THE VALUE OF TRANSPARENCY

INTERIM REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2018

Posteitaliane

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Poste

Indice

1. Introduction

The Poste Italiane Group's consolidated interim report for the three months ended 31 March 2018 has been prepared, on a voluntary basis, in accordance with art. 82-ter of the CONSOB's Regulations for Issuers, "Additional interim financial disclosures". The consistency and correctness of the additional disclosures contained in the document, which has not been audited, is guaranteed, as is comparability of the related information with the corresponding disclosures included in previously published financial reports.

The information contained in this document aims to provide an update on events and circumstances occurring between the end of the previous year and the date of approval of Poste Italiane Group's consolidated interim report for the three months ended 31 March 2018.

For more detailed information, reference should be made to the Annual Report for 2017, which will be submitted for approval by the Annual General Meeting of shareholders to be held on 29 May 2018.

Summary

2. Management and supervisory bodies

Board of Directors(1)

CHAIRWOMAN
Maria Bianca Farina

CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER
Matteo Del Fante

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

Board of Statutory Auditors(2)

CHAIRMAN
Mauro Lonardo

AUDITORS
Alessia Bastiani
Maurizio Bastoni

ALTERNATES
Marina Colletta
Antonio Santi
Ermanno Sgaravato

Supervisory board(3)

CHAIRWOMAN
Nadia Fontana

MEMBERS
Paolo Casati(4)
Giulia Bongiorno(5)

Magistrate appointed by the Italian

Court of Auditors to audit Poste Italiane
Francesco Petronio

Indipendent auditors

PricewaterhouseCoopersSpA

AUDIT, RISK AND SUSTAINABILITY COMMITTEE(6)
Antonella Guglielmetti (chaiwoman)
Giovanni Azzone
Francesca Isgrò
Roberto Rossi

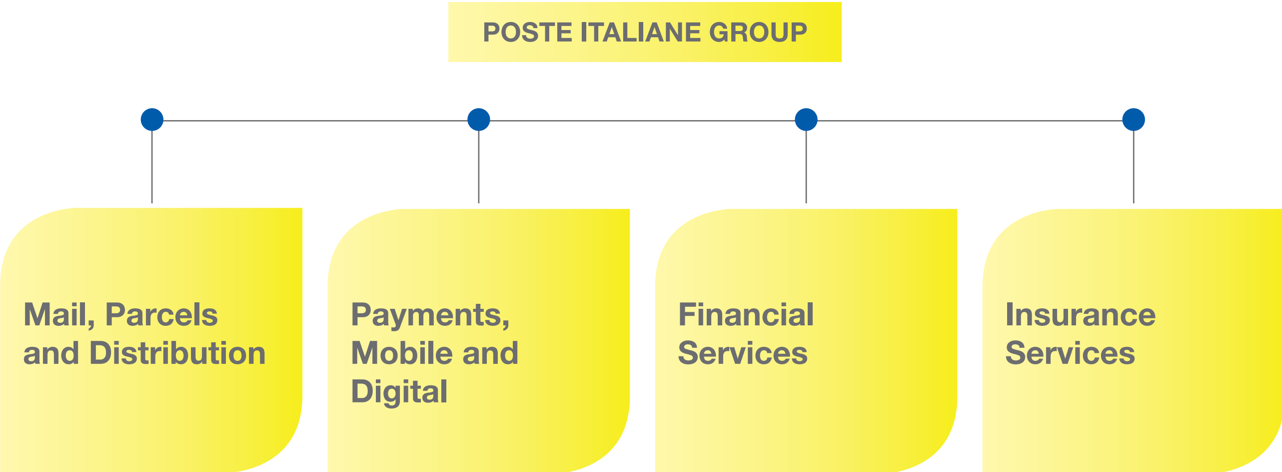
REMUNERATION COMMITTEE(6)
Carlo Cerami (chairman)
Giovanni Azzone
Roberto Rossi

NOMINATIONS AND CORPORATE GOVERNANCE COMMITTEE(6)
Roberto Rao (chairman)
Antonella Guglielmetti
Mimi Kung

RELATED AND CONNECTED PARTIES COMMITTEE(6)
Francesca Isgrò (chaiwoman)
Carlo Cerami
Mimi Kung
Roberto Rao

(1) The Board of Directors was elected by the Annual General Meeting held on 27 April 2017 to serve for a period of three years, and will remain in office until the Annual General Meeting's approval of the financial statements for the year ended 31 December 2019.
(2) The Board of Statutory Auditors was elected by the Ordinary General Meeting of 24 May 2016 to serve for a period of three years and will remain in office until the General Meeting's approval of the financial statements for the year ended 31 December 2018. On 30 January 2017, the Alternate Auditor, Andrea Bonechi, resigned from his position with immediate effect. As a result, the Annual General Meeting of 27 April 2017 elected Antonio Santi to serve as an Alternate Auditor.
(3) The Supervisory Board was appointed by the Board of Directors' meeting of 24 May 2016 for a three-year term.
(4) The only internal member, Head of Poste Italiane SpA's Internal Auditing.
(5) This member was appointed by the Board of Directors' meeting of 22 June 2017 (as replacement for Gennaro Terracciano, who resigned on 17 March 2017) and resigned in March 2018.
(6) Committee members were appointed by the Board of Directors' meeting of 28 April 2017. At the meeting of 19 February 2018, the Board of Directors renamed the Nominations Committee and the Audit and Risk Committee the Nominations and Corporate Governance Committee and the Audit, Risk and Sustainability Committee, respectively.

3. The Group's operating segments



In line with the new strategic guidelines set out in the Deliver 2022 Strategic Plan presented to the financial community on 27 February 2018, the Group's activities are divided into four operating segments: Mail, Parcels and Distribution; Payments, Mobile and Digital; Financial Services; Insurance Services.

The operating segments are supported by two distribution channels for retail customers, on the one hand, and business and Public Administration customers, on the other. These channels operate alongside a series of corporate functions responsible for policy, governance, controls and the provision of services supporting business processes.

The organisational model, which ensures the development of synergies within the Group as part of an integrated approach to operations, is applied via governance and operating models, characterised by:

- coherent and integrated management of the Group, ensuring a uniform and coordinated approach to the market, whilst taking into account the central importance of customers and exploiting potential synergies, as well as assigning responsibility for coordinating subsidiaries to the relevant functions within the Parent Company according to operating segment;
- corporate functions capable of ensuring, through coordination and integration of their respective areas of expertise, coherent fulfilment of their assigned roles at Group level and the provision of shared services closely aligned with business needs, thus ensuring efficiency, economies of scale, quality and effective support for the different businesses.

Corporate actions during the period

Having received clearance from Italy's antitrust authority and authorisation from the Bank of Italy, on 15 February 2017, Poste Italiane acquired a 30% interest in FSIA Investimenti Srl for a consideration of €278.3 million. The investee owns 49.5% of SIA SpA (SIA) and was previously a wholly owned subsidiary of FSI Investimenti SpA. FSI Investimenti is in turn controlled by CDP Equity SpA, which holds 77.1% of the company. Following this transaction, Poste Italiane holds an indirect interest of 14.85% in SIA. At the same time as completing the acquisition of an interest in FSIA Investimenti Srl, Poste Italiane SpA also signed a "deed of pledge", in which it declared that it was bound by, to the extent and in the exercise of its investment in the acquired company, the obligations provided for in a loan agreement entered into by FSIA Investimenti Srl with a number of banks on 28 May 2014.

Under the sale agreements, 80% of the transaction consideration was paid on completion, with the remaining 20% paid in April 2018. The consideration was subject to an upward adjustment of €0.5 million based on the value of SIA's net debt at 31 December 2016.

Through the vehicle entity, FSIA, the shareholders, FSI Investimenti (CDP Equity) and Poste Italiane will exercise control over SIA.

On 7 August 2017, Poste Italiane completed the sale of its 100% interest in Banca del Mezzogiorno-Medio Credito Centrale to Agenzia nazionale per l'attrazione degli investimenti e lo sviluppo d'impresa (Invitalia) for a total consideration of approximately €387 million, including €317 million collected at 31 March 2018. The remaining amount is to be collected in tranches, the last of which five years from the date of the agreement.

On 21 December 2017, Poste Italiane and Anima Holding SpA (in which Poste Italiane holds a 10.04% interest) signed a Memorandum of Understanding with the aim of strengthening their partnership in the asset management sector. The transaction envisages the partial spin-off of management of the assets underlying Poste Vita SpA's Class I insurance products (totalling over €70 billion), previously attributed to BancoPosta Fondi SpA SGR, to Anima SpA SGR. As a result of the spin-off, following receipt of the necessary consents from the relevant supervisory authorities, Poste Italiane SpA will receive newly issued shares in Anima SpA SGR that will at the same time be acquired by Anima Holding SpA in return for a cash payment of €120 million. The partnership agreements between the Poste Italiane Group and Anima Holding SpA, dating back to July 2015, by virtue of which Anima Holding SpA has been delegated to manage the retail funds established by BancoPosta Fondi SpA SGR and the assets underlying Poste Vita SpA's Class III insurance products, will be amended and expanded. The extended partnership will have a duration of 15 years.

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

As a result of this transaction, Poste Italiane will retain its 100% interest in BancoPosta Fondi SGR, with the aim of creating a competence centre for the management of the Group's financial investments. The transaction will also enable the Company to boost training and refresher courses for Poste Italiane's distribution network, in relation to asset management, and to expand the range of products offered to savers. In particular, with regard to the spin-off and sale, determination of the final price, quantified as €120 million, will be subject to an earnout in Poste Italiane's favour, in the event of an increase in income from the management mandates/delegations assigned to Anima SGR, in addition to certain thresholds and a price adjustment mechanism in Anima Holding's favour. The consideration will be paid in full on completion of the transaction by 31 December 2018, subject to suspensive conditions relating to receipt of the necessary consents from the competent authorities.

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

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

On 13 February 2018, the deed for the merger of PosteTutela SpA (a wholly owned subsidiary of Poste Italiane SpA) with and into Poste Italiane was executed. The transaction will be effective for legal purposes from 1 March 2018, and for accounting and tax purposes from 1 January 2018.

Finally, with the aim of more effectively driving growth in the payment services market and strengthening the service offering for retail, business and Public Administration customers, Poste Italiane has decided to combine the Poste Italiane Group's distinctive competencies in the field of mobile and digital payments in one entity.

This will involve the contribution in kind to PosteMobile SpA of the e-money and payment services operated by BancoPosta RFC and PosteMobile's establishment of a separate ring-fenced entity – to include the above unit – to specialise in e-money and payment services, and through which PosteMobile SpA will be able to operate as an electronic money institution, whilst also continuing to operate as a mobile virtual network operator.

The transaction, together with the proposed change to BancoPosta RFC and to its By-laws, and the grant of the related authority to submit a request for authorisation to the Bank of Italy, was approved by Poste Italiane's Board of Directors on 25 January 2018. Following the receipt of authorisation from the Bank of Italy on 24 April 2018, the Annual General Meeting of Poste Italiane's shareholders, to be held on 29 May 2018, will be asked to approve the proposed removal of the ring-fence that applies to BancoPosta RFC from the assets, contractual rights and authorisations that make up the e-money and payment services unit.

4. Macroeconomic environment

The world economy recorded a positive performance in the first quarter of 2018, with economic activity strengthening. Increased investment, the improvement in global trade and growth in employment have helped to widen the recovery and, in its Interim Economic Outlook for March, the OECD raised its estimate for GDP growth in 2018 to 3.9% (up 0.2 percentage points on November 2017).

Despite this, a number of risk factors could affect this extremely positive scenario. The increase in commodity prices has so far not led to price inflation in the leading advanced economies, but the risk that further price rises will put a brake on growth remains. Tensions in the currency markets or the introduction of import tariffs by the US administration could have an impact on world trade. In addition, tighter monetary policies could lead to tensions in the financial markets, making it more difficult to access credit and thus having a negative impact on investment. The US economy ended 2017 with GDP growth of 2.5% and an unemployment rate of around 4%, but the aim is to return to pre-crisis levels of growth. To reach this goal, the administration has eased monetary policy and introduced an initial series of protectionist measures that, as anticipated above, have given rise to concerns over the potential impact on global trade.

As analysts expected, in March, the Federal Reserve raised the cost of borrowing by one quarter of a percentage point from 1.50 to 1.75%. Two more increases are expected this year. The central bank also announced that inflation is moving towards its target of 2%.

China remains committed to reducing corporate debt and accelerating the elimination of non-performing loans. This strategy is designed to improve confidence among investors, but could have an impact on GDP growth in the coming quarters.

In response to trade tensions with the United States, in April, the Chinese President promised to open up the country's economy even more and to lower import tariffs on a number of products, including cars. Beijing also intends to offer licences to foreign banks to enable them to operate in the Chinese market and to compete with local institutions.

The Eurozone continues to see solid, widespread growth around the Union. GDP grew by 2.3% in 2017, with global growth supporting exports and low interest rates benefitting investment. In both the first and second quarters of 2018, the area's GDP is expected to see growth similar to the rate recorded at the end of 2017 (0.6%), whilst inflation as measured by the HICP (Harmonised Index of Consumer Prices) is projected to be 1.3%.

The euro area economic cycle indicator (€-coin)[1] fell slightly in March to 0.89, though this is still close to the peak registered in 2006. The indicator reflects the slowdown in industrial output and, above all, a decline in business confidence and falling equity markets.

1. €-coin – developed by the Bank of Italy – provides a real-time indication of the current economic performance of the euro area in terms of quarterly GDP growth shorn of the most variable components (seasonal factors, measurement errors and short-term volatility) and is published monthly by the Bank of Italy and CEPR (the Centre for Economic and Policy Research).

Even if less expansionary than in the past, the ECB's monetary policy remains extremely easy.

The rise in the value of the euro, which has risen a further 2% against the US dollar, could further slow the rise inflation, this forcing the ECB to delay the reversal of its expansionary monetary policy.

Italy is benefitting from accelerating global growth through increased exports and investment in new plant and vehicles. Istat, in its March publication on the state of the economy, highlighted the fact that consumer spending and buying power have also improved. Disposable income has risen thanks to the improvement in employment and pay rises, with confidence among businesses and consumers remaining close to pre-crisis highs. The increase in lending is a positive sign for the Italian economy. The Bank of Italy, in its “Banks and money: national data”, notes that consumer lending rose 2.8% in February, repeating the performance seen in the previous month, whilst lending to non-financial corporations was up 1.2% (up 2% in January). The ITA-coin indicator of economic activity was slightly down from previous highs in Italy, but continues to indicate that GDP growth will be in line with the previous quarter.

On the bond markets, the spread between ten-year BTPs and Bunds recorded an unexpectedly strong performance, with a sharp fall in the early months of 2018, reaching 120 basis points in February, before returning to more normal levels later in the quarter (between 130 and 140 basis points). At 29 March 2018, the spread was 129 basis points.

5. Group operating review

Results of operations (€m)	Three months ended 31 March 2018	2017	Increase/(decrease)	
Total revenue	2,884	2,833	51	1.8%
of which:				
Mail, Parcels and Distribution	898	914	(16)	-1.8%
Payments, Mobile and Digital	143	130	13	10.0%
Financial Services	1,519	1,462	57	3.9%
Insurance Services	324	327	(3)	-0.9%
Total costs	2,049	2,165	(116)	-5.4%
of which:				
Total personnel expenses	1,430	1,480	(50)	-3.4%
of which personnel expenses	*1,424*	*1,478*	*(54)*	*-3.7%*
of which early retirement incentives	*6*	*2*	*4*	*n/s*
Other operating costs	619	685	(66)	-9.6%
EBITDA	**835**	**668**	**167**	**25.0%**
Depreciation, amortisation and impairments	132	142	(10)	-7.0%
EBIT	**703**	**526**	**177**	**33.7%**
EBIT Margin	**24.4%**	**18.6%**	**5.8%**	
Finance income/(costs)	8	6	2	33.3%
Profit before tax	**711**	**532**	**179**	**33.6%**
Income tax expense	226	181	45	24.9%
Profit for the period	**485**	**351**	**134**	**38.2%**
Earnings per share	**0.372**	**0.269**	**0.10**	**38.2%**

Group capital expenditure	Three months ended 31 March 2018	2017	Increase/(decrease)	
Capital expenditure	**56**	**81**	**(25)**	**-30.9%**

Summary

Financial position (€m)	At 31 March 2018	At 31 December 2017	Increase/(decrease)	
Non-current assets	3,000	3,077	(77)	-2.5%
Net working capital	2,125	1,452	673	46.3%
Gross invested capital	**5,125**	**4,529**	**596**	**13.2%**
Sundry provisions and other assets/liabilities	(3,159)	(2,546)	(613)	24.1%
Net invested capital	**1,966**	**1,983**	**(17)**	**-0.9%**
Equity	9,627	7,550	2,077	27.5%
Net funds	(7,661)	(5,567)	(2,094)	37.6%
Net debt/(funds) of the Mail, Parcels and Distribution segment (ESMA)	(385)	(845)	460	-54.4%

Principal KPIs (€m)	At 31 March 2018	At 31 March 2017	Increase/(decrease)	
Client assets (€m)[1]	513,932	497,372	16,560	3.3%
Net inflows (€m)[2]	4,173	4,065	108	2.7%
Average workforce shown in full-time equivalent terms	135,740	137,916	(2,176)	-1.6%
Ordinary unit cost of labour (€000)	42.0	43.1	(1.1)	-2.6%
Mail, Parcels and Distribution				
Letters handled by the Group (volumes in millions)	813	838	(25)	-3.0%
Parcels handled by Group (volumes in million)	29.1	27.6	2	5.4%
Number of delivery centres	2,039	2,101	(62)	-3.0%
Number of post offices	12,822	12,822	-	-
Payment, Mobile and Digital				
Number of cards in issue (in millions)	26.0	23.8	2.2	9.2%
Value of transactions (€m)	6,250	5,442	808	14.8%
PosteMobile SIM cards (average in thousands)	3,812	3,659	153	4.2%
Financial Services				
Postal Savings (average in €m)	309,977	309,046	931	0.3%
Average return	0.59%	0.47%	0.1%	
Current account deposits (average for the period in €m)	57,757	54,533	3,224	5.9%
Average return on current accounts without capital gains	2.53%	2.73%	-0.2%	
Net gains (€m)	378	397	(19)	-4.8%
Insurance Services				
Net technical provisions (€m)[3]	128,189	115,300	12,889	11.2%
Gross premium revenue, Poste Vita group (€m)[4]	5,336	5,935	(599)	-10.1%

1. These amounts include postal savings deposits, the mutual investment funds marketed, Poste Vita's technical provisions and current account deposits. The value of client assets at 31 December 2017 was €506,240 million.
2. Net inflows at 31 December 2017 amounted to €3,304 million.
3. The value of technical provisions at 31 December 2017 amounted to €123,579 million.
4. Includes premium revenue before premium reserve and outward reinsurance premiums.

Other non-financial KPIs

"Workforce by gender (shown in full-time equivalent terms)"	At 31 March 2018	At 31 December 2017	Increase/(decrease)	
Total permanent workforce	**126,805**	**127,435**	**(630)**	**-0.5%**
of which				
Men	58,458	58,812	(354)	-0.6%
Women	68,347	68,623	(276)	-0.4%
Total flexible workforce	**8,335**	**9,120**	**(785)**	**-8.6%**
of which				
Men	4,944	5,436	(492)	-9.1%
Women	3,391	3,684	(293)	-8.0%

Quality of the universal postal service			At 31 March 2018	At 31 December 2017
	Delivery within	*Target*	*Actual*	*Actual*
Posta 1 - Priority[1]	1 day	80.0%	82,7%	82.2%
Posta 1 - Priority[1]	4 days	98.0%	99.3%	99.1%
Posta 4 - Ordinary[2]	4 days	90.0%	90.2%	91.2%
Bulk mail[1]	4 days	90.0%	98.6%	96.7%
Registered mail[1]	4 days	90.0%	94.2%	95.1%
Insured mail[1]	4 days	90.0%	99.2%	99.6%
Standard parcels[1]	4 days	90.0%	96.7%	92.2%

1. Monitored by the electronic tracking system.
2. Based on data certified by IZI at the request of AGCom (as figures for March are not yet available, the performance shown refers to February 2018).

Consolidated operating results

The Group's total revenue amounts to €2.9 billion, an increase of €51 million (1.8%) compared with the same period of the previous year.

The performance in the first quarter of 2018 has resulted in consolidated operating profit of €703 million, an increase of 33.7% compared with the same period of the previous year (€526 million). This primarily reflects the positive performance recorded by Financial Services and reductions in operating costs and personnel expenses.

Profit for the period of €485 million is up 38.2% on the first three months of 2017 (a profit of €351 million).

In detail, total revenue from Mail, Parcels and Distribution services amounts to €898 million, a reduction of 1.8% compared with the first quarter of 2017. This is due to a decrease in traditional letter post, with the number of items falling from 838 million in 2017 to 813 million (a decline of 3.0%). Parcel revenue, on the other hand, continued to grow, with volumes rising 5.4% from 27.6 million items in the first quarter of 2017 to 29.1 million.

The Payments, Mobile and Digital segment contributed €143 million to total revenue, up 10% on the first quarter of 2017. This figure includes revenue from payment services, e-money products and PosteMobile SpA's telecommunications services.

Total revenue from Financial Services is up from €1,462 million in the first quarter of 2017 to €1,519 million, marking an increase of 3.9% and reflecting the positive performance of the management of Postal Savings. Moreover, the figure for the comparative period included revenue from the investment in Banca del Mezzogiorno–MCC, amounting to approximately €25 million.

The Insurance Services segment contributed €324 million to total revenue (€327 million in the same period of the previous year), reflecting a slowdown in the life business, where premium revenue is down from €5.9 billion in the first quarter of 2017 to €5.3 billion. In contrast, the non-life business performed well, with net premium revenue of €28 million, compared with €25 million in the first quarter of 2017.

As anticipated, total costs are down from the €2,307 million of 2017 to €2,181 million, a decline of 5.5%, confirming the Group's commitment to achieving cost savings.

Personnel expenses are down 3.4% from €1,480 million in the first quarter of 2017 to €1,430 million in 2018, primarily reflecting a decrease in the average workforce (almost 2,200 fewer FTEs compared with the same period of the previous year).

Other operating costs are down from €685 million in the first quarter of 2017 to €619 million in 2018, a reduction of 9.6% due to cost efficiencies and higher provisions for risks and charges in the first quarter of 2017.

Finally, if depreciation, amortisation and impairments, amounting to €132 million in the first quarter of 2018 and €142 million in the first quarter of 2017, are taken into account, total costs amount to €2,181 million. This marks a reduction of 5.5% compared with the same period of the previous year (€2,307 million in the first quarter of 2017).

Operating results by operating segment

Three months ended 31 March 2018 (€m)	Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Total revenue	**2,267**	**225**	**1,780**	**324**	**(1,712)**	**2,884**
External revenue	898	143	1,519	324	-	2,884
Intersegment revenue	1,369	82	261	-	(1,712)	-
Total costs	**2,004**	**168**	**1,541**	**180**	**(1,712)**	**2,181**
Costs	1,989	54	103	35	-	2,181
Total personnel expenses	1,390	8	22	10	-	1,430
of which personnel expenses	*1,385*	*8*	*21*	*10*	-	*1,424*
of which early retirement incentives	*5*	-	*1*	-	-	*6*
Other operating costs	477	40	81	21	-	619
Depreciation, amortisation and impairments	122	6	-	4	-	132
Intersegment costs	15	114	1,438	145	(1,712)	-
EBIT	**263**	**57**	**239**	**144**	**-**	**703**
EBIT MARGIN	**11.6%**	**25.3%**	**13.4%**	**44.4%**		**24.4%**
Finance income/(costs)	(11)	-	-	14	-	3
Profit/(loss) on investments accounted for using the equity method	-	1	4	-	-	5
Intersegment finance income/(costs)	3	-	(1)	(2)	-	-
Profit/(Loss) before tax	**255**	**58**	**242**	**156**	**-**	**711**
Income tax expense	81	15	69	61	-	226
Profit for the period	**174**	**43**	**173**	**95**	**-**	**485**

Three months ended 31 March 2017	Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Total revenue	**2,248**	**216**	**1,720**	**327**	**(1,678)**	**2,833**
External revenue	914	130	1,462	327	-	2,833
Intersegment revenue	1,334	86	258	-	(1,678)	-
Total costs	**2,113**	**161**	**1,529**	**182**	**(1,678)**	**2,307**
Costs	2,098	53	121	35	-	2,307
Total personnel expenses	1,432	8	31	9	-	1,480
of which personnel expenses	*1,431*	*8*	*30*	*9*	-	*1,478*
of which early retirement incentives	*1*	-	*1*	-	-	*2*
	534	39	90	22	-	685
Operating costs	132	6	-	4	-	142
Intersegment costs	15	108	1,408	147	(1,678)	-
EBIT	**135**	**55**	**191**	**145**	**-**	**526**
EBIT MARGIN	**6.0%**	**25.5%**	**11.1%**	**44.3%**		**18.6%**
Finance income/(costs)	(11)	-	-	13	-	2
Profit/(loss) on investments accounted for using the equity method	-	-	4	-	-	4
Intersegment finance income/(costs)	3	-	(2)	(1)	-	-
Profit/(Loss) before tax	**127**	**55**	**193**	**157**	**-**	**532**
Income tax expense	47	16	58	60	-	181
Profit for the period	**80**	**39**	**135**	**97**	**-**	**351**

Mail, parcels and distribution

The postal services market

The European postal market continues to be characterised by declining demand for the distribution of letters, newspapers, periodicals and advertising – as a result of the spread of electronic communications – and increasing demand for parcel services, thanks to the development of e-commerce, which is also sustained by new technologies (e.g. online purchases and mobile payments).

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

The Express Delivery and Parcel services market, on the other hand, continued to grow, registering a 6.7%[2] increase in domestic activities (which account for approximately 80% of the total) in the period 2016/2017, whilst services based on delivery to or receipt from overseas countries grew on average by 13.9%.

2. Source: AGCom Communications Observatory no. 1/2018.

Mail, parcels and distribution segment profit or loss

(€m)	Three months ended 31 March 2018	2017	Increase/(decrease)	
Mail	665	679	(14)	-2.1%
Parcels	175	174	1	0.5%
Other revenue	58	61	(3)	-4.9%
Intersegment revenue	1,369	1,334	35	2.6%
Total revenue	**2,267**	**2,248**	**19**	**0.8%**
Personnel expenses	1,390	1,432	(42)	-2.9%
of which personnel expenses	*1,385*	*1,431*	*(46)*	*-3.2%*
of which early retirement incentives	*5*	*1*	*4*	*n/s*
Other operating costs	477	534	(57)	-10.7%
Intersegment costs	15	15	-	n/s
Total costs	**1,882**	**1,981**	**(99)**	**-5.0%**
EBITDA	**385**	**267**	**118**	**44.2%**
Depreciation, amortisation and impairments	122	132	(10)	-7.6%
EBIT	**263**	**135**	**128**	**94.8%**
EBIT MARGIN	**11.6%**	**6.0%**	**5.6%**	
Finance income/(costs)	(8)	(8)	-	n/s
Profit/(Loss) before tax	255	127	128	n/s
Income tax expense	81	47	34	72.3%
Profit for the period	**174**	**80**	**94**	**n/s**

n/s: not significant

The Mail, Parcels and Distribution segment reports an operating profit of €263 million, an improvement of €128 million compared with the operating profit of €135 million reported for the same period of the previous year. This essentially reflects reduced personnel expenses (down €42 million) and lower other operating costs (down €57 million) linked, in addition to efficiencies, to the release of provisions for disputes with third parties, as the related liabilities for which provision had been made in previous years failed to materialise.

External revenue is down from €914 million in the first quarter of 2017 to €898 million, a reduction of 1.8% due to lower revenue from traditional letter post (down €14 million). Intersegment revenue is up 2.6% from €1,334 million in the first quarter of 2017 to €1,369 million in 2018, reflecting higher remuneration for the distribution services provided to the Financial Services segment.

Performance analysis

Mail

	Volumes (in millions)				Revenue (€m)			
	Three months ended 31 March				Three months ended 31 March			
	2018	2017	Increase/ (decrease)		2018	2017	Increase/ (decrease)	
Unrecorded Mail	378	382	(4)	-1.0%	217	223	(6)	-2.7%
Recorded mail	50	48	2	4.2%	242	241	1	0.4%
Direct Marketing	166	176	(10)	-5.7%	38	41	(3)	-7.3%
Integrated services	7	5	2	40.0%	43	35	8	22.9%
Other(1)	212	227	(15)	-6.6%	50	61	(11)	-18.0%
Universal Service Obligation (USO) compensation and tariff subsidies(2)					75	78	(3)	-3.8%
Total Mail attributable to the Group	**813**	**838**	**(25)**	**-3.0%**	**665**	**679**	**(14)**	**-2.1%**

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

The performance of the Group's Mail services saw volumes and revenue decrease by 3% (25 million fewer items) and 2.1% (€14 million), respectively, compared with the first quarter of 2017. This essentially reflects falling volumes in the traditional postal services market, partly as a result of the gradual dematerialisation of communications (letters replaced by e-mails, invoices sent online, etc.). In detail, the contraction in volumes of Unrecorded Mail (4 million fewer items, or 1% less than in the first quarter of 2017) led to a fall in revenue of €6 million (down 2.7%).

The Recorded Mail segment registered increases in volumes and revenue of 4.2% (2 million more items) and 0.4% (€1 million), respectively, compared with the first quarter of 2017. This primarily reflects growth in inbound international registered mail relating to the shipment of small objects linked to the development of e-commerce.

Direct Marketing volumes are down 5.7% (10 million fewer items), due to customers rationalising their mail spend. This reduced revenue by 7.3% (€3 million).

Integrated Services registered an increase of 2 million items to 7 million in the first quarter of 2018, generating revenue of €43 million, up 22.9% (€8 million) on the first quarter of 2017. This was essentially due to the Integrated Notification Service for legal process.

Finally, other revenue includes, among other things, revenue from the Printing services provided by the subsidiary, Postel, down 6.6% in volume terms (15 million fewer shipments) and 18% in revenue terms (down €11 million) compared with the same period of 2017, due to a decline in the market for such services

The compensation partially covering the cost of the Universal Service for the first quarter of 2018, as provided for in the 2015-2019 Service Contract in force, amounts to €65.6 million (€65.6 million in the first quarter of 2017), whilst publisher tariff subsidies, introduced from 1 January 2017, amount to €9.6 million (€12.2 million in 2017).

Parcels

	Volumes (in millions)				Revenue (€m)			
	Three months ended 31 March				Three months ended 31 March			
	2018	2017	Increase/(decrease)		2018	2017	Increase/(decrease)	
B2B	7.3	7.8	(0.5)	-6.4%	52.1	56.6	(4.5)	-8.0%
B2C	15.9	12.9	3.0	23.3%	63.5	53.6	9.9	18.5%
Other	5.9	6.9	(1.0)	-14.5%	59.8	64.3	(4.5)	-7.0%
Total parcels	**29.1**	**27.6**	**1.5**	**5.4%**	**175.4**	**174.5**	**0.9**	**0.5%**

The performance of the Parcels segment saw growth in volumes and revenue of 5.4% and 0.5%, respectively, compared with the first quarter of 2017. This is essentially due to the expansion of e-commerce in Italy in the B2C segment, which generated revenue of €63.5 million during the period, up 18.5% on the same period of the previous year. Almost 16 million parcels were shipped.

This increase was partially offset by a reduction in revenue from the B2B segment (down €4.5 million or 8.0% compared with the same period of the previous year), which continued to suffer the ongoing effects of the industrial unrest that regarded the subsidiary, SDA, in September and October.

The Group has launched the new Joint delivery model, aimed at ensuring that the delivery network keeps pace with the development of e-commerce and changing customer needs. In particular, the new model enables parcels to be delivered via the network of postmen and women, introducing afternoon and weekend shifts in order to facilitate successful delivery and meet addressees' expectations. The new model, which was agreed on with the labour unions, was launched on 16 April 2018 and will be progressively rolled out over the remainder of 2018.

As part of efforts designed to improve and automate operating process, steps were taken in the first quarter of 2018 to redefine sorting processes. This included installation of new sorting equipment at the Bologna Sorting Centre.

Progressive expansion of the new PuntoPoste network, for collecting online purchases and sending returns and prefranked parcels, continued in the first quarter. The new PuntoPoste network offers customers both lockers (automated kiosks) and collection points providing a complementary alternative to post offices, meeting the growing need for readily accessible service points and flexible opening hours. 285 PuntoPoste lockers entered operation in the first quarter, with further lockers due to be rolled out in the coming months, with the aim of extending coverage to the whole country.

The quality of the Universal Postal service

On 31 March 2018, the results for registered, bulk and priority mail (including alternative delivery areas) and ordinary parcel post for 2017 as a whole were submitted to the regulator (Autorità per le Garanzie nelle Comunicazioni, or AGCom). All the results are in line with the relevant regulatory targets.

In Resolution 77/18/CONS, the regulator has set quality targets for the service covering the notification of legal process and violations of the Highway Code, which will be applied once the subsequent Regulations set by the Ministry for Economic Development have come into effect.

Regulatory environment

Legislative Decree 244 of 30 December 2016, the so-called Milleproroghe ("Thousand Extensions") Decree, converted into Law 19 of 27 February 2017, in force since 1 January 2017, extended the reduced postal rates set out in the Interministerial Decree of 21 October 2010 for the deliveries of publishers and non-profit associations and organisations entered in the Register of Communications Operators, and reinstated the government tariff subsidies provided for by Law 46 of 27 February 2004 for a period of three years (2017-2019). Until the new subsidised rates have been adopted, the Decree has also confirmed the reduced rates for promotional mailings by non-profit associations and organisations and reinstated the related government tariff subsidies for a period of three years (2017-2019)[3].

Law 124 of 4 August 2017, the "Annual market and competition law", came into effect on 29 August 2017. The legislation provides for the repeal, from 10 September 2017, of art. 4 of Legislative Decree 261/1999 and amendment of the related articles, removing the exclusive right to offer services relating to legal process and the notification of violations of the Highway Code (art. 1, paragraph 57). The law also establishes that the issue of an individual licence to provide such services must be subject to specific requirements and a universal service obligation covering the security, quality, continuity, availability and provision of the services. In this regard, the regulator (the Autorità per le Garanzie nelle Comunicazioni or AGCom) launched a public consultation, and having consulted the Ministry of Justice, subsequently issued Resolution **77/18/CONS** dated 20 February 2018. This resolution sets out the regulations governing the issue of special individual licences to provide postal services relating to legal process and the notification of violations of the Highway Code. Once the related Implementing Regulations, to be drawn up by the Ministry for Economic Development, have been adopted, alternative postal operators will be able to apply for the above special licences.

The regulations governing the service were further amended by the 2018 Budget Law, which brought the provisions of Law 890/1982, "Notification of legal process by post and of the related communications by post", into line with the new provisions of Law 124/2017.

The 2018 Budget Law has also assigned AGCom responsibility for setting the compensation to be paid by the operator if the legal process is lost in the post. In this regard, on 17 April 2018, the regulator initiated a process designed to define the procedure for assessing and paying the compensation for legal process.

3. With reference to government subsidies for publishers and non-profit associations, the amount originally provided for in the 2017 Budget Law amounted to €60 million per annum for the period 2017-2019. Law Decree 50/2017 then reduced the provision for 2017 by approximately €2.5 million. Provisions in the 2018 Budget Law amount to €59.3 million for 2018 and €57.5 million for 2019.

Payments, mobile and digital

Market environment

After years of relative inertia, the **Italy's payment services market** showed signs of major growth in 2017, when the value of card transactions reached €220 billion (up 10% on 2016), representing 28% of total consumer spending in Italy. Of these transactions, 21% (15% in 2016) were carried out using innovative forms of digital payment: e-commerce and e-payments (€20.3 billion), Contactless Payments (€18 billion), Mobile Payments & M-commerce (€6.7 billion) and Mobile POS (€0.9 billion).

In addition to changes in consumers' buying habits, the growth in new digital payments is also being driven by contactless payments, which increased by over 150% in 2017 (8% of card transactions).

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

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

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

Digitalisation is also a priority for the Public Administration: the SPID, the Public Digital ID system aims to provide citizens with a single system for logging in to access all the online services provided by the Public Administration. The system enables access to over 4,300 online services provided by approximately 3,800 participating central and local government entities, including INPS, the tax authority, municipal authorities and universities[4].

According to the latest available figures[5], **mobile market** penetration in the fourth quarter of 2017, in terms of total mobile lines, stood at approximately 165% of the population, with MVNOs accounting for 13%. The total number of lines in the fourth quarter of 2017 amounts to an estimated 99.8 million, including around 16 million Machine to Machine (M2M) SIM cards. In terms of market share, in the last quarter of 2017, PosteMobile, with a total market share of approximately 4%, accounted for over 48% of mobile virtual network customers[6].

The decline in revenue from traditional services continued in the first quarter of 2018, offset by growth in browsing services, whilst the leading mobile operators adopted acquisition strategies that aim to substantially maintain existing pricing policies and focus less on operator attack offerings[7], with the objective of preserving their revenues and margins, whilst awaiting the entry of new players. At the same time, the trend towards convergent landline and mobile services has strengthened, as has the development of varying degrees of partnership between the suppliers of digital content and the operators of telecommunications networks.

4. Source: 'Digital in 2018 – Italy', We Are Social, Hootsuite - January 2018.
5. Source: AGCom Communications Observatory no. 4/2017.
6. Internal estimate by PosteMobile based on AGCom Communications Observatory no. 4/2017.
7. "Operator attack" offerings are commercial offerings limited to specific target customers of one or more competing operators.

Payments, mobile and digital segment profit or loss

	Three months ended 31 March			
(€m)	2018	2017	Increase/(decrease)	
E-money	59	49	10	20.4%
Other payments	32	31	1	3.2%
Mobile	52	50	2	4.0%
Intersegment revenue	82	86	(4)	-4.7%
Total revenue	**225**	**216**	**9**	**4.2%**
Personnel expenses	8	8	-	n/s
of which personnel expenses	*8*	*8*	-	*n/s*
of which early retirement incentives	-	-	-	*n/s*
Other operating costs	40	39	1	2.6%
Intersegment costs	114	108	6	5.6%
Total costs	**162**	**155**	**7**	**4.5%**
EBITDA	**63**	**61**	**2**	**3.3%**
Depreciation, amortisation and impairments	6	6	-	n/s
EBIT	**57**	**55**	**2**	**3.6%**
EBIT MARGIN	**25.3%**	**25.5%**	**-0.1%**	
Finance income/(costs)	1	-	1	n/s
Profit/(Loss) before tax	58	55	3	5.5%
Income tax expense	15	16	(1)	-6.3%
Profit for the period	**43**	**39**	**4**	**10.3%**

n/s: not significant

The Payments, Mobile and Digital (PMD) segment aims to centralise the management of payment services – partly in view of the new activities envisaged by PSD2 – and operate as a competence centre to support the implementation of the Group's digital strategy.

The segment includes the collection and payment services provided by BancoPosta RFC (managed in outsourcing), and the e-money products and services offered by PosteMobile SpA, which has acquired significant experience over the years in digital services and in mobile banking and mobile payments.

The Payments, Mobile and Digital segment reports operating profit of €57 million for the first quarter of 2018, after depreciation, amortisation and impairments, marking an increase of 3.6% compared with the same period of the previous year (approximately €55 million).

Total revenue of €225 million (up 4.2%) benefitted from the positive performance of e-money services, which recorded growth of 20.4% (€10 million) as a result of an increase in Postepay transactions and the issue of new cards (over 18 million cards in circulation, including 5 million Postepay Evolution cards, marking growth of around 13% compared with the same period of the previous year). The number of Postamat in circulation is stable at 7 million.

Revenue from acquiring services is up 51.4% from €3 million to €4.6 million, thanks to an increase in the value of transactions compared with the comparative period. Mobile revenue is up from €50 million in the first quarter of 2017 to 52 million, reflecting an increase in the customer base (both fixed line and mobile).

The segment's total costs amount to €162 million, up 4.5% on the same period of the previous year due to greater interseg-ment costs (up 5.6%). These costs primarily include technology upgrades and back-office and distribution services provided by Poste Italiane SpA's other segments to the e-money and payments business.

After finance income of €1 million and income tax expense for the period (€15 million), the segment reports profit for the period of approximately €43 million, up 10.3% on the same period of the previous year.

As part of the digital transformation process, a number of new apps and web applications were released. In particular, the new BP App has been launched, linking dematerialised Interest-bearing Postal Certificates to current accounts, whilst Postepay cards can now be topped up using the BancoPosta and BPOL apps.

Regulatory environment

With Legislative Decree 218 of 15 December 2017, published in Official Gazette no. 10 of 13 January 2018, EU Directive 2015/2366 on **payment services** in the internal market (so-called "PSD2") has been transposed into Italian law. The creation of a "single payments area" in Europe has, for some years, resulted in restructuring and innovation of the payments market, given further impetus with the entry into effect of PSD2, which has also increased the level of competition.

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

The Delegated Regulation defines the requirements to be complied with by payment service providers (PSPs) in implementing security measures, with the aim of: (i) applying the strong customer authentication procedure; (ii) exempting providers from the application of strong customer authentication, under specific and limited conditions, based on the level of risk, amount and recurrence of the payment transaction and the payment channel used to execute the transaction; (iii) protecting the confiden-tiality and integrity of the personal security credentials of the payment service user; (iv) establishing common and secure open standards of communication between account servicing payment service providers and third parties (e.g. payment initiation service providers, account information service providers, etc.).

The Regulation is applicable from 14 September 2019, with the exception of the sections covering general obligations for access interfaces with third parties, which are applicable from 14 March 2019.

Following the assessments conducted, Poste Italiane has planned a number of technological changes aimed at implementing "strong customer authentication" both when accessing systems and when making payments (dynamic links).

The new text of the **Digital Administration Code** (DAC), as amended by Legislative Decree 217 of 13 December 2017, came into effect on 27 January 2018. The general aim of the revision of the DAC, within the context of the digitalisation of public services, is to ensure that citizens have the right to access their data, documents and services in digital form.

With a view to simplification, the new DAC keeps the primary legislation separate from the legislation containing technical and functional requirements, to be published primarily through the issue of Guidelines (Art. 71) by the Digital Italy Agency (AgID) or, in specific cases, via the issue of Cabinet Office or Ministerial decrees by delegated ministers.

The main points regard:

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

Extension of the DAC to include public service providers produces a series of effects and will require changes to the way that digital services are provided. The most important aspects regard the obligations linked to providing access to online public services via a Digital Identity and the handling of communications via the digital domicile. The related providers will also be obliged to accept payments in electronic form – including via the use of mobile phone credits – using the platform made available by AgID. Development of this platform will have to ensure, throughout the payment process, the authentication of users via the SPID or an Electronic ID card or a National Services Card.

The above Legislative Decree 218/2017 has also amended Legislative Decree 11/2010, art. 2, paragraph 2.n) of which enables the providers of **electronic communications** networks and services, in addition to the communication services provided, to offer customers payment services based on the use of mobile phone credits.

These services are subject to limits on the amount (up to €50 per individual payment transaction and a total of €300 in a month) and type (the purchase of digital content and services using voice technology; charitable donations and the purchase of tickets for services) and require the communication services provider to register as a payment Institution, in the section for undertakings that operate under an exemption.

Entry into the register, which is managed by the Bank of Italy, is not an authorisation to operate. Its purpose is to verify whether or not the undertaking meets the requirements to operate under an exemption from application of the regulations in question and to inform the European Banking Authority (EBA) of the type of operator offering payment services.

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

Financial services

Financial market trends

Global equity markets witnessed a significant increase in volatility during the first quarter of 2018. In particular, the US S&P500 index, after hitting record highs at the end of January, fell back sharply to close the quarter below where it began the year (down around 1.6%). After a positive start, European markets (the Euro Stoxx 50 index) also dropped significantly, registering a decline of approximately 3.65% in the first quarter. Italian equities, on the other hand, despite a similar performance to European and US stocks, outperformed the European average to close the first quarter of 2018 up by approximately 2.50%.

On the bond markets, the spread between ten-year BTPs and Bunds recorded an unexpectedly strong performance, with a sharp fall in the early months of 2018, reaching 120 basis points in February, before returning to more normal levels later in the quarter (between 130 and 140 basis points). At 29 March 2018, the spread was 129 basis points.

In the currency markets, the fall in the US dollar that began last year continued (the euro/USD exchange rate at the end of March 2018 was 1.23, compared with 1.20 at the end of 2017). Sterling, on the other hand, has remained broadly stable in the first quarter of 2018 (the average euro/GBP exchange rate has shifted from a low of 0.87 at the end of January to a high of 0.89 at the beginning of March)[8].

Banking system

Funding by Italian banks in the first quarter of 2018, represented by deposits by resident Italian savers and the issue of bonds, was slightly up, with total funding in March 2018 amounting to approximately €1,722 billion, a year-on-year increase of 0.9%. As in previous years, this reflects an increase in deposits by resident Italian savers (current accounts, certificates of deposit and repurchase agreements) of €72.9 billion in absolute terms year-on-year (up 5.3% compared with the same month in 2017), offsetting the sharp decline in investments in bonds, amounting to €59 billion (down 18% year on year). Non-resident deposits have continued to decline (approximately €298 billion in February 2018, down 0.8% year on year). Funding costs (deposits, bonds and repurchase agreements) are slightly down (0.73% in March 2018, compared with 0.76% in December 2017 and 0.79% in March 2017).

Bank lending rose in the early months of 2018: in March 2018, total lending to Italian residents (private sector and the Public Administration) - excluding interbank loans – amounted to approximately €1,766 billion, marking a year-on-year increase of 1.7%. Consumer loans are also up, with mortgage lending up 2.6% year-on-year, based on data for February 2018.

Doubtful loans within the banking system, after impairments and provisions made from own funds, are down, with the figure amounting to approximately €55 billion in February 2018, a year-on-year decrease of around €22 billion. In percentage terms, doubtful loans have fallen to 3.16% of total loans in February 2018 (4.41% one year before). The average interest rate applied to consumer and corporate loans in March 2018 was 2.68%, compared with 2.69% in December 2017 and 2.83% in March 2017[9].

8. Source: Bloomberg.
9. Source: Bank of Italy Economic Bulletin; ABI Monthly Outlook – Economy and Financial-Credit Markets; Data from Il Sole 24 Ore.

Financial services segment profit or loss

	Three months ended 31 March			
(€m)	2018	2017	Increase/(decrease)	
Capital gains	402	397	5	1.3%
Interest income	361	366	(5)	-1.4%
Collection of postal savings	450	355	95	26.8%
Transaction banking	226	238	(12)	-5.0%
Distribution of third-party products	58	83	(25)	-30.1%
Asset management	22	23	(1)	-4.3%
Intersegment revenue	261	258	3	1.2%
Total revenue	**1,780**	**1,720**	**60**	**3.5%**
Personnel expenses	22	31	(9)	-29.0%
of which personnel expenses	*21*	*30*	*(9)*	*-30.0%*
of which early retirement incentives	*1*	*1*	*-*	*n/s*
Other operating costs	81	90	(9)	-10.0%
Depreciation, amortisation and impairments	-	-	-	n/s
Intersegment costs	1,438	1,408	30	2.1%
Total costs	**1,541**	**1,529**	**12**	**0.8%**
EBIT	**239**	**191**	**48**	**25.1%**
EBIT MARGIN	**13.4%**	**11.1%**	**2.3%**	
Finance income/(costs)	3	2	1	50.0%
Profit/(Loss) before tax	242	193	49	25.4%
Income tax expense	69	58	11	19.0%
Profit for the period	**173**	**135**	**38**	**28.1%**

n/s: not significant

Operating profit generated by the Financial Services segment in the first quarter of 2018 amounts to €239 million, up 25.1% compared with the same period of the previous year (€191 million).

Total revenue generated by the segment is up 3.5% compared with the first quarter of 2017. This primarily reflects an increase in commission income on the collection of postal savings deposits, reflecting the mechanisms established in the new Agreement with Cassa Depositi e Prestiti. This positive performance was partly offset by a reduction in income from the distribution of third-party financial products (down 30.1%), due to the absence of BDM-MCC's contribution to revenue, after this company was sold on 7 August 2017, and a reduction in revenue from transaction banking (down 5.0%), partly reflecting a reduction in the volume of bills paid using payment slips.

The segment's total costs are up 0.8% (€12 million) on the same period of the previous year, reflecting the impact of higher intersegment costs. This is primarily linked to an increase in distribution costs connected with the revenue growth, partly offset by a reduction in other operating costs compared with 2017, when BancoPosta RFC made higher provisions for risks and charges.

After net finance income of €3 million and income tax expense of €69 million, the segment ended the quarter with profit of €173 million, up 28% on the same period of the previous year.

In terms of Bancoposta's capital structure, the CET 1 ratio 31 March 2018 is 16.9% (16.9% also at 31 December 2017), confirming the strength of the entity's balance sheet, which will be further boosted by Poste Italiane SpA's contribution of fresh capital of €210 million, to be submitted for approval by the Annual General Meeting of 29 May 2018.

The leverage ratio for the end of the first quarter of 2018 is 2.9%, compared with 3.1% at 31 December 2017.

Regulatory environment

On 3 January 2018, the new Directive 2014/65/UE (so-called "MiFID2") came into effect throughout the European Union. Together with MiFIR - Markets in financial instruments regulation (Regulation (EU) 600/2014), the Directive has amended the previous regulations. As a result of implementation of MiFID II, changes have been made to Italian legislation and regulations. This has led to the amendment of Legislative Decree 58/98 (the Consolidated Law on Finance), in effect from 28 February 2018, and of the related implementing regulations, including CONSOB Regulation 11971/99 (Issuers) and Regulation 20249/2017 (Markets), both in effect from 3 January 2018, and CONSOB Regulation 16190/2007 (Intermediaries), which has been abolished from 15 February 2018. The new regulations aim to boost the efficiency and transparency of financial markets, boosting protections for investors and strengthening certain organisational requirements and rules for intermediaries.

Since 2017, Poste Italiane has taken the necessary steps to ensure compliance with the new requirements, a process that is still in progress. The objective is to achieve full compliance with the new statutory requirements, primarily in relation to improvements to product governance, the provision of information to customers, customer profiling, advisory services and the training of post office personnel.

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

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

Insurance services

The insurance services market

Based on the available official data (source: ANIA), new business for **life insurance** policies at 28 February 2018 amounts to €14.5 billion (up 7.3% on the previous year). If new life business reported by EU insurers is taken into account, the figure rises to €17.4 billion, up 7% on the same period of 2017. Analysing the composition and performance of new business, Class I premiums amount to €9.4 billion, up 1.5% compared with the same period of the previous year. New business for Class V policies also performed well (up 19.2%), with premium revenue totalling €0.3 billion, whilst new business for unit-linked Class III life products generated premium revenue of €4.9 billion (up 19.8% on the same period of 2017).

The contribution from new inflows into individual pension plans was also positive, with inflows of €223 million, registering an increase 3.8% compared with the same period of 2017.

Single premiums continued to be the preferred form of payment for policyholders, representing 94% of total premiums written and 63% of policies by number.

With regard, finally, to distribution channel, over 70% of new business was obtained through banks and post offices, with premium revenue of €10.5 billion up 10% compared with the first two months of 2017. In terms of agents as a whole, the volume of new business amounted to €2 billion in the first two months of 2018, marking growth of 9.0% compared with the same period of 2017. The performance of new business obtained through authorised financial advisors was, on the other hand, negative, with premium revenue of €1.9 billion marking a decline of 7.1% compared with the figure for the same period of 2017.

Based on the available official data (source: ANIA), total direct Italian premiums in the **non-life insurance market**, thus including policies sold by Italian and overseas insurers, amounted to €36.8 billion at the end of the fourth quarter of 2017, slightly up on the same period of 2016 (up 1.1%). This marks the third consecutive reversal of the negative trend seen over the last five years.

Reversal of the trend reflects the contribution made by growth in other non-life classes (up 2.6% on the same period of the previous year) and an easing off of the decline in premium revenue from vehicle insurance. In detail, third-party land vehicle premiums amounted to €13.8 billion, down 2.2% compared with the fourth quarter of 2016 (when the decline was 5.5%), whilst land vehicle hull premiums amounted to €3.0 billion (up 6.5% on the same period of 2016).

Other classes, in terms of volumes and growth rate, include accident, with premiums of €3.5 billion (up 2.7%), medical, with premiums of €2.7 billion (up 9.4%), financial loss, with premiums of €0.8 billion (up 12.6%), legal expenses, with premiums of €0.4 billion (up 6.1%) and assistance, with premiums of €0.7 billion (up 5.6% on the same period of the previous year).

In terms of distribution channel, as regards policies sold by Italian and overseas insurers, agents continued to lead the way with a market share of 76.3%, slightly down on the figure for previous years (77.1% in the fourth quarter of 2016). Brokers represent the second most popular channel for non-life products, with a market share of 9.3%. Banks and post offices also recorded growth in their market share to 6.1% (5.5% in the fourth quarter of 2016). Direct sales accounted for 7.9% of the market, practically unchanged compared with the third quarter of 2016 (8.0%).

Summary

Insurance services profit or loss

(€m)	Three months ended 31 March 2018	2017	Increase/(decrease)	
Life premium revenue	5,284	5,891	(607)	-10.3%
Life net income (*)	425	979	(554)	-56.6%
Movements in premium reserve, technical provisions, reinsurance and other Life claims expenses	(5,414)	(6,568)	1,154	-17.6%
Net Life revenue	**295**	**302**	**(7)**	**-2.3%**
Non-life premium revenue	28	25	3	12.0%
Non-life net income (*)	4	3	1	33.3%
Movements in premium reserve, technical provisions, reinsurance and other Non-life claims expenses	(6)	(6)	-	n/s
Net Non-life revenue	**26**	**22**	**4**	**18.2%**
Other operating income	3	3	-	n/s
Total revenue	**324**	**327**	**(3)**	**-0.9%**
Personnel expenses	10	9	1	11.1%
of which personnel expenses	*10*	*9*	*1*	*11.1%*
of which early retirement incentives	*-*	*-*	*-*	*n/s*
Other operating costs	21	22	(1)	-4.5%
Depreciation, amortisation and impairments	4	4	-	n/s
Intersegment costs	145	147	(2)	-1.4%
Total costs	**180**	**182**	**(2)**	**-1.1%**
EBIT	**144**	**145**	**(1)**	**-0.7%**
EBIT MARGIN	**44.4%**	**44.3%**	**0.1%**	
Finance income/(costs)	12	12	-	n/s
Profit/(Loss) before tax	156	157	(1)	-0.6%
Income tax expense	61	60	1	1.7%
Profit for the period	**95**	**97**	**(2)**	**-2.1%**

(*) After expenses deriving from insurance activities.
n/s: not significant

The Poste Vita group's total premium revenue, after the portion ceded to reinsurers, amounts to €5.3 billion, marking a reduction of 10.3% compared with €5.9 billion in the first quarter of 2017. This was generated essentially by the sale of life products, amounting to €5.3 billion (€5.9 billion in 2017), whilst there was strong growth in sales of non-life products, with premium revenue of €28 million (€25 million in the same period of 2017).

Operating profit generated by the Insurance Services segment totals €144 million at the end of the first quarter of 2018, broadly in line with the figure for the same period of 2017 (€145 million), despite the decline in the life business and the reduction in net finance income, reflecting financial market volatility and primarily due to the related movement in technical provisions during the period, compared with the same period of 2017.

Net finance income amounts to €12 million (income from the investment of free capital, totalling €19 million, after deducting interest payable on subordinated loans, amounting to €7 million) and profit for the period totals €95 million, down €2 million on the first quarter of 2017).

Net income amounts to €429 million (€982 million at the end of the first quarter of 2017), including €425 million (€979 million in the first three months of 2017) generated by the life business and primarily regarding:

- €460 million in net finance income from securities related to traditional products, down €457 million compared with the €917 million of the same period of 2017. This primarily reflects net unrealised losses for the period of approximately €241 million (almost entirely relating to multi-asset, harmonised open-end funds of the UCITS - Undertakings for Collective Investment in Transferable Securities - type), compared with net unrealised gains of approximately €225 million in the same period of 2017. These items regard investments included in separately managed accounts and are thus attributed in full to policyholders under the shadow accounting method;
- €28 million in net finance costs on index- and unit-linked products, compared with €77 million in net finance income in the same period of 2017, reflecting less favourable financial market conditions. This amount, which reflects market volatility, 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 financial performance and financial market trends, the movement in technical provisions, after the portion ceded to reinsurers, amounts to €5.4 billion, compared with €6.6 billion in the same period of 2017.

Claims paid to customers total €2.2 billion (€2.4 billion in the first quarter of 2017) and include policy expirations of €0.9 billion (€1.3 billion in the same period of 2017), with €0.7 billion of this sum attributable to Class III policies. Total surrenders amount to €0.9 billion (€0.8 billion in the same period of 2017), accounting for 3.0% of initial provisions (3.0% at 31 March 2017), a figure that continues to be far lower than the industry average (the latest figure published on ANIA's website at 31 December 2017 is 6.89%).

Other operating income amounts to €3 million (in line with the first quarter of 2017) and almost exclusively regards revenue generated by Poste Welfare Servizi.

Net revenue thus amounts to €324 million (€327 million in the first quarter of 2017).

Total costs of €180 million are down €2 million compared with the figure for the same period of 2017, and regard:

- intersegment costs of €145 million (€147 million in the first quarter of 2017) regarding fees paid for distribution, collection and maintenance services, totalling €136 million;
- personnel expenses of €10 million (€9 million in the first quarter of 2017);
- depreciation, amortisation and impairments of €4 million (€4 million in the first quarter of 2017);
- other costs totalling €21 million (€22 million in the first quarter of 2017).

In keeping with the strategic objectives set in 2017, in the first quarter of 2018, the **Poste Vita insurance group** primarily focused its efforts on:

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

The life business generated gross premium revenue of €5.3 billion, marking a decline with respect to the previous year (€5.9 billion) but an uneven performance depending on class of business. Class III premiums amounted to €213 million, compared with €94 million in the same period of 2017, representing growth of 126% in a market that saw growth of 20%. The PIR (Piano Individuale di Risparmio) product, launched from the second half of 2017, contributed €119 million. Pensions also saw significant growth, with gross inflows of €272 million representing an increase of 54% in a market that grew by 4%. After years of strong growth, gross premium revenue from Class I policies amounted to €5 billion, down from €5.8 billion in the previous first quarter, although net premium revenue of €3.6 billion marked a positive performance (€4 billion in the first quarter of 2017), contributing significantly to the growth in assets under management, in line with the stated aim of consolidating the group's market leadership.

Sales of regular premium products also performed well (Multiutile Ricorrente, Long Term Care, Posta Futuro Da Grande), as did sales of the PostaPrevidenzaValore product which, with around 957 thousand policies sold, has enabled Poste Vita to consolidate its role in the pensions market.

A total of over 4 thousand new pure risk policies (term life insurance) sold in stand-alone versions (not bundled together with products of a financial nature) were sold during the period, whilst new policies sold bundled together with financial obligations deriving from mortgages and loans, sold through Poste Italiane's network, amounted to 16 thousand.

As regards insurance broking, work on IT systems and procedures began with a view to ensuring compliance with EU Directive 2016/97, which aims to boost protections for customers during the sale of insurance products (the so-called "IDD" Directive). The Directive is expected to be transposed into Italian legislation in 2018.

Management of the **non-life business** was also along the lines set out in the business plan, seeking to meet the new needs of customers in the areas of welfare and health insurance, expanding the offering and enhancing the model for network support. 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 €48.3 million[10], up 20.9% on the same period of 2017 (€39.9 million). This performance was accompanied by a positive technical performance as a result of a reduced volume of claims with respect to the growth in sales.

In terms of investments during the period, the investment policy continued to be marked by the utmost prudence, in keeping with the strategic guidelines established by the Board of Directors. This has resulted in a portfolio that continues to be invested primarily in Italian government securities and corporate bonds, with an overall exposure representing approximately 80% of the entire portfolio. The remainder of the portfolio is primarily invested in multi-asset, harmonised open-end funds of the UCITS (Undertakings for Collective Investment in Transferable Securities) type.

As a result of the above operating and financial performance, technical provisions for the direct Italian portfolio amount to €128.3 billion (€123.6 billion at the end of 2017), primarily including approximately €115.5 billion in provisions for Class I and V products (€111.5 billion at the end of 2017) and provisions for products where the investment risk is borne by policyholders, amounting to approximately €3.0 billion (€3.5 billion at 31 December 2017). The decline in the latter provisions reflects products reaching maturity during the period. Deferred Policyholder Liability (DPL) provisions, linked to the change in the fair value of the financial instruments covering the provisions relating to products included in separately managed accounts, amount to €9.3 billion, compared with €8.2 billion at the beginning of the year.

Technical provisions for the non-life business, before the portion ceded to reinsurers, amount to €171 million at the end of the period, up 7% compared with the end of 2017 (€160 million).

Regulatory environment

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

10. Gross premium revenue for the period amounts to €38.5 million.

6. Group financial position

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

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

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

← Summary

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

Following the above reclassifications and adjustments, the fair value reserve has increased, after the related taxation, by €1,233 million, whilst retained earnings have been reduced, after the related taxation, by €17 million.

The reconciliation of the two reserves at 1 January 2018 is as follows.

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

The reconciliation of retained earnings at 1 January is as follows.

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

Financial position

At 31 March 2018 (€m)		Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Non-current assets:							
Property, plant and equipment		1,962	20	1	8	1	1,992
Intangible assets		428	31	-	43	(1)	501
Investments		1,784	9	8	157	(1,451)	507
Total non-current assets	**(a)**	**4,174**	**60**	**9**	**208**	**(1,451)**	**3,000**
Net working capital:							
Trade receivables, other receivables and assets and inventories		2,669	123	2,727	2,391	(962)	6,948
Trade payables and other liabilities		(2,369)	(191)	(1,719)	(1,222)	819	(4,682)
Current tax assets and liabilities		(88)	(1)	(4)	(49)	1	(141)
Total working capital:	**(b)**	**212**	**(69)**	**1,004**	**1,120**	**(142)**	**2,125**
Gross invested capital	**(a+b)**	**4,386**	**(9)**	**1,013**	**1,328**	**(1,593)**	**5,125**
Provisions for risks and charges		(1,049)	(21)	(532)	(12)	-	(1,614)
Provisions for employee termination benefits		(1,208)	(3)	(16)	(3)	1	(1,229)
Deferred tax assets/(liabilities)		397	11	(597)	(129)	2	(316)
Net invested capital		**2,526**	**(22)**	**(132)**	**1,184**	**(1,590)**	**1,966**
Equity		**2,911**	**367**	**4,601**	**3,338**	**(1,590)**	**9,627**
of which the fair value reserve		*14*	-	*1,894*	*47*	-	*1,955*
Financial assets		(928)	(3,455)	(66,086)	(129,167)	4,800	(194,836)
Cash and deposits attributable to BancoPosta		-	-	(2,828)	-	-	(2,828)
Cash and cash equivalents		(2,236)	(10)	(629)	(2,202)	1,044	(4,033)
Net technical provisions for insurance business		-	-	-	128,188	-	128,188
Financial liabilities		2,779	3,076	64,810	1,027	(5,844)	65,848
Net funds		**(385)**	**(389)**	**(4,733)**	**(2,154)**	**-**	**(7,661)**

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

The Poste Italiane Group's **net invested capital** at 31 March 2018 amounts to €1,966 million (€1,983 million at 31 December 2017).

Non-current assets total €3,000 million, marking a reduction of €77 million compared with the end of 2017, as net investment during the period of €56 million was more than offset by depreciation, amortisation and impairments, totalling €132 million.

Capital expenditure largely regarded the Mail, Parcels and Distribution segment, where efforts to improve and automate operating processes continued. This included the installation of new sorting equipment at the Bologna Sorting Centre with the aim of automating the sorting of letter post. The Group also completed its study of the new joint delivery model, designed to revisit the delivery network in line with the growth in e-commerce and changing customer needs.

The Group also invested further in the upgrade and improvement of property used in operations and in improvements to occupational safety, in compliance with the related statutory requirements (Legislative Decree 81/08).

In the Payments, Mobile and Digital segment, investment in digital banking continued, as did initiatives designed to boost the Group's competitiveness in the fixed line and mobile telecommunications markets. Upgraded versions of the applications used on the Electronic postman platform have also been developed.

Changes to the service model for Financial Services were introduced, with the aim of ensuring that the process involved in providing Poste Italiane's investment services complies with the "MiFID II" regulations, which came into effect in Italy from 3 January 2018. Promotions and new offerings and functions for loan products have been launched to ensure that they are in line with the Group's strategic guidelines.

In Insurance Services, work on planning for the segment's growth continued, as did investment in improvements to business support systems.

Net working capital amounts to €2,125 million at 31 March 2018, an increase of €673 million compared with the end of 2017. This reflects the significant increase in trade receivables of approximately €590 million[11] and a reduction of approximately €500 million in amounts due to staff (relating to the payment of early retirement incentives, one-off payments to employees following the renewal of the National Collective Labour Agreement and fourteenth-month salaries), partially offset by an increase in net current tax liabilities and the change in amounts payable and receivable in relation to the movement in payments on account of withholding tax and substitute tax on capital gains on life insurance policies.

The change in net deferred tax assets/(liabilities) of €639 million (at 31 March 2018, net deferred tax liabilities of €316 million, compared with net deferred tax assets of €323 million at 31 December 2017) primarily regards the change of €483 million recognised at 1 January 2018, following application of the new accounting standards (see the above note on the transition to IFRS 9 and IFRS 15). The remaining change regards the net positive movement in the fair value reserve in the period under review as a result of securities classified as FVTOCI (an increase in deferred tax liabilities).

Finally, receivables take into account €55 million in IRES to be recovered on the unreported lump-sum deduction equal to 10% of IRAP and the unreported deduction of IRAP incurred on personnel expenses, including €8 million in principal and €47 million in interest. Recovery of a large part of the amount due, attributable to the Parent Company, Poste Italiane, is the subject of two disputes heard by the Provincial Tax Tribunal for Rome, which has upheld Poste Italiane's appeals, ordering the tax authorities in Rome to refund the amounts claimed, in addition to the payment of interest. The tax authorities have appealed both rulings before the Regional Tax Tribunal and, on 23 March 2018, the Tribunal upheld the tax authorities' appeal against one of the rulings. Poste Italiane intends to appeal this ruling before the Supreme Court of Cassation. The recent ruling, in contrast with other previous favourable rulings, introduces new elements of uncertainty as regards the final outcome.

Equity amounts to €9,627 million at 31 March 2018, an increase of €2,077 million compared with 31 December 2017. This is due to the movement in the fair value reserve, amounting to €1,584 million, after the related taxation (including €1,233 million resulting from the transition to IFRS 9). This primarily reflects movements (positive and/or negative) in the value of investments classified in the new FVTOCI category. In addition to this movement, there has been a net increase in retained earnings of €473 million, representing profit for the period of €485 million, less €17 million due to the impact of transition to the new accounting standards (see the above note on the transition to IFRS 9 and IFRS 15).

Total **net funds** at 31 March 2018 amount to €7,661 million, up from the €5,567 million of 31 December 2017. The change primarily regards the different measurement of a portion of the securities portfolio following the application of IFRS 9 (a change of approximately €1,708 million) and an increase in fair value during the period, less sales of financial instruments classified as FVTOCI during the period (approximately €492 million). The fair value reserve for FVTOCI financial instruments, before the related taxation, amounts to €2,719 million (€520 million at 31 December 2017).

11. At 31 March 2018, the amount due to the Parent Company from Cassa Depositi e Prestiti SpA is €832 million (€374 million at 31 December 2017). The balance for 2017 was collected in April 2018.

Analysis of net (debt)/funds of the mail, parcels and distribution segment (ESMA)

		(€m)	
		At 31 March 2018	At 31 December 2017
A. Cash		(3)	(4)
B. Other cash equivalents		(2,233)	(1,993)
C. Securities held for trading		-	-
D. Liquidity	**(A+B+C)**	**(2,236)**	**(1,997)**
E. Current loans and receivables		**(77)**	**(245)**
F. Current bank borrowings		400	201
G. Current portion of non-current debt		769	763
H. Other current financial liabilities		72	82
I. Current financial debt	**(F+G+H)**	**1,241**	**1,046**
J. Current net (funds)/debt	**(I+E+D)**	**(1,072)**	**(1,196)**
K. Non-current bank borrowings		-	200
L. Bond issues		50	49
M. Other non-current liabilities		33	36
N. Non-current financial debt	**(K+L+M)**	**83**	**285**
O. Net (funds)/debt (ESMA guidelines)	**(J+N)**	**(989)**	**(911)**
Non-current financial assets		(585)	(585)
Net (funds)/debt		**(1,574)**	**(1,496)**
Intersegment loans and receivables		(266)	(267)
Intersegment financial liabilities		1,455	918
Net (funds)/debt after adjusting for intersegment transactions		**(385)**	**(845)**

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

- two EIB loans of €200 million each, one repaid on 11 April 2018 and the second maturing in March 2019 (current bank borrowings);
- a bond issue maturing on 18 June 2018, totalling €769 million, with a nominal value of €750 million (the current portion of non-current debt);
- a private placement of €50 million (bond issues).

The net funds attributable to the Mail, Parcels and Distribution segment are €460 million, declining from €845 million at 31 December 2017 to €385 million at 31 March 2018. The change reflects:

- operating profit of €279 million;
- a negative movement in working capital and tax assets and liabilities, amounting to approximately €700 million, primarily due to a reduction of approximately €500 million in amounts due to staff and an increase of approximately €255 million in trade receivables, offset by an increase in tax liabilities;
- an outflow of €46 million for investing activities.

7. Outlook

Throughout the remainder of 2018, the Poste Italiane Group will be engaged in implementing the objectives outlined in the five-year Deliver 2022 Plan, approved by the Board of Directors on 26 February 2018. The strategic objective of the Group's Strategic Plan is to achieve physical and digital transformation, taking advantage of market trends and the recovering Italian economy.

In the **Mail, Parcels and Distribution** segment, the Group will focus on progressive implementation of the new joint delivery model, designed to ensure that the delivery network keeps pace with the growth of e-commerce and the changing needs of customers. The model consists of a basic alternate day structure for all standard mail deliveries, and daily deferred delivery rounds for express mail deliveries for business customers.

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

With the creation of the new **Payments, Mobile and Digital** business unit, the Poste Italiane Group aims to become Italy's leading payments ecosystem, ensuring convergence between payments and mobile technology, and between physical and digital channels, by using its existing assets in terms of expertise, customer base and physical and digital networks.

The objective is to contribute to the planned evolution of the payments offering, in order to develop the electronic money and payment services market.

In this competitive environment, and in view of the digital payment opportunities (in Italy cash is used in 85% of transactions, compared with an EU average of 68%), on 25 January 2018, Poste Italiane SpA's Board of Directors approved the separation and transfer of certain assets, contractual rights and authorisations from BancoPosta RFC to a new ring-fenced e-money and payment services unit to be set up within PosteMobile SpA. This will enable the latter to operate as an e-money institution. Following the receipt of authorisation from the Bank of Italy on 24 April 2018, the Annual General Meeting of Poste Italiane's shareholders, to be held on 29 May 2018, will be asked to approve the proposed removal of the ring-fence that applies to BancoPosta RFC from the assets, contractual rights and authorisations that make up the e-money and payment services unit.

The Poste Italiane Group will also be engaged in the Digital Acceleration Programme outlined in the Strategic Plan. This commits the Company to driving inclusive innovation and development in order to offer citizens, businesses and Public Administration entities technologically advanced, secure, easy-to-use and effective solutions alongside its traditional offering.

In the **Financial Services** segment, the Plan aims to take advantage of the opportunities arising from recent regulatory innovations (MiFID II and IDD), taking advantage of current strengths: customer base, distribution network and brand. At the same time, Postal Savings will benefit from the new agreement with Cassa Depositi e Prestiti signed in December 2017. In addition, the active management strategy for the financial instruments portfolio is aimed at stabilising the overall return from interest income and realised capital gains.

During the rest of 2018, the Group will also focus on growing the value of its investment in Anima Holding SpA.

In the **Insurance Services** segment, the Group intends to maintain its leadership in the life insurance business, by providing customers with the best products in the current economic and market environment, strengthening its pension fund offering, and continuing to develop private pension plans, an area in which the Group is already the market leader. In the non-life sector, the objective will be to pursue rapid growth in the accident, welfare and non-vehicle non-life sectors, taking advantage of strong untapped potential in these markets.

Implementation of the above-mentioned Strategic Plan objectives will be supported by an Investment Plan, amounting to €2.8 billion in the period 2018-2022, equal to 5% of sales revenue (4% in the previous 2015-2017 period). 61% of the investment will be allocated to information technology, 23% to real estate and 16% to other projects, primarily relating to the reorganisation of processes in the Mail, Parcels and Distribution segment.

The additional element enabling achievement of the Plan's objectives regards the forecast trend for overall personnel expenses, which are expected to fall over the life of the Plan. It is estimated that the workforce will shrink by around 15,000, also taking into account the recruitment of around 10,000 new staff. Indeed, the reduction in the workforce is due to the initiative launched by the Company in recent years, aimed at bringing forward generational turnover through voluntary early retirement schemes.

8. Other information

Related party transactions of greater significance

Within the scope of the transactions with Monte dei Paschi di Siena Capital Services Banca per le Imprese SpA authorised by the Board of Directors on 20 September 2017, having obtained the consent of the Related and Connected Parties Committee, in the first quarter of 2018, fifteen buy & sell back transactions[12], which expired during the period, were entered into, in addition to three Interest rate Swaps for hedging purposes and five trades in government securities.

There are no other related party transactions of greater significance completed in the first quarter of 2018 to be disclosed in accordance with the guidelines for managing transactions with related and connected parties.

Human resources

During the first quarter of 2018, and in keeping with the objectives set out in the new Strategic Plan, the geographical structure of the Human Resources and Organisation, the Mail, Communication and Logistics and the Private Customer functions were redesigned. This has resulted in the creation of six Macro Areas, replacing the previous nine areas. This is part of the plan to ensure that the Poste Italiane Group is more competitive and able to respond to the growing demands of customers, by simplifying and streamlining its geographical presence and putting in place more effective and efficient operating models and processes.

12. Buy & Sell Back transactions, involving the temporary investment of surplus liquidity deposited with the MEF (the Buffer account), are spot purchases and forward sales of government securities.

Industrial relations

Mail, Communication and Logistics

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

- The alternate day delivery model for the areas specific in the existing regulatory framework (AGCom Resolution 395/15/CONS), where a Basic Service operating on alternate days will be in place. In the case of business opportunities linked to specific commercial agreements, such as the distribution of newspapers in certain areas, temporary business arrangements will be adopted.
- The Joint Delivery model for the remaining areas, in which mail delivery will take the form of a Basic Service and a Business Service, with daily deferred delivery rounds for mail deliveries (under J+1 Service Level Agreements) for business customers.

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

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

Finally, following on from the undertakings given on 30 November 2017 regarding active labour policies, the parties have confirmed their commitment to employment policies, assigning a specific role to the Mail, Communication and Logistics function.

Health plan for employees

National Collective Labour Agreement signed on 30 November 2017 offers Poste Italiane Group employees the option of voluntarily participating in the PosteVitaFondosalute Supplementary Health Care Fund. This health plan provides two levels of coverage: “Basic”, paid for entirely by the Company, and “Plus”, which extends the “Basic” level of coverage in return for payment of an additional premium by the employee. At 30 March 2018, 63,056 employees have signed up to the plan, with 49,981 taking up the “Basic” package and 13,075 the “Plus” package.

Support and development for the younger generations

As part of initiatives designed to provide support for future generations, the “PosteOrienta” project is continuing, with the creation of educational and professional guidance seminars for employees’ children. In addition, Poste Italiane has put in place a national work experience scheme for school students, offering seven training programmes in five different thematic areas of relevance to the Company’s operations.

9. Principal relations
with the authorities

The following section should be read in conjunction with the information provided in the Annual Report for the year ended 31 December 2017.

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

With regard to quantification of the cost of the Universal Service, in September 2017, the regulator published Resolution **298/17/CONS** relating to its assessment of the net cost of the universal postal service incurred by the Company for 2013 and 2014 and the applicability of the mechanism for allocating such cost. In detail, whilst confirming the unfairness of certain aspects relating to the cost of providing the Universal Service and that it is therefore correct to provide compensation, the regulator has assessed the cost of providing the universal service for 2013 and 2014 to be €393 million and €409 million, respectively, compared with revenue of €343 million and €277 million recognised in Poste Italiane SpA's statement of profit or loss in previous years. The regulator has also established that for 2013 and 2014 the compensation fund to cover the cost of providing the universal service, as provided for in art. 10 of Legislative Decree 261/1999, has not been set up. With regard to the method used to calculate the net cost, on 6 November 2017 the Company appealed against this resolution to the Lazio Regional Administrative Court, before which Poste Italiane's appeal against Resolution 412/14/CONS, which verified the net cost for 2011 and 2012, is still pending[13].

On 27 October 2017, the Authority announced that it had initiated the net cost verification procedure for 2015 and 2016.

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 has received four requests for access to the universal postal network. None of these has so far led to the signing of an agreement with another operator to gain access to the network, and neither have any disputes arisen, regarding the negotiations, before AGCom.

Regarding the same matter, on 18 October 2017 the regulator published Resolution **384/17/CONS** containing "Changes to the provisions governing access to Poste Italiane's postal network and infrastructure", establishing a new regime for access to the universal postal network based on the following points:

i. retention of the obligation to provide equal and reasonably free access throughout the country[14], in addition to – in post-codes without the presence of an alternative operator – an obligation to provide access in accordance with conditions based on the effective pertinent costs incurred, after appropriate efficiencies;

ii. obligations to give third-party operators access to PO boxes[15] located at post offices and to ensure market transparency in the event of changes to postcodes;

13. On 29 July 2014, the board of AGCom issued Resolution **412/14/CONS**, approving the measure defining the methods for calculating and quantifying the net cost of the universal postal service for 2011 and 2012. In confirming that the cost of the universal service for 2011 and 2012 was, in certain respects, unfair and thus merits compensation, the Resolution quantified the cost for 2011 and 2012 as €381 million and €327 million, respectively, compared with compensation originally recognised by Poste Italiane of approximately €357 million and €350 million, respectively. On 13 November 2014, Poste Italiane lodged an appeal against this Resolution before the Regional Administrative Court.
14. Other postal operators may access the collection network at Sorting Centre level for outbound sorting, or as an alternative to the delivery network at Sorting Centre level for inbound sorting.
15. Third-party operators may deliver items entrusted to them to post offices for delivery to post boxes, if they are correctly addressed and the post office where the post box is located is specified.

iii. definition of the volume threshold beyond which it is assumed that the service for returning other operators' mail that has finished up in the Poste Italiane network is an "access mail collection" service;

iv. the definition, with a subsequent ruling, of a test of the replicability of Poste Italiane's offerings for multi-item deliveries to large private customers or formulated within the scope of public tenders.

On each of the points highlighted, the Company has formulated its own proposals, as requested by the regulator. With regard to point iv), in Resolution **165/18/CONS**, published on 13 April 2018, the regulator has launched a "Public consultation on the definition of a test of the replicability of Poste Italiane's offerings for multi-item deliveries and of the criteria for their conduct", in order to ensure compliance with the principle of non-discrimination and minimise the risk of margin squeeze for Poste Italiane's competitors. Interested parties have 30 days from the date of publication of the above Resolution in which to submit their views to the consultation.

On 18 December 2017, three appeals were lodged before the Lazio Regional Administrative Court, respectively, by the Fulmine Group Srl (AREL - Delivery Licensees Agency consortium company), Nexive SpA and Assopostale/GPS/MailExpress/CityPost, in which the operators requested its cancellation, with prior injunctive relief, in those parts where it determines the amount of coverage by alternative networks, redefines the access points and the related obligations for Poste Italiane, provides for the replicability test tool, and does not regulate the obligations regarding access to infrastructure. The appeal is pending. At a hearing on 7 February 2018, injunctive relief was not granted. A date for the hearing on the merits has yet to be scheduled.

GPS has challenged certain communications sent to 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 Resolution 621/15/CONS regarding 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"). AGCom also initiated a penalty procedure against GPS regarding this matter, which was subsequently dismissed by the regulator in Resolution **456/17/CONS** due to absence of the obligation to agree. On 5 March 2018, Poste Italiane lodged an appeal against this dismissal.

On 17 April 2018, AGCom began the process of defining the technical and operating procedures that the postal service must apply in order to ensure that bills sent by public utility undertakings are postmarked, in implementation of the provisions of art. 1, paragraph 9 of Law 205 of 27 December 2017. A working group is to be set up with operators, and a public consultation is to be held on the draft regulation that the regulator plans to publish once the working group has completed its task.

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

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 (now WindTre SpA) from accessing the post office network. Requests to participate in the investigation from Fastweb SpA and Vodafone Omnitel BV, as well as PosteMobile, were accepted. With the ruling adopted at a meeting held on 16 December 2015, the Authority deemed that Poste Italiane 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. The Authority issued a warning to Poste Italiane that it should desist from such conduct in the future, but did not impose any fine.

Poste Italiane and PosteMobile lodged an appeal against this ruling before the Lazio Regional Administrative Court, which rejected the appeals lodged by Poste Italiane and Poste Mobile, whilst confirming the principle, backed by Poste Italiane and expressly approved by the AGCM, under which the obligation established by art. 8, paragraph 2-quater of Law 287/90 regards equality of treatment. As a result, H3G's request was unlawful, as it aimed to limit access to certain areas of Poste Italiane's network and was not interested in obtaining treatment equal to that applied by Poste Italiane to its subsidiary, Poste Mobile[16].

16. In fact, in its ruling of 14 September 2016, the AGCM clarified that, at that time, there were no grounds to justify action pursuant to Law 287/90, as art. 8, paragraph 2-quater of Law 287/90 does not establish a generic obligation to grant access to the network on ad hoc terms, but an obligation to grant access on equivalent terms to those applied to subsidiaries.

Following the decision taken by the Antitrust Authority, H3G filed a civil action before the Court of Rome, requesting that Poste Italiane and PosteMobile be ordered to pay damages of €375.8 million for the violations that were the subject of the afore-mentioned proceedings. At a hearing on 29 March 2017, the investigating judge ordered a court-appointed expert's report.

Finally, on 28 March 2018, Poste Italiane, PosteMobile and WindTre SpA reached an agreement whereby, without any recognition and in order to restore peaceful business relations, the parties abandoned the dispute in question. By signing the agreement, Poste Italiane undertook to pay WindTre SpA a total of €1.5 million to cover the operating, general and staff costs incurred, also in relation to disputes, including but not limited to the collection and processing of information and corporate data by WindTre's offices, legal fees and legal aid expenses, and charges relating to technical consultancy services.

In 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.

On 15 January 2018, the authority's final ruling was notified to Poste Italiane. The ruling confirmed the Company's abuse of its dominant position and warned the Company against adopting similar conduct in the future. The same ruling imposed an administrative fine which was limited – compared with the Authority's previous fines – to 2% of turnover and discounted in relation to the compliance obligations undertaken in advance by Poste Italiane and positively assessed by Nexive, amounting to €23 million. The AGCM set a 60-day deadline for submitting the compliance report.

Poste Italiane lodged an appeal against the above ruling before the Lazio Regional Administrative Court with a request for injunctive relief, which was not granted, and a hearing on the merits was set for 5 December 2018. In the meantime, the Company has entered into a two-way dialogue with the Antitrust Authority with the aim of establishing the compliance process. Poste has reserved the right to appeal to the Council of State.

CONSOB

In 2017, in line with the roll-out plan launched in December 2016, IT releases were completed for the new guided consultancy platform, which was gradually extended to the entire Poste Italiane network during the year. In parallel, during the second half of 2017, the segment was subject to further compliance initiatives aimed at implementing the MiFID II Directive, which came into force on 3 January 2018. The innovations made to procedural and IT structures, and the further initiatives planned in 2018 to consolidate the Company's oversight of them, were the subject of specific reporting to the CONSOB.

European Commission

On 6 March 2018, the Supreme Court of Cassation, in a dispute between Poste Italiane and Equitalia Centro SpA regarding fees for the collection of local property taxes, ruled that certain areas of interpretation of European law were prejudicial and ordered suspension of the proceedings and transmission of the documents to the Court of Justice.

Litigation

On 27 February 2015, the tax authorities notified Poste Italiane SpA of an indictment for accounting irregularities before the Court of Auditors for the Lazio region, regarding a number of accounting records for the handling and distribution of revenue stamps in the years between 2007 and 2010. With a ruling of 9 July 2015, the Court of Auditors for the Lazio region, ordered the Company at first instance to pay the sum of €8 million plus an adjustment for inflation and statutory interest. Poste Italiane appealed against this decision, which was upheld by the Court of Auditors on 15 November 2017, limiting the initial sentence to the amount already recognised as due by Poste Italiane, namely €4 million.

10. Events after 31 march 2018

On 11 April 2018, Poste Italiane and Intesa Sanpaolo signed a three-year framework agreement for the distribution of specific products and services belonging to the two groups.

Under this agreement, and with regard to the part that relates to asset management, Poste Italiane's network has begun to distribute BancoPosta Orizzonte Reddito, a mutual investment fund created as a result of the partnership between BancoPosta Fondi SGR – the Poste Italiane Group's asset management company - and Eurizon Capital SGR, a wholly owned subsidiary of Intesa Sanpaolo.

The fund adopts a flexible investment strategy to invest in global bond and equity markets, thereby maximising investment opportunities and diversification of the portfolio, whilst at the same time containing the risk profile of the entire fund.

On 27 April 2018, Poste Italiane SpA's Board of Directors approved a proposal, to be put before the Annual General Meeting to be held on 29 May 2018, regarding authority to purchase and subsequently hold in treasury up to 65.3 million of the Company's ordinary shares, representing approximately 5% of the share capital, at a total cost of up to €500 million.

Purchase of the treasury shares will be permitted for eighteen months from the date of the shareholder resolution granting the authority. There is, in contrast, no limit on the period of time in which the treasury shares will be at the Company's disposition.

Other events after the end of the interim reporting period have been described in other sections of this document and no other material events have occurred after 31 March 2018.

11. Consolidated financial statements
at and for the three months ended 31 march 2018

Consolidated statement of financial position

ASSETS (€m)	at 31 March 2018	at 31 December 2017
Non-current assets		
Property, plant and equipment	1,941	2,001
Investment property	51	52
Intangible assets	501	516
Investments accounted for using the equity method	507	508
Financial assets	176,366	171,004
Trade receivables	7	9
Deferred tax assets	655	869
Other receivables and assets	3,393	3,043
Technical provisions attributable to reinsurers	74	71
Total	**183,495**	**178,073**
Current assets		
Inventories	137	138
Trade receivables	2,619	2,026
Current tax assets	113	94
Other receivables and assets	792	953
Financial assets	18,470	15,762
Cash and deposits attributable to BancoPosta	2,828	3,196
Cash and cash equivalents	4,033	2,428
Total	**28,992**	**24,597**
Non-current assets and disposal groups held for sale	**-**	**-**
TOTAL ASSETS	**212,487**	**202,670**

LIABILITIES AND EQUITY (€m)	at 31 March 2018	at 31 December 2017
Equity		
Share capital	1,306	1,306
Reserves	3,215	1,611
Retained earnings	5,106	4,633
Equity attributable to owners of the Parent	**9,627**	**7,550**
Equity attributable to non-controlling interests	-	-
Total	**9,627**	**7,550**
Non-current liabilities		
Technical provisions for insurance business	128,262	123,650
Provisions for risks and charges	713	692
Employee termination benefits	1,229	1,274
Financial liabilities	5,395	5,044
Deferred tax liabilities	971	546
Other liabilities	1,178	1,207
Total	**137,748**	**132,413**
Current liabilities		
Provisions for risks and charges	901	903
Trade payables	1,278	1,332
Current tax liabilities	254	23
Other liabilities	2,225	2,249
Financial liabilities	60,453	58,200
Total	**65,111**	**62,707**
Liabilities related to assets held for sale	**1**	**-**
TOTAL EQUITY AND LIABILITIES	**212,487**	**202,670**

Consolidated statement of profit or loss

(€m)	For the three months ended 31 March 2018	For the three months ended 31 March 2017
Revenue from Mail, Parcel & other	898	914
Revenue from Payments, Mobile & Digital	143	130
Revenue from Financial Services	1,519	1,462
Revenue from Insurance Services after movements in technical provisions and other claims expenses	324	327
Insurance premium revenues	5,312	5,916
Income from insurance activities	832	1,118
Net change in technical provisions for insurance business and other claim expenses	(5,420)	(6,574)
Expenses from insurance activities	(400)	(133)
Net operating revenue	**2,884**	**2,833**
Cost of goods and services	557	587
Expenses from financial activities	30	8
Personnel expenses	1,430	1,480
Depreciation, amortisation and impairments	132	142
Capitalised costs and expenses	(2)	(9)
Other operating costs	27	88
Impairment loss/(reversal) on debt instruments, receivables and other assets	7	11
Operating profit/(loss)	**703**	**526**
Finance costs	20	23
Finance income	23	25
Impairment loss/(reversal) on financial instruments	-	-
Profit/(Loss) on investments accounted for using the equity method	5	4
Profit/(Loss) before tax	**711**	**532**
Income tax for the year	226	181
PROFIT FOR THE PERIOD	**485**	**351**
of which, attributable to owners of the Parent	*485*	*351*
of which, attributable to non-controlling interests	*-*	*-*
Earnings per share	**0.372**	**0.269**
Diluted earnings per share	**0.372**	**0.269**

Consolidated statement of comprehensive income

(€m)	For the three months ended 31 March 2018	For the year ended 31 December 2017	For the three months ended 31 March 2017
Profit/(Loss) for the period	**485**	**689**	**351**
Items to be reclassified in the Statement of profit or loss for the period			
FVOCI debt instruments			
Increase/(decrease) in fair value during the period	863	(315)	(1,197)
Transfers to profit or loss	(370)	(676)	(438)
Increase/(Decrease) for expected credit loss	(1)		
Cash flow hedges			
Increase/(decrease) in fair value during the period	33	(57)	(10)
Transfers to profit or loss	(5)	(4)	(4)
Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the period	(149)	287	473
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method	-	-	-
After-tax increase/(decrease) in reserves related to group of assets and liabilites held for sale	-	2	(4)
Items not to be reclassified in the Statement of profit or loss for the period			
FVOCI equity instruments			
Increase/(decrease) in fair value during the period	-		
Transfers to equity	-		
Actuarial gains/(losses) on provisions for employee termination benefits	7	(1)	-
Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the period	(2)	-	-
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method	-	-	-
Total other comprehensive income	**376**	**(764)**	**(1,180)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**861**	**(75)**	**(829)**
of which, attributable to owners of the Parent	*861*	*(75)*	*(829)*
of which, attributable to non-controlling interests	-	-	-

Consolidated statement of changes in equity

	Equity										
	Share capital	Reserves						Retained earnings / (Accumulated losses)	Total equity attributable to owners of the Parent	Equity attributable to non-controlling interests	Total equity
(€m)		Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Reserves related to disposal groups and liabilites held for sale	Reserve for investees accounted for using equity method				
Balance at 1 January 2017	**1,306**	**299**	**1,000**	**1,092**	**(18)**	**(1)**	**2**	**4,454**	**8,134**	**-**	**8,134**
Total comprehensive income for the period	-	-	-	(1,166)	(10)	(4)	-	351	(829)	-	(829)
Balance at 31 March 2017	**1,306**	**299**	**1,000**	**(74)**	**(28)**	**(5)**	**2**	**4,805**	**7,305**	**-**	**7,305**
Total comprehensive income for the period	-	-	-	444	(33)	6	-	337	754	-	754
Dividends paid	-	-	-	-	-	-	-	(509)	(509)	-	(509)
Reclassifications to/from reserves related to disposal groups and liabilites held for sale	-	-	-	1	-	(1)	-	-	-	-	-
Balance at 31 December 2017	**1,306**	**299**	**1,000**	**371**	**(61)**	**-**	**2**	**4,633**	**7,550**	**-**	**7,550**
Adjustment from adoption of IFRS 9 and IFRS 15	**-**	**-**	**-**	**1,233**	**-**	**-**	**-**	**(17)**	**1,216**	**-**	**1,216**
Financial instruments reclassifications	-	-	-	1,705	-	-	-	13	1,718	-	1,718
Adjustments	-	-	-	15	-	-	-	(40)	(25)	-	(25)
Tax effects	-	-	-	(487)	-	-	-	10	(477)	-	(477)
Balance at 1 January 2018 including IFRS 9 and IFRS 15 effects	**1,306**	**299**	**1,000**	**1,604**	**(61)**	**-**	**2**	**4,616**	**8,766**	**-**	**8,766**
Total comprehensive income for the period	-	-	-	351	20	-	-	490	861	-	861
Balance at 31 March 2018	**1,306**	**299**	**1,000**	**1,955**	**(41)**	**-**	**2**	**5,106**	**9,627**	**-**	**9,627**

Condensed consolidated statement of cash flows

(€m)		For the three months ended 31 March 2018	For the three months ended 31 March 2017
Unrestricted net cash and cash equivalents at beginning of period		**1,978**	**2,292**
Cash subject to investment restrictions		-	780
Escrow account with the Italian Teasury		55	-
Cash attributable to technical provisions for insurance business		358	799
Amounts that cannot be drawn on due to court rulings		15	12
Current account overdrafts		1	2
Cash received on delivery (restricted) and other restrictions		21	17
Cash and cash equivalents at beginning of period		**2,428**	**3,902**
Cash and cash equivalents at beginning of period		**2,428**	**3,902**
Profit/(loss) for the period		485	351
Depreciation, amortisation and impairments		132	142
Losses and impairments/(recoveries) on receivables		7	10
(Gains)/Losses on disposals		-	(1)
Impairment of disposal groups		-	2
(Increase)/decrease in inventories		1	-
(Increase)/decrease in receivables and other assets		(834)	(744)
Increase/(decrease) in payables and other liabilities		142	197
Movement in group of assets and liabilites held for sale		-	26
Movement in provisions for risks and charges		20	106
Movement in provisions for employee termination benefits and pension plans		(39)	(48)
Differences in accrued finance costs and income (cash correction)		13	12
Other changes		8	5
Net cash flow generated by/(used in) non-financial operating activities	**[a]**	**(65)**	**58**
Increase/(decrease) in liabilities attributable to financial activities		2,873	1,929
Net cash generated by/(used for) financial assets attributable to financial activities		(2,116)	(988)
(Increase)/decrease in cash and deposits attributable to BancoPosta		368	(463)
(Income)/expenses from financial activities		(786)	(610)
Cash generated by/(used for) assets and liabilities attributable to financial activities	**[b]**	**339**	**(132)**

(€m)		For the three months ended 31 March 2018	For the three months ended 31 March 2017
Net cash generated by/(used for) financial assets attributable to insurance activities		**(1,758)**	**(2,426)**
Increase/(decrease) in net technical provisions for insurance business		3,255	3,890
(Gains)/losses on financial assets/liabilities measured at fair value through profit or loss		276	(238)
(Income)/expenses from insurance activities		(545)	(634)
Cash generated by/(used for) assets and liabilities attributable to insurance activities	**[c]**	**1,228**	**592**
Net cash flow from/(for) operating activities	**[d]=[a+b+c]**	**1,502**	**518**
Investing activities			
Property, plant and equipment, investment property and intangible assets		(56)	(81)
Investments		-	(227)
Other financial assets		-	-
Disposals			
Property, plant and equipment, investment property and intangible assets and assets held for sale		1	2
Investments		-	-
Other financial assets		164	6
Change in scope of consolidation		-	-
Net cash flow from/(for) investing activities	**[e]**	**109**	**(300)**
Proceeds from/(Repayments of) borrowings		(6)	6
(Increase)/decrease in loans and receivables		-	-
Dividends paid		-	-
Net cash flow from/(for) financing activities and shareholder transactions	**[f]**	**(6)**	**6**
Net increase/(decrease) in cash	**[g]=[d+e+f]**	**1,605**	**224**
Cash and cash equivalents at end of period		**4,033**	**4,126**
Cash and cash equivalents at end of period		**4,033**	**4,126**
Cash subject to investment restrictions		-	(435)
Escrow account with the Italian Teasury		(55)	-
Cash attributable to technical provisions for insurance business		(1,481)	(1,848)
Amounts that cannot be drawn on due to court rulings		(15)	(13)
Current account overdrafts		-	-
Cash received on delivery (restricted) and other restrictions		(13)	(20)
Unrestricted net cash and cash equivalents at end of period		**2,469**	**1,810**

12. Declaration of the manager responsible for financial reporting

The manager responsible for financial reporting, Luciano Loiodice, declares, pursuant to paragraph 2 of article 154-bis of the Consolidated Law on Finance, that the accounting information contained in this interim report for the three months ended 31 March 2018 is consistent with the underlying accounting records.

Appendix:
alternative performance indicators

In keeping with the guidelines published by the European Securities and Markets Authority on 5 October 2015 (ESMA/2015/1415), in addition to the financial disclosures required by IFRS and used in preparing the financial statements for the year ended 31 December 2017, Poste Italiane has included a number of indicators in this report that have been derived from them. These provide management with a further tool for measuring the Group's performance.

The following alternative performance indicators are used:

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

EBIT margin – this is an indicator of the operating performance and is calculated as the ratio of operating profit (EBIT) to total revenue before non-operating financial expenses and taxation. This indicator is also presented separately for each operating segment.

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

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

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

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

NET DEBT/(FUNDS) OF THE MAIL, PARCELS AND DISTRIBUTION SEGMENT (ESMA) – this is the sum of the following items, shown according to the format recommended by ESMA, the European Securities and Markets Authority (document 319 of 2013): financial liabilities after adjusting for intersegment transactions, current financial assets after adjusting for intersegment transactions and cash and cash equivalents.

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