professional" skills (the SkillUp project) involved around 400 delivery centre managers belonging to the Mail, Logistics and Communication function in the first half.
All these initiatives were followed by feedback sessions aimed at discussing the development plans for individual participants.

The performance appraisal process for 2015, which was completed with the feedback phase in June, was extended to include postmen and women (approximately 34,000 staff) for the first time. In tandem with this process, an internal communications campaign was carried out to raise staff awareness of the importance of the manager-staff interview within a consistent management and development process.
Approximately 123,000 appraisals were carried out (30,000 more compared with 2015), while the number of appraisers (approximately 8,200) was in line with previous years.
Regarding incentive policies, the new "Poste Italiane Group Commercial and Operating Incentive Scheme Guidelines" were issued, which describe the contributions made by the various corporate functions involved in the process, in line with the relevant regulatory requirements.
In connection with the MBO management incentive scheme, assessment of the achievement of objectives for 2015 was completed and bonuses were paid out in June.
Regarding the MBO scheme for 2016, an overall framework has been defined, together with objectives for the General Manager and a scheme for key management personnel, in line with the principles set out in the "Remuneration Report 2016", approved by the Annual General Meeting of 24 May 2016. The same Meeting also approved the information circular, prepared in accordance with art 84-*bis* of the Regulations for Issuers, regarding the "Long-term Incentive Plan for 2016-2018 – Phantom Stock Plan".

Various management training initiatives were also launched, including the Customer Academy - MOC (Marketing Online Course), involving approximately 1,300 senior and middle managers responsible for organisational roles. Training courses were organised for younger staff members, aimed at supporting participants in interpreting new scenarios, by drawing inspiration and impetus from them in order to adopt innovative strategies and working solutions, and also providing useful tools for acquiring a broader, overall vision of the world we live and work in.
Training relating to social issues saw continuation of the "employment for the disabled" programme, with an initiative for staff who are heard of hearing (approximately 72 people), aimed at promoting their integration in the workplace and raising levels of performance and social and professional inclusion.
Technical and specialist training included courses:

- on regulatory compliance matters (225,000 participants);
- on the Public System for Digital Identity Management (*SPID*) – with a cross-functional target audience (more than 118,000 participants) – aimed at putting the online services provided by public sector and private bodies within a technological and social context, as well as raising regulatory awareness in preparation for the launch of the service using the Group's systems;
- to provide business support for commercial departments, with around 107,000 participants;
- in support of logistics activities, with approximately 15,000 participants;
- developing specialist skills for non-managerial staff, with more than 1,300 participants;
- aimed at take advantage of internal know-how, with over 220 participants (in-house trainers from various organisational contexts).

A total of more than 1.4 million training hours were provided during the six-month period.

INDUSTRIAL RELATIONS

Industrial relations at Poste Italiane during the first half of 2016 primarily entailed negotiations with labour unions on the following matters.

MAIL, LOGISTICS AND COMMUNICATION

With regard to the requirements identified in relation to delivery activities, on 27 January 2016, a statement of agreement was signed. This provides for the conversion of up to 125 fixed-term contracts, entered into as a result of statements of agreement reached with the labour unions in 2013 and 2014, to permanent part-time contracts. The conversion to permanent deals, which took place in March 2016, applies to staff in service at the date of signature of the agreement to carry out delivery activities, at the offices to which they have been assigned; these staff have been employed on part-time contracts.
On 24 February 2016, a statement of agreement was signed with the labour unions, with the exception of UILposte, following completion of a joint assessment of reorganisation initiatives in 2016, drawn up in accordance with the guidelines

agreed on 25 September 2015. The agreement envisages, from 2016, the implementation of new delivery models for provincial capitals and unregulated rural areas and for regulated rural areas, as previously identified in the agreement of 25 September 2015. This approach offers the best way of managing the resulting impact on jobs. The agreement has identified 4 thousand staff surplus to requirements.
Whilst retaining the current approach to operational flexibility, the parties have agreed to raise the monthly and annual limits applicable to operational flexibility for delivery staff on a five-day working week.
Finally, the Company has agreed to offer to convert at least 150 part-time positions within the Mail, Logistics and Communication function, wherever located, to full-time posts for delivery personnel in the provinces of Milan and Monza Brianza. In this respect, an additional agreement was signed on 14 April 2016, which defined the timing and criteria for staff wishing to take advantage of this conversion proposal.

PRIVATE CUSTOMER

On 8 March 2016, the minutes of a meeting with the labour unions were signed which, as well as changes to sales formats present within post offices (consulting rooms and corners), also define various organisational solutions for the management of middle managers not performing appropriate roles or who are to be retrained. The agreement has identified three specific projects (Strengthening the Presence in Local Philately Markets, Strengthening the Oversight of Operating Processes and Branch Professionals).
Moreover, with regard to staff surplus to requirements as a result of the agreements of June and November 2015, the parties agreed:

- a voluntary transfer scheme for grade B staff, involving their transfer from sites with surplus staff to those short of personnel, with any remaining staff surplus to requirements to be deployed to post offices in front-end roles, whilst new positions are identified in line with planned organisational requirements and staff expertise;
- the redeployment of middle managers as support staff for the directors of post offices with particularly complex operational and organisational needs, with managers being transferred to offices in their assigned province or, on a voluntary basis, to offices outside this province.

NATIONWIDE VOLUNTARY MOBILITY

On 12 April 2016, an agreement was signed that regulates the management of voluntary transfers for staff wishing to work in regions other than those to which they have been assigned. The agreement, which is valid for a two-year period (2016 and 2017), confirms the framework of the previous agreement, and boosts social protection for the relevant staff. Indeed, as already provided for members of staff suffering from “serious illnesses”, as expressly set out in art. 41 of the National Collective Labour Contract, or who have cohabiting children or a spouse/cohabiting partner affected by the same disease, it has also been made easier for employees undergoing lifesaving treatments, or who have children with conditions classified as “chronic and incapacitating” by the Ministry of Health, to obtain a transfer.

UPTIME SPA IN LIQUIDATION

Following the launch of a collective redundancy scheme for all the staff of Uptime SpA, which is partly owned by SDA Express Courier SpA, as previously mentioned, on 31 May 2016 Poste Italiane signed an agreement with the labour unions aimed at safeguarding jobs. Specifically, following redundancy, the agreement provides for the payment of income support, whilst at the same time using an outplacement firm, selected by Poste Italiane, to seek alternative employment on full-time permanent contracts, in line with the expertise of the relevant staff. Employees who are unable to find alternative employment over a six-month period will be offered part-time, fixed-term contracts within the municipality of Rome by Poste Italiane.

NATIONAL COLLECTIVE LABOUR CONTRACT FOR NON-MANAGERIAL POSTE ITALIANE STAFF

Negotiations with the labour unions began in May 2016 regarding renewal of the National Collective Labour Contract and the performance-related bonus for Poste Italiane’s non-managerial staff.
In general terms, the aim is to make the National Collective Labour Contract more responsive to the need for greater flexibility in the management of human resources, via implementation of recent legislative reforms introduced by the Jobs

Act and changes to certain aspects of employment law. Moreover, a proposal was presented to the labour unions regarding establishment of a Health Fund to provide supplementary insurance cover.

BILATERAL AGENCIES

In the first half of the year, the activities of the *Ente Bilaterale per la Formazione e Riqualificazione del Personale* (the Bilateral Agency for Staff Training and Retraining) continued to support the development, presentation and implementation of various projects, and concluded several agreements to assist in obtaining finance from Fondimpresa. During the first half, 142 training plans with a value of approximately €5.4 million were accounted for.
On the regulatory front, explanatory notes were prepared on the labour law reforms introduced, regarding the procedure for submitting resignations, the regulation of civil partnerships and common-law marriages, and of leave for women who have been victims of violence.
With respect to the targeted placement of disabled people, the recruitment plan for 2016 was defined within the bounds of the framework provided by the agreements reached with provincial and metropolitan authorities, in areas where there is a shortfall in the number of disabled people employed.

Regarding Corporate Social Responsibility, during the first half of 2016, the company welfare system was aimed at improving the quality of inclusive services provided to socially vulnerable groups, and initiatives geared towards the needs of employees and their families.
As part of the initiatives to support the development of future generations, the "PosteOrienta" project was launched, including professional guidance workshops and sessions for employees' children, at the Rome, Milan and Palermo offices, specifically designed to help young people in making their future choices.
The "maam u" project, aimed at encouraging active parenthood and involving 250 employees on maternity leave, continued, while the Health Plan was launched at several sites nationwide, with information meetings and free specialist medical examinations for staff.
During the first half, 220 staff took advantage of the socially innovative organisational and technological tool of telecommuting.

Compared with the first half of the previous year, the number of labour disputes at Poste Italiane SpA is down by around 28%; the number of actions brought amounted to 563, compared with 780 in 2015.
With regard to disputes over flexible employment:

- in relation to fixed-term contracts, 29 new claims were filed, compared with 47 in the same period of the previous year. The number of cases lost – calculated on the basis of outcomes notified regardless of the year in which the claims were filed – was approximately 11% (around 18% in 2015);
- in relation to temporary and agency work, 14 new claims were filed, compared with 11 in the first half of 2015, with cases lost amounting to around 46% (45% in the first half of 2015).

The number of new disputes arising from other contractual terms and conditions amounts to 520 in the first half of 2016, down on the 724 registered in the same period of 2015. This area also includes dismissals on disciplinary grounds. New challenges amounted to 112 in the first half of 2016, compared with 137 in the same period of 2015, with the number of cases lost rising from around 20% in the first half of 2015 to around 28% in the first half of 2016.
A total of 2,733 disciplinary procedures were launched during the six-month period, based on reports from the Security and Safety and/or Internal Auditing functions, or on the basis of specific reports received from the competent local offices. At the end of this process, 112 staff were dismissed and 2,436 received penalties without dismissal; 185 procedures were concluded without consequence. Compared with the volumes registered in the first half of the previous year, an increase was registered in the number of staff receiving a penalty without dismissal (2,303 in the first half of 2015), and decreases in dismissals (136 in the first half of 2015) and procedures concluded without consequence (119).
The principal grounds for dismissal included: "unjustified absence" (around 22%); "irregularities regarding securities trading" (around 13%); "criminal convictions/proceedings" (around 22%); and "irregularities regarding the monitoring of delivery service quality" (11%). The main reasons for the imposition of penalties without dismissal were: "misconduct" (around 10%); "absence in the event of a health inspection and failure to comply with the regulations governing sick leave" (around 20%); "failure to fulfil duties and obligations" (around 15%); and "irregularities regarding the monitoring of delivery service quality " (25%).
Finally, specific pre-dispute processes were dealt with regarding matters other than fixed-term employment contracts, with the aim of reducing the total number of disputes. This was carried out via careful analysis of approximately 470 challenges and/or claims arising during the first half of the year and assessment of the actions to be taken.

8 Risk management

Poste Italiane is progressively consolidating a Group Risk Management model ("GRM") to form part of its Internal Control and Risk Management System (also "SCIGR"), in line with the requirements of the Corporate Governance Code for listed companies and the relevant best practices. The GRM model aims to provide an organic, overall view of the Group's principal risk exposures, greater consistency across the methods and tools used to support risk management and reinforced awareness, at all levels, of the fact that the adequate assessment and management of risks can play a part in achieving strategic objectives.

The GRM model involves an integrated risk management process, implemented according to a continuous and dynamic approach. It exploits the existing risk management systems applicable to each segment (financial, insurance, postal and logistics) and business process, bringing them into line with the specific methods and tools envisaged by the model, and consolidating the risk management culture at all levels throughout the Group, so as to help in developing risk management behaviours and expertise throughout the Group's operations.

Risk monitoring took place during the first half, with particular emphasis placed on the major risks identified during previous assessments cycles. A further assessment cycle, taking into account developments in the internal and external environments and the Group's strategy, was also initiated and is currently in progress.

The GRM model has adopted a Risk Model to support the process of identifying and describing risks. The Model allows the identified risks to be classified in uniform categories applied throughout the Group, in line with the relevant best practices and, where applicable, specific regulatory requirements. The Risk Model provides a continuous point of reference for the management, control and integrated reporting of risks. As a result, it is periodically revised to reflect the Group's operations and in response to the results of assessment activities. The Risk Model has established five categories of risk: strategic, regulatory and compliance, insurance, operational and financial, as described below.

STRATEGIC RISK

The risk of a deterioration in profit or capital resulting from changes in the operating environment, poor business decisions, the substandard execution of decisions or the failure to adequately respond to changes in the competitive environment.

REGULATORY AND COMPLIANCE RISK

The current or future risk linked to the failure to comply with statutory or regulatory requirements imposed by legislation, industry regulations or internal rules.

INSURANCE RISK

This category of risk regards technical risks resulting from insurance operations (non-life technical, health technical and life technical) and is dealt with in Poste Italiane's condensed consolidated interim financial statements for the six months ended 30 June 2016 (4. Risk management) which, together with the Report on Operations, form a further section of the Interim Report.

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 the risk of workplace accidents or injuries to employees, the risk of

criminal acts or attacks resulting in damage to operating assets or activities, fraud, including online fraud (e.g., phishing), and unauthorised transactions, including errors resulting from the failure of IT or telecommunications systems.
Certain types of operational risk are described below.

RISK OF ATTACKS/EXTERNAL EVENT RISK

One of Poste Italiane's areas of focus is post office security, in order to protect its staff and the Company's assets, and deal with the risks deriving from fraud or external criminal attacks. The need to transport cash exposes Poste Italiane to the risk of criminal acts (theft and/or robbery) which, if they were to occur, could have a negative impact on the Company's image, its operations and the Group's future prospects, operating results and financial position.
Work on boosting active security measures in post offices continued in the first half of 2016, including the implementation, integration and replacement of alarm and video surveillance systems, using technologically advanced equipment. Passive security was also strengthened via the installation of anti-theft devices.
Great attention is also paid to combating the risks deriving from potential fraud inside and outside the Company, including online identity theft, phishing, malware, IP addresses identified as malicious and other data.

RISKS CONNECTED TO HEALTH AND SAFETY REGULATIONS

Having revised its model for managing workplace health and safety in 2015, Poste Italiane identified 5 new operating units: 4 that coincide with the business functions (Mail, Logistics and Communication, BancoPosta, Private Customer and Business Sales and Public Administration) and 1 that includes the remaining staff functions. All the units are now dealt with as a uniform whole by the Security and Safety function.
Work continued in the first half on a specific project for sorting centres, with the aim of identifying corrective measures designed to reduce the need for the manual handling of loads during specific working procedures.
Finally, further mandatory training in occupational safety was provided, in continuation of the training courses run in previous years. Training courses for staff tasked with handling fire emergencies and providing first aid were also updated.

INFORMATION SECURITY

In recent years, Poste Italiane has designed an integrated Information Security Governance model for the Group. The model sets out the related roles, responsibilities and activities in order to provide strategic guidance for the monitoring of the Group's data security infrastructure. Security was, in fact, given significant attention in 2016, through the conduct of specific Information Security risk analysis and assessments, resulting in the definition of the security requirements needed to ensure an adequate degree of protection for the data handled by the Group's information systems. These activities regarded the development of solutions to protect technology infrastructure, an increase in the operational efficiency and level of security of the processes and systems used to control users' access to the information system, the implementation of solutions designed to protect the Group's data network, the implementation of security measures designed to protect applications, and appropriate measures and controls relating to cyber security, with particular attention to the services provided to customers using digital channels.
In this latter regard, is the first Italian organisation to have a fully operational and internationally accredited CERT (Computer Emergency Response Team), bringing together and coordinating the Group's prevention and emergency response activities.
Furthermore, as regards Group companies, an assessment of the levels of security of the IT systems used by Postel, Postecom, SDA, PosteVita, PosteMobile (in respect of both fixed and mobile telecommunications) has been completed.

FINANCIAL RISK

These types of risk are dealt with in the condensed consolidated interim financial statements for the six months ended 30 June 2016 (4. Risk management).

9 Events after 30 june 2016

Events after the end of the reporting period are described in other sections of the Interim Report for the first half of 2016, and there are no other significant events that have occurred after 30 June 2016.

10 Outlook

In terms of traditional mail products, the Group will continue with the restructuring process embarked on, taking advantage, on the one hand, of the new regulatory framework and, on the other, the efficiency improvements achieved thanks to implementation of the new delivery model, in agreement with the unions. The Group will also proceed with its commitment to optimise and simplify the various offerings for both retail and business customers, also with the aim of maintaining its leadership in the postal services market and further improving its competitiveness in the express delivery and parcels market, where we intend to continue to focus on the B2C segment, where growth is being driven by e-commerce.

BancoPosta RFC will also continue to act on its strategic objectives. This will see it pay particular attention to the following: fully exploiting its existing customer base, involving targeted offerings of products and services designed to meet customer needs in order to consolidate relationships and boost deposits; strengthening its leadership in the electronic money segment and in collection and payment services, helping to drive the digital transformation of the Public Administration; development of its presence in the consumer credit market and the repositioning of BancoPosta as a provider of digital services as part of Poste Italiane's wider multi-channel strategy. In addition, the strategy of actively managing the securities portfolio, with the aim of stabilising the overall return, in terms of interest income and capital gains, will continue.
Finally, joint efforts with Cassa Depositi e Prestiti, designed to ensure that postal savings products maintain their attractiveness, will continue in 2016.

In terms of Savings products, the Group will continue to develop its Class I life products, with the aim of exploiting PosteVita's leadership and strengthening its asset management business by extending the range of products on offer.
In line with its strategic priorities, the Insurance Services segment will focus on updating its existing products and developing solutions designed to respond to the growing demand for personal and asset protection policies and supplementary pensions, making the offering simpler and more accessible and improving its position in the welfare market (Pensions, Health and Care).
To support this process, particular attention will be paid to strengthening and upgrading IT systems by developing digital solutions capable of making the offering even more accessible.

PosteMobile will proceed with its strategy designed to consolidate its *core business*, with its distinctive market positioning and an offering that is more in synergy and integrated with the Group.

Finally, as previously mentioned, on 31 May 2016, the Italian cabinet approved a draft Cabinet Office Decree for examination by the relevant parliamentary committees, setting out the terms of Poste Italiane SpA's privatisation and the method for selling a further tranche of shares in the Company held by the MEF. On 20 July 2016, the Senate's eighth Public Works Committee expressed a favourable opinion with observations. At the date of this report, it is expected that a public offering of shares to Italian retail investors and/or Italian and international institutional investors could take place in autumn of this year.

11 Proceedings pending and relations with the authorities

The information contained in this section aims to provide an update on activities and events occurring between the end of the previous year and the date of approval of this interim report. For more detailed information, reference should be made to the Annual Report for 2015.

PRINCIPAL RELATIONS WITH THE *AUTORITÀ PER LE GARANZIE NELLE COMUNICAZIONI* (AGCOM – THE ITALIAN COMMUNICATIONS AUTHORITY)

In accordance with Law 190/2014 (the 2015 Stability Law), AGCom has authorised a series of initiatives aimed at redefining the universal postal service in order to guarantee its financial sustainability, and in line with the changing requirements of users. In particular:

- with Resolution 395/15/CONS, AGCom authorised an alternate day delivery model for mail within the scope of the universal service;
- with Resolution 396/15/CONS, AGCom introduced new statistical quality targets and new tariffs for universal service mail.

Specifically, Resolution 395/15/CONS provides for implementation of alternate day delivery in three phases. The phase launched in October 2015 covered 256 municipalities in the Lombardy, Piedmont, Friuli Venezia Giulia and Veneto regions. The second, launched in April 2016, will be gradually rolled out in 2,400 municipalities in 14 Italian regions. Finally, pursuant to art. 3, paragraph 1 of the Resolution, the third phase of the new delivery model will not be implemented before February 2017.
Legal challenges to Resolution 395/15/CONS have been lodged with the Lazio Regional Administrative Court by the Italian Federation of Newspaper Publishers (FIEG), Avvenire, the consumers association, Codacons, and finally the Piedmont branch of the National Confederation of Local Authorities (ANCI), together with 41 Piedmont municipalities. The latter challenge is the only one to have come to court, with the proceedings, however, being suspended on 29 April 2016. The grounds submitted by the plaintiffs were declared by the court to be without basis, thereby upholding the legality, as things stand, of the aforementioned resolution. At the same time, the court referred the challenge to the European Court of Justice for assessment of the compatibility of Italian legislation with the European postal directive.
The Regional Administrative Court's decision on the challenges lodged by FIEG, Avvenire and Codacons has been postponed to a date yet to be fixed.

The Italian Association of International Air Couriers (AICAI) challenged Resolution 396/15/CONS and the related acts before the Lazio Regional Administrative Court, in relation to the part that provides for the tracking of Priority Mail, which would enable replacement of this universal service by couriers and might therefore entail an obligation for the latter to contribute to the universal service compensation fund. The Regional Administrative Court has referred an aspect of the case to the European Court of Justice, which has been asked to rule on the compatibility of Italian legislation with the European directive.
Regarding the same matter, on 6 November 2015, the Antitrust Authority sent AGCom a report, requesting the regulator to review the decision to include Priority Mail in the universal service, which according to the Antitrust Authority, especially in the format offered to business customers, was likely to distort competition in the parcels/courier market. On 9 December 2015, AGcom confirmed its decision to include the service in question in the universal service (with Resolution 662/15/CONS).
Regarding the right to direct access to the universal postal network, Poste Italiane's appeal against Resolution 728/13/CONS, which established an obligation for the Company to provide access to postal services, at the request of third parties, under fair and reasonable conditions to be freely negotiated with the parties, is still pending. Pending the appeal, Poste

Italiane received two requests for access to the universal postal network, in February and October 2014. Neither of the two negotiations has reached a conclusion. Regarding the first request, in October 2014 the operator seeking access involved the regulator, which asked the parties to go ahead with negotiations. In January 2015, the operator informally notified Poste Italiane that it had reiterated the request for intervention to the regulator, owing to the persistent stalemate in the negotiations, following which the regulator has so far taken no action regarding the request for intervention.
Furthermore, on 1 July 2016, AGCom published a press release on its website, announcing the start of a procedure entailing a review of the network access obligations set out in art. 6 of Resolution 728/13/CONS. The start of this procedure had been provided for by Resolution 396/15/CONS, approving the new tariffs and quality targets for the universal service, in response to changed conditions in the postal market. The procedure is due to be completed within 150 days of the date of publication of the release, subject to a reasoned request for an extension.

Following a dispute brought by the operator GPS (Globe Postal Services) and a prior public consultation, AGCom adopted Resolution 621/15/CONS regarding regulations governing the return of items of mail entrusted to other postal operators that finish up in Poste Italiane's network. Under this ruling, Poste Italiane is obliged to revise the "*Contract terms and conditions regarding the return of items of mail entrusted by senders to other postal operators that finish up in Poste Italiane's network*", including three distinct return procedures[14] and, on this basis, a reformulation of the rates charged, taking into account, among other things, the principle of cost orientation (avoidable cost) and applying discounts for certain volumes.
Poste Italiane had amended its Contract Terms and Conditions and informed all contracted operators, as well as GPS, about the new Contract Terms and Conditions.
Given the financial impact this ruling may have on Poste Italiane – especially the possibility of only being able to recover additional costs with the new rates –, the Company appealed against the ruling before the Lazio Regional Administrative Court. The hearing on the merits was held on 8 June 2016, and publication of the judgment is currently awaited.
GPS has challenged certain communications sent it by AGCom before the Lazio Regional Administrative Court. The communications were aimed at obliging the operator to agree to Poste Italiane's new Contract Terms and Conditions (deemed by AGCom to be in line with the resolution). GPS has also contested AGCom's prohibition against use of the term "stamp" to indicate the "stickers" used by GPS.

On 14 April 2015, AGCom issued formal notification of penalty 02/15/DSP, launching a procedure against Poste Italiane for alleged violation of certain legal obligations relating to provision of the Universal Postal Service, with regard to the exceptional closure of 21 post offices in city and Province of Messina on certain days in July and August 2014. Following the Company's submission of a defence brief, with Resolution 517/15/CONS of 25 September 2015, notified to the Company on 26 October 2015, the regulator halted the penalty procedure regarding 29 of the 42 violations initially claimed. Regarding the other violations, having rejected Poste Italiane's defence, with Resolution 631/15/CONS of 21 December 2015, AGCom ordered the Company to pay a fine of €296,000. After paying the fine, Poste Italiane lodged an appeal with the Lazio Regional Administrative Court, before which judgment is still pending.

On 10 July 2015, AGCom issued formal notification of penalty 04/15/DISP, launching a procedure against Poste Italiane for the alleged violation of its legal obligations relating to certain post offices and local area offices, following monitoring carried out by IZI SpA in 2014 in connection with changes to post office opening hours during the summer period. On 7 August 2015, Poste Italiane sent the regulator a defence brief, rejecting the alleged violations. On 18 March 2016, AGCom summoned Poste Italiane to a hearing to look into the matter. In response, on 4 April 2016, the Company sent the regulator its closing arguments. Subsequently, with Resolution 143/16/CONS of 19 April 2016, AGCom halted the entire proceedings.

On 19 October 2015, AGCom issued Directive 07/15/DISP, claiming that Poste Italiane had failed to meet its obligations relating to legal process requirements, following inspections carried out at the Roma Prati post office, regarding delayed processing of 14 court document acknowledgements of receipt (form 23L). The Company submitted its defence brief against this claim on 18 November 2015. With Resolution 161/16/CONS of 5 May 2016, the regulator ordered the Company to pay a fine of €50,000, which was carried out. The Company may lodge an appeal against this ruling with the Lazio Regional Administrative Court within 60 days of the date of its notification (16 June 2016).
Similarly in relation to the processing of court documents, in June, AGCom notified Poste Italiane of two penalties amounting to €180,000 (Resolution 188/16/CONS and Resolution 251/16/CONS), regarding which the Company is assessing whether to lodge an appeal with the Regional Administrative Court. Them, on 2 August 2016, the Authority notified its decision (resolutions 338/16/CONS and 339/16/CONS) to impose further penalties amounting to €342,500.

(14) 1) Pick up at sorting centres to which items are returned and/or referred;
2) pick up at one or more collection centres;
3) delivery by Poste Italiane to an address specified by other operators.

With regard to the same matters, proceeding 9/16/DSP is still pending.
In Resolution 366/16/CONS, dated 2 August 2016, the Authority gave Poste Italiane a formal warning in relation to compliance with the provisions of Law 890/1982, governing the notification of legal process and the related communications, and ordered the Company to submit a plan showing the organisational measures it intends to adopt to correct the situation.
Regarding obligations relating to the management of post offices, on the other hand, the regulator notified its decision to halt two proceedings (184/16/CONS and 187/16/CONS) and to order payment of a €50,000 fine in relation to another (186/16/CONS). Three other proceedings are still pending (8/16/DSP, 10/16/DSP and 11/16/DSP), one of which regards the same matter as the proceedings halted with Resolution 143/16CONS.

AGCM (THE ANTITRUST AUTHORITY)

With regard to investigation PS/10009, launched by the AGCM in 2015, into alleged violation of articles 20, 21 and 22 of the Consumer Code, regarding the "Libretto Smart" product, the Authority imposed a fine of €540,000, 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 (RG 2288/16) on 24 February 2016. At the hearing held on 23 March 2016, the court adjourned the case until a hearing on the merits.
In addition, on 7 March 2016, the AGCM, as part of a compliance audit, sent a request for information on the nature of the Libretto Smart product from 1 July 2015 and on the related "Supersmart" offering. Poste Italiane replied to the Authority on 22 March 2016, and on 24 June 2016 AGCM informed Poste Italiane that insufficient evidence is currently available to conduct an investigation.
On 4 June 2015, the AGCM launched an investigation (SP/157) pursuant to art.8, paragraph 2 quater of Law 287/90, aimed at ascertaining whether actions taken by Poste Italiane were designed to prevent H3G SpA from accessing the post office network. In July 2015, the Authority accepted requests to participate in the investigation from Fastweb SpA and Vodafone Omnitel BV. At the same time as the procedure was launched, in respect of Poste Italiane. PosteMobile, submitted a request to participate in the procedure in order to demonstrate its lack of responsibility for any alleged violation. The hearing was held on 18 September 2015, and on 29 October 2015 the Authority released the results of its investigation. With the ruling adopted at a meeting held on 16 December 2015, the Authority deemed that Poste Italiane – at variance with the provisions of art. 8, paragraph 2 *quater* of Law 287/90 – failed, when requested, to offer a competitor of its subsidiary, PosteMobile, equal access to goods and services that are exclusively available from Poste Italiane, as they form part of the activities carried out within the scope of the Universal Postal Service. In the same ruling, the Authority also ruled that Poste Italiane should desist from such conduct in the future. The Authority did not impose any fine. Poste Italiane lodged an appeal against this ruling before the Lazio Regional Administrative Court (RG 2325/16) on 25 February 2016. At the hearing convened to hear the application for interim relief on 9 March 2016, the case was adjourned until a hearing on the merits. PosteMobile also lodged an appeal against the final ruling before the Lazio Regional Administrative Court (RG 2381/16) on 19 February 2016.
At a hearing on 22 June 2016, the parties discussed the merits of both judgments. The Regional Administrative Court's ruling is pending. On 28 June 2016, the AGCM requested information to facilitate its assessment of Poste Italiane's compliance with the ruling, with reference to the description of the state of negotiations in progress with H3G relating to access as per art. 8, paragraph 2 *quater* of Law 287/90. Poste Italiane replied to the AGCM's request on 15 July 2016.
Following the announcement of the above investigation, on 23 December 2015, H3G also submitted a writ of summons to the Court of Rome, citing Poste Italiane and PosteMobile and requesting that the latter be ordered to pay compensation for damages incurred, arising from the violations referred to in the above ruling, amounting to approximately €338 million, as well as court fees.
At the preliminary hearing, held on 7 April 2016, before the Civil Court of Rome, Poste Italiane, represented by its defence counsel, appeared to file a defence brief, with attached documentation relating to quantification of the damages, claiming that it had acted in full compliance with existing legislation. The court, upholding a procedural objection raised, adjourned the hearing until 22 June 2016. At this hearing, after full discussion, the investigating judge said he would decide on the procedural objection, regarding the lack of authority of H3G's legal representative to institute legal proceedings, as well as the merits, and adjourned the case to a hearing on 1 December 2016, setting a deadline for the submission of depositions, pursuant to art. 183 of the Code of Civil Procedure. As matters stand, given the complex and novel nature of the matters in hand and the uncertain nature of any judgment, it is difficult to make a reliable forecast on the outcome of the dispute.

On 8 June 2016, the AGCM notified Poste Italiane of the launch of investigation A493 pursuant to art. 14 of Law 287/90, aimed at determining whether behaviour towards Nexive SpA, in multi-item ordinary mail delivery markets, constitutes an abuse of its dominant market position as per art. 102 of the TFEU.

In particular, the AGCM intends to ascertain whether Poste Italiane refuses to offer Nexive, in geographical areas where the company does not have a presence with its own distribution networks, the Posta Time service, namely the service that Poste Italiane offers to end customers in those areas, only making available Bulk Mail, which has higher rates than Posta Time. Moreover, according to the Antitrust Authority, Poste Italiane operates a policy of applying loyalty-building discounts on its Posta Time product for the benefit of end customers. The proceedings will conclude on 31 October 2017.

The AGCM has lodged a challenge with the Lazio Regional Administrative Court against INPS and Poste Italiane, seeking cancellation of the tender process awarding the contract for non-automated mail delivery services for INPS's head office and regional offices. In a ruling in May 2016, the Regional Administrative Court rejected the challenge, thus confirming the legitimacy of the INPS tender. The period during which the AGCM may appeal before the Council of State has not yet expired.

ITALIAN NATIONAL ANTI-CORRUPTION AUTHORITY (ANAC)

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

BANK OF ITALY

On 18 July 2016, following a recent inspection at Banca del Mezzoggiorno – MedioCredito Centrale, completed on 20 April 2016, the Bank of Italy notified the findings of the audit, which identified certain aspects of the Bank's organisation and activities that require corrective action, expressing a partly unfavourable opinion. The inspection did not give rise to any imposition of fines on the Bank or its representatives.
In line with the relevant regulations, the Bank will submit its comments on the findings and observations made to the supervisory authorities, as well the overall plan for compliance initiatives, which have already been partially implemented.

In December 2015, the Bank of Italy's Financial Intelligence Unit (UIF) launched an investigation of Poste Vita SpA relating 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 is punishable, according to art. 57, paragraph 4 of Legislative Decree 231/2007, with a fine amounting to between 1% and 40% of the value of the transactions, as quantified in the notice of assessment and violation. In this case, the fine could be up to €406,000. Poste Vita has the right to submit a defence brief or documents to the MEF and request a hearing before the above authority, pursuant to Law 689/1981.

CONSOB

Drawing up of preparatory measures continued ahead of the introduction of the new "guided consultancy" service provided for in the Plan submitted to CONSOB following the inspection completed in 2014. In particular, in a memorandum sent on 1 June 2016, information on the overall state of progress of the Plan and the scheduled launch of the rollout of the new platform in October 2016 was provided, as requested by the Authority. The aim of this platform is to adopt the standardised process that supports identification of the best investment solutions for customers, enabling a systematic record of the manager-customer relationship. The new service is set to be launched in the last quarter of 2016, and then gradually rolled out across the "MiFID" post office network by the end of the first half of 2017.

IVASS – *ISTITUTO PER LA VIGILANZA SULLE ASSICURAZIONI* (THE INSURANCE REGULATOR)

Following the inspection that took place between 1 April and 14 July 2014, for the purposes of assessing the governance, management and control of investments and financial risk, and compliance with anti-money laundering regulations, on 17 September 2014, IVASS notified Poste Vita SpA of its recommendations and the start of an administrative procedure regarding the alleged violation of four provisions concerning anti-money laundering regulations. On 12 May 2016, the Authority notified the company of the ruling in which two of the four violations challenged were upheld. Poste Vita paid the fine and, based on the findings of an analysis and assessment carried out, the company's Board of Directors decided not to challenge the ruling.

DATA PROTECTION AUTHORITY

From 29 September to 1 October 2015, the *Nucleo Polizia Tributaria Roma* (Tax Police), in implementation of Data Protection Authority order 21876/97157, as per the Data Protection Code, inspected PosteMobile's premises.
After the inspection, on 3 November 2015, the Tax Police notified PosteMobile of one alleged violation relating to the retention of data for the purposes of identifying and combatting crimes (documentation of traffic data, namely internet access) beyond the maximum periods laid down in art. 132 of the Data Protection Code, with the imposition of a fine (ranging from a minimum of €10,000 to a maximum of €50,000).
Deeming the allegation to be groundless, on 2 December 2015, pursuant to art. 18 of Law 689 of 24 November 1981, PosteMobile submitted its defensive brief to the Authority asserting that data retention for the purposes of identifying and combatting crimes was extended beyond the maximum periods provided for by the Data Protection Code in good faith and in line with the interpretative and applicatory practices of the Anti-terrorism Decree 43 of 17 April 2015, which all telecommunications operators comply with. On 2 February 2016, the company confirmed to the Authority that it had completed cancellation of the traffic data relating to communications prior to 21 April 2015, being up to the entry into effect of the legislation converting the Anti-terrorism Decree into law. Finally, Poste Mobile has requested a halt to the procedure, taking into account the unique and isolated nature of the violation within a general context of full compliance with existing data protection legislation, as confirmed by the findings of the investigation. .

12 Other information

THE ENVIRONMENT

The Poste Italiane Group is committed to environmental protection which, within the scope of its green strategy, it considers to be a vital element in its path to growth. For this reason, all the business activities carried out entail implementation of environmental sustainability actions and policies inspired by principles of saving, recovery and recycling, innovation and security.

Over two-thirds of Poste Italiane's polluting emissions are attributable to the energy used to supply its properties. For this reason, the plan to optimise energy use, by encouraging staff to adopt a virtuous approach to energy, continued during the first half. This included information campaigns focusing on the need to save energy (for example, on the careful use of "heat pumps"), and the introduction of technical initiatives designed to reduce waste, including the installation and activation of energy management devices for monitoring energy consumption, enabling, for example, the analysis of consumption on Saturdays and Sundays, measurement at the sites where energy consumption is highest and the correct setting of temperatures and time-settings for cooling and heating systems. In addition, a total of 20,000 human presence sensors have been installed as of June.

In this regard, the Group's participation in international programmes aimed at reducing greenhouse gas emissions, such as the Environmental Measurement and Monitoring System (EMMS) run by the IPC and the Greenhouse Gas Reduction Programme set up by Posteurop, continued during the first half.

The Mobility Management project continued. This project aims to meet the needs of the Group's workforce and protect the environment, supporting the adoption of sustainable mobility solutions in urban areas. In this regard, the special agreements enabling the Group's employees to purchase annual season tickets for local public transport in Rome, Bologna, Milan and Brescia at reduced rates and in instalments remain valid and, in June, were extended to include Turin. Reduced rates for employees wishing to take part in car sharing schemes in Rome, Milan, Turin and Florence are also available.

RELATED PARTY TRANSACTIONS

With the aim of ensuring the transparency and substantial and procedural correctness of transactions with related parties and connected persons, the Company has adopted “Guidelines for the management of transactions with Related Parties and Connected Persons”, approved by Poste Italiane SpA’s Board of Directors in July 2015. The Guidelines have been drawn up in compliance with the principles established by the CONSOB in the Regulation adopted with Resolution 17221 of 12 March 2010 and Announcement DEM/10078683 of 24 September 2010.

The Guidelines apply the regulations contained in Bank of Italy Circular 263/2006, “New prudential supervisory standards for banks”, Title V, Chapter 5, “Risk assets and conflicts of interest with Connected Persons” and Bank of Italy Circular 285/2013 (“Supervisory Standards”), applicable to Poste Italiane with reference to transactions entered into by BancoPosta with persons connected with Poste Italiane.

The scope of application of the Guidelines differs depending on the applicable regulations. This means that the CONSOB’s requirements apply to Poste Italiane (in carrying out both its postal activities and those of BancoPosta and in the conduct of transactions with Poste Italiane’s Related Parties through subsidiaries), whilst the standards issued by the Bank of Italy apply solely to BancoPosta’s transactions with Poste Italiane’s Connected Persons. The updated version of the Guidelines is published on Poste Italiane’s website at: http://www.posteitaliane.it/en/governance/company-documents/related-parties-connected-persons.shtml. The document is also available in the section dedicated to BancoPosta at http://www.posteitaliane.it/it/governance/documenti_bancoposta/operativita_parti_correlate_sogg_collegati.shtml. Details of related party transactions are provided in the Poste Italiane Group’s condensed consolidated interim financial statements for the six months ended 30 June 2016 (3.5 – Related party transactions).

STATEMENT OF RECONCILIATION OF PROFIT AND EQUITY

The statement of reconciliation of the Parent Company’s profit/(loss) for the period and equity with the consolidated amounts at 30 June 2016, compared with the statement at 31 December 2015, is included in the condensed consolidated interim financial statements for the six months ended 30 June 2016 (3.3 – Notes to the financial statements).

Appendix - key performance indicators for principal Poste Italiane group companies

POSTE ITALIANE SPA

(€m)	for the six months ended 30 June			
	2016	2015	Increase/(decrease)	
Revenue from sales and services	4,630	4,544	86	1.9%
Operating profit/(loss)	573	421	152	36.1%
Profit/(loss) for the period	406	306	100	32.7%
Investment(*)	118	317	(199)	-62.8%
Equity(**)	6,469	7,646	(1,177)	-15.4%
Permanent workforce – average	133,284	135,985	(2,701)	-2.0%
Flexible workforce – average	4,344	2,981	1,363	45.7%

(*) The figure for the first half of 2015 includes financial investments of €212 million.

(**) The amount shown in the column for the six months ended 30 June 2015 refers to 31 December 2015.

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.

OTHER COMPANIES

POSTEL S.P.A.(*)

(€000)	for the six months ended 30 June			
	2016	2015	Increase/(decrease)	
Revenue from sales and services	112,074	112,875	(801)	-0.7%
Operating profit/(loss)	(3,005)	(1,418)	(1,587)	n/s
Profit/(loss) for the period	(4,390)	(2,234)	(2,156)	96.5%
Investment	4,538	4,488	50	1.1%
Equity(**)	99,034	103,265	(4,231)	-4.1%
Permanent workforce - average	1,187	1,206	(19)	-1.6%
Flexible workforce - average	37	37	–	n/s

(*) In the first half of 2016, PosteShop SpA was merged with and into Postel SpA, effective for accounting and tax purposes from 1 May 2016.

(**) The amount shown in the column for the six months ended 30 June 2015 refers to 31 December 2015.

n/s: not significant

SDA EXPRESS COURIER S.P.A.

(€000)	for the six months ended 30 June			
	2016	2015	Increase/(decrease)	
Revenue from sales and services	279,977	252,838	27,139	10.7%
Operating profit/(loss)	(18,208)	(19,124)	916	4.8%
Profit/(loss) for the period	(13,946)	(14,889)	943	6.3%
Investment	1,554	742	812	n/s
Equity(*)	(14,317)	498	(14,815)	n/s
Permanent workforce – average	1,409	1,416	(7)	-0.5%
Flexible workforce – average	69	144	(75)	-52.1%

(*) The amount shown in the column for the six months ended 30 June 2015 refers to 31 December 2015.
n/s: not significant

POSTE TUTELA S.P.A.

(€000)	for the six months ended 30 June			
	2016	2015	Increase/(decrease)	
Revenue from sales and services	43,285	42,872	413	1.0%
Operating profit/(loss)	470	435	35	8.0%
Profit/(loss) for the period	369	288	81	28.1%
Investment	5	54	(49)	-90.7%
Equity(*)	12,994	12,662	332	2.6%
Permanent workforce – average	16	14	2	14.3%

(*) The amount shown in the column for the six months ended 30 June 2015 refers to 31 December 2015.

POSTECOM S.P.A.

(€000)	for the six months ended 30 June			
	2016	2015	Increase/(decrease)	
Revenue from sales and services	34,690	37,067	(2,377)	-6.4%
Operating profit/(loss)	989	792	197	24.9%
Profit/(loss) for the period	310	461	(151)	-32.8%
Investment	4,494	3,672	822	22.4%
Equity(*)	21,084	21,003	81	0.4%
Permanent workforce – average	291	298	(7)	-2.3%
Flexible workforce – average	4	6	(2)	-33.3%

(*) The amount shown in the column for the six months ended 30 June 2015 refers to 31 December 2015.

EUROPA GESTIONI IMMOBILIARI S.P.A.(*)

(€000)	for the six months ended 30 June			
	2016	2015	Increase/(decrease)	
Revenue from sales and services	44,828	7,703	37,125	n/s
Operating profit/(loss)	1,753	757	996	n/s
Profit/(loss) for the period	356	1,686	(1,330)	-78.9%
Investment	248	581	(333)	-57.3%
Equity(**)	234,169	233,833	336	0.1%
Permanent workforce – average	30	16	14	87.5%

(*) In 2015, Poste Energia SpA was merged with and into Europa Gestioni Immobiliari SpA, effective for tax and accounting purposes from 31 December 2015.

(**) The amount shown in the column for the six months ended 30 June 2015 refers to 31 December 2015.

n/s: not significant

MISTRAL AIR S.R.L.

(€000)	for the six months ended 30 June			
	2016	2015	Increase/(decrease)	
Revenue from sales and services	33,821	52,828	(19,007)	-36.0%
Operating profit/(loss)	(3,563)	(1,495)	(2,068)	n/s
Profit/(loss) for the period	(2,850)	(1,163)	(1,687)	n/s
Investment	259	58	201	n/s
Equity(*)	1,605	4,577	(2,972)	-64.9%
Permanent workforce – average	145	152	(7)	-4.6%
Flexible workforce – average	40	74	(34)	-45.9%

(*) The amount shown in the column for the six months ended 30 June 2015 refers to 31 December 2015.

n/s: not significant

BANCOPOSTA FONDI S.P.A. SGR

(€000)	for the six months ended 30 June			
	2016	2015	Increase/(decrease)	
Fee income	35,058	27,990	7,068	25.3%
Net fee income	19,684	16,651	3,033	18.2%
Profit/(loss) for the period	9,923	8,110	1,813	22.4%
Financial assets (liquidity and securities)(*)	80,021	65,851	14,170	21.5%
Equity(*)	66,575	56,820	9,755	17.2%
Permanent workforce – average	53	55	(2)	-4.4%
Flexible workforce – average	1	–	1	n/s

(*) The amount shown in the column for the six months ended 30 June 2015 refers to 31 December 2015.

n/s: not significant

BANCA DEL MEZZOGIORNO – MEDIOCREDITO CENTRALE S.P.A.

(€000)	for the six months ended 30 June			
	2016	**2015**	**Increase/(decrease)**	
Net interest income	21,048	24,365	(3,317)	-13.6%
Net fee and commission income	23,423	21,916	1,507	6.9%
Profit/(loss) for the period	12,979	19,399	(6,420)	-33.1%
Financial assets(*)	2,540,513	2,523,777	16,736	0.7%
Equity(*)	411,600	425,511	(13,911)	-3.3%
Permanent workforce – average	281	273	8	2.9%
Flexible workforce – average	25	19	6	31.6%

(*) The company paid dividends totalling €25 million during the six months ended 30 June 2016. The amount shown in the column for the six months ended 30 June 2015 refers to 31 December 2015.

POSTE VITA S.P.A.(*)

(€000)	for the six months ended 30 June			
	2016	**2015**	**Increase/(decrease)**	
Insurance premium revenue(**)	10,521,538	9,449,259	1,072,279	11.3%
Profit/(loss) for the period	164,852	156,954	7,898	5.0%
Financial assets(***)	112,137,283	102,210,858	9,926,425	9.7%
Technical provisions for insurance business(***)	109,269,178	100,201,523	9,067,655	9.0%
Equity(***)	3,468,967	3,283,955	185,012	5.6%
Permanent workforce – average	325	282	43	15.2%
Flexible workforce – average	6	2	4	n/s

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

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

(***) The amount shown in the column for the six months ended 30 June 2015 refers to 31 December 2015.

n/s: not significant

POSTE ASSICURA SPA (*)

(€000)	for the six months ended 30 June			
	2016	**2015**	**Increase/(decrease)**	
Insurance premium revenue(**)	51,708	46,092	5,616	12.2%
Profit/(loss) for the period	4,399	4,583	(184)	-4.0%
Financial assets(***)	152,955	139,884	13,071	9.3%
Technical provisions for insurance business(***)	127,619	112,317	15,302	13.6%
Equity(***)	70,355	65,225	5,130	7.9%
Permanent workforce – average	54	52	2	3.8%
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 under Italian GAAP and in accordance with the Italian Civil Code.

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

(***) The amount shown in the column for the six months ended 30 June 2015 refers to 31 December 2015.

n/s: not significant

POSTEMOBILE S.P.A.(*)

(€000)	for the six months ended 30 June			
	2016	2015	Increase/(decrease)	
Revenue from sales and services	146,573	166,114	(19,541)	-11.8%
Operating profit/(loss)	14,505	22,453	(7,948)	-35.4%
Profit/(loss) for the period	9,181	14,100	(4,919)	-34.9%
Investment	12,709	7,895	4,814	61.0%
Equity(**)	65,188	66,657	(1,469)	-2.2%
Permanent workforce – average	274	308	(34)	-11.0%
Flexible workforce – average	8	1	7	n/s

(*) The partial demerger of the company's fixed line telecommunications business to Poste Italiane was executed on 27 April 2016 and the transaction was effective for legal, accounting and tax purposes from 1 May 2016.

(**) The amount shown in the column for the six months ended 30 June 2015 refers to 31 December 2015.

n/s: not significant

Condensed consolidated interim financial statements

at and for the six months ended 30 June 2016

3

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).

On 27 October 2015, the shares of Poste Italiane began trading on *Mercato Telematico Azionario* (the *MTA*, an electronic stock exchange). At 30 June 2016, the Company is 64.7% owned by the Ministry of the Economy and Finance ("MEF"), with the remaining shares held by institutional and retail investors.

On 31 May 2016, the Italian cabinet approved a draft Cabinet Office Decree – currently being examined by the relevant parliamentary committees – setting out the terms of Poste Italiane SpA's privatisation and the method for selling a further tranche of shares in the Company held by the MEF. The plan is to retain a state-owned interest of not less than 35% in the Company (to be held through and managed separately by Cassa Depositi e Prestiti SpA (CDP)), which will continue to be under the control of the MEF. It is expected that this interest will be sold off, potentially in several tranches, in the form of a public offering of shares to Italian retail investors, including employees of the Poste Italiane Group, and/or Italian and international institutional investors.

On 24 June 2016, the extraordinary general meeting of Cassa Depositi e Prestiti SpA's shareholders approved the issue of new shares to the MEF amounting to €2.930 billion, inclusive of a share premium. The new shares will be paid for via the MEF's transfer of a 35% interest in Poste Italiane SpA to CDP, which will manage the holding separately, whilst it continues to be under the control of the MEF. The share issue and the transfer of the stake in Poste Italiane will take place by 31 December 2016, once the procedure for authorising the transfer of the investment has been completed.

These condensed consolidated financial statements refer to the six months ended 30 June 2016 and have been prepared in euros, the currency of the economy in which the Group operates. They consist of the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes. Amounts in the financial statements are shown in millions of euros, unless otherwise stated.

2 Basis of preparation

2.1 COMPLIANCE WITH IAS/IFRS

Poste Italiane Group's condensed consolidated interim financial statements are prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union ("EU") in EC Regulation 1606/2002 of 19 July 2002, and in accordance with Legislative Decree 38 of 28 February 2005, which governs the application of IFRS in Italian law. IFRS include 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 2 August 2016, the date on which the Board of Directors of Poste Italiane SpA approved the interim report.

2.2 BASIS OF PRESENTATION AND ACCOUNTING STANDARDS APPLIED

These consolidated interim financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* and article 154-*ter* (paragraph 3) of the Consolidated Law on Finance. As permitted by IAS 34, they provide less information than the annual financial statements (which are prepared in accordance with IAS 1 – *Presentation of Financial statements*), as they are intended to provide an update on the latest complete set of annual financial statements focusing on new activities, events and circumstances – to the extent considered relevant – as well as certain minimum additional information; accordingly, they do not duplicate information previously reported in the consolidated financial statements of the Poste Italiane Group at and for the year ended 31 December 2015, to which reference should be made for a more complete understanding of the matters reported herein. In accordance with IAS 34, the following information included in these financial statements is considered to be relevant in terms of providing an understanding of the changes in financial position, operating performance and cash flows during the first six months of 2016.

The accounting policies and recognition, measurement and classification criteria adopted in preparing the consolidated interim financial statements are the same as those adopted in the preparation of the consolidated financial statements at and for the year ended 31 December 2015. However, to allow comparison on a like-for-like basis with the amounts for the six months ended 30 June 2015 and for the year ended 31 December 2015 – considering the organisational changes that made it necessary to re-allocate certain companies to the relevant operating segments (see note 3.4) – certain amounts and notes have been reclassified.

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

At the date of approval of these financial statements, there is no established practice on which to base interpretation and application of newly published, or revised, international accounting standards. In addition, guidance regarding certain aspects of taxation[15] and interpretations based on examples of best practice or case-law cannot yet be regarded as exhaustive. Therefore, these financial statements have, been prepared on the basis of information currently available and taking account of best practice. 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 USE OF ESTIMATES

While preparation of the consolidated interim financial statements requires management to make more extensive use of estimates compared with the annual financial statements, there have been no changes with respect to the Poste Italiane Group's consolidated financial statements at and for the year ended 31 December 2015, in terms of either the type of estimates made or the methods of calculation and measurement adopted.

This section provides an update of those consistently adopted accounting estimates that, in view of changing conditions during the six months ended 30 June 2016, require an update. Reference is made to the Annual Report for 2015 for a comprehensive review of the use of estimates.

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 finances. The legal framework of reference is still subject to change and, as has at times been the case in the past, circumstances may be such that estimates made in relation to previous financial statements, with effects on the statement of profit and loss, need to be changed. The complex process associated with the determination of receivables, which has not been completed yet, may result in changes in the results for the periods after 30 June 2016 to reflect variations in estimates, due to future regulatory enactments or following the finalisation of expired agreements to be renewed.

At 30 June 2016, the Poste Italiane Group's receivables outstanding with central and local government authorities amounted to approximately €1.2 billion (€1.3 billion at 31 December 2015), gross of provisions for doubtful debts. The significant decrease in the amounts outstanding at 30 June 2016 and 31 December 2015 reflects the effects of the review of the main exposures conducted by a joint working group with the MEF – Treasury and General Accounting Department, which ended in August 2015. On 7 August 2015, the MEF committed "*the Ministry to complete all the procedures necessary in order to pay the amounts due in accordance with procedures and timing consistent with the current privatisation process (…), including provision of the necessary funding*" and sent the Parent Company a legally binding letter signed by the Director General of the Treasury Department and General Accounting Office referring to the items described below (the "MEF letter")

(15) 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 table below summarises receivables due from the State.

Receivables (€m)		At 30 June 2016	At 31 December 2015
Universal Service compensation	(i)	171	334
Electoral subsidies	(ii)	83	83
Remuneration of current account deposits	(iii)	10	15
Delegated services	(iii)	28	28
Distribution of Euroconvertors	(iv)	6	6
Other		4	3
Trade receivables due from the MEF		**302**	**469**
Loans and receivables due from the MEF			
for repayment of loans accounted for in liabilities		1	3
Shareholder transactions:			
Amount due from MEF following cancellation of EC Decision of 16 July 2008	(v)	45	45
Total amounts due from the MEF		**348**	**517**
Receivables due from Ministries and Public Administration entities: Cabinet Office for publisher tariff subsidies	(vi)	52	52
Receivables due from Ministries and Public Administration entities: Ministry for Econ. Dev.	(vii)	74	72
Other trade receivables due from Public Administration entities	(viii)	642	557
Trade receivables due from Public Administration entities		**768**	**681**
Other receivables and assets:			
Sundry receivables due from Public Administration entities	(ix)	8	9
Current tax assets and related interest	**(x)**	**58**	**59**
Total amounts due from the MEF and Public Administration entities		**1,182**	**1,266**

Specifically, at 30 June 2016, the total exposure to the State includes:

(i) Receivables related to Universal Service compensation, totalling €171 million, including:

- €67 million relating to compensation for 2015, of which half funded in the 2017 state budget and the other half unfunded;
- €104 million relating to compensation for previous years, of which €32 million funded in the 2016 state budget, €41 million funded in the 2017 state budget and €31 million unfunded.

  In the first half of 2016, the Group received €131 million in compensation for the entire period, in monthly payments as per the new *Contratto di Programma* (Service Contract), an additional €131 million related to compensation for 2015 and €32 million related to compensation for past years;

(ii) Receivables related to electoral tariff subsidies, totalling €83 million, a sum acknowledged in the MEF Letter, funded in the state budget for 2016 and prior years, but still being reviewed by the European Commission.

(iii) Sums due from the MEF in the amount of €38 million, relating to the first half of 2016 and not giving rise to any particular concerns.

(iv) Receivables in the amount of €6 million, for the distribution of Euroconverters and acknowledged in the MEF letter, for which no provision has been made in the state budget.

(v) Receivables of €45 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 at 31 December 2015 was deferred or adjusted. This amount was acknowledged in the MEF letter up to €6 million. However, to date, the relevant sum has not been appropriated in the state budget.

(vi) Sums due from the Cabinet Office, totalling €52 million, of which approximately €51 million is expected to be collected in 2016 pursuant to Cabinet Office Decrees dated 13 November 2007 and 27 November 2008, whilst €1 million was acknowledged in the MEF Letter.

(vii) Receivables due from the Ministry of Economic Development, amounting to €74 million, in relation to which a negotiated settlement worth approximately €50 million was not cleared by the State Attorney's Office; as of the reporting date, legal proceedings were under way in relation to receivables of €62 million and a joint working group had been set up with the debtor to agree on the amount of the services to be billed.

(viii) Regarding receivables outstanding with central and local government entities, totalling €642 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.

(ix) Other receivables of €8 million under collection, though provisions for the full amount have been made.

(x) Corporate income tax (IRES) overpayments and related interest to be recovered in relation to the unreported IRAP deduction of €58 million. In the second half of 2015, tax refunds due to overpayment were collected in the amount of €546 million, in keeping with the above MEF Letter. With reference to the remaining amount receivable, a dispute is under way, but the time necessary to reach a settlement is not known. However, Poste Italiane has taken all the steps necessary to collect the amount owed. Any elements of uncertainty or risk requiring the Parent Company's recalculation of these items will be reflected in future financial statements.

At 30 June 2016, provisions for doubtful debts reflect receivables for which no provision had been made in the state budget, receivables for which provision has been made only in the state budget forecast for 2017 and other past due sums. The final versions of legislation, contracts and procedures authorising payment of these items may result in the release of a portion of the provisions made to profit or loss, whilst new provisions and estimates may be necessary.

IMPAIRMENT TESTS AND CASH GENERATING UNITS

Goodwill and other non-current assets are tested for impairment in accordance with the applicable accounting standards.

In particular, two cash generating units (CGUs) are identified for the Parent Company – BancoPosta RFC and the remaining Postal and Business Services segment – and goodwill has been allocated to both of these. Each of the other Group companies is considered a separate CGU. Details of goodwill are provided in tables A3.2 and A4.

The impairment tests at 30 June 2016 were performed on the basis of the five-year business plans for 2015-2019 of the units concerned or the latest available projections. Data from the last year of the plan has 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)[(16)].

MEASUREMENT OF OTHER NON-CURRENT ASSETS

The current economic and financial crisis, which has resulted in highly volatile markets and great uncertainty with regard to economic projections, and the decline of the postal market in which the Group operates make it difficult to produce forecasts that can, with certainty, be defined as reliable. In this context, at 30 June 2016, the Parent Company's Postal and Business Services segment was tested again for impairment. In this respect, reference was made, among other things, to the transfer prices that BancoPosta RFC is expected to pay for the services provided by Poste Italiane's network, as determined in the 2015-2019 business plan approved by the Parent Company's Board of Director on 15 May 2015. The impairment test determined that the related carrying amounts are fair.

In addition, in assessing the value of non-current assets of the Postal and Business service segment, account was taken of any effect on the value in use of certain properties, should such properties no longer be used in operations in future, making adjustments to certain impairment losses taken in the past in the light of new evidence available at 30 June 2016. The fair value of the Parent Company's properties used in operations continued to be significantly higher than their carrying amount. As in the past, in determining the value of properties used as post offices and sorting centres, Poste Italiane SpA's universal

(16) In the test carried out at 30 June 2016, use was made of an assumed growth rate of 1.3%, while the WACC for each CGU tested for impairment, determined in accordance with best practices, ranged from 6.77% to 7.17%. The cost of equity (Ke) is 9.55% for the banking business and 8.04% for the asset management business.

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 Postal and Business Services segment.

2.4 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 applied in measuring the fair value of financial instruments did not change compared with 31 December 2015 and have been identified 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 the Group level.

In compliance with IFRS 13 – Fair Value Measurement, the following section provides information regarding the techniques used to measure the fair value of financial instruments within the Poste Italiane Group.

The assets and liabilities concerned (specifically assets and liabilities carried at fair value and carried at cost or amortised cost, for which fair value is required to be disclosed in the notes) are classified with reference to a hierarchy that reflects the materiality of the sources used for their valuation.

The hierarchy consists of three levels.

Level 1: this level is comprised of fair values determined with reference to prices quoted in active markets for identical assets or liabilities to which the entity has access on the measurement date. For the Poste Italiane Group, these include the following types of financial instruments:

Bonds quoted on active markets:

- **Bonds issued by EU government bodies or Italian or foreign corporate bonds:** measurement is based on bid prices, according to a hierarchy of sources where the MTS (the wholesale electronic market for government securities) ranks first, MILA (Milan Stock Exchange) second, for bonds intended for retail customers, and the CBBT (Bloomberg Composite Price) third;
- **Financial liabilities:** measurement is based on the ask prices quoted by CBBT (Bloomberg Composite Price).

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

Quoted investment funds: measurement is based on the daily closing market price as provided by Bloomberg or the fund manager.

Level 1 bond price quotations incorporate a credit risk component.

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, ranges of rate volatility, inflation option premiums, asset swap spreads or credit default spreads which represent the creditworthiness of specific counterparties and any liquidity adjustments quoted by primary market counterparties.

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

Bonds quoted either on inactive markets or not at all:

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

Unquoted equities: this category may be included here provided it is possible to use the price of quoted equities of the same issuer as a benchmark. The price inferred in this manner would be adjusted through the application of the discount implicit in the process to align the value of the unquoted shares to the quoted ones.

Unquoted investment funds: measurement is based on the latest available NAV (Net Asset Value) as provided by Bloomberg or as determined by the fund manager.

Derivative financial instruments:

- ***Interest Rate Swaps:***
  - **Plain vanilla interest rate swaps:** valued using discounted cash flow techniques, involving the computation of the present value of future differentials between the receiver and payer legs of the swap. The construction of yield curves to estimate future cash flows indexed to market parameters (money market rates and/or inflation) and computation of the present value of future differentials are carried out using techniques commonly used in capital markets.
  - **Interest rate swaps with an embedded option:** valuation is based on a building block approach, entailing decomposition of a structured position into its basic components: the linear and option components. The linear component is measure using the discounted cash flow techniques described for plain vanilla interest rate swaps above. Using the derivatives held in Poste Italiane's portfolio as an example, the option component is derived from interest rate or inflation rate risks and is valued using a closed form expression, as with classical option valuation models with underlyings exposed to such risks.
- **Warrants:** considering the features of the securities held, measurement is based on the local volatility model. In particular, considering that buyback agreements have been entered into with the counterparties that structured these warrants, and that such counterparties use valuation models consistent with those used by the Group, these instruments are measured on the basis of the bid price quoted by the counterparties.

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 Backs used for the short-term investment of liquidity: valuation is based on discounted cash flow techniques involving the computation of the present value of future cash flows. Buy and Sell Back agreements may be pledged as collateral and the fair value, consequently, need not be adjusted for counterparty risk.

Fixed rate and variable rate instruments: measurement is based on the discounted cash flow approach. The counterparty's credit spread is considered through:

- use of the Italian government yield curve or the credit default swap (CDS) of the Italian Republic, in the case of Italian government agencies;
- use of quoted CDS yield curves or, if not available, the adoption of "synthetic" CDS yield curves represented by the counterparty's rating, as constructed starting from the input data observable on the market;
- use do yield curves based on the specific issuer's quoted bond prices.

Financial liabilities quoted either 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** 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.

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. This 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 that cannot be observed. 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.

Unlisted closed-end funds: these include funds that invest mainly in unlisted 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.

Unlisted equity instruments: this category includes shares for which no price is observable directly or indirectly in the market. A discount computed through an internal model is applied, in order to reflect the implicit cost in the process of converting the shares to be measured into listed shares.

2.5 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The following accounting standards, interpretations and amendments were applicable from 1 January 2016:

- **Annual improvement cycle in relation to IFRS 2010-2012** adopted with Regulation (EU) no. 28/2015 in connection with the annual projects to improve and revise international accounting standards.
- **IAS 19 –** *Employee benefits – Defined Benefit Plans: Employee Contributions* amended by Regulation (EU) no. 29/2015. The amendment clarifies the application of IAS 19 to defined benefit plans in connection with contributions linked to service by the employee or a third party. These contributions reduce the entity's service cost in providing benefits and, to the extent that they are commensurate with the service provided by the employee in a given period, can be deducted fully from the cost for the period, instead of being allocated over the employee's years of remaining service.
- **IFRS 11 –** *Joint Arrangements* amended by Regulation (EU) no. 2173/2015. The amendment provides that when an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business it will apply all the principles contained in IFRS 3. This applies to the acquisition of both the initial interest and additional interests. On the other hand, an interest held prior to the amendment is not re-measured; in the event that the acquisition of an additional interest allows the entity to retain joint control (i.e. the additional interest acquired does not give the entity a controlling interest).
- **IAS 16 –** *Property, Plant and Equipment* and IAS 38 – *Intangible Assets* amended by Regulation (EU) no. 2231/2015. The amendment clarifies whether it is appropriate to use revenue-based methods to calculate the depreciation or amortisation of an asset (in addition to those permitted by the pre-existing versions of IAS 16 and IAS 38 for tangible and intangible assets, respectively). The amendment defined this method as inappropriate in the case of tangible assets and as appropriate for intangible assets but only if it can be demonstrated that revenue and the consumption of the economic benefits of the intangible assets are highly correlated. The amendment is founded on the existence of cases where the revenue generated by the activity that includes the use of an asset typically reflects factors that are not directly linked to consumption of the economic benefits embodied in the asset, such as selling activity, a different production process, changes in selling prices.
- **Annual improvement cycle in relation to IFRS 2012 – 2014** adopted with Regulation (EU) no. 2343/2015 in connection with the annual projects to improve and revise international accounting standards.
- **IAS 1 –** *Presentation of Financial Statements* as amended by Regulation (EU) no. 2406/2015. The amendment aims to improve the effectiveness of disclosure and to encourage companies to apply professional judgment in determining the information to be disclosed in their financial statements when applying IAS 1. In particular, the

amendment clarifies the guidelines contained in IAS 1 on materiality, the aggregation of items, the presentation of subtotals, the structure of the financial statements and disclosures on the accounting policies adopted. The amendment also concerns the information required for the section on other components of comprehensive income. Specifically, the amendment requires explicit indication of the share of other comprehensive income pertaining to associates and joint ventures accounted for using the equity method, indicating which of those amounts will or will not be recycled subsequently to profit and loss.

- **IAS 27 –** *Separate Financial Statements* amended by Regulation (EU) no. 2441/2015. Regarding entities that prepare separate financial statements, the amendment permits such entities to adopt the equity method to account for investments in subsidiaries, associates and joint ventures. This option is in addition to those permitted by the pre-existing version of IAS 27 (cost method and in accordance with IAS 39).

The accounting standards, interpretations and amendments that came into effect from 1 January 2016 did not have any effect on these condensed financial statements.

3

Poste Italiane Group Consolidated financial statements

at and for the six months ended 30 June 2016

3.1 CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS *(€m)*	**Note**	**at 30 June 2016**	*of which, related party transactions (note 3.5)*	**at 31 December 2015**	*of which, related party transactions (note 3.5)*
Non-current assets					
Property, plant and equipment	[A1]	2,087	–	2,190	–
Investment property	[A2]	58	–	61	–
Intangible assets	[A3]	498	–	545	–
Investments accounted for using the equity method	[A4]	212	*212*	214	*214*
Financial assets	[A5]	153,712	*4,059*	139,310	*3,988*
Trade receivables	[A7]	76	–	54	–
Deferred tax assets	[C12]	728	–	623	–
Other receivables and assets	[A8]	2,558	*1*	2,303	*1*
Technical provisions attributable to reinsurers		65		58	
Total		**159,994**		**145,358**	
Current assets					
Inventories	[A6]	137	–	134	–
Trade receivables	[A7]	2,224	*758*	2,292	*904*
Current tax assets	[C12]	175	–	72	–
Other receivables and assets	[A8]	1,034	*4*	897	*2*
Financial assets	[A5]	21,477	*7,066*	20,780	*7,274*
Cash and deposits attributable to BancoPosta	[A9]	2,556	–	3,161	–
Cash and cash equivalents	[A10]	1,743	*773*	3,142	*391*
Total		**29,346**		**30,478**	
TOTAL ASSETS		**189,340**		**175,836**	

LIABILITIES AND EQUITY *(€m)*	Note	at 30 June 2016	*of which, related party transactions (note 3.5)*	at 31 December 2015	*of which, related party transactions (note 3.5)*
Equity					
Share capital	[B1]	1,306	–	1,306	–
Reserves	[B4]	3,014	–	4,047	–
Retained earnings		4,338	–	4,305	–
Equity attributable to owners of the Parent		**8,658**		**9,658**	
Equity attributable to non-controlling interests		–	–	–	–
Total		**8,658**		**9,658**	
Non-current liabilities					
Technical provisions for insurance business	[B5]	109,397	–	100,314	–
Provisions for risks and charges	[B6]	603	*52*	634	*50*
Employee termination benefits and pension plans	[B7]	1,457	–	1,361	–
Financial liabilities	[B8]	8,727	*85*	7,598	*77*
Deferred tax liabilities	[C12]	912	–	1,177	–
Other liabilities	[B10]	886	–	920	–
Total		**121,982**		**112,004**	
Current liabilities					
Provisions for risks and charges	[B6]	767	*10*	763	*11*
Trade payables	[B9]	1,293	*187*	1,453	*174*
Current tax liabilities	[C12]	281	–	53	–
Other liabilities	[B10]	1,971	*77*	2,025	*91*
Financial liabilities	[B8]	54,388	*28*	49,880	*3*
Total		**58,700**		**54,174**	
TOTAL EQUITY AND LIABILITIES		**189,340**		**175,836**	

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(€m)	Note	For the six months ended 30 June 2016	*of which, related party transactions (note 3.5)*	For the six months ended 30 June 2015	*of which, related party transactions (note 3.5)*
Revenue from sales and services	[C1]	4,316	*1,122*	4,390	*1,199*
Insurance premium revenue	[C2]	10,551	–	9,474	–
Other income from financial and insurance activities	[C3]	2,781	*43*	2,055	*31*
of which, non-recurring income		*121*		*–*	
Other operating income	[C4]	34	*1*	31	*3*
Total revenue		**17,682**		**15,950**	
Cost of goods and services	[C5]	1,215	*77*	1,239	*79*
Net change in technical provisions for insurance business and other claims expenses	[C6]	11,944	–	10,385	–
Other expenses from financial and insurance activities	[C7]	309	–	305	–
Personnel expenses	[C8]	2,985	*20*	2,983	*20*
Depreciation, amortisation and impairments	[C9]	299	–	289	–
Capitalised costs and expenses		(8)	–	(12)	–
Other operating costs	[C10]	95	*6*	123	*(4)*
Operating profit/(loss)		**843**		**638**	
Finance costs	[C11]	48	–	61	–
Finance income	[C11]	57	–	88	*2*
Profit/(Loss) on investments accounted for using the equity method	[A4]	6	–	–	–
Profit/(Loss) before tax		**858**		**665**	
Income tax expense	[C12]	293	–	230	–
of which, non-recurring costs/(income)		*–*		*(17)*	
PROFIT FOR THE PERIOD		**565**		**435**	
of which, attributable to owners of the Parent		*565*		*435*	
of which, attributable to non-controlling interests		*–*		*–*	
Earnings per share	**[B3]**	**0.432**		**0.333**	
Diluted earnings per share	**[B3]**	**0.432**		**0.333**	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€m)	Note	For the six months ended 30 June 2016	For the year ended 31 December 2015	For the six months ended 30 June 2015
Profit/(Loss) for the period		**565**	**552**	**435**
Items to be reclassified in the Statement of profit or loss for the period				
Available-for-sale financial assets				
Increase/(decrease) in fair value during the period	[tab. B4]	(942)	1,591	(222)
Transfers to profit or loss	[tab. B4]	(482)	(467)	(350)
Cash flow hedges				
Increase/(decrease) in fair value during the period	[tab. B4]	47	13	(39)
Transfers to profit or loss	[tab. B4]	(21)	(71)	(39)
Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the period		364	(179)	212
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		–	–	–
Items not to be reclassified in the Statement of profit or loss for the period				
Actuarial gains/(losses) on provisions for employee termination benefits and pension plans	[tab. B7]	(126)	81	85
Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the period		38	(30)	(27)
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		–	–	–
Total other components of comprehensive income		**(1,122)**	**938**	**(380)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**(557)**	**1,490**	**55**
of which, attributable to owners of the Parent		*(557)*	*1,490*	*55*
of which, attributable to non-controlling interests		*–*	*–*	*–*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(€m)	Equity									
	Share capital	Reserves					Retained earnings / (Accumulated losses)	Total equity attributable to owners of the Parent	Equity attributable to non-controlling interests	Total equity
		Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Reserve for investees accounted for using equity method				
Balance at 1 January 2015	**1,306**	**299**	**1,000**	**1,813**	**48**	**–**	**3,952**	**8,418**	**–**	**8,418**
Total comprehensive income for the period	–	–	–	(385)	(53)	–	493	55	–	55
Attribution of profit to reserves	–	–	–	–	–	–	–	–	–	–
Dividends paid	–	–	–	–	–	–	(250)	(250)	–	(250)
Changes due to share-based payments	–	–	–	–	–	–	–	–	–	–
Other changes	–	–	–	–	–	–	–	–	–	–
Change in scope of consolidation	–	–	–	–	–	–	–	–	–	–
Other shareholder transactions	–	–	–	–	–	–	–	–	–	–
Balance at 30 June 2015	**1,306**	**299**	**1,000**	**1,428**	**(5)**	**–**	**4,195**	**8,223**	**–**	**8,223**
Total comprehensive income for the period	–	–	–	1,311	14	–	110	1,435	–	1,435
Attribution of profit to reserves	–	–	–	–	–	–	–	–	–	–
Dividends paid	–	–	–	–	–	–	–	–	–	–
Changes due to share-based payments	–	–	–	–	–	–	1	1	–	1
Other changes	–	–	–	–	–	–	–	–	–	–
Change in scope of consolidation	–	–	–	–	–	–	–	–	–	–
Other shareholder transactions	–	–	–	–	–	–	(1)	(1)	–	(1)
Balance at 31 December 2015	**1,306**	**299**	**1,000**	**2,739**	**9**	**–**	**4,305**	**9,658**	**–**	**9,658**
Total comprehensive income for the period	–	–	–	(1,052)	18	–	477(*)	(557)	–	(557)
Attribution of profit to reserves	–	–	–	–	–	–	–	–	–	–
Dividends paid	–	–	–	–	–	–	(444)	(444)	–	(444)
Changes due to share-based payments	–	–	–	–	–	–	–	–	–	–
Other changes	–	–	–	–	–	1	–	1	–	1
Change in scope of consolidation	–	–	–	–	–	–	–	–	–	–
Other shareholder transactions	–	–	–	–	–	–	–	–	–	–
Balance at 30 June 2016	**1,306**	**299**	**1,000**	**1,687**	**27**	**1**	**4,338**	**8,658**	**–**	**8,658**

(*) This item includes profit for the period of €565 million, actuarial losses on provisions for employee termination benefits for €126 million, after the related tax effect of €38 million.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(€m)		For the six months ended 30 June 2016	For the six months ended 30 June 2015
Unrestricted net cash and cash equivalents at beginning of period		**1,783**	**747**
Cash subject to investment restrictions		1	511
Cash attributable to technical provisions for insurance business		1,324	415
Amounts that cannot be drawn on due to court rulings		18	16
Current account overdrafts		5	8
Cash resulting from cash on delivery payments		11	7
Cash and cash equivalents at beginning of period		**3,142**	**1,704**
Cash and cash equivalents at beginning of period		**3,142**	**1,704**
Profit/(loss) for the period		565	435
Depreciation, amortisation and impairments		299	289
Losses and impairments/(recoveries) on receivables		18	–
(Gains)/Losses on disposals		1	–
Impairment of available for sale investments		–	–
(Increase)/decrease in inventories		(3)	(1)
(Increase)/decrease in receivables and Other assets		(397)	(149)
Increase/(decrease) in Payables and Other liabilities		(63)	(54)
Movement in provisions for risks and charges		(27)	99
Movement in provisions for employee termination benefits and pension plans		(30)	(24)
Differences in accrued finance costs and income (cash correction)		(29)	(28)
Other changes		8	(15)
Net cash flow generated by/(used in) non-financial operating activities	**[a]**	**342**	**552**
Increase/(decrease) in liabilities attributable to financial activities		4,321	621
Net cash generated by/(used for) held for trading financial assets attributable to financial activities		–	–
Net cash generated by/(used for) available for sale financial assets attributable to financial activities		(2,751)	(669)
Net cash generated by/(used for) held to maturity financial assets attributable to financial activities		103	806
(Increase)/decrease in cash and deposits attributable to BancoPosta		605	305
(Increase)/decrease in other assets attributable to financial activities		(1,054)	(1,217)
(Income)/expenses from financial activities		(999)	(852)
Cash generated by/(used for) assets and liabilities attributable to financial activities	**[b]**	**225**	**(1,006)**
Net cash generated by/(used for) financial assets at fair value through profit or loss attributable to insurance activities		(2,348)	(3,752)
Increase/(decrease) in net technical provisions for insurance business		7,662	6,630
Net cash generated by/(used for) available for sale financial assets attributable to insurance activities		(4,592)	(1,512)
(increase)/decrease in other assets attributable to insurance activities		(5)	(122)
(Gains)/losses on financial assets/liabilities measured at fair value		(710)	65
(Income)/expenses from insurance activities		(866)	(1,067)
Cash generated by/(used for) assets and liabilities attributable to insurance activities	**[c]**	**(859)**	**242**
Net cash flow from/(for) operating activities	**[d]=[a+b+c]**	**(292)**	**(212)**
- of which, related party transactions		*320*	*(804)*

(€m)		For the six months ended 30 June 2016	For the six months ended 30 June 2015
Investing activities			
Property, plant and equipment, investment property and intangible assets		(151)	(137)
Investments		–	(210)
Other financial assets		(106)	–
Disposals			
Property, plant and equipment, investment property and intangible assets and assets held for sale		5	2
Investments		–	–
Other financial assets		100	3
Change in scope of consolidation		–	–
Net cash flow from/(for) investing activities	**[e]**	**(152)**	**(342)**
- of which, related party transactions		*(9)*	*(212)*
Proceeds from/(Repayments of) borrowings		(513)	(164)
(Increase)/decrease in loans and receivables		2	114
Dividends paid		(444)	(250)
Receivable authorised by 2015 Stability Law in implementation of Sentence of the European Court		–	535
Net cash flow from/(for)financing activities and shareholder transactions	**[f]**	**(955)**	**235**
- of which, related party transactions		***(286)***	***397***
Net increase/(decrease) in cash	**[g]=[d+e+f]**	**(1,399)**	**(319)**
Cash and cash equivalents at end of period		**1,743**	**1,385**
Cash and cash equivalents at end of period		**1,743**	**1,385**
Cash subject to investment restrictions		(202)	–
Cash attributable to technical provisions for insurance business		(487)	(999)
Amounts that cannot be drawn on due to court rulings		(20)	(17)
Current account overdrafts		(6)	(6)
Cash resulting from cash on delivery payments		(10)	(20)
Unrestricted net cash and cash equivalents at end of period		**1,018**	**343**

3.2 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 financial statements used for consolidation purposes have been prepared as at 30 June 2016 and have been adjusted, as required, to align them with the accounting policies adopted by the Parent Company.

Subsidiaries which, individually or taken together, would have no significant quantitative or qualitative impact on the Group's financial position, operating results and cash flows have not been included within the scope of consolidation and are therefore not consolidated on a line by line basis.

The criteria and basis of consolidation adopted in these interim financial statements are consistent with those adopted in preparing the consolidated financial statements at 31 December 2015, to which reference is made for further details.

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

Subsidiaries	**30.06.2016**	**31.12.2015**
Consolidated on a line-by-line basis	18	19
Accounted for using the equity method	3	3
Total companies	**21**	**22**

During the first half of 2016, as part of a wider reorganisation of the Poste Italiane Group's structure, the following corporate actions took place, all of which directly or indirectly under the common control of the Parent Company:

- On 18 April 2016, a general meeting of SDS System Data Software Srl's shareholders approved the merger of SDS Nuova Sanità Srl with and into the company and the renaming of the merged entity, with effect from the effective date of the merger deed (executed on 25 July), as Poste Welfare Servizi Srl. The merger was effective for accounting and tax purposes from 1 January 2016.
- The deed for the merger of PosteShop SpA with and into Postel SpA was executed on 22 April 2016. The agreement was recorded with the Companies Register on 29 April 2016 and the merger was effective for legal, accounting and tax purposes from 1 May 2016.

Furthermore, on 28 June 2016, the Parent Company's Board of Directors authorised Poste Italiane to participate in the extraordinary general meeting of Poste Tributi ScpA's shareholders to adopt a resolution regarding the winding up and liquidation of the company. On 11 July 2016, the chairman of the board of Poste Tributi ScpA, with the authority vested in him by the Board, called an extraordinary general meeting of the consortium's shareholders for 3 August 2016.

A list of subsidiaries consolidated on a line-by-line basis and associates accounted for using the equity method, together with key information, is provided in note 3.8.

3.3 NOTES TO THE FINANCIAL STATEMENTS

ASSETS

A1 – Property, plant and equipment

The following table shows movements in property, plant and equipment in the first half of 2016:

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
Balance at 1 January 2015								
Cost	76	2,840	2,200	323	398	1,639	43	7,519
Accumulated depreciation	–	(1,429)	(1,792)	(288)	(202)	(1,383)	–	(5,094)
Accumulated impairment	–	(96)	(19)	(1)	(12)	(1)	–	(129)
Carrying amount	**76**	**1,315**	**389**	**34**	**184**	**255**	**43**	**2,296**
Movements during the year								
Additions	–	35	36	6	23	91	46	237
Adjustments	–	–	–	–	–	–	–	–
Reclassifications	–	11	8	–	6	12	(37)	–
Disposals	–	–	–	–	(2)	–	–	(2)
Change in scope of consolidation	–	–	–	–	–	–	–	–
Depreciation	–	(108)	(98)	(10)	(29)	(108)	–	(353)
(Impairments)/Reversal of impairments	–	8	(3)	–	7	–	–	12
Total movements	**–**	**(54)**	**(57)**	**(4)**	**5**	**(5)**	**9**	**(106)**
Balance at 31 December 2015								
Cost	76	2,883	2,209	329	424	1,719	52	7,692
Accumulated depreciation	–	(1,534)	(1,855)	(298)	(230)	(1,468)	–	(5,385)
Accumulated impairment	–	(88)	(22)	(1)	(5)	(1)	–	(117)
Carrying amount	**76**	**1,261**	**332**	**30**	**189**	**250**	**52**	**2,190**
Movements during the period								
Additions	–	7	8	2	6	17	23	63
Adjustments (1)	–	–	–	–	–	–	–	–
Reclassifications (2)	–	3	4	–	3	26	(29)	7
Disposals (3)	–	–	–	–	(1)	(2)	–	(3)
Depreciation	–	(54)	(46)	(5)	(16)	(57)	–	(178)
(Impairments)/Reversal of impairments	–	7	–	–	1	–	–	8
Total movements	**–**	**(37)**	**(34)**	**(3)**	**(7)**	**(16)**	**(6)**	**(103)**
Balance at 30 June 2016								
Cost	76	2,893	2,207	330	430	1,755	46	7,737
Accumulated depreciation	–	(1,588)	(1,887)	(302)	(244)	(1,520)	–	(5,541)
Accumulated impairment	–	(81)	(22)	(1)	(4)	(1)	–	(109)
Carrying amount	**76**	**1,224**	**298**	**27**	**182**	**234**	**46**	**2,087**

(€m)	Land	Property used in operations	Plant and machinery	Industrial and commercial equipment	Leasehold improvements	Other assets	Assets under construction and prepayments	Total
Adjustments (1)								
Cost	–	–	2	–	–	1	–	3
Accumulated depreciation	–	–	(2)	–	–	(1)	–	(3)
Accumulated impairment	–	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Reclassifications (2)								
Cost	–	3	4	–	3	27	(29)	8
Accumulated depreciation	–	–	–	–	–	(1)	–	(1)
Accumulated impairment	–	–	–	–	–	–	–	–
Total	**–**	**3**	**4**	**–**	**3**	**26**	**(29)**	**7**
Disposals (3)								
Cost	–	–	(16)	(1)	(3)	(9)	–	(29)
Accumulated depreciation	–	–	16	1	2	7	–	26
Accumulated Impairment	–	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**(1)**	**(2)**	**–**	**(3)**

At 30 June 2016, 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 €76 million.

Capital expenditure of €63 million in the first half of 2016, including €2 million in capitalised costs for self-constructed assets, consists largely of:

- €7 million relating to extraordinary maintenance of post offices and local head offices around the country and mail sorting offices;
- €8 million relating to plant, with the most significant expenditure made by the Parent Company, of which €5 million for plant and equipment related to buildings and €2 million for the installation and extraordinary maintenance of video surveillance systems;
- €6 million to upgrade plant and the structure of properties held under lease;
- €17 million relating to "Other assets", most of which related to the Parent Company, including €13 million for the purchase of new computer hardware for post offices and head offices and the consolidation of storage systems, and €2 million for the purchase of furniture and fittings in connection with the new layouts for post offices;
- €23 million relating to expenditure under way, mostly by the Parent Company, of which €10 million for the restyling of post offices and €5 million for the restructuring of head offices.

Reversals of impairment losses are due to changes in estimates relating to buildings (property used in operations) and leased commercial buildings (leasehold improvements) held by the Parent Company, and reflect prudent consideration of the effects on the 2.3 – *Use of estimates*).

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.

At 30 June 2016, property, plant and equipment include assets under finance lease arrangements with a carrying amount of €10 million

A2 – Investment property

Investment property primarily relates to residential accommodation owned by Poste Italiane SpA in accordance with Law 560 of 24 December 1993. The following movements in Investment property took place in the first six months of 2016:

TAB. A2 – MOVEMENTS IN INVESTMENT PROPERTY

(€m)	Six months ended 30 June 2016	Year ended 31 December 2015
Balance at 1 January		
Cost	144	147
Accumulated depreciation	(82)	(79)
Accumulated impairment	(1)	(1)
Carrying amount	**61**	**67**
Movements during the period		
Additions	–	–
Reclassifications (1)	–	–
Disposals (2)	(1)	(1)
Depreciation	(2)	(5)
(Impairments)/Reversal of impairments	–	–
Total movements	**(3)**	**(6)**
Balance at end of period		
Cost	142	144
Accumulated depreciation	(83)	(82)
Accumulated impairment	(1)	(1)
Carrying amount	**58**	**61**
Fair value at end of period	**114**	**113**
Reclassifications (1)		
Cost	–	–
Accumulated depreciation	–	–
Accumulated impairment	–	–
Total	**–**	**–**
Disposals (2)		
Cost	(2)	(3)
Accumulated depreciation	1	2
Accumulated impairment	–	–
Total	**(1)**	**(1)**

The fair value of investment property at 30 June 2016 includes approximately €66 million representing the sale price applicable to the Parent Company's former service accommodation in accordance with Law 560 of 24 December 1993, while the balance reflects price estimates computed internally by the Company[17].
Most of the properties included in this category are subject to lease agreements classifiable as operating leases, given that the Group retains substantially all the risks and rewards of ownership of the properties. Under the relevant agreements, tenants usually have the right to break off the lease with six months' notice. Given the resulting lack of certainty, the expected revenue flows from these leases are not referred to in these notes.

(17) 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

The following table shows movements in intangible assets in the first half of 2016:

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
Balance at 1 January 2015					
Cost	2,263	74	104	100	2,541
Accumulated amortisation and impairments	(1,874)	–	(57)	(81)	(2,012)
Carrying amount	**389**	**74**	**47**	**19**	**529**
Movements during the year					
Additions	155	72	18	6	251
Reclassifications	63	(68)	–	5	–
Transfers and disposals	–	–	–	(1)	(1)
Change in scope of consolidation	1	–	–	–	1
Amortisation and impairments	(212)	–	(12)	(11)	(235)
Total movements	**7**	**4**	**6**	**(1)**	**16**
Balance at 31 December 2015					
Cost	2,477	78	122	110	2,787
Accumulated amortisation and impairments	(2,081)	–	(69)	(92)	(2,242)
Carrying amount	**396**	**78**	**53**	**18**	**545**
Movements during the period					
Additions	36	50	–	2	88
Reclassifications(1)	30	(38)	–	1	(7)
Transfers and disposals(2)	–	(1)	–	–	(1)
Amortisation and impairments	(122)	–	–	(5)	(127)
Total movements	**(56)**	**11**	**–**	**(2)**	**(47)**
Balance at 30 June 2016					
Cost	2,542	89	122	113	2,866
Accumulated amortisation and impairments	(2,202)	–	(69)	(97)	(2,368)
Carrying amount	**340**	**89**	**53**	**16**	**498**
Reclassifications (1)					
Cost	29	(38)	–	1	(8)
Accumulated amortisation and impairments	1	–	–	–	1
Total	**30**	**(38)**	**–**	**1**	**(7)**
Transfers and disposals (2)					
Cost	–	(1)	–	–	(1)
Accumulated amortisation and impairments	–	–	–	–	–
Total	**–**	**(1)**	**–**	**–**	**(1)**

Investment in **Intangible assets** during the first half of 2016 amounts to €88 million, of which €6 million relates to internally developed software. Development costs, other than those incurred directly to produce identifiable software used, or intended for use, within the Group, are not capitalised.

Purchases of **industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights** total €36 million, before amortisation for the period, and relate primarily to the purchase and entry into service of new software programmes and the acquisition of software licences.

Purchases of **Intangible assets under construction** refer mainly to activities for the development of software for the infrastructure platforms and for BancoPosta services.

The table below shows amounts for the IT platform used in development of the Full MVNO (Mobile Virtual Network Operator) project and held under finance lease arrangements by PosteMobile SpA. The platform is amortised over 10 years.

TAB. A3.1 – INTANGIBLE ASSETS HELD UNDER FINANCE LEASES

Item *(€m)*	At 30 June 2016			At 31 December 2015		
	Cost	Accumulated depreciation	Carrying amount	Cost	Accumulated depreciation	Carrying amount
Industrial patents and intellectual property rights, concessions, licences, trademarks and similar rights	16	(3)	13	16	(2)	14
Total	**16**	**(3)**	**13**	**16**	**(2)**	**14**

The balance of **Intangible assets under construction** includes activities conducted by the Parent Company, primarily regarding the development of software relating to the infrastructure platform (€40 million), BancoPosta services (€18 million), the postal products platform (€8 million) and for use in providing support to the sales network (€6 million). Software is also being developed in relation to the engineering of reporting processes for other business and staff functions (€3 million).

During the period under review, the Group effected reclassifications from intangible assets under construction, amounting to €38 million, reflecting the completion and commissioning of software and the upgrade of existing software

At 30 June 2016, **Goodwill** consisted of:

TAB. A3.2 – GOODWILL

Item *(€m)*	Balance at 30 June 2016	Balance at 31 December 2015
Postel SpA	33	33
BdM - MCC SpA	2	2
SDS System Data Software Srl	18	18
Total	**53**	**53**

Goodwill has been tested for impairment in accordance with the relevant accounting standards. Based on the information available and the impairment tests conducted, no impairment charges were taken.

A4 – Investments accounted for using the equity method

TAB. A4 – INVESTMENTS

Item *(€m)*	Balance at 30 June 2016	Balance at 31 December 2015
Investments in subsidiaries	1	1
Investments in joint ventures	–	–
Investments in associates	211	213
Total	**212**	**214**

The main change during the period under review concerns the decrease in the carrying amount of the investment in Anima Holding SpA, totalling approximately €2 million. This is due to the combined effect of a reduction of €7.7 million, following the payment of dividends for 2015, and an increase of €5.4 million, representing the share of profit booked by the investee between 30 September 2015 and 31 March 2016 (the latest data available). The goodwill implicit in the investment in Anima Holding SpA was tested for impairment according to the applicable accounting standards, but no impairment charges were taken on the carrying amount recognised upon acquisition and reported in the consolidated financial statements at 31 December 2015.

A list of subsidiaries, joint ventures and associates accounted for using the equity method is provided in note 3.8, together with key data.

A5 – Financial assets

The following table provides a breakdown of financial assets at 30 June 2016:

TAB. A5 – FINANCIAL ASSETS

Item *(€m)*	**Balance at 30 June 2016**			**Balance at 31 December 2015**		
	Non-current assets	**Current assets**	**Total**	**Non-current assets**	**Current assets**	**Total**
Loans and receivables	1,288	10,286	11,574	1,303	9,205	10,508
Held-to-maturity financial assets	10,290	2,679	12,969	11,402	1,484	12,886
Available-for-sale financial assets	122,449	6,641	129,090	109,699	8,170	117,869
Financial assets at fair value through profit or loss	19,361	1,863	21,224	16,233	1,899	18,132
Derivative financial instruments	324	8	332	673	22	695
Total	**153,712**	**21,477**	**175,189**	**139,310**	**20,780**	**160,090**

FINANCIAL ASSETS BY OPERATING SEGMENT

Item *(€m)*	**Balance at 30 June 2016**			**Balance at 31 December 2015**		
	Non-current assets	**Current assets**	**Total**	**Non-current assets**	**Current assets**	**Total**
FINANCIAL SERVICES	**48,062**	**14,057**	**62,119**	**45,294**	**11,703**	**56,997**
Loans and receivables	1,200	10,155	11,355	1,217	9,084	10,301
Held-to-maturity financial assets	10,290	2,679	12,969	11,402	1,484	12,886
Available-for-sale financial assets	36,364	1,220	37,584	32,247	1,113	33,360
Derivative financial instruments	208	3	211	428	22	450
INSURANCE SERVICES	**104,991**	**7,351**	**112,342**	**93,463**	**8,908**	**102,371**
Loans and receivables	–	73	73	–	66	66
Available-for-sale financial assets	85,514	5,410	90,924	76,985	6,943	83,928
Financial assets at fair value through profit or loss	19,361	1,863	21,224	16,233	1,899	18,132
Derivative financial instruments	116	5	121	245	–	245
POSTAL AND BUSINESS SERVICES	**659**	**69**	**728**	**553**	**169**	**722**
Loans and receivables	88	58	146	86	55	141
Available-for-sale financial assets	571	11	582	467	114	581
Derivative financial instruments	–	–	–	–	–	–
Total	**153,712**	**21,477**	**175,189**	**139,310**	**20,780**	**160,090**

Financial assets by operating segment break down as follows:

- Financial Services, related primarily to the financial assets of BancoPosta RFC[18] and BdM-MCC SpA;
- Insurance Services, includes the financial assets of Poste Vita SpA, of its subsidiary, Poste Assicura SpA, and those of BancoPosta Fondi SpA SGR;
- Postal and Business Services, representing all the other financial assets of the Group.

FINANCIAL SERVICES

Loans and receivables

TAB. A5.1 – LOANS AND RECEIVABLES

Item *(€m)*	Balance at 30 June 2016			Balance at 31 December 2015		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Loans	1,192	311	1,503	1,217	689	1,906
Receivables	8	9,844	9,852	–	8,395	8,395
Amounts deposited with MEF	–	4,752	4,752	–	5,855	5,855
MEF account, held at the Treasury	–	2,223	2,223	–	1,331	1,331
Other financial receivables	8	2,869	2,877	–	1,209	1,209
Total	**1,200**	**10,155**	**11,355**	**1,217**	**9,084**	**10,301**

At 30 June 2016, **Loans** amounting to €1,503 million relate entirely to loans and financing provided to companies and individuals by BdM-MCC SpA. The fair value [19]of the loans provided by BdM-MCC SpA is €1,699 million.

The loans provided by BdM-MCC SpA, totalling €757 million, have been posted as collateral. In particular:

- €660 million was given as collateral for a short-term loan from the Bank of Italy within the scope of the ECB's open-market and longer-term refinancing operations (note B8);
- €97 million for a loan provided by Cassa Depositi e Prestiti.

(18) The operations in question regard the financial services provided by the Parent 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 account 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. Private customer deposits can only be used to purchase Euro zone government securities (due to the changes introduced by article 1, paragraph 1097 of Law no. 296 of 27 December 2006 and by article 1 paragraph 285 of the 2015 Stability Law (Law 190 of 23 December 2014), BancoPosta RFC can invest up to 50% of assets under management in Italian government securities). Conversely, funds deposited by Public Administration entities are placed with the Ministry of the Economy and Finance at a variable rate of interest linked to a basket of government securities and money market indices, in accordance with a specific agreement with the MEF regarding treasury services. Collection and payment services on behalf of third parties include the collection of postal savings (Postal Savings Passbooks and 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 receivables awaiting financial settlement. The specific agreement with the MEF requires BancoPosta to provide daily statements of all cash flows, within two bank working days of the transaction date.

(19) In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure this item, this amount qualifies as level 3.

Receivables, amounting to €9,852 million, reflect:

- **Amounts deposited with the MEF,** totalling €4,752 million, including public customers' current account deposits.
- The balance of the Parent Company's **MEF account**, held at the **Treasury**, amounting to €2,223 million, consisting of:

TAB. A5.1.1 – MEF ACCOUNT, HELD AT THE TREASURY

Item *(€m)*	Balance at 30 June 2016			Balance at 31 December 2015		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Balance of cash flows for advances	–	2,194	2,194	–	1,693	1,693
Balance of cash flows from management of postal savings	–	223	223	–	(170)	(170)
Amounts payable due to theft	–	(159)	(159)	–	(158)	(158)
Amounts payable for operational risks	–	(35)	(35)	–	(34)	(34)
Total	**–**	**2,223**	**2,223**	**–**	**1,331**	**1,331**

The *balance of cash flows for advances*, amounting to €2,194 million, represents the net amount receivable as a result of transfers of deposits and excess liquidity, less advances from the MEF to meet the cash requirements of BancoPosta. These break down as follows:

TAB. A5.1.1 A) – BALANCE OF CASH FLOWS FOR ADVANCES

Item *(€m)*	Balance at 30 June 2016			Balance at 31 December 2015		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Net advances	–	2,194	2,194	–	1,694	1,694
MEF postal current accounts and other payables	–	(671)	(671)	–	(672)	(672)
Ministry of Justice – Orders for payment	–	–	–	–	(1)	(1)
MEF – State pensions	–	671	671	–	672	672
Total	**–**	**2,194**	**2,194**	**–**	**1,693**	**1,693**

Net advances at 30 June 2016 rose on the comparable amount at 31 December 2015, due to the combined effect of additional payments to certain categories of pensioner, whereby the greater amount paid by INPS, and recognised as customers' deposits, reflects a greater amount receivable from the State Treasury, and the lower cash requirements of post offices at the end of the period under review.

The ***balance of cash flows from the management of postal savings***, amounting to a positive €223 million, represents the difference between withdrawals and deposits during the last two days of the period under review and cleared early in the following period. The balance at 30 June 2016 consists of €66 million receivable from Cassa Depositi e Prestiti and a €157 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, totalling €159 million. This liability derives from cash withdrawals from the Treasury to make up for the losses resulting from these criminal acts, in order to ensure that post offices can continue to operate.

- **Other financial receivables** of €2,877 million break down as follows:

TAB. A5.1.2 – OTHER FINANCIAL RECEIVABLES

Item (€m)	Balance at 30 June 2016			Balance at 31 December 2015		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Guarantee deposits	–	2,489	2,489	–	864	864
Items to be debited to customers	–	244	244	–	233	233
Items awaiting settlement with the banking system	–	129	129	–	106	106
Other receivables	8	7	15	–	6	6
Total	**8**	**2,869**	**2,877**	**–**	**1,209**	**1,209**

Guarantee deposits, totalling €2,489 million, relate to €2,474 million provided to counterparties in asset swap transactions (with collateral provided by specific Credit Support Annexes) and €15 million provided to counterparties in repurchase agreements (with collateral contemplated by specific a **Global Master Repurchase Agreements).**

Other amounts to be charged to customers, amounting to €244 million, primarily regard: withdrawals from BancoPosta ATMs, the use of debit cards issued by BancoPosta, cheques and other collection items settled in the clearing house, etc.

Other receivables include €8 million arising from Poste Italiane's sale of the Visa Europe Ltd. share to Visa Incorporated, payable after three years from 21 June 2016, when the transaction was consummated (the transaction is described after table A5.2.1).

Investments in securities and equity instruments

This item breaks down as follows:

TAB. A5.2 – INVESTMENTS IN SECURITIES AND EQUITY INSTRUMENTS

Item (€m)	Note	Balance at 30 June 2016			Balance at 31 December 2015		
		Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Held-to-maturity financial assets		10,290	2,679	12,969	11,402	1,484	12,886
Fixed-income instruments	[tab. A5.2.1]	10,290	2,679	12,969	11,402	1,484	12,886
Available-for-sale financial assets		36,364	1,220	37,584	32,247	1,113	33,360
Fixed-income instruments	[tab. A5.2.1]	36,277	1,220	37,497	32,176	1,002	33,178
Equity instruments		87	–	87	71	111	182
Total		**46,654**	**3,899**	**50,553**	**43,649**	**2,597**	**46,246**

Investments in securities relate to investments in Italian government securities with a nominal value of €43,235 million, held primarily by BancoPosta RFC[20] and, to a lesser extent, by BdM-MCC SpA.

(20) The composition of this portfolio aims to replicate the financial structure of deposits paid into postal current accounts by private customers. Trend analysis for forecasting and prudential purposes is based on an appropriate statistical model developed for Poste Italiane SpA by a leading market operator. An Asset & Liability Management system has been developed to manage the relationship between customer deposits and investments.

Movements in investments in securities in 2015 and in the first six months of 2016 are as follows:

TAB. A5.2.1 – MOVEMENTS IN INVESTMENTS IN SECURITIES

Securities (€m)	HTM		AFS		FVPL		TOTAL	
	Nominal value	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount
Balance at 1 January 2015	**13,808**	**14,100**	**24,575**	**29,448**	**–**	**–**	**38,383**	**43,548**
Purchases		–		11,214		5,862		17,076
Transfers to equity		–		(395)		–		(395)
Change in amortised cost		3		(20)		–		(17)
Changes in fair value through equity		–		1,412		–		1,412
Changes in fair value through profit or loss		–		(432)		–		(432)
Changes in cash flow hedge transactions(*)		–		–		–		–
Effect of sales on profit or loss		–		385		1		386
Accrued income		187		304		–		491
Sales, redemptions and settlement of accrued income		(1,404)		(8,738)		(5,863)		(16,005)
Balance at 31 December 2015	**12,612**	**12,886**	**27,165**	**33,178**	**–**	**–**	**39,777**	**46,064**
Purchases		84		6,988		–		7,072
Transfers to equity		–		(373)		–		(373)
Change in amortised cost		1		(15)		–		(14)
Changes in fair value through equity		–		(964)		–		(964)
Changes in fair value through profit or loss		–		2,112		–		2,112
Changes in cash flow hedge transactions(*)		–		3		–		3
Effect of sales on profit or loss		–		378		–		378
Accrued income		186		330		–		516
Sales, redemptions and settlement of accrued income		(188)		(4,140)		–		(4,328)
Balance at 30 June 2016	**12,692**	**12,969**	**30,543**	**37,497**	**–**	**–**	**43,235**	**50,466**

(*) The item "Changes in cash flow hedge transactions", relates to the purchase of forward contracts in relation to cash flow hedge transactions, reflects changes in the fair value of such forward contracts between the date of purchase and the settlement date, which are recognised in equity, in the cash flow hedge reserve.

At 30 June 2016, the fair value[21] of the held-to-maturity portfolio, accounted for at amortised cost, is €15,188 million (including €186 million in accrued interest).

Securities with a nominal value of €7,643 million are encumbered as follows:

- €6,596 million used as collateral for repurchase agreements;
- €567 million used as collateral for asset swaps;
- €453 million delivered to the Bank of Italy as collateral for intraday credit extended to the Parent Company;
- €27 million to secure SEPA Direct Debit operations.

The fair value of the available-for-sale portfolio is €37,497 million. The overall fair value gain for the period of €1,148 million has been recognised in the relevant equity reserve, recording a negative amount of €964 million in relation to the portion of the portfolio not hedged by fair value hedges, and through profit and loss, in relation to the gain of €2,112 million on the hedged portion.

(21) In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.

The Parent Company holds two fixed rate bonds, amounting to €750 million each, with six-monthly interest payments and maturing in 4 and 5 years, issued by Cassa Depositi e Prestiti and guaranteed by the Italian government (at 30 June 2016, their fair value totalled €1,512 million).

Securities with a nominal value of €990 million are encumbered as follows:

- €540 million provided as collateral to BDM-MCC SpA in connection with the ECB's open market and longer-term refinancing operations (through the Bank of Italy) (note B8);
- €445 million provided by the Parent Company in relation to repurchase agreements;
- €3 million provided as collateral for commitments related to the BdM-MCC SpA's internal pension fund;
- €2 million provided for the participation of BdM-MCC SpA in tenders in the area of low-interest loans.

Investments in equity instruments are attributable to BancoPosta RFC and primarily include:

- €60 million, reflecting the fair value of 756,280 Class B shares of Mastercard Incorporated. These shares are not traded on an organised exchange but are convertible into an equal number of Class A shares, which are listed on the New York Stock Exchange, if disposal is desired;
- €24 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. In exchange for the share in Visa Europe Ltd.[22], Poste Italiane received a consideration of €121 million (a sum recognised as non-recurring income and entered as "Other income from financial and insurance activities"), consisting of:
  - €88 million in cash;
  - €25 million, representing the fair value of 32,059 Visa Incorporated preference shares (Series C *Convertible Participating Preferred Stock*), convertible at the rate of 13.952[23] 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;
  - €8 million payable by Visa Incorporated after three years from the closing of the transaction;
- €3 million, reflecting the fair value of 11,144 class C shares of Visa Incorporated. These shares are not traded on an organised exchange, but are convertible into Class A shares (at the rate of four ordinary shares for each C share), which are listed on the New York Stock Exchange, if disposal is desired.

Fair value losses on the shares held by BancoPosta RFC, amounting to €9 million, have been recognised in the relevant equity reserve (section B4).

Derivative financial instruments

At 30 June 2016, derivative financial instruments attributable to the Financial Services segment, amounting to €211 million, include €78 million attributable to BancoPosta RFC and €133 million to BdM-MCC SpA.

(22) On 21 December 2015, Visa Europe informed its Principal Members that each of them would receive a consideration for the purchase, and subsequent merger with and into Visa Incorporated, of Visa Europe Ltd, (in which Poste Italiane held an equity interest assigned to it when the company was incorporated).

(23) Until the assigned shares are fully converted into ordinary shares, the share exchange ration may be reduced if Visa Europe Ltd. incurs liabilities that, as of the reporting date, were considered as merely contingent.

The following table shows movements in the derivative instruments attributable to BancoPosta RFC:

TAB. A5.3 – MOVEMENTS IN DERIVATIVE FINANCIAL INSTRUMENTS

(€m)	Cash flow hedges				Fair value hedges		FVPL				Total	
	Forward purchases		Asset swaps		Asset swaps		Forward purchases		Forward sales			
	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value
Balance at 1 January 2015	**–**	**–**	**1,700**	**1**	**7,295**	**(1,672)**	**–**	**–**	**–**	**–**	**8,995**	**(1,671)**
Increases/(decreases) (*)	–	–	–	12	4,780	404	108	5	2,700	1	7,588	422
Gains/(Losses) through profit or loss (**)	–	–	–	–	–	–	–	–	–	–	–	–
Transactions settled (***)	–	–	–	(39)	(320)	75	(108)	(5)	(2,700)	(1)	(3,128)	30
Balance at 31 December 2015	**–**	**–**	**1,700**	**(26)**	**11,755**	**(1,193)**	**–**	**–**	**–**	**–**	**13,455**	**(1,219)**
Increases/(decreases) (*)	150	3	–	47	3,575	(2,134)	–	–	–	–	3,725	(2,084)
Gains/(Losses) through profit or loss (**)	–	–	–	–	–	(3)	–	–	–	–	–	(3)
Transactions settled (***)	(150)	(3)	(300)	(15)	(130)	34	–	–	–	–	(580)	16
Balance at 30 June 2016	**–**	**–**	**1,400**	**6**	**15,200**	**(3,296)**	**–**	**–**	**–**	**–**	**16,600**	**(3,290)**
Of which:												
Derivative assets	–	–	*425*	*67*	*450*	*11*	–	–	–	–	*875*	*78*
Derivative liabilities	–	–	*975*	*(61)*	*14,750*	*(3,307)*	–	–	–	–	*15,725*	*(3,368)*

(*) Increases / (decreases) refer to the nominal value of new transactions and changes in the fair value of the overall portfolio during the period.

(**) Gains and losses through profit or loss refer to any ineffective components of hedges, recognised in other income and other expenses from financial and insurance activities.

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

During the period under review, the effective portion of interest rate hedges recorded an overall fair value gain of €50 million, reflected in the cash flow hedge reserve.

The fair value hedges in place, which are held to limit the price volatility of certain available-for-sale fixed rate instruments, saw their effective portion record a decrease in fair value of €2,134 million (of which €255 million attributable to financial instruments purchased during the period under review), whilst the hedged securities (tab. A5.2.1) recorded a fair value gain of €2,112 million, with the difference of €22 million due to paid or accruing differentials.

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

- entered into new asset swaps used as fair value hedges with a notional value of €3,575 million;
- settled asset swaps used as fair value hedges for securities sold, with a nominal value of €130 million;
- settled asset swaps used as cash value hedges for securities sold, with a nominal value of €300 million.

Movements in derivative instruments attributable to BdM-MCC SpA are as follows:

TAB. A5.4 – MOVEMENTS IN DERIVATIVE FINANCIAL INSTRUMENTS

(€m)	Six months ended 30 June 2016				Year ended 31 December 2015			
	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total
Balance at 1 January	**–**	**122**	**–**	**122**	**–**	**133**	**–**	**133**
Increases/(decreases)	–	22	–	22	–	–	–	–
Gains/(Losses) through profit or loss	–	–	–	–	–	–	–	
Transactions settled	–	(11)	–	(11)	–	(11)	–	(11)
Balance at end of period	**–**	**133**	**–**	**133**	**–**	**122**	**–**	**122**
Of which:								
Derivative assets	–	*133*	–	*133*	–	*122*	–	*122*
Derivative liabilities	–	–	–	–	–	–	–	–

The positive fair value of €133 million for derivatives designated as fair value hedges refers to the value of four interest rate swap contracts used to hedge bonds issued by BdM-MCC SpA (tab. B8), with a nominal value of €347 million.

INSURANCE SERVICES

Receivables

Receivables of €73 million refer mainly to the subscription and payment for unissued units of mutual investment funds by Poste Vita SpA, totalling €49 million, and accrued interest of €23 million to be collected.

Available-for-sale financial assets

Movements in available-for-sale financial assets are as follows:

TAB. A5.5 – MOVEMENTS IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

(€m)	Fixed-income instruments		Other investments	Equity instruments	Total
	Nominal value	Fair value	Fair value	Fair value	Fair value
Balance at 1 January 2015	**68,732**	**75,561**	**1,492**	**9**	**77,062**
Purchases		24,846	180	11	25,037
Transfers to equity		(371)	–	–	(371)
Changes in amortised cost		227	–	–	227
Fair value gains and losses through equity		1,092	(7)	(1)	1,084
Effects of sales on profit or loss		328	–	1	329
Accrued income		682	–	–	682
Sales, redemptions and settlement of accrued income		(20,061)	(49)	(12)	(20,122)
Balance at 31 December 2015	**74,226**	**82,304**	**1,616**	**8**	**83,928**
Purchases		12,375	412	23	12,810
Transfers to equity		(151)	–	–	(151)
Changes in amortised cost		73	–	–	73
Fair value gains and losses through equity		1,598	1	(3)	1,596
Effects of sales on profit or loss		197	–	–	197
Accrued income		689	–	–	689
Sales, redemptions and settlement of accrued income		(8,190)	(17)	(11)	(8,218)
Balance at 30 June 2016	**78,998**	**88,895**	**2,012**	**17**	**90,924**

The Group recorded fair value gains of €1,596 million in relation to its available-for-sale financial assets, as follows:

- net gains of €1,595 million deriving from the measurement of securities held by Poste Vita SpA, of which €1,563 million was transferred to policyholders, with a contra-entry made in technical provisions in accordance with the shadow accounting method;
- net fair value gains on the securities held by Poste Assicura SpA, totalling €1 million.

The above changes in the fair value of available-for-sale financial assets during the first half of 2016 had a net positive impact on the relevant equity reserve of €33 million (tab. B4).

Fixed income instruments relate primarily to investments held by Poste Vita SpA, totalling €88,690 million (nominal value of €78,807 million) issued by European governments and European blue-chip companies. These instruments are mainly intended to cover separately managed accounts, whose unrealised gains and losses are transferred to policyholders and recognised in specific technical provisions, under the shadow method of accounting applied. The remaining instruments regard investment of the company's free capital. These fixed income instruments comprise bonds issued by CDP SpA, with a fair value of €1,452 million (a nominal value of €1,263 million).

The remaining balance is represented by the fair value of fixed income instruments, totalling €205 million, held by Poste Assicura SpA and by BancoPosta Fondi SpA SGR.

Other investments relate to units of mutual investment funds, of which €1,010 million consists of equity funds and €900 million of bond funds subscribed for entirely by Poste Vita SpA and allocated to the insurance company's separately managed accounts. The balance is represented by the fair value of units of property funds, totalling €102 million.

Equity instruments relate to the investments held by Poste Vita SpA and allocated to separately managed accounts.

Financial instruments at fair value through profit or loss

Movements in financial instruments at fair value through profit or loss are as follows:

TAB. A5.6 – MOVEMENTS IN FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(€m)	Fixed-income instruments		Structured bonds		Other investments	Total
	Nominal value	Fair value	Nominal value	Fair value	Fair value	Fair value
Balance at 1 January 2015	**7,404**	**7,369**	**1,965**	**2,368**	**2,418**	**12,155**
Purchases		816		–	7,394	8,210
Fair value gains and losses through profit or loss		65		22	(392)	(305)
Accrued income		26		–	–	26
Effects of sales on profit or loss		(6)		21	–	15
Sales/Settlement of accrued income		(711)		(1,065)	(193)	(1,969)
Balance at 31 December 2015	**7,542**	**7,559**	**1,155**	**1,346**	**9,227**	**18,132**
Purchases		1,604		–	1,098	2,702
Fair value gains and losses through profit or loss		140		(5)	577	712
Accrued income		34		–	–	34
Effects of sales on profit or loss		1		–	(3)	(2)
Sales/Settlement of accrued income		(217)		(15)	(122)	(354)
Balance at 30 June 2016	**8,958**	**9,121**	**1,142**	**1,326**	**10,777**	**21,224**

These financial instruments are held by the subsidiary, Poste Vita SpA, and relate to:

- **fixed income securities,** amounting to €9,121 million and consisting of €5,587 million in coupon stripped BTPs acquired primarily to cover the contractual obligations arising from Class III insurance policies, while the balance of €3,534 million is made up of corporate instruments issued by blue-chip companies covering the contractual obligations arising from Class I and V policies;
- **structured bonds,** amounting to €1,326 million and relating to investments whose returns are linked to particular market indices, primarily designed to cover the insurance obligations to the holders of Class III index-linked policies; such financial instruments include bonds issued by CDP SpA with a fair value of €569 million (nominal amount of €500 million) associated with Class I policies;
- **other investments,** amounting to €10,777 million and relating to units of mutual investment funds. These instruments include €5,769 million invested in the *Blackrock Diversified Distribution Fund*, a UCITS, and €4,112 million invested in *Multiflex* – Global Fund – PIMCO Multiasset, to cover Class I products, with the aim of diversifying the insurance business's exposure to government bonds (see also note 3.7 on "Unconsolidated structured entities"). Investments amounting to €896 million are used to cover Class III unit-linked products.

Derivative financial instruments

At 30 June 2016, outstanding instruments primarily relates to warrants executed by Poste Vita SpA to cover contractual obligations deriving from Class III policies with a fair value of €121 million and a notional amount of €5,558 million. The fair value of such derivative financial instruments has decreased by €124 million. Details of the Group's warrants are as follows:

TAB. A5.7 – WARRANTS

Policy *(€m)*	At 30 June 2016		At 31 December 2015	
	Nominal value	Fair value	Nominal value	Fair value
Alba	712	5	712	18
Terra	1,355	12	1,355	35
Quarzo	1,254	16	1,254	36
Titanium	656	17	656	36
Arco	174	18	174	30
Prisma	175	14	175	25
6Speciale	200	–	200	–
6Avanti	200	–	200	–
6Sereno	181	10	181	15
Primula	184	9	184	15
Top5	233	9	233	15
Top5 edizione II	234	11	234	20
Total	**5,558**	**121**	**5,558**	**245**

POSTAL AND BUSINESS SERVICES

Loans and receivables

These amount to €146 million and consist of **loans** of €80 million and **receivables** of €66 million.

Loans include €80 million (nominal amount €75 million) in Contingent Convertible Notes[24], subscribed on 23 December 2014 by Poste Italiane SpA, in connection with the strategic transaction that resulted in Etihad Airways' acquisition of an equity interest in Alitalia SAI SpA[25]. The Notes were issued by Midco SpA, which in turn owns 51% of Alitalia SAI. The Contingent Convertible Notes, with a twenty-year term to maturity starting 1 January 2015, carry a nominal rate of interest of 7% per annum. Interest and principal payments will be made by Midco SpA if, and to the extent that, there is available liquidity. Based on the latest available business plan of the Alitalia Group, a reasonable estimate of the effective interest rate payable on the Notes amounts to approximately 4.6%.

(24) This is a loan convertible, on the fulfilment of certain negative pledge conditions, into an equity instrument pursuant to art. 2346 of the Italian Civil Code, carrying the same rights associated with the loan.

(25) This is the so-called "Nuova Alitalia", the company to which all the aviation assets and activities of Alitalia Compagnia Aerea Italiana SpA, now CAI SpA, have been transferred. The company owns 100% of Midco SpA.

Receivables, almost entirely attributable to the Parent Company, break down as follows:

TAB. A5.8 – RECEIVABLES

(€m)	Balance at 30 June 2016			Balance at 31 December 2015		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Due from MEF for repayment of loans accounted for in liabilities	–	1	1	–	3	3
Guarantee deposits	–	57	57	–	52	52
Due from the purchasers of service accommodation	8	–	8	8	–	8
Total	**8**	**58**	**66**	**8**	**55**	**63**

Guarantee deposits of €57 million relate to collateral provided to counterparties with whom the Company has entered into asset swaps.

Available-for-sale financial assets

Available-for-sale financial assets, held primarily by the Parent Company, and the related movements break down as follows:

TAB. A5.9 – MOVEMENTS IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

(€m)	Fixed-income instruments		Other investments		Equity instruments	Total
	Nominal value	Fair value	Nominal value	Fair value	Fair value	Fair value
Balance at 1 January 2015	**500**	**570**	**5**	**6**	**5**	**581**
Purchases		–		–	–	–
Redemptions		–		–	–	–
Transfers to equity reserves		–		–	–	–
Changes in amortised cost		1		–	–	1
Impairments		–		–	–	–
Fair value gains and losses through equity		4		–	–	4
Fair value gains and losses through profit or loss		(5)		–	–	(5)
Effects of sales on profit or loss		–		–	–	–
Accrued income		6		–	–	6
Sales and settlement of accrued income		(6)		–	–	(6)
Balance at 31 December 2015	**500**	**570**	**5**	**6**	**5**	**581**
Purchases		101		–	–	101
Redemptions		(100)		–	–	(100)
Transfers to equity reserves		–		–	–	–
Changes in amortised cost		–		–	–	–
Impairments		–		–	–	–
Fair value gains and losses through equity		(2)		–	–	(2)
Fair value gains and losses through profit or loss		5		–	–	5
Effects of sales on profit or loss		–		–	–	–
Accrued income		5		–	–	5
Sales and settlement of accrued income		(8)		–	–	(8)
Balance at 30 June 2016	**500**	**571**	**5**	**6**	**5**	**582**

Fixed income instruments regard BTPs with a total nominal value of €500 million (fair value of €571 million). Of these, instruments with a value of €375 million have been hedged using asset swaps designated as fair value hedges.

Other investments relate to units of equity mutual investment funds.

Equity instruments primarily reflects the historical cost of approximately €4.5 million for the 15% equity interest in Innovazione e Progetti ScpA, which is in liquidation, unchanged from last year.

Poste Italiane's investment in CAI SpA (formerly Alitalia-CAI SpA), acquired for €75 million in 2013, has been written off.

Derivative financial instruments

Movements in derivative assets and liabilities are as follows:

TAB. A5.10 – MOVEMENTS IN DERIVATIVE FINANCIAL INSTRUMENTS

(€m)	Six months ended 30 June 2016				Year ended 31 December 2015			
	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total
Balance at 1 January	**(5)**	**(47)**	**–**	**(52)**	**–**	**(52)**	**(7)**	**(59)**
Increases/(decreases) (*)	(4)	(9)	–	(13)	1	(4)	1	(2)
Hedge completion	–	–	–	–	(6)	–	6	–
Gains/(Losses) through profit or loss (**)	–	–	–	–	–	–	–	–
Transactions settled (***)	–	5	–	5	–	9	–	9
Balance at end of period	**(9)**	**(51)**	**–**	**(60)**	**(5)**	**(47)**	**–**	**(52)**
Of which:								
Derivative assets	–	–	–	–	–	–	–	–
Derivative liabilities	*(9)*	*(51)*	–	*(60)*	*(5)*	*(47)*	–	*(52)*

(*) Increases/(decreases) refer to the nominal value of new transactions and changes in the fair value of the overall portfolio during the period.

(**) Gains and losses through profit or loss refer to any ineffective components of hedges, recognised in other income and other expenses from financial and insurance activities.

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

At 30 June 2016, the derivative financial instruments held by the Parent Company, with fair value losses of €60 million, include:

- nine asset swaps used as fair value hedges in 2010 to protect the value of BTPs with a nominal value of €375 million against movements in interest rates. These instruments have enabled the Parent Company to sell the fixed rate on the BTPs of 3.75% and purchase a variable rate;
- a swap contract entered into in 2013 to hedge the cash flows of a €50 million bond issued on 25 October 2013 (section B.8). With this transaction, the Parent Company took on the obligation to pay a fixed rate of 4.035% and sold the variable rate of the bond which, at 30 June 2016, was 1.902%.

A6 – Inventories

At 30 June 2016, net inventories break down as follows:

TAB. A6 – INVENTORIES

Item (€m)	Balance at 31 December 2015	Increase / (decrease)	Balance at 30 June 2016
Properties held for sale	114	2	116
Work in progress, semi-finished and finished goods and goods for resale	12	2	14
Raw, ancillary and consumable materials	8	(1)	7
Total	**134**	**3**	**137**

This item refers mainly to properties held for sale, which include the portion of EGI SpA's real estate portfolio to be sold, whose fair value[26] at 30 June 2016 amounts to approximately €310 million.

A7 – Trade receivables

Trade receivables break down as follows:

TAB. A7 – TRADE RECEIVABLES

Item (€m)	Balance at 30 June 2016			Balance at 31 December 2015		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Customers	76	2,065	2,141	54	1,968	2,022
MEF	–	155	155	–	322	322
Subsidiaries, associates and Joint ventures	–	4	4	–	2	2
Prepayments to suppliers	–	–	–	–	–	–
Total	**76**	**2,224**	**2,300**	**54**	**2,292**	**2,346**

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

Receivables due from customers

TAB. A7.1 – RECEIVABLES DUE FROM CUSTOMERS

Item (€m)	Balance at 30 June 2016			Balance at 31 December 2015		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Ministries and Public Administration entities	71	697	768	49	632	681
Cassa Depositi e Prestiti	–	364	364	–	397	397
Unfranked mail delivered and other value added services	27	323	350	27	322	349
Overseas counterparties	–	256	256	–	236	236
Parcel express courier and express parcel services	–	224	224	–	227	227
Overdrawn current accounts	–	137	137	–	138	138
Amounts due for other BancoPosta services	–	147	147	–	109	109
Property management	–	7	7	–	7	7
Other trade receivables	1	404	405	1	379	380
Provisions for doubtful debts	(23)	(494)	(517)	(23)	(479)	(502)
Total	**76**	**2,065**	**2,141**	**54**	**1,968**	**2,022**

Amounts due from **ministries and Public Administration entities** total €301 million, relating to Integrated Notification and mailroom services and to publisher tariff subsidies for the financial years from 2001 to 2010, amounting to €52 million, due from the **Presidenza del Consiglio dei Ministri – Dipartimento dell'Editoria** (the Cabinet Office – Publishing department).

Movements in **provisions for doubtful debts** are as follows:

TAB. A7.2 - MOVEMENTS IN PROVISIONS FOR DOUBTFUL DEBTS

Item (€m)	Balance at 1 January 2015	Net provisions	Deferred revenue	Uses	Balance at 31 December 2015	Net provisions	Deferred revenue	Uses	Change in scope of consolidation	Balance at 30 June 2016
Overseas postal operators	5	(1)	–	–	4	–	–	–	–	4
Public Administration entities	134	(5)	3	–	132	2	2	(1)	–	135
Private customers	314	27	–	(7)	334	13	–	(4)	–	343
	453	**21**	**3**	**(7)**	**470**	**15**	**2**	**(5)**	**–**	**482**
Interest on late payments	17	17	–	(2)	32	5	–	(2)	–	35
Total	**470**	**38**	**3**	**(9)**	**502**	**20**	**2**	**(7)**	**–**	**517**

Receivables due from the MEF

This item relates to trade receivables due to the Parent Company from the Ministry of the Economy and Finance.

TAB. A7.3 – RECEIVABLES DUE FROM THE MEF

Item *(€m)*	**Balance at 30 June 2016**	**Balance at 31 December 2015**
Universal Service compensation	171	334
Publisher tariff and electoral subsidies	83	83
Remuneration of current account deposits	10	15
Payment for delegated services	28	28
Distribution of euro converters	6	6
Other	4	3
Provision for doubtful debts due from the MEF	(147)	(147)
Total	**155**	**322**

Specifically:

- Universal Service compensation includes:

TAB. A7.3.1 – UNIVERSAL SERVICE COMPENSATION RECEIVABLE

Item *(€m)*	**Balance at 30 June 2016**	**Balance at 31 December 2015**
First six months of 2016	–	–
Remaining balance for 2015	67	198
Remaining balance for 2014	55	55
Remaining balance for 2012	23	23
Remaining balance for 2011	18	50
Remaining balance for 2005	8	8
Total	**171**	**334**

In the first half of 2016, collections for the entire period amounted to €131 million, with payments made on a monthly basis in accordance with the new Contratto di Programma (Service Contract) for 2015-2019, which came into force on 1 January 2016. Moreover:

- Regarding the outstanding balance of the compensation for 2015, provision of €33.3 million has been made in the 2017 state budget forecast, while no funds have been earmarked for the remaining €33.3 million. The €131 million provided for in the 2015 state budget was collected in March 2016.
- Regarding the outstanding balance of the compensation for 2014, provision of €13.9 million has been made in the state budget for 2016, while provision of €41.5 million has been made in the state budget forecast for 2017.
- With reference to the services rendered in 2012, AGCom has recognised a net cost incurred by the Company of €327 million, compared with compensation of €350 million calculated by the Company. Provision has not been made in the state budget for the remaining €22.6 million. The Parent Company appealed AGCom's decision on 13 November 2014 before the Regional Administrative Court (TAR).
- The outstanding balance of the compensation for 2011 is expected to be funded in the 2016 state budget.
- The outstanding receivable relating to compensation for 2005 was subject to cuts in the budget laws for 2007 and 2008.

  Regarding 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 will extend the assessment to include the 2014 financial year.

- Receivables arising from **electoral subsidies** refer to compensation for previous years. Funds have been earmarked in the state budget for 2016 and previous years, but they are still being reviewed by the European Commission.
- The **remuneration of current account deposits** refers entirely to amounts accruing in the period under review and largely relates to the deposit of funds deriving from accounts opened by Public Administration entities and attributable to BancoPosta RFC.
- Payments for **delegated services** relate to fees accrued solely in the year under review for treasury services performed by Bancoposta on behalf of the state in accordance with a special agreement with the MEF, which was renewed on 11 June 2014 for the three-year period 2014-2016.

As already noted, at 30 June 2016, funds to pay some of the above receivables have not been appropriated in the state budget, which means that the payment is either suspended or deferred (note 2.3 – *Use of estimates*). Movements in **provisions for doubtful debts due from the MEF** are as follows:

TAB. A7.4 - MOVEMENTS IN PROVISIONS FOR DOUBTFUL DEBTS DUE FROM THE MEF

(€m)	Balance at 1 January 2015	Net provisions	Deferred revenue	Uses	Balance at 31 December 2015	Net provisions	Deferred revenue	Uses	Balance at 30 June 2016
Provisions for doubtful debts	166	(68)	49	–	147	–	–	–	147

Provisions for doubtful debts due from the MEF reflect the lack of funding and/or the uncertainty related to medium/long-term forecasts for the state budget, which make it difficult to collect certain receivables recognised on the basis of legislation, contracts and agreements in force at the time of recognition.

A8 – Other receivables and assets

This item breaks down as follows:

TAB. A8 – OTHER RECEIVABLES AND ASSETS

Item *(€m)*	Note	Balance at 30 June 2016			Balance at 31 December 2015		
		Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Substitute tax paid		2,409	611	3,020	2,147	520	2,667
Receivables relating to fixed-term contract settlements		134	93	227	144	95	239
Amounts due from social security agencies and pension funds (excl. fixed-term contract settlements)		–	77	77	–	77	77
Amounts restricted by court rulings		–	71	71	–	68	68
Accrued income and prepaid expenses from trading transactions		1	30	31	–	16	16
Tax assets		–	5	5	–	6	6
Other amounts due from associated companies		–	–	–	–	–	–
Other amounts due from subsidiaries		–	–	–	–	–	–
Other amounts due from joint venture		–	–	–	–	–	–
Sundry receivables		14	160	174	12	127	139
Provisions for doubtful debts due from others		–	(60)	(60)	–	(59)	(59)
Other receivables and assets		**2,558**	**987**	**3,545**	**2,303**	**850**	**3,153**
Interest accrued on IRES refund	[C12.1]	–	47	47	–	47	47
Total		**2,558**	**1,034**	**3,592**	**2,303**	**897**	**3,200**

Specifically:

- **Substitute tax paid** refers mainly to:
  - €1,666 million paid in advance by Poste Vita SpA for the financial years 2012-2016, relating to withholding and substitute tax paid on capital gains on life policies [27];
  - €761 million charged to holders of Interest-bearing Postal Certificates and Class III and V insurance policies for stamp duty at 30 June 2016[28] . 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);
  - €544 million relating to advances paid in relation to stamp duty to be paid in virtual form in 2016 and 2017 and charged to customers;
  - €16 million to advances paid in relation to withholding tax on interest earned by current account holders for 2016, which is to be recovered from customers.
- Amounts due from staff under **fixed-term contract settlements** consist of salaries to be recovered following the agreements of 13 January 2006, 10 July 2008, 27 July 2010, 18 May 2012, 21 March 2013 and 30 July 2015 between Poste Italiane SpA and the trade unions, regarding the re-employment by court order of staff previously employed on fixed-term contracts. This item refers to receivables with a present value of €227 million due from staff, from INPS and pension funds, recoverable in the form of variable instalments, the last of which is due in 2040.
- **Amounts that cannot be drawn on due to court rulings** include €58 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.
- Accrued interest on IRES refund, amounting to €47 million, refers to interest accruing over the six months ended 30 June 2016, in relation to the tax credit determined by an unreported deduction of IRAP paid on labour costs from IRES. With regard to the remaining overall tax credit, amounting to €58 million (i.e. including current tax assets and related interest), described in note 2.3 – Use of estimates, there is uncertainty over the time necessary to settle the issue and Poste Italiane is taking every step to enforce its rights and collect the amount due to it. More specifically, Poste Italiane has filed an appeal with the competent Tax Tribunal against the tax authorities' partial "silent rejection" of the above application for a refund. The tax authorities have filed an entry of appearance, reserving the right to disclose the findings of the review that it was still performing, in relation to the application for an IRES refund, and contesting the initial and final terms for the calculation of interest. These disputes are still pending and Poste Italiane, considering its right to obtain a refund as valid and enforceable, has already submitted a reply, illustrating the reasons why the tax authorities' arguments are unfounded.

Movements in the related **provisions for doubtful debts** are as follows:

TAB. A8.1 – MOVEMENTS IN PROVISIONS FOR DOUBTFUL DEBTS DUE FROM OTHERS

Item *(€m)*	Balance at 1 January 2015	Net provisions	Uses	Balance at 31 December 2015	Net provisions	Uses	Balance at 30 June 2016
Public Administration entities for sundry services	13	–	–	13	–	(2)	11
Receivables relating to fixed-term contract settlements	6	1	–	7	–	–	7
Other receivables	38	3	(2)	39	3	–	42
Total	**57**	**4**	**(2)**	**59**	**3**	**(2)**	**60**

(27) Of the total amount, €416 million, assessed on the basis of provisions at 30 June 2016, has yet to be paid and is accounted for in "Other taxes payable" (tab. B10.3).

(28) 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).

A9 – Cash and deposits attributable to bancoposta

Details of this item are as follows:

TAB. A9 – CASH AND DEPOSITS ATTRIBUTABLE TO BANCOPOSTA

Item *(€m)*	**Balance at 30 June 2016**	**Balance at 31 December 2015**
Cash and cash equivalents in hand	2,353	2,943
Cheques	–	–
Bank deposits	203	218
Total	**2,556**	**3,161**

Cash at post offices, relating exclusively to BancoPosta RFC, regards cash deposits in 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 (€989 million) and companies that provide cash transportation services whilst awaiting transfer to the Italian Treasury (€1,364 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 €201 million.

A10 – Cash and cash equivalents

TAB. A10 – CASH AND CASH EQUIVALENTS

Item *(€m)*	**Balance at 30 June 2016**	**Balance at 31 December 2015**
Bank deposits and amounts held at the Italian Treasury	959	2,741
Deposits with the MEF	773	391
Cash and cash equivalents in hand	11	10
Total	**1,743**	**3,142**

Deposits with the MEF, i.e. in the "buffer account", at 30 June 2016 include €202 million in customer deposits subject to specific use and not yet invested.

Bank deposits and amounts held at the Italian Treasury include €12 million whose use is restricted by court orders related to different disputes.

EQUITY

B1 – Share capital

Poste Italiane SpA's share capital consists of 1,306,110,000 no-par value ordinary shares, of which the Ministry of the Economy and Finance holds 64.7%, while the remaining shares are held by institutional and retail investors.

At 30 June 2016, all the shares in issue are fully subscribed and paid up. No preference shares have been issued and the Parent Company does not hold treasury shares.

The following table shows a reconciliation of the Parent Company's equity and profit/(loss) for the period with the consolidated amounts:

TAB. B1 – RECONCILIATION OF EQUITY

(€m)	Equity at 30 June 2016	Changes in equity during first six months of 2016	Profit/(loss) for first six months of 2016	Equity at 31 December 2015	Changes in equity during 2015	Profit/ (loss) for full year 2015	Equity at 1 January 2015
Financial statements of Poste Italiane SpA	**6,469**	**(1,583)**	**406**	**7,646**	**690**	**451**	**6,505**
– Undistributed profit (loss) of consolidated companies	2,493	–	182	2,311	–	424	1,887
– Investments accounted for using the equity method	10	1	6	3	–	3	–
– Balance of FV and CFH reserves of investee companies	218	20	–	198	(4)	–	202
– Actuarial gains and losses on employee termination benefits of investee companies	(7)	(3)	–	(4)	2	–	(6)
– Fees to be amortised attributable to Poste Vita SpA and Poste Assicura SpA	(40)	–	(1)	(39)	–	(5)	(34)
– Effects of contributions and transfers of business units between Group companies							
SDA Express Courier SpA	2	–	–	2	–	–	2
EGI SpA	(71)	–	–	(71)	–	(6)	(65)
Postel SpA	17	–	–	17	–	–	17
PosteShop SpA	1	–	–	1	–	–	1
– Effects of intercompany transactions (including dividends)	(672)	–	(34)	(638)	–	(392)	(246)
– Elimination of adjustments to value of consolidated companies	364	–	1	363	–	84	279
– Amortisation until1 January 2004/Impairment of goodwill	(139)	–	–	(139)	–	(12)	(127)
– Effects of tax consolidation arrangement	–	–	–	–	–	–	–
– Other consolidation adjustments	13	–	5	8	–	5	3
Equity attributable to owners of the Parent	**8,658**	**(1,565)**	**565**	**9,658**	**688**	**552**	**8,418**
– Non-controlling interests	–	–	–	–	–	–	–
(excluding profit/(loss))							
– Non-controlling interests in profit/loss	–	–	–	–	–	–	–
Non-controlling interests in equity	–	–	–	–	–	–	–
TOTAL CONSOLIDATED EQUITY	**8,658**	**(1,565)**	**565**	**9,658**	**688**	**552**	**8,418**

B2 – Shareholder transactions (29)

In accordance with the resolution adopted by shareholders at the Annual General Meeting held on 24 May 2016, on 22 June 2016, the Parent Company paid dividends of €444 million (a dividend per share of €0.34).

B3 – Earnings per share

Earnings per share

The calculation of basic and diluted earnings per share (EPS) is based on the Group's profit for the period. The denominator used in the calculation of both basic and diluted EPS is represented by the number of the Parent Company's shares in issue, given that no financial instruments with potentially dilutive effects have been issued at 30 June 2016 or at 30 June 2015.

(29) Regarding shareholder transactions, as described more extensively in the Annual Report for 2015, following the ruling of the General Court of the European Union dated 13 September 2013, which found in favour of the Company, the Parent Company has a residual claim on the MEF of €45 million, relating to the return of sums paid in the past to the MEF out of retained earnings. Pending payment of the sum by the MEF, at 30 June 2016 – unchanged from 31 December 2015 – the relevant component of the Parent Company's equity is prudentially accounted for at a nil balance.

B4 – Reserves

TAB. B4 – RESERVES

(€m)	Legal reserve	BancoPosta RFC reserve	Fair value reserve	*Cash flow hedge reserve*	Reserve for investees accounted for using equity method	Total
Balance at 1 January 2015	**299**	**1,000**	**1,813**	**48**	**–**	**3,160**
Increases/(decreases) in fair value during the period	–	–	(222)	(39)	–	(261)
Tax effect of changes in fair value	–	–	73	12	–	85
Transfers to profit or loss	–	–	(350)	(39)	–	(389)
Tax effect of transfers to profit or loss	–	–	114	13	–	127
Gains/(Losses) recognised in equity	–	–	(385)	(53)	–	(438)
Balance at 30 June 2015	**299**	**1,000**	**1,428**	**(5)**	**–**	**2,722**
Increases/(decreases) in fair value during the period	–	–	1,813	52	–	1,865
Tax effect of changes in fair value	–	–	(546)	(16)	–	(562)
Transfers to profit or loss	–	–	(117)	(32)	–	(149)
Tax effect of transfers to profit or loss	–	–	37	10	–	47
Adjustments for change in IRES tax rate introduced by 2016 Stability Law	–	–	124	–	–	124
Investees accounted for using equity method - share of OCI (net of tax)	–	–	–	–	–	–
Gains/(Losses) recognised in equity	–	–	1,311	14	–	1,325
Other	–	–	–	–	–	–
Balance at 31 December 2015	**299**	**1,000**	**2,739**	**9**	**–**	**4,047**
Increases/(decreases) in fair value during the period	–	–	(942)	47	–	(895)
Tax effect of changes in fair value	–	–	264	(14)	–	250
Transfers to profit or loss	–	–	(482)	(21)	–	(503)
Tax effect of transfers to profit or loss	–	–	108	6	–	114
Adjustments for change in IRES tax rate introduced by 2016 Stability Law	–	–	–	–	–	–
Investees accounted for using equity method - share of OCI (net of tax)	–	–	–	–	–	–
Gains/(Losses) recognised in equity	–	–	(1,052)	18	–	(1,034)
Other	–	–	–	–	1	1
Balance at 30 June 2016	**299**	**1,000**	**1,687**	**27**	**1**	**3,014**

Details are as follows:

- The **fair value reserve** regards changes in the fair value of available-for-sale financial assets. The decrease of €942 million occurred during the first half of 2016 was due to:
  - a net decrease of €973 million in available-for-sale financial assets attributable to the Group's Financial Services segment, due to the combined effect of a loss on securities of €964 million and a gain on equity instruments of €9 million;
  - a net increase of €33 million in available-for-sale financial assets attributable to the Group's Insurance Services segment;
  - a net decrease of €2 million in available-for-sale financial assets attributable to the Group's Postal and Business Services segment.
- The **cash flow hedge reserve**, attributable to the Parent Company, represents changes in the fair value of the effective portion of cash flow hedges outstanding. In the first half of 2016, the increase of €47 million is attributable to the value of BancoPosta RFC's derivative financial instruments.

LIABILITIES

B5 – Technical provisions for insurance business

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 30 June 2016**	**Balance at 31 December 2015**
Mathematical provisions	89,478	82,015
Outstanding claims provisions	585	1,179
Technical provisions where investment risk is transferred to policyholders	7,303	7,218
Other provisions	11,903	9,790
for operating costs	79	79
for deferred liabilities to policyholders	11,824	9,711
Technical provisions for claims	128	112
Total	**109,397**	**100,314**

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 should be made for more details), of unrealised profits and losses on available-for-sale financial assets at 30 June 2016 and, to a lesser extent, on financial instruments at fair value through profit or loss.

B6 – Provisions for risks and charges

Movements in provisions for risks and charges are as follows:

TAB. B6 – MOVEMENTS IN PROVISIONS FOR RISKS AND CHARGES FOR THE SIX MONTHS ENDED 30 JUNE 2016

Item *(€m)*	Balance at 31 December 2015	Provisions	Finance costs	Released to profit or loss	Uses	Balance at 30 June 2016
Provisions for non-recurring charges	295	21	–	(10)	(15)	291
Provisions for disputes with third parties	399	26	–	(51)	(6)	368
Provisions for disputes with staff (1)	142	7	–	(6)	(15)	128
Provisions for personnel expenses	131	264	–	–	(37)	358
Provisions for restructuring charges	316	–	–	–	(214)	102
Provisions for expired and statute barred postal savings certificates	14	–	–	–	–	14
Provisions for taxation/social security contributions	24	3	1	–	(1)	27
Other provisions for risks and charges	76	9	–	–	(3)	82
Total	**1,397**	**330**	**1**	**(67)**	**(291)**	**1,370**
Overall analysis of provisions:						
- non-current portion	634					603
- current portion	763					767
	1,397					**1,370**

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

MOVEMENTS IN PROVISIONS FOR RISKS AND CHARGES FOR THE YEAR ENDED 31 DECEMBER 2015

Item *(€m)*	Balance at 31 December 2014	Provisions	Finance costs	Released to profit or loss	Uses	Balance at 31 December 2015
Provisions for non-recurring charges	278	50	–	(4)	(29)	295
Provisions for disputes with third parties	383	73	1	(32)	(26)	399
Provisions for disputes with staff (1)	184	16	–	(22)	(36)	142
Provisions for personnel expenses	115	80	–	(25)	(39)	131
Provisions for restructuring charges	256	316	–	–	(256)	316
Provisions for expired and statute barred postal savings certificates	14	–	–	–	–	14
Provisions for taxation/social security contributions	24	3	–	(3)	–	24
Other provisions for risks and charges	80	12	–	(10)	(6)	76
Total	**1,334**	**550**	**1**	**(96)**	**(392)**	**1,397**
Overall analysis of provisions:						
- non-current portion	601					634
- current portion	733					763
	1,334					**1,397**

(1) Net releases for Personnel expenses amount to €13 million. Service costs (legal assistance) total €7 million.

Specifically:

- **Provisions for non-recurring charges** relate primarily to the operational risks associated with the Group's financial activities. Provisions for the period mainly reflect liabilities arising from risks related to customers' complaints regarding certain investment products, compensation and adjustments to income for previous years and frauds. Uses relate to settlement of disputes and payment of other liabilities during the period. Releases to profit or loss relate to liabilities recognised in the past that have failed to materialise.
- **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 period, totalling €26 million, reflect the estimated value of new liabilities measured on the basis of expected outcomes. The reduction of €51 million relates to the reversal of liabilities recognised in the past, whilst a reduction of €6 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 €1 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. Uses of €15 million regard amounts used to cover the cost of settling disputes.
- **Provisions for personnel expenses** are made to cover expected liabilities arising in relation to the cost of labour, which are certain or likely to occur but whose estimated amount is subject to change. They have increased by the estimated amount of new liabilities (€264 million) and decreased as a result of settled disputes (€37 million).
- **Provisions for restructuring charges**, which were first established in 2015, reflect the estimated costs to be incurred by the Parent Company for early retirement incentives, under the current redundancy scheme for employees leaving the Company by 31 December 2017. Use of €214 million was made during the period under review.

B7 – Employee termination benefits and pension plans

The following movements in employee termination benefits took place in the first half of 2016:

TAB. B7 – MOVEMENTS IN PROVISIONS FOR EMPLOYEE TERMINATION BENEFITS AND PENSION PLANS

(€m)	Six months ended 30 June 2016			Six months ended 30 June 2015		
	Employee termination benefits	Pension plans	Total	Employee termination benefits	Pension plans	Total
Balance at 1 January	**1,357**	**4**	**1,361**	**1,475**	**3**	**1,478**
Change in scope of consolidation	–	–	–	–	–	–
Current service cost	–	–	–	–	–	–
Interest component	15	–	15	13	–	13
Effect of actuarial (gains)/losses	126	–	126	(85)	–	(85)
Uses for the period	(45)	–	(45)	(37)	–	(37)
Balance at end of period	**1,453**	**4**	**1,457**	**1,366**	**3**	**1,369**

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 and the pension plan, where the latter relates solely to BdM-MCC employees, are as follows:

TAB. B7.1 – ECONOMIC AND FINANCIAL ASSUMPTIONS

	At 30 June 2016	At 31 December 2015	At 30 June 2015
Discount rate	1.05%	2.03%	2.06%
Inflation rate	1.50% for 2016	1.50% for 2016	0.60% for 2015
	1.80% for 2017	1.80% for 2017	1.20% for 2016
	1.70% for 2018	1.70% for 2018	1.50% 2017 e 2018
	1.60% for 2019	1.60% for 2019	2.00% from 2019 on
	2.00% from 2020 on	2.00% from 2020 on	
Annual rate of increase of employee termination benefits	2.625% for 2016	2.625% for 2016	1.95% for 2015
	2.85% for 2017	2.85% for 2017	2.40% for 2016
	2.775% for 2018	2.775% for 2018	2.625% 2017 e 2018
	2.70% for 2019	2.70% for 2019	3.00% from 2019 on
	3.00% from 2020 on	3.00% from 2020 on	

TAB. B7.2 – DEMOGRAPHIC ASSUMPTIONS

	At 30 June 2016
Mortality	RG48
Disability	INPS tables by age and sex
Pensionable age	Attainment of legal requirements for retirement

Actuarial gains and losses are generated by the following factors:

TAB. B7.3 – ACTUARIAL GAINS AND LOSSES

	Employee termination benefits at 30 June 2016	Pension plan at 30 June 2016	Employee termination benefits at 30 June 2015	Pension plan at 30 June 2015
Change in demographic assumptions	–	–	–	–
Change in financial assumptions	135	–	(79)	–
Other experience-related adjustments	(9)	–	(6)	–
Total	**126**	**–**	**(85)**	**–**

The sensitivity of employee termination benefits and the pension plan to changes in the principal actuarial assumptions is analysed below.

TAB. B7.4 – SENSITIVITY ANALYSIS

	Employee termination benefits at 30 June 2016	Pension plan at 30 June 2016	Employee termination benefits at 30 June 2015	Pension plan at 30 June 2015
Inflation rate +0.25%	1,476	4	1,407	3
Inflation rate -0.25%	1,429	4	1,365	3
Discount rate +0.25%	1,415	4	1,352	3
Discount rate -0.25%	1,492	4	1,420	3
Turnover rate +0.25%	1,449	–	1,365	–
Turnover rate -0.25%	1,456	–	1,368	–

The following table provides further information in relation to employee termination benefits.

TAB. B7.5 – OTHER INFORMATION

	At 30 June 2016
Expected service cost	1
Average duration of defined benefit plan	11.4
Average employee turnover	0.41%

B8 – Financial liabilities

Financial liabilities break down as follows at 30 June 2016:

TAB. B8 – FINANCIAL LIABILITIES

Item *(€m)*	Balance at 30 June 2016			Balance at 31 December 2015		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Payables deriving from postal current accounts	–	44,695	44,695	–	43,468	43,468
Borrowings	5,315	6,071	11,386	6,003	3,074	9,077
Bonds	2,022	4	2,026	2,011	37	2,048
Borrowings from financial institutions	3,286	6,063	9,349	3,984	3,034	7,018
Other borrowings	–	1	1	–	1	1
Finance leases	7	3	10	8	2	10
Derivative financial instruments	3,412	16	3,428	1,595	4	1,599
Cash flow hedges	76	(6)	70	88	(9)	79
Fair value hedges	3,336	22	3,358	1,507	13	1,520
Fair value through profit or loss	–	–	–	–	–	–
Other financial liabilities	–	3,606	3,606	–	3,334	3,334
Total	**8,727**	**54,388**	**63,115**	**7,598**	**49,880**	**57,478**

Payables deriving from postal current accounts

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

Borrowings

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

Bonds

Bonds consist of the following:

- Two issues by Poste Italiane SpA, recognised at an amortised cost of €798 million under the EMTN – Euro Medium Term Note programme of €2 billion listed by the Company in 2013 on the Luxembourg Stock Exchange. In particular:
  - bonds with a nominal value of €750 million, placed through a public offering for institutional investors at a below par price of 99.66 on 18 June 2013. The bonds have a term to maturity of five years and pay annual coupon interest at a fixed rate of 3.25%. The fair value[30] of this borrowing at 30 June 2016 is €797 million;
  - bonds with a nominal value of €50 million subscribed by investors through a private placement at par on 25 October 2013. The term to maturity of the loan is ten years and the interest rate is 3.5% for the first two years and variable thereafter (EUR Constant Maturity Swap rate plus 0.955%, with a cap of 6% and a floor of 0%). The interest rate risk exposure was hedged as described in section A5; the fair value[31] of this borrowing at 30 June 2016 is €53 million.
- Subordinated bonds[32] with a nominal value of €750 million and accounted for at their amortised cost of €748 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 five-year term to maturity and pay annual coupon interest of 2.875%. The fair value[33] of this liability at 30 June 2016 is €784 million.
- Four bonds with a value of €480 million issued by BdM-MCC SpA between 1998 and 1999 and maturing between 2018 and 2028, listed on the MOT. These bonds carry variable rates or simulate variable rate bonds through the use of fair value hedges, call for a total repayment on maturity of €508 million (nominal value plus interest) and have an amortised cost at the reporting date of €372 million. As a result of the above fair value hedges, at 30 June 2016 the carrying amount of the bonds reflects a fair value adjustment of €108 million. The total fair value[34] of the bonds at 30 June 2016 is €468 million. In June 2016, the Bank bought back bonds worth €15 million in the secondary market and unwound the associated hedges.

Borrowings from financial institutions

This item breaks down as follows:

TAB. B8.1 – BORROWINGS FROM FINANCIAL INSTITUTIONS

Item *(€m)*	Balance at 30 June 2016			Balance at 31 December 2015		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Repurchase agreements	2,601	5,212	7,813	3,384	2,021	5,405
ECB loan	200	670	870	–	830	830
EIB fixed rate loan maturing 11 April 2018	200	–	200	200	–	200
EIB fixed rate loan maturing 23 March 2019	200	–	200	200	–	200
EIB variable rate loan maturing in 2017	–	1	1	–	1	1
Other borrowings	85	174	259	200	175	375
Current account overdrafts	–	6	6	–	5	5
Accrued interest expense	–	–	–	–	2	2
Total	**3,286**	**6,063**	**9,349**	**3,984**	**3,034**	**7,018**

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

Borrowings from financial institutions are subject to standard negative pledge clauses[35].

Outstanding liabilities for repurchase agreements at 30 June 2016 amount to €7,813 million and relate to contracts with a total nominal value of €7,041 million, entered into by the Parent Company with major financial institutions. These liabilities consist of:

- €4,108 million relating to Long Term Repos entered into with primary counterparties, with the resulting resources invested in Italian fixed income government securities of a matching nominal amount;
- €3,705 million relating to BancoPosta's ordinary borrowing operations via repurchase agreement transactions with primary financial institutions, in order to optimise the match between investments and short-term movements in current account deposits by private customers, and as funding for incremental deposits to secure asset swap transactions.

At 30 June 2016, the fair value[36] of repurchase agreements amounts to €7,872 million.

ECB loans of €870 million have been obtained by BdM-MCC SpA, of which €670 million provided by the Bank of Italy in open market transactions and €200 million in connection with the Bank's participation in the second series of TLTRO-II (Targeted Long Term Refinancing Operations). At 30 June 2016, the fair value[37] of the ECB loans is €874 million.

At 30 June 2016, the fair value[38] of the two fixed rate EIB loans of €400 million obtained by the Parent Company is €407 million.

Other borrowings of €259 million refer almost entirely to:

- a short-term loan entered into by BdM-MCC SpA, totalling €145 million (the carrying amount at 30 June 2016 approximates to fair value);
- loans provided by Cassa Depositi e Prestiti SpA to BdM-MCC SpA, mainly to provide financing to small and medium enterprises amounting to €102 million, in addition to loan instalments collected and to be repaid, totalling €9 million (at 30 June 2016, their carrying amount approximates their fair value);
- loans amounting to an additional €2 million obtained by BdM-MCC SpA.

Credit facilities

At 30 June 2016, the following credit facilities are available:

- committed lines of €1,670 million, of which €870 million has been used;
- uncommitted lines of €1,812 million, of which €249 million has been used for short-term borrowings;
- overdraft facilities of €89 million, of which €6 million has been used;
- unsecured guarantee facilities with a value of approximately €492 million (with €347 million available to the Parent Company), of which guarantees with a value of €276 million have been used on behalf of companies of the Poste Italiane Group in favour of third parties.

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

Moreover, 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 €453 million, and the facility is unused at 30 June 2016.

(35) 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.

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

(37) In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 3.

(38) In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amountqualifies for level 2.

Derivative financial instruments

Movements in derivative financial instruments during the first half of 2016 are described in section A5.

Other financial liabilities

Other financial liabilities have a fair value that approximates to their carrying amount and refer mainly to BancoPosta RFC.

TAB. B8.2 – OTHER FINANCIAL LIABILITIES

Item (€m)	Balance at 30 June 2016			Balance at 31 December 2015		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Prepaid cards	–	1,733	1,733	–	1,454	1,454
Domestic and international money transfers	–	575	575	–	532	532
Cashed cheques	–	226	226	–	508	508
Guarantee deposits	–	145	145	–	205	205
Endorsed cheques	–	146	146	–	135	135
Tax collection and road tax	–	160	160	–	106	106
Amounts to be credited to customers	–	315	315	–	160	160
Amounts due to BdM-MCC SpA customers	–	129	129	–	88	88
Other amounts payable to third parties	–	68	68	–	65	65
Payables for items in process	–	92	92	–	60	60
Other	–	17	17	–	21	21
Total	**–**	**3,606**	**3,606**	**–**	**3,334**	**3,334**

Amounts due on prepaid cards, totalling €1,733 million, relate to the electronic top-up of Postepay cards.

B9 – Trade payables

Details are as follows:

TAB. B9 – TRADE PAYABLES

Item (€m)	Balance at 30 June 2016	Balance at 31 December 2015
Amounts due to suppliers	1,117	1,254
Prepayments and advances from customers	167	186
Other trade payables	6	10
Amounts due to subidiaries	1	2
Amounts due to associates	1	–
Amounts due to joint ventures	1	1
Total	**1,293**	**1,453**

Amounts due to suppliers

TAB. B9.1 – AMOUNTS DUE TO SUPPLIERS

Item (€m)	Balance at 30 June 2016	Balance at 31 December 2015
Italian suppliers	967	1,118
Overseas suppliers	31	21
Overseas counterparties[1]	119	115
Total	**1,117**	**1,254**

(1) The amount due to overseas counterparties relates to fees payable to overseas postal operators and companies in return for postal and telegraphic services received.

Prepayments and advances from customers

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

TAB. B9.2 – PREPAYMENTS AND ADVANCES FROM CUSTOMERS

Item (€m)	Balance at 30 June 2016	Balance at 31 December 2015
Prepayments from overseas counterparties	73	92
Automated franking	59	60
Unfranked mail	14	12
Postage-paid mailing services	6	5
Other services	15	17
Total	**167**	**186**

B10 – Other liabilities

Details of this item are as follows:

TAB. B10 – OTHER LIABILITIES

Item (€m)	Balance at 30 June 2016			Balance at 31 December 2015		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Amounts due to staff	–	710	710	–	794	794
Social security payables	41	367	408	41	443	484
Other taxes payable	740	706	1,446	773	642	1,415
Amounts due to the MEF	–	21	21	–	21	21
Sundry payables	90	89	179	90	69	159
Accrued liabilities and deferred income	15	78	93	16	56	72
Total	**886**	**1,971**	**2,857**	**920**	**2,025**	**2,945**

Amounts due to staff

Amounts due to staff relate primarily to amounts accrued and not paid at 30 June 2016. Details are as follows:

TAB. B10.1 – AMOUNTS DUE TO STAFF

Item *(€m)*	Balance at 30 June 2016	Balance at 31 December 2015
Thirteenth and fourteenth month salaries	247	240
Incentives	285	413
Accrued vacation pay	101	56
Other amounts due to staff	77	85
Total	**710**	**794**

At 30 June 2016, provisions were made in relation to certain payables due to staff, the amount of which is still being determined (note B.6).

Social security payables

TAB. B10.2 – SOCIAL SECURITY PAYABLES

Item *(€m)*	Balance at 30 June 2016			Balance at 31 December 2015		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
INPS	–	291	291	–	351	351
Pension funds	–	66	66	–	82	82
INAIL	41	3	44	41	3	44
Other agencies	–	7	7	–	7	7
Total	**41**	**367**	**408**	**41**	**443**	**484**

Specifically:

- **Amounts due to the *Istituto Nazionale per la Previdenza Sociale*** (INPS, the National Institute of Social Security) primarily relate to amounts due on salaries paid and accrued at 30 June 2016. This item also includes provisions for employee termination benefits still to be paid. Compared with 31 December 2015, the amounts accrued for the 13th and the 14th month salaries were adjusted to the six-month period.
- **Amounts payable to pension funds** relate to sums due to FondoPoste and other pension funds following the decision by certain Group employees to join supplementary funds.
- **Amounts due to the *Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro*** (INAIL, the National Occupational Injury Compensation Authority) relate to injury compensation paid to employees of the Parent Company for injuries occurring up to 31 December 1998.

Other taxes payable

TAB. B10.3 – OTHER TAXES PAYABLE

Item *(€m)*	Balance at 30 June 2016			Balance at 31 December 2015		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Stamp duty payable	740	125	865	773	43	816
Tax due on insurance provisions	–	416	416	–	385	385
Withholding tax on employees' and consultants' salaries	–	72	72	–	113	113
Withholding tax on postal current accounts	–	1	1	–	7	7
VAT payable	–	41	41	–	21	21
Substitute tax	–	18	18	–	55	55
Other taxes due	–	33	33	–	18	18
Total	**740**	**706**	**1,446**	**773**	**642**	**1,415**

In particular:

- **Stamp duty**, which is paid via the virtual system, is shown gross of payments on account. The non-current portion of the stamp duty relates to the amount accrued at 30 June 2016 on Interest-bearing Postal Certificates outstanding and on Class III and V insurance policies pursuant to the new law referred to in section A8.
- **Tax due on insurance provisions** relates to Poste Vita SpA and is described in section A8.

Amounts due to the MEF

This item includes:

- €12 million, reflecting payables arising from pension payments made by the MEF to former Poste Italiane SpA employees between 1 January 1994 and 31 July 1994;
- €9 million, relating to the return of the extraordinary contribution, pursuant to article 2 Law 778/85, received from the MEF to cover shortfalls in the pension fund of the former Postal and Telecommunications Administration.

The items in question were reviewed by a joint working group created with the MEF – Department of Treasury and General Accounting Department and included in the letter dated 7 August 2015.

Sundry payables

TAB. B10.4 – SUNDRY PAYABLES

Item *(€m)*	Balance at 30 June 2016			Balance at 31 December 2015		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Sundry payables attributable to BancoPosta	75	5	80	76	8	84
Guarantee deposits	8	3	11	8	2	10
Other payables	7	81	88	6	59	65
Total	**90**	**89**	**179**	**90**	**69**	**159**

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

Accrued expenses and deferred income from trading transactions

Deferred income comprises:

- €22 million in prepaid telephone traffic sold by PosteMobile SpA as of 30 June 2016 and not yet used by customers;
- €21 million in fees on Postemat and Postepay Evolution cards collected in advance by the Parent Company;
- €9 million relating to grants approved by the competent authorities in favour of the Parent Company, where the associated costs have not yet been incurred.

STATEMENT OF PROFIT OR LOSS

C1 – Revenue from sales and services

Revenue from sales and services, amounting to €4,316 million, breaks down as follows:

TAB. C1 – REVENUE FROM SALES AND SERVICES

Item *(€m)*	**For the six months ended 30 June 2016**	**For the six months ended 30 June 2015**
Postal and Business Services	1,855	1,906
Financial Services	2,315	2,341
Insurance Services and Asset Management	32	21
Mobile phone Services	114	122
Total	**4,316**	**4,390**

Postal and Business Services

Revenue from Postal and Business Services breaks down as follows:

TAB. C1.1 – REVENUE FROM POSTAL AND BUSINESS SERVICES

Item *(€m)*	**For the six months ended 30 June 2016**	**For the six months ended 30 June 2015**
Unfranked mail	586	592
Automated franking by third parties and at post offices	415	427
Express parcel and express courier services	218	202
Stamps	100	114
Integrated services	102	112
Overseas mail and parcels	71	60
Postage-paid mailing services	50	57
Electronic document management and e-procurement services	21	21
Telegrams	18	21
Logistics services	6	15
Innovative services	8	10
Other postal services	42	37
Total revenue from Postal Services	**1,637**	**1,668**
Air shipping services	20	35
Income from application for residence permits	14	15
Rentals	8	7
PosteShop sales	1	5
Other business services	44	45
Total revenue from Business Services	**87**	**107**
Total market revenue	**1,724**	**1,775**
Universal Service compensation	131	131
Electoral subsidies	–	–
Total	**1,855**	**1,906**

Universal Service compensation relates to amounts paid by the MEF to cover the costs of fulfilling the Universal Service obligation. The amount reported for the period under review has been recognised on the basis of the new Contratto di Programma (Service Contract) for 2015-2019, which took effect on 1 January 2016.

Financial Services

Revenue from Financial Services – which relate mainly to services rendered by the Parent Company's BancoPosta RFC and by BdM-MCC SpA – break down as follows:

TAB. C1.2 – REVENUE FROM FINANCIAL SERVICES

Item (€m)	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Fees for collection of postal savings deposits	771	809
Income from investment of postal current account deposits	757	771
Other revenues from current account services	222	234
Commissions on payment of bills by payment slip	238	224
Income from delegated services	54	63
Fees for issue and use of prepaid cards	69	61
Distribution of loan products	99	61
Interest on loans and other income	24	28
Money transfers	20	22
Fees for the management of public funds	24	22
Securities custody	3	4
Commissions from securities trading	2	3
Other products and services	32	39
Total	**2,315**	**2,341**

In particular:

- **Fees for the collection of postal savings deposits** relate to remuneration for the provision and redemption of Interest-bearing Postal Certificates and payments into and withdrawals from Postal Savings Books. This service is provided by Poste Italiane SpA on behalf of Cassa Depositi e Prestiti under the Agreement of 4 December 2014, covering the five-year period 2014-2018.
- **Income from the investment of postal current account deposits** breaks down as follows:

TAB. C1.3 – INCOME FROM INVESTMENT OF POSTAL CURRENT ACCOUNTS DEPOSITS

Item (€m)	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Income from investments in securities	746	752
Interest income on held-to-maturity financial assets	278	290
Interest income on available-for-sale financial asset	475	457
Interest income on securities held for trading	–	–
Interest expense on asset swaps of available-for-sale financial asset	(10)	5
Interest income on repurchase agreements	3	–
Income from deposits held with the MEF	11	19
Remuneration of current account deposits (deposited with the MEF)	11	19
Differential on derivatives stabilising returns	–	–
Total	**757**	**771**

Income from investments in securities relates to interest earned on the investment of retail deposits.

Income from deposits held with the MEF represents interest earned during the period on the investment of Public Administration customers' deposits and, to a lesser extent, interest earned on funds in the so-called buffer account held with the MEF.

Revenue from insurance and asset management services

This item amounts to €32 million, reflecting €27 million in commissions received from BancoPosta Fondi SGR SpA for the management of mutual funds and €5 million in revenue generated by the SDS Group.

Revenue from mobile telephony services

This item, amounting to €114 million, reflects revenue generated by PosteMobile SpA.

C2 – Insurance premium revenue

Details of this item are as follows:

TAB. C2 – INSURANCE PREMIUM REVENUE

Item *(€m)*	**For the six months ended 30 June 2016**	**For the six months ended 30 June 2015**
Life premiums(*)	10,513	9,442
Class I	10,146	9,296
Class III	310	89
Class IV	3	4
Class V	54	53
Non-life premiums(*)	38	32
Total	**10,551**	**9,474**

(*) Insurance premiums are shown net of outward reinsurance premiums

C3 – Other income from financial and insurance activities

Details of this item are as follows:

TAB. C3 – OTHER INCOME FROM FINANCIAL AND INSURANCE ACTIVITIES

Item *(€m)*	**For the six months ended 30 June 2016**	**For the six months ended 30 June 2015**
Income from financial assets at fair value through profit or loss	933	391
Interest	77	245
Fair value gains	853	132
Realised gains	3	14
Income from available-for-sale financial assets	1,837	1,653
Interest	1,132	1,129
Realised gains	584	524
Realised gains on other equity instruments	121	–
Dividends received from other equity instruments	–	–
Income from fair value hedges	–	2
Fair value gains	–	2
Foreign exchange gains	2	3
Fair value gains	–	1
Realised gains	2	2
Other income	9	6
Total	**2,781**	**2,055**

Realised gains on other equity instruments refer to the gain on disposal of the equity interest in Visa Europe Ltd., as described in table A5.2.1.

C4 – Other operating income

Other operating income relates to the following:

TAB. C4 – OTHER OPERATING INCOME

Item *(€m)*	**For the six months ended 30 June 2016**	**For the six months ended 30 June 2015**
Recoveries of contract expenses and other recoveries	13	14
Government grants	7	6
Recovery of cost of seconded staff	1	1
Gains on disposals	1	1
Other income	12	9
Total	**34**	**31**

C5 – Costs of goods and services

This item concerns:

TAB. C5 – COST OF GOODS AND SERVICES

Item *(€m)*	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Services	952	943
Lease expense	170	179
Raw, ancillary and consumable materials and goods for resale	74	83
Interest expense	19	34
Total	**1,215**	**1,239**

Cost of services

TAB. C5.1 – SERVICES

Item *(€m)*	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Transport of mail, parcels and forms	262	250
Routine maintenance and technical assistance	124	131
Outsourcing fees and external service charges	93	81
Personnel services	82	81
Energy and water	64	67
Mobile telecommunication services for customers	54	55
Transport of cash	50	50
Telecommunications and data trasmission	33	37
Credit and debit card fees and charges	36	35
Cleaning, waste disposal and security	31	31
Mail, telegraph and telex	31	30
Consultants' fees and legal expenses	15	22
Advertising and promotions	30	20
Electronic document management, printing and enveloping services	14	17
Airport costs	8	12
Insurance premiums	7	8
Agent commissions and other	6	7
Asset management fees	9	7
Securities custody and management fees	1	1
Remuneration of Statutory Auditors	1	1
Other	1	–
Total	**952**	**943**

Lease expense

TAB. C5.2 – LEASE EXPENSE

Item *(€m)*	**For the six months ended 30 June 2016**	**For the six months ended 30 June 2015**
Real estate leases and ancillary costs	95	97
Vehicle leases	34	39
Equipment hire and software licences	24	25
Other lease expense	17	18
Total	**170**	**179**

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 six months ended 30 June 2016**	**For the six months ended 30 June 2015**
Consumables, advertising materials and goods for resale		48	44
Fuels and lubricants		25	33
Printing of postage and revenue stamps		3	5
SIM cards and scratch cards		1	1
Change in inventories of work in progress, semi-finished and finished goods and goods for resale	[tab. A6]	(2)	(2)
Change in inventories of raw, ancillary and consumable materials	[tab. A6]	1	4
Change in property held for sale	[tab. A6]	(2)	(2)
Other		–	–
Total		**74**	**83**

Interest expense

TAB. C5.4 – INTEREST EXPENSE

Item *(€m)*	**For the six months ended 30 June 2016**	**For the six months ended 30 June 2015**
Interest on customers' deposits	6	21
Interest expense on repurchase agreements	10	11
Interest due to MEF	1	–
Other interest expense and similar charges	2	2
Total	**19**	**34**

Compared with the previous year, interest paid to customers decreased, mainly as a result of a fall in the interest rates paid on certain postal current accounts.

C6 – Net movement in technical provisions for insurance business and other claim expenses

This item breaks down as follows:

TAB. C6 – MOVEMENTS IN TECHNICAL PROVISIONS FOR INSURANCE BUSINESS AND OTHER CLAIMS EXPENSES

Item (€m)	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Claims paid	4,275	3,751
Movement in mathematical provisions	7,465	7,141
Movement in outstanding claim provisions	(595)	(6)
Movement in Other technical provisions	700	(121)
Movement in technical provisions where investment risk is transferred to policyholders	85	(391)
Claim expenses and movement in other provisions – Non-life	14	11
Total	**11,944**	**10,385**

C7 – Other expenses from financial and insurance activities

The table below provides a breakdown of this item:

TAB. C7 – OTHER EXPENSES FROM FINANCIAL AND INSURANCE ACTIVITIES

Item (€m)	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Expenses from financial instruments through profit or loss	270	241
Fair value losses	263	239
Realised losses	7	2
Expenses from available-for-sale financial instruments	4	43
Realised losses	4	43
Expenses from cash flow hedges	–	–
Fair value losses	–	–
Change in fair value of financial liabilities	–	–
Expenses from fair value hedges	3	–
Fair value losses	3	–
Foreign exchange losses	–	–
Fair value losses	–	–
Realised losses	–	–
Other expenses	32	21
Total	**309**	**305**

C8 – Personnel expenses

Personnel expenses include the cost of staff seconded to other organisations. The recovery of such expenses is posted to “Other operating income”. Personnel expenses break down as follows:

TAB. C8 – PERSONNEL EXPENSES

Item *(€m)*	**Note**	**For the six months ended 30 June 2016**	**For the six months ended 30 June 2015**
Wages and salaries		2,226	2,221
Social security contributions		626	626
Provisions for employee termination benefits: current service cost	[tab. B7]	–	–
Provisions for employee termination benefits: supplementary pension funds and INPS		133	135
Agency staff		1	3
Remuneration and expenses paid to Directors		1	1
Early retirement incentives		11	17
Net provisions (reversals) for disputes with staff	[tab. B6]	(1)	(3)
Provisions for restructuring charges	[tab. B6]	–	–
Other personnel expenses/(cost recoveries)		(12)	(17)
Total personnel expenses		**2,985**	**2,983**
Income from settlements with fixed-term and agency staff		–	–
Total		**2,985**	**2,983**

Net provisions for disputes with staff and provisions for restructuring charges are described in section B6.
Cost savings refer mainly to changes in estimates made in previous years.

The following table shows the Group’s average headcount:

TAB. C8.1 – NUMBER OF EMPLOYEES

Category	**Number of employees(*)**	
	Average	
	For the six months ended 30 June 2016	**For the six months ended 30 June 2015**
Executives	782	783
Middle managers	16,064	16,027
Operational staff	119,467	121,789
Back-office staff	1,129	1,548
Total employees on permanent contracts	**137,442**	**140,147**
Traineeships	–	–
Apprenticeships	35	46
Total	**137,477**	**140,193**

(*) Expressed in full-time equivalent terms.

Category	Number of employees(*)	
	Average	
	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Temporary contracts	21	126
Fixed-term contracts	4,516	3,169
Total	**4,537**	**3,295**
Total employees on permanent and flexible contracts	**142,014**	**143,488**

(*) Expressed in full-time equivalent terms.

C9 – Depreciation, amortisation and impairments

Depreciation, amortisation and impairments break down as follows:

TAB. C9 – DEPRECIATION, AMORTISATION AND IMPAIRMENTS

Item *(€m)*	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Property, plant and equipment	178	179
Properties used in operations	54	54
Plant and machinery	46	52
Industrial and commercial equipment	5	5
Leasehold improvements	16	14
Other assets	57	54
Impairments/recoveries/adjustments of property, plant and equipment	(8)	(7)
Depreciation of investment property	2	2
Impairment/recoveries/adjustments of investment property	–	–
Amortisation and impairments of intangible asset	127	115
Industrial patents and intellectual property rights,concessions, lincenses, trademarks and similar rights	122	110
Other	5	5
Goodwill impairment	–	–
Total	**299**	**289**

C10 – Other operating costs

Other operating costs break down as follows:

TAB. C10 – OTHER OPERATING COSTS

Item *(€m)*	Note	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Net provisions and losses on doubtful debts (uses of provisions)		18	–
Provisions for receivables due from customers	[tab. A7.2]	15	6
Provisions (reversal of provisions) for receivables due from MEF	[tab. A7.4]	–	(7)
Provisions (reversal of provisions) for sundry receivables	[tab. A8.1]	3	1
Losses on receivables		–	–
Operational risk events		17	21
Thefts		4	3
Loss of BancoPosta assets, net of recoveries		1	1
Other operating losses of BancoPosta		12	17
Net provisions for risks and charges made/(released)		(5)	44
for disputes with third parties	[tab. B6]	(25)	22
for non-recurring charges	[tab. B6]	11	22
for other risks and charges	[tab. B6]	9	–
Losses		2	1
Municipal property tax, urban waste tax and other taxes and duties		42	40
Other recurring expenses		21	17
Total		**95**	**123**

C11 – Finance income/costs

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.

Financial income

TAB. C11.1 – FINANCE INCOME

Item *(€m)*	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Income from available-for-sale financial assets	49	65
Interest	49	61
Accrued differentials on fair value hedges	(5)	(4)
Realised gains	5	8
Dividends	–	–
Income from financial assets at fair value through profit or loss	–	–
Other finance income	6	17
Interest from the MEF	–	2
Interest on bank current accounts	–	–
Finance income on discounted receivables	3	6
Late payment interest	5	4
Impairment of amounts due as late payment interest	(5)	(4)
Income from subsidiaries	–	–
Interest on IRES refund	–	5
Adjustment of interest on IRES refund	–	–
Other	3	4
Foreign exchange gains	2	6
Total	**57**	**88**

Finance costs

TAB. C11.2 – FINANCE COSTS

Item *(€m)*	Note	For the six months ended 30 June 2016	For the six months ended 30 June 2015
Finance costs on financial liabilities		27	30
on bonds		25	25
on loans from Cassa Depositi e Prestiti		–	–
on borrowings from financial institutions		1	5
on derivative financial instruments		1	–
Finance costs on sundry financial assets		–	8
Realised losses on financial instruments at fair value through profit or loss		–	8
Finance costs on provisions for employee termination benefits and pension plans	[tab. B7]	15	13
Finance costs on provisions for risks	[tab. B6]	1	–
Other finance costs		3	3
Foreign exchange losses		2	7
Total		**48**	**61**

C12 – Income tax expense

This item breaks down as follows:

TAB. C12 – INCOME TAX EXPENSE

Item (€m)	For the six months ended 30 June 2016			For the six months ended 30 June 2015		
	IRES	IRAP	Total	IRES	IRAP	Total
Current tax expense	235	52	287	206	39	245
Deferred tax income	10	1	11	(27)	(28)	(55)
Deferred tax expense	(3)	(2)	(5)	32	8	40
Total	**242**	**51**	**293**	**211**	**19**	**230**

Current tax expense

The table below shows movements in current tax expense for the period under review.

TAB. C12.1 – MOVEMENTS IN CURRENT TAX ASSETS /(LIABILITIES)

Item (€m)	Current taxes for the six months ended 30 June 2016			Current taxes for the year ended 31 December 2015		
	IRES	IRAP	Total	IRES	IRAP	Total
	Assets/ (Liabilities)	Assets/ (Liabilities)		Assets/ (Liabilities)	Assets/ (Liabilities)	
Balance at 1 January	**(16)**	**35**	**19**	**587**	**48**	**635**
Payment of	125	9	134	225	50	275
prepayments for the current year	106	8	114	213	46	259
balance payable for the previous year	19	1	20	12	4	16
Collection of IRES refund claimed	–	–	–	(518)	–	(518)
Adjustment of IRES refund claimed	–	–	–	(9)	–	(9)
Provisions to profit or loss	(235)	(52)	(287)	(288)	(59)	(347)
Provisions to equity	20	6	26	(22)	(4)	(26)
Other	2	–	2	9	–	9
Balance at end of period	**(104)**	**(2)**	**(106)**	**(16)**	**35**	**19**
of which:						
Current tax assets	*133*	*42*	*175*	*34*	*38*	*72*
Current tax liabilities	*(237)*	*(44)*	*(281)*	*(50)*	*(3)*	*(53)*

In addition to tax payments on account for 2016, current tax assets of €175 million, at 30 June 2016, include €11million relate to the remaining IRES refund to be received on the 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. This legislation provided for the partial deduction of IRAP paid on personnel expenses from IRES (to this end, reference should be made to the relevant interest receivable in table A8).

Deferred tax assets and liabilities

Details of this item at 30 June 2016 are shown in the following table:

TAB. C12.2 – DEFERRED TAXES

Item *(€m)*	**Balance at 30 June 2016**	**Balance at 31 December 2015**
Deferred tax assets	728	623
Deferred tax liabilities	(912)	(1,177)
Total	**(184)**	**(554)**

The nominal tax rate for IRES, which is currently 27.5%, will be 24% as of 1 January 2017, whilst the Group's average statutory rate for IRAP at 31 December 2015 was 6.16%[39]. Movements in deferred tax assets and liabilities are shown below:

TAB. C12.3 – MOVEMENTS IN DEFERRED TAX ASSETS AND LIABILITIES

Item *(€m)*	**For the six months ended 30 June 2016**	**For the year ended 31 December 2015**
Balance at 1 January	**(554)**	**(345)**
Net income/(expenses) recognised in profit or loss	(6)	(18)
Net non-recurring income/(expenses) recognised in profit or loss	–	17
Net non-recurring income/(expenses) recognised in profit or loss due to adjustment to IRES rate	–	(24)
Net income/(expenses) recognised in equity	376	(303)
Net non-recurring income/(expenses) recognised in equity due to adjustment to IRES rate	–	119
Balance at end of period	**(184)**	**(554)**

At 30 June 2016, deferred tax assets and liabilities recognised directly in equity are as follows:

TAB. C12.4 – INCOME/(EXPENSE) RECOGNISED IN EQUITY

Item *(€m)*	**Increases/(decreases) in equity**	
	For the six months ended 30 June 2016	**For the year ended 31 December 2015**
Fair value reserve for available-for-sale financial instruments	372	(198)
Cash flow hedge reserve for hedging instruments	(8)	19
Actuarial gains /(losses) on employee termination benefits	12	(4)
Retained earnings from shareholder transactions	–	(1)
Total	**376**	**(184)**

(39) The nominal IRAP rate is 3.9% for most taxpayers (it is 4.20% for entities operating under concession arrangements in fields other than construction and motorway and tunnel management), 4.65% for banks and other financial institutions and 5.90% for insurance companies (+/-0.92%, representing regional increases and reductions, and +0.15% representing an increase for regions that have a national health service deficit).

3.4 OPERATING SEGMENTS

The identified operating segments are Postal and Business Services, Financial Services and Insurance Services and Asset Management, with the remaining activities allocated to the Other Services segment.

Following a number of organisational changes, from 2016, the allocation of certain companies to the related operating segments has been updated. Specifically, BancoPosta Fondi SpA SGR, which was previously allocated to the Financial Services segment, now forms part of the Insurance Services and Asset Management segment (until 31 December 2015, the segment was named Insurance Services), whilst Poste Tributi ScpA, which was previously allocated to the Postal and Business Services segment, has been transferred to the Financial Services segment. The relevant comparative amounts for the first half of 2015 have been reclassified accordingly.

The Postal and Business Services segment also earns revenue from the services provided by the various Poste Italiane SpA functions to BancoPosta RFC. In this regard, separate General Operating Guidelines have been developed and 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 result for each segment is based on operating profit/(loss). 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 management's views and with applicable accounting standards, should be read in light of the integration of the services offered by the commercial network within the postal, financial and insurance businesses, also considering the obligation to carry out the Universal Postal Service.

For the six months ended 30 June 2016 *(€m)*	**Postal and Business Services**	**Financial Services**	**Insurance Services and Asset Management**	**Other Services**	**Adjustments and eliminations**	**Total**
External revenue	1,884	2,830	12,854	114	–	17,682
Intersegment revenue	2,440	280	–	33	(2,753)	–
Total revenue	**4,324**	**3,110**	**12,854**	**147**	**(2,753)**	**17,682**
Operating profit/(loss)	**74**	**485**	**270**	**14**	**–**	**843**
Profit/(Loss) on investments accounted for using the equity method	–	–	6	–	–	6
Finance income/(costs)						9
Income tax expense						(293)
Profit/(loss) for the period						**565**

For the six months ended 30 June 2015 *(€m)*	**Postal and Business Services**	**Financial Services**	**Insurance Services and Asset Management**	**Other Services**	**Adjustments and eliminations**	**Total**
External revenue	1,933	2,664	11,230	123	–	15,950
Intersegment revenue	2,257	254	–	44	(2,555)	–
Total revenue	**4,190**	**2,918**	**11,230**	**167**	**(2,555)**	**15,950**
Operating profit/(loss)	**(89)**	**456**	**248**	**23**	**–**	**638**
Profit/(Loss) on investments accounted for using the equity method	–	–	–	–	–	–
Finance income/(costs)						27
Income tax expense						(230)
Profit/(loss) for the period						**435**

Disclosure about geographical segments, based on the geographical areas in which the various Group companies are located or the location of its customers, is of no material significance. At 30 June 2016, 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.

3.5 RELATED PARTY TRANSACTIONS

Impact of related party transactions on the financial position and results of operations

The impact of related party transactions on the financial position and results of operations is shown below.

TAB. 3.5.1 – IMPACT OF RELATED PARTY TRANSACTIONS ON THE FINANCIAL POSITION AT 30 JUNE 2016

Name (€m)	Balance at 30 June 2016						
	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	–	–	–	–	–	–	–
Joint ventures							
Uptime SpA	–	–	–	–	–	1	–
Associates							
Anima Holding Group	–	–	–	–	–	1	–
Other SDA group associates	–	3	–	–	–	–	–
Related parties external to the Group							
MEF	6,976	385	15	773	1	105	21
Cassa Depositi e Prestiti Group	3,817	365	–	–	112	14	–
Enel Group	64	56	–	–	–	11	–
Eni Group	179	16	–	–	–	12	–
Equitalia Group	–	86	–	–	–	2	8
Leonardo Group	14	–	–	–	–	28	–
Other related parties external to the Group	75	3	–	–	–	12	48
Provision for doubtful debts owing from external related parties	–	(156)	(10)	–	–	–	–
Total	**11,125**	**758**	**5**	**773**	**113**	**187**	**77**

At 30 June 2016, total provisions for risks and charges made to cover probable liabilities arising from transactions with related parties external to the Group attributable to trading relations amount to €62 million.

TAB. 3.5.2 – IMPACT OF RELATED PARTY TRANSACTIONS ON THE FINANCIAL POSITION AT 31 DECEMBER 2015

Name *(€m)*	Balance at 31 December 2015						
	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	–
Joint ventures							
Uptime SpA	–	–	–	–	–	1	–
Associates							
Anima Holding Group	–	–	–	–	–	–	–
Other SDA group associates	–	2	–	–	–	–	–
Related parties external to the Group							
MEF	7,189	541	13	391	2	102	21
Cassa Depositi e Prestiti Group	3,764	397	–	–	78	11	–
Enel Group	79	45	–	–	–	12	–
Eni Group	140	15	–	–	–	12	–
Equitalia Group	–	56	–	–	–	1	8
Leonardo Group	14	–	–	–	–	30	–
Other related parties external to the Group	76	5	–	–	–	3	62
Provision for doubtful debts owing from external related parties	–	(157)	(10)	–	–	–	–
Total	**11,262**	**904**	**3**	**391**	**80**	**174**	**91**

TAB. 3.5.3 – IMPACT OF RELATED PARTY TRANSACTIONS ON THE RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED 30 JUNE 2016

Name (€m)	Six months ended 30 June 2016									
	Revenue				Costs					
					Capital expenditure		Current expenditure			
	Revenue from sales and services	Other operating income	Other income from financial and insurance activities	Finance income	Property, plant and equipment	Intangible assets	Goods and services	Personnel expenses	Other operating costs	Finance costs
Subsidiaries										
Address Software Srl	–	–	–	–	–	–	–	–	–	–
Kipoint SpA	–	–	–	–	–	–	1	–	–	–
Joint ventures										
Uptime SpA	–	–	–	–	–	–	1	–	–	–
Associates										
Anima Holding Group	–	–	–	–	–	–	1	–	–	–
Other SDA group associates	2	–	–	–	–	–	1	–	–	–
Related parties external to the Group										
MEF	252	1	–	–	–	–	1	–	2	–
Cassa Depositi e Prestiti Group	777	–	34	–	–	–	12	–	–	–
Enel Group	47	–	6	–	–	–	17	–	–	–
Eni Group	12	–	2	–	–	–	21	–	–	–
Equitalia Group	28	–	–	–	–	–	1	–	–	–
Leonardo Group	–	–	–	–	2	1	15	–	–	–
Other related parties external to the Group	4	–	1	–	–	–	6	20	2	–
Total	**1,122**	**1**	**43**	**–**	**2**	**1**	**77**	**20**	**4**	**–**

At 30 June 2016, total provisions for risks and charges made to cover probable liabilities arising from transactions with related parties external to the Group attributable to trading relations amount to €2 million.

TAB. 3.5.4 – IMPACT OF RELATED PARTY TRANSACTIONS ON THE RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED 30 JUNE 2015

Name	Six months ended 30 June 2015									
	Revenue				Costs					
					Capital expenditure		Current expenditure			
	Revenue from sales and services	Other operating income	Other income from financial and insurance activities	Finance income	Property, plant and equipment	Intangible assets	Goods and services	Personnel expenses	Other operating costs	Finance costs
Subsidiaries										
Address Software Srl	–	–	–	–	–	–	1	–	–	–
Kipoint SpA	–	–	–	–	–	–	–	–	–	–
Joint ventures										
Uptime SpA	–	–	–	–	–	–	3	–	–	–
Associates										
Other SDA group associates	–	–	–	–	–	–	–	–	–	–
Related parties external to the Group										
MEF	271	–	–	–	–	–	1	–	(6)	–
Cassa Depositi e Prestiti Group	809	–	26	2	–	–	10	–	1	–
Enel Group	60	1	1	–	–	–	19	–	–	–
Eni Group	15	–	2	–	–	–	18	–	–	–
Equitalia Group	32	–	–	–	–	–	1	–	–	–
Leonardo Group	–	–	1	–	–	2	15	–	–	–
Other related parties external to the Group	12	2	1	–	–	–	9	20	2	–
Total	**1,199**	**3**	**31**	**2**	**–**	**2**	**79**	**20**	**(4)**	**–**

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, the reimbursement of electoral tariff reductions and subsidies, and payment for delegated services, integrated e-mail services, the franking of mail on credit and for the collection of 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, etc.. The costs incurred primarily relate to the supply of gas.
- Amounts received from the Equitalia Group primarily relate to payment for the integrated notification service and for unfranked mail. The costs incurred primarily relate to electronic transmission of tax collection data.
- Amounts received from the Eni Group relate primarily to payment for mail shipments. 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 Finmeccanica 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 and software maintenance, and the supply of software licences and of hardware.

Key management personnel

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

TAB. 3.5.5 – REMUNERATION OF KEY MANAGEMENT PERSONNEL

Item *(€000)*	**Six months ended 30 June 2016**	**Six months ended 30 June 2015**
Remuneration to be paid in short/medium term	7,106	6,856
Post-employment benefits	261	296
Other benefits to be paid in longer term	–	–
Termination benefits	3,764	–
Total	**11,131**	**7,152**

TAB. 3.5.6 - REMUNERATION OF STATUTORY AUDITORS

Name *(€000)*	**Six months ended 30 June 2016**	**Six months ended 30 June 2015**
Remuneration	731	774
Expenses	30	63
Total	**761**	**837**

The remuneration paid to members of the Supervisory Board who, since 24 May 2016 are no longer the same as the members of the Board of Statutory Auditors, amounts to approximately €9 thousand for the period from the date they took up office to 30 June 2016. 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 first half of 2016 and at 30 June 2016. Group companies do not report receivables in respect of loans granted to key management personnel.

Transactions with staff pensions funds

The Parent Company and its subsidiaries that apply the National Collective Labour Contract are members of the Fondoposte Pension Fund, the national supplementary pension fund for non-managerial staff. As indicated in article 14, paragraph 1 of Fondoposte's By-laws, the representation of members among the various officers and boards (the General Meeting of delegates, the Board of Directors, Chairman and Deputy Chairman, Board of Statutory Auditors) is shared equally between the workers and the companies that are members of the Fund. The Fund's Board of Directors takes decisions including:

- the general criteria for the allocation of risk in terms of investments and investment policies;
- the choice of fund manager and custodian bank.

3.6 OTHER INFORMATION ON FINANCIAL ASSETS AND LIABILITIES

Analysis of net funds

Following a number of organisational changes, from 2016, the allocation of certain companies to the related operating segments has altered. Specifically, BancoPosta Fondi SpA SGR, which was previously allocated to the Financial Services segment, now forms part of the Insurance Services and Asset Management segment (until 31 December 2015, the segment was named Insurance Services), whilst Poste Tributi ScpA, which was previously allocated to the Postal and Business Services segment, has been transferred to the Financial Services segment. The relevant comparative amounts for 31 December 2015 have been accordingly reclassified.

At 30 June 2016, the Poste Italiane Group's net funds are as follows:

TAB. 3.6.1 – NET FUNDS/(DEBT)

Balance at 30 June 2016 *(€m)*	**Postal and Business Services**	**Financial Services**	**Insurance Services and Asset Management**	**Other Services**	**Eliminations**	**Consolidated amount**	***of which, related parties***
Financial liabilities	**(1,808)**	**(61,735)**	**(1,206)**	**(4)**	**1,638**	**(63,115)**	
Postal current accounts	–	(45,076)	–	–	381	(44,695)	–
Bonds	(798)	(480)	(748)	–	–	(2,026)	–
Borrowings from financial institutions	(406)	(8,943)	–	–	–	(9,349)	*(111)*
Other borrowings	(1)	–	–	–	–	(1)	*(1)*
Finance leases	(6)	–	–	(4)	–	(10)	–
Derivative financial instruments	(60)	(3,368)	–	–	–	(3,428)	–
Other financial liabilities	(13)	(3,589)	(4)	–	–	(3,606)	*(1)*
Intersegment financial liabilities	(524)	(279)	(454)	–	1,257	–	–
Technical provisions for insurance business	**–**	**–**	**(109,397)**	**–**	**–**	**(109,397)**	**–**
Financial assets	**1,460**	**62,603**	**112,351**	**32**	**(1,257)**	**175,189**	
Loans and receivables	146	11,355	73	–	–	11,574	*8,523*
Held-to-maturity financial assets	–	12,969	–	–	–	12,969	–
Available-for-sale financial assets	582	37,584	90,924	–	–	129,090	*2,033*
Financial assets at fair value through profit or loss	–	–	21,224	–	–	21,224	*569*
Derivative financial instruments	–	211	121	–	–	332	–
Intersegment financial assets	732	484	9	32	(1,257)	–	–
Technical provisions attributable to reinsurers	**–**	**–**	**65**	**–**	**–**	**65**	**–**
Net financial assets/(liabilities)	**(348)**	**868**	**1,813**	**28**	**381**	**2,742**	
Cash and deposits attributable to BancoPosta	**–**	**2,556**	**–**	**–**	**–**	**2,556**	**–**
Cash and cash equivalents	**584**	**838**	**690**	**12**	**(381)**	**1,743**	***773***
Net funds/(debt)	**236**	**4,262**	**2,503**	**40**	**–**	**7,041**	

TAB. 3.6.2 – NET FUNDS/(DEBT)

Balance at 31 December 2015 *(€m)*	**Postal and Business Services**	**Financial Services**	**Insurance Services and Asset Management**	**Other Services**	**Eliminations**	**Consolidated amount**	***of which, related parties***
Financial liabilities	**(2,442)**	**(55,418)**	**(1,218)**	**(4)**	**1,604**	**(57,478)**	
Postal current accounts	–	(43,757)	–	–	289	(43,468)	*(1)*
Bonds	(811)	(479)	(758)	–	–	(2,048)	–
Borrowings from financial institutions	(917)	(6,101)	–	–	–	(7,018)	*(77)*
Other borrowings	(1)	–	–	–	–	(1)	*(1)*
Finance leases	(6)	–	–	(4)	–	(10)	–
Derivative financial instruments	(52)	(1,547)	–	–	–	(1,599)	–
Other financial liabilities	(14)	(3,314)	(6)	–	–	(3,334)	*(2)*
Intersegment financial liabilities	(641)	(220)	(454)	–	1,315		–
Technical provisions for insurance business	**–**	**–**	**(100,314)**	**–**	**–**	**(100,314)**	**–**
Financial assets	**1,396**	**57,574**	**102,409**	**26**	**(1,315)**	**160,090**	**–**
Loans and receivables	141	10,301	66	–	–	10,508	*8,724*
Held-to-maturity financial assets	–	12,886	–	–	–	12,886	–
Available-for-sale financial assets	581	33,360	83,928	–	–	117,869	*1,969*
Financial assets at fair value through profit or loss	–	–	18,132	–	–	18,132	*569*
Derivative financial instruments	–	450	245	–	–	695	–
Intersegment financial assets	674	577	38	26	(1,315)	–	–
Technical provisions attributable to reinsurers	**–**	**–**	**58**	**–**	**–**	**58**	**–**
Net financial assets/(liabilities)	**(1,046)**	**2,156**	**935**	**22**	**289**	**2,356**	**–**
Cash and deposits attributable to BancoPosta	**–**	**3,161**	**–**	**–**	**–**	**3,161**	**–**
Cash and cash equivalents	**1,315**	**485**	**1,615**	**16**	**(289)**	**3,142**	***391***
Net funds/(debt)	**269**	**5,802**	**2,550**	**38**	**–**	**8,659**	**–**

At 30 June 2016, the fair value reserves related to available-for-sale financial assets, not including tax effects, amount to €2,352 million (€3,775 million at 31 December 2015).

Industrial net (debt)/funds, in accordance with ESMA guidelines

An analysis of the industrial net funds/(debt) of the Postal and Business Services and Other Services segments at 30 June 2016, in accordance with ESMA guidelines, computed on the basis of paragraph 127 of the recommendations contained in ESMA document 319 of 2013, is provided below:

(€m)	at 30 June 2016	at 31 December 2015
A. Cash	3	2
B. Other cash equivalents	593	1,329
C. Securities held for trading	–	–
D. Liquidity (A+B+C)	**596**	**1,331**
E. Current loans and receivables	**69**	**169**
F. Current bank borrowings	(6)	(515)
G. Current portion of non-current debt	(1)	(16)
H. Other current financial liabilities	(20)	(20)
I. Current financial debt (F+G+H)	**(27)**	**(551)**
J. Current net funds/(debt) (I+E+D)	**638**	**949**
K. Non-current bank borrowings	(400)	(400)
L. Bond issues	(797)	(797)
M. Other non-current liabilities	(64)	(57)
N. Non-current financial debt (K+L+M)	**(1,261)**	**(1,254)**
O. Industrial net funds/(debt) (ESMA guidelines) (J+N)	**(623)**	**(305)**
Non-current financial assets	659	553
Industrial net funds/(debt)	**36**	**248**
Intersegment loans and receivables	732	674
Intersegment financial liabilities	(492)	(615)
Industrial net funds/(debt) including intersegment transactions	**276**	**307**
of which:		
– Postal and Business Services	*236*	*269*
– Other	*40*	*38*

Determination of fair value

The fair value measurement techniques used by the Poste Italiane Group are described in note 2.4. This section provides additional information regarding determination of the value of the financial assets and liabilities recognised at their fair value. Additional information related to financial assets and liabilities recognised at their amortised cost is provided in the respective notes.

The table below breaks down the fair value of financial assets and liabilities by level in the fair value hierarchy:

POSTE ITALIANE GROUP – FAIR VALUE HIERARCHY

Item (€m)	at 30 June 2016				at 31 December 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Available-for-sale financial assets	123,628	4,772	690	129,090	112,267	5,123	479	117,869
Equity instruments	17	63	29	109	8	70	117	195
Fixed-income instruments	123,605	3,358	–	126,963	112,253	3,799	–	116,052
Other investments	6	1,351	661	2,018	6	1,254	362	1,622
Financial asset at fair value through profit or loss	9,721	11,503	–	21,224	8,067	10,065	–	18,132
Fixed-income instruments	9,119	2	–	9,121	7,537	22	–	7,559
Structured bonds	–	1,326	–	1,326	–	1,346	–	1,346
Other investments	602	10,175	–	10,777	530	8,697	–	9,227
Derivative financial instruments	–	332	–	332	–	695	–	695
Total	**133,349**	**16,607**	**690**	**150,646**	**120,334**	**15,883**	**479**	**136,696**
Financial liabilities								
Financial liabilities at fair value	–	–	–	–	–	–	–	–
Derivative financial instruments	–	(3,428)	–	(3,428)	–	(1,599)	–	(1,599)
Total	**–**	**(3,428)**	**–**	**(3,428)**	**–**	**(1,599)**	**–**	**(1,599)**

Details of transfers of financial instruments measured at fair value between level 1 and level 2 of the hierarchy on a recurring basis are as follows.

TRANSFERS BETWEEN LEVEL 1 AND 2 AT 30 JUNE 2016

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	**(47)**	**47**	**507**	**(507)**
Available-for-sale financial assets				
Equity instruments	–	–	–	–
Fixed-income instruments	(45)	45	487	(487)
Other investments	–	–	–	–
Financial assets at fair value through profit or loss				
Fixed-income instruments	(2)	2	20	(20)
Structured bonds	–	–	–	–
Other investments	–	–	–	–
Net transfers	**(47)**	**47**	**507**	**(507)**

The reclassifications from level 1 to level 2 carried out at 30 June 2016 primarily refer to available-for-sale fixed-income instruments, whose fair value, at the end of the first half, is not observable in a liquid and active market, as defined in the Group's Fair Value Policy.

The reclassifications from level 2 to level 1 primarily refer to coupon-stripped Italian government bonds (with a nominal value of €299 million) and bonds issued by CDP SpA (with a nominal value of €157 million), classified as available-for-sale. The fair value of these securities is observable in a liquid and active market at 30 June 2016.

Reconciliation of the opening and closing balances of financial instruments measured at fair value, and classified in level 3, is shown below.

POSTE ITALIANE GROUP – MOVEMENTS IN FINANCIAL INSTRUMENTS AT FAIR VALUE (LEVEL 3)

Item *(€m)*	**Financial assets**			
	Available-for-sale financial assets	**Financial asset at fair value through profit or loss**	**Derivative financial instruments**	**Total**
Balance at 1 January 2015	**248**	**–**	**–**	**248**
Purchases/Issues	151	–	–	151
Sales/Extinguishment of initial accruals	(49)	–	–	(49)
Redemptions	–	–	–	–
Movements in fair value through profit or loss	–	–	–	–
Movements in fair value through equity	129	–	–	129
Transfers to profit or loss	–	–	–	–
Gains/Losses in profit or loss due to sales	–	–	–	–
Transfers to level 3	–	–	–	–
Transfers to other levels	–	–	–	–
Movements in amortised cost	–	–	–	–
Impairments	–	–	–	–
Other movements (including accruals at the end of the period)	–	–	–	–
Balance at 31 December 2015	**479**	**–**	**–**	**479**
Purchases/Issues	327	–	–	327
Sales/Extinguishment of initial accruals	(128)	–	–	(128)
Redemptions	–	–	–	–
Movements in fair value through profit or loss	–	–	–	–
Movements in fair value through equity	12	–	–	12
Transfers to profit or loss	–	–	–	–
Gains/Losses in profit or loss due to sales	–	–	–	–
Transfers to level 3	–	–	–	–
Transfers to other levels	–	–	–	–
Movements in amortised cost	–	–	–	–
Impairments	–	–	–	–
Other movements (including accruals at the end of the period)	–	–	–	–
Balance at 30 June 2016	**690**	**–**	**–**	**690**

Movements in level 3 of the hierarchy refer to purchases and redemptions of unlisted closed-end funds (a movement of approximately €290 million) by Poste Vita SpA. This category includes 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 period in question include the sale of the Parent Company's investment in Visa Europe Ltd. (at 31 December 2015, accounted for at a fair value of €111 million), as described in note A5.2, and the recognition of the Series C

Visa Inc. convertible preferred stock received as partial payment. The fair value of the Series C Visa Inc. convertible preferred stock (at 30 June 2016, equal to €24 million) is 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 model used, the potential reduction in fair value could reach 38%.

3.7 OTHER INFORMATION

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.

TAB. 3.7.1 – POSTAL SAVINGS DEPOSITS

Item *(€m)*	**Balance at 30 June 2016**	**Balance at 31 December 2015**
Post office savings books	118,110	118,721
Interest-bearing Postal Certificates	206,201	206,114
Cassa Depositi e Prestiti	135,581	135,497
MEF	70,620	70,617
Total	**324,311**	**324,835**

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 first half, break down as follows:

TAB. 3.7.2 – ASSETS UNDER MANAGEMENT

Item *(€m)*	**Balance at 30 June 2016**	**Balance at 31 December 2015**
Collective investment funds		
Funds managed by the Group	6,412	5,625
Funds managed by third parties	32	109
Total	**6,444**	**5,734**

Average assets under management by the Group, invested in mutual funds, amount to €6,031 million. BancoPosta Fondi SpA SGR also manages the individual investment portfolios of Poste Vita SpA and Poste Assicura SpA.

Commitments

Purchase commitments relating primarily to the Parent Company break down as follows.

TAB. 3.7.3 – COMMITMENTS

Item *(€m)*	Balance at 30 June 2016	Balance at 31 December 2015
Purchase commitments		
Property leases	522	539
Purchases of property, plant and equipment	58	52
Purchases of intangible assets	49	32
Investment property	–	–
Vehicle leases	266	61
Other leases	37	15
Committed lines of credit		
Loans agreed to be disbursed	43	58
Total	**975**	**757**

The increase in purchase commitments relating to the lease of the Group's fleet vehicles is due to the Parent Company's renewal of the related contract in the first half.

EGI SpA has given commitments to purchase electricity, with a total value of €12.3 million, on regulated forward markets in the second half of 2016 and in 2017. At 30 June 2016, the corresponding market value is €11.8 million.

Guarantees

Guarantees issued by the Group are as follows:

TAB. 3.7.4 – GUARANTEES

Item *(€m)*	Balance at 30 June 2016	Balance at 31 December 2015
Sureties and other guarantees issued:		
by banks/insurance companies in the interests of Group companies in favour of third parties	277	281
by the Group in its own interests in favour of third parties	–	–
Total	**277**	**281**

Third-party assets

TAB. 3.7.5 – THIRD-PARTY ASSETS

Item *(€m)*	Balance at 30 June 2016	Balance at 31 December 2015
Bonds subscribed by customers held at third-party banks	5,648	5,592
Other assets	–	3
Total	**5,648**	**5,595**

Assets in the process of allocation

At 30 June 2016, the Parent Company had paid a total of €132 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.

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.

At 30 June 2016, the above definition encompasses the following:

- BlackRock MultiAsset diversified distribution fund (Open-end Fund)
- MFX – Global Multi-Asset Income Fund (Open-end Fund)
- Advance Capital Energy Fund (Closed-end Fund)
- Piano 400 Fund Deutsche Bank (Open-end Fund)
- Tages Capital Platinum (Open-end Fund)
- Tages Platinum Growth (Open-end Fund)
- Shopping Property Fund 2 (Closed-end fund)

Nature of the involvement in the unconsolidated structured entity

The purpose of Poste Vita's investment in the funds is to diversify its portfolio of financial instruments intended to cover Class I products (Separately Managed Accounts), with the objective of mitigating the concentration of investments in Italian government bonds and euro-denominated corporate bonds. Details are provided below.

ISIN *(€m)*	Name	Nature of entity	Activity of the Fund	% investment	NAV	
					At	Amount
IE00BP9DPZ45	BLACKROCK DIVERSIFIED DISTRIBUTION FUND	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100%	30 June 2016	5,769
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%	30 June 2016	4,112
IT0004597396	ADVANCE CAPITAL ENERGY FUND	Closed-end non-harmonised fund of funds	Investments in energy companies to achieve capital appreciation and realise relevant gains, after exit	86.21%	30 June 2016	21
IE00B1VWGP80	PIANO 400 FUND DEUTSCHE BANK	Open-end harmonised UCITS	Investment in a mix of asset classes, especially debt instruments of various sectors and countries	100%	17 June 2016	493
IT0004801996	TAGES CAPITAL PLATINUM	Non-harmonised fund of hedge funds	Pursuit of absolute returns, with low long-term volatility and correlation with the main financial markets	100%	29 April 2016	254
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%	29 April 2016	189
LU1081427665	SHOPPING PROPERTY FUND 2	Closed-end harmonised fund	Invests in Shopping Property Fund 2: master fund which invests primarily in commercial properties and, marginally, in office buildings and alternative sectors. It does not invest in property debt	63.27%	30 June 2016	86

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 (Separately Managed Accounts) and, as such, any changes in fair value are passed on to the policyholder under the shadow accounting mechanism.

Details at 30 June 2016 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
IE00BP9DPZ45	BLACKROCK DIVERSIFIED DISTRIBUTION FUND	Financial assets FVPL	5,769	639	5,130	Analytical VaR 99.5% annualised
LU1193254122	MFX – GLOBAL FUND – ASSET GLOBAL FUND (PIMCO MULTI ASSET)	Financial assets FVPL	4,112	577	3,535	Analytical VaR 99.5% over 1-year
IT0004597396	ADVANCE CAPITAL ENERGY FUND	Available-for-sale financial assets	18	8	10	VaR 99.5% over a 1-year time horizon
IE00B1VWGP80	PIANO 400 FUND DEUTSCHE BANK	Available-for-sale financial assets	493	46	447	Change between market price as of reporting date and guaranteed performance
IT0004801996	TAGES CAPITAL PLATINUM	Available-for-sale financial assets	254	55	199	VaR 99.5% over a 1-year time horizon
IT0004937691	TAGES PLATINUM GROWTH	Available-for-sale financial assets	189	34	155	VaR 99.5% over a 1-year time horizon
LU1081427665	SHOPPING PROPERTY FUND 2	Available-for-sale financial assets	55	21	34	Analytical VaR 99.5% annualised

(*) Maximum loss is estimated without considering the ability of liabilities to offset losses, thus representing a more prudential estimate

The table below shows the types of financial instruments in which the BlackRock MultiAsset Diversified Distribution Fund and the MFX – Global Multi-Asset Income Fund (PIMCO MultiAsset) invest and the main markets of reference.

BlackRock MultiAsset Diversified Distribution Fund

Asset class *(€m)*	**Fair Value**
Financial instruments	
Equity instruments	302
Government bonds	1,753
Corporate bonds	3,611
Cash	261
Other investments (Funds, etc.)	(48)
Derivatives	
Forwards	(111)
Futures	–
Swaps	1
Total	**5,769**

Market traded on and UCITS	**Fair Value**
Hong Kong	63
Dublin	247
Parigi	10
Luxembourg	43
Singapore	2
London	218
Eurotlx	47
Euromtf	227
Euronext	74
Germany (Frankfurt, Berlin, Munich)	797
Trace	1,110
Tokyo	24
New York	1,920
Other	984
Funds	3
Total	**5,769**

MFX – Global Multi-Asset Income Fund (PIMCO MultiAsset)

Asset class *(€m)*	**Fair Value**
Financial instruments	
Government bonds	1,405
Corporate bonds	2,466
Cash	198
Other investments (Funds, etc.)	50
Derivatives	
Swaps	(7)
Total	**4,112**

Market traded on and UCITS	**Fair Value**
Hong Kong	12
Dublin	173
Luxembourg	66
London	296
Eurotlx	62
Euromtf	100
Euronext	76
Germany (Frankfurt, Berlin, Munich)	615
Trace	490
Tokyo	211
New York	877
Other	1,134
Total	**4,112**

3.8 INFORMATION ON INVESTMENTS

Details of this item are as follows:

TAB. 3.8.1 – LIST OF INVESTMENTS CONSOLIDATED ON A LINE-BY-LINE BASIS

Name (Registered office) *(€000)*	**% interest**	**Share capital**	**Profit / (loss) for the period**	**Equity**
BancoPosta Fondi SpA SGR (Rome)	100.00%	12,000	9,923	66,575
Banca del Mezzogiorno - MedioCredito Centrale SpA (Rome)	100.00%	364,509	12,979	411,599
Consorzio Logistica Pacchi ScpA (Rome)	100.00%	516	–	516
Consorzio per i Servizi di Telefonia Mobile ScpA (Rome)(*)	100.00%	120	–	120
Consorzio PosteMotori (Rome)	80.75%	120	–	120
Europa Gestioni Immobiliari SpA (Rome)	100.00%	103,200	356	234,169
Mistral Air Srl (Rome)(**)	100.00%	1,000	(2,850)	1,605
PatentiViaPoste ScpA (Rome)(*)	86.86%	120	45	165
Postecom SpA (Rome)	100.00%	6,450	310	21,084
PosteMobile SpA (Rome)	100.00%	32,561	9,181	65,188
Poste Tributi ScpA (Rome)(*)	90.00%	2,583	–	2,506
PosteTutela SpA (Rome)	100.00%	153	369	12,994
Poste Vita SpA (Rome)(*)	100.00%	1,216,608	164,852	3,468,967
Poste Assicura SpA (Rome)(*)	100.00%	25,000	4,399	70,355
Postel SpA (Rome)	100.00%	20,400	(4,390)	99,034
SDA Express Courier SpA (Rome)(**)	100.00%	10,000	(13,946)	(14,317)
SDS System Data Software Srl (Rome)(*)	100.00%	16	821	3,537
SDS Nuova Sanità Srl (Rome)(*)	100.00%	15	421	1,287

(*) The figures shown for these companies were prepared in accordance with IFRS and, as such, may vary from those available in the respective financial reports, which were prepared in accordance with the Italian Civil Code and Italian GAAP.

(**) Poste Italiane SpA is committed to providing financial support to the subsidiaries, SDA Express Courier SpA and Mistral Air Srl at least until 31 December 2016.

PosteShop SpA has been merged with and into Postel SpA, with effect for legal, tax and accounting purposes from 1 May 2016. The company reports a loss of €0.8 million for the first 4 months of 2016.

Conio Srl, which is wholly owned by Conio Inc., has been an associate since 16 February 2016, following the signature of a Shareholder Agreement between Postecom SpA, Conio Inc., Conio Holding LLS (and its founding shareholders).

TAB. 3.8.2 – LIST OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Name (Registered office) *(€000)*	**Carrying amount**	**% interest**	**Assets**	**Liabilities**	**Equity**	**Revenue and income**	**Profit / (loss) for the period**
Address Software Srl (Rome)	172	51.00%	909	573	336	457	(55)
Anima Holding SpA (Milan)[(a)]	211,583	10.32%	1,285,894	464,936	820,958	174,663[(*)]	21,684
Conio Inc. (San Francisco)[(b)]	83	20.00%	378	110	268	–	288
ItaliaCamp Srl (Rome)[(c)]	21	20.00%	640	536	104	613	83
Kipoint SpA (Rome)	530	100.00%	2,534	2,005	529	2,121	35
Programma Dinamico SpA (Rome)[(d)]	–	0.00%	136	166	(30)	–	(149)
Uptime SpA - in liquidation (Rome)[(e)]	–	28.57%	4,302	4,125	177	5,817	(6)
Other SDA Express Courier associates[(f)]	9						

(a) Data derived from the consolidated accounts for the period ended 31 March 2016, the latest approved by the company.

(b) Data derived for Conio Inc. and its subsidiary, Conio Srl.

(c) Data derived from the accounts for the period ended 31 December 2015, the latest approved by the company.

(d) Data derived from the accounts for the period ended 31 December 2014; Group companies do not hold any equity interests in Programma Dinamico SpA.

(e) Data derived from the accounts for the period ended 31 December 2014. On 16 March 2016, the company was placed in liquidation.

(f) The other associates of the SDA Express Courier Group are: Epiemme srl (dormant), International Speedy Srl (in liquidation), MDG Express Srl, Speedy Express Courier Srl and T.W.S. Express Courier Srl.

(*) The amount includes commissions, interest income and other similar income.

3.9 EVENTS AFTER 30 JUNE 2016

Events after the end of the reporting period are described in the above notes and there are no other significant events that have occurred after 30 June 2016.

4 Risk management

FINANCIAL RISKS

This section provides a brief review of items in the financial statements subject to financial risk (prepared in accordance with IFRS 7 – Financial Instruments: Disclosures), provided in summary form as permitted by IAS 34 – Interim Financial Reporting (see section 2 "Basis of preparation" in these condensed consolidated interim financial statements).

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

- The operations of **Poste Italiane SpA**'s BancoPosta RFC division consist of 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(40), 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 leading market operator's statistical/econometric model that forecasts the interest rates and maturities typical of postal current accounts. Accordingly, the portfolio composition aims to replicate the financial structure of current accounts by private customers. The Company has also an asset-liability model in place to match the maturities of deposits and loans.
  During the first half of 2016, BancoPosta RFC's leverage ratio (the ratio of its core capital and total assets) declined as a result of the significant increase in activity, linked to the positive performance of deposits and the related investments. At 30 June 2016, the ratio is just below the limit of 3%, fixed by Poste Italiane SpA's Board of Directors. Informed, in May 2016, of the ratio's decline in the first quarter of the year, the Board of Directors decided to continue to keep a close eye on movements in the ratio, and acknowledged the potential need to strengthen BancoPosta RFC's capital position, at the end of the year, in order to restore the ratio to the target level set out in the Risk Appetite Framework.
- 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.
  With regard to traditional life policies, classified under Class I and V, the gains and losses resulting from measurement of the investments designed to cover the related obligations are attributed in full to policyholders and accounted for in specific technical provisions under the shadow accounting method. The calculation technique used by the company in applying this method is based on the prospective yield on each separately managed account, considering a hypothetical realisation of unrealised gains and losses over a period of time that matches the assets and liabilities held in the portfolio. The impact of financial risk on investment performance can be absorbed in full or in part by the insurance provisions, based on the level and structure of the guaranteed minimum returns and the profit-sharing mechanisms of the "separate portfolio" for the policyholder. The company determines the sustainability of minimum returns through periodic analyses using an internal financial-actuarial (Asset-Liability Management) model which simulates, for each separate portfolio, the change in value of the financial assets and the expected returns under a "central scenario" (based on current financial and commercial assumptions) and under stress and other scenarios based on different sets of assumptions. This model makes it possible to manage the risks assumed by Poste Vita SpA on a quantitative basis, thereby fostering reduced earnings volatility and optimal allocation of financial resources.

(40) 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.

Price risk

Price risk relates to financial assets that the Group has classified as “Available-for-sale” (AFS) or “Held for trading” and certain derivative financial instruments where changes in value are recognised in profit or loss.

Available-for-sale financial assets exposed to this risk mainly refer to Poste Vita SpA’s position in “Other investments”, represented by units of mutual investment funds, totalling €1,112 million, primarily to cover to meet obligations to policyholders under the separately managed portfolios, and the shares in Mastercard Incorporated and Visa Incorporated held by the Parent Company’s BancoPosta RFC division, totalling €60 million and €27 million, respectively (tab. A5.2).

In relation to **financial assets recognised at fair value through profit or loss**, price risk concerns investments held by Poste Vita SpA, totalling €11,534 million, of which €1,649 million used to cover Class III policies, €9,881 million used to cover Class I policies and €4 million is invested in mutual fund units held in the Company’s free capital.

Lastly, in relation to **derivative financial instruments**, the price risk relates to warrants with a value of €121 million, held by Poste Vita SpA to cover the benefits associated with the Class III policies.

Foreign exchange risk

Exposure to this risk primarily regards trade receivables and trade payables deriving from the Parent Company’s relations with overseas counterparties, and the Parent Company’s above investment in Mastercard and Visa shares (96 million US dollars at 30 June 2016).

Fair value interest rate risk

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 change in interest rates on the 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.

Available-for-sale financial assets exposed to the risk in question regard primarily fixed rate instruments held almost exclusively by the Parent Company and by Poste Vita SpA.

They include:

- fixed rate government bonds (inclusive of the CDP bonds) held by Poste Vita SpA, totalling €74,678 million (of which €7,479 million in inflation-indexed bonds); of this amount, €71,128 million is used to cover Class I and V policies linked to separately managed funds, €3,550 million relates to the Company’s free capital;
- €35,222 million in fixed rate government bonds held by BancoPosta RFC, consisting of: fixed rate bonds amounting to €10,879 million; variable rate bonds converted into fixed rate bonds via cash flow asset swaps amounting to €1,782 million; variable rate bonds amounting to €3,223 million (including €3,051 million in inflation-indexed bonds and €172 million in CCTeus), fixed or variable rate bonds converted to variable rate positions via fair value hedges, amounting to €19,338 million (including €17,239 million in forward starts);
- €14,012 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;
- €1,512 million in fixed rate bonds issued by CDP, and guaranteed by the Italian government, held by BancoPosta RFC.

Within the context of **financial assets at fair value through profit or loss**, fair value interest rate risk concerns a portion of the fixed rate investments of Poste Vita SpA, totalling €9,121 million. These consist of investments with a fair value of €5,587 million, relating to coupon stripped[41] BTPs covering obligations associated with Class III insurance products, investments with a fair value of €3,534 million, relating to corporate bonds covering Class I and V contractual obligations, and investments with a fair value of €569 million, relating to bonds issued by CDP SpA to cover Class I policies.

Within the context of **derivative financial instruments**, the risk in question concerns the decrease in fair value, in the amount of €9 million, of a derivative contract entered into by the Parent Company in 2013 to hedge the cash flows of the bond with a nominal value of €50 million issued on 25 October 2013 (tab. A5.10). The cash flow hedge of the derivative in question kicked in on 25 October 2015, when the bond began paying variable interest rates. Before this date, the derivative was recognised at fair value through profit or loss.

At 30 June 2016, with reference to the interest rate risk exposure determined by the average duration[42] of the portfolios, the duration of BancoPosta's overall investments is 5.46. On the other hand, with respect to Poste Vita SpA's separately managed accounts, the duration of the matching assets is 6.18, while the duration of the liabilities is 7.31. The financial instruments intended to cover the technical provisions for Class III have maturities that match those of the liabilities.

Spread risk

The value of the portfolio of Italian government bonds is much more sensitive to the credit risk associated with the Italian Republic than to changes in so-called risk-free interest rates. This is due to the fact that changes in credit spreads are not hedged and regard to 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, whilst a change in the interest rate alone is reflected solely in the fixed rate portfolio, which is not covered by fair value hedges.
During the first half of 2016, the spreads between German *bunds* and government bonds issued by many other European countries, including Italy, rose, reflecting, above all at the end of June, the result of the UK's Brexit referendum. In the case of Italian bonds with 10-year terms, this led to an increase in the spread to 139 bps at 30 June 2016 (97 bps at 31 December 2015). During the period under review, yields saw a general reduction, reflecting the fact that the decrease in risk-free interest rates was greater than the increase in the credit spread, having the following impact on the Group's portfolio:

(i) BancoPosta RFC's available-for-sale portfolio (a nominal value of approximately €30 billion) benefitted, over the first half, from a net increase in fair value of over €1.1 billion: the increase in the fair value of instruments hedged against interest rate risk, amounting to approximately €2.1 billion, was offset by a reduction in the fair value of the related derivatives, whilst the reduction in the fair value of unhedged instruments and of the component subject to spread risk (unhedged) was reflected in consolidated equity (approximately €1 billion);

(ii) Poste Vita insurance group's available-for-sale portfolio (fixed rate instruments with a nominal value of approximately €79 billion) registered an increase in fair value of approximately €1.6 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 €33 million).

(41) 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.

(42) Duration is the indicator used to estimate the percentage change in price of in response to a shift in market returns (i.e. + 100 bps).

Credit risk

Credit risk refers to all assets, except shares and units of mutual funds.

This risk is managed as follows:

- minimum rating requirements for issuers/counterparties, based on the type of instrument;
- the monitoring of concentrations per issuer/counterparty;
- monitoring of changes in the ratings of counterparties.

During the first half of 2016, the ratings revised by the main agencies did not result in changes in the weighted average rating of the Group's exposures, which, for investments other than Italian government bonds, was A3 at 30 June 2016, unchanged from 31 December 2015.

Credit risk arising from derivative transactions is mitigated through rating limits and by monitoring group/counterparty concentrations. In relation to BancoPosta RFC and BdM-MCC SpA, interest rate and asset swap contracts are collateralised by deposits or the physical delivery of financial instruments (in accordance with Credit Support Annexes). Exposure is quantified and monitored using the "market value" method provided for by Regulation (EU) 575/2013 (Basel 3).

In relation to "Revenue and receivables due from the state", the nature of the Group's customers, the structure of revenue and the method of collection limit the risk of default on trade receivables. However, as explained in note 2.3, in the case of certain of the Parent Company's activities, regulated by statute and specific agreements or contracts involving particularly complex renewal processes, prompt and full payment of the amounts due is dependent on availability of the necessary funds in the state budget or in the budgets of the related public sector entities.

All receivables are subject to specific monitoring and reporting procedures to support credit collection activities.

Lastly, 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, Poste Italiane SpA's exposure to sovereign debt[43] at 30 June 2016 is shown in the table below, which provides details of the nominal value, carrying amount and fair value of each type of portfolio.

(43) "Sovereign debt" includes bonds issued by, and loans provided to, central and local governments and government bodies.

POSTE ITALIANE GROUP – EXPOSURE TO SOVEREIGN DEBT

Item (€m)	at 30 June 2016			at 31 December 2015		
	Nominal value	Carrying amount	Fair Value	Nominal value	Carrying amount	Fair Value
Italy	**109,712**	**125,260**	**127,479**	**104,304**	**117,688**	**119,859**
Held-to-maturity financial assets	12,692	12,969	15,188	12,612	12,886	15,057
Available-for-sale financial assets	91,436	106,704	106,704	86,014	99,137	99,137
Financial assets at FV through profit or loss	5,584	5,587	5,587	5,678	5,665	5,665
Austria	**–**	**–**	**–**	**10**	**11**	**11**
Held-to-maturity financial assets	–	–	–	–	–	–
Available-for-sale financial assets	–	–	–	10	11	11
Financial assets at FV through profit or loss	–	–	–	–	–	–
Belgium	**95**	**112**	**112**	**95**	**93**	**93**
Held-to-maturity financial assets	–	–	–	–	–	–
Available-for-sale financial assets	95	112	112	95	93	93
Financial assets at FV through profit or loss	–	–	–	–	–	–
France	**151**	**201**	**201**	**208**	**217**	**217**
Held-to-maturity financial assets	–	–	–	–	–	–
Available-for-sale financial assets	151	201	201	208	217	217
Financial assets at FV through profit or loss	–	–	–	–	–	–
Germany	**13**	**24**	**24**	**25**	**32**	**32**
Held-to-maturity financial assets	–	–	–	–	–	–
Available-for-sale financial assets	13	24	24	25	32	32
Financial assets at FV through profit or loss	–	–	–	–	–	–
Ireland	**–**	**–**	**–**	**355**	**365**	**365**
Held-to-maturity financial assets	–	–	–	–	–	–
Available-for-sale financial assets	–	–	–	355	365	365
Financial assets at FV through profit or loss	–	–	–	–	–	–
Netherlands	**–**	**–**	**–**	**10**	**10**	**10**
Held-to-maturity financial assets	–	–	–	–	–	–
Available-for-sale financial assets	–	–	–	10	10	10
Financial assets at FV through profit or loss	–	–	–	–	–	–
Portugal	**–**	**–**	**–**	**28**	**29**	**29**
Held-to-maturity financial assets	–	–	–	–	–	–
Available-for-sale financial assets	–	–	–	28	29	29
Financial assets at FV through profit or loss	–	–	–	–	–	–
Spain	**2,367**	**2,770**	**2,770**	**1,359**	**1,487**	**1,487**
Held-to-maturity financial assets	–	–	–	–	–	–
Available-for-sale financial assets	2,367	2,770	2,770	1,359	1,487	1,487
Financial assets at FV through profit or loss	–	–	–	–	–	–
Slovenia	**93**	**101**	**101**	**40**	**43**	**43**
Held-to-maturity financial assets	–	–	–	–	–	–
Available-for-sale financial assets	93	101	101	40	43	43
Financial assets at FV through profit or loss	–	–	–	–	–	–
Total	**112,431**	**128,468**	**130,687**	**106,435**	**119,974**	**122,145**

Liquidity risk

In order to minimise the risk of experiencing difficulties in raising sufficient funds, at market conditions, to meet its obligations, Poste Italiane Group applies a financial policy based on:

- diversification of the various forms of short-term and long-term borrowings and counterparties;
- availability of relevant lines of credit in terms of amounts and the number of banks;
- gradual and consistent distribution of the maturities of medium/long-term borrowings;
- use of dedicated analytical models to monitor the maturities of assets and liabilities.

In terms of BancoPosta RFC's specific operations, the liquidity risk regards the investment of current account deposits in Eurozone government securities. As to the policies sold by Poste Vita SpA, in order to analyse its liquidity risk profile, the company performs Asset/liability management (ALM) analysis to manage assets effectively in relation to its obligations to policyholders, and also develops projections of the effects deriving from financial market shocks (asset dynamics) and of the behaviour of policyholders (liability dynamics).

Lastly, for the proper evaluation of the liquidity risk attributable to BancoPosta RFC, it should be borne in mind that, unless they are restricted, investments in Eurozone 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

Cash flow interest rate risk 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.

Specifically, with respect to **financial assets**, the cash flow interest rate risk primarily relates to:

- a portion of the securities portfolio held by the Poste Vita group, with a nominal value of €11,788 million;
- investment by the Parent Company of the funds deriving from the current account deposits of Public Administration entities in deposits with the MEF, with a value of €4,752 million;
- fixed and variable rate government bonds with a total nominal value of €170 million, as well as fixed rate bonds swapped into variable rate through fair value hedges, with a total nominal amount of €2,340 million (including €500 million in instruments where the impact of the related fair value hedges dates from 1 August 2016); and an inflation-linked bond issued by the Italian Republic, with a nominal value of €100 million, which has been hedged against changes in its fair value;
- collateral posted to secure liabilities arising in relation to derivative financial instruments, primarily held by BancoPosta RFC and amounting to €2,489 million.

In relation to **cash and cash equivalents**, cash flow interest rate risk primarily regards amounts deposited by the Parent Company with the MEF and held in the so-called buffer account, and bank and post office deposits attributable to Poste Italiane SpA and Poste Vita SpA.

Cash flow inflation risk

At 30 June 2016, cash flow inflation rate risk regards inflation-linked government securities not subject to cash flow hedges or fair value hedges. These securities are primarily held by Poste Vita SpA (a nominal value of €6,518 million) and BancoPosta RFC (a nominal value of €2,510 million).

OTHER RISKS

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.

In the latter part of 2015, certain contracts on investment management services to BancoPosta RFC expired, before being partially renewed in the first half of 2016. The operational implications are being carefully monitored, partly within the scope of the process of preparing for the introduction of the new "guided consultancy" service provided for in the Plan submitted to CONSOB following the inspection completed in 2014. In particular, in a memorandum sent on 1 June 2016, information on the overall state of progress of the Plan and the scheduled launch of the rollout of the new platform in October 2016 was provided, as requested by the Authority.

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.). A full description of these risks is provided in the Annual Report for 2015.

Reputational risk

The main element of exposure to this risk is the fact that the Group's business is by its nature exposed to elements of reputational risk, linked to market performance and primarily associated with the placement of investment products issued by third-party entities (bonds, certificates and real estate funds) or by Group companies (insurance policies issued by the subsidiary, Poste Vita SpA, and mutual funds managed by BancoPosta Fondi SpA SGR).

In this regard, in order to optimise the risk-return profile of the products offered to its customers, Poste Italiane SpA has adopted competitive selection policies and procedures for third-party issuers, entailing the selection of domestic and foreign issuers consisting solely of banks and other financial companies with investment grade ratings. In addition, in order to protect and safeguard the Group's excellent reputation and public confidence in its operations and to protect its commercial interests from potential dissatisfaction among savers, significant monitoring activity is carried out throughout the Group to keep track of the performance of individual products and of changes in the risks to which customers are exposed; this involves conducting careful assessments based on the contractual nature of the products in question in terms of how they meet the needs of the various customers. In particular, with regard to real estate funds sold in the period 2002-2005, which have given rise to a number of complaints and disputes, in addition to assessing the need for provisions in the financial statements, Poste Italiane is closely monitoring market trends in order to protect its customers' interests.

The Poste Italiane Group provides a range of Contact Centre services, combining the different contact channels to effectively manage customer service. To optimise the use of internal and external resources, it was decided to combine contact centre operations for all Group companies and, in 2015, calls for tenders were launched to find a suitable provider to manage the entire service. On completion of the tender process, the companies to which SDA Express Courier had outsourced the services until the end of 2015 – Uptime SpA, a joint venture and Gepin Contact SpA (the other shareholder of Uptime SpA) - were not awarded the contract and, on 30 December 2015, SDA terminated its relationships with these companies, as provided for in the relevant contracts, with effect from 1 July 2016.

With the regard to the transaction's impact on jobs, on 16 March 2016, a General Meeting of Uptime SpA's shareholders determined, with the vote of the majority shareholder (Gepin) alone, to terminate operations and wind-up the company. The shareholder, SDA, abstained. Following the start of the process that will make all 93 employees redundant, on 31 May 2016, Poste Italiane and labour unions representing most of the workers involved reached agreement on the redeployment of the workers involved. This envisages, among other things, that Poste Italiane will hire all former Uptime employees who have failed to find alternative employment by 31 December 2016 on permanent part-time contracts. As regards Gepin, negotiations involving the companies awarded the new contract, Poste Italiane and the labour unions, with a view to resolving employment issues, are still in progress.

Strictly in terms of employment law, in June and July 2016, Poste Italiane and SDA were served with two separate letters of notice pursuant to art. 29 of Legislative Decree 276/2003, requesting, among other things: (i) clarification regarding Uptime's failure to complete the redundancy procedure, and (ii) that SDA make further payments to the company. Potential liabilities for the Group at 30 June 2016 have been taken into account in the financial statements, in accordance with the relevant accounting standards.

As reported in the Annual Report for the year ended 31 December 2015, from a civil law standpoint, Gepin has claimed consequential damages of €10.5 million from SDA, in addition to a further claim for non-economic damages of €5 million. Finally, in May 2016, Gepin obtained a court order requiring SDA to make good its failure to pay invoices totalling approximately €3.7 million, which was immediately appealed by SDA. The claim is entirely devoid of any supporting contractual provisions or of any proof of costs effectively incurred in providing the service. Based on the advice of its legal counsel, SDA believes that the claims have no legal basis.

5 Proceedings pending

LITIGATION

There were no changes, during the first half of 2016, with regard to the information provided in the Annual Report for the year ended 31 December 2015, to which reference should be made for details of the proceedings in question.

TAX DISPUTES

Upon conclusion of a general tax audit relating to the 2008 tax year, on 22 December 2011 **BdM-MCC SpA** received an official tax audit report contesting the deductibility of €19.6 million in costs, relating to agreements effected in 2008 to settle disputes with the Parmalat Group. The report further claims that BdM-MCC underreported its taxable income by €16.2 million, relating to the sale of non-performing loans to a company in the Unicredit Group, to which BdM-MCC belonged at the time. The appeal against the notice of assessment against the second of the two alleged violations was upheld by the Provincial Tax Tribunal on 2 October 2014, with the ruling confirmed on appeal on 10 May 2016. The tax authorities have yet to contest this latter ruling. However, given that responsibility for these events and the related conduct rests with the previous owner of the bank, whose lawyers are defending the bank in this case, it is felt that any liabilities arising from such violations cannot, in any way, be attributed to BdM-MCC SpA.

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 of the Provincial Tax Tribunal of Rome, on 21 March 2014, EGI was served two tax demands and, on 7 May 2014, the company proceeded to pay a total of approximately €2.1 million. Furthermore, as a result of the ruling in second instance, handed down by the Regional Tax Tribunal of Rome in EGI SpA's favour, on 10 June 2015, the company obtained a refund of the amount paid. On 24 April 2015, the tax authorities notified EGI that they had filed an appeal with the Court of Cassation, requesting annulment of the judgement on appeal, and on 12 June 2015 EGI SpA presented a cross appeal. The litigation is currently pending before the Supreme Court of Cassation.

In 2009, the Regional Tax Office for Large Taxpayers (Agenzia delle Entrate – *Direzione Regionale del Lazio – Ufficio Grandi Contribuenti*) notified **Poste Vita SpA** of an alleged violation of the VAT regulations in the 2004 tax year, resulting in fines of approximately €2.3 million for the alleged failure to pay VAT on invoices for service commissions. Poste Vita SpA appealed the above findings before the Provincial Tax Tribunal of Rome. In December 2010 and September 2011, the tax authorities sent notices of two further small fines for the same violation in fiscal years 2005 and 2006. These fines have also been appealed. With regard to the dispute over VAT for 2004 and 2006, the Provincial Tax Tribunal of Rome has found in the company's favour, ruling that the tax authorities' allegations are without grounds. The tax authorities have challenged such rulings by filing an appeal. The Regional Tax Tribunal of Rome rejected both appeals and confirmed the lack of grounds of the claims against Poste Vita. On 23 October 2015, the State Attorney's Office challenged these decisions and summoned the company to appear before the Court of Cassation. The counterclaims filed by Poste Vita before the Court of Cassation were served to the tax authorities on 3 December 2015 and subsequently entered in the Cassation's registry on 17 December 2015. The litigation is currently pending before the Court of Cassation. Regarding, on the other hand, the disputes relating to 2005, with a ruling filed on 24 December 2015, the Provincial Tax Tribunal of Rome found in favour of the company. This ruling was then appealed by the tax authorities, as notified to the company on 26 June 2016. The deadline for entering an appearance before the court is 26 September 2016. The likely outcomes of the tax disputes continue to be taken into account in determining provisions for risks and charges.

On 22 July 2014, the *Nucleo Polizia Tributaria Roma* (Tax Police) commenced a tax audit relating to **Postel SpA** regarding direct taxes and VAT for the tax years from 2009 to 2012 included. Following this, on 21 December 2015, the tax authorities served a tax assessment notice to the Company, for fiscal year 2010, whereby the company was ordered to pay €5.6 million plus fines and interest. Considering that the tax assessment notice contains a number of key aspects warranting a radical review of the assessment, and considering the remarks made under article 12, paragraph 7, of Law 212 of 27 July 2000, Postel SpA filed a tax settlement proposal, which was rejected. On 18 May 2016, the company appealed the assessment notice, whilst at the same time making a provisional payment of approximately €2.35 million. The likely outcome of this dispute has been taken into account in determining provisions for risks and charges.

In addition, on 6 July 2015, the *Nucleo Polizia Tributaria Roma* (Tax Police) carried out an inspection at Postel SpA regarding income tax, IRAP and withholding tax, pursuant to and in accordance with articles 32 and 33 of Presidential Decree 600 of 29 September 1973, article 35 of Law 4 of 7 January 1929, and art. 2 of Legislative Decree 68 of 19 March 2001. In particular, the inspection regarded the company's alleged failure to pay social security contributions for employees and/or contractors used by a supplier in the years from 2010 to 2014. The inspection was concluded on 8 October 2015 with delivery of a tax audit report, contesting the right to deduct VAT and the deductibility of IRAP applied by the company in the tax years 2010 and 2014. On 4 December 2015, the company filed a brief pursuant to article 12, paragraph 7, of Law 212/2000. On 21 December 2015, the tax authorities served the company with a tax assessment notice for 2010 where, in taking the view that the service contracts with the supplier were instead employment contracts, it requested the company to pay VAT, IRES and IRAP totalling €0.2 million, plus fines and interest. Considering that the tax assessment notice contains a number of key aspects warranting a radical review of the assessment, and considering the remarks made under article 12, paragraph 7, of Law 212 of 27 July 2000, on 27 January 2016, Postel SpA filed a tax settlement proposal, which was rejected. On 18 May 2016, the company appealed the assessment notice. The lack of any basis for the inspectors' claims suggests that, at present, it might be reasonably assumed that the matter will be closed in a positive manner.

SOCIAL SECURITY DISPUTES

There were no material changes, during the first half of 2016, with regard to the information provided in the Annual Report for the year ended 31 December 2015, to which reference should be made for details of the proceedings in question.

PRINCIPAL PROCEEDINGS PENDING AND RELATIONS WITH THE AUTHORITIES

EUROPEAN COMMISSION

On 13 September 2013, the Court of Justice of the European Union upheld **Poste Italiane SpA**'s appeal, overturning the decision of the European Commission of 16 July 2008 on state aid, ordering the EC to pay legal costs. Acting on the European Commission's Decision, and in accordance with instructions from the Parent Company's shareholder, in November 2008 Poste Italiane SpA made available €443 million plus interest of €41 million to the MEF, which collected the sum in January 2009. In implementation of the European Court's (by then definitive) decision, in accordance with art.1 para. 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 (Note B2). 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, para. 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. The relevant decision is expected by the end of 2016.

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. Specifically, the Authority claimed that, in advertising campaigns in February 2015, emphasis was placed on returns offered by Libretto Smart without providing details of the offer the advertised returns were associated with. On 12 June 2015, the Authority notified its rejection of the proposed set of commitments and its intention to ascertain whether any violation had occurred. On 3 July 2015, the Authority notified its intention to extend the investigation to include Cassa Depositi e Prestiti SpA. 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 (RG 2288/16) on 24 February 2016. At the hearing held on 23 March 2016, the court adjourned the case until a hearing on the merits. In addition, on 7 March 2016, the AGCM, as part of a compliance audit, sent a request for information on the nature of the Libretto Smart product from 1 July 2015 and on the related "Supersmart" offering. Poste Italiane replied to the Authority on 22 March 2016, and on 24 June 2016 AGCM informed Poste Italiane that insufficient evidence is currently available to conduct an investigation.

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 from accessing the post office network. In July 2015, the Authority accepted requests to participate in the investigation from Fastweb SpA and Vodafone Omnitel BV. At the same time as the procedure was launched in respect of Poste Italiane, **PosteMobile** submitted a request to participate in the procedure in order to demonstrate its lack of responsibility for any alleged violation. The hearing was held on 18 September 2015, and on 29 October 2015 the Authority released the results of its investigation. With the ruling adopted at a meeting held on 16 December 2015, the Authority deemed that Poste Italiane – at variance with the provisions of art. 8, paragraph 2 *quater* of Law 287/90 – failed, when requested, to offer a competitor of its subsidiary, PosteMobile, equal access to goods and services that are exclusively available from Poste Italiane, as they form part of the activities carried out within the scope of the Universal Postal Service. In the same ruling, the Authority also ruled that Poste Italiane should desist from such conduct in the future. The Authority did not impose a fine. Poste Italiane and PosteMobile both lodged appeals against this ruling before the Lazio Regional Administrative Court on 25 February and 19 February 2016, respectively. At the hearing convened to hear the application for interim relief, a hearing on the merits was scheduled for 9 March 2016. At a hearing on 22 June 2016, the parties discussed the merits of both judgments. The Regional Administrative Court's ruling is pending. On 28 June 2016, the AGCM requested information to facilitate its assessment of Poste Italiane's compliance with the ruling, with reference to the description of the state of negotiations in progress with H3G relating to access as per art. 8, paragraph 2 *quater* of Law 287/90. Poste Italiane replied to the AGCM's request on 15 July 2016.

On 23 December 2015, H3G also submitted a writ of summons to the Court of Rome, citing Poste Italiane and PosteMobile and requesting that the latter be ordered to pay compensation for damages incurred, arising from the violations referred to in the above ruling, amounting to approximately €338 million, as well as court fees. At the preliminary hearing, held on 7 April 2016, the court, upholding a procedural objection raised, adjourned the hearing until 22 June 2016. At this hearing, after full discussion, the investigating judge said he would decide on the procedural objection together with the merits, and adjourned the case to a hearing on 1 December 2016, setting a deadline for the submission of depositions, pursuant to art. 183 of the Code of Civil Procedure.

As matters stand, given the complex and novel nature of the matters in hand and the uncertain nature of any judgment, it is difficult to make a reliable forecast on the outcome of the dispute.

On 8 June 2016, the AGCM notified Poste Italiane of the launch of an investigation pursuant to art. 14 of Law 287/90, aimed at determining whether behaviour towards Nexive SpA, in multi-item ordinary mail delivery markets, constitutes an abuse of its dominant market position as per art. 102 of the TFEU. In particular, the AGCM intends to ascertain whether Poste Italiane refuses to offer Nexive, in geographical areas where the company does not have a presence with its own distribution networks, the Posta Time service, namely the service that Poste Italiane offers to end customers in those areas, only making available Bulk Mail, which has higher rates than Posta Time. Moreover, according to the Antitrust Authority, Poste Italiane operates a policy of applying loyalty-building discounts on its Posta Time product for the benefit of end customers. The proceedings will conclude on 31 October 2017.

AUTORITÀ PER LE GARANZIE NELLE COMUNICAZIONI (AGCOM - THE ITALIAN COMMUNICATIONS AUTHORITY)

Responsibility for providing the Universal Service was assigned to Poste Italiane SpA by Legislative Decree 261/1999 (art. 23, paragraph 2). This was later confirmed by Ministerial Decree of 17 April 2000 for a maximum period of up to fifteen years, subject to reduction as a result of deregulation of the sector. Legislative Decree 58/2011 then provided that Poste Italiane SpA should be the Universal Service provider for fifteen years from the date of entry into effect of the decree. This legislation also requires five-yearly assessments designed to ensure that provision of the service meets the criteria set out in the decree and to evaluate improvements to the efficiency of service provision. On 11 May 2016, AGCom announced commencement of this five-yearly assessment, as part of which the regulator is required, among other things, to define and quantify the indicators on which it will base its evaluation of the efficiency improvements made to Universal Service provision.

On 1 July 2016, AGCom published a press release on its website, announcing the start of a procedure entailing a review of the network access obligations set out in art. 6 of Resolution 728/13/CONS. The start of this procedure had been provided for by Resolution 396/15/CONS, approving the new tariffs and quality targets for the universal service, in response to changed conditions in the postal market. The procedure is due to be completed within 150 days of the date of publication of the release, subject to a reasoned request for an extension.

On 29 July 2016, AGCom published Resolution 166/16/CONS, launching a public consultation on the draft ruling concerning assessment of the net cost of the universal postal service in 2013 and 2014.

BANK OF ITALY

In December 2015, the Bank of Italy's Financial Intelligence Unit (UIF) launched an investigation of Poste Vita SpA relating 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 is punishable, according to art. 57, paragraph 4 of Legislative Decree 231/2007, with a fine amounting to between 1% and 40% of the value of the transactions, as quantified in the notice of assessment and violation. In this case, the fine could be up to €406,000. Poste Vita has the right to submit a defence brief or documents to the MEF and request a hearing before the above authority, pursuant to Law 689/1981.

IVASS - ISTITUTO PER LA VIGILANZA SULLE ASSICURAZIONI (THE INSURANCE REGULATOR)

Following the inspection that took place between 1 April and 14 July 2014, for the purposes of assessing the governance, management and control of investments and financial risk, and compliance with anti-money laundering regulations, on 17 September 2014, IVASS notified **Poste Vita SpA** of its recommendations and the start of an administrative procedure regarding the alleged violation of four provisions concerning anti-money laundering regulations. On 12 May 2016, the Authority notified the company of the ruling in which two of the four violations challenged were upheld. Poste Vita paid the fine and, based on the findings of an analysis and assessment carried out, the company's Board of Directors decided not to challenge the ruling.

Finally, in the period between September 2015 and June 2016, IVASS has notified the company of six complaints over its violation art. 183, paragraph 1, letter a) of the Private Insurance Code, relating to delays in the payment of claims. The procedures are still in progress.

CONSOB

There were no changes, during the first half of 2016, with regard to the information provided in the Annual Report for the year ended 31 December 2015, to which reference should be made for details of the proceedings in question. Further information is also provided in Note 4 – Operational risk.

DATA PROTECTION AUTHORITY

On 29 May 2015, in response to certain press reports, Italy's Data Protection Authority asked Poste Italiane to provide information regarding alleged processing of the personal data of persons operating at companies appointed to monitor postal service quality standards. According to the Authority, the data was processed without providing the parties concerned with the relevant privacy notices and without obtaining their consent to use of the data. Poste Italiane has met all of the Authority's requests, providing a full and documented response and setting out details of the resulting internal audit carried out, the disciplinary proceedings regarding the staff involved and the organisational and procedural steps taken or in the process of being implemented. In the light of this, on 23 March 2016, the Authority, in view of the provisions of Authority regulation 1/2007 (art. 11, paragraph 1, letter d), announced that, at that time, there were no grounds for applying restrictions or prohibitions. From the findings of the internal audit, it appears, however, that certain members of staff interfered with quality control systems in violation of the Company's policy. It is currently impossible to ascertain whether this behaviour may have influenced determination of the service quality indicators recorded, and the possibility that the impact of such events may give rise to legal proceedings and fines cannot be ruled out.

In response to the above findings, 246 reprimands have been notified and, at 31 March 2016, there have been 15 dismissals and 156 disciplinary measures without dismissal relating to managerial and non-managerial staff.

A technical committee was set up to manage these proceedings in order to verify the findings regarding the contested audits, taking into account the defence arguments put forward by the parties concerned and any other evidence that may emerge. All these measures also refer to the Company's right to take action to protect its rights and interests with respect to findings that may yet emerge and damages the Company may suffer for any reason or cause whatsoever.

Following completion of the audit carried out in the meantime, a further in-depth investigation was conducted. This identified specific evidence of wrongdoing by the personnel involved.

As a result, disciplinary action was taken against a further 988 people from early May 2016 onwards. On completion of the related procedures, which were carried out with the aid of the above technical committee, there were a total of 976 disciplinary measures without dismissal relating to managerial and non-managerial staff.

This marks the end of any possible disciplinary action, given that there are no further irregularities to be penalised.

In 2015, a long-term transformation programme was launched aimed at increasing the level of automation of mail and parcel logistics procedures, in all processing phases, from collection to delivery, partly through the development of ICT support systems and platforms. This programme will enable a substantial strengthening of performance monitoring.

In this context, the Company has submitted a statement to the judiciary, appearing as the injured party and submitting a report prepared by Internal Auditing, in which the measures taken by the Company, including action against the personnel involved, are described. The report has also been filed with the other independent authorities.

6

Attestation of the manager responsible for financial reporting and independent auditors' report

Attestation of the condensed consolidated interim financial statements for the six months ended 30 June 2016 pursuant to art. 154-bis of Legislative Decree 58/1998 and art. 81-ter of CONSOB Regulation 11971 of 14 May 1999

1. The undersigned, Francesco Caio, as Chief Executive Officer, and Luciano Loiodice, as Manager responsible for Poste Italiane SpA's financial reporting, having also taken account of the provisions of art.154-bis, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998, hereby attest to:
   - the adequacy with regard to the nature of the Poste Italiane Group and
   - the effective application of the administrative and accounting procedures adopted in preparation of the Poste Italiane Group's condensed consolidated interim financial statements during the period from 1 January 2016 to 30 June 2016.
2. In this regard, it should be noted that:
   - the adequacy of the administrative and accounting procedures adopted in preparation of the Poste Italiane Group's condensed consolidated interim financial statements was verified by assessment of the internal control system over financial reporting. This assessment was conducted on the basis of the criteria contained in the Internal Control–Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO);
   - the assessment of the internal control system over financial reporting did not identify any material issues.
3. We also attest that:

3.1 the Poste Italiane Group's condensed consolidated interim financial statements for the six months ended 30 June 2016:

   a) have been prepared in compliance with the International Financial Reporting Standards endorsed by the European Union through EC Regulation 1606/2002, issued by the European Parliament and by the Council on 19 July 2002;

   b) are consistent with the underlying accounting books and records;

   c) give a true and fair view of the financial position and results of operations of the issuer and the companies included in the scope of consolidation.

3.2 the Directors' Interim Report on Operations includes a reliable analysis of significant events during the first six months of the year and of their impact on the condensed consolidated interim financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year. The Interim Report on Operations also includes a reliable analysis of material related party transactions.

Rome, Italy 2 August 2016

Chief Executive Officer	Manager responsible for financial reporting
Francesco Caio	Luciano Loiodice

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REVIEW REPORT

POSTE ITALIANE SPA

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2016

pwc

REVIEW REPORT ON CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Poste Italiane SpA

Foreword

We have reviewed the accompanying condensed interim consolidated financial statements of Poste Italiane SpA and its subsidiaries ("Poste Italiane Group") as of 30 June 2016, comprising the consolidated statement of financial position, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the condensed consolidated statement of cash flows and the related notes. The directors of Poste Italiane SpA are responsible for the preparation of the condensed interim consolidated financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of condensed interim consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed interim consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements of Poste Italiane Group as of

30 June 2016 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Rome, 3 August 2016

PricewaterhouseCoopers SpA

Signed by

Monica Biccari
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers. We have not examined the translation of the financial statements referred to in this report.

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