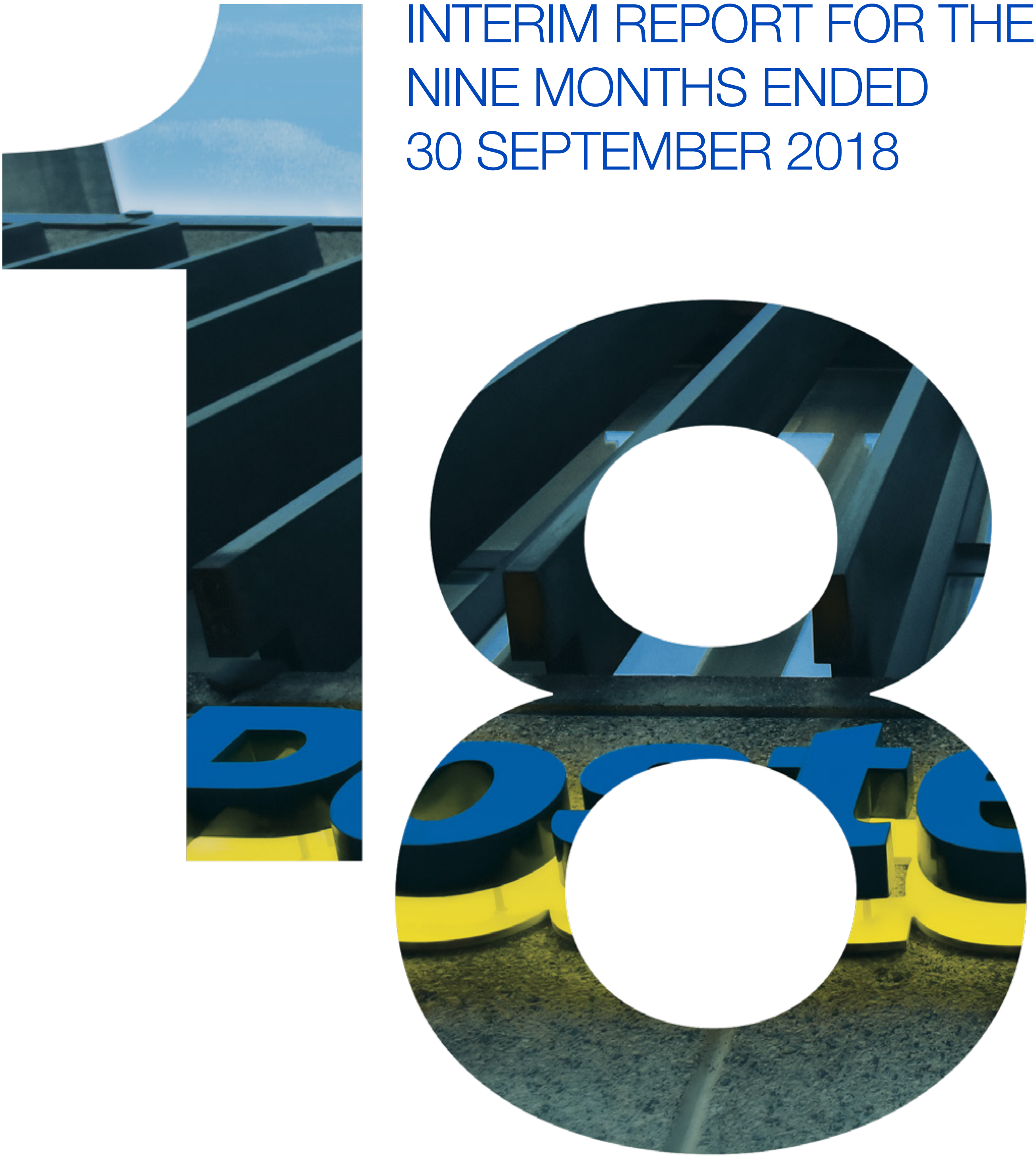
THE VALUE OF TRANSPARENCY

INTERIM REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018



Posteitaliane

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INTERIM REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018


Poste

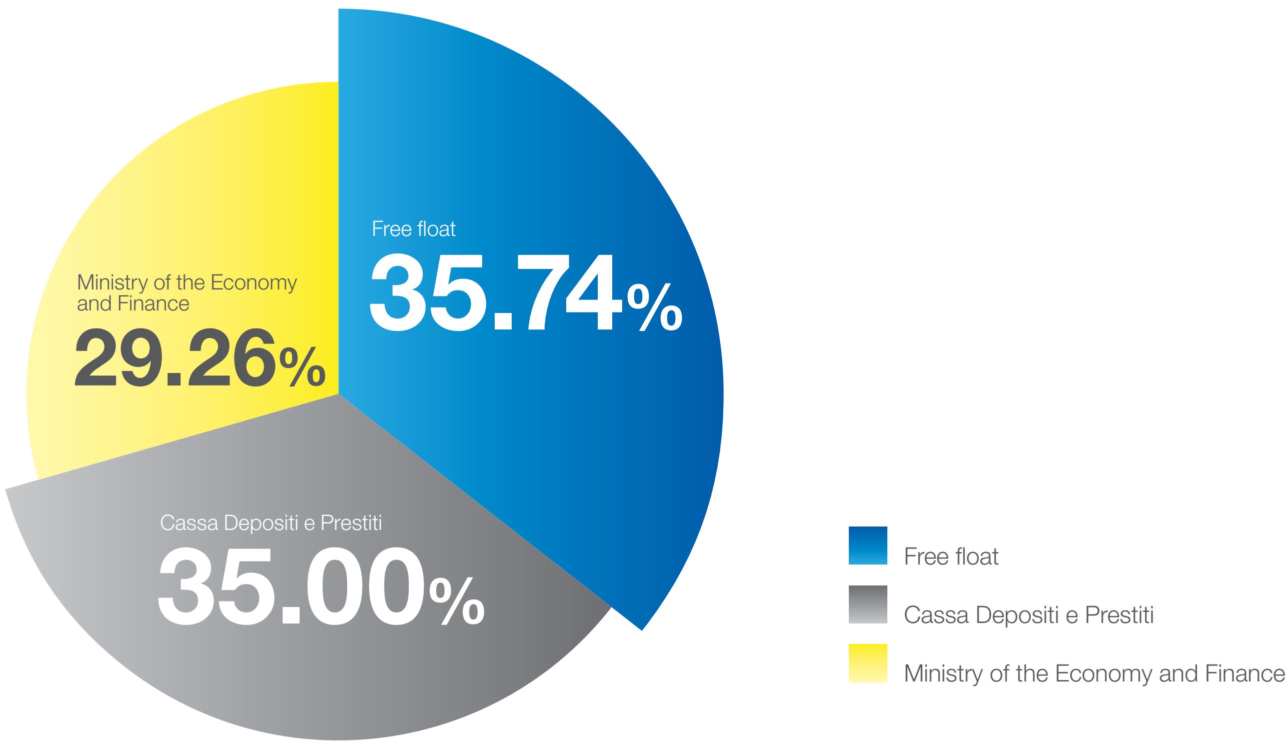
Contents

1. Introduction

The Poste Italiane Group's consolidated interim report for the nine months ended 30 September 2018 has been prepared, on a voluntary basis, in accordance with art. 82-ter of the CONSOB's Regulations for Issuers, "Additional interim financial disclosures". The consistency and correctness of the additional disclosures contained in the document, which has not been audited, is guaranteed, as is comparability of the related information with the corresponding disclosures included in previously published financial reports.

2. Ownership and Organisational Structure

Shareholder breakdown



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]

Magistrate appointed by the Italian Court of Auditors to audit Poste Italiane

Francesco Petronio

Indipendent auditors

PricewaterhouseCoopers S.p.A.

AUDIT, RISK AND SUSTAINABILITY COMMITTEE[5]
Antonella Guglielmetti (Chairwoman)
Giovanni Azzone
Francesca Isgrò
Roberto Rossi

REMUNERATION COMMITTEE[5]
Carlo Cerami (Chairman)
Giovanni Azzone
Roberto Rossi

NOMINATIONS AND CORPORATE GOVERNANCE COMMITTEE[5]
Roberto Rao (Chairman)
Antonella Guglielmetti
Mimi Kung

RELATED AND CONNECTED PARTIES COMMITTEE[5]
Francesca Isgrò (Chairwoman)
Carlo Cerami
Mimi Kung
Roberto Rao

(1) The Board of Directors was elected by the Annual General Meeting held on 27 April 2017 to serve for a period of three years, and will remain in office until the Annual General Meeting's approval of the financial statements for the year ended 31 December 2019.
(2) The Board of Statutory Auditors was elected by the Ordinary General Meeting of 24 May 2016 to serve for a period of three years and will remain in office until the General Meeting's approval of the financial statements for the year ended 31 December 2018. On 30 January 2017, the Alternate Auditor, Andrea Bonechi, resigned from his position with immediate effect. As a result, the Annual General Meeting of 27 April 2017 elected Antonio Santi to serve as an Alternate Auditor.
(3) The Supervisory Board was appointed by the Board of Directors' meeting of 24 May 2016 for a three-year term. Giulia Bongiorno, appointed a member of the Supervisory Board by the Board of Directors on 22 June 2017, resigned on 12 March 2018.
(4) The only internal member, Head of Poste Italiane SpA's Internal Auditing.
(5) Committee members were appointed by the Board of Directors' meeting of 28 April 2017. At the meeting of 19 February 2018, the Board of Directors renamed the Nominations Committee and the Audit and Risk Committee the Nominations and Corporate Governance Committee and the Audit, Risk and Sustainability Committee, respectively.

Meetings of the Board of Directors of Poste Italiane SpA

Poste Italiane's Board of Directors met on 11 occasions in the first nine months of 2018 to examine the following principal matters and approve the following resolutions.

Date	Principal Resolutions
25 January 2018	Proposed changes to BancoPosta RFC: Injection of fresh capital by Poste Italiane into BancoPosta RFC to boost leverage ratio
	Proposed changes to BancoPosta RFC (removal from the ring-fence of the "payment services and card payments" unit); Changes to the subsidiary, PosteMobile: (A) authorisation to establish a separate ring-fenced card payments and payment services entity, (B) the transformation of this entity into a hybrid Electronic Money Institution (EMI); Grant of authority to begin the process of applying for authorisation from the Bank of Italy
	Participation in Anima Holding SpA's rights issue
19 February 2018	Preliminary results for 2017, proposed dividend
26 February 2018	Approval of the Deliver 2022 Strategic Plan
29 March 2018	The Company's financial statements for the year ended 31 December 2017 and the consolidated financial statements for the same period
	Proposed appropriation of earnings
19 April 2018	Revision of the Group's Code of Ethics
	Revision of the Whistleblowing Guidelines
	Data Protection Guidelines (GDPR)
27 April 2018	Authorisation to purchase and dispose of treasury shares
9 May 2018	Interim report for the three months ended 31 March 2018
29 May 2018	Long-term contract with Amazon for postal delivery services (parcels)
28 June 2018	Revision of the 231 Model
1 August 2018	Half-year report for the six months ended 30 June 2018
	Revision of the Group's Anti-Money Laundering Guidelines and appointment of the Head of the Group's Anti-Money Laundering unit
	Sustainability Guidelines: "The ESG (Enviromental, Social and Governance) process within the Poste Italiane Group"
	Guidelines for application of the independence requirements for members of the Board of Directors
20 September 2018	Report and assessment following completion of the IT upgrade plan required as part of the process of receiving authorisation to operate as an EMI and subsequent submission to the Bank of Italy of the relevant extract from the Board meeting minutes, as required by the supervisory authority as a condition of PosteMobile SpA's registration as an EMI
	Revision of SDA Express Courier's business plan and authorisation for the company's recapitalisation, totalling €50 million

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

The transaction envisages the partial spin-off of management of the assets underlying Poste Vita SpA's Class I insurance products (totalling over €70 billion), previously attributed to BancoPosta Fondi SpA SGR, to Anima SpA SGR and extension of the partnership that will have a duration of 15 years.

Following the receipt of clearance from the Bank of Italy on 11 July 2018, extraordinary general meetings of the shareholders of BancoPosta Fondi SGR and Anima SGR approved the spin-off with effect from 1 November 2018. In return for the transfer to ANIMA Holding of the shares in ANIMA SGR resulting from the partial spin-off of BancoPosta Fondi, on 24 October 2018 Poste Italiane received the sum of €120 million.

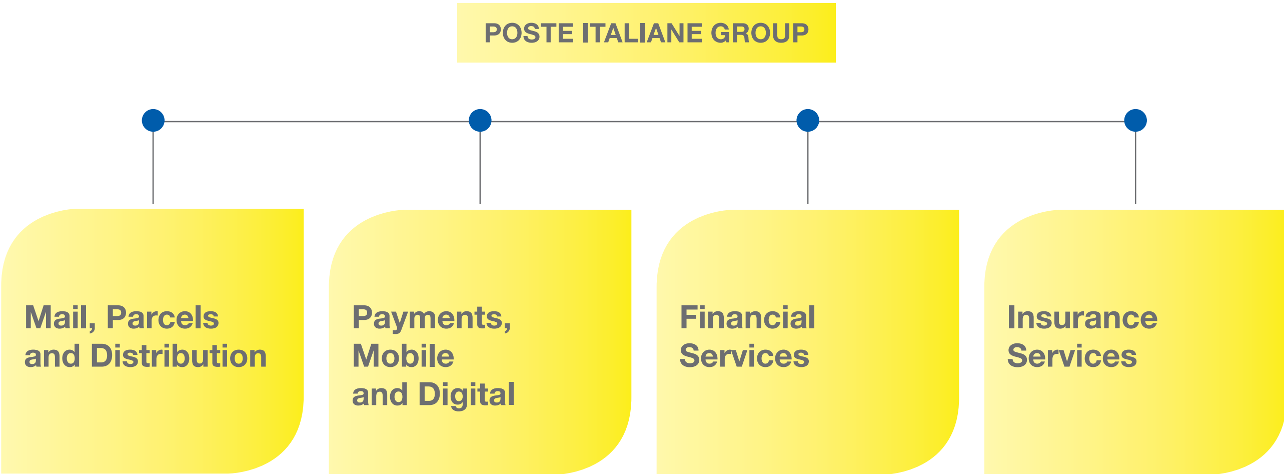
With the aim of more effectively driving growth in the payment services market and strengthening the service offering for retail, business and Public Administration customers, Poste Italiane has decided to combine the Poste Italiane Group's distinctive expertise and competencies in the field of mobile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

This will involve the contribution in kind to PosteMobile SpA of the card payments and payment services managed by BancoPosta RFC and PosteMobile's establishment of a separate ring-fenced entity to specialise in card payments and payment services, and through which PosteMobile SpA will be able to operate as a "hybrid" electronic money institution ("EMI"), whilst also continuing to operate as a mobile virtual network operator.

Following the receipt of clearance from the Bank of Italy, the Extraordinary General Meeting of Poste Italiane's shareholders held on 29 May 2018 approved the proposed removal, from the ring-fence that applies to BancoPosta RFC, of the assets, contractual rights and authorisations that make up the card payments and payment services unit.

The transaction as a whole was effective from 1 October 2018. From the same date, Poste Mobile SpA has changed its name to PostePay SpA.

The Group’s operating segments



Poste Italiane SpA’s organisational structure

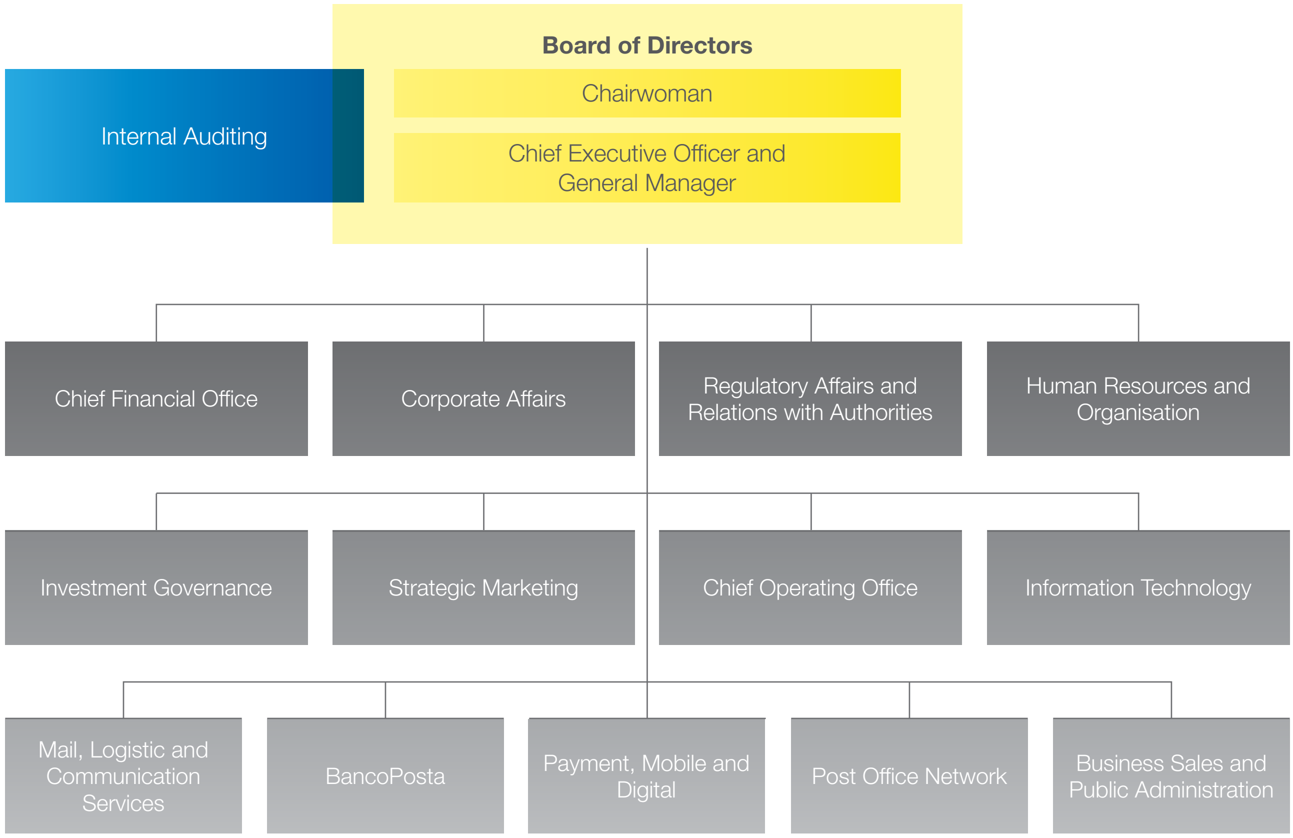
The process of simplifying the geographical structure of the Chief Financial Office, Human Resources and Organisation, Mail, Communication and Logistics and Private Customer functions continued in the third quarter of 2018. This has involved the development of a new operating model based around macro areas and the related organisational structures, with the aim of putting in place more effective and efficient processes.

In the same period, with the aim of giving information systems a lead role in developing the business through the introduction of new technologies, the Information Technology function now reports directly to the Chief Executive Officer.

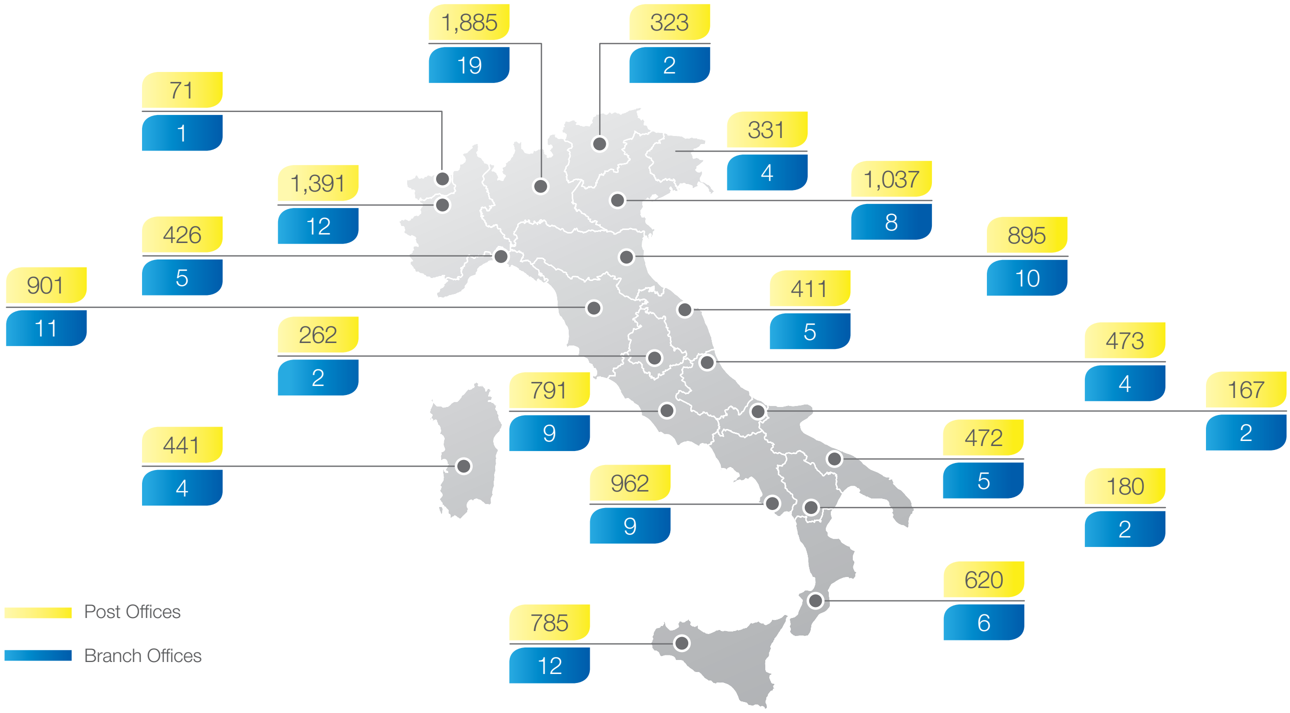
In addition, as part of the process of restructuring BancoPosta RFC and establishing PostePay SpA, as described above, from 1 October, responsibility for complaints management, transactions and financial back office operations has been transferred to the Chief Operating Office, in keeping with the plan to centralise back office activities.

Contents

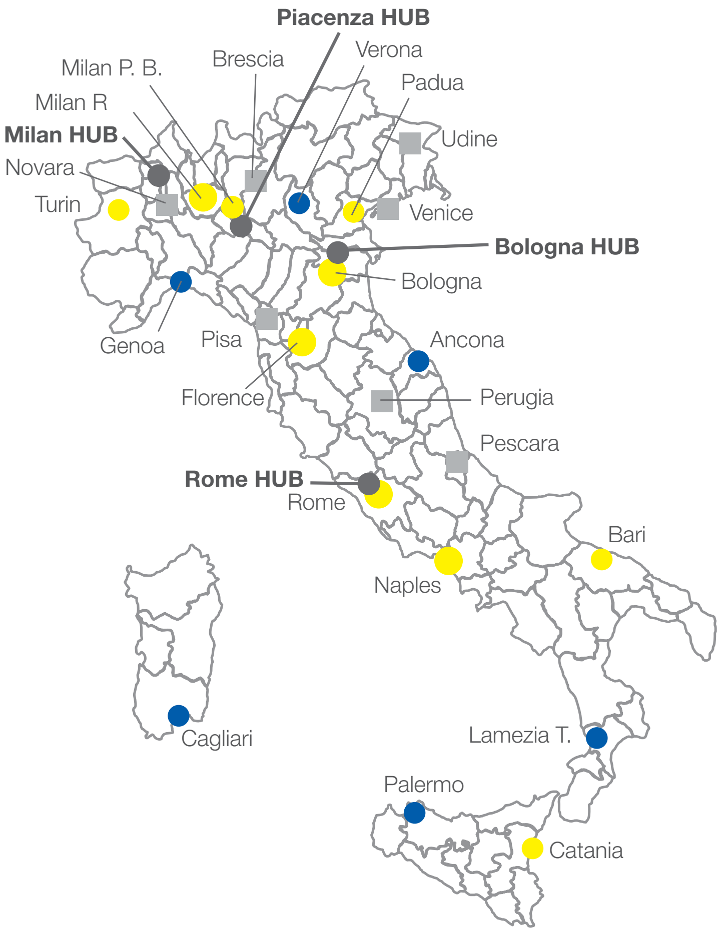
Organisational chart



Geographical distribution of post offices and branch offices



Structure of the logistics network



Key

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

3. Macroeconomic environment

In the first nine months of 2018, the international macroeconomic environment was fairly positive. In its World Economic Outlook, the International Monetary Fund forecasts GDP growth of 3.7% for 2018, in line with the previous year's figure. However, it highlights increasing differences between countries, in contrast to the widespread expansion seen in the latter part of 2017 and earlier this year. Moreover, trade tensions between the United States and its main economic partners are weakening world trade, making the activities of companies operating in international markets more risky, with negative effects on confidence and investment.

The slowdown in growth has seen an easing of the prices of non-energy commodities, with benefits for global inflation, while oil prices have continued to rise (on 28 September the price of Brent was $82.69 per barrel, compared to $79.2 per barrel on 29 June 2018) as a result of lower production in some countries, such as Venezuela, and the announcement of the reinstatement of US sanctions against Iran.

So far the impact of trade tensions on the **United States** has been limited, and in the second quarter GDP grew rapidly compared to the previous quarter, with the rate of growth rising from 0.5% to 1.0%. Growth was driven by consumer spending (up 0.9% on the previous quarter), exports and investment. In this economic context, in September the Federal Reserve announced an increase of 25 basis points in the Fed Funds rate (from 2.00% to 2.25%) and announced its intention to proceed with further increases during 2019.

The **UK** economy also grew, with second quarter growth of 0.4% compared with the first quarter. Growth was boosted by domestic demand, thanks to a low unemployment (stable at 4%), while exports, although favoured by the continuing weakness of the pound versus the currencies of its major trading partners (the United States and Germany), acted as a brake.

China reported growth in the second quarter, with a slight economic slowdown compared to the previous quarter (growth of 1.6% and 1.8%, respectively). This slackening was due to domestic demand, especially in terms of investment, in contrast to strong growth of imports and exports despite the ramping up of trade disputes with the United States.

After forging ahead in 2017, the **euro area** continued to grow at a moderate pace in the first part of the year (the economy grew 0.4% between the first and second quarters), with a positive contribution from expenditure on capital goods and non-residential construction, which offset the slowdown in private consumption and exports. In September, the €-coin indicator[1] was up slightly at 0.52, compared to the 0.47 registered in August. Inflation is still around 2% in many European countries, mainly as a result of the increase in energy prices. In the coming months, it should remain in line with the ECB's forecasts as employment growth (in the second quarter the euro area achieved a record level of employment of 158 million) will support wage trends.

The **Italian** economy continued to grow at a moderate pace, with the second quarter of the year closing with a slight deceleration. According to ISTAT estimates, GDP rose by 0.2% compared to the previous quarter, while in the first quarter the economy grew by 0.3%. The largest contribution to growth came from investment (up 0.5% on the previous quarter), while private consumption appeared to be affected by a period of rising inflation due to higher energy prices. In its monthly report for October 2018, ISTAT forecasts continuation of the restrained economic growth phase, and the Bank of Italy's ITA-Coin[2] indicator was substantially unchanged in September, but with extremely low values (0.02 in September compared with 0.04 in August). For 2018, the IMF and OECD forecast the same rate of GDP growth for Italy (1.2%). However, the has IMF stressed the importance of budget policy in maintaining market confidence, as higher spreads will make the country more vulnerable. Indeed, the uncertainty regarding the government's economic and financial policies was reflected in the ten-year spread between BTPs and Bunds, which rose sharply from May, remaining close to 250 bps and peaking at 327 bps in October. The increase in short-term yields was also very sharp, with short-term treasury bill auctions returning to positive rates, whereas throughout 2017, and until April 2018, they had always registered negative yields on issue.

1. An indicator developed by the Bank of Italy in collaboration with the Centre for Economic Policy Research (CEPR) which provides an indication of the current economic performance of the euro area in terms of quarterly GDP growth shorn of the most variable components (seasonal factors, measurement errors and short-term volatility).
2. An indicator developed by the Bank of Italy, providing a real-time monthly estimate of the evolutionary trend of economic activity by using data from various quantitative and qualitative variables (industrial output, inflation, retail sales, trade flows and equity indices in the former case, and household and business confidence and SME indicators, in the latter). Ita-coin therefore has similar purposes to those for which €-coin is used.

These uncertainties were also reflected in the ratings assigned by the rating agencies. On 31 August, Fitch (BBB) revised Italy's outlook from stable to negative. Subsequently, on 19 October, Moody's downgraded its rating from Baa2 to Baa3, with a stable outlook. Finally, on 26 October, S&P (BBB) revised its outlook from stable to negative.

4. Operating results

For the three months ended 30 September					For the nine months ended 30 September			
Increase/ (decrease)		2017	2018	Results of operations (€m)	2018	2017	Increase/ (decrease)	
5.3%	**127**	**2,395**	**2,522**	**Revenue**	**7,951**	**7,893**	**58**	**0.7%**
				of which:				
-2.5%	(21)	849	828	Mail, Parcels and Distribution	2,589	2,661	(72)	-2.7%
13.2%	19	144	163	Payments, Mobile and Digital	470	422	48	11.4%
9.3%	99	1,069	1,168	Financial Services	3,844	3,779	65	1.7%
9.0%	30	333	363	Insurance Services	1,048	1,031	17	1.6%
-0.1%	**(1)**	**1,934**	**1,933**	**Total costs**	**6,037**	**6,304**	**(267)**	**-4.2%**
				of which:				
-0.2%	(2)	1,307	1,305	Total personnel expenses	4,151	4,241	(90)	-2.1%
-0.4%	*(5)*	*1,300*	*1,295*	*of which personnel expenses*	*4,122*	*4,229*	*(107)*	*-2.5%*
42.9%	*3*	*7*	*10*	*of which early retirement incentives*	*29*	*12*	*17*	*n/s*
0.2%	1	627	628	Other operating costs	1,886	2,063	(177)	-8.6%
27.8%	**128**	**461**	**589**	**EBITDA**	**1,914**	**1,589**	**325**	**20.5%**
0.8%	1	132	133	Depreciation, amortisation and impairments	405	413	(8)	-1.9%
38.6%	**127**	**329**	**456**	**EBIT**	**1,509**	**1,176**	**333**	**28.3%**
	4.3%	**13.7%**	**18.1%**	**EBIT Margin**	**19.0%**	**14.9%**	**4.1%**	
n/s	15	6	21	Finance income/(costs) and profit/(loss) on investments accounted for using equity method	43	(69)	112	n/s
42.4%	**142**	**335**	**477**	**Profit before tax**	**1,552**	**1,107**	**445**	**40.2%**
28.9%	35	121	156	Income tax expense	496	383	113	29.5%
50.0%	**107**	**214**	**321**	**Net profit**	**1,056**	**724**	**332**	**45.9%**
50.0%	**0.082**	**0.164**	**0.246**	**Earnings per share**	**0.809**	**0.554**	**0.255**	**45.9%**

Group workforce in the nine months ended 30 September	2018	2017	Increase/(decrease)	
Average workforce (*)	134,575	137,869	(3,294)	-2.4%
Ordinary unit cost of labour (€000)	40.8	41.0	(0.2)	-0.5%

(*) Shown in full-time equivalent terms.

Capital expenditure in the nine months ended 30 September (€m)	2018	2017	Increase/(decrease)	
Capital expenditure	260	283	(23)	-8.1%
of which				
Mail, Parcels and Distribution	*194*	*230*	*(36)*	*-15.7%*
Payments, Mobile and Digital	*33*	*28*	*5*	*17.9%*
Financial Services	*22*	*17*	*5*	*29.4%*
Insurance Services	*11*	*8*	*3*	*37.5%*

Financial position (€m)	At 30 September 2018	At 31 December 2017	Increase/(decrease)	
Non-current assets	2,957	3,077	(120)	-3.9%
Net working capital	1,903	1,452	451	31.1%
Gross invested capital	4,860	4,529	331	7.3%
Sundry provisions and other assets/liabilities	(2,088)	(2,546)	458	-18.0%
Net invested capital	2,772	1,983	789	39.8%
Equity	7,300	7,550	(250)	-3.3%
Net funds	(4,528)	(5,567)	1,039	-18.7%
Net debt/(funds) of the Mail, Parcels and Distribution segment	(459)	(845)	386	-45.7%

The performance in the first nine months of 2018 has resulted in consolidated operating profit of €1,509 million, an increase of 28.3% compared with the same period of the previous year (€1,176 million). This primarily reflects reductions in operating costs and personnel expenses.

The Group's total revenue amounts to €8 billion, marking growth of €58 million (0.7%) compared with the same period of the previous year.

In detail, total revenue from Mail, Parcels and Distribution services amounts to €2,589 million, a reduction of 2.7% compared with the first nine months of 2017. This reflects a decrease in traditional letter post, partially offset by the performance of parcels, where volumes were up 9.2% from 81 million items in the first nine months of 2017 to 89 million, resulting in a 5.2% increase in revenue from €501.7 million to €527.7 million.

The Payments, Mobile and Digital segment contributed €470 million to total revenue, up 11.4% on the first nine months of 2017. This figure includes revenue from payment services, card payments and PosteMobile SpA's telecommunications services.

Total revenue from Financial Services amounts to €3,844 million, an increase of 1.7% compared with the €3,779 million of the same period of the previous year. Alongside an improvement in the interest margin and a 14.6% increase in commission income on the collection of postal savings deposits, reflecting the mechanisms established in the new Agreement with Cassa Depositi e Prestiti, the figure reflects a reduction in realised gains, in line with the Group's new strategy of reducing the dependence of its results on non-recurring items, and a decrease in revenue due to the sale of Banca del Mezzogiorno–MCC, completed on 7 August 2017.

The Insurance Services segment contributed €1,048 million to total revenue, marking an increase of €17 million despite a reduction in gross premium revenue compared with the previous year (a decline of €3.7 billion). The improvement reflects the increase in the net investment result which, in contrast, benefitted from the greater volume of assets under management.

As anticipated, total costs are down from the €6.3 billion of 2017 to €6.0 billion, marking a decline of 4.2%.

Other operating costs are down from €2,063 million in the first nine months of 2017 to €1,886 million in 2018, a reduction of 8.6%. This reflects higher provisions for risks and charges in the first nine months of 2017, for the most part linked to the operational risk associated with real estate funds.

Personnel expenses are down 2.1% from €4,241 million in the first nine months of 2017 to €4,151 million in 2018, primarily reflecting a decrease in the average workforce (approximately 3,300 fewer FTEs compared with the same period of the previous year).

The cost of early retirement incentives during the first nine months of 2018 amounts to €29 million (€12 million in 2017) and primarily regards management personnel, with the remaining personnel being covered by the pre-existing scheme.

After depreciation, amortisation and impairments for the period (€405 million in the first nine months of 2018, compared with €413 million in the first nine months of 2017), the improvement in net finance income and the profit/(loss) on investments accounted for using equity method in 2018 (compared with 2017, when the result reflected the impairment loss of €82 million on the Contingent Convertible Notes issued by Alitalia in 2014, and the impairment loss of €12 million on the Atlante fund), and income tax expense for the period, net profit amounts to €1,056 million, marking an increase of 45.9% compared with the figure for the first nine months of 2017 (net profit of €724 million).

Operating results by operating segment

Nine months ended 30 September 2018 (€m)	Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Total revenue	**6,115**	**713**	**4,593**	**1,049**	**(4,519)**	**7,951**
External revenue	2,589	470	3,844	1,048	-	7,951
Intersegment revenue	3,526	243	749	1	(4,519)	-
Total costs	**5,938**	**558**	**4,007**	**458**	**(4,519)**	**6,442**
Total personnel expenses	4,029	23	71	28	-	4,151
of which personnel expenses	*4,010*	*23*	*62*	*27*	-	*4,122*
of which early retirement incentives	*19*	-	*9*	*1*	-	*29*
Other operating costs	1,482	128	217	59	-	1,886
Depreciation, amortisation and impairments	376	17	-	12	-	405
Intersegment costs	51	390	3,719	359	(4,519)	-
EBIT	**177**	**155**	**586**	**591**	**-**	**1,509**
EBIT MARGIN	**2.9%**	**21.7%**	**12.8%**	**56.3%**		**19.0%**
Finance income/(costs)	(17)	2	8	50	-	43
Profit/(Loss) before tax	**160**	**157**	**594**	**641**	**-**	**1,552**
Income tax expense	66	40	166	224	-	496
Net profit	**94**	**117**	**428**	**417**	**-**	**1,056**

Mail, Parcels and Distribution Services

The postal services market

The European postal market continues to be characterised by declining demand for traditional postal services, as a result of the spread of and inclination to use electronic communications. On the other hand, the demand for express delivery and parcel services has grown significantly thanks to the development of e-commerce, which is also sustained by new technologies (e.g. online shopping and mobile payments).

In Italy, according to AGCom's Annual Report for 2018[3], the postal sector is characterised by a very high number of operators (around 2,900 in March 2018), well above the European average. However, overall traffic is still managed by a few large operators who are responsible for the entire end-to-end process vis-à-vis both senders and addressees. Unlike the main operators, the other qualified entities operate mainly at local level and tend to be consortia in order to obtain greater local coverage. Moreover, they are only active in one or more stages of the postal market value chain (collection, delivery, transport, etc.).

Express delivery services, as mentioned above, have continued to grow, driven by the increasing spread of e-commerce. The sector is concentrated in the hands of a few large companies, which account for the bulk of total turnover.

Regulatory environment

As a result of Law 124/2017 coming into effect, from 10 September 2017 Poste Italiane no longer has the exclusive right to offer services relating to legal process.

The law also provides that the special licence to offer services relating to legal process and the notification of violations of the Highway Code is subject to meeting a series of requirements (e.g. reliability, professionalism and integrity) and satisfying certain universal service obligations covering the security, quality, continuity, availability and provision of the services.

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

Regulation of the market for the delivery of legal process documents was completed in September 2018 with the publication of the Ministry for Economic Development Decree setting out procedures for the issue of special individual licenses for the provision of services to the public, covering legal process and related communications (Law 890 of 20 November 1982) and the notification of violations of the Highway Code (art. 201 of Legislative Decree 285 of 30 April 1992). The changes introduced by the Decree, which came into effect on 22 September 2018, include elimination of the Proof of Delivery service from the notification process[4].

In Resolution **266/18/CONS**, dated 6 June 2018, AGCom has fixed new, higher basic rates for the universal postal services provided to publishers[5] with effect from 1 July 2018, in order to enable operators to cover more of their costs in a sector that is in long-term decline. However, subsidised rates paid by publishers and non-profit associations and organisations are unchanged. This will ensure continued provision of a service of general economic interest, the aim of which is to make information available to end users. The funds earmarked to finance government subsidies for 2018 and 2019 by the 2018 Stability Law, amount to €59.3 million and €57.5 million, respectively.

3. The Report for 2018 was presented by Agcom in Parliament in July 2018.
4. This communication informed the addressee, by registered mail, that the document served had been delivered to a person authorised to receive it on his or her behalf.
5. Pursuant to Legislative Decree 261 of 1999, deliveries of books, catalogues, newspapers, periodicals and similar publications fall within the scope of the Universal Postal Service.

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

Mail, Parcels and Distribution segment profit or loss

For the three months ended 30 September					For the nine months ended 30 September			
Increase/ (decrease)		2017	2018	Results of operations (€m)	2018	2017	Increase/ (decrease)	
1.2%	7	599	606	Mail	1,903	1,941	(38)	-2.0%
10.7%	17	159	176	Parcels	528	502	26	5.2%
-49.5%	(45)	91	46	Other revenue	158	218	(60)	-27.5%
7.9%	78	993	1,071	Intersegment revenue	3,526	3,446	80	2.3%
3.1%	**57**	**1,842**	**1,899**	**Total revenue**	**6,115**	**6,107**	**8**	**0.1%**
-0.2%	(2)	1,271	1,269	Personnel expenses	4,029	4,109	(80)	-1.9%
-0.3%	*(4)*	*1,265*	*1,261*	*of which personnel expenses*	*4,010*	*4,102*	*(92)*	*-2.2%*
33.3%	*2*	*6*	*8*	*of which early retirement incentives*	*19*	*7*	*12*	*n/s*
-3.3%	(17)	514	497	Other operating costs	1,482	1,572	(90)	-5.7%
6.7%	1	15	16	Intersegment costs	51	48	3	6.3%
-1.0%	**(18)**	**1,800**	**1,782**	**Total costs**	**5,562**	**5,729**	**(167)**	**-2.9%**
178.6%	**75**	**42**	**117**	**EBITDA**	**553**	**378**	**175**	**46.3%**
0.8%	1	123	124	Depreciation, amortisation and impairments	376	382	(6)	-1.6%
91.4%	**74**	**(81)**	**(7)**	**EBIT**	**177**	**(4)**	**181**	**n/s**
	4.0%	**-4.4%**	**-0.4%**	**EBIT MARGIN**	**2.9%**	**-0.1%**	**3.0%**	
75.0%	9	(12)	(3)	Finance income/(costs)	(17)	(110)	93	84.5%
89.2%	**83**	**(93)**	**(10)**	**Profit/(Loss) before tax**	**160**	**(114)**	**274**	**n/s**
n/s	28	(18)	10	Income tax expense	66	(13)	79	n/s
73.3%	**55**	**(75)**	**(20)**	**Net profit**	**94**	**(101)**	**195**	**n/s**

n/s: not significant

KPIs for the Mail, Parcels & Distribution segment	At 30 September 2018	At 30 September 2017	Increase/ (decrease)	
Mail volumes (m)	2,224	2,324	(100)	-4.3%
Parcel volumes (m)	88.6	81.1	7.5	9.2%
Revenue/FTEs (€)	46,301	45,198	1,103	2.4%
Number of delivery centres	1,831	2,082	(251)	-12.1%
Joint Delivery Model: state of progress (*)	40%	n/a	-	-
New PuntoPoste network (number of Lockers and alternative collection points)	348	-	348	-
Number of post offices	12,824	12,822	2	n/s
Ethnic post offices	27	27	-	-
Consulting rooms	6,503	6,469	34	0.5%
Stands promoting PosteMobile products and services	341	341	-	-
Poste office stands (*)	118	118	-	-
Postamat ATM network	7,271	7,252	19	0.3%

n/s: not significant
n/a: not applicable
(*) The number of delivery centres involved in the reorganisation to date total 350 out of a total of 875 covered by the plan.

The Mail, Parcels and Distribution segment reports an operating profit of €177 million, an improvement of €181 million compared with the operating loss of €4 million in the same period of the previous year. This primarily reflects a reduction in costs (down €167 million).

External revenue is down to €2,589 million from the €2,661 million earned in the first nine months of 2017, a reduction of 2.7% due to lower revenue from traditional Mail (down €38 million) and a fall in other revenue (down €60 million). Among other things, this includes the revenue generated by the airline, Mistral Air, which in 2018 is progressively withdrawing from the passenger transport market. On the other hand, revenue from the Parcels segment grew 5.2% (up €26 million), especially in the B2C segment, thanks to the ongoing expansion of e-commerce.

Intersegment revenue, which is up €80 million, primarily regards fees received in return for services relating to the distribution of financial and insurance products through post offices provided to other segments and regulated by specific internal operating guidelines.

Total costs of €5,562 million are down 2.9% on the same period of the previous year. This reflects reduced personnel expenses (down €80 million), resulting from a decrease in the average workforce, and lower other operating costs (down €90 million). The latter reduction is linked primarily to a reduction in variable costs (including the lower costs incurred by the airline, Mistral Air, as a result of its withdrawal from the above passenger transport market) and a decrease in other costs following the release of provisions for disputes with third parties, as the related liabilities for which provision had been made in previous years failed to materialise.

Net finance costs of €17 million are an improvement of €93 million compared with the same period of the previous year (€110 million), which was impacted by the impairment loss on the Contingent Convertible Notes subscribed for by Poste Italiane in December 2014 and issued by Midco SpA (the company that owns 51% of Alitalia SAI).

After income tax expense for the period (€66 million), the segment's net profit amounts to €94 million, an improvement of €195 million compared with the net loss of €101 million recorded in the first nine months of 2017.

Finally, in relation to the strong growth registered by the parcels business, the segment's performance also takes into account the contribution from the subsidiary, SDA Express Courier SpA, which has received a capital injection of €50 million. The fresh capital is needed to ensure that the company can play a leading role in the Group's overall parcel offering.

Performance of Mail

For the nine months ended 30 September	Volumes (m)				Revenue (€m)			
	2018	2017	Increase/(decrease)		2018	2017	Increase/(decrease)	
Unrecorded Mail	1,032	1,039	(7)	-0.7%	588	611	(23)	-3.8%
Recorded mail	146	142	4	2.8%	713	705	8	1.1%
Direct Marketing	436	476	(40)	-8.4%	102	111	(9)	-8.1%
Integrated services	20	19	1	5.3%	124	123	1	0.8%
Other(1)	590	648	(58)	-9.0%	139	167	(28)	-16.8%
Universal Service Obligation (USO) compensation and tariff subsidies(2)	-	-	-	-	237	224	13	5.8%
Total Mail attributable to the Group	**2,224**	**2,324**	**(100)**	**-4.3%**	**1,903**	**1,941**	**(38)**	**-2.0%**

(1) Includes services for publishers, multi-channel services, printing, document management, other basic services.

(2) Universal Service compensation also includes compensation relating to the standard parcels service. Tariff subsidies relate to external revenue earned on products and services discounted in accordance with the law.

The performance of the Group's Mail services saw volumes and revenue decrease by 4.3% (100 million fewer items) and 2.0% (€38 million), respectively, compared with the same period of 2017. This essentially reflects a long-term decline in the traditional postal services market, partly as a result of the gradual dematerialisation of communications (letters replaced by e-mails, invoices sent online, etc.). In detail, the contraction in volumes of Unrecorded Mail (7 million fewer items, or 0.7% less than in the same period of the previous year) led to a fall in revenue of €23 million (down 3.8%).

The Recorded Mail segment registered an increase in volumes of 2.8% (4 million more items) compared with the first nine months of 2017. This primarily reflects growth in inbound international registered mail relating to the shipment of small objects linked to the development of e-commerce. The increase in volumes was not, however, accompanied by a matching increase in revenue, which is up 1.1% or €8 million. This is because the rates charged for the above products are lower than those for other products in this segment.

Direct Marketing volumes are down 8.4% (40 million fewer items), due to customers rationalising their mail spend. This slowdown led to a contraction in revenue of 8.1% (€9 million).

Integrated Services registered an increase of 1 million shipments in volume terms (up 5.3% on the same period in the previous year) to 20 million shipments in the first nine months of 2018, generating revenue of €124 million. This was essentially due to the positive contribution from the Integrated Notification Service for legal process.

Finally, other revenue that includes, among other things, revenue from the Printing services provided by the subsidiary, Postel, is down 9% in volume terms (58 million fewer shipments) and 16.8% in revenue terms (down €28 million) compared with the same period of 2017, due to a decline in the market for such services.

The compensation partially covering the cost of the Universal Service for the first nine months of 2018, as provided for in the 2015-2019 Service Contract in force, amounts to €197 million, whilst publisher tariff subsidies, introduced from 1 January 2017, amount to €40 million.

Performance of Parcels

For the nine months ended 30 September	Volumes (m)				Revenue (€m)			
	2018	2017	Increase/(decrease)		2018	2017	Increase/(decrease)	
B2C	49.9	40.2	9.7	24.1%	202.7	162.2	40.5	25.0%
B2B	22.1	21.3	0.8	3.8%	155.2	156.1	(0.9)	-0.6%
C2C	4.0	4.2	(0.2)	-4.8%	40.4	41.8	(1.4)	-3.3%
Other (*)	12.6	15.4	(2.8)	-18.2%	129.4	141.6	(12.2)	-8.6%
Total Parcels	**88.6**	**81.1**	**7.5**	**9.2%**	**527.7**	**501.7**	**26.0**	**5.2%**

(*) 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 9.2% (7.5 million more items) and 5.2% (€26 million), respectively, compared with the first nine months of 2017. This is essentially due to the expansion of e-commerce in the B2C segment, which generated revenue of €202.7 million during the period. This figure is up 25.0% on the same period of the previous year, with around 50 million parcels shipped.

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

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

Work continued during the period on improving sorting processes through the introduction of automation. This included the installation of a new mail sorting system at the Milan Peschiera Borromeo Sorting Centre, in addition to the one already installed at the Sorting Centre in Bologna.

Progressive expansion of the new PuntoPoste network, including 348 points for collecting online purchases and sending returns and prefranked or prepaid parcels, also continued during the period. The new PuntoPoste network offers customers both lockers (automated kiosks equipped with touchscreens, barcode readers and mini-printers) and collection points providing a complementary alternative to post offices, meeting the growing need for readily accessible service points and flexible opening hours. 299 PuntoPoste lockers entered operation in the first nine months of 2018 within the self service areas of a number of post offices and in locations with a high footfall, such as supermarkets, shopping centres and fuel stations. Further lockers are due to be rolled out in the coming months, with the aim of extending coverage to the whole country.

Finally, major progress was made in this sense with the conclusion of a framework cooperation agreement between Poste Italiane and the Federation of Italian Tobacconists, which enables tobacconists' shops to join the PuntoPoste network.

Payments, mobile and digital

The market for mobile and digital payments

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

The growth in new digital payments will be driven by changes in consumers' habits, as well as by the take-up of contactless payments and mobile proximity payments, with the former increasing by over 150% in 2017 (8% of card transactions).

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

Businesses are thus embarking on digital transformation processes in keeping with market trends and the changing needs of increasingly connected users. Digitalisation is also a growing priority for the Public Administration. The SPID, the Public Digital ID system aims to provide citizens with a single system for logging in to access all the online services provided by the Public Administration. The system enables access to over 4,300 online services provided by approximately 4,000 participating central and local government entities, including INPS, the tax authority, municipal authorities and universities[7]. In the first nine months of 2018, the number of people registering for the SPID digital identities provided by Poste Italiane rose by around 595,000, with highs of over 5,000 registrations a day coinciding with tax deadlines.

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

According to the latest available figures[8], **mobile market** penetration, in terms of total mobile lines, stands at approximately 168% of the population, with MVNOs accounting for 14%. The total number of lines in the first half of 2018 amounts to an estimated 102 million, including around 18 million Machine to Machine (M2M) SIM cards. In terms of market share, PosteMobile, with a total market share of approximately 4%, accounts for approximately 47% of the total customers of mobile virtual network operators[9].

2018 has seen a strengthening of competition in the sector as a result of the launch of the new operator, Iliad, followed, at the end of June, by the entry of Ho.Mobile, Vodafone's second brand.

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

In terms of fixed line services, during the first nine months of 2018, PosteMobile Casa consolidated its competitive position in its target market, launching promotions aimed at the holders of Postal Savings Books and customer who have taken out a Quinto BancoPosta loan.

The much awaited launch of 5G is expected to drive growth in IoT, enabling operators to further develop their offerings by developing end-to-end solutions that are increasingly tailored to their customers' needs[10].

6. Source: Report 'Digital in 2018 – Italy', We Are Social, Hootsuite - January 2018.
7. Source: www.spid.gov.it
8. Source: AGCom Communications Observatory no. 2/2018.
9. Internal estimate by PosteMobile based on AGCom Communications Observatory no. 2/2018.
10. ETNO (European Telecommunications Network Operators) Annual Economic Report 2017 M2M and IOT.

Regulatory environment

Legislative Decree 218 of 15 December 2017, published in Official Gazette no. 10 of 13 January 2018, has transposed the EU's Payments Legislative Package, including EU Directive 2015/2366 or PSD2, the Payment Services Directive, and EU Regulation 2015/751 (IFR), into Italian law.

The legislation provides for the use of new applications that can directly access accounts for online or mobile payments. It also aims to build and broaden confidence in the introduction of multi-channel payments using a range of tools, calling attention to the strategic use of digital identities as a means of authenticating users.

With particular regard to the technical standards regulating strong customer authentication and common and secure open standards of communication (RTS - Regulatory Technical Standards), on 13 March 2018, Delegated Regulation (EU) 2018/389 of the Commission was published in the Official Journal of the European Union. This Regulation supplements PSD2 and defines the requirements to be met by payment service providers (PSPs).

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

Ministry of the Economy and Finance Circular 22, dated 15 June 2018, was published on 9 July 2018. The Circular regards the application of PSD2 by Public Administration entities who rely on treasury or cash management services provided by a bank or by Poste Italiane. The aim is to identify, as part of the process of applying PSD2, the legal requirements for payments made to or by such entities, the nature of the treasury (or cash) management service, aspects that could have an impact on the relationship between the Public Administration and the service provider, and accounting solutions designed to ensure the correct application of the new regulations.

In addition, on 11 July 2018, the Bank of Italy published a consultation paper setting out the changes that it intends to make to the Order of 17 May 2016, containing "Supervisory provisions for payment and electronic money institutions", following the amendments made to the Consolidated Law on Banking (*Testo Unico Bancario - TUB*) and Legislative Decree 11 of 27 January 2010 in order to apply PSD2 to Italian law. The main changes regard: Authorisation (Chapter II); Requirements designed to safeguard customers' funds (Chapter IV, Section II); Own funds (Chapter V); Requirements regarding the organisation of administrative and accounting procedures and internal controls (Chapter VI); The operations of Italian institutions in Italy and overseas (Chapter VII) and of overseas institutions in Italy (Chapter VIII); New services relating to payments orders and account information.

On 17 September 2018, the European Banking Authority (EBA) published a document concerning Guidelines on reporting requirements for fraud data under article 96, paragraph 6 of PSD2. The guidelines require payment service providers to report such data to their respective supervisory authorities, who are then required to share aggregated data with the EBA and the ECB. The Guidelines apply from 1 January 2019, with the exception of the reporting of data related to exemptions to the requirement to use strong customer authentication, which will apply from 14 September 2019.

The new text of the Digital Administration Code (DAC) came into effect on 27 January 2018. The general aim of the revision of the DAC is to ensure that citizens have the right to access their data, documents and services in digital form. With a view to simplification, the new DAC keeps the primary legislation separate from the legislation containing technical and functional requirements.

Extension of the DAC to include public service providers produces a series of effects and will require changes to the way that digital services are provided. The most important aspects regard the obligations linked to providing access to online public services via a Digital Identity and the handling of communications via the digital domicile.

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

The development of this platform is designed to guarantee the authentication of users throughout the payment process, either through the SPID or an Electronic Identity Card or a National Services Card. In July 2018, the new guidelines for electronic payments to Public Administration entities and public service providers (the PagoPA system) were published in the Official Gazette.

With regard to the **mobile** sector, as required by the *Autorità per le Garanzie nelle Comunicazioni* (AGCOM - the Italian Communications Authority), from 5 April 2018, all rolling contracts can only be renewed once in the course of a month. As a result, during the first quarter of 2018, work began on the process of altering the arrangements for rolling contracts renewable every four weeks. Changes to the duration of renewals for rolling contracts were implemented within the deadline set by the regulator.

Payments, Mobile and Digital segment profit or loss

For the three months ended 30 September					For the nine months ended 30 September			
Increase/ (decrease)		2017	**2018**	(€m)	**2018**	2017	Increase/ (decrease)	
25.5%	14	55	69	Card payments	191	154	37	24.0%
5.3%	2	38	40	Other payments	116	114	2	1.8%
5.9%	3	51	54	Telecoms	163	154	9	5.8%
-1.3%	(1)	79	78	Intersegment revenue	243	247	(4)	-1.6%
8.1%	**18**	**223**	**241**	**Total revenue**	**713**	**669**	**44**	**6.6%**
n/s	-	7	7	Personnel expenses	23	22	1	4.5%
n/s	*-*	*7*	*7*	*of which personnel expenses*	*23*	*22*	*1*	*4.5%*
-	*-*	*-*	*-*	*of which early retirement incentives*	*-*	*-*	*-*	*-*
10.3%	4	39	43	Other operating costs	128	124	4	3.2%
6.5%	8	124	132	Intersegment costs	390	364	26	7.1%
7.1%	**12**	**170**	**182**	**Total costs**	**541**	**510**	**31**	**6.1%**
11.3%	**6**	**53**	**59**	**EBITDA**	**172**	**159**	**13**	**8.2%**
n/s	-	5	5	Depreciation, amortisation and impairments	17	17	-	n/s
12.5%	**6**	**48**	**54**	**EBIT**	**155**	**142**	**13**	**9.2%**
	0.9%	**21.5%**	**22.4%**	**EBIT MARGIN**	**21.7%**	**21.2%**	**0.5%**	
-33.3%	(1)	3	2	Finance income/(costs)	2	6	(4)	-66.7%
9.8%	**5**	**51**	**56**	**Profit/(Loss) before tax**	**157**	**148**	**9**	**6.1%**
14.3%	2	14	16	Income tax expense	40	41	(1)	-2.4%
8.1%	**3**	**37**	**40**	**Net profit**	**117**	**107**	**10**	**9.3%**

n/s: not significant

KPIs for the Payments, Mobile & Digital segment	**At 30 September 2018**	At 30 September 2017	Increase/(decrease)	
Number of cards in issue (m)	26.6	25.0	1.6	6.4%
of which PostePay cards (m)	19.0	17.4	1.6	9.2%
of which Postepay Evolution cards (m)	5.9	4.4	1.5	34.1%
Total payment card transactions (m)	874	673	201.0	29.9%
of which e-commerce transactions (m)	142	117	25.0	21.4%
Total value of card transactions (€m)	20,242	17,194	3,048	17.7%
Postepay Digital e-Wallets (m)	2.5	1.5	1.0	66.7%
Registered online users (m)	16.8	14.2	2.6	18.3%
Electronic identification (m)	2.4	1.5	0.9	60.0%
PosteMobile new lines (000)	838	817	21.0	2.6%

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

The segment includes the collection and payment services provided by the Financial Services segment (managed in outsourcing), and the card payment and payment services offered by PosteMobile SpA, which has acquired significant experience over the years in digital services and in mobile banking and mobile payments.

The Payments, Mobile and Digital segment reports operating profit of €155 million for the first nine months of 2018, marking an increase of 9.2% compared with the same period of the previous year.

Total revenue of €713 million (up 6.6%) benefitted from the positive performance of card payments, which recorded growth of 24% (€37 million), and a 5.8% increase in mobile revenue (up €9 million), primarily due to customer growth in the PosteMobile Casa business.

At 30 September 2018, there are approximately 19 million Postepay cards in circulation, including 5.9 million Postepay Evolution cards, marking growth of 34.1% compared with 30 September 2017.

"Payment cards" also includes revenue from acquiring services, which is up from €3.8 million in the first nine months of 2017 to €6.5 million (an increase of 71.1%). This has benefitted from growth in both the value of transactions and the number of POS in use.

Revenue from other payments totals approximately €116 million. A reduction in revenue from international transfers was offset by growth in revenue from bank transfers and from the processing of tax payments using forms F23/F24.

The segment's total costs amount to €541 million, up 6.1% on the same period of the previous year, in line with the growth in revenue. Intersegment costs are up 7.1% and primarily include the cost of distribution and customer communication services provided by Poste Italiane SpA's other segments to the card payments and payment services business.

After income tax expense for the period (€40 million), the segment's net profit amounts to €117 million, up 9.3% on the same period of the previous year.

Financial services

Financial market trends

In the USA, the S&P500 rose during the first nine months of 2018, with the market up 9% at the end of September compared with the beginning of the year. In contrast, European equities turned in a weak performance, with the Euro Stoxx 50 down 3.01% since the start of the year.

The global situation and uncertainty among investors over economic policy resulted in a period of volatility in Italian financial markets. Having reached a high for recent years of 24,544 on 7 May 2018, the Italian stock market ended the first none months down 5.64% with respect to the end of 2017, falling back to 20,620.

As already mentioned in the section on the macroeconomic environment, uncertainty over economic and financial policy was reflected in the spread between ten-year Treasury Notes (BTPs) and Bunds which, from May, has risen significantly to stand at close to 250 basis points and reaching a high of 327 basis points in October. There was also a sharp increase in yields on shorter dated bonds, with the yields on short-term treasury bills (BOTs) turning positive, having registered negative yields on issue throughout 2017 and until April 2018. At the end of September 2018, the spread between ten-year Treasury Notes (BTPs) and Bunds stood at 268 basis points (source: Bloomberg).

As a result, unrealised losses on the portfolio of securities included in financial assets (the notional value of the securities held by BancoPosta RFC amounts to €47 billion) total approximately €2.7 billion. It should be noted that movements in spread are not relevant for the purposes of BancoPosta RFC's capital requirements.

Spread BTP 10y vs Bund 10y

Management of the securities portfolio in the first nine months of the year focused on maintaining stable returns, realising gains of €379 million, in line with the target set out in the Plan for 2018 and, thanks to the continuation of favourable market conditions, also realising the gains targeted for 2019.

From May, the worsening in market conditions led management of the portfolio to give priority to purchases of securities maturing in 2018, ahead of those maturing in 2019.

Banking system

According to figures from ABI (the Italian banking association)[11], funding by banks operating in Italy in the first nine months of 2018, represented by deposits by resident Italian savers and the issue of bonds, registered a year-on-year increase of 0.2%. Total funding amounts to approximately €1,723 billion at the end of September, marking an decrease in absolute terms of €4.4 billion compared with the beginning of the year (up €3.7 billion compared with the same month of the previous year). This reflects an increase in deposits by resident Italian savers (current accounts, certificates of deposit and repurchase agreements) of approximately €25.3 billion (up 3.6% year on year), contrasting with a sharp decline in investments in bonds, amounting to approximately €29.7 billion (down 16.2% year on year). The average cost of funding (deposits, bonds and repurchase agreements) in September was 0.71%.

Bank lending is up over the same period: at the end of September 2018, total lending to Italian residents (private sector and the Public Administration) - excluding interbank loans – amounted to approximately €1,728 billion, marking a year-on-year increase of 1.6%. Rises in both consumer credit and mortgages have contributed to the increase in lending to households. According to updated figures from ABI for August 2018, mortgage lending is up 2.2% year on year.

Doubtful loans within the banking system, after impairments and provisions made from own funds, are down, with the figure amounting to approximately €40.5 billion in August 2018, a figure that is broadly stable with respect to the €40.1 billion of the previous months, but that is sharply down compared with the figure for the same months of 2017 (a reduction of approximately €25 billion or 38.3%). In percentage terms, doubtful loans have fallen to 2.36% of total loans (3.85% in the previous year). The average interest rate applied to household and corporate loans has remained low: 2.58% in September 2018 and well below pre-crisis levels (6.18% at the end of 2007).

Regulatory environment

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

On 11 July 2018, the Bank of Italy published a consultation paper setting out the changes that it intends to make to the Order of 29 July 2009, containing provisions relating to "Transparency of banking and financial transactions and services. Fairness in dealings between intermediaries and customers". The changes to the provisions include those regarding:

- the transparency of payment services (section VI), in implementation of PSD2 and the provisions in Chapter II- *bis*, Title VI of the Consolidated Law on Banking;
- remuneration policies and practices for personnel involved in the sale of banking products and for third parties forming part of the sales network (section XI, para. 2-*quater*), in implementation of the Guidelines issued by the European Banking Authority (EBA), concerning remuneration policies and practices related to the sale and provision of retail banking services;
- complaints management (section XI, para. 3), in implementation of the related EU guidelines.

11. ABI Monthly Outlook, October 2018.

Other information

Bank of Italy

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

Following an inspection of a sample of post offices that was completed in December 2017, relating to efforts to combat money laundering and the financing of terrorism, in May 2018, the Bank of Italy invited BancoPosta to provide a report, updated to 30 September 2018, on the progress made in implementing all the initiatives undertaken in this regard.

CONSOB

In 2017, in line with the roll-out plan launched in October 2016, IT releases were completed for the new guided consultancy platform, which was gradually extended to the entire Poste Italiane network. In parallel, further compliance initiatives were carried out in order to implement the MiFID II Directive, which came into force on 3 January 2018.

The changes made to the related procedures and IT systems, and the further initiatives planned for 2018 in order to strengthen the Company's oversight of compliance, were the subject of specific reports to the CONSOB in March.

In July and August, two requests were received from the CONSOB: the first, dated 27 July, was also sent to other intermediaries and regarded an in-depth assessment of the key issues relating to implementation and application of MiFID II; the second, dated 13 August, contained a request for a meeting to discuss specific issues previously raised by the CONSOB, with the aim of obtaining greater details on the provision of investment services.

During this meeting, held at the CONSOB in September 2018, additional information was provided and the related implementation plan was presented.

Financial Services segment profit or loss

For the three months ended 30 September					For the nine months ended 30 September			
Increase/ (decrease)		2017	2018	(€m)	2018	2017	Increase/ (decrease)	
-	-	-	-	Gross capital gains	404	537	(133)	-24.8%
7.2%	27	376	403	Interest income	1,150	1,104	46	4.2%
12.0%	48	401	449	Postal savings	1,343	1,172	171	14.6%
1.8%	4	225	229	Transaction banking	688	692	(4)	-0.6%
38.3%	18	47	65	Distribution of third-party products	193	209	(16)	-7.7%
10.0%	2	20	22	Asset management	66	65	1	1.5%
-7.5%	(19)	253	234	Intersegment revenue	749	770	(21)	-2.7%
6.1%	**80**	**1,322**	**1,402**	**Total revenue**	**4,593**	**4,549**	**44**	**1.0%**
n/s	-	21	21	Personnel expenses	71	84	(13)	-15.5%
-5.0%	*(1)*	*20*	*19*	*of which personnel expenses*	*62*	*79*	*(17)*	*-21.5%*
n/s	*1*	*1*	*2*	*of which early retirement incentives*	*9*	*5*	*4*	*80.0%*
27.3%	15	55	70	Other operating costs	217	304	(87)	-28.6%
-	-	-	-	Depreciation, amortisation and impairments	-	1	(1)	n/s
7.1%	75	1,058	1,133	Intersegment costs	3,719	3,647	72	2.0%
7.9%	**90**	**1,134**	**1,224**	**Total costs**	**4,007**	**4,036**	**(29)**	**-0.7%**
-5.3%	**(10)**	**188**	**178**	**EBIT**	**586**	**513**	**73**	**14.2%**
	-1.5%	**14.2%**	**12.7%**	**EBIT MARGIN**	**12.8%**	**11.3%**	**1.5%**	
-	-	1	1	Finance income/(costs)	8	5	3	60.0%
-5.3%	**(10)**	**189**	**179**	**Profit/(Loss) before tax**	**594**	**518**	**76**	**14.7%**
-13.7%	(7)	51	44	Income tax expense	166	147	19	12.9%
-2.2%	**(3)**	**138**	**135**	**Net profit**	**428**	**371**	**57**	**15.4%**

KPIs for the Financial Services segment	At 30 September 2018	At 31 December 2017	Increase/(decrease)	
TFA - Total Financial Assets[1] (€bn)	512.9	506.2	6.7	1.3%
of which				
Postal Savings	323.7	322.9	0.8	0.2%
Postal Bonds	*217.9*	*214.3*	*3.6*	*1.7%*
Postal Saving Books	*105.8*	*108.6*	*(2.8)*	*-2.6%*
Current Accounts	56.7	51.9	4.8	9.2%
Technical provisions for Life insurance business	124.1	123.5	0.6	0.5%
Mutual funds	8.4	7.9	0.5	6.3%
CET1 Capital (€m)	2,284	2,059	225	10.9%
CET1 Ratio	19.1%	16.9%	2.2%	
Leverage Ratio	3.3%	3.1%	0.2%	

1. Including assets under administration (bonds, government securities, shares, certificates, etc.), client assets amount to €515.4 billion at 30 September 2018 (€509.9 billion at 31 December 2017).

	At 30 September 2018	At 30 September 2017	Increase/(decrease)	
Net deposits (€m)	6,834	6,550	284	4.3%
Average postal savings (€bn)	308.0	306.4	1.6	0.5%
Average current account deposits (€bn)	58.3	55.0	3.3	6.0%
Loans and mortgages - Volumes lent (€m)	2,360	1,948	412	21.1%
Product sales (m)	6.3	6.0	0.3	5.0%
Average return excluding capital gains	2.63%	2.68%	-0.05%	
Net capital gains (€m)	379	532	(153)	-28.8%
Unrealised capital gains (€m)	(2,690)	1,654	(4,344)	n/s

Operating profit generated by the Financial Services segment in the first nine months of 2018 amounts to €586 million, up 14.2% compared with the same period of the previous year (€513 million).

Total revenue of €4,593 million is up 1.0% compared with the €4,549 million of the first nine months of 2017. As well as the increase in commission income on the collection of postal savings deposits (up 14.6%), the increase reflects the performance of interest earned on the investment of current account deposits, which is up €46 million (4.2%) compared with the same period of 2017 as a result of an increase in deposits during the period (up from €55.0 billion in the first nine months 2017 to €58.3 billion in the first nine months 2018).

Gross gains during the period total €404 million, marking a reduction of 24.8% compared with the same period of the previous year, in line with the Group's strategy of reducing the dependence of its results on non-recurring items.

There was a €16 million (7.7%) reduction in income from the distribution of third-party financial products, due to the loss of revenue linked to the sale of BDM-MCC in the second half of 2017 and the impact of application of IFRS 15. After stripping out the impact of these factors, revenue is up €49 million (34%), reflecting an increase in the volume of loan and mortgage products sold under partnership agreements.

The segment's total costs are down 0.7% (€29 million) compared with the same period of the previous year, essentially due to a decrease in other operating costs (down €87 million or 28.6%), reflecting higher provisions for risks and charges in the comparative period.

Personnel expenses are also down, declining 15.5% from €84 million to €71 million primarily due to the sale of BDM-MCC.

The segment ended the period with net profit of €428 million, up 15.4% on the same period of the previous year.

During the first nine months of 2018, the leverage ratio was influenced by the financial impact of adoption of the new accounting standard, IFRS 9, by the performance of operating volumes and movements in the value of assets as a result of market returns, resulting in a reduction compared with the previous year. Following on from the Board of Directors' resolution of 25 January 2018 and the subsequent Extraordinary General Meeting of Poste Italiane SpA's shareholders, on 27 September 2018, Poste Italiane injected €210 million of fresh capital of into BancoPosta RFC. As a result, at 30 September 2018, the leverage ratio has increased to 3.3%.

The Common Equity Tier 1 (CET1) ratio at 30 September 2018 is 19.1%, compared with 17.5% at 30 June 2018 and 16.9% at 31 December 2017, confirming the strength of the segment's balance sheet. CET1 capital at 30 September 2018 amounts to €2,284 million, compared with €2,074 million at 30 June 2018 and €2,059 million at 31 December 2017.

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

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

In July 2018, the product offering was further expanded with the launch of *Poste Multiscelta*, the multiclass policy combining the capital guarantees typical of Class I products with the opportunity to invest in an internal insurance fund offering various levels of risk.

Insurance services

The insurance services market

The volatility of the spread, noted earlier in the section on Financial Services, has driven down the segment's Solvency Ratio, which stands at 172% at 30 September 2018, compared with 185% at 30 June 2018 and 279% at 31 December 2017. The reduction reflects the significant reduction in the value of Poste Vita's securities portfolio, which has had a negative impact on own funds and increased the Solvency Capital Requirement.

Based on the available official data (source: ANIA), new business for **Life insurance** policies, including EU insurers, amounts to €65.3 billion at 31 August 2018, slightly down (1.3%) on the same period of 2017, whilst new business for Italian and non-EU insurers is up 2.5% (€55.3 billion in premiums). Class I premiums amount to €34.9 billion, up 1.6% on the same period of the previous year and confirming this class as the leading type of product. New business for unit-linked Class III Life products has also seen strong growth (up 4.3% compared with the figure for the same period of 2017), with sales of €19.4 billion.

Banks and post offices continue to be the main distribution channels.

New business for individual Life policies by class (*) (updated to August 2018 in €m)

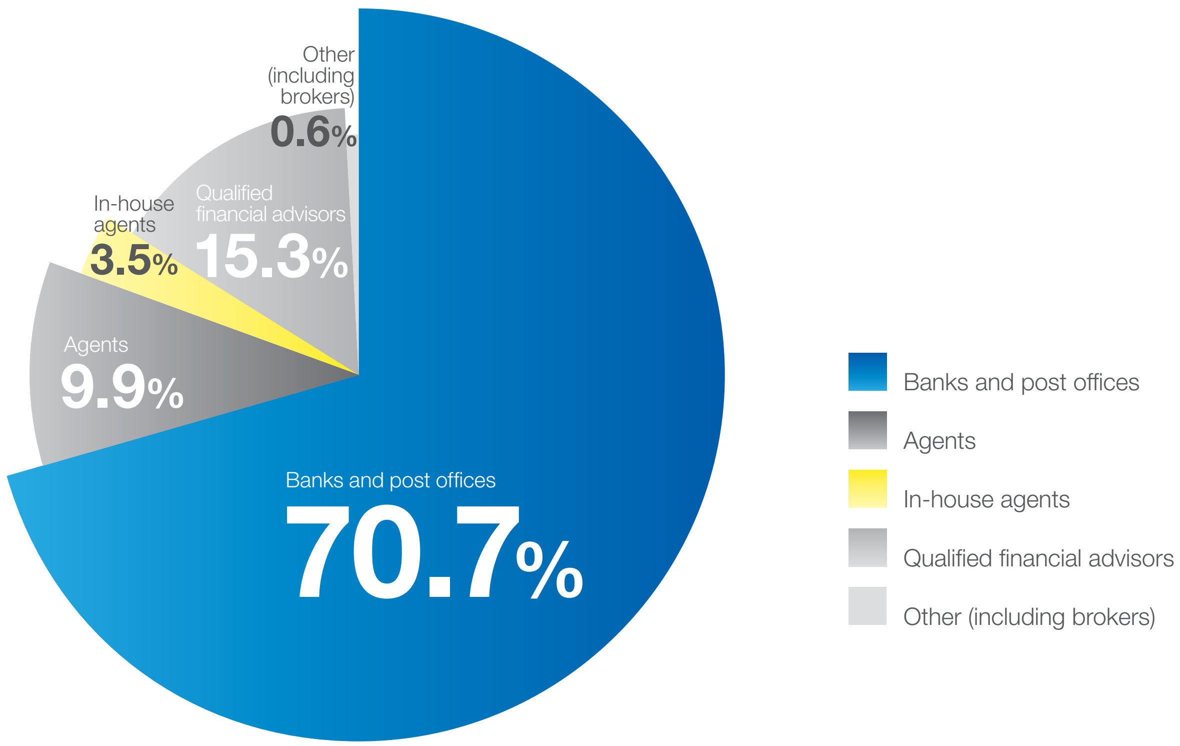
Premiums by class/product	Premiums since beginning of year	% change 2018 vs 2017
Life - Class I	34,902	1.6%
Capitalisation - Class V	925	-0.7%
Linked - Class III	19,416	4.3%
di cui: unit-linked	*19,416*	*4.3%*
di cui: index-linked	-	-
Medical - Class IV	11	43.3%
Open-end pension funds - Class VI	79	1.7%
Italian insurers - non-EU	**55,333**	**2.5%**
EU insurers (**)	**9,968**	**-18.1%**
Total	**65,301**	**-1.3%**

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

Contents

New Life business by distribution channel



Source: ANIA - figures updated to August 2018

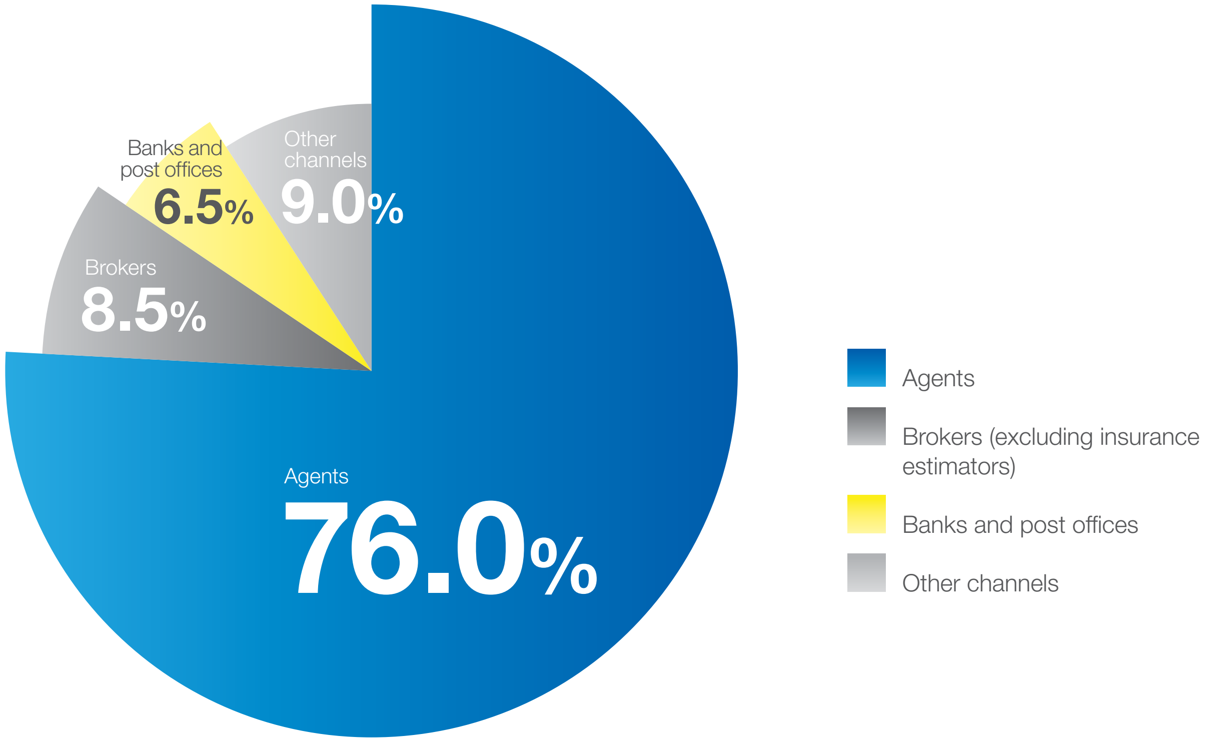
Based on the available official data (source: ANIA), total direct Italian premiums in the **Non-life insurance market**, thus including policies sold by Italian and overseas insurers, amounted to €18.6 billion at the end of the first half of 2018, slightly up on the same period of 2017 (up 2.2%). This marks the fifth consecutive quarter reversing the negative trend seen over the last five years. The performance was helped by both the slight increase in premium revenue from vehicle insurance and further growth in other Non-life classes.

Direct Non-life premiums by class (*) (updated to June 2018 in €m)

Premiums by class (**)	Premiums since beginning of year	% change 2018 vs 2017
Land vehicle insurance	7,122	-
Land vehicle hull insurance	1,640	5.9%
Total motor vehicle sector	8,762	1.1%
Other Non-life classes	9,831	3.2%
Total Non-life classes	**18,593**	**2.2%**

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

Distribution of direct premiums by distribution channel (*)



Source: ANIA - figures updated to June 2018
(*) Italian undertakings and subsidiaries of non-EU undertakings

Regulatory environment

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

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

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

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

Insurance Services segment profit or loss

For the three months ended 30 September					For the nine months ended 30 September			
Increase/ (decrease)		2017	2018	(€m)	2018	2017	Increase/ (decrease)	
-31.1%	(32)	103	71	Upfront Life	264	332	(68)	-20.5%
11.8%	27	228	255	Net investment result Life	707	665	42	6.3%
n/s	7	1	8	Technical margin Life	18	13	5	38.5%
81.0%	17	(21)	(4)	Change in other technical provisions and other technical costs/income	(37)	(49)	12	24.5%
6.1%	**19**	**311**	**330**	**Net Life revenue**	**952**	**961**	**(9)**	**-0.9%**
31.3%	10	32	42	Premium revenue	124	97	27	27.8%
11.1%	1	(9)	(8)	Change in technical provisions and claims expenses	(29)	(28)	(1)	-3.6%
-33.3%	(1)	(3)	(4)	Result from reinsurance	(8)	(6)	(2)	-33.3%
n/s	1	-	1	Net Non-life income (*)	1	(1)	2	n/s
55.0%	**11**	**20**	**31**	**Net Non-life revenue**	**88**	**62**	**26**	**41.9%**
n/s	-	2	2	Other operating income	8	8	-	n/s
n/s	-	-	-	Intersegment revenue	1	1	-	n/s
9.0%	**30**	**333**	**363**	**Total revenue**	**1,049**	**1,032**	**17**	**1.6%**
-	-	8	8	Personnel expenses	28	26	2	7.7%
-	-	*8*	*8*	*of which personnel expenses*	*27*	*26*	*1*	*3.8%*
-	-	-	-	*of which early retirement incentives*	*1*	-	*1*	*n/s*
-5.3%	(1)	19	18	Other operating costs	59	63	(4)	-6.3%
-	-	4	4	Depreciation, amortisation and impairments	12	13	(1)	-7.7%
-19.5%	(25)	128	103	Intersegment costs	359	405	(46)	-11.4%
-22.5%	(27)	120	93	of which fees	330	377	(47)	-12.5%
-16.4%	**(26)**	**159**	**133**	**Total costs**	**458**	**507**	**(49)**	**-9.7%**
32.2%	**56**	**174**	**230**	**EBIT**	**591**	**525**	**66**	**12.6%**
	11.1%	**52.3%**	**63.4%**	**EBIT MARGIN**	**56.3%**	**50.9%**	**5.5%**	
50.0%	7	14	21	Finance income/(costs)	50	30	20	66.7%
33.5%	**63**	**188**	**251**	**Profit/(Loss) before tax**	**641**	**555**	**86**	**15.5%**
16.2%	12	74	86	Income tax expense	224	208	16	7.7%
44.7%	**51**	**114**	**165**	**Net profit**	**417**	**347**	**70**	**20.2%**

n/s: not significant

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

KPIs for the Insurance Services segment	At 30 September 2018	At 31 December 2017	Increase/(decrease)	
Group Net technical provisions (€bn)	124.3	123.6	0.7	0.6%
of which Poste Vita SpA	124.1	120.4	3.7	3.1%

	At 30 September 2018	At 30 September 2017	Increase/(decrease)	
GWP - Life (€m) [1]	11,878	15,596	(3,718)	-23.8%
GWP - Private Pension Plan (€m) [1]	747	737	10	1.4%
GWP - P&C (€m) [1]	143	105	38	36.2%
Combined ratio (confirmed by ANIA)	53.0%	62.2%	-9.2%	
Loss ratio	25.8%	30.5%	-4.7%	
Expenses ratio (confirmed by ANIA)	27.2%	31.7%	-4.5%	

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

Operating profit generated by the Insurance Services segment totals €591 million for the first nine months of 2018, an increase of 12.6% compared with the figure for the same period of the previous year (€525 million).

Total revenue is up 1.6% from €1,032 million for the first nine months of 2017 to €1,049 million, essentially reflecting the performance of the Life business, which contributed €952 million, whilst the contribution from the Non-life business is €88 million.

Net Life revenue is down 0.9% (€9 million) compared with the first nine months of 2017, primarily due to a reduction in gross premium revenue of €3.7 billion, which has resulted in a €68 million reduction in loadings, partially offset by an increase of €42 million in the net investment result which, on the other hand, benefitted from the greater volume of assets under management.

Net Non-life revenue amounts to €88 million, marking an increase of 41.9% compared with the €62 million of the first nine months of 2017. This was driven primarily by a positive commercial performance, with total gross premium revenue amounting to €143[12] million, an increase of 36.2% compared with the same period of 2017 (€105 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 €458 million are down €49 million compared with the figure for the same period of 2017, primarily due to the performance of intersegment costs, amounting to €359 million (€405 million in the first nine months of 2017) and primarily regarding fees paid for distribution, collection and maintenance services, totalling €330 million. This figure is down from the €377 million of the previous year, reflecting the reduction in gross premium revenue.

Net finance income amounts to €50 million (income from the investment of free capital, totalling €72 million, after deducting interest payable on subordinated loans, amounting to €22 million), an increase of 66.7% compared with the first nine months of 2017, when the impairment loss of €12 million on the investment of Poste Vita's free capital in the Atlante fund weighed.

After income tax expense for the period (€224 million), the segment's net profit for the first nine months amounts to €417 million, up 20.2% on the €347 million of the same period of the previous year.

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

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

12. Gross earned premiums for the period amount to €124 million.

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

Poste Vita SpA	At 30 September 2018	At 30 September 2017	Increase/(decrease)	
Gross premium revenue	**12,625**	**16,333**	**(3,708)**	**-22.7%**
Class I	12,017	15,910	(3,893)	-24.5%
of which traditional with-profits products (*)	*10,910*	*15,023*	*(4,113)*	*-27.4%*
of which pension products	*747*	*737*	*10*	*1.4%*
of which multiclass products (Class I portion)	*360*	*150*	*210*	*n/s*
Class III	608	423	185	43.7%
of which unit-linked products	*352*	*277*	*75*	*27.1%*
of which multiclass products (Class III portion)	*256*	*146*	*110*	*75.3%*
Claims paid	**6,247**	**9,216**	**(2,969)**	**-32.2%**
of which expirations	*2,467*	*5,832*	*(3,365)*	*-57.7%*
of which surrenders	*2,503*	*2,224*	*279*	*12.5%*
Surrender rate	2.93%	2.83%	0.11%	
Net premium revenue	**6,378**	**7,117**	**(739)**	**-10.4%**
Technical provisions	**124,149**	**120,449**	**3,700**	**3.1%**

(*) includes Protection and Class V products

Management of the **Non-life business** was also along the lines set out in the business plan, seeking to meet the new needs of customers in the areas of welfare and health insurance, expanding the offering and enhancing the model for network support. Technical provisions for the Non-life business, before the portion ceded to reinsurers, amount to €186 million at the end of the period, up 16% compared with the end of 2017 (€160 million).

5. Financial position

From 1 January 2018, the Poste Italiane Group has adopted *IFRS 9 Financial Instruments* and *IFRS 15 Revenue from Contracts with Customers*.

The resulting changes primarily regard the reclassifications of financial assets, in line with the identified business models, to the new categories defined by IFRS 9, leading to a net increase in financial assets of €1,720 million (primarily due to the reclassification of financial instruments previously measured at amortised cost and now measured at fair value), and the recognition of expected losses in application of the new impairment model for financial assets and receivables, totalling €39 million. The effects of the changes introduced by the new accounting standards are reported in the half-year interim report for the six months ended 30 June 2018.

(€m)	At 30 September 2018	At 31 December 2017	Increase/(decrease)	
Property, plant and equipment	1,932	2,053	(121)	-5.9%
Intangible assets	492	516	(24)	-4.7%
Investments	533	508	25	4.9%
Total non-current assets	**2,957**	**3,077**	**(120)**	**-3.9%**
Trade receivables, Other receivables and Inventories	6,653	6,170	483	7.8%
Trade payables and Other liabilities	(4,767)	(4,788)	21	-0.4%
Current tax assets/(liabilities)	17	70	(53)	-75.7%
Net working capital	**1,903**	**1,452**	**451**	**31.1%**
Gross invested capital	**4,860**	**4,529**	**331**	**7.3%**
Provisions for risks and charges	(1,193)	(1,595)	402	-25.2%
Provisions for employee termination benefits	(1,212)	(1,274)	62	-4.9%
Deferred tax assets/(liabilities)	317	323	(6)	-1.9%
Net invested capital	**2,772**	**1,983**	**789**	**39.8%**
Equity	**7,300**	**7,550**	**(250)**	**-3.3%**
of which: Net profit	*1,056*	*689*	*367*	*53.3%*
of which: Fair value reserve	*(473)*	*371*	*(844)*	*-227.4%*
Financial assets	(189,487)	(186,766)	(2,721)	1.5%
Cash and deposits attributable to BancoPosta	(3,094)	(3,196)	102	-3.2%
Cash and cash equivalents	(2,060)	(2,428)	368	-15.2%
Technical provisions for the insurance business	124,264	123,579	685	0.6%
Financial liabilities	65,849	63,244	2,605	4.1%
Net funds	**(4,528)**	**(5,567)**	**1,039**	**-18.7%**

At 30 September 2018 (€m)	Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Property, plant and equipment	1,901	23	-	8	-	1,932
Intangible assets	419	30	-	43	-	492
Investments	1,954	-	14	157	(1,592)	533
Total non-current assets	**4,274**	**53**	**14**	**208**	**(1,592)**	**2,957**
Trade receivables, Other receivables and Inventories	2,606	121	2,493	2,478	(1,045)	6,653
Trade payables and Other liabilities	(2,904)	(226)	(1,917)	(765)	1,045	(4,767)
Current tax assets/(liabilities)	9	(5)	(3)	16	-	17
Net working capital	**(289)**	**(110)**	**573**	**1,729**	**-**	**1,903**
Gross invested capital	**3,985**	**(57)**	**587**	**1,937**	**(1,592)**	**4,860**
Provisions for risks and charges	(636)	(20)	(528)	(11)	2	(1,193)
Provisions for employee termination benefits	(1,190)	(3)	(16)	(3)	-	(1,212)
Deferred tax assets/(liabilities)	293	15	303	(294)	-	317
Net invested capital	**2,452**	**(65)**	**346**	**1,629**	**(1,590)**	**2,772**
Equity	**2,911**	**300**	**2,325**	**3,354**	**(1,590)**	**7,300**
of which: Net profit	*95*	*117*	*427*	*417*	-	*1,056*
of which: Fair value reserve	*(3)*	-	*(449)*	*(21)*	-	*(473)*
Financial assets	(898)	(3,769)	(64,303)	(125,723)	5,206	(189,487)
Cash and deposits attributable to BancoPosta	-	-	(3,094)	-	-	(3,094)
Cash and cash equivalents	(1,207)	(179)	(194)	(1,313)	833	(2,060)
Technical provisions for the insurance business	-	-	-	124,264	-	124,264
Financial liabilities	1,646	3,583	65,612	1,047	(6,039)	65,849
Net funds	**(459)**	**(365)**	**(1,979)**	**(1,725)**	**-**	**(4,528)**

At 31 December 2017 (€m)	Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Property, plant and equipment	2,025	18	1	9	-	2,053
Intangible assets	440	33	-	43	-	516
Investments	1,784	7	11	157	(1,451)	508
Total non-current assets	**4,249**	**58**	**12**	**209**	**(1,451)**	**3,077**
Trade receivables, Other receivables and Inventories	2,352	115	2,454	1,972	(723)	6,170
Trade payables and Other liabilities	(2,892)	(171)	(1,526)	(781)	582	(4,788)
Current tax assets/(liabilities)	77	3	(1)	(9)	-	70
Net working capital	**(463)**	**(53)**	**927**	**1,182**	**(141)**	**1,452**
Gross invested capital	**3,786**	**5**	**939**	**1,391**	**(1,592)**	**4,529**
Provisions for risks and charges	(1,031)	(21)	(532)	(11)	-	(1,595)
Provisions for employee termination benefits	(1,253)	(3)	(16)	(3)	1	(1,274)
Deferred tax assets/(liabilities)	388	10	94	(170)	1	323
Net invested capital	**1,890**	**(9)**	**485**	**1,207**	**(1,590)**	**1,983**
Equity	**2,735**	**325**	**2,702**	**3,378**	**(1,590)**	**7,550**
of which: Net profit	*(502)*	*146*	*499*	*546*	-	*689*
of which: Fair value reserve	*12*	-	*180*	*179*	-	*371*
Financial assets	(1,097)	(3,283)	(60,688)	(125,860)	4,162	(186,766)
Cash and deposits attributable to BancoPosta	-	-	(3,196)	-	-	(3,196)
Cash and cash equivalents	(1,997)	(21)	(396)	(907)	893	(2,428)
Technical provisions for the insurance business	-	-	-	123,579	-	123,579
Financial liabilities	2,249	2,970	62,063	1,017	(5,055)	63,244
Net funds	**(845)**	**(334)**	**(2,217)**	**(2,171)**	**-**	**(5,567)**

Changes 30 September 2018 vs 31 December 2017 (€m)	Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Property, plant and equipment	(124)	5	(1)	(1)	-	(121)
Intangible assets	(21)	(3)	-	-	-	(24)
Investments	170	(7)	3	-	(141)	25
Total non-current assets	**25**	**(5)**	**2**	**(1)**	**(141)**	**(120)**
Trade receivables, Other receivables and Inventories	254	6	39	506	(322)	483
Trade payables and Other liabilities	(12)	(55)	(391)	16	463	21
Current tax assets/(liabilities)	(68)	(8)	(2)	25	-	(53)
Net working capital	**174**	**(57)**	**(354)**	**547**	**141**	**451**
Gross invested capital	**199**	**(62)**	**(352)**	**546**	**-**	**331**
Provisions for risks and charges	395	1	4	-	2	402
Provisions for employee termination benefits	63	-	-	-	(1)	62
Deferred tax assets/(liabilities)	(95)	5	209	(124)	(1)	(6)
Net invested capital	**562**	**(56)**	**(139)**	**422**	**-**	**789**
Equity	**176**	**(25)**	**(377)**	**(24)**	**-**	**(250)**
of which: Net profit	*597*	*(29)*	*(72)*	*(129)*	-	*367*
of which: Fair value reserve	*(15)*	-	*(629)*	*(200)*	-	*(844)*
Financial assets	199	(486)	(3,615)	137	1,044	(2,721)
Cash and deposits attributable to BancoPosta	-	-	102	-	-	102
Cash and cash equivalents	790	(158)	202	(406)	(60)	368
Technical provisions for the insurance business	-	-	-	685	-	685
Financial liabilities	(603)	613	3,549	30	(984)	2,605
Net funds	**386**	**(31)**	**238**	**446**	**-**	**1,039**

The Poste Italiane Group's **net invested capital** at 30 September 2018 June 2018 amounts to €2,772 million (€1,983 million at 31 December 2017).

Non-current assets total €2,957 million, marking a reduction of €120 million compared with the end of 2017. This figure reflects investment of €260 million – offset by depreciation, amortisation and impairments, totalling €405 million – and the Parent Company's subscription, in April 2018, for shares issued by Anima Holding SpA as a result of its rights issue, amounting to €30 million.

In line with the investment programme for the period 2018-2022, designed to support delivery of the Strategic Plan, capital expenditure largely regarded the **Mail, Parcels and Distribution segment**, where efforts to improve and automate operating processes continued. This included the installation of new sorting equipment at the Bologna and Milan Peschiera Borromeo sorting centres with the aim of automating the sorting of letter post. In April, the Group also began the rollout of the new "Joint delivery" model, designed to revisit the delivery network in line with the growth in e-commerce and changing customer needs. To date, the reorganisation has involved 350 delivery centres (40% of the total covered by the plan and 100% of the target for 2018).

Introduction of the new "PuntoPoste" network has also taken place, with 299 lockers located around the country for the collection of online purchases and for sending returns and prefranked or prepaid parcels. Further lockers are due to be rolled out in the coming months, with the aim of extending coverage to the whole country.

Upgraded versions of the applications used on the Electronic Postman platform have also been introduced, with new functions including the option of delivering a parcel to a second nominated addressee. The supply, installation and distribution of new generation handheld Android devices has also been completed, replacing the devices currently used by postmen and women and Poste Italiane's transport personnel.

The Group also invested further in the upgrade and improvement of property used in operations, involving non-routine maintenance and improvements to occupational safety, in compliance with the related statutory requirements (Legislative Decree 81/08). In addition, the replacement of fluorescent lighting with LED lighting, as part of the energy efficiency plan, took place at 697 properties. Design work has been completed for the first of four Smart Working projects and work has begun at the building located at Viale Europa 190.

In the **Payments, Mobile and Digital** segment, as part of the digital transformation, release of the applications needed to enable the new company, PostePay, to start operating from 1 October 2018 was completed.

Work on boosting the Group's competitiveness in the fixed line and mobile telecommunications markets continued.

With regard to **Financial Services**, following the entry into effect in Italy of the "MiFID II" regulations on 3 January 2018, Poste Italiane has continued to take the necessary steps to ensure compliance with the new requirements. This has primarily involved improvements to product governance, the provision of information to customers, customer profiling, advisory services and the training of sales personnel. Work on IT systems to bring them into line with the IDD - Insurance Distribution Directive, which came into effect from 1 October 2018, was also completed. New product offerings, promotions and functions relating to postal savings, asset management, insurance and loan products have also been launched during the period under review.

In **Insurance Services**, work on planning for the segment's growth continued, as did investment in functional and infrastructural improvements to key business support systems. Investment focused above all on the systems used to manage the Life and Non-life portfolios. Further investment focused on preparing for the application of EU Regulation 2016/679 "on the protection of natural persons with regard to the processing of personal data and on the free movement of such data" (the so-called GDPR Regulation), which came into effect on 25 May 2018.

Development of the area of the corporate website dedicated to customers also took place, and work on the technologies and physical layouts needed to get the smart working project up and running also proceeded.

In terms of investment in IT, which will play a key role in enabling delivery of the objectives in the Strategic Plan, work is continuing on rationalisation and consolidation of the Group's Data Centre infrastructure, on the technological upgrade of the hardware used in post offices, head offices and delivery offices, and on the evolution and enhancement of the applications and systems used in supplying services. This included the "Cloud" project, which aims to migrate and transform the technology platforms used by the Mail, Parcels and Distribution segment to Cloud infrastructure. Finally, among the many initiatives carried out as part of the digital transformation, the reengineering of the poste.it portal, in terms of architecture, applications and user experience, was carried out. The infrastructure and IT platform used by the Financial Services segment is operated by the Mail, Parcels and Distribution segment, which provides the related services to the former segment. The services rendered are regulated by specific internal operating guidelines replicating market conditions.

Net working capital amounts to €1,903 million at 30 September 2018, an increase of €451 million compared with the end of 2017. This reflects an increase in receivables of €483 million, mainly due to an increase in payments on account of withholding tax and substitute tax on capital gains on Life insurance policies.

Provisions for risks and charges are down €402 million from the €1,595 million of the end of December 2017 to €1,193 million. This reflects the use of €366 million in provisions for early retirement incentives - made in 2017 (totalling €446 million) to cover the liabilities that Poste Italiane will incur for staff taking voluntary early retirement by 31 December 2019, and the net reduction in provisions for disputes with third parties, amounting to €36 million. Finally, the balance also takes into account provisions for operational risk, reflecting adjustments to provisions for potential liabilities linked to claims brought by customers who purchased financial instruments and investment products in previous years, and whose performance has not been in line with their expectations.

Equity amounts to €7,300 million at 30 September 2018, a decrease of €250 million compared with 31 December 2017. The change primarily reflects net profit of €1,056 million, partially offset by the payment of dividends totalling €549 million and a reduction of €844 million in the fair value reserve (including the positive effect of €1,233 million resulting from the transition to IFRS 9), reflecting movements (positive and/or negative) in the value of investments classified in the new FVTOCI category, and an increase of €104 million in the cash flow hedge reserve.

Total **net funds** at 30 September 2018 amount to €4,528 million, marking a reduction compared with 31 December 2017 (net funds of €5,567 million). The change during the period reflects the increase in net working capital and a reduction in the fair value of investments classified as FVTOCI, which is not reflected in the change in technical provisions for the insurance business (as these investments are primarily held by BancoPosta RFC).

Analysis of net (debt)/funds of the Mail, Parcels and Distribution segment

(€m)	At 30 September 2018	At 31 December 2017	Increase/(decrease)	
A. Liquidity	**(1,207)**	**(1,997)**	**790**	**-39.6%**
B. Current loans and receivables	**(73)**	**(245)**	**172**	**-70.2%**
C. Current bank borrowings	200	201	(1)	-0.5%
D. Current portion of non-current debt	1	763	(762)	n.s.
E. Other current financial liabilities	22	82	(60)	-73.2%
F. Current financial debt (C+D+E)	**223**	**1,046**	**(823)**	**-78.7%**
G. Current net (funds)/debt (A+B+F)	**(1,057)**	**(1,196)**	**139**	**-11.6%**
H. Non-current bank borrowings	-	200	(200)	n.s.
I. Bond issues	50	49	1	2.0%
J. Other non-current liabilities	28	36	(8)	-22.2%
K. Non-current financial debt (H+I+J)	**78**	**285**	**(207)**	**-72.6%**
L. Net (funds)/debt (ESMA guidelines) (G+K)	**(979)**	**(911)**	**(68)**	**7.5%**
Non-current financial assets	(558)	(585)	27	-4.6%
Net (funds)/debt	**(1,537)**	**(1,496)**	**(41)**	**2.7%**
Intersegment loans and receivables and financial liabilities	1,078	651	427	65.6%
Industrial net (funds)/debt after adjusting for intersegment transactions	**(459)**	**(845)**	**386**	**-45.7%**

n/s: not significant

The net funds attributable to the Mail, Parcels and Distribution segment are down €386 million, declining from €845 million at 31 December 2017 to €459 million at 30 September 2018.

This reflects:

- operating profit of €14 million;
- an outflow due to an increase in net working capital, amounting to approximately €228 million, primarily due to a reduction of approximately €150 million in amounts due to staff and to social security institutions, an increase of approximately €159 million in trade receivables and a reduction of approximately €53 million in trade payables;
- an outflow of €227 million for investing activities;
- a net inflow of €55 million, primarily resulting from net dividends of €314 million (dividends received of €863 million, less those paid to shareholders, totalling €549 million), after the injection of €210 million in fresh capital for BancoPosta RFC and subscription for the new shares issued by Anima Holding, totalling €30 million.

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

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

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

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

6. Outlook

In the final quarter of 2018, 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.

In the **Mail, Parcels and Distribution** segment, the Group will focus on progressive implementation of the new joint delivery model. It will also proceed with the adoption of new automation technologies to support production processes with the aim of boosting the efficiency and quality of postal services, maximising synergies in the logistics and operations network and leveraging all the Group's available assets. The Group is also committed to improving its competitive position in the parcels market by taking advantage of the opportunities arising from the growth of e-commerce.

In addition, as part of the process of modernising its vehicle fleet, the Group is progressively introducing alternative electric vehicles for parcel delivery (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.

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

In this regard, as described in the section on the Group's operating segments, following the transfer, pursuant to art. 2558 of the Italian Civil Code, of BancoPosta's payment services unit to PosteMobile SpA, PostePay SpA was established on 1 October 2018 to operate as a specific ring-fenced entity. As an E-money Institution, the new company is authorised to provide payment services and issue cards.

The objective is to be the largest digital payments platform that, operating in synergy with Italy's most widespread distribution network, made up of post offices, will enable Poste Italiane to consolidate its role as a driver of the country's development and innovation. As well as being a specialist competence centre within the Group, PostePay SpA intends to interpret and lead changes in the habits of consumers and businesses with the creation of new integrated channels, products and services, above all in the fields of acquiring, e-commerce and mobile and digital payments. Establishment of the newly created PostePay SpA forms part of Poste Italiane's digital transformation in response to a changing competitive scenario in the payments sector, designed to take advantage of the opportunities offered by market deregulation and the changes in progress.

The first product to be launched by PostePay SpA, from November 2018, will be Postepay Connect, combining prepaid cards with telephone services. This will be followed by the launch of a Mobile Payments service based on Google Pay.

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

Consolidation of the partnership with the Intesa San Paolo group will lead to the launch of two new credit protection and insurance products providing cover for the mortgaged properties. Again with regard to loans, the Group's marketing of residential mortgages under this partnership will again enable us to develop a multi-partner strategy, adding to the existing products offered in collaboration with Deutsche Bank.

In the last quarter of 2018, in keeping with the strategic guidelines set out in the Deliver 2022 Plan, the **PosteVita** Insurance Group will continue to offer integrated savings and investment products with the aim of consolidating its position in the life insurance market and boosting sales of insurance products without capital guarantees (multiclass and unit-linked products), having a risk-return profile in keeping with the type of customer served by the Group, but potentially offering more attractive investment returns. Continuing the approach adopted in the first nine months of the year, the Group is committed to delivering on the growth targets for the Non-life business set out in the strategic plan, focusing above all on Accident insurance and Welfare products.

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

Throughout the rest of 2018, the Group is committed to strengthening its capital structure, with particular attention to movements in the spread and the impact on the Group's insurance company, Poste Vita.

7. Other information

Key non-financial Performance Indicators (KPIs)

Non-financial KPIs include the following:

With over 134,000 FTE employees working nationwide, Poste Italiane remains Italy's leading employer.

Workforce Average permanent workforce	Average number of employees (*) In the nine months ended 30 September 2018	2017	Increase/(decrease)	
Executives	694	736	(42)	-5.7%
Middle managers	15,562	15,854	(292)	-1.8%
Operational staff	110,228	115,165	(4,937)	-4.3%
Total permanent workforce	**126,484**	**131,755**	**(5,271)**	**-4.0%**
Apprenticeships	3	14	(11)	-78.6%
Total permanent workforce	**126,487**	**131,769**	**(5,282)**	**-4.0%**
Average flexible workforce				
Agency staff	143	18	125	n/s
Fixed-term contracts	7,945	6,082	1,863	30.6%
Total flexible workforce	**8,088**	**6,100**	**1,988**	**32.6%**
Total permanent and flexible workforce	**134,575**	**137,869**	**(3,294)**	**-2.4%**

(*) Expressed in full time equivalent terms.
n/s: not significant

Workforce by gender (figures shown in full time equivalent terms)	At 30 September 2018	At 30 September 2017	Increase/(decrease)	
Permanent workforce	**124,925**	**130,258**	**(5,333)**	**-4.1%**
of which				
Men	57,287	60,513	(3,226)	-5.3%
Women	67,638	69,745	(2,107)	-3.0%
Flexible workforce	**7,865**	**7,625**	**240**	**3.1%**
of which				
Men	4,705	4,572	133	2.9%
Women	3,160	3,053	107	3.5%

Regarding industrial relations, on 31 July 2018, an agreement was signed concerning performance-related bonuses for Poste Italiane SpA and also for Poste Vita SpA, Poste Assicura SpA, EGI SpA and BancoPosta Fondi SpA SGR.

The agreement, which is valid for one year, enables assessment of the contributions made by staff towards the achievement of corporate objectives in 2018. The agreement confirmed the option for employees to allocate all or part of their performance bonus to Fondo Poste or other supplementary pension funds. In addition, the Company has undertaken to present an IT platform via which employees may opt for forms of welfare with a major social impact.

In terms of gender diversity in the Group's governance bodies, during the first nine months of 2018, there were 63 members of the boards of directors of Group companies. Women make up 33.3% of the total (with 45.5% in the 30-50 age group).

Membership of governance bodies by gender (*)

	First nine months of 2018	
Age	Women	Men
<30 years	-	-
30-50 years	45.5%	54.5%
>50 years	26.8%	73.2%

(*) Refers to 63 members of the boards of directors of Group companies.

The objective is to guarantee a qualified and competent response to the needs of customers and the market, via the adoption of technological and organisational solutions. The Group's approach to quality is based on the principles of simplification and transparency in the provision of customer information, and of equality and impartiality of the services provided to all customers without any form of discrimination.

	Performance			
Type of product falling within the scope of the Universal Service	Delivered within	Target	First nine months of 2018	First nine months of 2017
Posta 1 - Priority	1 day	80.0%	86.4%	n/a
Posta 1 - Priority	2 days	80.0%	93.2%	n/a
Posta 1 - Priority	1 day	80.0%	n/a	82.8%
Posta 1 - Priority	4 days	98.0%	99.0%	99.2%
Posta 4 - Ordinary	4 days	90.0%	89.1%	92.3%
Posta 4 - Ordinary	6 days	98.0%	97.2%	97.3%
Bulk mail	4 days	90.0%	98.7%	95.9%
Bulk mail	6 days	98.0%	99.8%	99.8%
Registered mail	4 days	90.0%	95.5%	95.1%
Registered mail	6 days	98.0%	98.1%	97.9%
Insured mail	4 days	90.0%	99.1%	99.6%
Insured mail	6 days	98.0%	99.8%	99.9%
Standard parcels	4 days	90.0%	96.2%	93.9%

n/a: not applicable

Settlements	In the nine months ended 30 September 2018	2017	Increase/(decrease)	
Retail postal product disputes discussed	578	613	(35)	-5.7%
of which settled (*)	*91%*	*85%*	*6%*	
Business postal product disputes discussed	47	71	(24)	-33.8%
of which settled (*)	*94%*	*77%*	*17%*	
Bancaposta product disputes discussed	331	237	94	39.7%
of which settled (*)	*42%*	*55%*	*-13%*	
PosteMobile product disputes discussed	32	28	4	14.3%
of which settled (*)	*100%*	*57%*	*43%*	
Total disputes discussed	**988**	**949**	**39**	**4.1%**
of which settled (*)	***738***	***721***	***17***	***2.4%***

(*) The figures regarding the first nine months of 2018 refer to estimates made in September, as customers have 30 days to accept proposed settlements.

During the first nine months of 2018, 988 settlement applications were submitted, of which 738 (75%) were settled with the parties reaching agreement.

As far as complaints are concerned, the Group's ongoing focus on customer care has enabled better control of management processes and their optimisation, leading to a reduction in the average time taken to handle complaints in the main product segments and a reduction in the total number of complaints outstanding.

Complaints	In the nine months ended 30 September 2018	2017	Increase/(decrease)	
Post offices				
Complaints received (*)	7,614	7,179	435	6.1%
Average reply time (days)	25.0	28.5	(3.5)	-12.3%
Mail				
Complaints received (*)	65,432	70,733	(5,301)	-7.5%
Average reply time (days)	23.0	28.1	(5.1)	-18.1%
Parcels				
Complaints received (*)	141,307	140,331	976	0.7%
Average reply time (days)	15.0	11.3	3.7	32.7%
Financial Services complaints				
Complaints received (*)	70,602	58,985	11,617	19.7%
Average reply time (days)	8.0	13.0	(5.0)	-38.5%
Insurance Services complaints				
Complaints received (*)	2,275	2,299	(24)	-1.0%
Average reply time (days)	14.7	16.4	(1.7)	-10.4%
Investigations initiated by the insurance regulator	132	140	(8)	-5.7%
Poste Mobile complaints				
Mobile telephone complaints received (*)	9,097	13,579	(4,482)	-33.0%
Average reply time (days)	4.5	7.0	(2.5)	-35.7%
Landline complaints received (*)	590	204	386	n/s
Average reply time (days)	12.4	5.0	7.4	n/s

(*) Figures for complaints refer to outstanding complaints requiring back-office intervention.
n/s: not significant

In the first nine months of 2018, the “Poste Risponde” Contact Centre handled 17.2 million contacts (16.6 million in the first nine months of 2017). Assistance is provided regarding financial and postal services, insurance and pension services and mobile telecommunications. Development of the Contact Centre continued during the period, partly thanks to the integration of customer care for large businesses and Public Administration customers at central and regional level, with the aim of improving the ability to respond to the needs of major regarding the Group’s products and services.

In addition, the Contact Centre’s response capability, measured by the percentage of calls from customers receiving a reply, improved from 91.9% in the first nine months of 2017 to 94.6% in the first nine months of 2018.

	In the nine months ended 30 September			
Contact Centres	**2018**	**2017**	**Increase/(decrease)**	
Contacts handled by "Poste Risponde" (m)	17.2	16.6	0.6	3.6%

	In the nine months ended 30 September			
Customers’ experience in post offices	**2018**	**2017**	**Increase/(decrease)**	
Average waiting time in post offices (minutes)	8.91	8.51	0.4	4.7%
Customers served within 15 minutes	82.1%	83.1%	-1.0%	

	In the nine months ended 30 September					
Inclusive ATMs	**2018**		**2017**		**Increase/(decrease)**	
Total number of ATMs	**7,271**		**7,252**		**19**	**0.3%**
of which:		*Coverage*		*Coverage*		
ATMs with touchpads for the visually impaired and the blind and graphical maps for the visually impaired	7,271	*100%*	7,252	*100%*	19	0.3%
ATMs with voice guidance	6,179	*85%*	5,652	*78%*	527	9.3%

The attention Poste Italiane pays to customers with disabilities has led to the creation of a new generation of post offices without architectural barriers. Moreover, 85% of ATMs are equipped with a headset attachment to provide a complete voice guidance system, which helps visually impaired and blind customers, as does the navigation guidance system, which uses a series of high-contrast graphic maps that can be activated using a numerical touchpad. All of Poste Italiane’s 7,271 ATMs enable visually impaired people to make withdrawals, and since December 2017 the list of transactions has also been available.

	In the nine months ended 30 September			
Poste offices and cultural integration	**2018**	**2017**	**Increase/(decrease)**	
Mono-ethnic (no.)	2	2	-	-
Multi-ethnic (no.)	25	25	-	-
Number of customers served (000)	2,450	2,447	3.0	0.1%
Total transactions carried out (000)	**3,937**	**4,024**	**(87.0)**	**-2.2%**

Poste Italiane’s commitment to developments in the social environment, in which its approach to foreign citizens in Italy has become an important element in overcoming language barriers, has resulted in the creation of 2 types of multi-ethnic post office, which offer postal services to Italian customers as well as to customers from various ethnic groups:

- mono-ethnic post offices, as a reference point in centres and/or neighbourhoods with a high concentration of specific communities.
- multi-ethnic post offices, as a meeting point for the predominant ethnic groups in larger cities such as Rome, Milan and Turin.

To support staff, the ethnic post offices are equipped with all communication and advertising material translated into the various languages of the identified target customers.

New customers in the categories most at risk of financial exclusion as a percentage of total new acquisitions	In the nine months ended 30 September		
	2018	2017	Increase/(decrease)
New retail current account openings (*)			
Percentage of young current account holders (under 35)	25.3	25.5	(0.2)
Percentage of senior current account holders (over 65)	23.4	24.1	(0.7)
Percentage of current account holders who are "new Italians"	17.4	17.7	(0.3)
New retail Postepay standard cards (**)			
Percentage of young Postepay standard card holders (under 35)	34.6	38.4	(3.8)
Percentage of senior Postepay standard card holders (over 65)	8.0	6.7	1.3
Percentage of Postepay standard card holders who are "new Italians"	11.9	12.7	(0.8)
New retail Postepay Evolution cards (**)			
Percentage of young Postepay Evolution card holders (under 35)	45.3	46.0	(0.7)
Percentage of senior Postepay Evolution card holders (over 65)	5.6	5.4	0.2
Percentage of Postepay Evolution card holders who are "new Italians"	21.3	20.7	0.6

(*) The figures for 2018 regard the first eight months of the year.
(**) The figures for Postepay Standard and Evolution cards exclude renewals during the period.

In the first nine months of 2018, a substantial portion of customers opening a retail current account or acquiring a prepaid card (Standard or Evolution) were also in the categories most at risk of financial exclusion (young people, senior citizens and "new Italians"), obviously taking into account the specific nature of the products under consideration (e.g. Postepay is very common among young people due to its simplicity and online payment function).

Digital services in numbers	In the nine months ended 30 September			
	2018	2017	Increase/(decrease)	
Customers registered for online services (websites and apps) (m)	16.8	14.2	2.6	18.3%
Digital identitities issued (m)	2.4	1.5	0.9	60.0%
Apps downloaded (*) (m)	19.5	13.3	6.2	46.6%
Transactions carried out via consumer digital channels (websites and apps) (m)	34.4	28.3	6.1	21.6%
Focus – Poste Vita customers				
Poste Vita Insurance Group customers registered in the reserved area (no.)	497,319	395,505	101,814	25.7%
Customers who use Poste Vita and Poste Assicura services via mobile devices	33.3%	30.3%	3.0%	

(*) App downloads refer to iOS and Android users who have downloaded the app from the launch of the first version until the date indicated (30 September 2018 and 30 September 2017).

Digital is now a key driver in the relationship with the stakeholders who interact with Poste Italiane using multiple channels, both physically through the network of 12,824 post offices, and using the website from their computers or via apps for smartphones or tablets.

The digitalisation process aims to enhance the post office network, develop forms of multi-channel access and tools to interpret and anticipate customer needs, qualifying the Company as a key stakeholder for the Public Administration, and encouraging inclusion and development of the digital economy.

Dematerialisation of procedures and corresponding transactions

Number of procedures (in thousands)	In the nine months ended 30 September			
	2018		2017	
	No. Procedures	% dematerialised	No. Procedures	% dematerialised
Total	**11,105**	**85%**	**10,310**	**74%**

Corresponding transactions (in thousands)	In the nine months ended 30 September			
	2018		2017	
	Dematerialised and digitalised	Dematerialised	Dematerialised and digitalised	Dematerialised
Total transactions	55,993	27,712	56,009	30,635
Total electronic transactions	47,836	24,310	41,654	22,417
Electronic transactions as % of total	**85%**	**88%**	**74%**	**73%**

The dematerialisation of contracts and transactions, managed via the Electronic Management of Contracts and Transactions (EMCT) project, aims to make processes fully electronic, enabling the elimination of the need for printing and the storage of millions of pages of documents in post offices. The project also involves sending customers copies of their contracts via email, with electronic originals signed by electronic signature and stored in accordance with regulatory requirements. The environmental benefits include lower consumption of resources (paper) and a reduction in waste generation (toner cartridges), less energy used for printing, and reduced CO2 emissions. In terms of improved operational efficiency, benefits include the ability to consult documents more quickly and faster access to information, as well as shorter response times in the event of checks and controls.

Paper and cardboard consumption for printing services	In the nine months ended 30 September			
	2018	2017	Increase/(decrease)	
Paper and cardboard (in tonnes)	13,964	14,563	(599)	-4.1%

Postel SpA is the Group company that provides customers with a technology platform for the digitalisation of communications and document management processes, enabling the dematerialisation and electronic processing of documents. It is also active in the printing services sector in the centres in Milan, Rome and Genoa, where it is equipped with bulk printing (bills, invoices, statements of account) and enveloping systems. To minimise the impact of paper use, lightweight paper solutions have been adopted as well as envelopes with windows made of biodegradable material that comply with the FSC® (Forest Stewardship Council) Chain of Custody management system, which guarantees the traceability of materials such as wood and its derivatives (pulp and paper) from responsibly managed forests.

Internal energy consumption relating to real estate facilities by source	In the nine months ended 30 September 2018		2017		Increase/(decrease)	
	Consumption (GJ) *	CO_2 emissions (tonnes)	Consumption (GJ) *	CO_2 emissions (tonnes)	Consumption (GJ) *	CO_2 emissions (tonnes)
Renewable energy	**1,345,477**	**-**	**1,390,743**	**-**	**-3.3%**	**-**
Certified guarantee of origin electricity	1,345,477	-	1,390,743	-	-3.3%	-
Non-renewable energy	**530,878**	**33,691**	**570,005**	**36,417**	**-6.9%**	**(2,726)**
of which:						
Electricity supplied by the National Grid	56,701	5,906	65,550	6,828	-13.5%	(922)
Natural gas	386,419	21,678	407,640	22,869	-5.2%	(1,191)
LPG	7,335	463	7,901	498	-7.2%	(35)
Diesel	65,599	4,859	71,694	5,310	-8.5%	(451)
District heating	14,824	785	17,220	912	-13.9%	(127)
Total energy	**1,876,355**	**33,691**	**1,960,748**	**36,417**	**-4.3%**	**(2,726)**

* Energy consumption has been converted into GJ (Gigajoules) using the energy fuel conversion factors adopted by the IPC (International Post Corporation).

Poste Italiane's energy consumption primarily derives from its 15 thousand workplaces. The process of overseeing the utilisation of energy resources is aimed at curbing consumption and consequently reducing the environmental impact in terms of the amount of greenhouse gases produced. In this regard, among other things, the LED project has continued, entailing the replacement of fluorescent lighting (neon) with LED lighting (ceiling lights and spotlights).

In the first nine months of 2018, CO_2 emissions totalled 33,691 tonnes, compared with energy use of approximately 1.9 million GJ.

Corporate fleet data	In the nine months ended 30 September 2018	2017	Increase/(decrease)	
Total km travelled (in thousands)	259,550	252,270	7,280	2.9%
Total vehicles	33,693	34,866	(1,173)	-3.4%
of which:				
Traditional vehicles (no.)	29,768	30,711	(943)	-3.1%
Alternative vehicles (no.)	3,925	4,155	(230)	-5.5%
of which:				
Bicycles	324	324	-	-
Electric vehicles	804	1,019	(215)	-21.1%
Hybrid cars	91	108	(17)	-15.7%
Petrol-natural gas fuelled vehicles	1,727	1,727	-	-
Petrol-LPG fuelled vehicles	979	977	2	0.2%
Percentage of alternative vehicles	11.6%	11.9%	-0.3%	
Grams of CO_2 /Km	210	210	-	-

The progressive achievement of better quality and efficiency standards, together with the development opportunities linked to the e-commerce market, have led to a rejigging of overall vehicle requirements (at 30 September 2018, the reduction in the number of vehicles compared with the same period of the previous year amounts to approximately 1,200). The reduction in motorcycles and electric quadricycles was partly offset by the acquisition of new 4-wheeled vehicles capable of guaranteeing load factors in line with the growing volume of parcels handled.

Risk assessment

Poste Italiane has implemented and is progressively consolidating a risk management model based on the Enterprise Risk Management (ERM) framework, with the aim of providing an organic, integrated vision of the risks to which the Group is exposed and responding in a coherent, effective manner. The Group Risk Management (GRM) unit, which is part of the Corporate Affairs function, is responsible for ensuring these goals are met, primarily through establishment of an integrated risk management process with the coordinated involvement of all the actors with a role in the Internal Control and Risk Management System, above all specialist second level units, the standardisation of modelsand metrics with respect to the Group criteria, and the design and implementation of shared risk assessment and management tools. In this latter regard, the Group has implemented an integrated Governance, Risk and Compliance ("GRC") IT platform to support integrated risk assessment at Group level. This enables the Group to identify and evaluate risks using both the methods applicable to each specialist area and from an integrated Group-wide viewpoint.

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

Strategic risk: these risks may have an impact on the achievement of the objectives set in the Strategic Plan. They are identified, classified and monitored with the involvement of management, describing the key characteristics, the triggers for such risks and the potential consequences or effects, both in economic terms (i.e. losses, increased costs due above all to the delayed or ineffective implementation of restructuring and efficiency plans, reduced revenue) or in other terms (i.e. customer satisfaction).

Financial risk: these include market risk (price, foreign exchange, interest rate and spread risks), credit risk, liquidity risk and the technical risks typical of the insurance business. The process of managing these risks is specifically governed and overseen by supervisory authorities (the Bank of Italy and IVASS, the insurance regulator) and is the responsibility of the Risk Managment units in the various segments, coordinated by the single representative in the Group Risk Management unit.

Financial risk primarily relates to the operations of Poste Italiane SpA's BancoPosta RFC division and the recently established ring-fenced company, PostePay (active management of liquidity generated by postal current account deposits, carried out in the name of BancoPosta but subject to statutory restrictions, and collections and payments on behalf of third parties) and to asset financing and the investment of liquidity. The financial risks to which the subsidiary, Poste Vita, is exposed regard investments designed to cover its 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, 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), as is surrender risk.

A description of the main financial risks is provided below.

- **Spread risk**
  This is the risk of a potential fall in the value of bonds held, following deterioration in the creditworthiness of issuers. In the Poste Italiane Group's case, this relates to the spread risk on bonds issued by the Italian Republic, which affects the fair value of the Italian government securities held by the Gropup at 30 September 2018, which have a notional value of €125 billion (total bond holdings amount to €148 billion).
  At the end of September 2018, the spread between ten-year Italian government bonds and German bunds is 268 basis points (source: Bloomberg).
  As a result, unrealised losses on the portfolio of securities included in financial assets (the notional value of the securities held by BancoPosta RFC amounts to €47 billion) total approximately €2.7 billion. However, it should be noted that, to date, all the gains targeted for 2018 have been realised, as have a large part of the gains targeted for 2019. In addition, the securities purchased in recent months have yields above those referred to the Business Plan with an impact on the portfolio's profitability. It should also be noted that movements in the spread are not relevant for the purposes of BancoPosta RFC's capital requirements.
  A further result of an increase in the spread is the impact on the Solvency Ratio for insurance activities (Poste Vita), which stands at 172% at 30 September 2018, compared with 185% at 30 June 2018 and 279% at 31 December 2017. The reduction reflects the significant reduction in the value of Poste Vita's securities portfolio (the notional value of the securities held by Poste Vita amopunts to €78 billion), which has had a negative impact on own funds and increased the Solvency Capital Requirement.

Finally, the spread has had an impact on Poste Vita's separate financial statements at 30 June (prepared under Italian GAAP), which report a loss of €442 million due to the impact on profit or loss of losses on the securities portfolio (offset, in the Group's IFRS financial statements, by movements in technical provisions). Taking into account the performance of the spread, the insurance company could record a loss for the full year ended 31 December 2018. This will, however, not affect the dividend policy for 2018, as the company has already paid the Parent Company dividends that were lower than expected in June, with a positive impact on the Solvency Ratio of approximately 3%.
The Poste Italiane Group constantly monitors the performance of the spread and is considering solutions designed to mitigate the effect of any further increase. Poste Vita is also assessing the potential for recognising deferred tax assets on the partial deductibility of the movement in the obligatory technical provisions relating to the Life business (the changes introduced by Law Decree 78/2010), which could boost the Solvency Ratio by approximately 8/10%. Furthermore, Poste Italiane has given an unconditional, irrevocable 5-year commitment to inject up to €1,750 million of fresh capital into Poste Vita to support its Solvency Ratio, exceeding the amount approved in February 2018 (a capital injection of up to €1 billion conditional on the Solvency Ratio falling below 130%). This solution enables Poste Vita, in accordance with the Solvency II Directive and the relevant regulatory framework for insurance companies, and subject to approval by IVASS, to include approximately €1,100 million in its Tier 2 Ancillary Own Funds or "Tier 2 AOF", boosting its Solvency Ratio by approximately 26%.
The above actions would raise the ratio to approximately 210%.
Finally, a number of structural initiatives are being discussed with the competent institutions and authorities. In this regard, on 31 October 2018, IVASS published "Clarification on the method of application of the provisions of article 344-*decies* of Legislative Decree 209 of 7 September 2005, concerning the transitional measure applicable to technical provisions" designed to enable the gradual transition from the previous prudential regime (Solvency I) to the new Solvency II regime. Based on current estimates, application of the above transitional measure would boost the Solvency Ratio by approximately 20%.
Overall, all the actions identified would increase the ratio to 230%.

- **Price risk**
  This is the risk that the value of a financial instrument fluctuates as a result of market price movements, deriving from factors specific to the individual instrument or the issuer, and factors that influence all instruments traded on the market.

- **Credit risk**
  This is the risk of default of one of the counterparties to which there is an exposure, with the exception of equities and units of mutual funds.
  In relation to revenue and receivables due from the state, the nature of the customers, the structure of revenue and the method of collection limit the risk of default on trade receivables. However, in the case of certain of the Parent Company's activities, regulated by statute and specific agreements or contracts involving particularly complex renewal processes, prompt and full payment of the amounts due is dependent on availability of the necessary funds in the state budget or in the budgets of the related public sector entities.

- **Liquidity risk**
  This is the risk that an entity may have difficulties in raising sufficient funds (funding liquidity risk), at market conditions, or in realising its assets (market liquidity risk) to meet its obligations deriving from financial instruments.
  In order to minimise this risk, the Poste Italiane Group applies a financial policy based on:
  - diversification of the various forms of short-term and long-term borrowings and counterparties;
  - availability of relevant lines of credit in terms of amounts and the number of banks;
  - gradual and consistent distribution of the maturities of medium/long-term borrowings;
  - use of dedicated analytical models to monitor the maturities of assets and liabilities.

- **Fair value interest rate risk**
  This is the risk that the value of a financial instrument fluctuates as a result of movements in market interest rates. This refers to the effects of changes in interest rates on the price of fixed rate financial instruments or variable rate financial instruments converted to fixed rate via cash flow hedges and, to a lesser degree, the effects of changes in interest rates on the fixed components of floating rate financial instruments or fixed rate financial instruments converted to variable rate via fair value hedges. The impact of these effects is directly related to the financial instrument's duration.

- **Cash flow interest rate risk**
  This is defined as the uncertainty related to the generation of future cash flows due to fluctuations in market interest rates. It regards the uncertainty over future cash flows generated by variable rate instruments and variable rate instruments created through fair value hedges following fluctuations in market interest rates.

- **Cash flow inflation risk**
  This is defined as the uncertainty related to future cash flows due to changes in the rate of inflation observed in the market.

- **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. Exposure to this risk primarily regards the Parent Company's trade receivables and payables versus overseas postal operators, the Parent Company's investments in Visa shares and the units of certain funds held by Poste Vita SpA.

Risk of a rating downgrade

- **Risk of a downgrade of Poste Italiane's rating**
  This regards the risk of a downgrade of the ratings assigned to Poste Italiane by three agencies:
  - Standard & Poors: BBB/Stable at 30 September 2018, revised on 30 October to BBB/Negative;
  - Moody's: Baa2/Negative at 30 September 2018, revised on 23 October to Baa3/Stable;
  - Fitch: BBB/Negative.

  An eventual downgrade, due to a possible deterioration in Poste Italiane's creditworthiness, could increase the Parent Company's cost of funding and, above all if the downgrade lowered the rating to below investment grade, adversely affect Poste Italiane's ability to access certain forms of funding, including the capital markets, making it potentially difficult to raise funds in the market.

- **Risk of a downgrade of the Italian Republic**
  Poste Italiane is indirectly exposed to the risk of a downgrade of the Italian Republic. In fact, Poste Italiane's rating is closely linked to Italy's sovereign rating and, based on the methods currently used by the rating agencies, a further downgrade of Italy may have a similar impact on Poste Italiane's rating.
  In addition, a further downgrade of Italy's rating, above a downgrade to below Investment grade, could cause a further widening of the spread between Italian and German government bonds, resulting in the effects described in the section on the spread risk.

Operational risk: this 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 the level of existing specialist units within the Group (Bancoposta Risk Management, Poste Vita Risk Management, SGR Risk Management), in compliance with the respective regulatory requirements, and at an integrated level, overseen by the Group Risk Management unit. The following risks, among others, are closely monitored: i) IT risk, and in particular the risks arising from malfunctioning and/or shortcomings in the security of IT systems that could result in the loss of data integrity, the misuse of personal data and the violation of privacy and confidentiality, potentially leading to disruption to customer services; ii) OHS risk, particularly as a result of accidents to employees or contractors engaged in operations at the workplace (e.g. the receipt, transport and sorting of parcels and mail, and the delivery of postal products by motorcycle or motor vehicle); iii) physical safety risk, particularly with regard to access to the premises of Group companies, post offices or areas with restricted access by persons not adequately authorized/identified, or as a result of limited protection for Poste Italiane's assets/property against predatory behaviour (theft, fraud, burglary, attacks on ATMs, acts of vandalism, etc.). Operational risk also includes disruption to and/or shutdowns of the Group's operating systems (sorting centres, delivery centres, etc.) as a result of industrial action and strikes.

Non-compliance risk: this refers to the risk of violations of statutory requirements, such as, for example, the risks arising from the failure to comply with Legislative Decree 231/01, Law 262/05, Privacy or Market Abuse regulations or those linekd to the introduction of new legislation and/or regulations relevant to the sectors in which Poste Italiane Group operates. In particular, this type of risk includes those linked to the introduction of new legislation governing the management and development of universal postal services and the related rates designed to cover Poste Italiane's costs, and the risk of the failure to meet the service quality standards set by the regulator, AGCom.

Reputational risk: this type of risk orginates from negative perceptions among the Group's stakeholders. The Group has adopted a framework designed to analyse and manage such risk (stakeholder engagement) with the aim of identifying and assessing the sources of risk. The main element of reputational risk to which the Group is, by its nature, exposed is linked to market performance and primarily associated with the placement of postal savings products and investment products issued by third-party entities (bonds, certificates and real estate funds) or by Group companies (insurance policies written by the subsidiaries, Poste Vita SpA and Poste Assicura SpA, and mutual funds managed by BancoPosta Fondi SpA SGR). Reputational risk also relates to the perceived and actual quality of the services linked to mail and parcel delivery.

Events after 30 September 2018

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 30 September 2018, the provisions made in 2017 have been used in full.

Following the transfer to ANIMA Holding of the shares in ANIMA SGR resulting from the partial spin-off of management of the assets underlying Class I insurance products from BancoPosta Fondi SGR SpA with effect from 1 November 2018, on 24 October 2018 the Company received the sum of €120 million.

With reference to the sale of the 100% interest in Banca del Mezzogiorno–Mediocredito Centrale SpA ("BdM"), in accordance with the agreement between Poste Italiane SpA, the seller, and Invitalia, the buyer, signed on 8 February 2017, on 31 October 2018, Invitalia informed Poste Italiane that the Bank of Italy had requested the buyer not to proceed with the reduction of BdM's capital scheduled for 2018, and preparatory to payment of a €40 million tranche of the related consideration. In line with the terms of the agreement, Poste Italiane and Invitalia, acting in good faith, intend to find an alternative method of payment of the relevant tranche of the sale price.

Following their downgrade of Italian government bond ratings, the rating agencies, Standard & Poors and Moody's, revised the ratings assigned to Poste Italiane as follows:

- Standard & Poors from BBB/Stable at 30 September to BBB/Negative at 30 October 2018;
- Moody's from Baa2/Negative at 30 September to Baa3/Stable at 23 October 2018.

Further events after the end of the reporting period for the interim report for the nine months ended 30 September 2018 are described in other sections of this document.

Related party transactions of greater significance

Within the scope of the transactions with Monte dei Paschi di Siena Capital Services Banca per le Imprese SpA authorised by the Board of Directors on 20 September 2017, having obtained the consent of the Related and Connected Parties Committee, eight repurchase agreements, fifteen buy & sell back transactions, which expired during the period, and seven Interest rate Swaps for hedging purposes and nineteen trades in government securities were carried out in the first nine months of 2018.

Within the scope of the transactions with Cassa Depositi e Prestiti authorised by the Board of Directors on 11 October 2016, having obtained the consent of the Related and Connected Parties Committee, two repurchase agreements were entered into during the first nine months of 2018.

There were no other related party transactions of greater significance completed in the first nine months of 2018, requiring the prior consent of the Related and Connected Parties Committee in accordance with the guidelines for managing transactions with related and connected parties.

8. Principal relations
with the Authorities

The following information, provided in accordance with accounting standard IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, only covers ongoing proceedings where there have been significant developments during the first nine months of 2018. More detailed information is provided in the financial statements for the year ended 31 December 2017.

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

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

On 13 December 2017, the Authority handed down the final ruling of the investigation, notified on 15 January 2018, by which an infringement regarding abuse of dominant position was ascertained, with a warning to the Company to refrain from similar conduct in the future. The same ruling imposed an administrative fine amounting to €23 million, limited – with respect to the Authority's previous fines – to 2% of turnover and discounted in relation to the compliance obligations undertaken in advance by Poste Italiane and positively assessed by Nexive.

Poste Italiane lodged an appeal against the above ruling before the Lazio Regional Administrative Court with a request for suspensive relief, which was granted via an out-of-court order. The court then ruled that the deadline for compliance had not expired and ordered the Company to enter into talks with the AGCM in order to agree on what form compliance should take. The hearing on the merits was set for 5 December 2018.

On 27 June 2018, the Council of State, in ruling on Poste Italiane's request for suspensive relief, requested the AGCM to evaluate the collateral effects (including those of an indirect nature) that could result from proactive action taken in the period between the date of its decision and the date of the judgement at first instance, and to refrain from taking decisions that could result in further, serious complications in the above dispute.

Despite the fact that Poste Italiane has, in any event, continued to propose proactive solutions and has submitted details of the compliance initiatives taken so far, the AGCM, without taking heed of the Council of State's recommendations, notified the Company on 10 August 2018 that it had launched a non-compliance procedure. Poste Italiane lodged a challenge against the above decision before the Lazio Regional Administrative Court with an application for interim relief pursuant to art. 59 of the code of administrative procedure. At the hearing held on 3 October 2018, the court rejected the application for relief. Poste Italiane is considering an appeal to the Council of State.

On 3 October 2018, the Company proceeded to pay the fine imposed by the AGCM and provided the Authority with a report on its compliance with the ruling. 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 30 September 2018, the provisions made in 2017 have been used in full.

9. Consolidated financial statements
at and for the nine months ended 30 September 2018

Consolidated statement of financial position

ASSETS (€m)	at 30 September 2018	at 31 December 2017
Non-current assets		
Property, plant and equipment	1,884	2,001
Investment property	48	52
Intangible assets	492	516
Investments accounted for using the equity method	533	508
Financial assets	170,313	171,004
Trade receivables	6	9
Deferred tax assets	1,170	869
Other receivables and assets	3,321	3,043
Technical provisions attributable to reinsurers	71	71
Total	**177,838**	**178,073**
Current assets		
Inventories	136	138
Trade receivables	2,080	2,026
Current tax assets	223	93
Other receivables and assets	1,110	954
Financial assets	19,174	15,762
Cash and deposits attributable to BancoPosta	3,094	3,196
Cash and cash equivalents	2,060	2,428
Total	**27,877**	**24,597**
TOTAL ASSETS	**205,715**	**202,670**

LIABILITIES AND EQUITY (€m)	at 30 September 2018	at 31 December 2017
Equity		
Share capital	1,306	1,306
Reserves	1,080	1,611
of which Fair value reserve	*(473)*	*371*
Retained earnings	4,914	4,633
Equity attributable to owners of the Parent	**7,300**	**7,550**
Equity attributable to non-controlling interests	-	-
Total	**7,300**	**7,550**
Non-current liabilities		
Technical provisions for insurance business	124,335	123,650
Provisions for risks and charges	694	692
Employee termination benefits	1,212	1,274
Financial liabilities	5,741	5,044
Deferred tax liabilities	853	546
Other liabilities	1,136	1,207
Total	**133,971**	**132,413**
Current liabilities		
Provisions for risks and charges	499	903
Trade payables	1,357	1,332
Current tax liabilities	206	23
Other liabilities	2,274	2,249
Financial liabilities	60,108	58,200
Total	**64,444**	**62,707**
TOTAL EQUITY AND LIABILITIES	**205,715**	**202,670**

Consolidated statement of profit or loss

Third quarter 2018	Third quarter 2017	(€m)	For the nine months ended 30 September 2018	For the nine months ended 30 September 2017
828	849	Revenue from Mail, Parcel & other	2,589	2,661
163	144	Revenue from Payments, Mobile & Digital	470	422
1,168	1,069	Revenue from Financial Services	3,844	3,779
363	333	Revenue from Insurance Services after movements in technical provisions and other claims expenses	1,048	1,031
3,837	5,291	Insurance premium revenues	12,708	16,389
939	872	Income from insurance activities	2,668	3,003
(4,400)	(5,746)	Net change in technical provisions for insurance business and other claim expenses	(13,478)	(17,917)
(13)	(84)	Expenses from insurance activities	(850)	(444)
2,522	**2,395**	**Net operating revenue**	**7,951**	**7,893**
569	563	Cost of goods and services	1,695	1,747
6	9	Expenses from financial activities	41	42
1,305	1,307	Personnel expenses	4,151	4,241
133	132	Depreciation, amortisation and impairments	405	413
(4)	(5)	Capitalised costs and expenses	(10)	(18)
54	51	Other operating costs	147	261
3	9	Impairment loss/(reversal) on debt instruments, receivables and other assets	13	31
456	**329**	**Operating profit/(loss)**	**1,509**	**1,176**
15	24	Finance costs	55	72
31	27	Finance income	85	85
-	-	*of which, non-recurring income*	-	2
-	-	Impairment loss/(reversal) on financial instruments	-	94
-	-	*of which, non-recurring expense/(income)*	-	82
5	3	Profit/(Loss) on investments accounted for using the equity method	13	12
477	**335**	**Profit/(Loss) before tax**	**1,552**	**1,107**
156	121	Income tax expense	496	383
-	-	*of which, non-recurring expense/(income)*	-	(9)
321	**214**	**NET PROFIT**	**1,056**	**724**
321	214	of which, attributable to owners of the Parent	1,056	724
0.246	**0.164**	**Earnings per share**	**0.809**	**0.554**

Contents

Consolidated statement of comprehensive income

Third quarter 2018	Third quarter 2017	(€m)	For the nine months ended 30 September 2018	For the nine months ended 30 September 2017
321	**214**	**Net Profit/(Loss)**	**1,056**	**724**
		Items to be reclassified in the Statement of profit or loss for the period		
		FVOCI debt instruments		
(854)	315	Increase/(decrease) in fair value during the period	(2,510)	(276)
(14)	(14)	Transfers to profit or loss	(395)	(610)
-		Increase/(Decrease) for expected credit loss	(3)	
		Cash flow hedges		
20	5	Increase/(decrease) in fair value during the period	155	(13)
(8)	(9)	Transfers to profit or loss	(9)	(10)
245	(83)	Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the period	789	267
-	-	Share of after-tax comprehensive income/(loss) of investees accounted for using equity method	-	-
-	3	After-tax increase/(decrease) in reserves related to group of assets and liabilites held for sale	-	2
		Items not to be reclassified in the Statement of profit or loss for the period		
		FVOCI equity instruments		
-		Increase/(decrease) in fair value during the period	-	
-		Transfers to equity	-	
(7)	-	Actuarial gains/(losses) on provisions for employee termination benefits	-	41
2	-	Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the period	-	(12)
-	-	Share of after-tax comprehensive income/(loss) of investees accounted for using equity method	-	-
(616)	**217**	**Total other comprehensive income**	**(1,973)**	**(611)**
(295)	**431**	**TOTAL COMPREHENSIVE INCOME FOR THE PERIOD**	**(917)**	**113**
(295)	431	of which, attributable to owners of the Parent	(917)	113

Consolidated statement of changes in equity

(€m)	Share capital	Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Reserves related to disposal groups and liabilites held for sale	Reserve for investees accounted for using equity method	Retained earnings / (Accumulated losses)	Total equity attributable to owners of the Parent	Equity attributable to non-controlling interests	Total equity
Balance at 1 January 2017	**1,306**	**299**	**1,000**	**1,092**	**(18)**	**(1)**	**2**	**4,454**	**8,134**	**-**	**8,134**
Total comprehensive income for the period	-	-	-	(626)	(16)	2	-	753	113	-	113
Dividends paid	-	-	-	-	-	-	-	(509)	(509)	-	(509)
Balance at 30 September 2017	**1,306**	**299**	**1,000**	**466**	**(34)**	**1**	**2**	**4,698**	**7,738**	**-**	**7,738**
Total comprehensive income for the period	-	-	-	(96)	(27)	-	-	(65)	(188)	-	(188)
Dividends paid	-	-	-	-	-	-	-	-	-	-	-
Reclassifications to/ (from) reserves related to disposal groups and liabilites held for sale	-	-	-	1	-	(1)	-	-	-	-	-
Balance at 31 December 2017	**1,306**	**299**	**1,000**	**371**	**(61)**	**-**	**2**	**4,633**	**7,550**	**-**	**7,550**
Adjustments due to adoption of IFRS 9 and IFRS 15	**-**	**-**	**-**	**1,233**	**-**	**-**	**-**	**(17)**	**1,216**	**-**	**1,216**
Reclassifications of financial instruments	-	-	-	1,705	-	-	-	13	1,718	-	1,718
Adjustments	-	-	-	15	-	-	-	(40)	(25)	-	(25)
Tax effects	-	-	-	(487)	-	-	-	10	(477)	-	(477)
Balance at 1 January 2018 including IFRS 9 and IFRS 15 effects	**1,306**	**299**	**1,000**	**1,604**	**(61)**	**-**	**2**	**4,616**	**8,766**	**-**	**8,766**
Total comprehensive income for the period	-	-	-	(2,077)	104	-	-	1,056	(917)	-	(917)
Dividends paid	-	-	-	-	-	-	-	(549)	(549)	-	(549)
Other changes	-	-	210	-	-	-	-	(210)	-	-	-
Balance at 30 September 2018	**1,306**	**299**	**1,210**	**(473)**	**43**	**-**	**2**	**4,913**	**7,300**	**-**	**7,300**

Condensed consolidated statement of cash flows

(€m)		For the nine months ended 30 September 2018	For the nine months ended 30 September 2017
Unrestricted net cash and cash equivalents at beginning of period		**1,978**	**2,292**
Cash subject to investment restrictions		-	780
Escrow account with the Italian Teasury		55	-
Cash attributable to technical provisions for insurance business		358	799
Amounts that cannot be drawn on due to court rulings		15	12
Current account overdrafts		1	2
Cash received on delivery (restricted) and other restrictions		21	17
Cash and cash equivalents at beginning of period		**2,428**	**3,902**
Cash and cash equivalents at beginning of period		**2,428**	**3,902**
Profit/(loss) for the period		1,056	724
Depreciation, amortisation and impairments		405	413
Losses and impairments/(recoveries) on receivables		15	31
(Gains)/Losses on disposals		-	(2)
Impairment of disposal groups		-	-
Impairment/(reversal) of financial activities		-	94
(Increase)/decrease in inventories		(2)	-
(Increase)/decrease in receivables and other assets		(592)	(333)
Increase/(decrease) in payables and other liabilities		118	(79)
Movement in group of assets and liabilites held for sale		-	7
Movement in provisions for risks and charges		(402)	(157)
Movement in provisions for employee termination benefits and pension plans		(62)	(67)
Differences in accrued finance costs and income (cash correction)		(19)	(7)
Other changes		314	60
Net cash flow generated by/(used in) non-financial operating activities	[a]	**831**	**684**
Increase/(decrease) in liabilities attributable to financial activities		3,868	4,575
Net cash generated by/(used for) financial assets attributable to financial activities		(3,275)	(4,139)
(Increase)/decrease in cash and deposits attributable to BancoPosta		102	(654)
(Income)/expenses from financial activities		(785)	(790)
Cash generated by/(used for) assets and liabilities attributable to financial activities	[b]	**(90)**	**(1,008)**

(€m)		For the nine months ended 30 September 2018	For the nine months ended 30 September 2017
Net cash generated by/(used for) financial assets attributable to insurance activities		(6,254)	(5,111)
Increase/(decrease) in net technical provisions for insurance business		7,162	8,586
(Gains)/losses on financial assets/liabilities measured at fair value through profit or loss		618	(380)
(Income)/expenses from insurance activities		(990)	(819)
Cash generated by/(used for) assets and liabilities attributable to insurance activities	**[c]**	**536**	**2,276**
Net cash flow from/(for) operating activities	**[d]=[a+b+c]**	**1,277**	**1,952**
Investing activities			
Property, plant and equipment, investment property and intangible assets		(260)	(283)
Investments		(30)	(228)
Other financial assets		-	250
Disposals			
Property, plant and equipment, investment property and intangible assets and assets held for sale		2	3
Investments		-	-
Other financial assets		169	10
Change in scope of consolidation		-	131
Net cash flow from/(for) investing activities	**[e]**	**(119)**	**(117)**
Proceeds from/(Repayments of) borrowings		(977)	(2)
(Increase)/decrease in loans and receivables		-	1
Dividends paid		(549)	(509)
Net cash flow from/(for) financing activities and shareholder transactions	**[f]**	**(1,526)**	**(510)**
Net increase/(decrease) in cash	**[g]=[d+e+f]**	**(368)**	**1,325**
Cash and cash equivalents at end of period		**2,060**	**5,227**
Cash and cash equivalents at end of period		**2,060**	**5,227**
Cash subject to investment restrictions		-	-
Escrow account with the Italian Teasury		(42)	-
Cash attributable to technical provisions for insurance business		(1,008)	(2,931)
Amounts that cannot be drawn on due to court rulings		(17)	(13)
Current account overdrafts		-	-
Cash received on delivery (restricted) and other restrictions		(20)	(15)
Unrestricted net cash and cash equivalents at end of period		**973**	**2,268**

10. 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 nine months ended 30 September 2018 is consistent with the underlying accounting records.

11. 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 a company's operating profit before non-operating financial expenses and taxation, and depreciation, amortisation and impairments of non-current assets and investment property.

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

NON-CURRENT ASSETS – this indicator represents the sum of property, plant and equipment, investment property, intangible assets and investments measured using the equity method. This indicator is also presented separately for each operating segment before adjusting for 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 operating segment before adjusting for intersegment transactions.

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

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 operating segment before adjusting for intersegment transactions.

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

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

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

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

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