DELIVERING RESPONSIBLE GROWTH

INTERIM REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2019

2019

Posteitaliane

DELIVERING RESPONSIBLE GROWTH

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2019

CONTENTS

1. Introduction 4
2. Ownership and organisational structure 5
3. Macroeconomic environment 15
4. Financial review 16
5. Outlook 53
6. Other information 55
7. Consolidated financial statements at and for the three months ended 31 March 2019 60
8. Declaration of the manager responsible for financial reporting 67
9. Appendix 68

1. Introduction

The Poste Italiane Group's consolidated interim report for the three months ended 31 March 2019 has been prepared, on a voluntary basis, in accordance with art. 82-*ter* of the CONSOB's Regulations for Issuers, "Additional interim financial disclosures". The consistency and correctness of the additional disclosures contained in the document, which has not been audited, is guaranteed, as is comparability of the related information with the corresponding disclosures included in previously published financial reports.

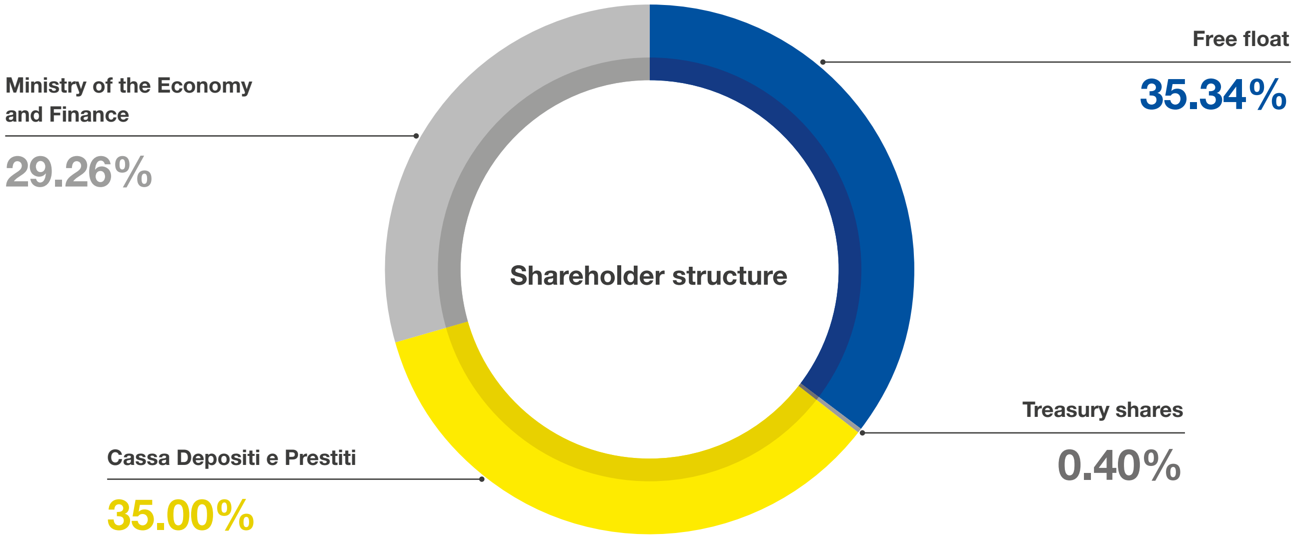
The information contained in this document aims to provide an update on events and circumstances occurring between the end of 2018 and the date of approval of Poste Italiane Group's consolidated interim report for the three months ended 31 March 2019.

For more detailed information, reference should be made to the Annual Report for 2018, which will be submitted for approval by the Annual General Meeting of shareholders to be held on 28 May 2019.

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

2. Ownership and organisational structure

Shareholder structure



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

23% of other investors are institutional and 13% are retail, with 14% located in Italy and 86% in the rest of the world.

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

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

Management and supervisory bodies

BOARD OF DIRECTORS[1]

Chairwoman
Maria Bianca Farina

Chief Executive Officer and General Manager
Matteo Del Fante

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

BOARD OF STATUTORY AUDITORS[2]

Chairman
Mauro Lonardo

Auditors
Alessia Bastiani
Maurizio Bastoni

Alternates
Marina Colletta
Antonio Santi
Ermanno Sgaravato

SUPERVISORY BOARD[3]

Chairwoman
Nadia Fontana

Members
Paolo Casati[4]
Carlo Longari

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

Francesco Petronio

INDEPENDENT AUDITOR

PricewaterhouseCoopers SpA[5]

AUDIT, RISK AND SUSTAINABILITY COMMITTEE[6]

Antonella Guglielmetti (Chairwoman)
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 (Chairwoman)
Carlo Cerami
Mimi Kung
Roberto Rao

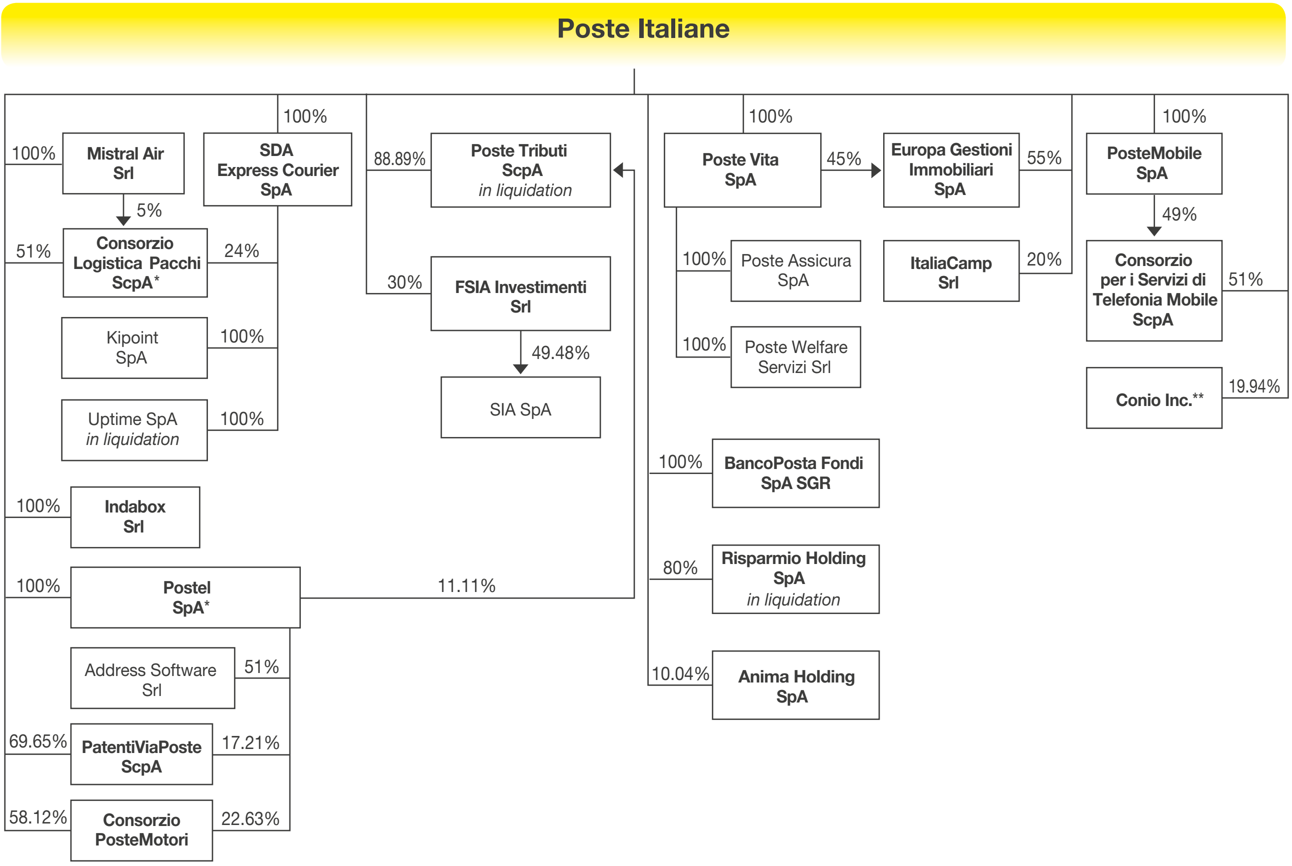
1. The Board of Directors was elected by the Annual General Meeting held on 27 April 2017 to serve for a period of three years, and will remain in office until the Annual General Meeting's approval of the financial statements for the year ended 31 December 2019.
2. The Board of Statutory Auditors was elected by the Ordinary General Meeting of 24 May 2016 to serve for a period of three years and will remain in office until the General Meeting's approval of the financial statements for the year ended 31 December 2018.
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. The company has been engaged to conduct the statutory audit of the accounts for the financial years 2011-2019
6. Committee members were appointed by the Board of Directors' meeting of 28 April 2017.

Meetings of the board of directors of Poste Italiane SpA

Poste Italiane's Board of Directors met on 4 occasions in the first three months of 2019 to examine the following principal matters and approve the following resolutions.

DATE	PRINCIPAL RESOLUTIONS
31 January 2019	Approval of BancoPosta's new Organisational and Operational Regulation
	Approval of the Poste Italiane Group's Environmental Sustainability Policy and the Policy on Community Initiatives
	Approval of the Share Ownership Guidelines
28 February 2019	The Company's financial statements for the year ended 31 December 2018 and the consolidated financial statements for the same period
18 and 19 March 2019	Proposed appropriation of earnings
	Budget for 2019
	Appointment of the Head of the BancoPosta function and confirmation of professional and integrity requirements
	Examination of the Board of Statutory Auditors' recommendation for the engagement of the Independent Auditor for the nine-year period 2020-2028

Structure of the Group at 31 March 2019



* The remaining 20% of Consorzio Logistica Pacchi ScpA's equity is held by Postel SpA.
** On 19 March 2019, Poste Italiane SpA's investment in Conio Inc. increased from 18.48% to 19.94% following the purchase of 250,000 preference shares newly issued by Conio Inc..

In April 2019, the boards of directors of Poste Italiane and SDA Express Courier approved the partial demerger of the business unit responsible for commercial and customer care activities relating to SDA's Express Parcel Delivery services to Poste Italiane. The transaction is part of the plan to create a "Single Offering", with the aim of boosting the competitiveness and effectiveness of the Group's positioning in the Express Delivery market by putting in place a single, comprehensive offering for all customers. The demerger, which will be effective from 1 November 2019, will be submitted to an extraordinary general meeting of SDA's shareholders and Poste Italiane's Board of Directors for approval.

Contents

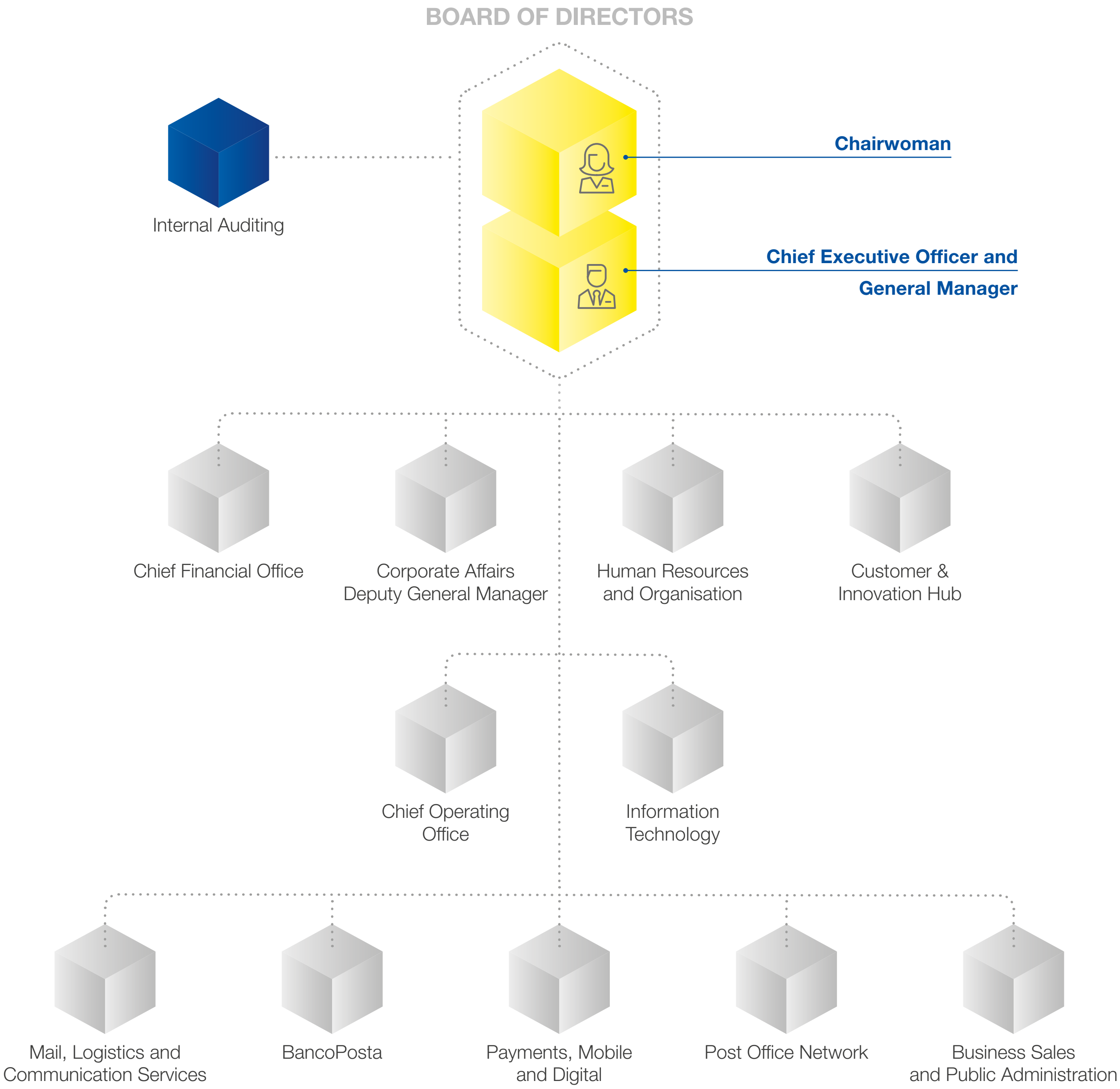
Strategic Business Units

Poste Italiane SpA's organisational structure

During the first quarter of 2019, work on reorganising and streamlining the organisation continued with the aim, among of other things, of redefining the geographical structure of staff functions (reduced from 9 to 6). In addition, the Head of Corporate Affairs was assigned the role of Deputy General Manager in recognition of the importance of his role and responsibility for delivering on the strategic objectives in the Plan.

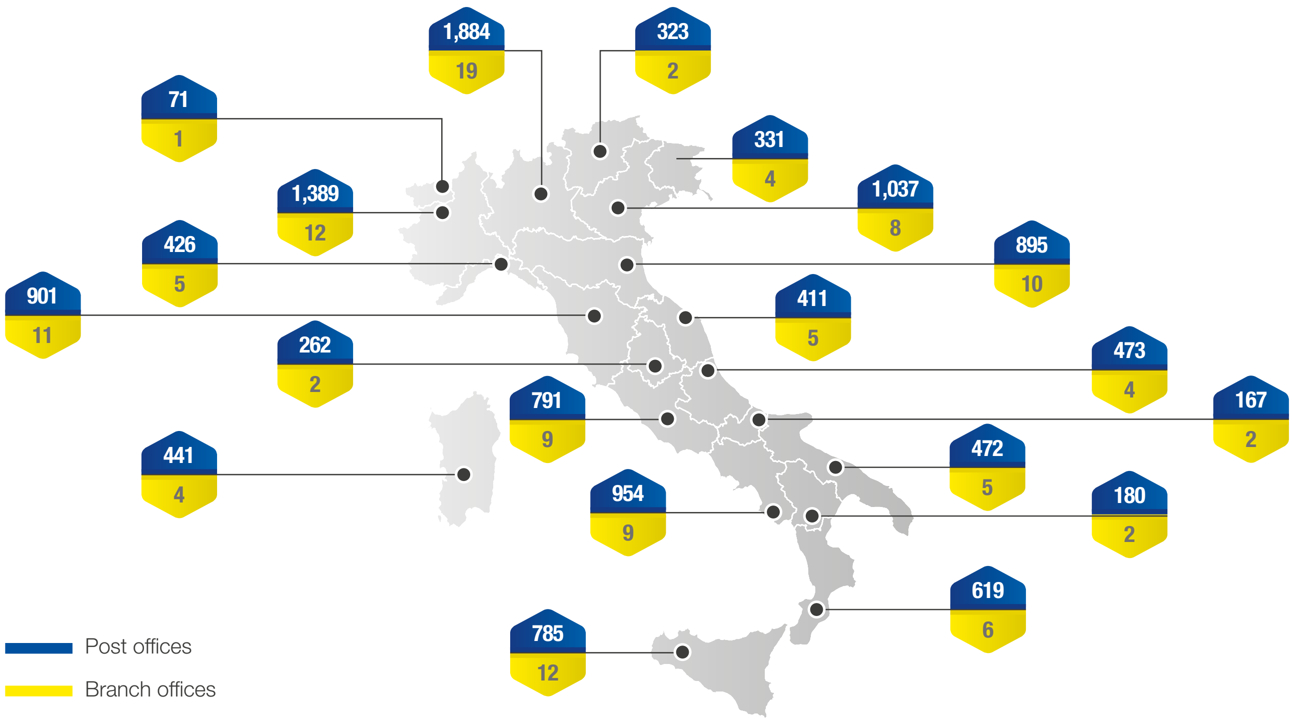
Finally, with the aim of taking advantage of the interdependencies resulting from the integrated management of relations with the Company's key stakeholders, from April 2019, the function responsible for Regulatory Affairs and Relations with the Authorities reports directly to the Head of Corporate Affairs.

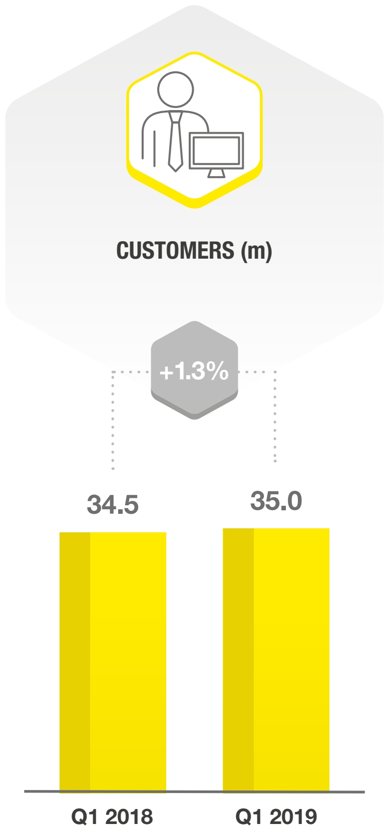
ORGANISATIONAL STRUCTURE



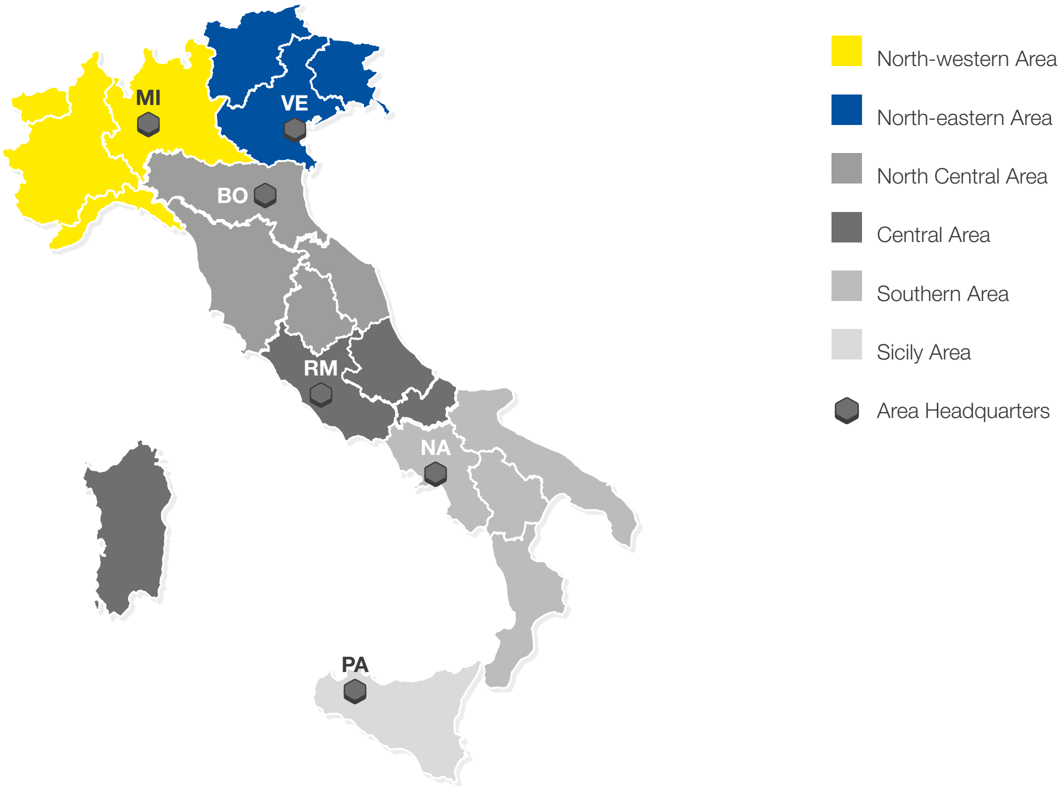
Our italian network and distribution channels

GEOGRAPHICAL DISTRIBUTION OF POST OFFICES AND BRANCH OFFICES

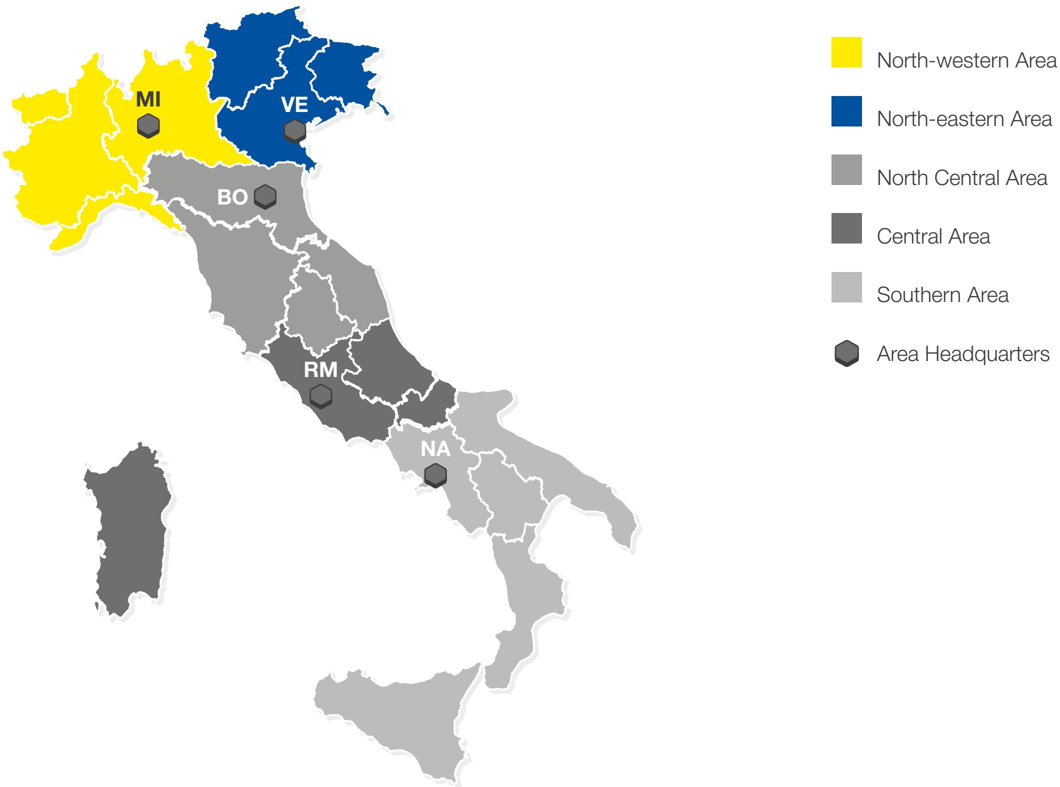




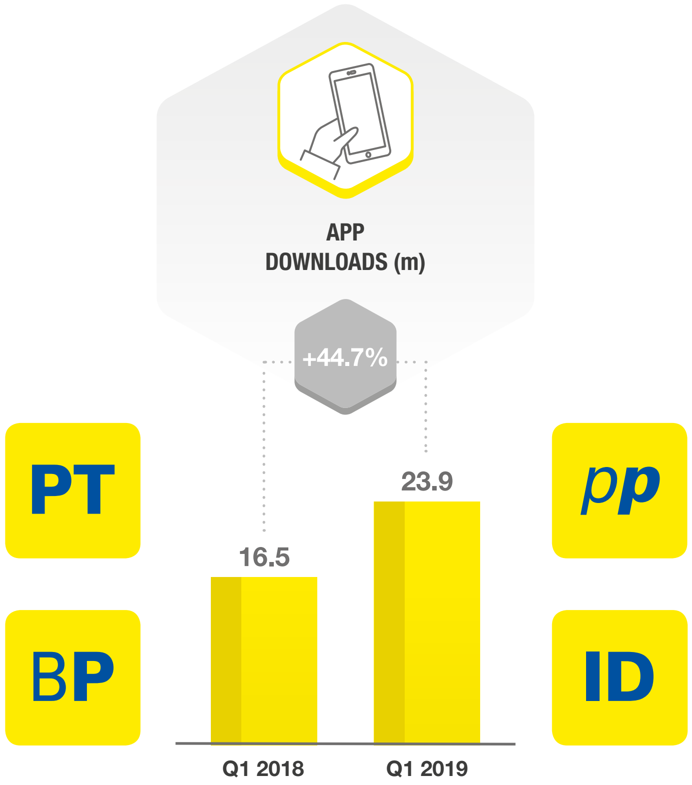
POST OFFICE NETWORK MACRO AREAS



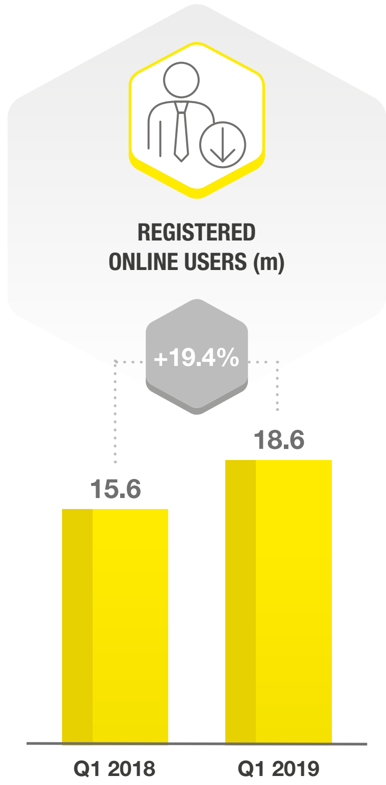
BUSINESS AND PUBLIC ADMINISTRATION AREAS



The digital Web and App channels provide access to online services for 18.6 million retail and business users (15.6 million at 31 March 2018 and 17.6 million at 31 December 2018) and operate as both direct sales and after-sales channels.

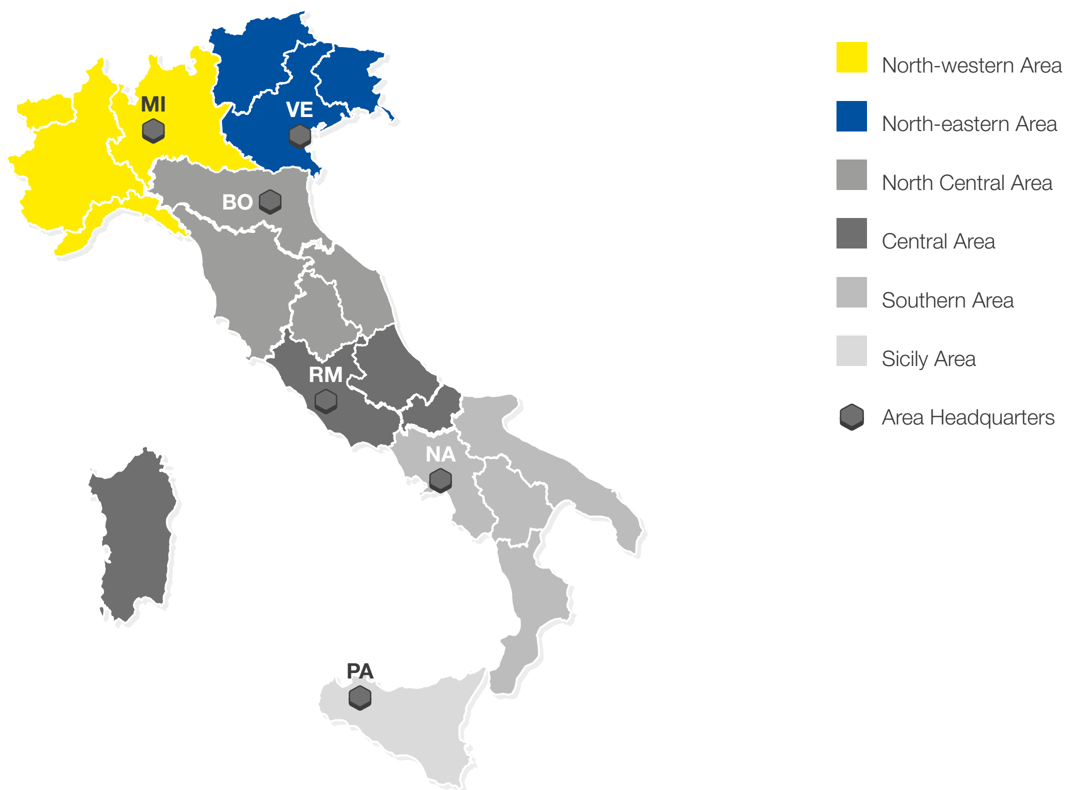


WEB - POSTE.IT

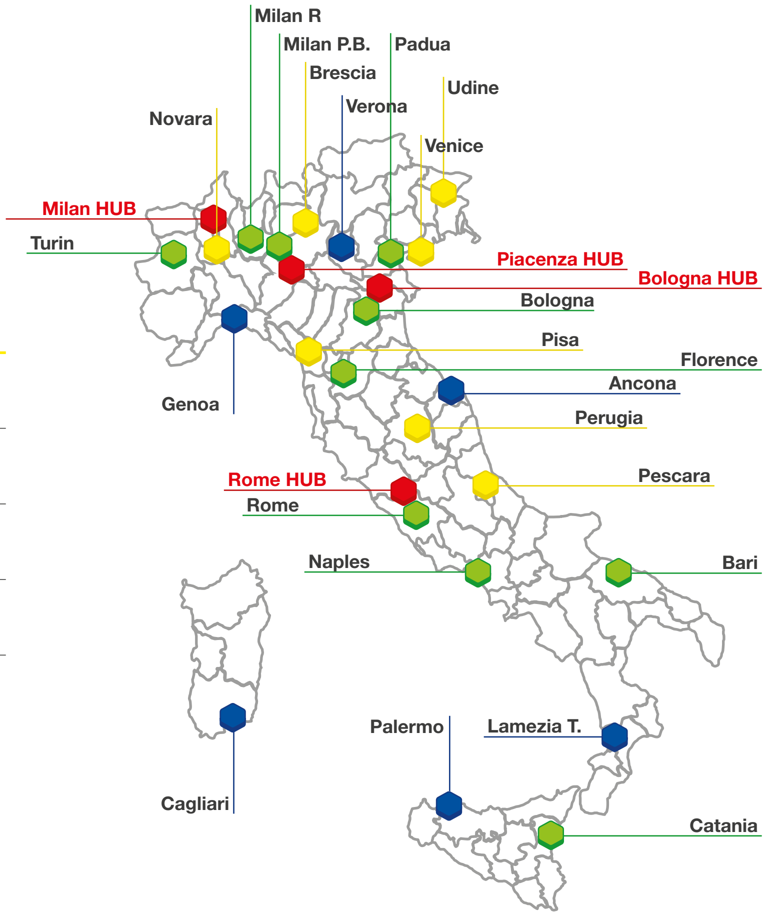


Logistics network

MACRO AREAS FOR LOGISTICS



STRUCTURE OF THE LOGISTICS NETWORK



Key

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

Contact center

A single Customer Care and Back Office unit operates at Group level.

	Strategic Business Unit				Channels		
	Mail, Parcels & Distribution	Financial Services	Payments, Mobile & Digital	Insurance Services	Post Office Network	Business Sales and Public Administration	Digital
Customer care	✓	✓	✓	✓	✓	✓	✓
Complaints	✓	✓	✓	✓	✓	✓	✓
Postal Back Office	✓*						
Financial Back Office		✓	✓		✓		

* Document management (formerly RI and NIS), Data entry (formerly Video coding).

In the first quarter of 2019, the Contact Centre handled 6.4 million contacts (5.8 million in the first quarter of 2018), including 165 thousand via social media (Twitter and Facebook).

3. Macroeconomic environment

Growth continued to be weak in the first quarter of 2019, in line with the last quarter of 2018. The scenario was characterised by the persistence of elements of uncertainty passed on from the previous year, such as trade tensions and the unfinished Brexit process, offset by a change in the monetary policy of central banks.

In its April 2019 World Economic Outlook, the International Monetary Fund (IMF) lowered its global growth forecasts for 2019 from the 3.6% of January 2019 to 3.3%, and reported that around 70% of countries will see a slowdown in their economies. The January international trade figures showed a 2.3% increase on a cyclical basis, but the signs emerging from the leading global indicators (PMI - Purchasing Managers' Index) continue to be weak[1].

The apparently upbeat news coming out of the negotiations between China and the United States has led to a recovery of some commodity prices, especially oil. At the end of March 2019, the oil price had reached US$67.55 per barrel, compared with US$54.75 on 2 January[2]. This recovery was also favoured by a reduction in supply linked to the cutbacks implemented by the cartel of leading oil producers (OPEC and Russia), and by the imposition of US sanctions on countries such as Venezuela and Iran.

In the **United States**, despite the deceleration seen during the last two quarters of 2018, annual GDP growth was 2.9% at the end of the year, thanks to the boost provided by the government's fiscal policy. However, signs of a cooling economy began to emerge in early 2019, and consumer confidence fell in March. Industrial orders and durable goods also fell in February, by 0.5% and 1.6% respectively, in line with analysts' forecasts.

The **UK** economy has lost momentum, despite its record low unemployment rate. The Bank of England's monetary policy continues to be very accommodative, despite inflation standing at around 2.5% for the second year running. In terms of Brexit, the special meeting of the European Council on 10 April 2019 agreed to grant the United Kingdom a further extension to enable ratification of the Withdrawal Agreement. This extension should only last as long as necessary and, in any event, may not go beyond 31 October 2019 (the so-called flextension). While this reduces the risk of a disorderly exit, the persistence of uncertainty could continue to harm the UK economy.

China's economy continued to show signs of slowing. The leading PMI indicators show an overall weakening of manufacturing industry. The Chinese Central Bank has launched further stimulus that should have effects over the next few months[3].

The **euro area** is also registering a slowdown. In particular, the German economy, despite a 0.7%[4] improvement in industrial production on a monthly basis in February, also saw a 4.2% drop in automotive sector orders in the same month, caused by a fall in overseas demand.

The IMF has revised down its estimates for the Eurozone, lowering forecast growth for 2019 from 1.5% to 1.3%. The monetary policy stance of the European Central Bank (ECB) should make it unlikely that interest rates will rise before the end of 2019, and, in any case, until it becomes necessary to ensure that inflation meets the target set.

Italy, thanks to a second consecutive cyclical rise in industrial production and retail sales[5] registered in February 2019, is on its way out of the technical recession recorded at the end of 2018.

Positive signs of growth support are also emerging on the overseas front: in January, overseas trade was up 2.5%[6]. The overall outlook for 2019 from the leading research centres is still largely sluggish, albeit with possible upward revisions. The IMF has cut its growth forecast from 0.6% to 0.1% and the Italian government has acknowledged the deteriorating economic situation. In the Economic and Financial Planning Document for 2019, growth forecasts were revised downwards (+0.2% in 2019), and the targets for the deficit (2.4% of GDP compared to the 2.04% negotiated with the European Commission in December 2018) and public debt (132.6% compared to the planned scenario of 132.2% at the end of 2018) were revised upwards.

1. ISTAT - "Monthly report on the performance of the Italian economy", published on 5 April 2019.
2. Il Sole 24 Ore - Finanza e Mercati.
3. Source for USA, Russia, China: Prometeia - "Economic outlook", published on 27 March 2019.
4. Milano Finanza, 5 April 2019.
5. ISTAT - "Industrial production" and "Retail trade", published respectively on 10 and 9 April 2019.
6. ISTAT - "Overseas trade and prices of imported industrial products", published on 19 March 2019.

4. Financial review

€m	Q1 2018	Q1 2019	Δ	
EXTERNAL REVENUE	2,884	2,842	(42)	-1.5%
ADJ EXTERNAL REVENUE	2,482	2.569	+87	+3.5%
TOTAL OPERATING COSTS	2,181	2,225	+44	+2.0%
EBIT *EBIT Margin %*	703 *24.4%*	617 *21.7%*	(86) *-2.7 p.p.*	-12.2%
ADJUSTED EBIT *adjusted EBIT Margin %*	331 *13.3%*	351 *13.7%*	+20 *+0.3 p.p.*	+6.0%
NET PROFIT *EPS (€/SHARE)*	485 *0.37*	439 *0.34*	(46) *(0.03)*	-9.5%
ADJUSTED NET PROFIT ADJ EPS (€/SHARE)	220 *0.17*	231 *0.18*	+12 *+0.01*	+5.3%
ROE	6.5%	5.3%	*-1.2 p.p.*	
ADJUSTED ROE	3.0%	2.9%	*-0.1 p.p.*	
CAPEX *% OF REVENUES*	56 *1.9%*	65 *2.3%*	+9 *+0.3 p.p.*	+15.7%

Adjusted amounts exclude capital gains, Fair value measurement of the Visa shares, early retirement incentives and the impact of Poste Vita's deferred tax assets.

(€m)	Q1 2019	% inc./(dec.) 2019 vs 2018
External revenue		
Group	**2,842**	**-1.5%**
Mail, Parcels & Distribution	880	-2.1%
Payments, Mobile & Digital	140	7.3%
Financial services	1,485	-3.1%
Insurance services	337	4.3%
EBIT		
Group	**617**	**-12.2%**
Mail, Parcels & Distribution	148	-43.7%
Payments, Mobile & Digital	57	0.1%
Financial services	261	9.3%
Insurance services	151	4.9%
EBIT Margin		
Group	**21.7%**	**-2.7%**
Mail, Parcels & Distribution	6.7%	-4.9%
Payments, Mobile & Digital	24.2%	-1.8%
Financial services	15.6%	1.6%
Insurance services	44.7%	0.3%

(€m)	Q1 2019	% inc./(dec.) 2019 vs 2018
Adjusted external revenue		
Group	**2,569**	**3.5%**
Mail, Parcels & Distribution	880	-2.1%
Payments, Mobile & Digital	140	7.3%
Financial services	1,212	7.3%
Insurance services	337	4.3%
Adjusted EBIT		
Group	**351**	**6.0%**
Mail, Parcels & Distribution	(53)	-39.4%
Payments, Mobile & Digital	57	0.1%
Financial services	196	16.3%
Insurance services	151	4.9%
Adjusted EBIT margin		
Group	**13.7%**	**0.3%**
Mail, Parcels & Distribution	-2.6%	-0.7%
Payments, Mobile & Digital	24.2%	-1.8%
Financial services	14.0%	1.1%
Insurance services	44.7%	0.3%

RECLASSIFIED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(€m)	Q1 2019	Q1 2018	Increase/(decrease)	
Total revenue	**2,842**	**2,884**	**(42)**	**-1.5%**
of which:				
Mail, Parcels & Distribution	880	899	(19)	-2.1%
Payments, Mobile and Digital*	140	130	9	7.3%
Financial Services*	1,485	1,532	(47)	-3.1%
of which gross capital gains	*261*	*402*	*(141)*	*-35.1%*
Insurance Services	337	324	14	4.3%
Total costs	**2,037**	**2,049**	**(13)**	**-0.6%**
of which:				
Total personnel expenses	1,438	1,430	8	0.5%
of which personnel expenses	*1,435*	*1,425*	*10*	*0.7%*
of which early retirement incentives	*3*	*6*	*(3)*	*-50.0%*
of which disputes and other extraordinary items	*0*	*(1)*	*1*	*-104.4%*
Other operating costs	599	619	(20)	-3.3%
EBITDA	**805**	**835**	**(30)**	**-3.6%**
Depreciation, amortisation and impairments	188	132	56	42.5%
EBIT	**617**	**703**	**(86)**	**-12.2%**
EBIT Margin	**21.7%**	**24.4%**	**-2.7%**	
Finance income/(costs)	6	8	(2)	22.5%
Profit before tax	**623**	**711**	**(88)**	**-12.3%**
Income tax expense	184	226	(41)	-18.3%
Net profit	**439**	**485**	**(46)**	**-9.5%**
Earnings per share	**0.34**	**0.37**	**(0.03)**	**-9.5%**

* The figures for Q1 2018 have been reclassified on the basis of the new scope of the Payments, Mobile & Digital SBU.

Group Workforce	Q1 2019	Q1 2018	Increase/(decrease)	
Average worforce expressed in full-time equivalent terms	130,898	135,740	(4,842)	-3.6%
Ordinary unit cost of labour (€000)	43.8	42.0	1.9	4.4%

Financial position (€m)	At 31 March 2019	At 31 December 2018	Increase/(decrease)	
Non-current assets	4,308	3,035	1,273	41.9%
Net working capital	2,328	1,737	591	34.0%
Gross invested capital	6,636	4,772	1,864	39.1%
Sundry provisions and other assets/liabilities	(1,825)	(2,039)	214	-10.5%
Net invested capital	4,811	2,732	2,079	76.1%
Equity	7,876	8,105	(229)	-2.8%
Net funds	**(3,065)**	**(5,372)**	**2,307**	**-42.9%**
Net debt/(funds) of the Mail, Parcels & Distribution SBU	*675*	*(1,131)*	*1,806*	*-159.7%*

The Group's total revenue of €2.8 billion is down €42 million compared with the first quarter of 2018 (a reduction of 1.5%).

In detail, revenue generated by the Mail, Parcels and Distribution SBU amounts to €880 million, a 2% reduction compared with 2018. This reflects a decrease in traditional letter post and in other revenue, partly offset by the performance of parcels, where volumes were up 19.4% from 29 million items in the first quarter of 2018 to 35 million in the first quarter of 2019, resulting in a 14.6% increase in revenue from €175 million to €201 million.

The Payments, Mobile and Digital SBU contributed revenue of €140 million, up 7.3% compared with the same period of the previous year, reflecting a good performance from card payments, where growth was 14.4%.

Revenue generated by the Financial Services SBU amounts to €1,485 million, a reduction of €47 million (-3.1%) compared with the first quarter of the previous year. This reflects a decrease in gross realised gains (down €141 million) in line with the Group's new strategy of reducing the dependence of its results on non-recurring items.

The Insurance Services SBU contributed total revenue of €337 million, marking an increase of €14 million. The improvement reflects the increase in the net investment result, which benefitted from the greater volume of assets under management, and a positive contribution from the P&C business.

Total costs, including depreciation, amortisation and impairments, amount to €2,225 million (€2,181 million in the first quarter of 2018) and, include a reduction in other operating costs (down €20 million).

Personnel expenses of €1,438 million are up €8 million (+0.5%) on the first quarter of 2018, reflecting an increase in the per capita cost linked to the full entry into force of the latest collective labour agreement (for 2016-2018), largely offset by a reduction in the average workforce employed during the quarter (over 4,800 fewer FTEs compared with 2018).

Depreciation, amortisation and impairments amount to €188 million, an increase of 42.5% due to the greater amount of depreciation resulting from first-time adoption of the new accounting standard, IFRS 16 (depreciation of right-of-use assets).

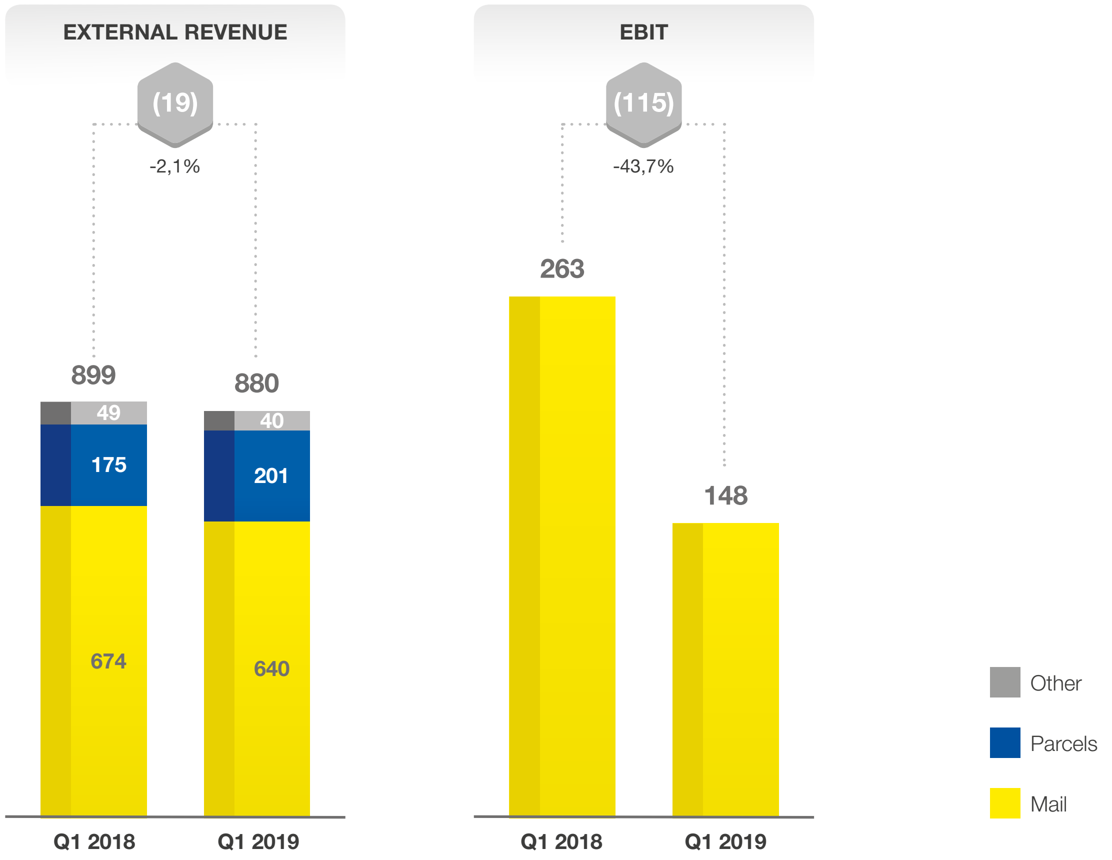
Consolidated EBIT of €617 million is down €86 million (-12%) compared with the same period of the previous year (€703 million). This essentially reflects the reduction in gross realised gains (down €141 million)

The Financial Services and Insurance services made positive contributions to EBIT, registering improvements of 9.3% and 4.9%, respectively.

After income tax expense for the period, net profit for the quarter totals €439 million (€485 million in the first quarter of 2018). Profit for the period after adjusting for non-recurring items, including gross gains on the securities portfolio and measurement of the shareholding in Visa under IFRS 9, amounts to €231 million.

Operating results by Strategic Business Unit

MAIL, PARCELS AND DISTRIBUTION

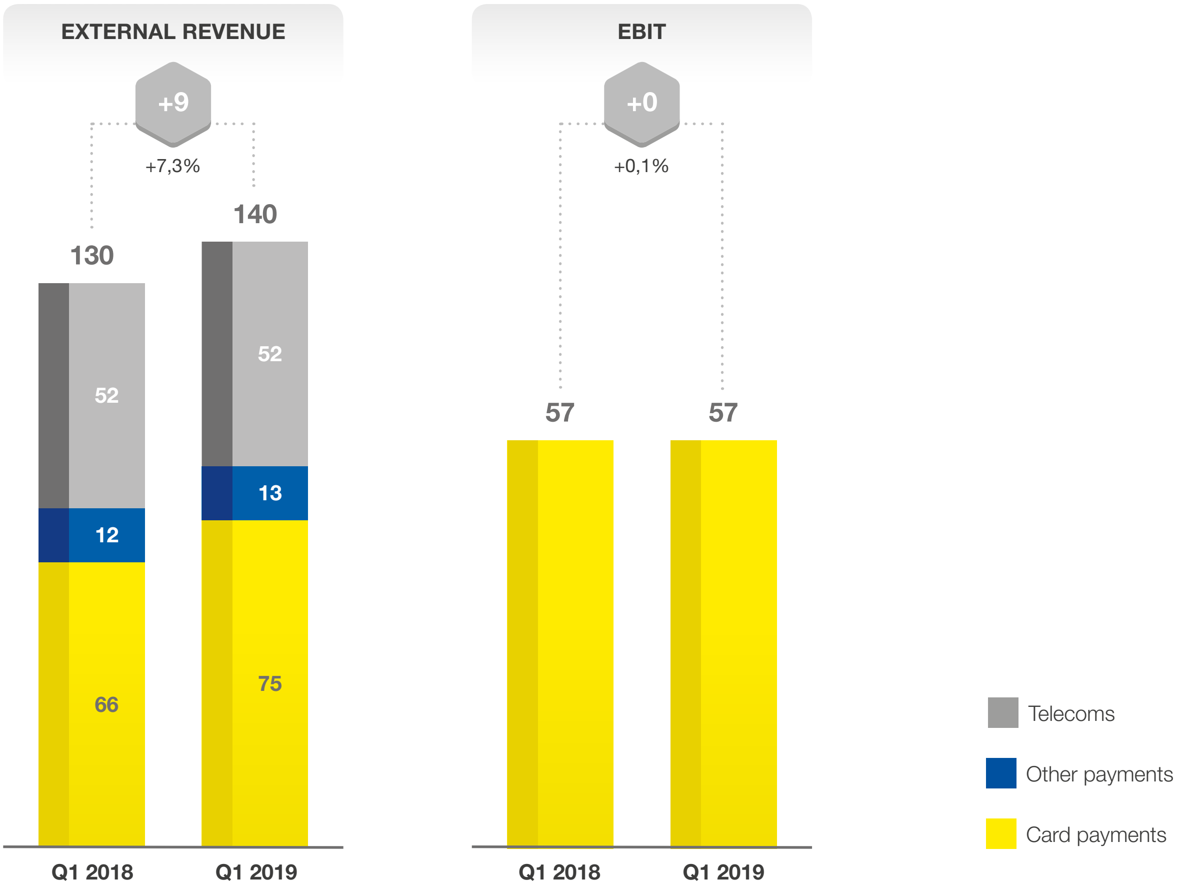


€m

The Mail, Parcels and Distribution Strategic Business Unit saw a decline in revenue (down €19 million, or 2%), primarily due to a decrease in traditional letter post (down €35 million), offset by increased revenue from parcels (up €26 million) in the B2B and B2C segments, and a reduction in other revenue following a reorganisation of Mistral's business model, involving a closer focus on the airline's cargo business and the its withdrawal from the passenger transport market.

EBIT also reflects an increase in variable costs linked to the growth in parcel volumes.

PAYMENTS, MOBILE AND DIGITAL

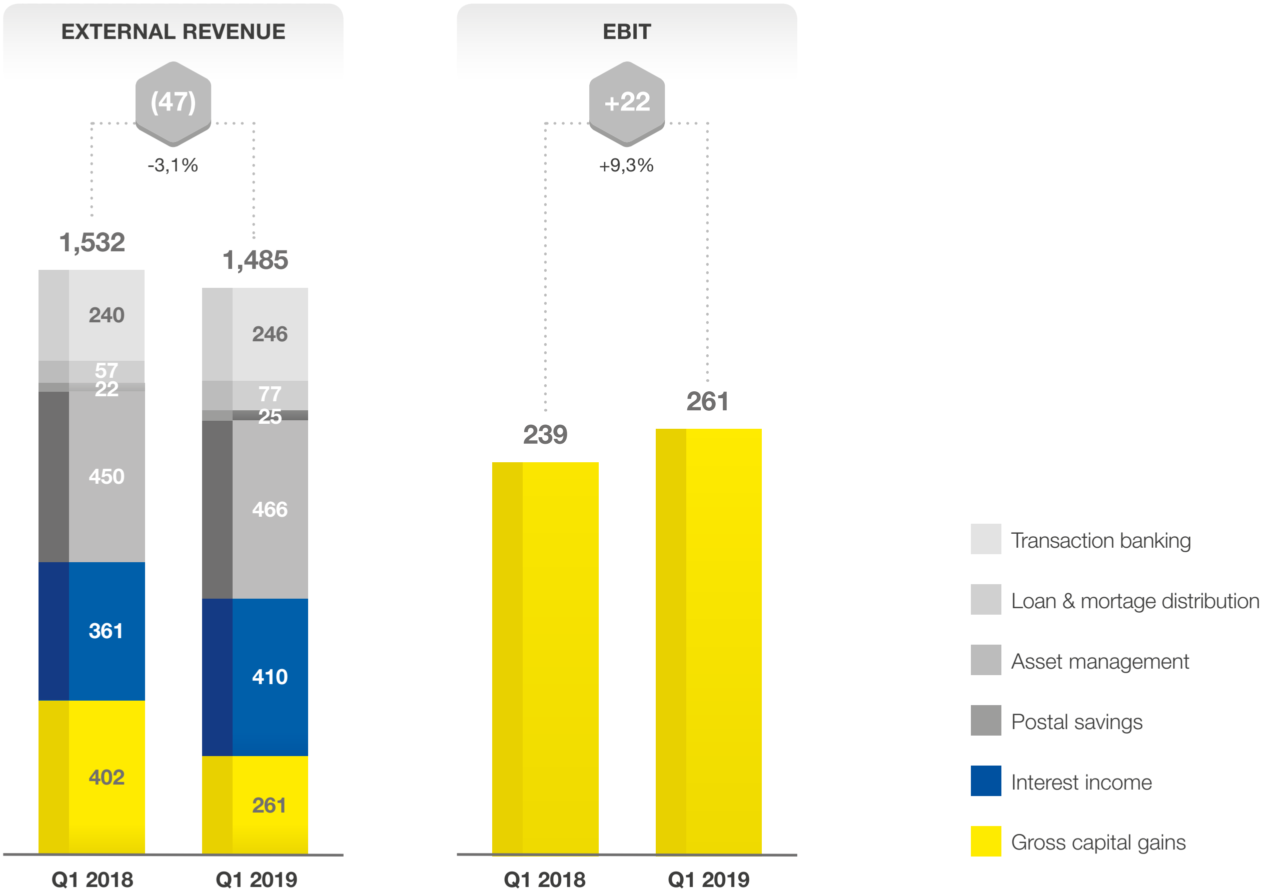


€m

Revenue from card payments is up 10%, thanks to growth in the use of Postepay Evolution cards (up 30%) and an increase in volumes (an increase in the average value of card transactions and payments).

EBIT is stable at €57 million due to provisions for indirect taxes (VAT).

FINANCIAL SERVICES

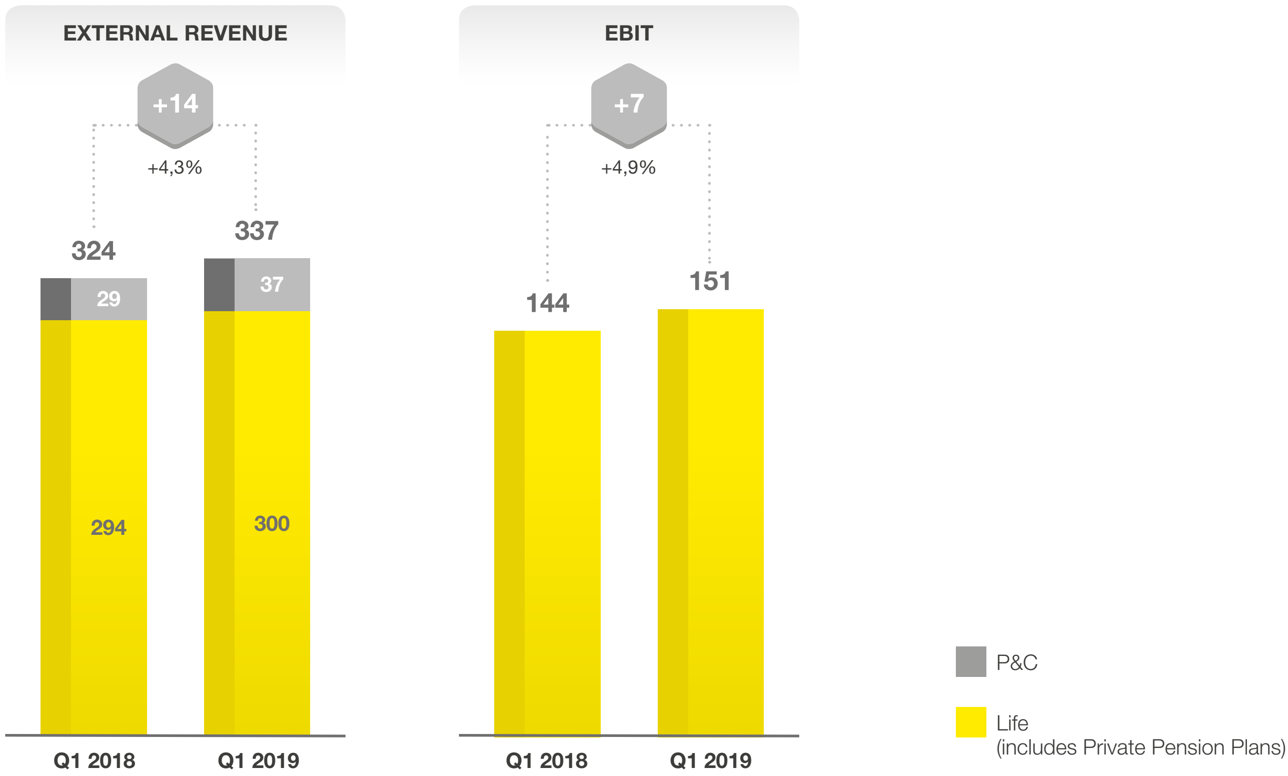


€m

Revenue is down 3%, primarily due to a reduction in gross realisable gains (down €141 million), in line with the objective in the Deliver 2022 Plan to reduce the dependence of the SBU's results on non-recurring items.

EBIT is up 9%, primarily due to a reduction in costs.

INSURANCE SERVICES



€m

Revenue from the Insurance Services SBU is up €14 million and is primarily generated by the Life business.

EBIT is up 5% to €151 million, compared with the €144 million of the first quarter of 2018, thanks in part to a good performance from the P&C segment (up 30%) driven by growth across all lines of business.

Q1 2019 (€m)	Mail, Parcels & Distribution	Payments, Mobile and Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Total revenue	**2,211**	**235**	**1,678**	**338**	**(1,620)**	**2,842**
External revenue	880	140	1,485	337	-	2,842
Intersegment revenue	1,331	96	193	0	(1,620)	-
Total costs	**2,063**	**178**	**1,417**	**187**	**(1,620)**	**2,225**
Total personnel expenses	1,407	9	12	10	-	1,438
of which personnel expenses	*1,404*	*9*	*11*	*10*	-	*1,435*
of which early retirement incentives	*2*	-	*1*	-	-	*3*
of which disputes and other extraordinary items	*0*	-	*0*	-	-	*0*
Other operating costs	460	73	44	23	-	599
Depreciation, amortisation and impairments	176	6	0	6	-	188
Intersegment costs	20	91	1,361	148	(1,620)	-
EBIT	**148**	**57**	**261**	**151**	**-**	**617**
EBIT MARGIN	**6.7%**	**24.2%**	**15.6%**	**44.7%**	**-**	**21.7%**
Finance income/(costs)	2	2	1	0	-	6
Profit/(Loss) before tax	151	59	263	151	-	623
Income tax expense	49	16	72	46	-	184
Net profit	**101**	**42**	**190**	**105**	**-**	**439**

Mail, Parcels and Distribution services

The postal services market

The postal services market is going through a period of radical change, primarily linked to the digital transformation of the economy, which has influenced the volume of letters and parcels in circulation. The ongoing decline in traditional mail (with a CAGR for volumes of approximately -6% in the period), which is being replaced with more immediate forms of communication such as e-mail and instant messaging, is accompanied by a significant increase in the volume of parcels sent, linked to the growth in e-commerce. In Italy the percentage of purchases made on line rose from 4% in 2017 to 7% in 2018[7] compared with the European average of 12%, so strong growth is to be expected. Poste Italiane is now one of the leading operators in the sector with a market share (B2C) of over 30%.

Regulatory environment

From 10 March 2019, following AGCom Resolution **728/13/CONS**, Poste Italiane has raised the ordinary rate for the domestic universal parcel service (at the same time, renaming it PosteDelivery Standard).

AGCom Resolution **399/18/CONS** of July 2018 launched a market survey of parcel delivery services in order to assess the outlook for competition and the impact of existing regulation, as well as to identify potential remedies designed to restore competition in order to protect users. Market participants provided the regulator with the information requested, with a view to preparing a document to be submitted for public consultation in the coming months of 2019.

MAIL, PARCELS AND DISTRIBUTION SBU PROFIT OR LOSS

(€m)	Q1 2019	Q1 2018	Increase/(decrease)	
Mail	640	674	(35)	-5.1%
Parcels	201	175	26	14.6%
Other revenue	40	49	(10)	-19.4%
Intersegment revenue	1,331	1,370	(39)	-2.8%
Total revenue	**2,211**	**2,268**	**(57)**	**-2.5%**
Personnel expenses	1,407	1,390	17	1.2%
of which personnel expenses	*1,404*	*1,386*	*19*	*1.4%*
of which early retirement incentives	*2*	*5*	*(2)*	*-49.2%*
of which disputes and other extraordinary items	*0*	*(0)*	*0*	*104.9%*
Other operating costs	460	477	(17)	-3.6%
Intersegment costs	20	15	5	30.2%
Total costs	**1,887**	**1,883**	**4**	**0.2%**
EBITDA	**324**	**386**	**(61)**	**-15.9%**
Depreciation, amortisation and impairments	176	122	54	43.8%
EBIT	**148**	**263**	**(115)**	**-43.7%**
EBIT MARGIN	**6.7%**	**11.6%**	**-4.9%**	
Finance income/(costs)	2	(8)	10	128.9%
Profit/(Loss) before tax	151	255	(105)	-41.0%
Income tax expense	49	81	(32)	-39.2%
Net profit	**101**	**174**	**(73)**	**-41.9%**

7. Source: Polytechnic University of Milan study, 2018.

Contents

KPIs for the Mail, Parcels & Distribution Strategic Business Unit	Q1 2019	Q1 2018	Increase/(decrease)	
Mail & Parcels				
Revenue/FTEs (€)	17,075	17,030	46	0.3%
Group Mail volumes (m)	717	804	(87)	-10.9%
Average letter price (€)	0.89	0.84	0.05	6.4%
Group Parcel volumes (m)	35	29	6	19.4%
Average parcel price (€)	5.79	6.03	(0.24)	-4.0%
B2C revenue (m)	86	63	22.2	34.9%
Parcels deliverable by postmen/women (m)	12	10	2.2	21.4%
Progress of Joint Delivery model rollout*	64%	50%		
Number of Delivery Centres**	1,726	2,039	(313)	-15.4%
New PuntoPoste network* (number of Lockers and alternative collection points)	1,400	417	983	235.7%
Distribution				
Post offices	12,812	12,822	(10)	-0.1%
Customers (m)	35.0	34.5	0.5	1.3%
Customer visits to post offices/daily average (m)	1.39	1.42	(0.03)	-2.4%
Consulting rooms	6,551	6,487	64	1.0%
Stands promoting PosteMobile products and services	341	341	-	-
Poste office stands***	118	118	-	-
Postamat ATM network	7,287	7,252	35	0.5%

* The figure shown in the Q1 2018 column refers to 31 December 2018.

** Includes all delivery network hubs.

*** This format, present in post offices with high growth potential, is used to promote ancillary current account services and provide information on insurance products, directing interested customers to specialists in the relevant area.

The Mail, Parcels and Distribution Strategic Business Unit reports EBIT of €148 million, marking a decline of €115 million compared with the figure of €263 million reported for the same period of the previous year, partly due to lower intersegment revenue, which is affected by the decrease in realised capital gains.

External revenue is down from €899 million to €880 million, a decline of 2.1% due to lower revenue from traditional letter post (down €35 million) and a fall in other revenue (down €10 million). Among other things, this includes the revenue generated by the airline, Mistral Air, which in 2018 progressively withdrew from the passenger transport market to focus exclusively on its cargo business. On the other hand, revenue from the parcels segment grew 14.6% (up €26 million compared with the same period of 2018), especially in the B2C segment, thanks to the ongoing expansion of e-commerce.

Total costs of €1,887 million are up 0.2% compared with the same period of 2018, due to ordinary personnel expenses (up €19 million), which are affected by payment of the second tranche of the salary increase, from 1 October 2018, in line with the provisions of the 2016-2018 National Collective Labour Agreement, and the payment of one-day's pay in lieu of a public holiday.

Other operating costs registered a net decrease of €17 million (down 3.6%) compared with the first quarter of 2018. This performance was influenced by the application of the new accounting standard, IFRS 16 (depreciation of right-of-use assets), which led to a reduction in lease expense and a higher depreciation charge, the effect of which was neutralised at the EBIT level. EBIT also reflects an increase in variable costs linked to the growth in parcel volumes.

Net finance income of €2 million (up €10 million compared with the same period of the previous year) reflects an increase of €9.7 million in intercompany revenue from Poste Vita, deriving from Poste Italiane's commitment to subscribe for an eventual rights issue by the company to bolster its ancillary own funds (AOFs), and a reduction in finance costs of €6.5 million, attributable to the €750 million bond which fell due in June 2018, offset by higher lease payments (IFRS 16), amounting to €6.5 million.

Performance of Mail

	Volumes (m)				Revenue (€m)			
	Q1 2019	Q1 2018	Increase/(decrease)		Q1 2019	Q1 2018	Increase/(decrease)	
Unrecorded Mail	335	378	(43)	-11,4%	188	217	(29)	-13,4%
Recorded mail	48	50	(2)	-3,1%	243	242	1	0,3%
Direct Marketing	120	137	(18)	-12,8%	33	35	(2)	-5,0%
Integrated services	6	7	(1)	-15,2%	44	50	(6)	-12,5%
Other*	208	232	(24)	-10,3%	66	64	2	2,9%
Universal Service Obligation (USO) compensation**	-	-	-	-	66	66	-	-
Total Mail attributable to the Group	**717**	**804**	**(87)**	**-10.9%**	**640**	**674**	**(35)**	**-5.1%**

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

The performance of the Group's Mail services saw volumes and revenue decrease by 10.9% (87 million fewer items) and 5.1% (down €35 million), respectively, compared with 2018. This essentially reflects the structural decline in demand for traditional postal services as a result of the digitalisation of the economy. In detail, the contraction in volumes of Unrecorded Mail (43 million fewer items, or 11.4% less than in 2018) led to a fall in revenue of €29 million (-13.4%). This primarily reflects the exceptional volumes in 2018, especially with regard to the banking sector (the Bersani Decree).

Recorded Mail revenue is also in line, as the rate increases in the second half of 2018 offset the decline in volumes (a decline of 2 million items or 3.1%).

Direct Marketing volumes are down 12.8% (18 million fewer items), due to customers rationalising their mail spend. This slowdown led to a contraction in revenue of 5% (-€2 million).

Integrated Services registered a decrease in volumes and revenue of 15.2% and 12.5%, respectively, compared with the first quarter of 2018. This was primarily due to a change in Public Administration customers' delivery schedules during the year.

Other revenue that includes, among other things, revenue from the Printing services provided by the subsidiary, Postel, is down 10.3% in volume terms (24 million fewer shipments) compared with the first quarter of 2018, due to a decline in the market for printing services. Publisher tariff subsidies (€14 million in the first quarter of 2019 and €10 million in the same period of 2018), which are also included in other revenue, benefitted in the first quarter of 2019 from the increase in the basic rates applied by AGCom from 1 July 2018.

The compensation partially covering the cost of the Universal Service for the first quarter of 2019, as provided for in the 2015-2019 Service Contract in force, amounts to €66 million.

Performance of Parcels

	Volumes (m)				Revenue (€m)			
	Q1 2019	Q1 2018	Increase/(decrease)		Q1 2019	Q1 2018	Increase/(decrease)	
B2B	9	7	1	17.7%	61	52	9	16.9%
B2C	21	16	5	31.1%	86	63	22	34,9%
C2C	1	1	()	-5.7%	14	15	(1)	-3.6%
Other*	4	4	(1)	-11.6%	40	45	(5)	-10.9%
Total Parcels	**35**	**29**	**6**	**19.4%**	**201**	**175**	**26**	**14.6%**

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

The performance of the Parcels segment saw growth in volumes and revenue of 19.4% (6 million more items) and 14.6% (+€26 million), respectively, compared with the previous year. This is essentially due to the expansion of Poste Italiane's presence in the e-commerce market and the positive performance of the B2C segment, which generated revenue of €86 million, an increase of 34.9% compared with 2018, on 21 million items shipped. The B2B segment also grew strongly (1 million more parcels, up 17.7%, equivalent to revenue of €9 million, up 16.9%).

The quality results achieved for the Universal Service, whose objectives are defined by AGCom, are shown below. The regulator verifies compliance with the objectives and publishes the results annually, together with those regarding ordinary mail reported by the independent body.

Quality of the Universal Postal Service

The quality of the Universal Postal Service is substantially in line with the objectives.

			Q1 2019
	Delivered within	Target	Performance
Posta 1 - Priority	1 day	80.0%	86.8%
Posta 1 - Priority	2 days	80.0%	89.6%
Posta 1 - Priority	3 days	80.0%	94.8%
Posta 1 - Priority	4 days	98.0%	98.9%
Posta 4 - Ordinary	4 days	90.0%	88.0%
Posta 4 - Ordinary	6 days	98.0%	96.9%
Bulk mail	4 days	90.0%	97.9%
Bulk mail	6 days	98.0%	99.4%
Registered mail	4 days	90.0%	91.4%
Registered mail	6 days	98.0%	94.9%
Insured mail	4 days	90.0%	99.6%
Insured mail	6 days	98.0%	99.9%
Standard parcels	4 days	90.0%	95.5%

Operating review

The Group continued to transform and develop its mail and parcel services, in line with the long-term objectives set out in the Deliver 2022 Plan. The progressive rollout of the new "Joint delivery" model continued in the first quarter of 2019, involving 130 centres (in addition to 350 in 2018). The new model enables parcels to be delivered via the network of postmen and women, introducing afternoon and weekend shifts.

The introduction of alternative electric parcel delivery vehicles (3-wheeled vehicles) also continued. This will improve occupational safety and extend the process, launched in recent years, of adopting eco-friendly forms of transport, involving the introduction of a fleet of 4-wheeled electric vehicles.

As regards sorting processes, work is continuing on redefining a new model for the operation of the logistics network based on major investment in automation and the introduction of lean production. This was of organising work guarantees continuous improvements to operating processes. One of the enabling factors of this process is represented by the framework agreement regarding levels of employment signed on 8 March 2019 with all the labour unions.

This agreement regards the key restructuring projects in the organisational areas of logistics, central and local staff departments and the Post Office network.

In the logistics segment, €150 million will be invested in automation over the period of the plan and lean production will be implemented, enabling a reduction of at least 1,600 FTEs in 2019 across the various operational sites and internal departments.

Central and local staff departments will see a reduction of at least 650 FTEs during 2019, to be implemented via voluntary retirement schemes, occupational mobility and the conversion of full-time to part-time contracts.

Optimisation initiatives are planned for the post office network, involving at least 1,400 FTEs after the reorganisation of local areas into macro-areas in 2018, and projects to be implemented in 2019.

The plans will be backed up by adequate incentives, in keeping with the long-standing policy regarding voluntary retirement schemes, and, where appropriate, by redeployment initiatives (reassignment to part-time roles or transfers to other locations or other positions).

The agreement also provides for initiatives that will have a positive impact on employment, involving over 3,800 personnel in 2019. This will involve the offer of permanent contracts to 2,000 staff formerly employed on fixed-term contracts, the conversion of 920 staff from part-time to full-time contracts, and the recruitment of 500 specialists and 420 new part-time personnel for operational sites and post offices.

Finally, the PuntoPoste network has 1,060 alternative collection points (mainly at tobacconists), and 340 PuntoPoste lockers located in the self-service areas of a number of post offices and in high footfall locations such as supermarkets, shopping centres and fuel stations (89 alternative collection points and 328 lockers at 31 December 2018).

Other information

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

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

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

Payments, Mobile and Digital

The market for mobile and digital payments

The latest available figures for the **card payments market** show that the total value of transactions stood at €221 billion at 31 December 2018 (up 8.2% compared with the previous year), despite a reduction in the average value of individual transactions for every type of card. This reduction indicates increasingly widespread usage, partly due to the progressive extension of the service to segments where use is less intensive. Prepaid cards saw the sharpest growth in terms of both value and the number of transactions (up 23% and 26%, respectively, compared with the previous year), while credit cards were again the second most used form of payment after debit cards.

According to the latest available figures[8], **mobile market** penetration, in terms of total mobile lines, stands at approximately

8. Source: AGCom Communications Observatory no. 1/2019.

172% of the population, with MVNOs accounting for 14%. The total number of lines at 31 December 2018 amounts to 103.6 million, including approximately 21 million Machine to Machine (M2M) SIM cards. PosteMobile, with a total market share of approximately 4%, accounts for around 47% of the total customers of mobile virtual network operators[9].

In terms of the **digital market**[10] 92% of the Italian population has access to the internet (55 million people) and there are around 35 million social media users, with the number of users rising continuously year after year. 85% of users access the internet from a mobile device and 52% use social media from their mobile phone. The average time spent on the internet is 6 hours a day, including 2 hours primarily spent on social media.

Regulatory environment

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

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

Moreover, on 27 March 2019, the Bank of Italy published the new “Provisions regarding internal organisation, procedures and controls to prevent the use of intermediaries for the purposes of money laundering and the financing of terrorism”. The measure bring various aspects into line with European regulations, including: (i) implementation of the provisions regarding organisation, procedures and internal controls contained in Legislative Decree 231/2007; (ii) the provision of information regarding the requirements, procedures, control systems and functions of the central contact point, in accordance with European Commission Delegated Regulation 1108/2018; (iii) transposition of the Joint Guidelines of the European Supervisory Authorities adopted in September 2017 which, among other things, define the measures that payment service providers should adopt to identify missing or incomplete information regarding payers or payees. The parties concerned must comply with the provisions by 1 June 2019, and from 1 January 2020 these requirements will come into force: (i) the requirement for corporate bodies to define and approve a sound policy that specifies the choices the party concerned has made regarding the organisational structure, procedures and internal controls, adequate verification and data storage); (ii) the requirement for the parent company to set up a common database); and (iii) the requirement to carry out a self-assessment of money laundering risks).

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

With regard to telecommunications, in January 2019 AGCom published Resolution 599/18/CONS, which concludes the regulator’s latest review of the termination services market[11] for voice calls on individual mobile networks.

The regulator has identified twelve relevant markets, one for each operator, including PosteMobile, having significant market power regarding the termination of voice calls on their mobile networks. The rate set for operators for the period 2018-2021 was obtained by revising the cost model previously adopted by the regulator in Resolution 60/11/CONS. The rate for 2019 has been reduced by 8% compared with the previous year, with additional progressive annual reductions until 2021 and symmetrical rates for all notified operators.

9. Source: AGCom Communications Observatory no. 1/2019..
10. Source: https://wearesocial.com/it/blog/2019/01/digital-in-2019
11. In order to ensure that subscribers to different fixed and mobile network operators are able to communicate with each other, networks must be interconnected and operators must therefore enter into interconnection contracts regarding the provision of one or more services.

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

PAYMENTS, MOBILE AND DIGITAL SBU PROFIT OR LOSS*

(€m)	Q1 2019	Q1 2018	Increase/(decrease)	
Card payments	75	66	9	14.4%
Other payments	13	12	0	0.6%
Telecoms	52	52	(0)	-0.1%
Intersegment revenue	96	89	7	7.7%
Total revenue	**235**	**219**	**16**	**7.4%**
Personnel expenses	9	8	1	11.8%
of which personnel expenses	*9*	*8*	*1*	*11.8%*
of which early retirement incentives	-	-	-	*n/s*
of which disputes and other extraordinary items	-	-	-	*n/s*
Other operating costs	73	66	7	10.3%
Intersegment costs	91	83	8	9.4%
Total costs	**172**	**157**	**16**	**9.9%**
EBITDA	**63**	**63**	**1**	**1.2%**
Depreciation, amortisation and impairments	6	6	1	12.5%
EBIT	**57**	**57**	**0**	**0.1%**
EBIT MARGIN	**24.2%**	**26.0%**	**-1.8%**	
Finance income/(costs)	2	1	1	50.8%
Profit/(Loss) before tax	**59**	**58**	**1**	**1.1%**
Income tax expense	16	15	1	5.6%
Net profit	**42**	**43**	**(0)**	**-0.5%**

* The figures for Q1 2018 have been reclassified on the basis of the new scope of the Payments, Mobile & Digital SBU.

KPIs for the Payments, Mobile & Digital Strategic Business Unit	IQ2019	IQ2018	Increase/(decrease)	
Card payments				
Number of cards in issue (m)*	26.9	26.6	0.2	0.9%
of which Postepay cards (m)**	19.2	19.0	0.2	1.2%
of which Postepay Evolution cards (m)***	6.6	6.3	0.4	5.6%
Payment card transactions (m)	326	247	78.9	31.9%
of which e-commerce transactions (m)	56	50	6.0	12.1%
Total value of card transactions (€m)****	7,060	5,995	1,065.1	17.8%
Digital				
Postepay Digital e-Wallets in issue (m)**	3.1	2.8	0.3	9.7%
Poste Italiane registered online (web e app) users (m)	18.6	15.6	3.0	19.4%
App Download (m)	23.9	16.5	7.4	44.7%
Daily online users (web and app) (m)*****	1.9	1.4	0.5	36.3%
Electronic identification (m)**	3.1	2.6	0.5	21.1%
Digital financial transactions - Consumers (m)	13.0	11.0	2.0	17.9%
Telecoms				
Fixed and mobile PosteMobile SIM cards ('000)**	4,224	4,082	142.3	3.5%

* The figure includes Postepay and Postamat cards and credit cards. The figure shown in the Q1 2018 column refers to 31 December 2018.
** The figure shown in the Q1 2018 column refers to 31 December 2018.
*** The figure includes business customers. The figure shown in the Q1 2018 column refers to 31 December 2018.
**** Value of payments made using Postamat and Postepay.
***** Average monthly figure for the relevant period.

The Payments, Mobile and Digital SBU reports EBIT of €57 million for the first quarter of 2018, an increase of 0.1% compared with the same period of the previous year.

Total revenue of €235 million (up 7.4%) benefitted from the positive performance of card payments, which recorded growth of 14.4% (+€9.5 million), primarily due to revenue from prepaid cards and other debit cards managed under service agreements, as well as from other collection and payment services amounting to €12.6 million.

At 31 March 2019, there are approximately 19.2 million Postepay cards in circulation (18.4 million in the first quarter of 2018 and 19 million at 31 December 2018), including 6.6 million Postepay Evolution cards, an increase of 30.2% compared with the first quarter of 2018 (up 5.6% compared with 31 December 2018). This reflects the positive impact of the launch of Postepay Connect which, with an average of over 1,600 cards sold per day, has driven growth in average daily sales of Postepay Evolution cards (approximately 6,600) and PosteMobile SIMs (approximately 3,300).

Mobile service revenue is €52 million, in line with the first quarter of 2018.

The Strategic Business Unit's total costs amount to €172 million, an increase of 9.9% compared with the same period of 2018, due to an increase in other operating costs, which are up from the €66 million of the first quarter of 2018 to €73 million, primarily reflecting telecommunications traffic costs (up €3.5 million) and sales commissions and operating costs (up €2.6 million).

Personnel expenses of €8.8 million are up approximately 12% compared with 2018, due to the organisational restructuring of the ring-fenced business unit and digital activities.

After income tax expense for the period, the segment's net profit amounts to €42.4 million for the first quarter of 2019 (€42.6 million for the first quarter of 2018).

Operating review

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

As regards collections, activities during the quarter were aimed at repositioning the collections offering both in terms of digitalisation and compliance with the Digital Italy Agency (AgID) standards for payments to Public Administration entities. In this context, a new pricing model for payments carried out via digital channels made available by creditors was rolled out. Therefore, it will be possible to make payments with commissions applied to baskets as a whole, and no longer applied to each individual transaction, in line with the market best practices.

Moreover, from 8 April 2019, it is possible to pay vehicle tax on Postepay channels via the PagoPA system, in line with the roadmap for the rollouts envisaged for the digital transformation of payments to Public Administration entities.

In terms of fixed line services, in the first quarter of 2019 PosteMobile Casa enhanced its range of products. In February, a new promotional plan to market "PosteMobile Casa Facile" was launched. This enables extension of the addressable market to include all customers who use their landline telephone primarily to make calls to national landlines and wish to reduce their domestic call charges.

The "PosteMobile Casa Facile" offering includes unlimited calls to national landlines - with no connection charge - as well as all PosteMobile Casa's additional services at a promotional price.

In the first quarter of 2019, PostePay joined the temporary grouping of Poste Italiane and Postel, which, in implementation of the service entrusted to it pursuant to article 81, paragraph 35, letter b), of Law Decree 112/2008 regarding the Carta Acquisti (Social Card), and in compliance with Law Decree 4/2019, will issue and manage the payment cards needed to benefit from the Citizens' Income and the Citizens' Pension.

Financial services

Financial market trends[12]

During the first quarter of 2019, international equity markets made up the ground lost in the last quarter 2018, as volatility gradually eased. In the USA, the S&P500 index ended the quarter at 2,834.4, an increase of 13.07% compares with the end of December 2018. European markets followed suit, with the Euro Stoxx 50 gaining 11.67% and the FTSEMIB outperforming with a rise of 16.17%. The recovery benefitted from the policy change made by the Federal Reserve, which decided to put off the further interest rate rises planned for 2019. This line was followed by the other central banks, above all the ECB. Growing uncertainty over Brexit, on the other hand, weighed on the London market, which rose by only 8.19%.

On the bond markets, the progressive slowdown in the euro area's economy and the revised forward guidance provided by central banks led to a marked decline in risk-free rates. The yield on 10-year Bunds, which began the year at 0.242%, closed the quarter at -0.07%. Despite the fact that the Italian economy underperformed the rest of the euro zone in the first quarter of 2019, the ten-year spread between BTPs and *Bunds* remained stable at around 250 basis points, with volatility gradually easing. As a result, the yield of 10-year BTPs fell from 2.74% at the end of 2018 to 2.48% in March 2019.

SPREAD BTP VS BUND 10 YRS

In the first quarter of 2019, two new 15- and 30-year benchmarks were placed by a syndicate of banks, attracting strong market demand.

In terms of exchange rates, the single currency continued to weaken, with the value of the euro against the dollar falling from 1.14 at the end of December 2018 to 1.12 at the end of March 2019.

12. Source: Bloomberg.

Banking system

The banking system was stable in early 2019. According to preliminary estimates from ABI (the Italian banking association)[13], in February 2019, lending to the private sector, adjusted to take into account off-balance sheet securitised loans, was up 1.1% year on year (1.0% in January 2019) at €1,711 billion. This performance reflects different trends in the various segments: figures for January 2019 relating to household loans show that lending was up 2.6% year on year, whilst lending to non-financial companies was down 0.7%. The performance of business lending continues to be influenced by reduced investment and the weak economic cycle.

Doubtful loans within the banking system, after impairments and provisions made from own funds, were down 44% year on year in January 2019, falling from €59.3 billion to €33.4 billion. In percentage terms, doubtful loans have fallen from 3.4% of total lending in January 2018 to 1.9%.

Funding saw positive growth in the early part of the year. In February 2019, private sector deposits (current accounts, certificates of deposit and repurchase agreements) were up 3.1% (an increase of €45.3 billion) year on year (2.7% in January 2019). Funding through bond issues continues to decline, registering a fall of 8.9% in February 2019 (down 10.1% in January 2019). The performance of deposits was driven by strong inflows in current accounts, whilst term deposits remain in decline. Interest rates on new lending to households are falling, whilst those on loans to non-financial companies are stable.

At the beginning of 2019, interest rates on the various forms of customer deposit were broadly unchanged. The overall average rate on deposits remained at 0.36%, in line with the end of 2018.

Regulatory environment

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

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

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

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

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

13. Source: ABI Monthly Outlook – “The Economy and Financial-Credit Markets” - March 2019.

FINANCIAL SERVICES SBU PROFIT OR LOSS*

(€m)	Q1 2019	Q1 2018	Increase/(decrease)	
Gross capital gains	261	402	(141)	-35.1%
Interest income	410	361	49	13.6%
Postal savings	466	450	17	3.7%
Transaction banking	246	240	6	2.5%
Distribution of third-party products	77	57	20	34.2%
Asset management	25	22	3	13.4%
Intersegment revenue	193	182	11	6.0%
Total revenue	**1,678**	**1,714**	**(36)**	**-2.1%**
Personnel expenses	12	22	(11)	-47.0%
of which personnel expenses	*11*	*21*	*(10)*	*-47.4%*
of which early retirement incentives	*1*	*1*	*(1)*	*-53.1%*
of which disputes and other extraordinary items	*0*	*(0)*	*0*	*103.8%*
Other operating costs	44	55	(11)	-20.3%
Depreciation, amortisation and impairments	0	0	0	41.9%
Intersegment costs	1,361	1,398	(37)	-2.6%
Total costs	**1,417**	**1,475**	**(58)**	**-4.0%**
EBIT	**261**	**239**	**22**	**9.3%**
EBIT MARGIN	**15.6%**	**13.9%**	**1.6%**	
Finance income/(costs)	1	3	(1)	-43.7%
Profit/(Loss) before tax	**263**	**242**	**21**	**8.7%**
Income tax expense	72	68	4	6.5%
Net profit	**190**	**174**	**17**	**9.5%**

* The figures for Q1 2018 have been reclassified on the basis of the new scope of the Payments, Mobile & Digital SBU.

KPIs for the Financial Services Strategic Business Unit	At 31 March 2019	At 31 December 2018	Increase/(decrease)	
TFA - Total Financial Assets1 (€bn)	525.0	513.8	11.2	2.2%
of which				
Postal Savings	325.3	325.3	0.1	0.0%
Interest-bearing postal certificates	*220.9*	*219.5*	*1.4*	*0.6%*
Postal Saving Books	*104.4*	*105.8*	*(1.3)*	*-1.3%*
Current Accounts	59.4	52.8	6.6	12.5%
Technical provisions for Life insurance business	128.9	125.0	4.0	3.2%
Mutual funds	8.5	8.1	0.4	5.4%
Assets under custody	2.8	2.7	0.1	3.3%
CET 1 Capital (€m)	2,290	2,286	3.7	0.2%
CET 1 Ratio	17.8%	18.4%	-0.6%	
Leverage Ratio	3.0%	3.2%	-0.2%	

* TFA includes assets under administration (bonds, government securities, equity instruments, certificates, etc.).

Contents

	Q1 2019	Q1 2018	Increase/(decrease)	
Net inflows*(m)	6,468	4,190	2,278	54.4%
Average postal savings (€bn)	312.4	310.0	2.4	0.8%
Average current account deposits (bn)	61.2	57.7	3.5	6.1%
Loans and mortgages - volumes lent (€m)	967	701	266	37.9%
Number of financial and insurance products sold (m)	2.3	2.2	0.1	5.0%
Fees per client** (€)	57.3	54.2	3.1	5.7%
Average return on current accounts excluding capital gains	2.65%	2.52%	0.13%	
Net capital gains (€m)	261	378	(117)	-30.9%
Unrealised capital gains/(losses) (€m)	(3,093)	2,789	(5,882)	-210.9%

* Net inflows include assets under administration (bonds, government securities, equity instruments, certificates, etc.).
** The figure includes revenue from financial and insurance services.

- The Financial Services Strategic Business Unit generated EBIT of €261 million in the first quarter of 2019, a 9.3% increase compared with the same period of the previous year (€239 million).
- Total revenue of €1,678 million is down €36 million compared with the €1,714 million of the first quarter of 2018. This reflects a reduction of €141 million in gross realised gains (down 35.1%), in line with the objective in the Deliver 2022 Plan to reduce the dependence of the SBU's results on non-recurring items. In contrast, all other revenue components made a positive contribution in the quarter. Interest income is up 13.6% (up €49 million on the first quarter of 2018), reflecting an increase in current account deposits (up from €57.7 billion in the first quarter of 2018 to €61.2 billion), whilst commission income on the collection of postal savings deposits also performed well, with commissions amounting to €466 million compared with the €450 million of the first quarter of 2018 (up 3.7%).
- The increase in transaction banking revenue (up 2.5%) primarily relates to the overall movement in the fair value of the Visa Incorporated shares, partially offset by a reduction in the volume of payment slips processed. Income from the distribution of third-party financial products, totalling €77 million in the first quarter of 2019, is up 34.2% as a result of the greater volume of loans distributed.
- Income from asset management amounts to €25 million (up 13.4% on the same period of the previous year) and reflects increased placement and management fees.
- The SBU's total costs are down 4.0% (-€58 million) compared with the same period of the previous year, primarily a result of a reduction in the cost of financial activities and in intersegment costs on services provided by the other SBUs. After net finance income and income tax expense (€72 million), the SBU reports net profit of €190 million, an increase of 9.5% compared with the same period of the previous year.

Operating review

In the first quarter of 2019, BancoPosta RFC's financial management focused on the purchase programme that aims to reinvest the proceeds from maturing securities and new customer deposits.

The policy of stabilising revenue was largely implemented in 2018 by entering into forward contracts settled in January 2019. These transactions generated gains of €261 million. Purchases, following the above sales, were carried out in the second half of 2018 and were added to the portfolio in the current year.

Reinvestment of the proceeds from maturing securities and new customer deposits focused primarily on purchases of medium/long-term securities, partly in relation to the large volumes available in the primary market.

The nominal values of BTPs, with medium/long-term terms to maturity, are hedged by forward starting interest rate derivatives, whilst inflation-linked BTPs have been converted to fixed rate via swaps in which BancoPosta pays the inflation-linked cash flows.

In view of the historically low level of interest rates, the Company has also entered into new structured repurchase agreements with terms of between 1 and 3 years, amounting to a total of €600 million.

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

The range of postal savings products has been restructured by Cassa Depositi e Prestiti, taking into account market conditions and ensuring that the offering remains competitive and diversified and able to meet the needs and requirements of savers. Major new promotional and advertising campaigns were launched to consolidate the repositioning of products and services based on the various target customers. The process of providing the widest possible access to services via ATMs and web and App channels was also launched.

As regards Transaction Banking services, marketing of the new BancoPosta account continued. In addition to guaranteeing multi-channel access in line with customer needs and market trends, this product offers customers a competitive alternative. In this regard, in January 2019, the BancoPosta account was repriced with the aim of making the offering more complete and an initiative designed to promote the BancoPosta App as the preferred channel for accessing and using the account was launched.

In terms of loans provided to private customers by external partners, a number of promotions were run during the first quarter of 2019 for specific categories of customer, type of product or interest rate and/or purpose, supported by advertising campaigns.

Steps were taken to expand the offering for Business and Public Administration customers, whilst changes to operational processes were introduced with the aim of improving customer management during at both the customer acquisition and after-sales stages.

With regard to asset management, the partnership between BancoPosta Fondi SGR and Anima continued, with two new mutual investment funds distributed through Poste Italiane's network.

Other information

Consob

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

Bank of Italy

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

Autorità Garante della Concorrenza e del Mercato (AGCM or antitrust authority)

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

Having replied to the request for information, Poste Italiane sent the Authority a list of its commitments pursuant to the Consumer Code, Legislative Decree 145/2007 and the Regulation for investigations.

On 1 April 2019, the AGCM notified the Company that the investigation was closed and that it had accepted the commitments, which are now obligatory, without imposing a fine.

IVASS - *Istituto per la Vigilanza sulle Assicurazioni* (the insurance regulator)

On 22 February 2019, an IVASS directive was published in the Official Gazette containing the terms and conditions for reporting information on investments and close ties of undertakings entered into the single register of insurance intermediaries to the regulator. The regulations require notification of any equity interests in the intermediary above 10% or of any close ties. The information was submitted to the regulator by the deadline of 31 March 2019.

Insurance services

The insurance services market

Based on the available official data for the first two months of 2019, new business for Life insurance policies, including EU undertakings, amounts to €15.6 billion, down 9.4% compared with the same period of 2018, whilst new business for Italian and non-EU undertakings amounts to €14.2 billion (down 2.0% compared with the first quarter of 2018).

Analysing the figures by class of insurance, Class I premiums amounted to €11.1 billion at the end of February 2019, up 18.2% compared with the same period of the previous year, confirming that this is the leading class. Class III products, on the other hand, recorded a 40.4% reduction in premiums to €2.9 billion compared with the same period of 2018.

Single premiums continued to be the preferred form of payment for policyholders, representing 94% of total premiums written and 64% of policies by number.

With regard, finally, to distribution channel, around 71% of new business was obtained through banks and post offices, with premium revenue of €10.2 billion down 3.5% compared with the same period of 2018.

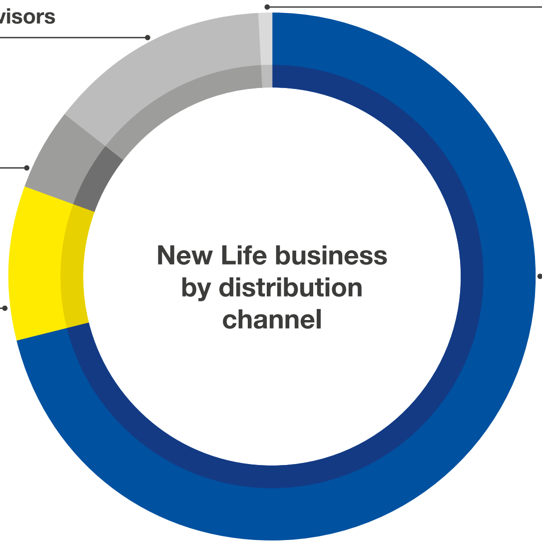
NEW BUSINESS FOR INDIVIDUAL LIFE POLICIES BY CLASS*

Premiums by class/product	Premiums since beginning of year	% change 2019 vs 2018
Life - Class I	11,055	18.2%
Capitalisation - Class V	248	-6.1%
Linked - Class III	2,910	-40.4%
of which: unit-linked	*2,910*	*-40.4%*
of which: index-linked	*n/a*	*n/a*
Medical - Class IV	3	47.5%
Open-end pension funds - Class VI	19	-17.8%
Italian insurers - non-EU	**14,235**	**-2.0%**
EU insurers**	**1,374**	**-49.3%**
Total	**15,609**	**-9.4%**

* Source: ANIA.

** The term "EU insurers" refers to the Italian subsidiaries of undertakings with a registered office in an EU country operating under the right of establishment and freedom to provide services. The figures refer solely to undertakings taking part in the survey.

NEW LIFE BUSINESS BY DISTRIBUTION CHANNEL



Source: ANIA - figures updated to February 2019.

Based on the available official data[14], total direct Italian premiums in the **P&C insurance market**, thus including policies sold by Italian and overseas undertakings, amounted to €37.7 billion at the end of the fourth quarter of 2018, up 2.6% compared with the previous year. The performance was helped by both the growth in other P&C classes and an improvement in premium revenue from vehicle insurance.

In terms of distribution channel, agents continue to lead the way with a market share of 75.3%.

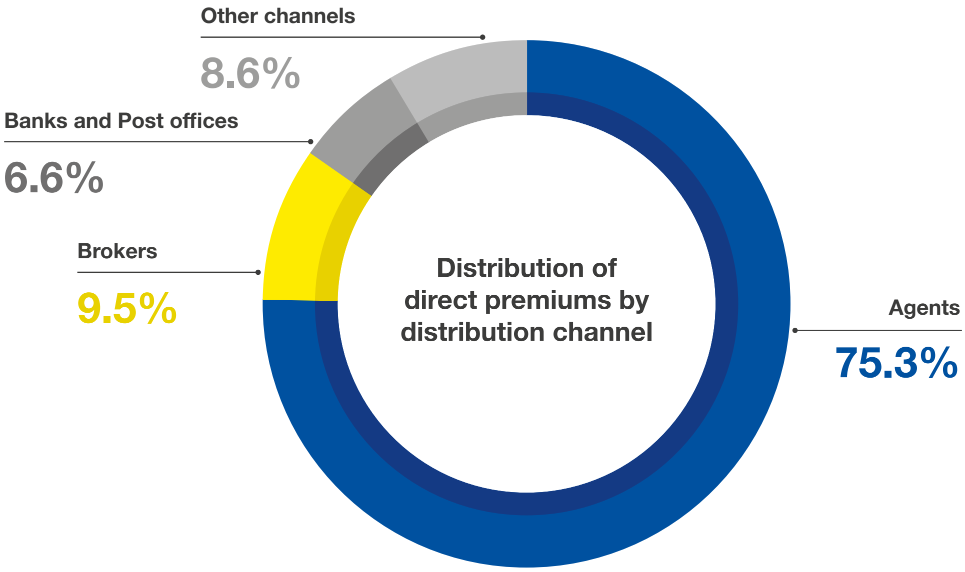
DIRECT P&C PREMIUMS BY CLASS*

Premiums by class** (updated to December 2018 in €m)	Premiums since beginning of year	% change 2018 vs 2017
Land vehicle insurance	13,897	0.6%
Land vehicle hull insurance	3,215	5.9%
Total motor vehicle sector	17,112	1.5%
Other Non-life classes	20,627	3.5%
Total Non-life classes	**37,739**	**2.6%**

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

14. ANIA Newsletter on quarterly P&C premiums (fourth quarter of 2018).

DISTRIBUTION OF DIRECT PREMIUMS BY DISTRIBUTION CHANNEL*



* Italian undertakings and subsidiaries of non-EU undertakings.
Source: ANIA - figures updated to December 2018.

Regulatory environment

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

INSURANCE SERVICES SBU PROFIT OR LOSS

(€m)	Q1 2019	Q1 2018	Increase/(decrease)	
Upfront Life	114	117	(3)	-2.9%
Net investment result Life	204	198	7	3.4%
Technical margin Life	10	2	8	410.4%
Change in other technical provisions and other technical costs/income	(28)	(22)	(5)	23.3%
Net Life revenue	300	**294**	**6**	**2.0%**
Premium revenue	54	38	15	39.8%
Change in technical provisions and claims expenses	(14)	(8)	(7)	-86.9%
Result from reinsurance	(4)	(4)	(0)	-3.7%
Net P&C income*	(1)	(0)	(1)	261.8%
Net P&C revenue	35	**27**	**8**	**30.2%**
Other operating income	3	3	0	5.0%
Intersegment revenue	0	0	(0)	-22.1%
Total revenue	338	**324**	**14**	**4.3%**
Personnel expenses	10	10	0	4.3%
of which personnel expenses	10	*10*	*0*	*4.3%*
of which early retirement incentives	-	-	-	*n/s*
of which disputes and other extraordinary items	-	-	-	*n/s*
Other operating costs	23	22	1	5.8%
Depreciation, amortisation and impairments	6	4	2	46.4%
Intersegment costs	148	145	3	2.3%
of which fees	142	136	5	3.9%
Total costs	187	**180**	**7**	**3.8%**
EBIT	151	**144**	**7**	**4.9%**
EBIT MARGIN	44.7%	**44.4%**	**0.3%**	
Finance income/(costs)	0	12	(12)	-95.9%
Profit/(Loss) before tax	151	**156**	**(5)**	**-3.0%**
Income tax expense	46	61	(15)	-24.3%
Net profit	**105**	**95**	**10**	**10.7%**

* Includes finance income from investments by the P&C business and other income and expenses from insurance activities.

KPIs for the Insurance Services Strategic Business Unit	At 31 March 2019	At 31 December 2018	Increase/(decrease)	
Poste Vita Group net technical provisions (€bn)	129.1	125.1	4.0	3.2%
of which Poste Vita SpA	*128.9*	*125.0*	*4.0*	*3.2%*

	Q1 2019	Q1 2018	Increase/(decrease)	
GWP - Life (€m)*	5,910	5,287	623	11.8%
GWP - P&C (€m)*	79	48	31	64.1%
Combined ratio (confirmed by ANIA)	50.3%	51.1%	-0.7%	
Loss ratio	28.9%	22.6%	6.3%	
Expenses ratio (confirmed by ANIA)	21.4%	28.4%	-7.0%	

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

The Insurance Services Strategic Business Unit generated EBIT of €151 million in the first quarter of 2019, up 5% on the same period of the previous year (€144 million).

Total revenue is up from €324 million in the first three months of 2018 to €338 million (up 4%), essentially due to the performance of the Life business, which contributed €300 million, whilst the P&C business contributed €35 million.

Net Life revenue is up 2% (up €6 million compared with the first three months of 2018) after benefitting from an improvement in the net investment result (up €7 million or 3% compared with 2018), reflecting the greater volume of assets under management, and increased revenue from the Life business's protection products (up €8 million), driven by the growth in business. Subscription fees are down €3 million or 3% overall, despite the increase in inflows in the first quarter, reflecting a different product mix compared with the previous year.

Net P&C revenue is €35 million (up 30%), with growth across all lines of business (retail up 20%; Employee Benefits up 255%) and total gross premium revenue amounting to €79[15] million, up 64% on the same period of 2018 (€48 million). This was accompanied by a positive technical performance as a result of a reduced volume of claims with respect to the growth in sales.

Total costs of €187 million are up €7 million compared with the figure for the same period of 2018. The increase is primarily due to the performance of intersegment costs, essentially linked to fees paid for distribution, collection and maintenance services totalling €142 million, up from the €136 million of 2018 due to the growth in business.

Net finance income amounts to €18 million, offset by an equal amount of finance costs resulting from the cost of Ancillary Funds, which was not present in the previous first quarter.

After tax expense for the period (€46 million), the SBU reports net profit of €105 million, up 11% compared with the €95 million of the same period of the previous year.

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

- strengthening its leadership in the life insurance market;
- boosting its position in the protection and welfare segment.

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

Poste Vita SpA	Q1 2019	Q1 2018	Increase/(decrease)	
Gross premium revenue	5,910	**5,287**	**623**	**11.8%**
Class I	5,382	5,074	308	6.1%
*of which traditional with-profits products**	3,701	*4,731*	*(1,030)*	*-21.8%*
of which pension products	273	*272*	*0*	*0.2%*
of which multiclass products (Class I portion)	1,408	*71*	*1,337*	*n/s*
Class III	528	213	315	147.7%
of which unit-linked products	30	*144*	*(114)*	*-79.5%*
of which multiclass products (Class III portion)	499	*69*	*429*	*617.7%*
Claims paid	4,397	**2,157**	**2,239**	**103.8%**
of which expirations	2,978	825	2,153	260.9%
of which surrenders	914	856	58	6.8%
Surrender rate	3.05%	3.04%	0.01%	
Net premium revenue	1,513	**3,130**	**(1,617)**	**-51.7%**
Technical provisions	**128,932**	**128,092**	**841**	**0.7%**

* Includes Protection and Class V products.
n/s:not significant

Management of the **P&C 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. Technical provisions for the P&C business, before the portion ceded to reinsurers, amount to €214 million at the end of the period, up 17% compared with the end of 2018 (€183 million).

15. Gross premium revenue for the period amounts to €54 million.

Financial position and cash flow

Impact of first-time adoption of Ifrs 16

The Poste Italiane Group has adopted IFRS 16 – Leases (adopted with Regulation (EU) 1986/2017) from 1 January 2019. The following statement shows the impact on the statement of financial position at 1 January 2019 of first-time adoption of the new accounting standard.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 1 JANUARY 2019

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

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

At 1 January 2019, the Group has recognised right-of-use assets of €1,374 million, in relation to leases previously classified as operating leases under IAS 17, and financial liabilities totalling €1,373 million (equal to the present value of remaining payments discounted using an appropriate discount rate, as described in more detail below). The difference regards adjustments to right-of-use assets due to prepayments or accrued liabilities at 31 December 2018 on leases recognised under IAS 17 immediately prior to first-time adoption of IFRS 16.

Transition method adopted

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

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

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

Practical expedients adopted

On initial application of IFRS 16, the Group used the following practical expedients permitted by the standard:

- regarding the identification of contracts in scope, the Group elected not to remeasure contracts outstanding at the date of transition that had (or had not been) classified previously as leases or as containing a lease component. As a result of this expedient, lease contracts or contracts containing a lease component, which had been accounted for in accordance with IAS 17, now fall within the scope of IFRS 16;
- with respect to the determination of the lease term, particularly for property lease agreements, the Group used a valuation approach that is based first of all on the duration of the obligation, as per the agreement between the parties and/or the legal framework of reference (Law 392 of 27 July 1978), and extended their term as a result of an interpretation/forecast of events, circumstances and future intentions, including of a strategic nature, of both the lessor and the lessee. This resulted in a set of rules to determine the lease term, to be applied to leased properties classified previously in three distinct clusters: (i) properties where the lease is subject to legal restrictions and high commercial-value properties, (ii) properties for civilian use, such as the company accommodation for Group employees and executives, and (iii) other properties used in operations. The lease term for all the other agreements was set as equal to the duration of the obligation agreed upon between the parties, in keeping with future intent in wanting and being able to complete the term and past experience;
- regarding the determination of the discount rate, reference was made to an incremental borrowing rate ("IBR") applicable to a hypothetical loan that might have been obtained in the current economic environment, and determined solely for groups of contracts with similar terms and for similar companies;
- the standard was not applied to certain short-term leases or low-value assets or where the underlying asset is an intangible asset, other than copyrights and similar;
- non-lease components were not separated from the lease components in rental contracts for the corporate fleet and vehicles for business and personal use.

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

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

The following table shows the right-of-use assets recognised on initial application and movements during the period:

tab. A4 - Movements in right-of-use assets (€m)	Properties used in operations	Corporate fleet	Vehicles for personal use	Other assets	Total
Balance at 1 January 2019	**1,233**	**121**	**12**	**8**	**1,374**
Movements during the period					
Additions due to new leases	7	1	-	2	10
Lease modifications	9	-	-	-	9
Lease terminations	-	-	-	-	-
Depreciation and impairments	(37)	(15)	(1)	(1)	(54)
Total movements	**(21)**	**(14)**	**(1)**	**1**	**(35)**
Cost	1,249	123	12	9	1,393
Accumulated depreciation and impairments	(37)	(15)	(1)	(1)	(54)
Balance at 31 March 2019	**1,212**	**108**	**11**	**8**	**1,339**

Group financial position and cash flow

(€m)	At 31 March 2019	At 31 December 2018	Increase/(decrease)	
Property, plant and equipment	1,945	1,993	(48)	-2.4%
Intangible assets	523	545	(22)	-4.0%
Right-of-use assets	1,339	-	1,339	n/s
Investments	501	497	4	0.8%
Total non-current assets	**4,308**	**3,035**	**1,273**	**41.9%**
Trade receivables, Other receivables and assets and Inventories	7,382	6,914	468	6.8%
Trade payables and other liabilities	(5,017)	(5,282)	265	-5.0%
Current tax assets and liabilities	(37)	105	(142)	-135.2%
Net working capital	**2,328**	**1,737**	**591**	**34.0%**
Gross invested capital	**6,636**	**4,772**	**1,864**	**39.1%**
Provisions for risks and charges	(1,535)	(1,519)	(16)	1.1%
Provisions for employee termination benefits	(1,170)	(1,187)	17	-1.4%
Deferred tax assets/(liabilities)	880	666	214	32.1%
Net invested capital	**4,811**	**2,732**	**2,079**	**76.1%**
Equity	**7,876**	**8,105**	**(229)**	**-2.8%**
of which: net profit	*439*	*1,399*	*(960)*	*-68.6%*
of which: fair value reserve	*(652)*	*(69)*	*(583)*	*843.7%*
Financial liabilities	75,303	66,929	8,374	12.5%
Technical provisions for the insurance business	129,072	125,076	3,996	3.2%
Financial assets	(202,310)	(190,864)	(11,446)	6.0%
Cash and deposits attributable to BancoPosta	(3,438)	(3,318)	(120)	3.6%
Cash and cash equivalents	(1,692)	(3,195)	1,503	-47.0%
Net funds	**(3,065)**	**(5,372)**	**2,307**	**-42.9%**

n/s: not significant

At 31 March 2019 (€m)	Mail, Parcels & Distribution	Payments, Mobile and Digital	Financial Services	Insurance Services	Adjustments and eliminations	Consolidated amount
Property, plant and equipment	1,912	22	-	11	-	1,945
Intangible assets	449	29	-	45	-	523
Right-of-use assets	1,307	7	1	30	(6)	1,339
Investments	1,434	281	216	157	(1,587)	501
Total non-current assets	**5,102**	**339**	**217**	**243**	**(1,593)**	**4,308**
Trade receivables, Other receivables and assets and Inventories	2,751	337	3,021	2,629	(1,356)	7,382
Trade payables and other liabilities	(2,764)	(540)	(2,065)	(1,003)	1,355	(5,017)
Current tax assets and liabilities	(39)	(22)	-	24	-	(37)
Net working capital	**(52)**	**(225)**	**956**	**1,650**	**(1)**	**2,328**
Gross invested capital	**5,050**	**114**	**1,173**	**1,893**	**(1,594)**	**6,636**
Provisions for risks and charges	(994)	(22)	(508)	(11)	-	(1,535)
Provisions for employee termination benefits	(1,160)	(3)	(4)	(3)	-	(1,170)
Deferred tax assets/(liabilities)	402	18	381	79	-	880
Net invested capital	**3,298**	**107**	**1,042**	**1,958**	**(1,594)**	**4,811**
Equity	**2,623**	**283**	**2,484**	**4,074**	**(1,588)**	**7,876**
of which: net profit	*101*	*42*	*190*	*105*	-	*439*
of which: fair value reserve	*4*	-	*(666)*	*9*	-	*(652)*
Financial liabilities	2,709	4,294	74,238	1,065	(7,003)	75,303
Technical provisions for the insurance business	-	-	-	129,072	-	129,072
Financial assets	(1,435)	(4,087)	(72,069)	(130,590)	5,871	(202,310)
Cash and deposits attributable to BancoPosta	-	-	(3,438)	-	-	(3,438)
Cash and cash equivalents	(599)	(383)	(173)	(1,663)	1,126	(1,692)
Net (funds)/debt	**675**	**(176)**	**(1,442)**	**(2,116)**	**(6)**	**(3,065)**

n/s: not significant

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

n/s: not significant

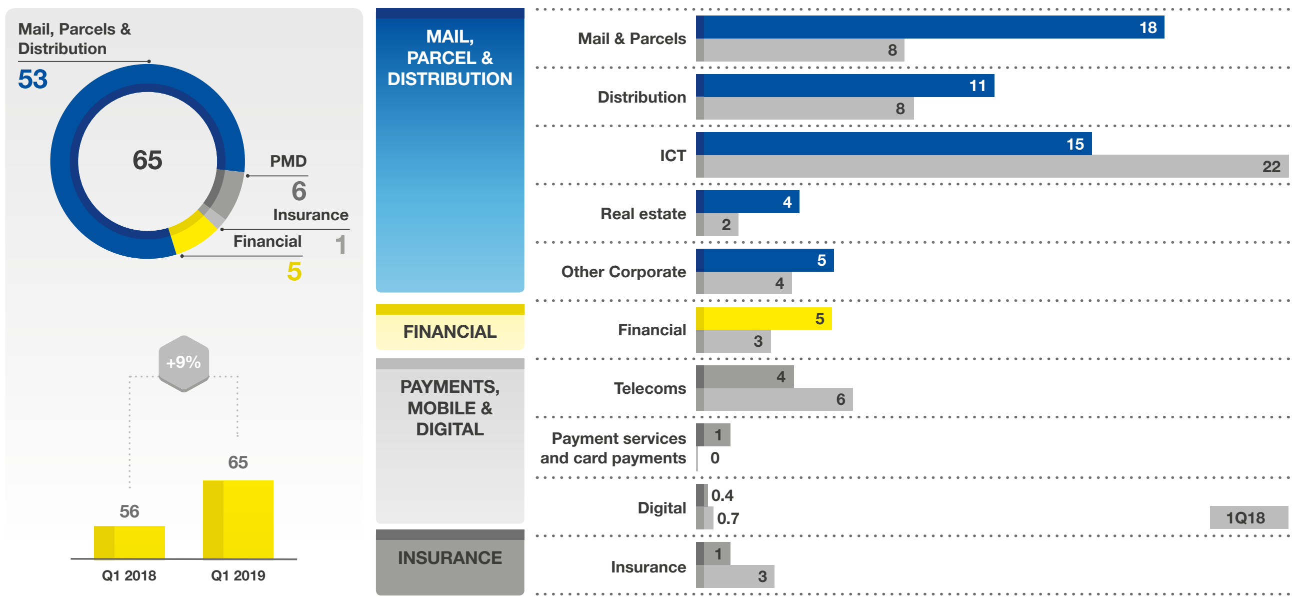
Changes 31 March 2019 vs 31 December 2018 (€m)	Mail, Parcels & Distribution	Payments, Mobile and Digital	Financial Services	Insurance Services	Adjustments and eliminations	Consolidated amount
Property, plant and equipment	(45)	(1)	-	(1)	(1)	(48)
Intangible assets	(18)	(1)	-	(3)	-	(22)
Right-of-use assets	1,307	7	1	30	(6)	1,339
Investments	-	1	2	-	1	4
Total non-current assets	**1,244**	**6**	**3**	**26**	**(6)**	**1,273**
Trade receivables, Other receivables and assets and Inventories	217	(45)	223	196	(124)	468
Trade payables and other liabilities	495	(38)	(148)	(167)	124	265
Current tax assets and liabilities	(125)	(19)	(1)	2	1	(142)
Net working capital	**587**	**(102)**	**74**	**31**	**1**	**591**
Gross invested capital	**1,831**	**(96)**	**77**	**57**	**(5)**	**1,864**
Provisions for risks and charges	(14)	(6)	4	-	1	(16)
Provisions for employee termination benefits	18	(1)	1	(1)	(1)	17
Deferred tax assets/(liabilities)	13	3	246	(48)	(1)	214
Net invested capital	**1,848**	**(100)**	**328**	**8**	**(6)**	**2,079**
Equity	**42**	**40**	**(427)**	**116**	**-**	**(229)**
of which: fair value reserve	*1*	-	*(594)*	*11*	-	*(583)*
Financial liabilities	1,450	(13)	7,216	30	(310)	8,374
Technical provisions for the insurance business	-	-	-	3,996	-	3,996
Financial assets	(18)	10	(7,491)	(4,045)	98	(11,446)
Cash and deposits attributable to BancoPosta	-	-	(120)	-	-	(120)
Cash and cash equivalents	374	(137)	1,150	(89)	205	1,503
Net (funds)/debt	**1,806**	**(140)**	**755**	**(108)**	**(6)**	**2,307**

n/s: not significant

The Poste Italiane Group's non-current assets amount to €4,308 million at 31 March 2019, an increase of €1,273 million compared with the end of 2018. This primarily reflects first-time adoption of the new accounting standard, IFRs 16, from 1 January 2019, as described in more detail above. At 31 March 2019, right-of-use assets total €1,339 million after depreciation for the period. This figure reflects investment of €65 million, more than offset by depreciation, amortisation and impairments of €188 million, including €54 million in depreciation of right-of-use assets.

The Group's investment in the first quarter of 2019 amounts to €65 million, a 16% increase compared with the first quarter of 2018 (up €9 million).

€m



In line with the investment programme for the period 2018-2022, designed to support delivery of the Strategic Plan, around 82% of the Group's investment (€53 million) focused on the transformation of the Mail, Parcels and Distribution Strategic Business Unit.

In terms of the Mail & Parcels business, the progressive rollout of the new "Joint delivery" model continued, with the process due to be completed by the end of 2019. The new model is designed to ensure 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 introduction of alternative electric parcel delivery vehicles (3-wheeled vehicles) also continued. This will improve occupational safety and extend the process, launched in recent years, of adopting eco-friendly forms of transport, involving the introduction of a fleet of 4-wheeled electric vehicles. The introduction of lean production processes was extended to a further 3 sorting centres (in addition to the 7 where work began in 2018), involving the adoption of new operating standards and new equipment designed to make operations and workstations more ergonomic.

An adaptive component was installed in the new mail and parcel sorting system at the Milano Roserio sorting centre (MPKS), introduced in 2018, with the aim of further boosting the efficiency of sorting processes.

Finally, progressive expansion of the new PuntoPoste network continued, reaching a total of 1,400 points for collecting online purchases and sending returns and prefranked or prepaid parcels. The network now consists of 1,060 alternative collection points (mainly at tobacconists), and 340 PuntoPoste lockers located in the self-service areas of a number of post offices and in high footfall locations such as supermarkets, shopping centres and fuel stations.

In the other areas of business, investment in the modernisation of technology infrastructure and in consolidating the Group's Data Centre infrastructure continued, as did investment in the upgrade of post offices, the creation of new areas for specialist services (18 new rooms), physical security, improvements to the health and safety of employees and the installation of LED lamps in place of fluorescent lighting.

Initiatives relating to the "Small Towns" programme were also launched in the first quarter of 2019, with the aim of strengthening cooperation between Poste Italiane and Italian municipalities with less than 5,000 inhabitants. The main investment projects regarded the installation of WiFi networks in 1,154 post offices, the removal of architectural barriers at 157 sites and the creation of the "Small Towns" portal to monitor the state of progress in rolling out the initiative.

In the **Financial Services** Strategic Business Unit, total investment amounts to €5 million and regarded initiatives designed to expand the Wealth Management offering (Postal Savings, Life products and Funds) and those aimed at simplifying processes and ensuring compliance.

Investment in the **Payments, Mobile and Digital** Strategic Business Unit amounts to €6 million. Key initiatives, relating to the mail and parcels business, regarded upgraded applications for the Electronic Postman platform, the supply of the next generation of handheld devices for delivery staff, the development of new applications for handheld devices in order to obtain the customers' signatures and provide digital proof of receipt for legal process. Investment in telecommunications systems also included the launch of an upgrade programme for telecommunications platforms, with the first projects completed in the first quarter of 2019. Investment in the fixed and mobile offering also continued with the goal of boosting market competitiveness and improving quality.

As part of the Digital Transformation programme, work was carried out on reengineering and improving the user experience provided by the poste.it website and by Apps by launching "Personal Financial Management" functions and push alerts for the BancoPosta App. New functions were also added to the PostePay+ app relating to urban transport, car parks and fuel purchases.

In addition, in compliance with Law Decree 4 of 28 January 2019, all post offices have been enabled to handle applications for the Citizens' Income.

Investment in the **Insurance Services** Strategic Business Unit continued to focus on changes designed to support growth and on operational and infrastructural improvements to key business support systems. In particular, investment was targeted at the systems used in managing the Life portfolio and at developing the procedure for making claims and the new restricted area of the website. The process of insourcing and revamping customer care using the Group's TPA (Third Party Administration) also got underway in early 2019. Total investment amounted to €1 million.

Net working capital amounts to €2,328 million at 31 March 2019, an increase of €591 million compared with the end of 2018. This reflects an increase in receivables of €468 million, largely reflecting an increase in amounts due from Cassa Deposti e Prestiti and, to a lesser extent, from the MEF. In April, the Parent Company collected €440 million from Cassa Depositi e Prestiti (an amount recognised at 31 December 2018) and €66 million from the MEF as the accrued amount due for providing the Universal Service in the quarter.

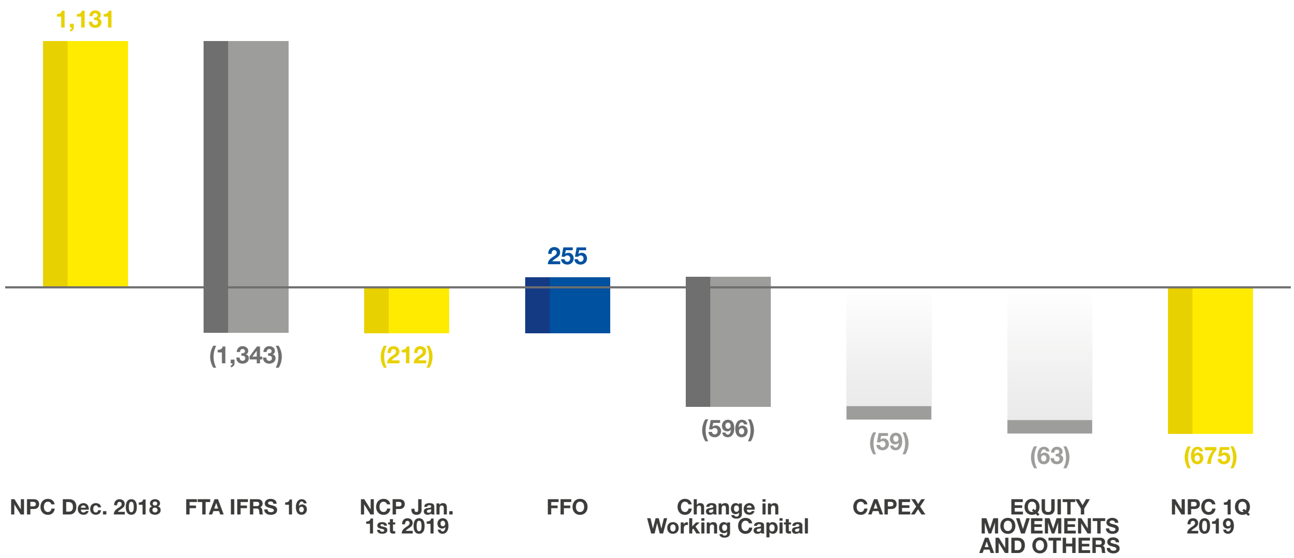
Provisions for risks and charges total €1,535 million (€1,519 million at the end of December 2018) and include the remaining provisions for early retirement incentives of €371 million, to cover the liabilities that Poste Italiane will incur (€444 million at 31 December 2018), under the current arrangements agreed with the unions, as a result of a certain number of staff taking voluntary early retirement by 31 December 2020. The balance also takes into account provisions for disputes with third parties and operational risk, the latter relating, among other things, to provisions for potential liabilities linked to claims brought by customers who invested in real estate funds in the period between 2002 and 2005 and whose performance was not in line with their expectations.

The €214 million increase in net deferred tax assets/(liabilities) primarily reflects the net negative effect of fair value losses taken to reserves. These losses primarily reflect movements in the value of investments classified as FVTOCI (a net positive effect on deferred tax assets and liabilities of €241 million).

Equity amounts to €7,876 million at 31 March 2019, a reduction of €229 million compared with 31 December 2018. The change primarily reflects net profit for the period of €439 million, a reduction of €583 million in the fair value reserve, reflecting movements in the value of investments classified as FVTOCI, a decrease of €24 million in the cash flow hedge reserve, and the purchase of 5,257,965 treasury shares (equal to 0.4026% of the share capital) during the period for a total of €40 million.

Total **net funds** at 31 March 2019 amount to €3,065 million, down from the figure at 31 December 2018 (net funds of €5,372 million). The reduction of €2,307 million during the period primarily reflects the recognition of financial liabilities resulting from first-time adoption, from 1 January 2019, of the new accounting standard, IFRS 16 (€1,359 million at 31 March 2019), the above-mentioned increase in net working capital of €591 million and the impact of the measurement of investments classified as FVTOCI held primarily by BancoPosta RFC which, unlike the case of investments held by Poste Vita SpA, is not reflected in the change in technical provisions for the insurance business.

Analysis of the net debt/(funds) of the Mail, Parcels and Distribution Strategic Business Unit



The Mail, Parcels and Distribution Strategic Business Unit has seen a decline of €1,806 million from net funds of €1,131 million at 31 December 2018 to net debt of €675 million at 31 March 2019. The change during the period primarily reflects first-time adoption, from 1 January 2019, of the new accounting standard, IFRS 16. The Strategic Business Unit's lease liabilities at 31 March 2019 amount to €1,329 million.

(€m)	At 31 March 2019	At 31 December 2018	Increase/(decrease)	
A. Liquidity	**(599)**	**(973)**	**374**	**-38.4%**
B. Current loans and receivables	**(80)**	**(57)**	**(23)**	**40.4%**
C. Current bank borrowings	-	201	(201)	-100.0%
D. Current lease liabilities	238	-	238	n/s
E. Current portion of non-current debt	-	-	0	n/s
F. Other current financial liabilities	13	23	(10)	-43.5%
G. Current financial debt (C+D+E+F)	**251**	**224**	**27**	**12.1%**
H. Current net (funds)/debt (A+B+G)	**(428)**	**(806)**	**378**	**-46.9%**
I. Non-current bank borrowings	173	-	173	n/s
L. Bond issues	50	50	0	0.0%
M. Non-current lease liabilities	1,091	-	1,091	n/s
N. Other non-current liabilities	26	27	(1)	-3.7%
O. Non-current financial debt (H+L+M+N)	**1,340**	**77**	**1,263**	**1640.3%**
P. Net (funds)/debt (ESMA guidelines) (H+O)	**912**	**(729)**	**1,641**	**-225.1%**
Non-current financial assets	(569)	(570)	1	-0.2%
Net (funds)/debt	**343**	**(1,299)**	**1,642**	**-126.4%**
Intersegment loans and receivables and financial liabilities	332	168	164	97.6%
Net (funds)/debt after adjusting for intersegment transactions	**675**	**(1,131)**	**1,806**	**-159.7%**

n/s: not significant

The movement reflects:

- the recognition of financial liabilities amounting to €1,343 million at 1 January 2019 due to application of IFRS 16 (at 31 March 2019, these liabilities amount to €1,329 million);
- operating profit €255 million (including €277 million in net profit and depreciation and amortisation and €22 million reflecting the change in provisions for risks and charges and for employee termination benefits or TFR);
- a net outflow for the change in net working capital and other remaining transactions, totalling €596 million;
- an outflow of €59 million for investing activities;
- an outflow of approximately €40 million to finance the purchase of treasury shares and the recognition of net lease liabilities of a further €23 million.

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

- an EIB loan of €173 million maturing in March 2026 (non-current bank borrowings);
- a private placement of approximately €50 million (bond issues).

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

Non-current financial assets include BTPs with a total value of €527 million (a nominal value of €500 million).

5. Outlook

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

The **Mail, Parcels and Distribution** Strategic Business Unit will be engaged in completing implementation of the new joint delivery model, which will see the reorganisation of all 755 delivery centres by the end of 2019. The Unit will also continue with the adoption of new automation technologies to support production processes, with the aim of boosting the efficiency and quality of sorting processes. The Group's new parcel sorting centre near Bologna will become fully operational in the coming months. The centre, located in the logistical heart of Italy, will host what is currently the country's largest sorting centre, employing approximately 350 people when at full capacity and equipped with the latest safety and energy saving technologies. Further mail and parcel sorting centres are also due to enter service.

The aim of this investment is to maximise synergies in the logistics and operations network and leverage all the Group's available assets, enabling us to improve our competitive position in the parcels market by taking advantage of the opportunities arising from the growth of e-commerce.

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

Creation of the new **Payments, Mobile and Digital** Strategic Business Unit aims to deliver on the strategic objective of becoming Italy's leading payments ecosystem, ensuring convergence between payments and mobile technology, and between physical and digital channels. In this regard, PostePay SpA intends to lead changes in the habits of consumers, businesses and the Public Administration, creating new integrated products and services, above all in the fields of acquiring, e-commerce and mobile and digital payments. With reference to Postepay Connect, the Community Connect project is being expanded by offering people the option of "connecting" their Postepay Evolution card, when at a post office, by purchasing a new PosteMobile SIM. Postepay Connect will also be the first product to be sold on line through a fully digital process using the Postepay App.

With regard to collection services, the possibility to make payments to the Public Administration using payment slips will be extended to third-party networks with which Poste Italiane has concluded agreements and the development of digital payment solutions for Public Administration customers will continue.

As regards card issuing, the following activities, among other things, will take place: the launch of a new version of the Postepay App, which will redistribute the platform, making it more user-friendly and easier to carry out transactions; the addition of new functions making it easier for customers to top up their Postepay card and addressing the issue of declined transactions; the introduction of parental control services to enable parents and guardians applying for a Postepay Junior card to have control over how the cards are used by children.

In line with the Deliver 2022 Plan, the **Financial Services** Strategic Business Unit will continue with initiatives designed to take advantage of the opportunities resulting from the recent regulatory changes brought about by MiFID II and IDD, leveraging the Group's existing strengths: its customer base, distribution network and brand.

In the Postal Savings segment, in agreement with Cassa Depositi e Prestiti, the Group aims to boost inflows into both its standard product range and special savings products. In addition, work on simplifying front-end operations will continue, with the aim of boosting efficiency and the quality of sales and after-sales services. New initiatives will also be launched with a view to expanding the range of services available to customers through both traditional physical and digital channels.

The boards of directors of Cassa Depositi e Prestiti and Poste Italiane have approved a committed credit facility for BancoPosta of up to €5 billion, enabling the diversification of BancoPosta's sources of funding.

With regard to BancoPosta current accounts, in the coming months, development of the offering will focus on meeting the needs of separate target customer segments and on making the changes necessary to ensure compliance with the new requirements introduced by the PSD2 Directive governing digital payments, which will come into effect from September 2019.

In terms of the distribution of loan products, the agreement with Intesa Sanpaolo will allow the Group to further expand its offering, adding new types of loan with the aim of responding more effectively to customer needs, a process that will include specific promotional campaigns. In addition, the launch of the new partnership with Unicredit, covering salary loans, will enable the Group to develop a multi-partner strategy, adding to the existing offering.

Finally, in response to the gradual decline in interest rates and the relative stability of credit spreads towards the end of the first quarter of 2019 and at the beginning of the second, BancoPosta RFC's financial management strategy has involved a number of transactions designed to boost the efficiency of the first-rate securities portfolio and the sale of another tranche of securities planned for 2019.

In keeping with the first quarter of 2019, the offering of **insurance** products will aim to consolidate the Group's leadership in the Italian market, supported by products providing greater value added (multiclass products). These products have risk-return profiles that are still moderate, in keeping with the type of customer served by the Group, but potentially provide more attractive returns on investment. In the P&C segment, the aim is to continue to achieve growth in the welfare and non-vehicle sectors, focusing on property insurance and development and completion of the loan and mortgage protection offering.

Finally, with regard to vehicle insurance, the Group is looking at the market and at potential partnerships with a view to piloting the distribution of vehicle insurance policies to employees.

6. Other information

Poste Italiane's integrated Internal Control and Risk Management System

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

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

This system is at the heart of Poste Italiane's corporate governance[16], allowing the Board of Directors to pursue its priority goal of creating value over the medium to long term whilst being able to determine the nature and level of risk that is compatible with the Company's business objectives.

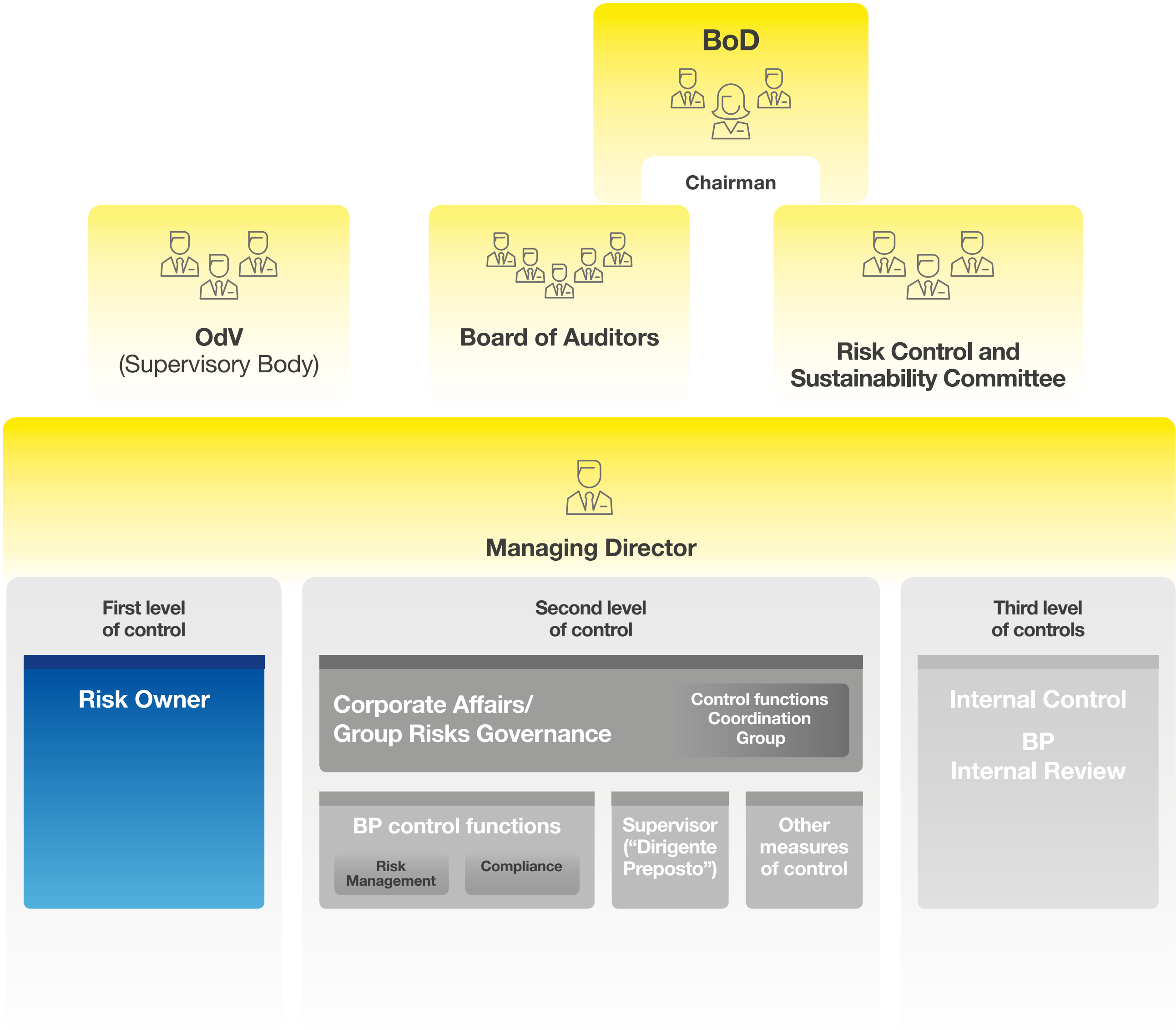
For this reason, the Company has proceeded to adopt an SCIGR that is integrated with both the system's internal and external environments. On the one hand, its components must be coordinated and interdependent with each other whilst, on the other, the overall system has to be integrated into the general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

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

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

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

Poste Italiane's Internal Control and Risk Management System



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

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

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

Risk management and risk assessment

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

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

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

The principal forms of financial risk to which the Group is exposed are described below.

Risk category	Description
Spread	This is the risk of a potential fall in the value of the bonds held, following deterioration in the creditworthiness of issuers. This is due to the importance that the impact of the spread on yields on government securities has on the fair value of euro zone government and corporate securities. In the Poste Italiane Group's case, this risk particularly relates to the spread between Italian and German government securities, which influences the fair value of the Group's holdings of Italian government securities, the nominal value of these securities at 31 December 2018 amounted to €126.5 billion (€150 billion in terms of total bond holdings). At the end of March 2019, the spread on ten-year government bonds was 256 bps[17]. The yield on 10-year Treasury Notes (BTPs) has fallen from 2.74% at the end of 2018 to 2.48% in March 2019. Compared with the end of the previous year, the increase in the spread between long-term yields on Italian government bonds and risk-free returns has resulted in a reduction in the overall fair value of the portfolio (securities and the related hedges) and, as a result, an increase in unrealised losses[18]. An increase in the spread also has an impact on the Poste Vita group's solvency ratio, which at 31 March 2019 stands at 214%, up from 211% in December 2018. Given the performance of the spread and pressure on the solvency ratio, in 2018, the insurance company examined and implemented measures to support its solvency ratio, including the use of so-called ancillary own funds (AOFs), represented by unfunded capital instruments in the form of unsecured guarantees or commitments that may be included in the computation of own funds. The transaction designed to strengthen the company's capital position through the use of AOFs was formalised in November 2018 with Poste Italiane's signature of an unconditional, irrevocable commitment letter with a five-year term. The letter commits the Parent Company, merely at the request of the subsidiary, to subscribe for ordinary shares to be issued in future by Poste Vita, amounting to up to €1,750 million. Following clearance from IVASS in February 2019, the commitment letter signed by the Parent Company in the subsidiary's favour is included in the computation of Tier 2 AOFs, as defined by the Solvency II Directive and the regulatory framework for insurance companies, within the limits represented by the available amount, being approximately €1,022 million at 31 March 2019.
Price	This is the risk that the value of a financial instrument fluctuates as a result of market price movements, deriving from factors specific to the individual instrument or the issuer, and factors that influence all instruments traded on the market.
Credit	This is the risk of default of one of the counterparties to which there is an exposure. In relation to revenue and receivables due from the state and from central and local government entities, regulated by statute and specific agreements or contracts, prompt and full payment of the amounts due is dependent on availability of the necessary funds in the state budget or in the budgets of the related public sector entities.
Liquidity	This is the risk that the Poste Italiane Group is unable to meet its obligations deriving from financial instruments due to its inability to raise sufficient funds (funding liquidity risk) or to sell assets in the market (market liquidity risk) effectively or at market conditions. The Poste Italiane Group applies a financial policy based on diversification of the various forms of short-term and long-term borrowings and counterparties, the availability of significant committed and uncommitted lines of credit in terms of amounts and the number of banks, the gradual and consistent distribution of the maturities of medium/long-term borrowings and the use of dedicated analytical models to monitor the maturities of assets and liabilities.
Fair value interest rate	This is the risk that the value of a financial instrument fluctuates as a result of movements in market interest rates. This refers to the effects of changes in interest rates on the price of fixed rate financial instruments or variable rate financial instruments converted to fixed rate via cash flow hedges and, to a lesser degree, the effects of changes in interest rates on the fixed components (the interest spread) of floating rate financial instruments or fixed rate financial instruments converted to variable rate via fair value hedges. The impact of these effects is directly related to the financial instrument's duration.
Cash flow interest rate	This is defined as the uncertainty related to the generation of future cash flows, due to fluctuations in market interest rates. Such risk may arise from the mismatch – in terms of interest rate, interest rate resets and maturities – of financial assets and liabilities until their contractual maturity and/or expected maturity (banking book), with effects in terms of interest spreads and, as such, an impact on future results.
Cash flow inflation	This is defined as the uncertainty related to future cash flows due to changes in the rate of inflation observed in the market.
Foreign exchange risk	This is the risk that the value of a financial instrument fluctuates as a result of movements in exchange rates for currencies other than the functional currency. This risk primarily regards trade receivables and payables due from and to overseas counterparties, investments in equity instruments and holdings in certain funds.

17. Source: Bloomberg.
18. With reference to Poste Italiane SpA, the portfolio exposed to this form of risk at 31 March 2019 amounts to a total of €32,762 million and consists of financial assets at FVTOCI. The sensitivity analysis conducted on the portfolio shows that an upward shift of in the spread of 100 bps would reduce fair value by approximately €2,874 million (following a 100 bps increase in the spread, the fair value of fixed income securities, measured at an amortised cost of €24,543 million at 31 March 2019, would be reduced by approximately €2,205 million, with the change not reflected in the accounts). With regard to the Poste Vita group, on the other hand, the portfolio exposed to this form of risk at 31 March 2019 amounts to a total of €99,206 million and primarily consists of financial assets at FVTOCI. The sensitivity analysis conducted on the portfolio shows that an upward shift of in the spread of 100 bps would reduce fair value by approximately €6,383 million (€6,332 million would be attributed to deferred liabilities to policyholders under the shadow accounting mechanism).

Risk category	Description
Downgrade of Poste Italiane	This regards the risk of a downgrade of the ratings assigned to Poste Italiane by the three rating agencies, the latest being: ■ Standard & Poors: BBB/Negative ■ Moody's: Baa3/Stable ■ Fitch: BBB/Negative An eventual downgrade due to a significant deterioration in Poste Italiane's creditworthiness, above all to below investment grade, could have an impact on Poste Italiane's cost of funding and potentially restrict Poste Italiane's access to certain forms of financing, including the capital markets.
Downgrade of the Italian Republic	This is the risk of a downgrade of the Italian Republic, to which Poste Italiane is indirectly exposed. Poste Italiane's rating is closely linked with the sovereign rating and, based on the methods currently used by the rating agencies, further downgrades of Italy could have a similar impact on Poste Italiane's ratings. In addition, any new downgrade of Italy, above all a downgrade to below investment grade, could cause a further widening of the spread between the yields on Italian and German government bonds, leading to the effects described in the "Spread risk" category. On 26 April 2019, Standard & Poors confirmed its rating of the Italian Republic as BBB/Negative.

Events after 31 March 2019

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

Other events after the end of the interim reporting period have been described in other sections of this interim report and no other material events have occurred after 31 March 2019.

Related party transactions of greater significance

There are no related party transactions of greater significance completed in the first quarter of 2019 requiring prior approval from the Related and Connected Parties Committee, in accordance with the guidelines for managing transactions with related and connected parties.

7. Consolidated financial statements at and for the three months ended 31 March 2019

Consolidated statement of financial position

Assets (€m)	At 31 March 2019	At 31 December 2018
Non-current assets		
Property, plant and equipment	1,898	1,945
Investment property	47	48
Intangible assets	523	545
Right-of-use assets	1,339	-
Investments accounted for using the equity method	501	497
Financial assets	176,951	170,922
Trade receivables	7	7
Deferred tax assets	1,591	1,368
Other receivables and assets	3,489	3,469
Technical provisions attributable to reinsurers	74	71
Total	**186,420**	**178,872**
Current assets		
Inventories	138	136
Trade receivables	2,839	2,192
Current tax assets	112	117
Other receivables and assets	909	1,111
Financial assets	25,359	19,942
Cash and deposits attributable to BancoPosta	3,438	3,318
Cash and cash equivalents	1,692	3,195
Total	**34,487**	**30,011**
Total assets	**220,907**	**208,883**

Liabilities and equity (€m)	At 31 March 2019	At 31 December 2018
Equity		
Share capital	1,306	1,306
Reserves	925	1,531
Own shares	(40)	-
Retained earnings	5,685	5,268
Equity attributable to owners of the Parent	**7,876**	**8,105**
Equity attributable to non-controlling interests	-	-
Total	**7,876**	**8,105**
Non-current liabilities		
Technical provisions for insurance business	129,146	125,149
Provisions for risks and charges	662	656
Employee termination benefits	1,170	1,187
Financial liabilities	10,067	7,453
Deferred tax liabilities	711	701
Other liabilities	1,322	1,379
Total	**143,078**	**136,525**
Current liabilities		
Provisions for risks and charges	873	863
Trade payables	1,485	1,583
Current tax liabilities	149	12
Other liabilities	2,210	2,319
Financial liabilities	65,236	59,476
Total	**69,953**	**64,253**
Total equity and liabilities	**220,907**	**208,883**

Consolidated statement of profit or loss

(€m)	For the three months ended 31 March 2019	For the three months ended 31 March 2018
Revenue from Mail, Parcel & other	880	898
Revenue from Payments, Mobile & Digital	140	143
Revenue from Financial Services	1,484	1,519
Revenue from Insurance Services after movements in technical provisions and other claims expenses	338	324
Insurance premium revenues	5,952	5,312
Income from insurance activities	1,751	832
Net change in technical provisions for insurance business and other claim expenses	(7,304)	(5,420)
Expenses from insurance activities	(61)	(400)
Net operating revenue	**2,842**	**2,884**
Cost of goods and services	533	557
Expenses from financial activities	13	30
Personnel expenses	1,438	1,430
Depreciation, amortisation and impairments	188	132
Capitalised costs and expenses	(5)	(2)
Other operating costs	48	27
Impairment loss/(reversal) on debt instruments, receivables and other assets	10	7
Operating profit/(loss)	**617**	**703**
Finance costs	23	20
Finance income	25	23
Impairment loss/(reversal) on financial instruments	-	-
Profit/(Loss) on investments accounted for using the equity method	4	5
Profit/(Loss) before tax	**623**	**711**
Income tax expense	184	226
Net profit for the period	**439**	**485**
of which, attributable to owners of the Parent	439	485
of which, attributable to non-controlling interests	-	-
Earnings per share	**0.338**	**0.372**
Diluted earnings per share	**0.338**	**0.372**

Consolidated statement of comprehensive income

(€m)	For the three months ended 31 March 2019	For the year ended 31 December 2018	For the three months ended 31 March 2018
Net profit/(Loss) for the period	**439**	**1,399**	**485**
Items to be reclassified in the Statement of profit or loss for the period			
FVTOCI debt instruments			
Increase/(decrease) in fair value during the period	(608)	(1,946)	863
Transfers to profit or loss	(207)	(396)	(370)
Increase/(Decrease) for expected credit loss	-	(1)	(1)
Cash flow hedges			
Increase/(decrease) in fair value during the period	52	191	33
Transfers to profit or loss	(85)	19	(5)
Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the period	241	609	(149)
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	-	-	-
Items not to be reclassified in the Statement of profit or loss for the period			
FVTOCI equity instruments			
Increase/(decrease) in fair value during the period	-	-	-
Transfers to equity	-	-	-
Actuarial gains/(losses) on provisions for employee termination benefits	(29)	16	7
Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the period	8	(4)	(2)
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method	-	-	-
Total other comprehensive income	**(628)**	**(1,511)**	**376**
Total comprehensive income for the period	**(189)**	**(112)**	**861**
of which, attributable to owners of the Parent	(189)	(112)	861
of which, attributable to non-controlling interests	-	-	-

Consolidated statement of changes in equity

	Equity										
	Share capital	Own shares	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	Reserve for investees accounted for using equity method				
Balance at 1 January 2018	**1,306**	**-**	**299**	**1,000**	**1,604**	**(61)**	**2**	**4,616**	**8,766**	**-**	**8,766**
Total comprehensive income for the period	-	-	-	-	351	20	-	490	861	-	861
Dividends paid	-	-	-	-	-	-	-	-	-	-	-
Balance at 31 March 2018	**1,306**	**-**	**299**	**1,000**	**1,955**	**(41)**	**2**	**5,106**	**9,627**	**-**	**9,627**
Total comprehensive income for the period	-	-	-	-	(2,024)	130	-	921	(973)	-	(973)
Dividends paid	-	-	-	-	-	-	-	(549)	(549)	-	(549)
Other changes	-		-	210	-	-	-	(210)	-	-	-
Balance at 31 December 2018	**1,306**	**-**	**299**	**1,210**	**(69)**	**89**	**2**	**5,268**	**8,105**	**-**	**8,105**
Total comprehensive income for the period	-	-	-	-	(582)	(24)	(1)	418	(189)	-	(189)
Dividends paid	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	(40)	-		-	-	-		(40)	-	(40)
Balance at 31 March 2019	**1,306**	**(40)**	**299**	**1,210**	**(651)**	**65**	**1**	**5,686**	**7,876**	**-**	**7,876**

Condensed consolidated statement of cash flows

(€m)		For the three months ended 31 March 2019	For the three months ended 31 March 2018
Unrestricted net cash and cash equivalents at beginning of period		**1,639**	**1,978**
Cash subject to investment restrictions		53	-
Escrow account with the Italian Teasury		72	55
Cash attributable to technical provisions for insurance business		1,392	358
Amounts that cannot be drawn on due to court rulings		18	15
Current account overdrafts		-	1
Cash received on delivery (restricted) and other restrictions		21	21
Cash and cash equivalents at beginning of period		**3,195**	**2,428**
Cash and cash equivalents at beginning of period		**3,195**	**2,428**
Net profit/(loss) for the period		439	485
Depreciation, amortisation and impairments		188	132
Losses and impairments/(reversals of impairments) on receivables		8	7
(Gains)/Losses on disposals		-	-
Impairment of disposal groups		-	-
(Increase)/decrease in inventories		(2)	1
(Increase)/decrease in receivables and other assets		(541)	(834)
Increase/(decrease) in payables and other liabilities		(54)	142
Movement in group of assets and liabilites held for sale		-	-
Movement in provisions for risks and charges		16	20
Movement in provisions for employee termination benefits and pension plans		(48)	(39)
Differences in accrued finance costs and income (cash correction)		14	13
Other changes		30	8
Net cash flow generated by/(used in) non-financial operating activities	**[a]**	**50**	**(65)**
Increase/(decrease) in liabilities attributable to financial activities		5,503	2,873
Net cash generated by/(used for) financial assets attributable to financial activities		(6,194)	(2,116)
(Increase)/decrease in cash and deposits attributable to BancoPosta		(119)	368
(Income)/expenses from financial activities		(445)	(786)
Cash generated by/(used for) assets and liabilities attributable to financial activities	**[b]**	**(1,255)**	**339**
Net cash generated by/(used for) financial assets attributable to insurance activities		(1,440)	(1,758)
Increase/(decrease) in net technical provisions for insurance business		2,905	3,255
(Gains)/losses on financial assets/liabilities measured at fair value through profit or loss		(1,095)	276
(Income)/expenses from insurance activities		(466)	(545)
Cash generated by/(used for) assets and liabilities attributable to insurance activities	**[c]**	**(96)**	**1,228**
Net cash flow from/(for) operating activities	**[d]=[a+b+c]**	**(1,301)**	**1,502**
Investing activities			
Property, plant and equipment, investment property and intangible assets		(65)	(56)
Investments		(1)	-
Other financial assets		(50)	-
Disposals			
Property, plant and equipment, investment property and intangible assets and assets held for sale		-	1
Investments		-	-
Other financial assets		25	164
Change in scope of consolidation		-	-

(€m)		For the three months ended 31 March 2019	For the three months ended 31 March 2018
Net cash flow from/(for) investing activities	**[e]**	**(91)**	**109**
Proceeds from/(Repayments of) borrowings		(71)	(6)
(Increase)/decrease in loans and receivables		-	-
(Purchase)/disposal own shares		(40)	-
Dividends paid		-	-
Net cash flow from/(for) financing activities and shareholder transactions	**[f]**	**(111)**	**(6)**
Net increase/(decrease) in cash	**[g]=[d+e+f]**	**(1,503)**	**1,605**
Cash and cash equivalents at end of period		**1,692**	**4,033**
Cash and cash equivalents at end of period		**1,692**	**4,033**
Cash subject to investment restrictions		-	-
Escrow account with the Italian Teasury		(72)	(55)
Cash attributable to technical provisions for insurance business		(1,158)	(1,481)
Amounts that cannot be drawn on due to court rulings		(18)	(15)
Current account overdrafts		-	-
Cash received on delivery (restricted) and other restrictions		(16)	(13)
Unrestricted net cash and cash equivalents at end of period		**428**	**2,469**

8. Declaration of the manager responsible for financial reporting

The manager responsible for financial reporting, Tiziano Ceccarani, 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 2019 is consistent with the underlying accounting records.

9. 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, Poste Italiane has included a number of indicators in this report that have been derived from them. These provide management with a further tool for measuring the Group's performance.

The following alternative performance indicators are used:

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

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

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

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

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

(€m)	Q1 2018	Q1 2019	Q1 2019 VS Q1 2018	
Reported EBIT	**703**	**617**	**(86)**	**-12%**
Adjustment - Revenue	**402**	**273**	**(129)**	**-32%**
Gains from financial activities	*402*	*261*	*(141)*	*-35%*
Visa (FV measurement under IFRS 9)	*0*	*12*	*12*	*n/s*
Adjustment - Costs	**30**	**7**	**(24)**	**-78%**
Early retirement incentives	*6*	*3*	*(3)*	*-50%*
Losses from financial activities	*24*	*0*	*(24)*	*-100%*
Change in fair value of derivative hedging VISA shares	*0*	*4*	*4*	*n/s*
Total adjusted items	**(372)**	**(266)**	**106**	**28%**
Adjusted ebit	**331**	**351**	**20**	**6%**
Reported net profit	**485**	**439**	**(46)**	**-10%**
Adjustment to EBIT (after taxation)	*(266)*	*(192)*	*74*	*28%*
Poste Vita deferred tax assets	*0*	*(16)*	*(16)*	*n/s*
Total adjustment to net profit	**(266)**	**(208)**	**58**	**22%**
Adjusted net profit	220	231	12	5%

(€m)	Q1 2018	Q1 2019	Q1 2019 VS Q1 2018
Net profit	**485**	**439**	**(46)**
Average equity	**7,477**	**8,273**	**797**
Roe	**6.5%**	**5.3%**	**-1.2%**
Adjustment to net profit	*(265)*	*(208)*	*58*
Adjustment to average equity	*(70)*	*(268)*	*(198)*
Adjusted net profit	**220**	**231**	**12**
Adjusted average equity	**7,407**	**8,005**	**599**
Adjusted roe	**3.0%**	**2.9%**	**-0.1%**

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

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

This indicator is also presented separately for each Strategic Business Unit before adjusting for intersegment transactions.

NET INVESTED CAPITAL – this indicator represents the sum of non-current assets and net working capital, deferred tax assets, deferred tax liabilities, provisions for risks and charges and provisions for employee termination benefits and pension plans and non-current assets and disposal groups held for sale and liabilities related to assets held for sale. This indicator is also presented separately for each Strategic Business Unit inclusive of intersegment transactions.

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

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

COMBINED RATIO is a measure of profitability, calculated by taking total claim-related losses and general business costs and dividing them by the value of gross earned premiums and gross premium revenue. It is the sum of the Loss Ratio and the Expense Ratio.

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

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

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Poste Italiane SpA

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