

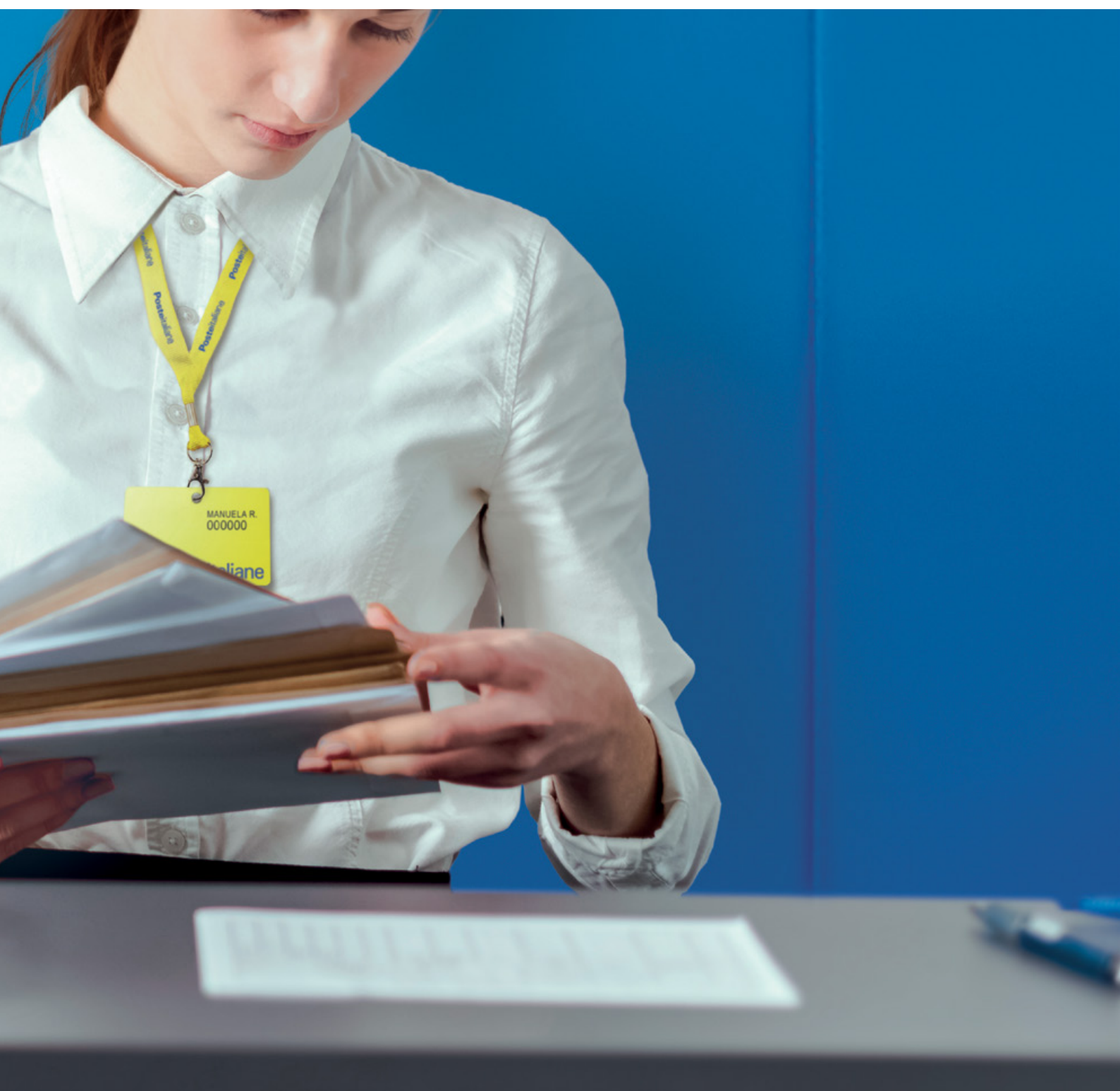
Directors' report on operations for the year ended 31 December 2017



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DIRECTORS' REPORT ON OPERATIONS FOR THE YEAR ENDED 31 DECEMBER 2017

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Statement from the Chairwoman and the Chief Executive Office



Maria Bianca Farina
Chairwoman



Matteo Del Fante
Chief Executive Officer and
General Manager

Dear shareholders,

The 2017 results highlight Poste Italiane's strategic role in Italy's development and the Company's ability to generate profits, provide quality services to customers and at the same time create value for shareholders, employees and all our stakeholders.

These results reassure us about our ability to face the profound social, environmental and economic changes that are transforming the environment in which we operate, including a radical digital transformation, the continuing backdrop of globalisation, new demographic trends and lifestyles, and climate change.

With a history going back more than 150 years, Poste Italiane is now able to combine the traditional mail sector with the new frontiers of digitalisation, through innovation in financial and insurance services and mobile communications. With almost 13,000 post offices and over 30,000 postmen and women, Poste Italiane is an integral part of the country's social and productive fabric, unparalleled in Italy in terms of its size, recognisability, reach and the trust accorded by its customers.

On the basis of these unique characteristics, in early 2018 we drew up the new Deliver 2022 Strategic Plan, which sets out a plan for the Group's development in line with market needs. This includes a focus on professional development and the nurturing of talent, whilst committing to an investment programme of approximately €2.8 billion over the period of the Plan,

centred on digital development, automation and reorganisation of the service model for retail, business and Public Administration customers.

We have completed a reorganisation of our operating segments, in order to improve the visibility and transparency of the main value drivers for each segment. A part of this process is the creation of the new Payments, Mobile and Digital segment, with the aim of centralising the management of payment services, which will also be extended to include the activities envisaged by the new European Payment Services Directive (PSD2).

The soundness of the choices we have made enables us to pay our shareholders a dividend of €0.42 per share for 2017, which will increase by 5% a year until 2020, after which our intention is to maintain a minimum payout of 60% from 2021.

The Annual Report for 2017 also contains Poste Italiane's first consolidated Non-Financial Statement, which provides information on the Company's organisational model, policies and risks in accordance with the requirements of Legislative Decree 254/2016 and the standards defined by the Global Reporting Initiative, an international benchmark for sustainability reporting. The consolidated Non-Financial Statement was built around the 13 topics we have recognised as being material, by virtue of the significance of the impacts generated by Poste Italiane and those that most influence our stakeholders' decisions. Examples include economic and financial sustainability, inclusion

in all its forms, our contribution to innovation and digitalisation, cyber security, the customer experience and service quality, and human capital.

All of our activities, impacts and achievements are built on a solid foundation: our people, our human capital. This is why training, professional development, the appreciation of diversity, safety in the workplace and the wellbeing of all our employees are cornerstones of the Group's strategy.

We know how to change by steadfastly maintaining our values. Thanks to the determination and enthusiasm of our people, together with the trust of our stakeholders, we will manage to bring about our ambitious mission: to accompany citizens, businesses and Public Administration entities on the road to the new digital economy by offering simple, transparent and reliable mail, logistics, savings, transaction banking and insurance products and services.

2. Organisational structure

Management and supervisory bodies

Board of Directors⁽¹⁾

CHAIRWOMAN

Maria Bianca Farina

CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER

Matteo Del Fante

DIRECTORS

Giovanni Azzone

Mimi Kung

Carlo Cerami

Roberto Rao

Antonella Guglielmetti

Roberto Rossi

Francesca Isgrò

Board of Statutory Auditors⁽²⁾

CHAIRMAN

Mauro Lonardo

AUDITORS

Alessia Bastiani

Maurizio Bastoni

ALTERNATES

Marina Colletta

Ermanno Sgaravato

Antonio Santi

Supervisory board⁽³⁾

CHAIRWOMAN

Nadia Fontana

MEMBERS

Paolo Casati⁽⁴⁾

Giulia Bongiorno⁽⁵⁾

Magistrate appointed by the Italian

Court of Auditors to audit Poste Italiane

Francesco Petronio

Independent auditors

PricewaterhouseCoopersSpA

AUDIT, RISK AND SUSTAINABILITY COMMITTEE⁽⁶⁾

Antonella Guglielmetti (chairwoman)

Giovanni Azzone

Francesca Isgrò

Roberto Rossi

REMUNERATION COMMITTEE⁽⁶⁾

Carlo Cerami (chairman)

Giovanni Azzone

Roberto Rossi

NOMINATIONS AND CORPORATE GOVERNANCE COMMITTEE⁽⁶⁾

Roberto Rao (chairman)

Antonella Guglielmetti

Mimi Kung

RELATED AND CONNECTED PARTIES COMMITTEE⁽⁶⁾

Francesca Isgrò (chairwoman)

Carlo Cerami

Mimi Kung

Roberto Rao

(1) The Board of Directors was elected by the Annual General Meeting held on 27 April 2017 to serve for a period of three years, and will remain in office until the Annual General Meeting's approval of the financial statements for the year ended 31 December 2019.

(2) The Board of Statutory Auditors was elected by the Ordinary General Meeting of 24 May 2016 to serve for a period of three years and will remain in office until the General Meeting's approval of the financial statements for the year ended 31 December 2018. On 30 January 2017, the Alternate Auditor, Andrea Bonechi, resigned from his position with immediate effect. As a result, the Annual General Meeting of 27 April 2017 elected Antonio Santi to serve as an Alternate Auditor.

(3) The Supervisory Board was appointed by the Board of Directors' meeting of 24 May 2016 for a three-year term.

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

(5) This member was appointed by the Board of Directors' meeting of 22 June 2017 (as replacement for Gennaro Terracciano, who resigned on 17 March 2017) and resigned in March 2018.

(6) Committee members were appointed by the Board of Directors' meeting of 28 April 2017. At the meeting of 19 February 2018, the Board of Directors renamed the Nominations Committee and the Audit and Risk Committee the Nominations and Corporate Governance Committee and the Audit, Risk and Sustainability Committee, respectively.

Corporate Governance

Poste Italiane's shares are listed on the Mercato Telematico Azionario (the MTA, an electronic stock exchange) organised and managed by Borsa Italiana SpA. The Company is controlled by the Ministry of the Economy and Finance (MEF), which holds 64.26% of the share capital, including a direct 29.3% interest and an indirect 35% interest through Cassa Depositi e Prestiti SpA (CDP), itself controlled by the MEF. The remaining 35.74% of the share capital is represented by the free float.

The corporate governance structure reflects the recommendations in the Corporate Governance Code for listed companies published by Borsa Italiana, the provisions of Legislative Decree 58 of 24 February 1998 (the Consolidated Law on Finance), where applicable, and the Supervisory Standards issued by the Bank of Italy and applicable to Poste Italiane in view of the unbundled activities conducted by BancoPosta RFC (Patrimonio destinato BancoPosta).

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

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

The Board of Directors and Board of Statutory Auditors are elected and dismissed by the **General Meeting of shareholders**, which is also responsible for determining the related remuneration and for appointing independent auditors. The General Meeting also approves the annual financial statements, amendments to the Company's By-laws and transactions of a non-recurring nature, such as rights issues, mergers and demergers.

The **Board of Directors** consists of nine members (eight non-executives and one executive) and normally meets once a month to examine and vote on resolutions regarding the Business Plan and the annual budget, the operating performance, the results of operations, proposals relating to the organisational structure and transactions of strategic importance. The Board met 14 times in 2017. Of the nine members of the Board, seven meet the requirements to qualify as independent.

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

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

The **Chief Executive Officer and General Manager**, to whom all key departments report, has full powers for the administration of the Company across the organisational structure, unless otherwise provided for by law and the Company's By-laws and with the exception of the powers reserved to the Board of Directors. The Chief Executive Officer is also the Company's legal representative within the scope of the powers delegated to him.

The **Board of Statutory Auditors** in office has 3 standing members and 3 alternates. The Board verifies compliance with the law, the Company's By-laws and with correct corporate governance principles, also verifying the adequacy of the organisational structure and administrative and accounting systems adopted by the Company and their functionality. The Board of Statutory Auditors met 40 times during the year.

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

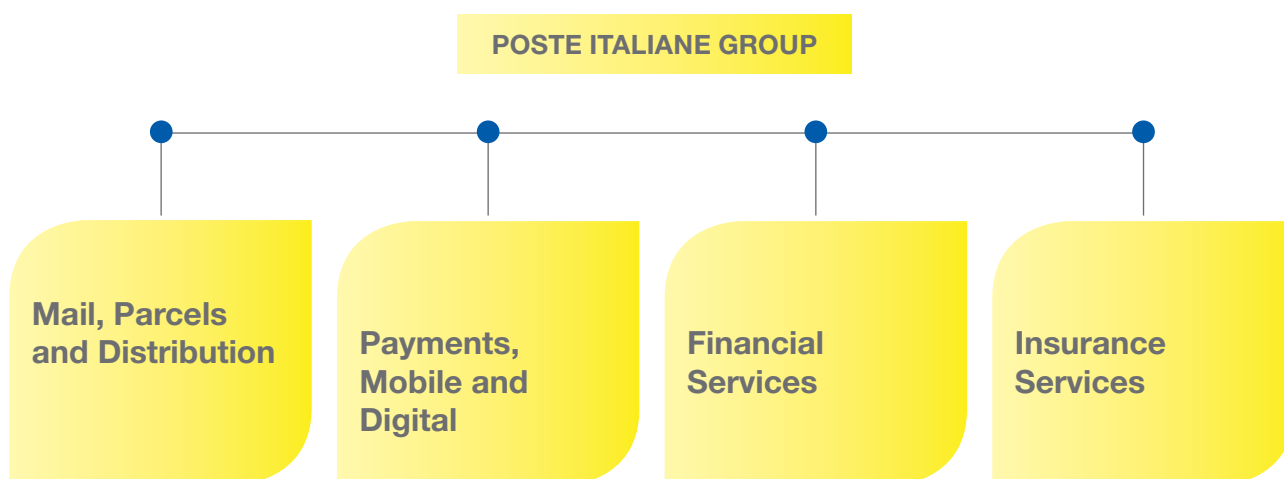
The **auditing firm** PricewaterhouseCoopers SpA has been appointed to audit the Company's accounts for the period 2011-2019. The appointment was made in conformity with Legislative Decree 39/2010 ("Implementation of Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts").

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

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

This Annual Report comprises the following documents: The Directors' Report on Operations (including the consolidated Non-Financial Statement pursuant to Legislative Decree 231/2001) 254/16), the Poste Italiane Group's consolidated financial statements, Poste Italiane SpA's separate financial statements, including BancoPosta RFC's separate report, and the related attestations pursuant to art. 154 bis, paragraph 5, of Legislative Decree 58/1998 and the reports of the Board of Statutory Auditors and the Independent Auditors, relating to the financial year ended 31 December 2017, as well as the "Report on Corporate Governance and the Ownership Structure" published in the Governance section of the Company's website, which has been incorporated for reference purposes. The latter document may be consulted for further details on the Corporate Governance structure.

Organisational structure and operating segments



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

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

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

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

Corporate actions during the year

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

Under the sale agreements, the price is subject to an upward adjustment of €0.55 million based on the value of SIA's net debt at 31 December 2016.

The transaction, between related parties (given that Poste Italiane SpA and Invitalia SpA are under the common control of the Ministry of the Economy and Finance), in accordance with the law and the related regulations, was approved by Poste Italiane SpA's Board of Directors, with the prior consent of the Board's Related and Connected Parties Committee.

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

The partial demerger of assets belonging to Postecom SpA to Postel SpA, consisting of Postecom's investments in PatentiViaPoste ScpA and Consorzio Poste Motori was effective for legal, accounting and tax purposes from 1 April 2017, as was the merger of what remained of the company with and into Poste Italiane.

Following issue of the relevant consents by the Ministry for Economic Development, the European Central Bank and the Bank of Italy, on 7 August 2017, Poste Italiane SpA and Invitalia SpA, Agenzia nazionale per l'attrazione degli investimenti e lo sviluppo d'impresa, completed the sale to the latter of Poste Italiane SpA's 100% interest in Banca del Mezzogiorno-Medio Credito Centrale. The transaction, between related parties (given that Poste Italiane SpA and Invitalia SpA are under the common control of the Ministry of the Economy and Finance), in accordance with the law and the related regulations, was approved by Poste Italiane SpA's Board of Directors, with the prior consent of the Board's Related and Connected Parties Committee.

On 9 November 2017, the respective boards of directors approved the merger of Poste Tutela SpA (a wholly owned subsidiary of Poste Italiane SpA) with and into Poste Italiane. Poste Tutela is the company that provided – primarily to the Group - transport, cash collection and counting, custody, armed security and porter services, by coordinating a widespread network of specialist third-party operators located throughout Italy. The transaction will be effective for legal purposes from 1 March 2018, and for accounting and tax purposes from 1 January 2018.

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

On 25 January 2018, Poste Italiane SpA's Board of Directors authorised the subscription for the rights issue to be carried out by Anima Holding SpA and approved by an extraordinary general meeting of Anima's shareholders on 15 December 2017. The offer period is between 26 March 2018 and 12 April 2018.

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

As a result of these transactions, Poste Italiane will retain its 100% interest in BancoPosta Fondi SGR, with the aim of creating a competence centre for the management of the Group's financial investments. The transaction will also enable the Company to boost training and refresher courses for Poste Italiane's distribution network, in relation to asset management, and to

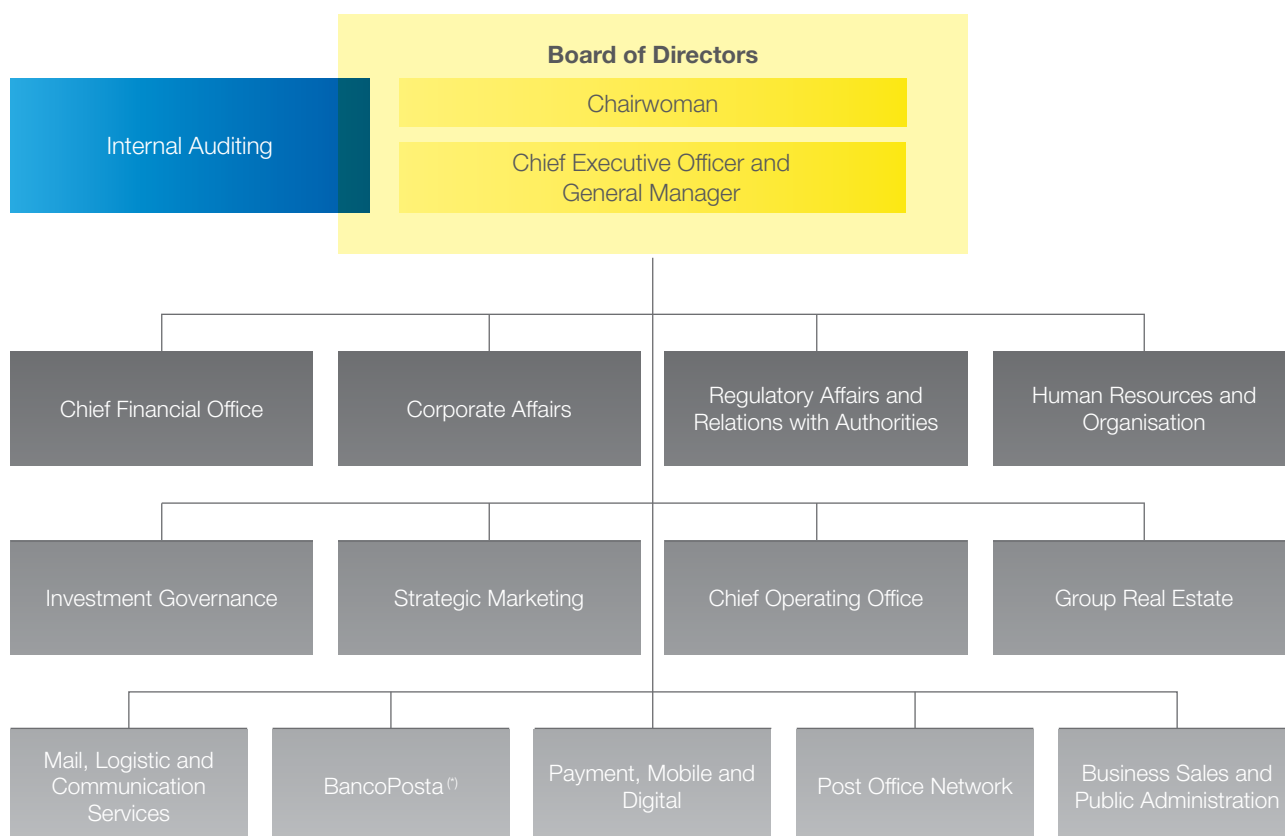
expand the range of products offered to savers. In particular, with regard to the spin-off and sale, determination of the final price, quantified as €120 million, will be subject to an earnout in Poste Italiane's favour, in the event of an increase in income from the management mandates/delegations assigned to Anima SGR, in addition to certain thresholds and a price adjustment mechanism in Anima Holding's favour, which is of marginal importance. The consideration will be paid in full on completion of the transaction by 31 December 2018, subject to suspensive conditions relating to receipt of the necessary consents from the competent authorities and following the subscription for and redemption of one or more share issues by Anima Holding SpA, with a value of at least €250 million.

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

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

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

Poste Italiane SpA's organisational structure



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

In 2017, a process to develop the organisational model was launched aimed at guaranteeing a sharper focus on business priorities, strengthening oversight of the quality of services provided to customers and strategic stakeholders, and enabling operational efficiencies by creating a shared services centre to ensure a correct balance of service quality, flexibility and cost control, and greater efficiency in the management of the control system, partly through the use of technologies.

The main innovations introduced regarded:

- The establishment of the Corporate Affairs function, which has taken over responsibility for all processes relating to communication, the development of public affairs and legal and corporate matters, as well as for those relating to procurement management, corporate protection and philately management. Moreover, the Corporate Affairs function includes the Group Risk Management function, which is the sole reference point for the governance and management of all risks.
- The establishment of the Regulatory Affairs and Relations with Authorities function, which oversees regulatory matters and the management of relations with supervisory authorities relating to the postal sector.
- The establishment of the Chief Operating Office function to create a centralised customer services and back office model that guarantees operating excellence and improvement of the customer experience.
- The centralisation of the planning and control units previously operating in the other corporate and business functions within the Chief Financial Office function, with the exception of those relating to BancoPosta RFC, which are subject to functional coordination, with the aim of ensuring uniform governance of the planning and control processes.

Moreover, as mentioned above, in order to better tackle the competitive challenge already underway in the payments sector, and also with regard to the introduction of the new European Payment Services Directive (PSD2), the Payments, Mobile and Digital function was established with the aim of creating a single payment solutions offering by combining the Group's distinctive competencies in this area.

Distribution channels and multichannel strategy

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

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

The **Private Customer** function manages the commercial front end for the Private Customer and SME segments.

The organisation of the commercial network and related operational support processes breaks down into three levels:

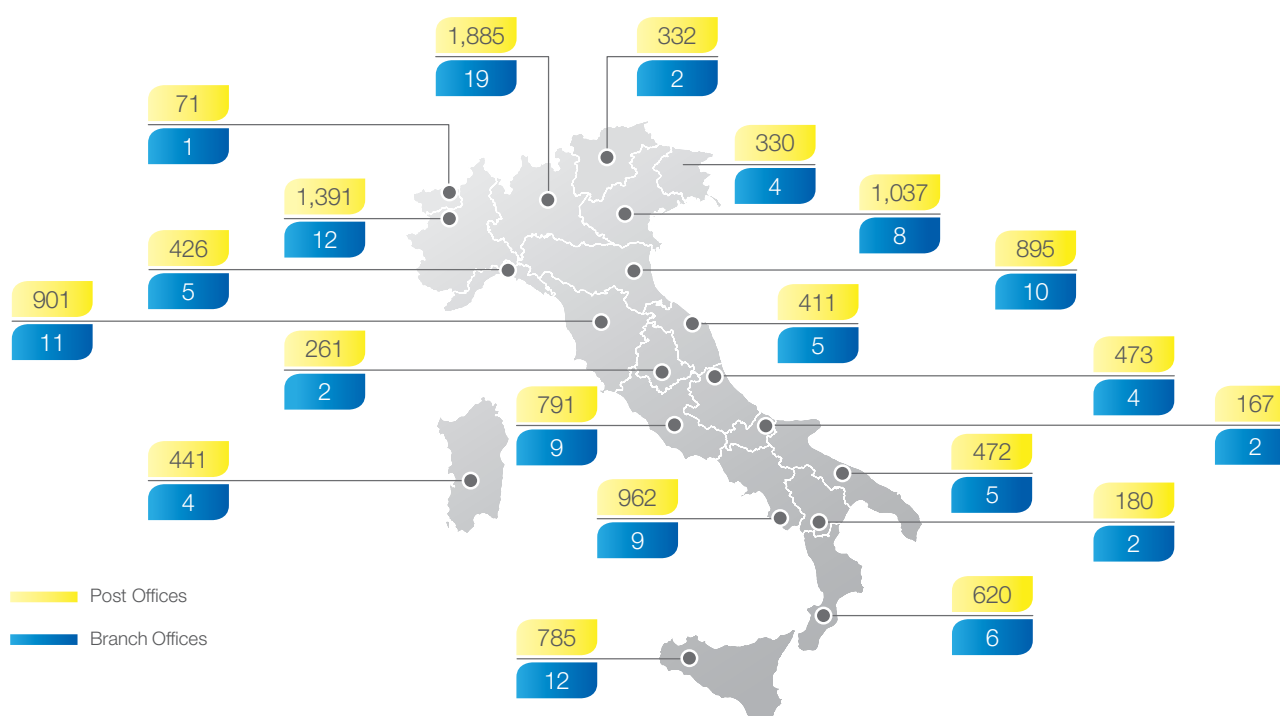
- Multiregional Area Offices;
- Branch Offices;
- Post Offices, classified with respect to their organisation, into central, reporting, standard and basic.

In continuation of the rationalisation process¹, the number of post offices was reduced from 12,845 at 31 December 2016 to 12,822 at 31 December 2017.

| | At 31 December 2017 | | At 31 December 2016 | |
|----------------------------|---------------------|-----------|---------------------|-----------|
| | Number | Workforce | Number | Workforce |
| Multiregional Area Offices | 9 | 1,319 | 9 | 1,600 |
| Branch Offices | 132 | 3,591 | 132 | 3,664 |
| Post offices | 12,822 | 56,765 | 12,845 | 57,779 |

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

Geographical distribution of post offices and branch offices



1. The rationalisation of the post office network is being carried out in accordance with the criteria laid down by the Ministerial Decree of 7 October 2008 and AGCom Resolution 342/14/CONS.

Organisational initiatives aimed at optimising the commercial management of the retail and SME segments continued during the year. The “New Retail Service Model”² was implemented at further post offices and the process of enabling post offices to use the “guided consultancy” platform was completed. In addition to helping counter staff with regulatory requirements regarding investment products and services, this platform serves as a guide in identifying the best investment solutions for customers. At 31 December 2017, the platform was present in all post offices.

| Commercial network (number) | At 31 December 2017 | At 31 December 2016 |
|---|---------------------|---------------------|
| Consulting rooms | 6,482 | 6,376 |
| Consultants and specialists | 10,236 | 10,319 |
| Ethnic post offices | 27 | 23 |
| Corners marketing PosteMobile products and services | 341 | 340 |
| UP Corners ¹ | 118 | 108 |
| Postamat ATM network | 7,257 | 7,249 |

1. This format is present in post offices with high growth potential, with the aim of promoting the offer of ancillary current account services and providing information on the insurance offering, directing interested customers to the relevant insurance specialists.

In 2017 the “Poste Risponde” Contact Centre handled around 26 million contacts (21 million in 2016). Alongside the usual customer relationship management and commercial network support services, new initiatives designed to support the Group's businesses included completion of the roll-out at all Call Centres of the new front-end assistance application which enables Call Centre staff to improve customer management.

The web distribution channel, via the website www.poste.it and other dedicated web portals, provides access to online services for 15 million retail³ and business customers (13 million at 31 December 2016), operating as a direct end-to-end sales channel and as a support provider for other channels.

In addition to evolutionary maintenance work on the portals during 2017, as part of the digital transformation process, initiatives were continued with the aim of improving the Group's online offering. In particular, the various Poste Italiane apps were enhanced with new functions for customers (for example, the possibility to change, within pre-set limits, maximum withdrawal and payment amounts for cards, and the introduction of a chatbot⁴ that provides a rapid guide to operations that may be carried out at post offices).

Poste Italiane's Business and Public Administration function is responsible for commercial operations and sales of Group products and services regarding large companies and Central and Local Government, via the following organisational model:

- central management dedicated to commercial coordination of the top business sales force, and the management of central government;
- dedicated pre- and post-sales functions, at central and local level;
- a function dedicated to the development of indirect channels and prospective customers;
- five Area Offices (Lombardy and Northwest, Northeast, North-Central, Central, South) each responsible for commercial operations in their own area via management of the local sales force and implementation of marketing initiatives defined on the basis of a model that targets initiatives by customer segment.

2. The model provides for a more focused approach to customers with the introduction of consultants specialised in terms of target customer, and new staff roles dedicated to welcoming and guiding customers.

3. The figure refers to registered and active users at 31 December 2017.

4. Chatbot (from chat and bot, which is an abbreviation for the word robot) is a program through which you can “speak” to a robot equipped with artificial intelligence that is programmed to give structured, sensible and pertinent answers to questions it has been asked.

Poste Italiane SpA's distribution network

The Mail, Logistics and Communication function oversees the related area of business at Group level⁵

The logistics network⁶ is locally organised on two levels, the first of which deals with coordination and is represented by Area Logistics Offices responsible for one or more regions, whilst the second is operational and includes sorting centres (mechanical and manual) and distribution centres (Delivery Offices).

| | At 31 December 2017 | | At 31 December 2016 | |
|---|---------------------|---------------|---------------------|---------------|
| | Number | Workforce | Number | Workforce |
| Multiregional Area Offices ^(*) | 9 | 1,095 | 9 | 1,836 |
| Sorting Centres | 16 | 7,470 | 16 | 7,833 |
| Priority Centres | 7 | 803 | 7 | 849 |
| Logistics support | 2 | 225 | 2 | 248 |
| Delivery Offices ^(**) | 2,051 | 38,105 | 2,117 | 40,717 |
| Total | 2,085 | 47,698 | 2,151 | 51,483 |

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

(*) The geographical distribution of Multiregional Area Offices at 31 December 2017 is as follows: Piedmont, Valle d'Aosta and Liguria; Lombardy; Veneto, Trentino Alto Adige and Friuli Venezia Giulia; Emilia Romagna and Marche; Tuscany and Umbria; Lazio, Abruzzo, Molise and Sardinia; Campania and Calabria; Puglia and Basilicata; Sicily.

(**) Delivery staff include 28,635 postmen and women and delivery supervisors (30,959 at 31 December 2016).



5. Postel SpA, SDA Express Courier SpA, Consorzio Logistica Pacchi SpA and Mistral Air Srl report to the Mail, Logistics and Communication function.

6. The logistics process covers receipt, collection, transport, sorting and delivery

3. Macroeconomic environment

In 2017, the world economy grew at a brisk pace, outstripping expectations in both the major industrialised countries and emerging economies. Indeed, all the leading research institutes and international organisations revised their GDP estimates upwards. The most recent analyses by the International Monetary Fund (World Economic Outlook, January 2018) put world growth at 3.7% by the end of 2017 (up from 3.2% in 2016) and estimate growth of 3.9% for 2018). This expansion was underpinned by consumption, and also by international trade, which confirms the positive and accelerating trend compared with 2016.

Despite the recovery in oil prices from September (Brent rose from \$56.7 per barrel at the end of September 2017 to around \$67 per barrel at the end of December), as a result of demand trends and maintenance of the agreement to curb supply among the main oil producing countries, inflation remained moderate, due to the effects of certain structural changes relating to the labour market that kept a lid on wage rises.

On the whole, the global outlook remains favourable, although certain geopolitical uncertainty factors persist, linked to the possible development of North Korea's nuclear programme, the US Administration's management of tax reform plans and protectionist policies, and the prospects of the European integration process and the Brexit negotiations.

In the USA, after a slowdown in the early months of the year, growth steadily picked up enabling, for the eighth year running, GDP growth of around 2.5% and an unemployment rate of around 4%. This growth was largely driven by household consumption, exports and non-residential fixed investment. In this context of economic consolidation, in December the FED announced an increase of 25 basis points in the target range of interest rates for Federal Funds (1.25-1.50%) and expressed its intention to implement further increases in 2018.

In the United Kingdom, after the preliminary agreement on future relations with the European Union (a two-year transition period is envisaged), the economic cycle registered a favourable trend (according to data from the Office for National Statistics the growth stood at 1.5%, higher than the consensus estimate of 1.4%), characterised by positive signs of recovery in private consumption and a low unemployment rate, accompanied by an acceleration in inflation linked to the weakening of sterling. In this context, the Bank of England tightened its monetary policy stance, bringing the official rate back to 0.5%, after reducing it following the Brexit referendum.

The Japanese economy also witnessed an accelerating growth rate in 2017, thanks to the contribution of domestic demand and exports, and an uptick in private investment. The labour market trend was positive and household confidence remained buoyant. Despite the positive economic phase, monetary policy was still expansionary as inflation continued to be moderate.

The promising international economic scenario also favoured the performance of the main emerging economies, which were set on a positive growth path, albeit at varying paces.

After its Party Congress, China also confirmed vigorous growth in 2017, with GDP rising 6.8%, which is above the targets set by the government. This figure was underpinned by accelerating expansion of services, net exports and domestic demand, which together with a resilient agricultural sector offset the industrial slowdown. The Central Bank gradually tightened monetary conditions, leading to a further increase in interbank rates.

In India, growth, driven by domestic demand, continued, reaching a substantial 6.6%, albeit slowed down by demonetisation (withdrawal from circulation of large denomination banknotes).

The Brazilian economy consolidated signs of recovery. Production activities benefited from the recovery in foreign trade and the increase in commodity prices in US dollar terms. Strong political uncertainty remains linked to the forthcoming elections.

The economies of the Eurozone countries strengthened, embarking on a steady growth path (up 0.4 / 0.8 pp compared to the IMF and OECD forecasts at the beginning of the year). The recovery in foreign demand, the expansionary monetary policy of the European Central Bank (ECB), low inflation and the decline in political risk were the key factors in bolstering the economy. This enabled a recovery in household consumption, supported by the expanding labour market. Companies also benefited from strong global growth and the expansionary credit policy.

The euro area economic cycle indicator (€-coin), which estimates the underlying trend for the area's GDP, rose from 0.68 in January 2017 to 0.91 in December.

However, the 2% inflation target set by the ECB has not yet been reached, partly due to the steady strengthening of the exchange rate.

In this favourable international scenario, the Italian economy registered a robust growth rate, even though the economic activity trend was lower than in many other Eurozone countries and in the EMU as a whole. Unlike in the past, the recovery is affecting all economic sectors, from industry to services. Investment also picked up, boosted by fiscal stimulus policies. The Bank of Italy's coincident indicator, ITA-coin, rose from 0.10 in January 2017 to 0.49 in December, highlighting the expansionary phase.

Employment and the labour market in general have benefited from this favourable economic situation. The banking sector continued its efforts to reduce non-performing loans (net non-performing loans fell by approximately 26% from €86.8 billion in December 2016 to €64.4 billion in December 2017).

On the bond markets, the spread between ten-year BTPs and Bunds was somewhat volatile, with values above 200 basis points in the first half of 2017, then normalising from July onwards (fluctuating between 150 and 190 basis points) and reaching around 160 basis points at 31 December 2017. The yield on ten-year BTPs fluctuated between 1.90 and 2.40% during the first half of the year. In December it touched a low of 1.65%, before closing the year at 2% as a result of the increase in market rates.

4. Group financial review

As noted in the section on the organisational structure, from 2017, the method of presenting the revenue and cost components relating to the life and non-life insurance businesses has been revised. In this regard, the statement of profit or loss now includes a new item, Revenue from insurance services after movements in technical provisions and other claims expenses, providing a synthetic indication of the Insurance Services segment's contribution to the Group's operating result. This item is defined as the sum of premium revenue net of outward reinsurance premiums, income and losses from financial instruments attributable to insurance activities and movements in technical provisions and other claims expenses.

In addition, BancoPosta Fondi SGR SpA, previously allocated to the Insurance Services segment, was reallocated to the Financial Services segment in 2017.

These changes are also reflected in the alternative performance indicators presented in this Report (a description is provided in an Appendix), in line with the guidance published by the European Securities and Markets Authority on 5 October 2015 (ESMA/2015/1415).

| Results of operations for the year ended 31 December (€m) | 2017 | 2016 | Increase/(decrease) | |
|--|---------------|---------------|---------------------|--------------|
| Total revenue | 10,629 | 10,643 | (14) | -0.1% |
| <i>of which:</i> | | | | |
| Mail, Parcels and Distribution | 3,631 | 3,822 | (191) | -5.0% |
| Payments, Mobile and Digital | 586 | 570 | 16 | 2.8% |
| Financial Services | 4,956 | 5,009 | (53) | -1.1% |
| Insurance Services | 1,456 | 1,242 | 214 | 17.2% |
| Total costs | 9,506 | 9,602 | (96) | -1.0% |
| <i>of which:</i> | | | | |
| Total personnel expenses | 6,093 | 6,241 | (148) | -2.4% |
| <i>of which personnel expenses</i> | 5,594 | 5,732 | (138) | -2.4% |
| <i>of which early retirement incentives</i> | 499 | 509 | (10) | -2.0% |
| Other operating costs | 2,868 | 2,780 | 88 | 3.2% |
| Depreciation, amortisation and impairments | 545 | 581 | (36) | -6.2% |
| EBITDA | 1,668 | 1,622 | 46 | 2.8% |
| EBIT | 1,123 | 1,041 | 82 | 7.9% |
| EBIT Margin | 10.6% | 9.8% | 0.8% | |
| Finance income/(costs) and profit/(loss) on investments accounted for using the equity method | (56) | 15 | (71) | n/s |
| Profit before tax | 1,067 | 1,056 | 11 | 1.0% |
| Income tax expense | 378 | 434 | (56) | -12.9% |
| Profit for the year | 689 | 622 | 67 | 10.8% |
| Earnings per share | 0.53 | 0.48 | 0.05 | 10.9% |
| Dividend per share (€) | 0.42 | 0.39 | 0.03 | 7.7% |
| ROE | 9.6% | 8.9% | 0.7% | |

| Financial position at 31 December (€m) | 2017 | 2016 | Increase/(decrease) | |
|---|--------------|--------------|---------------------|--------------|
| Group capital expenditure | 467 | 451 | 16 | 3.5% |
| Non-current assets | 3,077 | 2,867 | 210 | 7.3% |
| Net working capital | 1,452 | 1,183 | 269 | 22.7% |
| Gross invested capital | 4,529 | 4,050 | 479 | 11.8% |
| Sundry provisions and other assets/liabilities | (2,546) | (2,141) | (405) | 18.9% |
| Net invested capital | 1,983 | 1,909 | 74 | 3.9% |
| Equity | 7,550 | 8,134 | (584) | -7.2% |
| Net funds | (5,567) | (6,225) | (658) | -10.6% |
| Net debt/(funds) of the Mail, Parcels and Distribution segment (ESMA) | (845) | (705) | 140 | 19.9% |

| Principal KPIs at 31 December (€m) | 2017 | 2016 | Increase/(decrease) | |
|---|---------|---------|---------------------|--------|
| Client assets (€m) ¹ | 506,240 | 492,707 | 13,533 | 2.7% |
| Net inflows (€m) | 3,304 | 5,353 | (2,048) | -38.3% |
| Average workforce expressed in full-time equivalent terms | 138,040 | 141,246 | (3,206) | -2.3% |
| Ordinary unit cost of labour (€000) | 40.8 | 40.6 | 0.2 | 0.5% |
| Mail, Parcels and Distribution | | | | |
| Letters handled by the Group (volumes in millions) ² | 3,167 | 3,430 | (263) | -7.7% |
| Parcels handled by Group (volumes in millions) | 113 | 97 | 16 | 16.5% |
| Number of delivery centres | 2,085 | 2,151 | (66) | -3.1% |
| Number of post offices | 12,822 | 12,845 | (23) | -0.2% |
| Payment, Mobile and Digital | | | | |
| Number of cards in issue (in millions) | 25.2 | 23.5 | 1.7 | 7.2% |
| Cards (value of transactions in €m) | 23,880 | 20,597 | 3,283 | 15.9% |
| PosteMobile SIM cards (average in thousands) | 3,679 | 3,643 | 36 | 1.0% |
| Financial Services | | | | |
| Postal Savings (average in €m) | 305,611 | 309,819 | (4,208) | -1.4% |
| Average return | 0.51% | 0.51% | - | |
| Current account deposits (average for the period in €m) | 55,769 | 49,643 | 6,126 | 12.3% |
| Average return on current accounts without capital gains | 2.70% | 3.10% | -0.4% | |
| Gross gains (€m) | 547 | 473 | 74 | 15.6% |
| Insurance Services | | | | |
| Technical provisions (€m) | 123,650 | 113,678 | 9,972 | 8.8% |
| Gross premium revenue, Poste Vita group (€m) ³ | 20,404 | 19,938 | 466 | 2.3% |

1. These amounts include postal savings deposits, the mutual investment funds marketed, Poste Vita's technical provisions and current account deposits.

2. The figure for 2016 does not include unaddressed mail.

3. Includes premium revenue before outward reinsurance premiums attributable to Poste Vita SpA and Poste Assicura SpA and Poste Welfare Servizi Srl's revenue.

Consolidated operating results

The performance in 2017 has enabled the Group to achieve consolidated operating profit of €1,123 million, registering growth of 7.9% compared with the previous year (€1,041 million). This was primarily due to the positive contribution to the result from the Insurance Services segment.

Profit for the year of €689 million is up 10.8% on the previous year (profit of €622 million), despite the impairment loss of €82 million on the Contingent Convertible Notes subscribed for by Poste Italiane in December 2014 at an original cost of €75 million and issued by Midco SpA, in addition to the impairment loss of €12 million on the investment of Poste Vita's free capital in the Atlante fund.

With regard to the Contingent Convertible Notes, On 11 May 2017, the Court of Civitavecchia declared Alitalia SAI SpA, a 51% owned subsidiary of MidCo SpA, to be insolvent. On 5 July 2017, a general meeting of Midco SpA's shareholders approved the company's financial statements for the year ended 31 December 2016, in which its investment in Alitalia SAI was written off. The financial statements show that the company's equity has been reduced to such an extent as to trigger conversion of the Notes held by Poste Italiane SpA into equity instruments. Based on the above events, a non-recurring loss equal to the total value of the Notes, amounting to €82 million at 31 December 2016, including interest recognised, has been recognised in finance costs for 2017.

The Group's total revenue amounts to €10.6 billion and is broadly in line with the previous year (down 0.1%).

In detail, total revenue from Mail, Parcels and Distribution services amounts to €3,631 million, marking a decline of 5% compared with 2016. This reflects a reduction in traditional letter post, with the number of items falling from 3,430 million in 2016 to 3,167 million in 2017 (a decline of 7.7%). Parcel revenue, on the other hand, continued to grow, with volumes rising 16.5% from 97 million items (revenue of €649 million) in 2016 to 113 million (revenue of €693 million) in 2017.

The Payments, Mobile and Digital segment contributed €586 million to total revenue, including revenue from payment services, e-money products and PosteMobile SpA's telecommunications services.

Total revenue from Financial Services is down from €5,009 million in 2016 to €4,956 million (a decline of 1.1%). However, it should be noted that the figure for the comparable period included non-recurring income of €121 million generated by the sale of the Group's investment in Visa Europe Ltd. and revenue resulting from the investment in Banca del Mezzogiorno-MCC, amounting to approximately €56 million. The figure for 2017, on the other hand, has benefitted from income of €91 million generated by the sale of shares in Mastercard Incorporated. After stripping out the above items from the figure for 2016, revenue for 2017 is up €33 million (1%).

The Insurance Services segment contributed €1,456 million to total revenue (€1,242 million in the previous year), reflecting an increase in premium revenue and in the return on technical provisions, partially offset by the movement in the provisions due to a rise in obligations to policyholders. The overall result, bearing in mind the decline in the life market with respect to the positive performance of 2016 (new business is down 5.2% at national level at 31 December 2017), confirms the good performance.

The cost of goods and services is down from €2,442 million in 2016 to €2,370 million in 2017, reflecting a reduction across all items of expenditure and the Group's commitment to achieving cost savings.

Personnel expenses are down 2.4% from €6,241 million in 2016 to €6,093 million in 2017, largely reflecting a reduction in the ordinary component (down €138 million, or 2.4%), reflecting a decrease in the average workforce during the year (approximately 3,200 fewer FTEs compared with the previous year).

The cost of early retirement incentives during the year amounts to €499 million (€509 million in 2016), primarily relating to non-managerial staff for which provisions of €446 million have been made (€342 million in 2016) to the provisions for early retirement incentives, made to cover the estimated costs to be incurred by the Parent Company for early retirement incentives, under the current redundancy scheme for employees leaving the Company by 31 December 2019.

The ordinary unit cost of labour has risen from €40.6 thousand to €40.8 thousand, primarily due to renewal of the National Collective Labour Agreement.

Other operating costs are up from €301 million in 2016 to €465 million in 2017, above all due to the impact of provisions for risks, above all those relating to the voluntary action taken to protect customers who had invested in the Europa Immobiliare 1 fund.

Consolidated financial position and cash flow

| at 31 December (€m) | 2017 | 2016 | Increase/(decrease) | |
|--|----------------|----------------|---------------------|---------------|
| Non-current assets: | | | | |
| Property, plant and equipment | 2,001 | 2,080 | (79) | -3.8% |
| Investment property | 52 | 56 | (4) | -7.1% |
| Intangible assets | 516 | 513 | 3 | 0.6% |
| Non-current financial assets | 508 | 218 | 290 | n/s |
| Total non-current assets (a) | 3,077 | 2,867 | 210 | 7.3% |
| Working capital: | | | | |
| Inventories | 138 | 137 | 1 | 0.7% |
| Trade receivables and other receivables and assets | 6,032 | 5,843 | 189 | 3.2% |
| Trade payables and other liabilities | (4,788) | (4,724) | (64) | 1.4% |
| Current tax assets and liabilities | 70 | (73) | 143 | n/s |
| Total working capital: (b) | 1,452 | 1,183 | 269 | 22.7% |
| Gross invested capital (a+b) | 4,529 | 4,050 | 479 | 11.8% |
| Provisions for risks and charges | (1,595) | (1,507) | (88) | 5.8% |
| Provisions for employee termination benefits and pension plans | (1,274) | (1,347) | 73 | -5.4% |
| Deferred tax assets/(liabilities) | 323 | 53 | 270 | n/s |
| Non-current assets and disposal groups held for sale and liabilities related to assets held for sale | - | 660 | (660) | n/s |
| Net invested capital | 1,983 | 1,909 | 74 | 3.9% |
| Equity | 7,550 | 8,134 | (584) | -7.2% |
| Net (funds)/debt | (5,567) | (6,225) | 658 | -10.6% |

n/s: not significant

The Poste Italiane Group's **net invested capital** at 31 December 2017 amounts to €1,983 million (€1,909 million at 31 December 2016).

Non-current assets total €3,077 million, marking an increase of €210 million compared with the end of 2016. This primarily reflects acquisition of the investment in FSIA Investimenti Srl, partially offset by the negative effect of the movements in non-current assets (capital expenditure of €467 million, offset by depreciation, amortisation and impairments of €545 million).

The Poste Italiane Group's **capital expenditure** amounted to €467 million in 2017 (up €16 million or 3.5% on 2016) and was designed to support achievement of the objectives in the "Deliver 2022" Strategic Plan. Most expenditure is focused on Mail, Parcels and Distribution services, where the upgrade of the Group's technological resources and its logistics network continued, with a view to boosting overall sorting capacity and responding to the growth in volumes driven by e-commerce, as well as to improving the quality of service provided. The process of renewing the hardware used in post offices and the evolution and enhancement of the applications used in supplying services also continued.

Investment also focused on development and supply of the kits used by postmen and women (POS devices and printers), with the aim of driving the development of the Group's business processes.

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

In the Financial Services segment, in 2017 the Group invested in ICT assets to support the market position, the offering and revenue. Expenditure focused on improvements to the quality of processes, above all in relation to Postal Savings and Loans, and on ensuring compliance with regulatory requirements for the banking sector (MiFID, the prevention of money laundering and the financing of terrorism, Bank of Italy and CONSOB supervision). In terms of transaction banking, the commercial rollout of the new BancoPosta account began in May. The new product enables account holders to access all the services across a range of channels.

As regards electronic money, in February 2017, the new PostePay Evolution Business card for freelance professionals and sole traders was launched and, with regard to Full Acquiring services, the proprietary “card present” offering, with physical and mobile POS for use by SME customers was launched.

The Digital Transformation programme involved reengineering and improvement of the user experience on the poste.it website and of the related APPs and, as regards Payments, Mobile and Digital, support was provided for the development of new services and the acquisition of new customer targets.

In Insurance Services, work on planning for the segment's growth continued, as did investment in ongoing functional/infra-structural improvements to key business support systems.

Working capital amounts to €1,452 million at 31 December 2017, up €269 million on the end of 2016. This reflects both the movement in payments on account of withholding tax and substitute tax on capital gains on life insurance policies, and a decline in net current tax liabilities, reflecting the reduction in the IRES rate from 1 January 2017.

The increase of €88 million in provisions for risks and charges primarily reflects the liabilities that Poste Italiane will incur for staff taking voluntary early retirement by 31 December 2019, and the charges relating to the voluntary action taken to protect customers who had invested in the Europa Immobiliare 1 fund, as approved by Poste Italiane SpA's Board of Directors on 19 February 2018.

The increase in net deferred tax assets, amounting to €270 million, largely reflects the net positive effect on taxation of fair value losses on investments in available-for-sale financial assets (a reduction in deferred tax liabilities).

The net balance of “Non-current assets and disposal groups held for sale” and “Liabilities related to assets held for sale” has decreased by €660 million, following completion of the sale to Invitalia of the 100% interest in Banca del Mezzogiorno – MedioCredito Centrale on 7 August 2017.

Equity amounts to €7.6 billion at 31 December 2017, a reduction of €584 million compared with 31 December 2016. This is due to payment of dividends totalling €509 million and the movement in the fair value reserve (€721 million, net of tax), reflecting positive and negative movements in the fair value of investments in available-for-sale financial assets. The above reductions in equity were partially offset by profit for the year of €689 million.

Analysis of net (funds)/debt

| At 31 December 2016 (€m) | Mail, Parcels & Distribution | Payments, Mobile & Digital | Financial Services | Insurance Services | Eliminations | Consolidated amount |
|---|---------------------------------|----------------------------------|-----------------------|-----------------------|--------------|------------------------|
| Financial liabilities | 2,087 | 2,284 | 59,219 | 1,012 | (3,681) | 60,921 |
| Technical provisions for insurance business* | - | - | - | 113,612 | - | 113,612 |
| Financial assets | (1,236) | (2,609) | (58,529) | (115,596) | 3,608 | (174,362) |
| Net debt/(net funds) | 851 | (325) | 690 | (972) | (73) | 171 |
| Cash and deposits attributable to BancoPosta | - | - | (2,494) | - | - | (2,494) |
| Cash and cash equivalents | (1,556) | (21) | (1,320) | (1,324) | 319 | (3,902) |
| Net (funds)/debt | (705) | (346) | (3,124) | (2,296) | 246 | (6,225) |

* Technical provisions for the insurance business are shown net of technical provisions ceded to reinsurers.

| At 31 December 2017 (€m) | Mail, Parcels and Distribution | Payments, Mobile & Digital | Financial Services | Insurance Services | Eliminations | Consolidated amount |
|---|-----------------------------------|----------------------------------|-----------------------|-----------------------|--------------|------------------------|
| Financial liabilities | 2,249 | 2,970 | 62,063 | 1,017 | (5,055) | 63,244 |
| Technical provisions for insurance business* | - | - | - | 123,579 | - | 123,579 |
| Financial assets | (1,097) | (3,283) | (60,688) | (125,860) | 4,162 | (186,766) |
| Net debt/(net funds) | 1,152 | (313) | 1,375 | (1,264) | (893) | 57 |
| Cash and deposits attributable to BancoPosta | - | - | (3,196) | - | - | (3,196) |
| Cash and cash equivalents | (1,997) | (21) | (396) | (907) | 893 | (2,428) |
| Net (funds)/debt | (845) | (334) | (2,217) | (2,171) | - | (5,567) |

* Technical provisions for the insurance business are shown net of technical provisions ceded to reinsurers.

Total net funds at 31 December 2017 amount to €5,567 million, down on the figure for 31 December 2016 (when net funds amounted to €6,225 million). This primarily reflects the reduction in the fair value of available-for-sale financial assets (€991 million). The fair value reserve for available-for-sale financial assets amounts to €520 million before tax (€1,512 million at 31 December 2016).

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

| at 31 December (€m) | 2017 | 2016 |
|--|----------------|----------------|
| A. Cash | (4) | (2) |
| B. Other cash equivalents | (1,993) | (1,554) |
| C. Securities held for trading | - | - |
| D. Liquidity (A+B+C) | (1,997) | (1,556) |
| E. Current loans and receivables | (245) | (63) |
| F. Current bank borrowings | 201 | 2 |
| G. Current portion of non-current debt | 763 | 14 |
| H. Other current financial liabilities | 82 | 22 |
| I. Current financial debt (F+G+H) | 1,046 | 38 |
| J. Current net (funds)/debt (I+E+D) | (1,196) | (1,581) |
| K. Non-current bank borrowings | 200 | 400 |
| L. Bond issues | 49 | 798 |
| M. Other non-current liabilities | 36 | 48 |
| N. Non-current financial debt (K+L+M) | 285 | 1,246 |
| O. Industrial net (funds)/debt (ESMA guidelines) (J+N) | (911) | (335) |
| Non-current financial assets | (585) | (651) |
| Industrial net (funds)/debt | (1,496) | (986) |
| Intersegment loans and receivables | (267) | (522) |
| Intersegment financial liabilities | 918 | 803 |
| Industrial net (funds)/debt after adjusting for intersegment transactions | (845) | (705) |

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

- an EIB loan maturing in 2018, amounting to €200 million, with a nominal value of the same amount (current bank borrowings);
- an EIB loan maturing in 2019 amounting to €200 million, with a nominal value of the same amount (current bank borrowings);
- a bond issue maturing in 2019, totalling €763 million, with a nominal value of €750 million (the current portion of non-current debt);
- a private placement of €49.6 million (bonds in issue).

The net funds attributable to the Mail, Parcels and Distribution segment are up €140 million from €705 million at 31 December 2016 to €845 million at 31 December 2017. This reflects:

- an outflow of €318 million for investing activities, primarily linked to capital expenditure of €425 million, in addition to acquisition of the investment in FSIA Investimenti Srl for €278 million and the sale of BdM-MCC SpA for approximately €390 million;
- the net outflow for dividends of €465 million, which takes into account dividends paid to shareholders (€509 million);
- a positive movement in working capital, totalling €155 million, deriving from the collection of Universal Service compensation of €108 million;
- a negative movement in tax liabilities/assets of approximately €129 million;
- an operating loss of €30 million.

5. Operating results by operating segment

| 2017 (€m) | Mail, Parcels and Distribution | Payments, Mobile and Digital | Financial Services | Insurance Services | Adjustments and eliminations | Total |
|---|--------------------------------------|------------------------------------|-----------------------|-----------------------|------------------------------------|---------------|
| Total revenue | 8,128 | 914 | 5,970 | 1,457 | (5,840) | 10,629 |
| External revenue | 3,631 | 586 | 4,956 | 1,456 | - | 10,629 |
| Intersegment revenue | 4,497 | 328 | 1,014 | 1 | (5,840) | - |
| Total costs | 8,645 | 719 | 5,324 | 658 | (5,840) | 9,506 |
| Costs | 8,580 | 225 | 562 | 139 | - | 9,506 |
| Total personnel expenses | 5,922 | 31 | 103 | 37 | - | 6,093 |
| <i>of which personnel expenses</i> | 5,430 | 31 | 97 | 36 | - | 5,594 |
| <i>of which early retirement incentives</i> | 492 | - | 6 | 1 | - | 499 |
| Other operating costs | 2,153 | 172 | 458 | 85 | - | 2,868 |
| Depreciation, amortisation and impairments | 505 | 22 | 1 | 17 | - | 545 |
| Intersegment costs | 65 | 494 | 4,762 | 519 | (5,840) | - |
| EBIT | (517) | 195 | 646 | 799 | - | 1,123 |
| EBIT MARGIN | -6.4% | 21.3% | 10.8% | 54.8% | | 10.6% |
| Finance income/(costs) | (119) | (1) | (2) | 49 | - | (73) |
| Profit/(loss) on investments accounted for using the equity method | (2) | 7 | 12 | - | - | 17 |
| Intersegment finance income/(costs) | 9 | - | (4) | (5) | - | - |
| Profit/(Loss) before tax | (629) | 201 | 652 | 843 | - | 1,067 |
| Income tax expense | (127) | 55 | 153 | 297 | - | 378 |
| Profit for the year | (502) | 146 | 499 | 546 | - | 689 |

| 2016 (€m) | Mail, Parcels and Distribution | Payments, Mobile and Digital | Financial Services | Insurance Services | Adjustments and eliminations | Total |
|--|-----------------------------------|------------------------------------|-----------------------|-----------------------|------------------------------------|---------------|
| Total revenue | 8,362 | 929 | 5,991 | 1,242 | (5,881) | 10,643 |
| External revenue | 3,822 | 570 | 5,009 | 1,242 | - | 10,643 |
| Intersegment revenue | 4,540 | 359 | 982 | - | (5,881) | - |
| Total costs | 8,798 | 716 | 5,331 | 638 | (5,881) | 9,602 |
| Costs | 8,710 | 243 | 511 | 138 | - | 9,602 |
| Total personnel expenses | 6,055 | 31 | 120 | 35 | - | 6,241 |
| of which personnel expenses | 5,554 | 31 | 113 | 34 | - | 5,732 |
| of which early retirement incentives | 501 | - | 7 | 1 | - | 509 |
| Other operating costs | 2,119 | 182 | 390 | 89 | - | 2,780 |
| Depreciation, amortisation and impairments | 536 | 30 | 1 | 14 | - | 581 |
| Intersegment costs | 88 | 473 | 4,820 | 500 | (5,881) | - |
| EBIT | (436) | 213 | 660 | 604 | - | 1,041 |
| EBIT MARGIN | -5.2% | 22.9% | 11.0% | 48.6% | | 9.8% |
| Finance income/(costs) | (41) | (1) | (1) | 52 | | 9 |
| Profit/(loss) on investments accounted for using the equity method | (4) | - | 10 | - | - | 6 |
| Intersegment finance income/(costs) | 19 | - | (6) | (13) | - | - |
| Profit/(Loss) before tax | (462) | 212 | 663 | 643 | - | 1,056 |
| Income tax expense | (83) | 68 | 198 | 251 | - | 434 |
| Profit for the year | (379) | 144 | 465 | 392 | - | 622 |

Mail, parcels and distribution

The postal services market

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

The Italian market confirms the reduced inclination, compared to other European countries, to use paper forms of communication. The reduction in the use of Direct Marketing and unaddressed mail as commercial communication tools, as well as the lesser propensity to use paper reporting tools by some specific industries such as banking and telecommunications, characterised by the use of prepaid consumption models, have had a particularly strong impact.

The Express Delivery and Parcel services market, on the other hand, continued to grow, registering an 8%⁷ increase in domestic activities (which account for approximately 80% of the total) compared to 2016, while services based on delivery to or receipt from overseas countries grew on average by 12.5%¹.

7. Source: AGCom Communications Observatory no. 4/2017.

Mail, parcels and distribution segment profit or loss

| for the year ended 31 December (€m) | 2017 | 2016 | Increase/(decrease) | |
|--|--------------|--------------|---------------------|---------------|
| Mail | 2,650 | 2,907 | (257) | -8.8% |
| Parcels | 693 | 649 | 44 | 6.8% |
| Other revenue | 288 | 266 | 22 | 8.3% |
| Intersegment revenue | 4,497 | 4,540 | (43) | -0.9% |
| Total revenue | 8,128 | 8,362 | (234) | -2.8% |
| Personnel expenses | 5,922 | 6,055 | (133) | -2.2% |
| of which personnel expenses | 5,430 | 5,554 | (124) | -2.2% |
| of which early retirement incentives | 492 | 501 | (9) | -1.8% |
| Other operating costs | 2,153 | 2,119 | 34 | 1.6% |
| Intersegment costs | 65 | 88 | (23) | -26.1% |
| Total costs | 8,140 | 8,262 | (122) | -1.5% |
| EBITDA | (12) | 100 | (112) | n/s |
| Depreciation, amortisation and impairments | 505 | 536 | (31) | -5.8% |
| EBIT | (517) | (436) | (81) | -18.6% |
| EBIT MARGIN | -6.4% | -5.2% | -1.1% | |
| Finance income/(costs) | (112) | (26) | (86) | n/s |
| Profit/(Loss) before tax | (629) | (462) | (167) | -36.1% |
| Income tax expense | (127) | (83) | (44) | -53.0% |
| Profit for the year | (502) | (379) | (123) | -32.5% |

n/s: not significant

The Mail, Parcels and Distribution segment reported an operating loss of €517 million, up €81 million on the operating loss of €436 million of the previous year. This performance reflects the decrease in revenue from letter post, due to the contraction in volumes in its traditional market (down €257 million compared to 2016), and in intersegment revenue (down €43 million compared to 2016), which is governed by operating guidelines for the remuneration of distribution services provided to other segments. Moreover, 2016 benefitted from approximately €108 million in deferred revenue from previous years.

Parcels revenue, on the other hand, rose 6.8% (up €44 million compared to 2016) mainly due to the positive performance of the Domestic segment (volumes up €16 million compared to 2016). The segment's results also reflect the fact that, from 10 September 2017, the subsidiary, SDA, was affected by industrial action that lasted a number of weeks until mid-October, causing delays in the collection and delivery of packages, above all heavy items.

Costs of €8,140 million have decreased compared with 2016 (down €122 million) due to a reduction in personnel expenses (down €133 million), only partially offset by an increase in other operating costs (up €34 million), of which the 2016 balance benefitted from the release of provisions for disputes with third parties (around €7 million), as the related liabilities for which provision had been made in previous years failed to materialise.

Performance Analysis

Mail

| for the year ended 31 December | Volumes (in millions) | | | | Revenue (€m) | | | |
|---|-----------------------|--------------|---------------------|--------------|--------------|--------------|---------------------|--------------|
| | 2017 | 2016 | Increase/(decrease) | | 2017 | 2016 | Increase/(decrease) | |
| Unrecorded Mail | 1,381 | 1,491 | (110) | -7.4% | 811 | 934 | (123) | -13.2% |
| Recorded mail | 199 | 201 | (2) | -1.0% | 981 | 965 | 16 | 1.7% |
| Direct Marketing ⁽¹⁾ | 677 | 737 | (60) | -8.1% | 155 | 176 | (21) | -11.9% |
| Integrated services | 27 | 34 | (7) | -20.6% | 176 | 207 | (31) | -15.0% |
| Other ⁽²⁾ | 883 | 967 | (84) | -8.7% | 222 | 254 | (32) | -12.6% |
| Universal Service Obligation (USO) compensation and tariff subsidies ⁽³⁾ | | | | | 305 | 371 | (66) | -17.8% |
| Total Mail attributable to the Group | 3,167 | 3,430 | (263) | -7.7% | 2,650 | 2,907 | (257) | -8.8% |

(1) The figure for 2016 does not include unaddressed mail.

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

(3) 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 7.7% (263 million fewer items) and 8.8% (down €257 million), respectively, compared with 2016. This is primarily due to falling volumes in the traditional postal services market, partly as a result of the gradual dematerialisation of communications (letters replaced by e-mails, invoices sent online, etc.).

In detail, the contraction in volumes of Unrecorded Mail (110 million fewer items, or 7.4% less than in 2016) led to a fall in revenue of €123 million (down 13.2%).

Despite a reduction in volumes (2 million fewer items compared with the previous year), the Recorded Mail segment registered an increase in revenue of €981 million (up 1.7% compared with 2016), primarily due to tariff adjustments applied to Registered Mail and Legal Process products from 10 January 2017.

Direct Marketing and Unaddressed Mail volumes fell respectively by 8.1% and 11.9%, due to customers rationalising their mail spend.

Integrated Services registered a decrease in volumes and revenue of 20.6% and 15%, respectively, compared with the previous year. This decrease is mainly due to a fall in the number of Integrated Notification Service (SIN) deliveries, as well as tariff adjustments resulting from competitive pressure on SIN Registered Mail product.

Finally, other revenue includes, among other things, services for publishers, which fell as a result of the continuing decline in the number of subscribers for printed publications and the increase in digital subscriptions.

The compensation partially covering the cost of the Universal Service for 2017, as provided for in the 2015-2019 Service Contract in force from 1 January 2016, was set at €262 million. The publisher tariff subsidies, introduced from 1 January 2017, amount to €43 million.

In 2016, as previously mentioned, total revenue attributable to Universal Service compensation amounted to €371 million and took into account the release of compensation (approximately €108 million) held back in previous years, following new provision made by the Ministry of the Economy and Finance to cover previous contractual commitments.

Parcels

| | Volumes (in millions) | | | | Revenue (€m) | | | |
|----------------------|-----------------------|-----------|---------------------|--------------|--------------|------------|---------------------|-------------|
| | 2017 | 2016 | Increase/(decrease) | | 2017 | 2016 | Increase/(decrease) | |
| B2B | 29 | 30 | (1) | -3.3% | 207 | 220 | (13) | -5.9% |
| B2C | 58 | 41 | 17 | 41.5% | 235 | 171 | 64 | 37.4% |
| Other | 26 | 26 | n/s | n/s | 251 | 258 | (7) | -2.7% |
| Total parcels | 113 | 97 | 16 | 16.5% | 693 | 649 | 44 | 6.8% |

The performance of the Parcels segment saw significant growth in volumes and revenue, with volumes up 16.5% (16 million more items) and revenue rising 6.8% (up €44 million), respectively, compared with 2016.

This positive performance is essentially due to the expansion of e-commerce in Italy in the B2C segment (17 million more items, equivalent to an increase of 41.5% and a rise of €64 million in terms of revenue or a 37.4% increase compared to 2016). This growth was partially offset by a reduction in volumes and revenue in the B2B segment (1 million fewer items, equivalent to a 3.3% decrease and a €13 million decline in revenue, down 5.9% compared with 2016). This was mainly due to the effect of the industrial unrest that regarded the subsidiary, SDA, in September and October, which hit its operating performance.

Regulatory environment

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

The current *Contratto di Programma* (Service Contract) for 2015-2019 was signed by the parties on 15 December 2015 and was formally submitted to the European Commission for the usual assessments relating to European regulations regarding state aid; it is effective from 1 January 2016 to 31 December 2019.

The European Commission has approved government compensation for the period 2012-2015 and 2016-2019, payable to Poste Italiane for provision of the Universal Postal Service, deeming it to be compatible with European Union regulations regarding state aid.

The 2018 Budget Law (Law 205 of 27 December 2017) established that the Service Contract may include - at the request of one of the parties and with effect from 1 January 2020 - the activities of collection, transport, sorting and distribution of postal items weighing up to 5 kilograms⁸. The same law also introduced the option for small municipalities to enter into special additional agreements with the Universal Postal Service provider to increase the frequency of actual delivery times, in line with large towns.

Legislative Decree 244 of 30 December 2016, the so-called *Milleproroghe* ("Thousand Extensions") Decree, converted into Law 19 of 27 February 2017, in force since 1 January 2017, extended the reduced postal rates set out in the Interministerial Decree of 21 October 2010 for the deliveries of publishers and non-profit associations and organisations entered in the Register of Communications Operators, and reinstated the government tariff subsidies provided for by Law no. 46 of 27 February 2004 until 2019.

The Decree also confirmed the reduced rates for promotional mailings by non-profit associations and organisations and reinstated the related government tariff subsidies until 2019.

Law 124 of 4 August 2017, the "Annual market and competition law", came into effect on 29 August 2017. The legislation provides for the repeal, from 10 September 2017, of art. 4 of Legislative Decree 261/1999 and amendment of the relat-

8. Currently, pursuant to Legislative Decree 261/99, Poste Italiane SpA (which is responsible for the Universal Service until 30 April 2026) is obliged to provide a nationwide service to collect, transport, sort and distribute postal items weighing up to 2 kg and parcels weighing up to 20 kg, as well as the services relating to registered and insured items.

ed articles, removing the exclusive right to offer services relating to legal process and the notification of violations of the Highway Code (art. 1, paragraph 57). The law also establishes that the issue of an individual licence to provide such services must be subject to specific requirements and a universal service obligation covering the security, quality, continuity, availability and provision of the services. In this regard, the regulator (the Autorità per le Garanzie nelle Comunicazioni or AGCom) launched a public consultation and subsequently issued Resolution 77/18/CONS regarding regulations governing the issue of special individual licences to provide postal services relating to legal process and related communications, as well as notification of violations of the Highway Code.

Moreover, the regulations governing the service relating to legal process and violations of the Highway Code were further amended by the 2018 Budget Law, which brought the provisions of Law 890/1982 "Legal process and related communications postal service" into line with the new provisions of Law 124/2017.

Operating review

As part of activities to optimise its operating processes, during the year the Group completed the study of a new joint delivery model, aimed at ensuring the evolution of the delivery network in line with the development of e-commerce and changing customer needs. In particular, the new model enables parcels to be delivered via the network of postmen and women, and introduces afternoon and weekend shifts in order to facilitate successful delivery and meet addressees' expectations. This new model was agreed with the labour unions and will be progressively implemented starting in 2018.

The process of restructuring the sector continued in 2017, with the aim of revisiting a new, high-quality, sustainable Universal Service that is in line with citizens' changing requirements. In this context and as part of the optimisation, digitisation and automation process, measures were implemented to redefine sorting processes. These included the installation of a new sorting plant at the Milan Roserio Sorting Centre, aimed at automating the manual processing of parcels and small format recorded mail, and the inauguration, at the Bologna Sorting Centre, of the first department reorganised in accordance with "lean manufacturing" methodology (with the introduction, for example, of new equipment to make operations and workstations safer and more ergonomic).

In addition, as part of the digital transformation process, a digital pick-up service for undelivered registered mail was launched in July, which may be subscribed to via Poste Italiane's SPID enabled PostelD digital identity service. Secure access via Poste ID and the use of a remote digital signature means that this service has complete legal validity, equivalent to physically picking up items at the post office.

Finally, with regard to the Group's commitment to providing a good customer experience, work is continuing to improve knowledge of all aspects of customers' purchasing behaviour and to develop systems for listening to and surveying customers.

On 30 December 2015, SDA terminated contracts for the provision of call centre services previously entered into with Uptime SpA – a company in which it held a 28.57% interest – and Gepin Contact SpA - Uptime SpA's majority shareholder – with effect from 1 July 2016.

Gepin then filed a claim for damages from SDA, amounting to €15.5 million, relating to the alleged unjustified nature of termination of the above contracts, and has obtained an injunctive order for payment of approximately €3.7 million for uncontracted services. SDA challenged the claims in court.

In December 2016, Poste Italiane and SDA were served a writ of summons by Gepin and Uptime, containing claims for damages of approximately €66.4 million, in the case of Uptime (in liquidation), and approximately €16.2 million, in the case of Gepin. At the hearing in October 2017, Gepin Contact SpA's legal counsel announced the company's bankruptcy.

In September 2017, SDA subscribed for Uptime's entire share capital. The latter then filed for a voluntary early arrangement with creditors. The above claim for €66.4 million in damages from SDA and Poste Italiane has not been taken up by the liquidator overseeing Gepin's bankruptcy and has, therefore, been cancelled. Formal cancellation of the claim by the Civil Court of Rome is now awaited.

The quality of the universal postal service

The quality results achieved for the Universal Service, whose objectives are defined by AGCom, are shown below. Poste Italiane sends these results to the regulator, except for those regarding ordinary mail, which are monitored by an independent specialised body appointed by the Authority⁹. The regulator verifies compliance with the objectives and publishes the results annually, together with those regarding ordinary mail reported by the independent body.

| for the year ended 31 December | | 2017 | | 2016 | |
|-----------------------------------|-----------------|--------|--------|--------|--------|
| Product | Delivery within | Target | Actual | Target | Actual |
| Posta 1 - Priority | 1 day | 80.0% | 82.2% | 80.0% | 83.9% |
| Posta 1 - Priority | 4 days | 98.0% | 99.1% | 98.0% | 99.2% |
| Posta 4 - Ordinary ⁽¹⁾ | 4 days | 90.0% | 91.2% | 90.0% | 96.0% |
| Bulk mail | 4 days | 90.0% | 96.7% | 90.0% | 97.0% |
| Registered mail | 4 days | 90.0% | 95.1% | 90.0% | 97.0% |
| Insured mail | 4 days | 90.0% | 99.6% | 90.0% | 99.8% |
| Standard parcels | 4 days | 90.0% | 92.2% | 90.0% | 96.8% |

(1) Based on data certified by IZI at the request of AGCom.

Payments, mobile and digital

Regulatory and market environment

With Legislative Decree 218 of 15 December 2017, published in Official Gazette no. 10 of 13 January 2018, EU Directive 2015/2366 on payment services in the internal market (so-called “PSD2”) has been transposed into Italian law. The creation of a “single payments area” in Europe has, for some years, resulted in restructuring and innovation of the payments market, given further impetus with the entry into effect of PSD2, which has also increased the level of competition. The principal changes introduced by PSD2 regard the opening up of the market to greater competition, resulting in the launch of new forms of payment and new market entrants (PSPs – Payment Services Providers), resulting in an improved offering. Another important aspect regards greater protections for digital payment service users, both in terms of security, data protection and authentication, and in terms of new responsibilities for users.

Italy’s payment services market is characterised by a highly dynamic electronic payments segment driven by online payments (bank transfers and payments by card), which were up 13% in 2016¹⁰ compared with the previous year, and in general by card transactions (up 14% in 2016 versus 2015). Direct debits have also seen strong growth (up 16% in 2016 versus 2015). Overall, the number of payments made using instruments providing an alternative to cash rose 8% between 2015 and 2016, confirming the trend seen in recent years.

Digital innovation is a further driver of this transformation of the payments landscape, with market innovation driven by both the rapid take-up of new technologies, resulting in services capable of offering users continuous and highly flexible access to money transfer solutions, and the European regulatory framework, which aims to encourage innovation and competition in the payment services market. These developments reflect the transformational impact that the internet has had on the economy, finance and social behaviour: more recently, the so-called “digital revolution” has reached the door of finance with the birth of Fintech (Financial Technology Innovation) which, in applying technological innovation to financial services, has given rise to new business models, new channels and new products, above all with regard to e-commerce and mobile payments.

9. With Resolution **608/16/CONS** published on 10 January 2017, the Authority, following the outcome of the tender procedure launched by Resolution 132/16/SAG, selected the company, IZI SpA, for the three-year period 1 December 2016 - 30 November 2019.

10. The annual report of the Bank of Italy’s “Payments Committee Italy” for 2016.

In this market environment, it will become increasingly important for market operators to increase their focus and degree of specialisation, and to speed up the development and rollout of new payment solutions to offer to consumers, businesses and the Public Administration. Moreover, this will have to be accompanied by cost efficiencies in order to compensate for the decline in margins, which will continue to be a feature of the sector. This has resulted in a number of major combinations, in Europe and in Italy, aimed at creating large "hubs" specialising in the handling and commercialisation of payment services.

Following an assessment of the impact of the new legislation in 2017, steps were taken to amend contract terms and conditions (those for current accounts, debit cards, acquiring and prepaid cards) and implement changes to IT systems, procedures and organisational arrangements (above all, a review of the processes for managing complaints and for making refunds in the event of unauthorised transactions). A specific training programme will also be run in 2018, with the aim of updating both network and headquarters staff on the key changes introduced by the legislation.

During 2017, the **mobile market** was marked by highly aggressive acquisition strategies adopted by the leading operators, involving the launch of deeply discounted offers, targeted at the customers of mobile virtual network operators, partly in response to the approaching market entry of new players, such as Kena Mobile, TIM's second brand, which has been positioned as a low-cost, no-frills virtual operator, operating from 29 March 2017, and Iliad, the price leader in the French market, whose entry is expected in the first half of 2018.

The strategies adopted are based on CRM and Win-Back¹¹ offerings. At the same time, the trend towards convergent landline and mobile services has strengthened, as has the development of varying degrees of partnership between the suppliers of digital content and the operators of telecommunications networks. In this context, the penetration of broadband is playing a key role in development of the market, with a further increase in coverage seen in 2017.

The total number of lines¹² in the third quarter of 2017 amounts to around 99 million, including approximately 15 million Machine to Machine (M2M) SIM cards. In terms of market share, Wind-TRE, the market leader, has remained more or less stable, followed by Telecom Italia and Vodafone. PosteMobile has a market share of around 4%, with over 49% of mobile virtual network customers.

11. Win-Back offerings aim to regain former customers who can opt for mobile number portability (MNP).

12. Source: AGCom Communications Observatory no. 4/2017.

Payments, mobile and digital segment profit or loss

| for the year ended 31 December (€m) | 2017 | 2016 | Increase/(decrease) | |
|--|--------------|--------------|---------------------|---------------|
| E-money | 212 | 166 | 46 | 27.7% |
| Other payments | 163 | 180 | (17) | -9.4% |
| Mobile | 211 | 224 | (13) | -5.8% |
| Intersegment revenue | 328 | 359 | (31) | n/s |
| Total revenue | 914 | 929 | (15) | -1.6% |
| Personnel expenses | 31 | 31 | - | n/s |
| of which personnel expenses | 31 | 31 | - | n/s |
| of which early retirement incentives | - | - | - | n/s |
| Other operating costs | 172 | 182 | (10) | -5.5% |
| Intersegment costs | 494 | 473 | 21 | 4.4% |
| Total costs | 697 | 686 | 11 | 1.6% |
| EBITDA | 217 | 243 | (26) | -10.7% |
| Depreciation, amortisation and impairments | 22 | 30 | (8) | -26.7% |
| EBIT | 195 | 213 | (18) | -8.5% |
| EBIT MARGIN | 21.3% | 22.9% | -1.6% | |
| Finance income/(costs) | 6 | (1) | 7 | n/s |
| Profit/(Loss) before tax | 201 | 212 | (11) | -5.2% |
| Income tax expense | 55 | 68 | (13) | -19.1% |
| Profit for the year | 146 | 144 | 2 | 1.4% |

n/s: not significant

As already noted, the new Payments, Mobile and Digital (PMD) segment aims to centralise the management of payment services – partly in view of the new activities envisaged by PSD2 – and operate as a competence centre to support the implementation of the Group's digital strategy. The segment includes the collection and payment services provided by BancoPosta RFC (managed in outsourcing), the e-money products and services offered by PosteMobile SpA, which has acquired significant experience over the years in digital services and in mobile banking and mobile payments. The investment in SIA SpA has also been allocated to the PMD segment.

In line with the digital transformation process, the BPIOL Remote Banking offering has evolved towards personalised solutions for specific customer targets, such as BPIOL EASY, the new Remote Banking solution for freelance professionals and sole traders with simpler online banking needs.

Development of the Bollettino service (for paying bills) continued, with the inclusion in the new BancoPosta and Ufficio Postale apps of the functions offered in the payments section of the website at www.poste.it. The aim is to standardise the user experience across the various channels, creating a single digital ecosystem.

As regards electronic money, the new PostePay Evolution Business card for freelance professionals and sole traders has been launched, enabling the holder to access collection services through a range of channels, thanks to synergies with BancoPosta's acquiring services. At 31 December 2017, the number of Postepay cards issued exceeds 17 million, including approximately 4.7 million Postepay Evolution cards, whilst the number of Postamat cards in circulation is stable at 7 million.

Financial services

Financial market trends

Global equity markets performed well in 2017. The US S&P500 index closed the year up 18.6% over the year, whilst European bourses (the Dow Jones Euro Stoxx) rose 8.1% over the same period. Italian equities outperformed the European average, with the FTSE Mib, after a choppy start to the year, rising strongly from April on to register an annual increase of 19.7% at the end of December.

On the bond markets, the spread between 10-year Treasury Notes (BTPs) and 10-year German Bunds was highly volatile, reaching peaks above 200 basis points in the first half of 2017, before returning to more normal levels from July (ranging between 150 and 190 basis points). The spread was 159 basis points at 31 December 2017.

In the currency markets, in 2017, witnessed a sharp fall in the value of the US dollar (the euro/USD exchange rate at the end of December 2017 was 1.20, compared with 1.14 at the end of June 2017 and 1.05 at 31 December 2016). Likewise sterling, after remaining broadly stable in the first half of 2017, went into decline, presumably due to uncertainty surrounding the start-up of negotiations regarding the country's exit from the European Union (the average euro/GBP exchange rate at the end of December 2017 was 0.89, compared with 0.88 at 30 June 2017 and 0.86 at 31 December 2016).

Banking system

Funding by Italian banks in 2017, represented by deposits by resident Italian savers and the issue of bonds, was stable overall, with total funding at December 2017 amounting to approximately €1,728 billion, down 0.01% on the previous year. As in past years, this reflects an increase in deposits by resident Italian savers (current accounts, certificates of deposit and repurchase agreements) of €51 billion in absolute terms year-on-year (up 3.6% compared with the end of 2016), offset by a sharp decline in investments in bonds, amounting to the same amount (marking a year-on-year decline of 15.2%).

Funding costs (deposits, bonds and repurchase agreements) are down compared with the figure for the end of 2016, with the average cost of customer deposits in December 2017 standing at 0.89%, compared with 0.99% in December 2016.

Bank lending rose in 2017. In December 2017, total lending to Italian residents (private sector and the Public Administration) – excluding interbank loans – amounted to approximately €1,786 billion, marking a year-on-year increase of 2.4%. Consumer loans are also up, with mortgage lending up 3.4% year-on-year, based on data for November 2017.

Doubtful loans within the banking system, after impairments and provisions made from own funds, amount to approximately €66 billion in November 2017, down on the figure for December 2016 (€87 billion). In percentage terms, doubtful loans have fallen from 4.89% of total loans in December 2016 to 3.74% in November 2017. The average interest rate applied to consumer and corporate loans continues to be very low, with a figure of 2.69% in December 2017 (2.85% in December 2016¹³).

Regulatory environment

On 3 January 2018, the new Directive 2014/65/UE (so-called "MiFID2") came into effect throughout the European Union, introducing changes to the regulations in the Consolidated Law on Finance (legislative Decree 58/98) and the Regulations for Issuers. The new regulations have increased the efficiency and transparency of financial markets, boosting protections for investors and strengthening certain organisational requirements and rules for intermediaries. Following an assessment of the impact of the new regulations, in 2017, Poste Italiane took steps to ensure compliance with the new statutory requirements, primarily regarding improvements to product governance, the provision of information to customers, customer profiling, advisory services and the training of post office personnel.

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

In addition, Legislative Decree 90/2017 came into effect in July 2017, implementing Directive (EU) 2015/849, regarding “prevention of the use of the financial system for the purposes of money laundering or terrorist financing” (the so-called Money Laundering Directive IV), which has amended Legislative Decree 231/07. The Decree emphasises the need for a risk-based approach, inducing regulated entities to adopt measures designed to identify, assess and mitigate the risk of money laundering and terrorist financing, resulting in changes to the way in which checks on customers are carried out. In this regard, a number of assessments of the Company’s procedures were carried out (the organisational structure and internal control systems) and the process planning of the necessary changes began, including the training of personnel. The scope of entities belonging to the category of Politically Exposed Persons (PEPs) was also expanded and, in the case of bearer passbooks, the new regulations have introduced a ban on their issue and transfer and a requirement to close all such accounts by 31 December 2018. Specific limits have also been imposed on the distribution of bearer prepaid cards.

Financial services segment profit or loss

| for the year ended 31 December (€m) | 2017 | 2016 | Increase/(decrease) | |
|---|--------------|--------------|---------------------|--------------|
| Capital gains | 547 | 473 | 74 | 15.6% |
| Interest income | 1,478 | 1,510 | (32) | -2.1% |
| Collection of postal savings | 1,566 | 1,577 | (11) | -0.7% |
| Transaction banking | 1,008 | 1,061 | (53) | -5.0% |
| Distribution of third-party products | 272 | 327 | (55) | -16.8% |
| Asset management | 85 | 61 | 24 | 39.3% |
| Intersegment revenue | 1,014 | 982 | 32 | 3.3% |
| Total revenue | 5,970 | 5,991 | (21) | -0.4% |
| Personnel expenses | 103 | 120 | (17) | -14.2% |
| <i>of which personnel expenses</i> | 97 | 113 | (16) | -14.2% |
| <i>of which early retirement incentives</i> | 6 | 7 | (1) | -14.3% |
| Other operating costs | 458 | 390 | 68 | 17.4% |
| Depreciation, amortisation and impairments | 1 | 1 | n/s | n/s |
| Intersegment costs | 4,762 | 4,820 | (58) | -1.2% |
| Total costs | 5,324 | 5,331 | (7) | -0.1% |
| EBIT | 646 | 660 | (14) | -2.1% |
| EBIT MARGIN | 10.8% | 11.0% | -0.2% | |
| Finance income/(costs) | 6 | 3 | 3 | n/s |
| Profit/(Loss) before tax | 652 | 663 | (11) | -1.7% |
| Income tax expense | 153 | 198 | (45) | -22.7% |
| Profit for the year | 499 | 465 | 34 | 7.3% |

n/s: not significant

Operating profit generated by the Financial Services segment in 2017 amounts to €646 million, down 2.1% compared with the previous year (€660 million). The change essentially reflects the impact of non-recurring transactions (the sale of the investment in Visa Europe Ltd. in 2016 for €121 million and of shares in Mastercard in 2017 for €91 million), with a €30 million reduction in gains with respect to 2016, and an increase in provisions for risks and charges, linked to financial instruments and investment products sold in previous years, whose performance has not been in line with customers’ expectations.

Total revenue generated by the segment is down compared with the previous year (a decline of 0.4%), primarily reflecting a reduction in income from the distribution of third-party financial products (down 16.8%) which, whilst the distribution of loan products performed well (up 3.2%), suffered the effects of the absence of BDM-MCC's contribution, after this company was sold on 7 August 2017. The reduction in revenue also reflects a 5% decline in revenue from transaction banking, due to a reduction in the volume of payment of bills using payment slips, and the above decrease in income from the sales of shares in Visa and Mastercard. These results are only partially offset by an increase in gains (up 15.6%), increased fees from asset management at BancoPosta Fondi SGR (up 39.3%) and a rise in intersegment revenue (up 3.3%), resulting from an increase in income from insurance brokerage (up 3.2%).

The segment's total costs are broadly in line with the previous year (down 0.1%), as the above increase in BancoPosta RFC's provisions for risks and charges were offset by a reduction in intersegment costs.

Income tax expense for the year, after benefitting from the reduction in the IRES rate, is €153 million (down 22.7% compared with 2016). This results in profit for the year of €499 million (up 7.3% compared with 2016).

Operating review

Commercial initiatives designed to enhance the offering of Postal Savings products and to strengthen the position in the transaction banking market and in the distribution of consumer and corporate credit continued.

With regard to Postal Savings, in an effort to boost deposits, with a view to fulfilling its role as a provider of a Service of General Economic Interest (SGEI), the range of savings products was extended in terms of both type of product and the returns on offer. A number of initiatives were launched, alongside a highly effective advertising campaign through major media outlets, relating to the offer of several *Supersmart* offerings with different durations (180, 360 and 540 days), aimed at all the holders of Libretto Smart books, and a *BFP a 3 anni Plus* interest bearing postal certificate. These initiatives have begun to bear fruit in terms of an increase in Postal Savings deposits, above all with regard to net inflows into Interest-bearing Postal Certificates. In addition, the simplification of processes undertaken in 2017, involving both physical and virtual channels, has resulted in a number of changes, including the introduction at post offices of the "Passbook Transformation" service, which enables holders to change the form of their passbook by dematerialising their paper version and switching from an Ordinary version of the book to the Smart version. At the same time, passbook holders can also request and/or activate related products and services.

On 14 December 2017, following the resolutions approved by their respective boards of directors, Cassa Depositi e Prestiti SpA and Poste Italiane SpA signed a new agreement covering the collection of postal savings in the three-year period 2018-2020. On the one hand, the intention is to consolidate the role played by Interest-bearing Postal Certificates and Savings Books in the Italian savings market, by increasing investment in technology, advertising, promotions and training, so as to widen the customer base for savings products, whilst, on the other, launching a new and expanded range of services.

In terms of transaction banking, the commercial rollout of the new BancoPosta account began. The new product enables account holders to access all the services across a range of channels, managing their account from a post office, their PC or from a smartphone equipped with the new BancoPosta APP.

With regard to third-party loan products, new solutions have been introduced with a view to expanding the offering and making products more accessible. In particular, the offering of personal loan products for current account and savings book holders has been revamped and the range of BancoPosta salary loans has been expanded. This included the addition of an offering specifically targeted at public sector employees, who now have the option of obtaining additional cash equal to one monthly repayment, provided that, when this sum is aggregated with the existing salary loan, the total does not exceed two-fifths of their monthly salary. For the business segment, December witnessed the commercial rollout, in partnership with Compass, of the Fido POS product, offering a revolving short-term credit facility to freelance professionals and sole traders who have an account with BancoPosta.

In terms of BancoPosta's capital structure, the CET 1 ratio for 2017 is 17%, compared with 16% in 2016, confirming the strength of the entity's balance sheet, which was further boosted by Poste Italiane SpA's contribution of fresh capital of €210 million in 2018.

The leverage ratio for 2017 is 3.1%, compared with 3.0% for 2016.

Insurance services

The insurance services market

Based on the available official data (source: ANIA), new business for **life insurance** policies in 2017 amounted to €82.4 billion (down 5.2% compared with the previous year). If new life business reported by EU insurers is taken into account, the figure rises to €99.9 billion, down 5.2% on 2016.

Analysing the composition and performance of new business, Class I premiums amount to €51.4 billion, down 18.1% compared with the previous year. New business for Class V policies also declined (down 8.1%), with premium revenue totalling €2.1 billion. New business for unit-linked Class III life products bucked the trend, generating premium revenue of €28.0 billion (up 32.9%). The contribution from new inflows into individual pension plans was also positive, with inflows of €1.5 billion, registering an increase 3.7% compared with 2016.

Single premiums continued to be the preferred form of payment for policyholders, representing 93.5% of total premiums written and 62.2% of policies by number.

With regard, finally, to distribution channel, over two-thirds of new business was obtained through banks and post offices, with premium revenue of €55.5 billion corresponding to 67.4% of the total.

Based on the latest official data, total direct Italian premiums in the **non-life insurance market**, thus including policies sold by Italian and overseas insurers amounted to €25.6 billion at the end of the third quarter of 2017, slightly up on the same period of 2016 (up 0.4%). This marked a reversal of the negative trend seen over the last five years (source: ANIA). Reversal of the trend reflects the contribution made by growth in other non-life classes (up 2.0% on the same period of the previous year) and an easing off of the decline in premium revenue from vehicle insurance. In detail, third-party land vehicle premiums amounted to €10.2 billion, down 2.8% compared with the third quarter of 2016 (when the decline was 5.9%), whilst land vehicle hull premiums amounted to €2.2 billion (up 7% on the same period of 2016).

In terms of distribution channel, as regards policies sold by Italian and overseas insurers, agents continued to lead the way with a market share of 76.8%, slightly down on the figure for previous years (77.5% in the third quarter of 2016). Brokers represent the second most popular channel for non-life products, with a market share of 8.1%. Banks and post offices also recorded growth in their market share to 6.7% (5.7% in the third quarter of 2016).

Regulatory environment

IVASS has recently announced (Letter to the Market, dated 12 January 2018) the “Results of the comparative analysis on the Own Risk and Solvency Assessment Reports” (ORSA), based on the information requested in the Letter to the Market of 21 April 2017 (the impact on capital and solvency ratios of low interest rates and increased credit spreads on financial assets). IVASS has acknowledged the qualitative improvement with respect to previous years, with regard above all to the greater accuracy of the method used and increased awareness of the central importance of the ORSA process in the company's management. It also indicated the need for an overall strengthening of the ORSA for Solvency II purposes.

The regulations issued by IVASS during the year include:

- IVASS Regulation 34 of 7 February 2017, laying down provisions on governance concerning the valuation of assets and liabilities other than technical provisions and the criteria used for their valuation and the relative report on the Regulation;
- IVASS Regulation 35 of 7 February 2017, on the adjustment for the loss-absorbing capacity of technical provisions and deferred taxes for the determination of the solvency capital requirement calculated using the standard formula.

Insurance services segment profit or loss

| for the year ended 31 December (€m) | 2017 | 2016 | Increase/(decrease) | |
|---|--------------|--------------|---------------------|--------------|
| Life premium revenue | 20,244 | 19,804 | 440 | 2.2% |
| Life net income ^(*) | 3,425 | 3,290 | 135 | 4.1% |
| Movements in premium reserve, technical provisions, reinsurance and other Life claims expenses | (22,313) | (21,928) | (385) | 1.8% |
| Net Life revenue | 1,356 | 1,166 | 190 | 16.3% |
| Non-life premium revenue | 99 | 80 | 19 | 23.8% |
| Non-life net income ^(*) | 12 | 16 | (4) | -25.0% |
| Movements in premium reserve, technical provisions, reinsurance and other Non-life claims expenses | (22) | (30) | 8 | -26.7% |
| Net Non-life revenue | 89 | 66 | 23 | 34.8% |
| Other operating income | 12 | 10 | 2 | 20.0% |
| Total revenue | 1,457 | 1,242 | 215 | 17.3% |
| Personnel expenses | 37 | 35 | 2 | 5.7% |
| <i>of which personnel expenses</i> | 36 | 34 | 2 | 5.9% |
| <i>of which early retirement incentives</i> | 1 | 1 | - | n/s |
| Other operating costs | 85 | 89 | (4) | -4.5% |
| Depreciation, amortisation and impairments | 17 | 14 | 3 | 21.4% |
| Intersegment costs | 519 | 500 | 19 | 3.8% |
| Total costs | 658 | 638 | 20 | 3.1% |
| EBIT | 799 | 604 | 195 | 32.3% |
| EBIT MARGIN | 54.8% | 48.6% | 6.2% | |
| Finance income/(costs) | 44 | 39 | 5 | 12.8% |
| Profit/(Loss) before tax | 843 | 643 | 200 | 31.1% |
| Income tax expense | 297 | 251 | 46 | 18.3% |
| Profit for the year | 546 | 392 | 154 | 39.3% |

(*) After expenses deriving from insurance activities.

n/s: not significant

Operating profit generated by the Insurance Services segment totals €799 million, marking an increase of 32.3% compared with the previous year (€604 million). In addition to the positive operating performance, this also reflects a greater contribution from net life insurance income, relating to management of the technical provisions.

Net finance income amounts to €44 million (income from the investment of free capital, totalling €71 million, after deducting interest payable on subordinated loans, amounting to €27 million) and profit for the year totals €546 million (up 39.3%).

The Poste Vita group's total premium revenue, after the portion ceded to reinsurers, of €20.3 billion, marking an increase of 2.3% compared with the €19.9 billion of 2016. This was generated essentially by the sale of life products, amounting to €20.2 billion (€19.8 billion in 2016), whilst there was strong growth in sales of non-life products, which premium revenue of €99 million (€80 million in 2016).

Net income amounts to €3,437 million (€3,306 million in 2016), including €3,425 million (€3,290 million in 2016) generated by the life business and primarily regarding:

- €3,335 million net finance income from securities related to traditional products, an increase of €64 million compared with the €3,271 million of 2016. This primarily reflects an increase in ordinary income of approximately €391 million compared with 2016 – reflecting growth in assets under management -, which offset the impact of less favourable financial market trends, which led to a reduction in unrealised gains of approximately €252 million on investments included in separately managed accounts - attributed in full to policyholders under the shadow accounting method – and net realised gains of approximately €75 million;
- €123 million in net finance income and commission income from management of the internal funds connected with index- and unit-linked products, up on the €35 million of 2016. This amount, which reflects market volatility, is almost entirely matched by a corresponding change in technical provisions.

As a result of the above operating performance and the corresponding revaluation of insurance liabilities due to the positive financial performance, the movement in technical provisions, after the portion ceded to reinsurers, amounts to €22.3 billion, compared with €22.0 billion in the previous year. claims paid to customers total €10.9 billion (€7.5 billion in 2016) and include policy expirations of €6.6 billion (€3.8 billion in 2016), with €4.1 billion of this sum attributable to Class III policies. Total surrenders amount to €3.0 billion (€2.6 billion in 2016), accounting for 2.9% of initial provisions (2.9% at 31 December 2016), a figure that continues to be far lower than the industry average (the latest figure published on ANIA's website at 30 September 2017 is 6.78%).

Other operating income of €12 million (€10 million in 2016) almost exclusively regards revenue generated by Poste Welfare Servizi.

Net revenue thus amounts to €1,457 million, marking growth of 17.2% compared with 2016 (€1,242 million).

Total costs of €658 million are up €20 million compared with 2016 and regard:

- commissions paid for distribution, collection and maintenance of €482 million (€464 million in 2016). The increase has benefited the Group's Financial Services segment, which is responsible for marketing the products, and the Postal and Business Services segment in return for the distribution services provided;
- other costs of €176 million (€174 million in 2016), primarily regarding personnel expenses and other operating costs.

Operating review

In keeping with the strategic objectives set in 2016, in 2017 the **Poste Vita insurance group** primarily focused its efforts on:

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

Thanks to its constant focus on products, strengthened support for the distribution network and growing customer loyalty, Poste Vita recorded a good performance in 2017, despite the previously mentioned decline in new life business.

The commercial strategy focused almost entirely on sales of Class I and V investment and savings products (traditional separately managed accounts), with premium revenue at the end of the year amounting to approximately €19.7 billion (€19.3 billion in 2016). Premium revenue from Class III policies in 2017 amounted to €537 million (€475 million in 2016). The commercial launch of a new unit-linked product, offering a form of long-term savings plan (an individual savings plan, or PIR - *Piano individuale di Risparmio*)¹⁴ was launched on 27 June 2017. Premium revenue from this product amounts to €225.1 million at the end of 2017.

Sales of regular premium products also performed well (*Multiutile Ricorrente*, *Long Term Care*, *Posta Futuro Da Grande*), as did sales of the PostaPrevidenzaValore product which, with around 943 thousand policies sold during the period, has enabled Poste Vita to consolidate its role in the pensions market.

Sales of pure risk policies (term life insurance) also performed well, including both those sold in stand-alone versions (not bundled together with products of a financial nature) and those sold bundled together with financial obligations deriving from mortgages and loans sold through Poste Italiane's network.

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

Management of the **non-life business** was also along the lines set out in the business plan, seeking to meet the new needs of customers in the areas of welfare and health insurance, expanding the offering and enhancing the model for network support. While the contribution to the Group's results is still limited, the segment recorded an extremely positive performance, with total premium revenue for the period of €141.3 million¹⁵, up 19% on the figure for 2016 (€118.8 million). This performance was accompanied by a positive technical performance as a result of a reduced volume of claims with respect to the growth in sales.

In terms of investments during the period, the investment policy was marked by the utmost prudence. This has resulted in a portfolio primarily invested in Italian government securities and corporate bonds, with an overall exposure that, whilst lower than in 2016, represents over 80% of the entire portfolio. In addition, whilst maintaining a moderate risk appetite, during the year the company continued with the gradual process of diversifying investments by increasing its exposure to equities (up from 14% of the portfolio to the current 19%), above all multi-asset, harmonised open-end funds of the UCITS (Undertakings for Collective Investment in Transferable Securities) type.

As a result of the above operating and financial performance, technical provisions for the direct Italian portfolio amount to €123.6 billion (€113.6 billion at the end of 2016), primarily including €111.5 billion in mathematical provisions for Class I and V products (€96.9 billion at the end of 2016) and provisions for products where the investment risk is borne by policyholders, amounting to approximately €3.5 billion (€6.9 billion at 31 December 2016). The decline in the latter provisions reflects products reaching maturity during the period. Deferred Policyholder Liability (DPL) provisions, linked to the change in the fair value of the financial instruments covering the provisions relating to products included in separately managed accounts, amount to €8.2 billion, compared with €9.3 billion at the beginning of the year.

Technical provisions for the non-life business, before the portion ceded to reinsurers, amount to €160 million at the end of the period, up 12% compared with the end of 2016 (€143 million).

14. Individual savings plans (*Piani Individuali di Risparmio* or PIR) are the new form of investment product introduced by the government in the 2017 budget law, with the aim of supporting Italian SMEs. These products offer significant tax breaks for investors.

15. Gross premium revenue for the period amounts to €131.1 million

In terms of the prudential Solvency II requirements, which came into effect from 1 January 2016, an early indication of Poste Vita's solvency position at 31 December 2017 shows that it has own funds of €8,519 million, up approximately €456 million on the €8,063 million of the end of 2016. This reflects the positive impact of financial market trends on the securities portfolio and on technical provisions (a reduction in the spread on government securities and an increase in risk-free interest rates). The growth in own funds was, however, accompanied by an increase in capital requirements of €307 million (from €2,737 million at the end of 2016 to €3,048 million at 31 December 2017), reflecting the increase in capital required to cover technical risk, primarily due to growth of the business (for example, surrender risk under the standard formula), partially offset by the investment diversification policy adopted by the company from the first quarter, which has resulted in an overall reduction in capital requirements in relation to market risk.

As a result of the above trends, whilst slightly down with respect to the figure for the end of 2016 (a decline from 294% to 279% at the end of December 2017), the solvency ratio continues to be well above the regulatory requirement and the market average.

Atlante and Atlante 2 funds

In April 2016, Poste Vita decided to invest approximately €260 million in an alternative investment fund called "Atlante", and, on 27 July 2016, invested approximately a further €200 million in the alternative investment fund named "Atlante II" (now called the "Italian Recovery Fund"). Both funds, which are managed by Quaestio Capital Management SGR SpA, are closed-end funds restricted to institutional investors, and invest primarily in financial instruments issued by banks looking to strengthen their capital and in non-performing loans held by various Italian banks.

At 31 December 2017, the Atlante fund has called up €239.6 million, including €211.9 million allocated to the separately managed account, *PostaValorePiù*, and €27.7 million allocated to the company's free capital, whilst the Atlante 2 fund has called up a total of €101.9 million, allocated in full to the separately managed account, *PostaValorePiù*.

With particular regard to the Atlante fund, the Group, when preparing the financial statements for the year ended 31 December 2016, had already recognised an impairment loss on the investment of equal to approximately 50% (€106 million, including approximately €94 million recognised in deferred liabilities due to policyholders).

Subsequently, in view of the value of the fund's units at 30 June 2017, communicated by the management company, which has quantified the reduction in the nominal value of the investment as approximately 80%, the Group has recognised a further impairment loss equal to 50% of its investment, with the sole exception of the amount invested in the Atlante II fund.

Impairment losses recognised in 2017 total €105 million (€106 million in 2016). Of this amount, €93 million, allocated to separately managed accounts, has been deducted from deferred liabilities due to policyholders, whilst the €12 million relating to the insurance company's free capital has been recognised in finance costs. The total impairment loss recognised in the two-year period from 2016 to 2017 thus amounts to €211 million, with the total finance costs recognised on the investment of Poste Vita's free capital totalling a cumulative amount of €24 million.

As regards the Atlante II fund, the value of the fund's units, as announced by the management company at 30 June 2017 (the latest available figure), reflects the historical cost of the investments.

6. Consolidated non-financial statement

Introduction

On 22 October 2014, the European Parliament and the Council of the European Union approved Directive 2014/95/EU (the Barnier Directive) regarding the disclosure of non-financial information by companies. The Directive was created to improve the uniformity and comparability of non-financial information, and to map and monitor risks associated with business activities and thus facilitate investors' access to such information.

The Directive was implemented in the Italian legal system by Legislative Decree 254 of 30 December 2016, which obliges large companies that are public interest entities to provide a non-financial statement *"insofar as necessary to ensure understanding of a company's activity, its performance, results and the impact it produces"*.

The purpose of Poste Italiane's Non-Financial Statement (NFS or "Statement"), prepared for the first time with reference to the financial year ended 31 December 2017, is to ensure that the Group's organisational model, activities, main risks and performance indicators are understood with regard to environmental, social, personnel, and human rights aspects as well as the fight against active and passive corruption, and that they are relevant to the Company's activities and characteristics.

The main topics relating to business sustainability, which, on the one hand, are key elements for a more in-depth analysis of the Non-Financial Statement and, on the other, are part of the economic and social scenario in which the Poste Italiane Group carries out its mission and tackles its business challenges, are summarised below

Sustainability challenges

Digitalisation, globalisation, new demographic phenomena and lifestyles, climate change and depletion of natural resources, are just some of the current trends. Understanding, interpreting and responding to these social, environmental and economic changes, integrating sustainability into the business to improve competitiveness and ensuring long-term profitability by creating shared value, add up to the challenge companies are facing in the third millennium.

The digital future is now

Digitalisation is a key element for the modernisation and sustainability of a country, as it helps to reduce environmental impacts and meet social needs, such as inclusion, through new ways of accessing information, and products and services. Digitalisation also has an extraordinary impact on business, operating and service models in the various sectors in which the Group operates. In the mail and parcel sector, for example, ways of interacting with customers and suppliers have changed in supply chains that are increasingly complex and integrated by automated digital processes, in order to cope with the rise of e-commerce.

In the financial sector, regarding Payments, Mobile & Digital, new payment methods, faster and more efficient transactions, security and personal data protection have been promoted with the introduction of PSD2 (the Revised Payment Service Directive), the EU directive on the retail payment system, which has been in force since January 2018.

In the insurance sector, the Internet of Things (IoT)¹⁶ enables new offering models regarding e-health, home insurance and third-party motor insurance. Analysis of Big Data also has potential linked to the monitoring of policyholders' behavioural data, which is reflected in innovative policies and services aimed at improving the customer experience.

16. The Internet of Things (IoT) is the expression used to define all electronic equipment and devices, other than personal computers, that are connected to the internet (e.g. cars, fitness sensors, air-conditioning systems, etc.).

Digitalisation creates a need for increasingly advanced protection systems to combat cybercrime via cyber security tools, methodologies and processes to protect personal data, strategic services and the intellectual property of citizens, companies and the Public Administration. Therefore, it is vital that companies adopt adequate prevention and protection systems to safeguard their tangible and intangible assets and those of their stakeholders.

New business approaches to meet the social challenges of the third millennium

Growing life expectancy, a low birth rate and immigration are changing Italian society and the approach to the development of products and services, especially in the banking and insurance sector. Immigration is a structural phenomenon in terms of its size and the effect it has on Italy's economic and social fabric, while financial inclusion is an important incentive for accelerating the process of integrating immigrants. The financial inclusion rate among the adult population in Italy is 87%, while the percentage of adult foreign citizens holding a current account is 73% (source: World Bank).

Health and healthy lifestyles are some of the issues covered by the new insurance sector models that are emerging in Europe, based on incentives for virtuous customer behaviour that can generate positive impacts on the community and insurance companies' costs.

The labour market has entered the "fourth industrial revolution", a set of transformations that, thanks to robotics, digital innovation and artificial intelligence, is changing not only companies' business models, but also the way human capital is used. Today, companies have to manage a complex "ecosystem" of people as a result of the steady rise in the retirement age and the consequent longer period spent in the world of work, which entails the simultaneous presence of five generations who all have different values, experiences and aspirations that need to be managed. Recognising and valuing all forms of diversity has a strategic objective that brings advantages in terms of internal atmosphere, a sense of belonging, productivity and innovation.

Climate change

With the 2016 Paris Climate Agreement, 195 countries committed to keeping the global temperature increase well below 2 degrees Celsius compared to pre-industrial times. It is estimated that emissions of 26 billion tonnes of CO2 equivalent would have to be cut by 2030 to remain below 1.5 degrees. Companies are called upon to assess the possible risks and opportunities (e.g. energy efficiency, sustainable mobility, and green financing and insurance services) associated with their business, taking into account national and international developments.

The postal sector is experiencing a continuous and rapid increase in the volume of parcels in circulation due to the increase in e-commerce, and this affects the need for sustainable transport and logistics to minimise emissions into the atmosphere. The mail segment, which has seen a steady decline in volumes due to the replacement of traditional physical postal services (so-called e-substitution) by electronic services, and the creation of new innovative digital services such as online mail advertising and electronic notification services, can also undoubtedly make a significant contribution to reducing environmental impact.

The creation of shared value

Given the deterioration of ecological balances, the persistence of social inequalities and sustainable de-growth processes, business models are being renewed to create shared value. The shared value approach developed by Michael Porter, a professor at Harvard Business School, is based on the assumption that it is necessary to identify a new model of capitalism, overwhelmed as we are by the economic and financial crises of recent years. Based on their own mission, companies with a public service role are increasingly called upon to redefine productivity in the value chain and evaluate forms of investment that aim to obtain positive results in financial, social and environmental terms, and also to support the nation's economic system. In recent years impact investing, namely investments into companies, organisations and funds with the intention of generating a measurable and favourable social or environmental impact together with or instead of a financial return¹⁷, is becoming more reliable, to the extent that banks, insurance companies and pension funds are unanimously promoting it.

17. Cambridge Associates and Global Impact Investing Network (GIIN).

The topics relevant to us [GRI 102-46 GRI 102-47; GRI 103-1]

Poste Italiane has begun the due process to ensure compliance with the regulatory requirements set out in Legislative Decree 254/2016 which also specifies that the reporting standards – issued by authoritative supranational, international or national bodies, both public and private – used to comply with non-financial reporting requirements should be clarified. The Group chose to adopt the approach recommended by the Global Reporting Initiative (GRI), which is the most widely used standard at international level, given that, in addition to covering the aspects required by the EU Directive and consequently by Decree 254, it expresses the concept of materiality, another important element of convergence with the Decree.

In 2017, the Group carried out a materiality analysis in order to identify the relevant topics to ensure understanding of its activities, performance, results and impact. Indeed, materiality is the threshold beyond which a topic becomes sufficiently relevant to be reported.

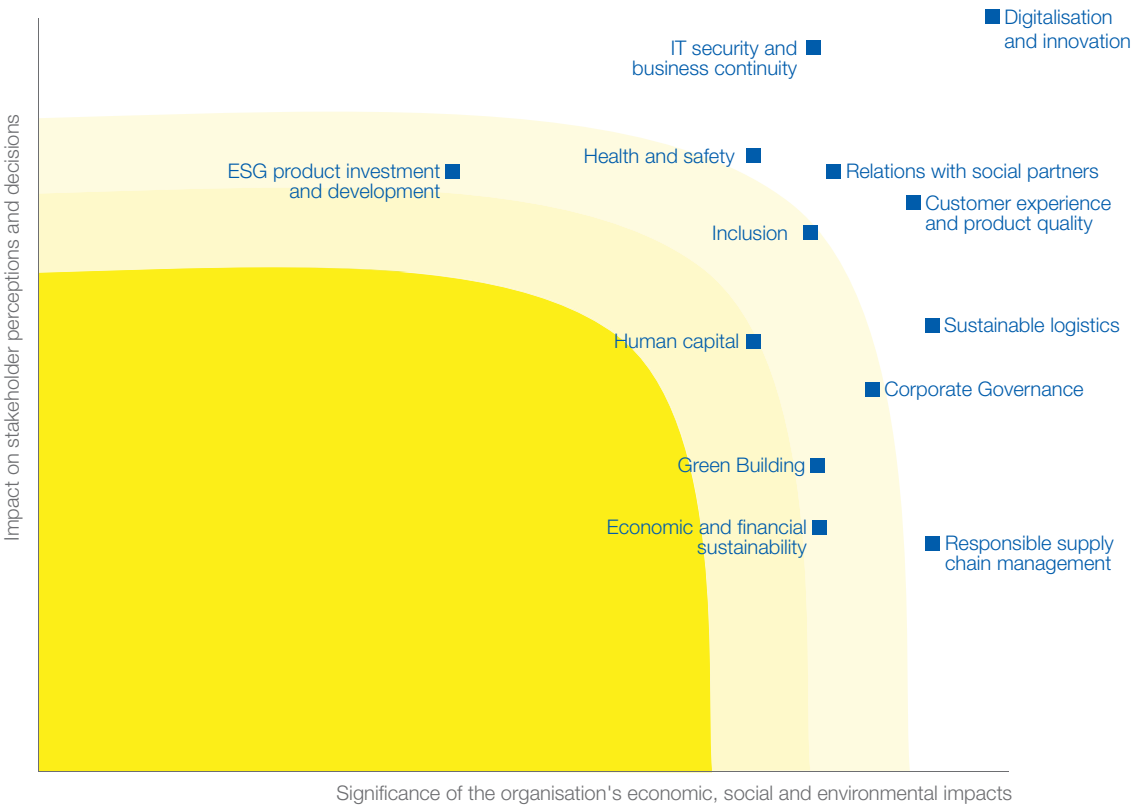
The process that led to definition of the material topics was broken down into three phases:

- **Identification of relevant topics**, based on analysis of the external scenario and comparable companies, sustainability trends, commitments already made by the Group and communicated in public documents, stakeholder expectations, and international standards (Sustainability Accounting Standards Board, RobecoSAM).
- **Attribution of relevance** of the topics identified based on internal analysis of corporate documentation and policies, interviews with the various corporate departments, and the expectations of key stakeholders via listening and engagement initiatives.
- Positioning of the relevant topics within the materiality matrix and **identification of the material topics**.

The Materiality Matrix and a description of the material topics identified and used in the Non-Financial Statement are provided below, except for the topics of Economic and Financial Sustainability and Corporate Governance, which are dealt with in the Report on Operations and in the Report on Corporate Governance and the Ownership Structure.

The impact of the material topics identified are all caused by the organisation, with the exception of the topics relating to sustainable logistics and health and safety, which are also caused by suppliers who operate on behalf of Poste Italiane, accounting for a significant part of the Group's operations.

The Poste Italiane Group’s materiality matrix



| Material topics | Brief description |
|--|--|
| Digitalisation and innovation | Responding to new customer needs through innovation of the products and services provided, as well as of processes, especially via the opportunities offered by digitalisation. |
| IT security and business continuity | <p>Guarantee the confidentiality of customers' data, safeguard intellectual property and protect assets from cyber attacks inside or outside the organisation.</p> <p>Prevent operational disruptions through implementation of disaster recovery plans, and promote the fight against terrorism through data analysis. Plan business continuity through the prevention and management of process interruptions that may cause inconvenience to customers and business partners, as well as loss of revenue.</p> |
| Relations with social partners | Establish relations with labour unions, based on principles of fairness and respect for roles, with the aim of finding shared solutions aimed at achieving growth, competitiveness and business continuity. |
| Health and safety | <p>Ensure high standards of health, safety and security for workers and custo</p> <ul style="list-style-type: none"> ■ in all the Group's premises; ■ on the means of transport used, including by suppliers, for delivery services; ■ when staff are travelling. |
| Customer experience and product quality | Adoption of service models aimed at promoting the quality of the products and services offered. Systematic engagement, satisfaction surveys and effective complaints management, which are essential elements in enhancing the relationship with customers and responding to their needs. Offer a unique and distinctive experience that goes beyond traditional product and service provision. |
| Inclusion | <p>For the Group, inclusion means:</p> <ul style="list-style-type: none"> ■ promoting access to financial and insurance services for the most excluded groups; ■ contributing to the process of integration of the most vulnerable groups; ■ promoting access to new information technologies and digital literacy (e.g. Education 2.0 in schools). |
| Sustainable logistics | Provide logistics solutions that reduce atmospheric emissions and the use of non-renewable natural resources, with particular reference to the mail and parcel delivery sector. |
| Human capital | Identify the best talents, promote training courses and strategies for professional enhancement and development. Protect the Group's intellectual assets, skills, know-how, experience and organisational knowledge. |
| Corporate Governance | Maintain a sound Corporate Governance system consisting of rules, standards, practices and a monitoring system, to reduce the risk of behaviours and decisions that may compromise the organisation's value and operating performance. Comply with current legislation regarding combating all forms of active and passive corruption. |
| Green building | Minimise the environmental impact of the Group's offices and buildings, in terms of energy use, water consumption, waste, and raw material consumption. Promote green procurement by incorporating "minimum environmental criteria" in all phases of the goods and services procurement process. |
| Responsible supply chain management | Guarantee ethical behaviour within the supply chain, with particular reference to: legislative compliance; measures to combat fraud and corruption; working conditions and health and safety; and environmental aspects. |
| Economic and financial sustainability | Guarantee long-term economic results and safeguard the stability, strength and profitability of the Group in the long term. |
| ESG product investment and development | Integrate sustainability into the development of new services and products and incorporate Environmental, Social and Governance (ESG) criteria into investment decisions, in order to create social and environmental value as well as generating profits. |

Our stakeholder [GRI 102-40 GRI 102-41 GRI 102-42 GRI 102-43 GRI 102-44]

The stakeholder dialogue and engagement procedures are based on respect for Poste Italiane's policies and organisational models, which are essential for guiding relations with the various stakeholder categories, taking into account expectations and integrating them within corporate strategies.

The following table shows the main stakeholder categories and engagement methods, as well as the types of activity through which Poste Italiane constantly communicates and interacts, based on an approach that takes into account the legitimacy of a relationship, proximity, influential power and impacts linked to its activities.

Listening tools and engagement with key stakeholders

| Stakeholder | Engagement and communication methods |
|---|--|
| Shareholders, investors and lenders, and the financial community | <ul style="list-style-type: none"> ■ Shareholders' Meeting ■ Road shows and dedicated meetings ■ Financial relations and periodic presentations ■ Corporate Governance Report ■ Company website ■ Press releases |
| Customers | <ul style="list-style-type: none"> ■ Periodic customer satisfaction and customer experience surveys |
| Staff | <ul style="list-style-type: none"> ■ Internal communication tools (newsletters, intranet, mailing, etc.) ■ Internal and external events dedicated to staff |
| Labour unions | <ul style="list-style-type: none"> ■ Periodic meetings ■ First- and second-level bargaining |
| Suppliers | <ul style="list-style-type: none"> ■ Specific meetings |
| Public Sector and local authorities | <ul style="list-style-type: none"> ■ Specific meetings ■ Conferences ■ Corporate communication |
| Central, local and international institutions National/international industry associations and other organisations Supervisory and regulatory authorities | <ul style="list-style-type: none"> ■ Periodic communications ■ Meetings on specific issues and participation in working groups ■ Organisation of events and meetings on specific issues |
| Local communities | <ul style="list-style-type: none"> ■ Partnerships ■ Community projects, sponsorships, donations ■ Dialogue with local institutions |
| Media | <ul style="list-style-type: none"> ■ Press releases ■ Contacts during the launch of relevant projects, publication of documents, interviews, events |

Explanatory notes

[GRI 102-11; GRI 102-45; GRI 102-46; GRI 102-50 GRI 102-51 GRI 102-52 GRI 102-53 GRI 102-54]

Poste Italiane's Consolidated Non-Financial Statement ("NFS" or the "Statement"), which was prepared for the first time with reference to the year ended 31 December 2017 in compliance with the requirements of Legislative Decree 254/2016, and was approved by Poste Italiane SpA's Board of Directors on 29 March 2018, pursuant to art. 3, paragraph 10 of the Decree, requires a separate assurance report from the independent auditors, PricewaterhouseCoopers SpA.

As already mentioned, for the preparation of the NFS the GRI Sustainability Reporting Standards have been adopted, in accordance with the core option, published in 2016 by the GRI - Global Reporting Initiative. The standards' indicators, which correspond to Poste Italiane's material topics, are shown at the beginning of each section and next to the headings of the tables regarding quantitative data linked to the material topics.

It should be noted that Poste Italiane's operational organisational model serves the development of synergies within the Group and provides for the focus of Poste Italiane SpA (the Parent Company) on management and coordination activities.

The terms "Poste Italiane", "Group" or "Company" are used in the NFS to refer to the Poste Italiane Group.

Implementation of the obligations set out in Legislative Decree 254/2016 entails application of new criteria and methods, which may be based on subjective assessments and estimates linked to the Company's specific historical experience and on assumptions that are deemed reasonable and realistic with respect to the relevant circumstances, on a case-by-case basis. Application of these estimates and assumptions might influence the values shown in the NFS, so Poste Italiane has opted to use estimated indicators as little as possible. The estimated data regard certain items relating to energy consumption inside and outside the organisation. In particular, data regarding electricity consumption (for security purposes and relating to out-sourced data centres), natural gas and district heating for the Group's real estate facilities have been calculated taking into account costs incurred and average tariffs, while consumption of diesel and LPG have been estimated on the basis of historical data and the actual amounts pumped into tanks. All the consumption connected with logistics is estimated in terms of distance travelled and/or the average consumption of a vehicle and the load transported, except for company cars.

The Poste Italiane Group will closely monitor upcoming regulatory and interpretative developments, as well as the best market practices that will gradually become available, and assess any consequent effects on possible estimates and the information contained in future non-financial statements.

The scope of reporting includes companies consolidated on a line-by-line basis for financial reporting, and the reporting year is 2017. Comparable quantitative data for 2016 is provided. For each material topic, if applicable, information has been provided on the relevant management and organisational model, policies, including due diligence policies, and the results achieved through their application, as well as certain non-financial performance indicators.

The Poste Italiane Group guarantees its stakeholders that its business will be conducted in line with the objectives set by the Board of Directors, in awareness of the risks that may affect the achievement of these objectives and the value of the Company. The principal risks associated with material topics deriving from the Group's activities are shown in the table below.

| Material topics | Principal risks |
|--|--|
| Digitalisation and innovation | Delayed innovation of products and services offered to customers and of related operating processes, resulting in negative perception of the Company by stakeholders. |
| IT security and business continuity | Malfunctions and/or deficiencies in the security of IT systems that may lead to personal data breaches, loss or impairment of data, operational freezes or slowdowns, and customer service disruptions. |
| Relations with social partners | Risks related to industrial unrest and labour union strikes that may have an impact on business continuity and on stakeholders' perception of the Company. |
| Health and safety | Risks of non-compliance with regulations that protect workers' health and safety, which may lead to criminal, civil and/or administrative sanctions, as well as financial, economic and/or reputational damage to the Company. |
| Customer experience and product quality | Limited satisfaction of business and consumer customers needs, regarding the various products and services, throughout the customer life cycle, as well as provision of poor quality and failure to comply with regulatory and contractual standards, resulting in the payment of fines and penalties. |
| Inclusion | Risks connected with lack of attention to inclusion issues, leading to negative impacts on the Company's reputation. |
| Sustainable logistics | Risks connected with inadequate management of the Group's logistics and production processes, including in terms of environmental sustainability, which might influence stakeholders' perception of the Company. |
| Human capital | Risks connected with a lack of/inadequate staff management in terms of professional enhancement, training and development. |
| Corporate Governance | Risks connected with a Corporate Governance system that is not in line with leading practices, resulting in negative impacts on the Company's reputation. |
| Green building | Risks connected with inadequate management of the Group's buildings, including in terms of environmental sustainability, which may influence stakeholders' perception of the Company. |
| Responsible supply chain management | "Risks connected with relations with suppliers, with possible impacts in terms of compliance and financial damage due to fraudulent behaviour." |
| Economic and financial sustainability | "Deterioration of the Company's reputation in the financial community (rating agencies, investment banks, analysts, etc.) which could have a negative impact on the share price." |
| ESG product investment and development | Risks connected with inadequate assessment of social and environmental impacts in the development of new products and services, which may influence stakeholders' perception of the Company. |

Regarding the material topics identified, compared to the others, the ESG product investment and development topic, which particularly concerns Poste Vita Group companies and Banco Posta Fondi SGR, will follow a more significant development path in the short to medium term, also in line with national and international best practices.

The following table shows the link between the areas specifically required by Legislative Decree 254 and the sections of the NFS in which they are dealt with.

| Legislative Decree 254/2016, art. 3, para. 1, areas | References |
|---|--|
| Energy consumption, water consumption, GHG emissions, polluting emissions, other environmental aspects) | § Green building § Sustainable logistics |
| Aspects relating to personnel management, gender equality, international and supranational employment conventions, dialogue with social partners, impact on health and safety, other personnel matters) | § Human capital § Relations with social partners § Health and safety |
| Respect for human rights | § Inclusion § Responsible supply chain management |
| Social aspects | § IT security and business continuity |
| | § Customer Experience and the quality of products |
| | § Digitalisation and Innovation |
| | § Inclusion |
| | § Responsible supply chain management |
| Combatting active and passive corruption | § Combatting corruption |

The 13 material topics identified above have been grouped into three value areas, which comprise the way in which the Poste Group is integrating sustainability into its core business, including:

- Looking to the future
- Valuing people
- Taking care of the world around us

and are summarised in the following table through the macro-initiatives that are used in applying the values in the Group's operations.

| Topics relevant to us | The forms they take |
|---|--|
| LOOKING TO THE FUTURE | |
| Digitalisation and innovation | Digital transformation |
| | Dematerialisation of contracts and transactions |
| | Dematerialisation of communications |
| | Digitalisation of relations between citizens and the Public Administration |
| | National Traffic Police Violation Centre |
| IT security and business continuity | Permanent security plan |
| | Activities to combat cybercrime and regarding innovation in the security field |
| | Business continuity plans |
| Customer experience and product quality | Relations with consumer associations |
| | Keeping in touch with customers |
| | Post office waiting times |
| Corporate Governance | Fighting corruption |
| | Whistleblowing |
| | The Audit, Risk and Sustainability Committee |
| Economic and financial sustainability | Directors' Report on Operations: - Group operating and financial performance - Operating results by sector of activity |

| Topics relevant to us | The forms they take |
|--|---|
| VALUING PEOPLE | |
| Relations with social partners | National Collective Labour Agreement |
| | Paid leave for union duties |
| | Labour union safeguards |
| | Bilateral Agencies |
| | European Social Dialogue |
| | Strengthening of sorting and delivery processes |
| Health and safety | Vehicle safety |
| | Post office security |
| | National security |
| | Security training for staff |
| | Occupational injuries |
| Human capital | Poste Italiane's workforce numbers |
| | Development activities |
| | Professional training programmes |
| Responsible supply chain management | Occupational injuries |
| | Social and environmental clauses in contracts |
| | Green procurement |
| | Transparency |
| TAKING CARE OF THE WORLD AROUND US | |
| Inclusion | Equal opportunity access to services |
| | Cultural integration |
| | Financial inclusion of citizens in difficulty |
| | Inclusion of minors |
| | <i>Il Risparmio che fa Scuola</i> (savings education project) |
| | Inclusion of senior citizens |
| | Insurance inclusion |
| | Gender inclusion |
| | Equal Opportunities Committee |
| Sustainable logistics | Inclusion of disabled people |
| | Energy consumption and emissions |
| | Partnerships at international level |
| | Waste management |
| | Water |
| Green building | Postel – the materials used |
| | Mail and parcels logistics |
| | Vehicle fleet numbers |
| | Logistics under contract |
| | Mistral Air aircraft fleet |
| ESG product investment and development | Mobility management |
| | To be defined in the next sustainability plan |

Looking to the future

Digitalisation and innovation

Responding to new customer needs through innovation of the products and services provided, as well as of processes, especially via the opportunities offered by digitalisation.

Against a backdrop of change that requires development of its business and, above all, focusing on its customers, Poste Italiane has launched an important process of digitalisation involving the entire Group, given the complexity and variety of the sectors in which it operates. To this end, the Company has identified organisational responsibilities and adopted specific policies to ensure adequate oversight of the issue.

The importance given to aspects relating to innovation and digitalisation of business processes and of the products and services provided is confirmed by the Group's mission, which is a *driver for inclusive development in Italy, accompanying citizens, businesses and the Public Administration on the road towards the new digital economy by offering simple, high-quality, transparent and reliable services.*

The commitment to digital innovation is translated into concrete terms in the Deliver 2022 Strategic Plan, which presented the new corporate organisation with the establishment of a new Payment, Mobile & Digital operating segment, created to best meet the competitive challenge that will arise with implementation of the new European PSD2 directive.

Digitalisation

Digital initiatives improve process efficiency and customers' perception of quality, and enable reductions in environmental impacts relating, for example, to travel and paper consumption.

Digital is now a key driver in the relationship with consumers who interact with Poste Italiane using multiple channels, both physically through the network of 12,822 post offices and 28,635 postmen and women, and using the website via computers and apps for smartphones or tablets.

The digitalisation process aims to enhance the post office network, develop multi-channel access methods and tools to interpret and anticipate customer needs, qualify the Company as a key stakeholder for the Public Administration, and encourage the inclusion and development of the digital economy. The main services that have been implemented it in recent years include:

Financial and insurance services

- the payment portal, which may be accessed from the poste.it website, is a single environment where users can easily pay bills, utilities and charges to companies and the Public Administration, and have the receipts delivered directly to their mailboxes;
- the new platform in the home banking area of the Poste.it/consumer website;
- Ordinary and Smart Postal Savings Books which may be issued in paper or dematerialised form, as may Interest-bearing Postal Certificates;
- the Remote Banking BancoPostaImpresa Online (BPIOL) service, dedicated to professional and entrepreneurial activities, the non-profit sector and the Public Administration;
- the Poste Vita pension simulator, a digital platform that enables users to assess their pension contributions situation and build up supplementary pension income by constantly monitoring results obtained.

Postal services

- the Digital Pick-up service for undelivered registered mail, which enables the addressee to collect a registered item in the event of non-delivery due to the addressee's absence, as an alternative to the physical process, via the SPID enabled PostelD Digital Identity service;
- the Electronic Postman service, which enables direct payment of pre-paid bills for the main utilities to postmen and women at one's own home, topping up telephone and Postepay cards, and booking collection of registered mail or a PosteMobile SIM card by making an appointment on the toll-free number 803.160 or via the www.poste.it website;
- hybrid electronic mail, which breaks down into these phases: electronic acceptance, electronic sorting, printing, enveloping and delivery of a message in paper form.

Across all business segments, and therefore by distribution channel

- Postepay, BancoPosta, Post Office and PostelD apps, which enable various functions, including management of BancoPosta current accounts and Postepay prepaid cards; telephone top-ups; the payment of bills; booking your turn at a post office counter; sending money in Italy and around the world (p2p); secure online access to public services; tracking sent parcels and mail; and sending telegrams, registered mail, mail and parcels on the move;
- free Wi-Fi available at 4,119 post offices (32% of the total), 895 of which were activated in 2017 alone, and may be accessed with a single registration for a maximum of three hours per day;
- VoIP technology installed at 7,100 post offices, which makes it possible to have a telephone conversation via an internet connection.

Digital services in numbers

| Category | 2016 | 2017 |
|--|---------|---------|
| Customers registered on Poste Italiane's digital channels (websites and apps) (millions) | 12.5 | 15 |
| Digital identities issued (millions) | 0.6 | 1.8 |
| Postepay apps downloaded ^(*) (millions) | 4.4 | 6.1 |
| Bancaposta apps downloaded ^(*) (millions) | 2.1 | 3 |
| Post Office apps downloaded ^(*) (millions) | 0.8 | 1.8 |
| PostelD apps downloaded ^(*) (millions) | 0.7 | 1.4 |
| PosteMobile apps downloaded ^(**) (millions) | 2.0 | 2.7 |
| Transactions carried out via consumer digital channels (websites and apps) ^(***) (millions) | 33 | 39 |
| Focus – Poste Vita customers | | |
| Poste Vita Insurance Group customers registered in the reserved area (no.) | 316,436 | 417,657 |
| Customers who use Poste Vita and Poste Assicura services via mobile devices (%) | 28.1 | 31.6 |

(*) App downloads refer to iOS and Android users who have downloaded the app from the launch of the first version until the date indicated (31 December 2016 and 31 December 2017).

(**) App downloads refer to iOS, Android and Windows users who have downloaded the app from the launch of the first version until the date indicated (31 December 2016 and 31 December 2017).

(***) Including SEPA and overseas bank transfers and certified transfers qualifying for tax relief, giro transfers, the electronic payment of bills, tax returns, Postepay top-ups, Moneygram, money transfers, telephone top-ups.

Dematerialisation of contracts and transactions

The Electronic Management of Contracts and Transactions (EMCT) project aims to implement complete electronic processing, which will enable elimination of the printing and paper storage of millions of pages of documents in post offices, and notification of customers via email regarding their contract copy with the introduction of electronic originals signed by electronic signature and stored in accordance with regulations. In 2017, dematerialisation procedures were extended to new contracts and transactions.

At the end of 2017, the new dematerialised management procedures were extended to 9,943 post offices (78%) and approximately 5,000 Consulting Rooms (75%) and now cover 90% of the main procedures carried out by customers and 96% of the corresponding transactions.

The environmental benefits include lower consumption of resources (paper) and waste generation (toner cartridges), less energy used for printing, and reduced CO2 emissions. In terms of improved operational efficiency, benefits include more rapid consultation of documents and quicker access to information, and shorter response times for checks and assessments. For customers, dematerialisation means that the process of entering into a contract is simplified (e.g. opening a current account in real time).

Dematerialisation of procedures and corresponding transactions

| Types of procedure (data in thousands) | 2016 | | 2017 | |
|---|----------------|------------------|----------------|------------------|
| | No. Procedures | % dematerialised | No. Procedures | % dematerialised |
| Certificates | 819 | 89% | 1,289 | 94% |
| Current accounts | 705 | 84% | 417 | 86% |
| Savings Books | 417 | 78% | 674 | 93% |
| Postepay Evolution * | - | - | 1,227 | 91% |
| Life insurance policies* | - | - | 274 | 70% |
| MiFID | 1,270 | 96% | 2,571 | 96% |
| Poste Mobile | 22 | 44% | 815 | 70% |
| Total procedures ** | 3,233 | 89% | 7,267 | 90% |

| Corresponding transactions *** | 2016 | 2017 |
|--|-------|-------|
| Total transactions (millions) | 28.0 | 31.5 |
| Total electronic transactions (millions) | 27.0 | 30.3 |
| Dematerialised transactions (%) | 96.4% | 96.2% |

* Dematerialisation services activated in the second half of 2016.

** The increase in the volume of dematerialised procedures in 2016 and 2017 is linked to the increase in the number of post offices equipped to handle them (around 8,000 in 2016 and around 10,000 in 2017), and to the addition of new types of contract.

*** The increase in the volumes of electronic transactions in 2016 and 2017 is due to the "digitalisation" of certain transactions, resulting in the elimination of receipts. Indeed, in 2017, digitalised transaction volumes totalled approximately 30 million.

Dematerialisation of communications

The Group company, Postel SpA, provides communications services to businesses and Public Administration entities, offering a full range of services including mass printing and enveloping, electronic document management, direct marketing and commercial printing. Postel provides its customers with a technology platform for the digitalisation of communications and document management processes, enabling the dematerialisation and electronic processing of documents – including receipt, creation, collation, classification, storage and custody – regardless of the method or channel through which they arrive at the Company.

Communications are stored electronically at the Postel Data Centre and made available to the addressee. The dematerialisation of mail enables verification and monitoring of the receipt of sent documents at all stages of the process.

Moreover, the Digital Pick-up service enables addressees to digitally collect registered mail that was undelivered due to their absence, as an alternative to the physical process.

Digitalisation of relations between citizens and the Public Administration

With a view to simplifying relations, Poste Italiane, which acts as an intermediary between citizens and the Public Administration, operates as an Identity Provider, via the PostelD Digital Identity service, which is enabled by the Public Digital Identity System (SPID).

The SPID enabled **PostelD Digital Identity** service enables users to create a digital profile to access all of Poste Italiane's online services and apps, as well as the services of Public Administration entities and private providers that are registered users of SPID. A SPID enabled PostelD Digital Identity may be applied for online by all adult Italian citizens who have been visually recognised at a Poste Italiane post office, as they have previously purchased, for example, a BancoPosta financial product, or have a National Services Card (NSC), an Electronic Identity Card (ICE), or a digital signature, or have directly registered online at a post office, or at home using a postman or woman's palmtop computer, for those citizens who do not have a recognised online identification device.

The **Sportello Amico** network, which is present in 5,734 post offices (45%), offers services including payment for healthcare, the printing of birth, death and other certificates, the issue of land surveys, and the issue or renewal of Electronic Residence Permits. In 2017, 894,000 residence permit applications were handled, and subsequently dematerialised and sent to the relevant police headquarters.

National Traffic Police Violation Centre: The Group supports the Traffic Police in the management of the entire fines process relating to offences deriving from automatic detection systems (Tutor), by providing an IT platform to support the authority with regard to complete digitalisation of all incoming procedures. This platform enables a reduction in document processing time, and thus reduces the time required to respond to complaints and contributes to optimal use of the Public Administration's resources.

The Centre handles an average of 1,200 procedures per day, 60% of which are paper and 40% via certified e-mail, with an annual total of over 700,000 records.

IT security and business continuity

Guarantee the confidentiality of customers' data, safeguard intellectual property and protect assets from cyber-attacks inside or outside the organisation. Prevent operational interruptions by implementing procedures regarding the management of security incidents and disaster recovery plans, with a view to preventing and managing process interruptions that could cause inconvenience to customers and business partners, as well as a loss of revenue.

Poste Italiane has always considered IT security and business continuity to be priority and strategic components, due to the nature of the services offered and the large number of customers served. Therefore, the Company has identified organisational responsibilities and adopted specific policies to ensure adequate management of the topic.

The main objective in managing IT security is to guarantee adequate levels of confidentiality, integrity, and availability of the data and services provided. In order to pursue this objective, in addition to technological measures, organisational and regulatory provisions have also been adopted for operating processes, thus guaranteeing an adequate level of protection, as well as a constant flow of information to internal auditing bodies and/or the relevant authorities.

To monitor the risks relating to information security and information systems, within the Corporate Protection function:

- a single contact person, the Chief Information Security Officer, has been identified for risk connected with IT security;
- integrated management of cyber security risk is in place;
- greater operating effectiveness and efficiency is guaranteed by reducing the fragmentation of operating processes among functions.

The IT security framework adopted by Poste Italiane breaks down into various levels of intervention:

- The IT Security Policy is the documentation system through which objectives and strategic guidelines are expressed, aimed at directing the security management of IT resources and processes that support business services, in order to contain, within predefined acceptable limits, the risk of compromising their confidentiality, integrity and availability, in terms of business protection and also in contributing to the fight against cybercrime incidents.
- Assessment of IT risk, aimed at identifying and evaluating potential breach scenarios regarding the confidentiality, integrity and availability of ICT resources that support business services, as well as guiding the implementation of appropriate vertical risk reduction measures on applications and individual IT assets (middleware, operating systems, databases, etc.) in accordance with the IT risk propensity threshold defined for the business services which use the ICT resources concerned.
- The Permanent Security Plan (PSP), consisting of all the cross-cutting interventions and technological projects required to guarantee the presence, update and correct functioning of security platforms, to provide operational security processes, and to carry out all the necessary checks and assessments to maintain the risk profile at acceptable levels over time;
- Security by Design activities which – during the analysis, design, implementation and production phases of new services or modification of existing services, as well as within the change processes of IT systems – are aimed at identifying the security requirements to ensure adequate protection of the ICT resources involved. The ultimate goal of Security By Design activities is to affect the entire value chain and ensure compliance with legal regulations and IT security standards, as well as to integrate IT security within IT and service creation processes.
- Cross-cutting security technology infrastructure. The security infrastructure platforms serve to guarantee and protect corporate IT resources against targeted cyberattacks, while at the same time ensuring the Company's compliance with laws and regulations.
- Management of IT security incidents regarding prevention of, response to and management of IT security incidents through a single synthesis and activity coordination hub, via integrated management of information flows deriving from the various IT security controls, thus providing a single operational interface for security information sharing activities externally, and continuous security support internally.
- Third party certification. Faced with external influences, due to the increasing complexity of the business and changes in legislation and regulations, as well as developments in the internal environment, aimed at boosting technological leverage and raising the quality of its offering, Poste Italiane guarantees structured oversight of quality issues in the IT and security areas. This oversight is based on the application of an Integrated IT and Security Quality Management System that incorporates the aspects highlighted by international standards and industry benchmarks.
- Innovation projects in the security area. Poste Italiane pursues innovation in the field of IT security by carrying out scenario studies and research into vertical security issues, with a specific focus on identity management, mobile security and distributed ledgers (blockchain technology).

Specifically, the **Information Security Policy** contains the strategic IT security management guidelines that all Group companies have adopted with respect to the specific nature of their business. The policy defines security objectives and requirements regarding regulatory and voluntary compliance with industry standards and best practices. Based on this policy, a documentation system has been defined, including: safety requirements and rules, technical and organisational standards, procedures and instructions that explain the operating procedures of safety processes, and details of the tasks and activities performed by operating personnel.

Poste Italiane has obtained certification for its integrated management system regarding IT and security service provision processes, **in accordance with the ISO 27001** (IT Security), **ISO 20000** (IT processes) and **ISO 9001** (Quality international standards).

IT risk analysis is aimed at identifying and assessing potential breach scenarios regarding the confidentiality, integrity and availability of the ICT resources that support business services. The methodology is broken down into several macro-phases involving identification of analysis areas and the related scope of the assets, identification and assessment of impacts, threats and vulnerabilities, calculation of potential risk, actual risk and the treatment of residual risk.

With particular attention paid to the scope of Bank of Italy Circular 285/13, the annual IT risk analysis update regarding BancoPosta's ICT assets was carried out, including a focus on the assets that support online payment services in compliance with Guideline 2.1 issued by the European Banking Authority (EBA).

This activity led to preparation of a Synthesis Report on IT risk analysis for 2017, which was approved by Poste Italiane's Board of Directors in December.

Through **Security by Design** activities, the Group identifies requirements relating to the design of a new service or the modification of existing services, with the aim of safeguarding ICT resources throughout the value chain. With regard to aspects relating to Security by Design, security requirements were provided for more than one thousand development initiatives.

In addition, security requirements were provided not only for IT but also for the process relating to provision of new business products and services during the “Service Creation” phase, including SPID, the new Poste.it Business portal, and Personal Financial Management in the BancoPosta app.

In compliance with current legislation regarding data security, and the prevention and combating of cybercrime, specific **incident handling** procedures have also been set up regarding the prevention, management and escalation of cyber security incidents that cause damage to the Company's IT assets, violation of internal policies and/or regulations, and the loss, modification or unauthorised disclosure of or illicit access to personal data transmitted, stored or otherwise processed. The management of IT security incidents is formalised via a specific operating procedure that enables security incidents to be monitored and dealt with.

Regarding **personal data protection**, Poste Italiane has adopted preventive security measures to minimise the risks of destruction, loss, unauthorised access and unauthorised processing of personal data, in compliance with the requirements of Legislative Decree 196/2003.

GRI 418-1 Privacy violation and data leaks

| | 2016 | 2017 |
|---|-----------|----------|
| Total number of complaints received regarding violations of privacy | 12 | 6 |
| Number of complaints received from third parties and recognised by the organisation | 12 | 6 |
| Number of complaints received from regulatory bodies | 0 | 0 |
| Total number of breaches of customer privacy and losses of customer data identified | 0 | 0 |

Permanent security plan

The 2015-2019 Permanent Security Plan (PPS), which is revised and updated annually, has been drawn up to manage important IT security activities, initiatives and projects, in order to protect ICT resources and to adapt the countermeasures provided for by the various regulations and reference standards. It deals with the continuous evolution of IT risks on a permanent basis, and includes processing activities as well as projects regarding implementation of cross-cutting technological infrastructures to support all the services provided.

In 2017, a series of project initiatives were managed and monitored at the 11 sites where the permanent plan is in place, thus enabling various initiatives to be completed:

1. IT Security and Risk Assessment
2. Infrastructure security
3. Environment segregation
4. Applications security

5. User Identity and Access Management (IAM)
6. Digital security
7. Critical applications security
8. ICT security compliance
9. Environment certification security
10. Internal auditing system
11. Corporate customers' security

In addition to the implementation projects, the initiatives that have been fully deployed include:

- the **Secure Code Review**, which entails a security review of the application code to ensure that security checks are in place, that they execute what has been requested, and that the code has been developed in line with the principal secure development best practices.
- the process of **masking personal data** in a non-production environment, guided via the SeDaM (Secure Data Masking) platform, which is aimed at reducing the risk of exposure of real production data to third parties and/or unauthorised parties through processes and procedures to reduce the use of real data in non-production environments, to anonymise real data in non-production environments, and to mask said data.
- activities regarding the security of all apps displaying trademarks attributable to Poste Italiane that may be used through official (Google Play Store and Apple Store) as well as alternative markets, with the aim of analysing the types of data collected and possibly transmitted, and preventing customers' exposure to direct or indirect violations (e.g. fraud or reputational damage) attributable to their misuse.

Combating cybercrime and innovation in the security field

In recent years, the Company has set up three technological hubs to guarantee and monitor cyber security:

Poste Italiane's **Computer Emergency Response Team (CERT)** is made up of a team of security experts and is responsible for coordinating all activities to respond to computer emergencies. The CERT is aimed at security specialists and large organisations, as well as customers and consumers, to whom it offers its experience and expertise to ensure that the internet is used correctly. In particular, the Centre deals with prevention, analysis and protection from cyber threats; it coordinates all activities in response to cyber emergencies and builds up relations with private individuals with a view to sharing knowledge in the field of cyber security. For example, information sharing in 2017 enabled useful information to be shared on newly detected threats and related Indicators of Compromise (IoC), with regard to specific threats, attacks and vulnerabilities with a potential impact on the Company's infrastructure and assets.

The **Security Innovation Lab** set up in Trento in collaboration with the Italian hub of EIT Digital – a core partner of the European Institute of Innovation and Technology (EIT) – is engaged in applied research and has launched numerous project initiatives as part of the European FP7 programmes – the Seventh Framework Programme for Research and Technological Development – and Horizon 2020, the European Framework Programme for Research and Innovation (2014-2020).

The **Cyber Security Technological Cluster** in Cosenza, set up as part of the Research and Competitiveness 2007-2013 National Operational Programme financed by the Ministry of Education, Universities and Research. Its purpose is to implement solutions to safeguard electronic payments. The Cluster's primary objective is to study, define and implement models, methodologies and developmental prototypes for the analysis of cyber threats and the protection of personal data, in order to enhance Poste Italiane's defence and response capabilities and ensure effective and efficient management of privacy matters within the Group, also by virtue of the issue of EU data protection regulations (EU Regulation 2016/679).

In recent years, Poste Italiane has also launched several IT security projects financed via EU programmes, including the Waffle project as part of the EU's EIT Digital 2017 initiative to prevent phishing attacks aimed at persuading users to reveal their confidential information and then steal their identity.

The objective is to manage – from a protection but also and above all from a prevention perspective – new emerging risks in a

context that for business growth requires products, processes and services with innovative characteristics, new technologies, and a high level of competitiveness. Participation in these projects has brought technological, procedural and economic benefits, as well as enabling Poste Italiane to be part of a network of over 50 partners in the various member countries, including universities and research centres, public institutions (ministries and agencies) and private companies.

Poste Italiane's commitment to cyber security is also reflected in its participation in international sectoral organisations, including the European Electronic Crime Task Force (EECTF)¹⁸ and the Global Cyber Security Center (GCSEC)¹⁹.

During 2017, the Company also organised various training activities, which were carried out via 7 workshops that regarded the new Privacy Regulations and their requirements, information resilience and business protection, the Internet of Things, the human factor and cyber security, open data and data science, security in the new digital bank, and finally the issue of trust in the digital age.

Business continuity plans

Pursuant to Bank of Italy Circular 285/13, the Group has developed the following plans, which are held ready to be activated:

- a **BancoPosta Business Continuity** plan, which aims to illustrate the decisions made with regard to strategic and organisational issues and the assignment of roles and responsibilities with regard to business continuity;
- a **Disaster Recovery** plan, which defines technical and organisational measures to deal with events that could cause the unavailability of data processing centres that support operations;
- a **Crisis Management** plan aimed at supporting the various corporate actors involved in an emergency situation that impacts financial services.

Business continuity plan resources

| | 2016 | 2017 |
|--|------|------|
| Investment (€m) | 4.1 | 3.6 |
| Drills (no.) | 4 | 5 |
| Number of persons involved | 180 | 180 |
| Mainframe services (open services under development) covered by disaster recovery plans (%) | 100% | 100% |

Investment refers to business continuity management and technology disaster recovery planning.

18. Founded in 2009 by Poste Italiane, in agreement with the Postal and Communications Police, the Department of Public Security of the Ministry of the Interior and the United States Secret Service, with the aim of building a strategic alliance at European level to suppress and prosecute activities related to cybercrime.

19. Not-for-profit organisation, created to promote cyber security in Italy and the rest of the world. The Centre was founded and financed by Poste Italiane and other associated companies.

Customer experience and the quality of products

Adoption of service models aimed at promoting the quality of the products and services offered. Systematic engagement, satisfaction surveys and effective complaints management, which are essential elements in enhancing the relationship with customers and responding to their needs. Offer a unique and distinctive experience that goes beyond traditional product and service provision.

Poste Italiane's approach to quality is based on the principle of providing simplified and transparent information to customers, and the equality and impartiality of the services provided to all customers without discrimination.

Poste Italiane has identified organisational responsibilities and adopted specific policies to ensure adequate management of this issue.

The objective is to guarantee a qualified and competent response to the needs of customers and the market, via adoption of technological and organisational solutions. The commitment to quality and the Customer Experience is specifically implemented in the areas of responsibility assigned within the organisation. In order to strengthen the supervision of product quality, the Corporate Reliability function was established, which, among other things, is responsible for verifying the actual compliance of operating and commercial processes with the service levels set out in the quality and performance indicators.

A quality management system has been adopted in compliance with the ISO 9001 international standard, in all the sectors in which the Group operates.

Two new customer experience indicators were introduced into the Company in 2015: the Net Promoter Score (NPS) to measure the performance of business units (BancoPosta, Mail, Communications and Logistics and Poste Vita) and the Customer Effort Score (CES) to monitor the various channels (post offices, call centres and the internet).

Based on the information from customer surveys, a detailed analysis and priority list is developed, which is useful for planning improvement activities.

The Company also set out a customer-centred design process, aimed at obtaining simple and effective user interaction at the various touch points (including post office layout, apps and the internet), which puts customers at the centre of design activities, involving them from the outset through needs analysis, and verification of the concept and the usability of the prototypes created.

Since 2016, improvement of the process of monitoring the quality of customer relations has been integrated with Lean Six Sigma methodology, which is based on analysis of a large amount of data and the use of statistical tools to identify the causes of problems encountered by customers.

The quality of the Universal Postal Service

| Product | Delivery within | 2016 | | 2017 | |
|-----------------------------------|-----------------|--------|--------|--------|--------|
| | | Target | Actual | Target | Actual |
| Posta 1 - Priority | 1 giorno | 80.0% | 83.9% | 80.0% | 82.2% |
| Posta 1 - Priority | 4 giorni | 98.0% | 99.2% | 98.0% | 99.1% |
| Posta 4 - Ordinary ⁽¹⁾ | 4 giorni | 90.0% | 96.0% | 90.0% | 91.2% |
| Bulk mail | 4 giorni | 90.0% | 97.0% | 90.0% | 96.7% |
| Registered mail | 4 giorni | 90.0% | 97.0% | 90.0% | 95.1% |
| Insured mail | 4 giorni | 90.0% | 99.8% | 90.0% | 99.6% |
| Standard parcels | 4 giorni | 90.0% | 96.8% | 90.0% | 92.2% |

(1) Based on data certified by IZI at the request of AGCom.

The relationship with consumer associations

In 2011, Poste Italiane and representatives of the 19 consumer associations that belong to the Advisory Committee signed a framework agreement, which was renewed in 2014, that defined rules for dialogue and established Cantiere consumatori, a permanent advisory working group, aimed at constantly improving the quality of the products and services offered to customers. The agreement guarantees stability in relations with consumer associations, and has boosted dialogue and cooperation. The permanent working group has given rise to various projects to provide joint information to customers on important issues such as new products, tariffs and service reorganisation, while settlement procedures have continued to be a tool for the amicable settlement of disputes. Since 2015, settlement procedures have been part of the AGCom (Italian Communications Authority) dispute management system and are among the list of alternative dispute resolution (ADR) procedures recognised by law, including with regard to the European Union. In the last two years, Group company settlement procedures have generated a total of 3,043 applications for conciliation, of which 2,452 have been discussed. Taking into account the outcomes over the last two years, agreement has been reached by the parties in 75% of cases.

Settlements

| | 2016 | 2017 |
|--|--------------|--------------|
| Retail postal product disputes discussed | 678 | 831 |
| <i>of which settled</i> | 88% | 84% |
| Business postal product disputes discussed | 37 | 94 |
| <i>of which settled</i> | 68% | 88% |
| Bancaposta product disputes discussed | 352 | 370 |
| <i>of which settled</i> | 51% | 49% |
| PosteMobile product disputes discussed | 17 | 38 |
| <i>of which settled</i> | 71% | 61% |
| IRS Real Estate Fund disputes discussed | n.a. | 35 |
| <i>of which settled</i> | n.a. | 100% |
| Total disputes discussed | 1,084 | 1,368 |
| <i>of which settled</i> | 811 | 1,022 |

Keeping in touch with customers

The cooperation of customers in the submission of complaints is essential in identifying and eliminating the causes of inconveniences and putting in place the necessary corrective actions to improve processes. All Group companies have implemented specific procedures that set out principles and rules for handling complaints, which are approved and periodically reviewed by the Boards of Directors.

In 2017, the “Poste Risponde” Contact Centre handled more than 26 million contacts (21 million in 2016). Assistance is provided regarding financial and postal services, insurance and pension services and the mobile telecommunications services provided by Poste Mobile. In 2017, two new toll-free numbers were dedicated to customer care and the start-up of Health Card-related services at post offices. Customer care campaigns were conducted, involving approximately 15,000 calls aimed at gathering opinions on specific after-sales processes.

In 2017, Poste Italiane and 12 other large companies signed a memorandum of understanding regarding call centres, which set out good social and commercial practices for managing customer contact services, either directly or indirectly. The objective is to limit relocation “by setting the threshold for services provided in Italy at 80%”, and also by establishing that “95% of direct activities are carried out in Italy within six months of signing a contract, and that for new contracts at least 80% of the outsourced activities are carried out in Italy”.

Customer complaints by type

| Post offices | 2016 | 2017 |
|---|---------|---------|
| Complaints received (no.) | 9,880 | 10,096 |
| Average reply time (days) | n.d. | 32 |
| Mail | | |
| Complaints received (no.) | 96,177 | 89,681 |
| Average reply time (days) | 22 | 34 |
| Parcels | | |
| Complaints received (no.) | 92,300 | 122,580 |
| Average reply time (days) | 21 | 14 |
| Financial services | | |
| Complaints received* | 60,961 | 76,107 |
| Average reply time (days) | 35 | 21 |
| Insurance services | | |
| Complaints received (no.) | 3,658 | 2,577 |
| Average reply time (days) | 16 | 16 |
| Investigations initiated by the Insurance Regulator (no.) | 299 | 169 |
| Poste Mobile complaints | | |
| Mobile telephone complaints received** (no.) | 141,356 | 33,098 |
| Average reply time (days) | 12 | 3 |
| Landline complaints received (no.) | n.a. | 469 |
| Average reply time (days) | n.a. | 6 |

* The increase in BancoPosta complaints (the figures do not include appeals to the extrajudicial Financial and Banking Ombudsman and Financial Disputes Ombudsman) primarily regarded these products: Savings Books, due to the lowering of interest rates and an increase in the number of ISEE (Equivalent Economic Status Indicator) checks on deposits; prepaid cards due to the gradual introduction of Postepay Evolution, which offers more services to customers; Interest-bearing Postal Certificates, due to customers' differing yield expectations.

** The high volume of mobile telephone complaints in 2016 is connected with technical malfunctions occurring during initial trials of the mass migration of customers from the ESP to the FULL platform. In 2017, complaints decreased thanks to certain measures taken, implemented from the end of 2016.

Post office waiting times

The new queue management system, present in 2,948 post offices (23%), is a multi-channel system that cuts service provision and use times by scheduling priorities and flows based on the number of users in a queue. The new technology enables the use of various channels to access a post office, including a service selection kiosk, a reader for BancoPosta, Libretto and Impresa cards, digital channels (apps and websites) for booking appointments, and QR code scanning for collecting mail and parcels held at post offices.

Customers' experience in post offices

| | 2016 | 2017 |
|--|------|------|
| Average waiting time in post offices (minutes) | 8.61 | 8.97 |
| Customer served within 15 minutes (%) | 82.9 | 81.9 |
| Waiting times (1-10)* | 7.9 | 8.0 |
| Overall post office experience* | 8.4 | 8.7 |

* Source: Post Office Barometer 2017, 5,069 interviews with post office users, Doxa.

Combatting corruption

Comply with current legislation regarding combatting all forms of active and passive corruption.

Corruption is an unacceptable obstacle to business efficiency and fair competition. Poste Italiane has identified organisational responsibilities and adopted specific policies to ensure appropriate management of this issue. To this end, the Company has set up a Fraud Management and Security Intelligence function, which is an operational and functional reference point for corporate structures to report illegal or suspicious events, and constantly provides an anti-fraud service engaged on several fronts: analysis and assessment of fraud risks; direct collaboration with the police, the judicial police and the judicial authorities; support for other corporate functions such as business and money laundering prevention; in-depth digital forensics analysis for IT incidents; implementation of project initiatives aimed at ensuring improvement of security levels and supervision of activities designed to prevent, mitigate and combat fraud; activities for detecting, monitoring and combatting fraudulent attacks on digital service customers and on the physical channel; monitoring and blocking suspicious/fraudulent transactions; reporting aimed at monitoring performance levels and fraud trends; specialist anti-fraud support for the analysis and definition of security requirements for new products and services. In addition, it provides support to the Supervisory Board regarding investigations of reports of offences, as provided for by Legislative Decree 231/01.

In line with national and international best practices and the relevant legal and regulatory framework, in 2016 and 2017, during the risk assessment phase the Internal Auditing function analysed 100% of the processes, identifying 30 processes at risk of corruption, including the procurement process, corporate finance and human resources management. Moreover, by carrying out audits, the Internal Auditing function has guaranteed various coverage levels for processes at risk of corruption, which in 2017 amounted to 94%.

Percentage of coverage* of processes at risk of corruption by auditing initiatives [GRI 205-1]

| | 2016 | 2017 |
|-----------------|------|------|
| High coverage | 67% | 94% |
| Medium coverage | 33% | 3% |
| Low coverage | 0% | 3% |

* The coverage represents the number of audits as a percentage of total corporate processes.

Total number of employees involved in specific training activities regarding corruption prevention issues*

| | 2016 | 2017 |
|--------------------|---------------|---------------|
| Total staff | 99,963 | 56,052 |
| <i>of which:</i> | | |
| Executives | 179 | 261 |
| Middle managers | 12,441 | 6,726 |
| Operational staff | 87,343 | 49,065 |

* The content on this matter in the online course on "Legislative Decree 231/01" was considered to be anti-corruption training.

Whistleblowing

Whistleblowers are employees who decide to report illegal conduct or a danger that might damage their organisation of which they have become aware during the course of their work. Ensuring the necessary protection measures and, even more, encouraging workers to report, can be decisive in combating corruption.

Poste Italiane has adopted guidelines (available on the Company's website at www.posteitaliane.it) aimed at regulating the internal whistleblowing system, regarding reporting, including anonymously, of actions or events relating to:

- violations of the internal and external rules that govern Poste Italiane's business and/or of the principles and rules of conduct contained in the Code of Ethics;
- illicit or fraudulent conduct carried out by employees, members of corporate bodies, or third parties (suppliers, consultants, collaborators, etc.) that may directly or indirectly cause business or financial damage and/or damage to the Company's image.

The aim is to encourage the spread of ethical behaviour in the workplace, strengthen compliance with the rules and corporate governance, and protect investors and the various categories of users of the services offered. The guidelines adopted are intended to guarantee the confidentiality of the personal data of the person making the report and of the person allegedly responsible for the violation, without prejudice to the rules governing investigations or proceedings initiated by a judicial authority in relation to the facts reported.

Reports may be sent, including anonymously, via traditional mail to this address: Comitato Valutazione Segnalazioni, Viale Europa no. 175 00144 Rome, or to this e-mail address: ComitatoValutazioneSegnalazioni@posteitaliane.it. The process of managing reports is overseen by the Whistleblowing Committee (the "Committee" or "WC"), coordinated by the Internal Auditing function, which carries out all investigative activities, assesses the checks to be made, and decides which corporate functions should be involved in assessment and recording, as well as ensuring the confidentiality of information and preparing periodic reports on the reports received. The complaints managed by the Committee in 2017 turned out to be unfounded, while, in one case, in 2016, they were confirmed. This was a report regarding fraud in the delivery quality monitoring process, which was the subject of a targeted audit by the Internal Auditing function. Some individuals were found to be responsible, which enabled the Company to take appropriate measures.

Reports managed by the Whistleblowing Committee [GRI 205-3]

| | 2016 | 2017 |
|--|------------|------------|
| Reports handled (no.) | 282 | 290 |
| <i>of which relating to corruption (no.)</i> | 23 | 23 |
| <i>of which confirmed (no.)</i> | 1 | 0 |

Valuing people

Relations with social partners [GRI 102-41]

Establish relations with labour unions, based on the principles of fairness and respect for roles, with the aim of finding shared solutions aimed at achieving growth, competitiveness and business continuity.

Relations between Poste Italiane and the labour unions is based on a system involving negotiation, dialogue, consultation and periodic, preventive reporting, in compliance with the collective agreements that apply to Group companies and cover 100% of employees. Poste Italiane's National Collective Labour Agreement covers approximately 95% of employees, while SDA and Mistral Air have autonomous contractual regulations. In line with sharing activities with the labour unions, on 8 February 2018 a draft agreement was signed regarding reorganisation of Delivery activities.

This restructuring will take place during 2018 and 2019. The Parties also defined procedures for managing the labour surplus resulting from this reorganisation process, excluding recourse to collective redundancy procedures pursuant to articles 4 and 24 of Law 223/91. The agreement represents one of the key elements that enable achievement of the efficiencies envisaged in the Deliver 2022 Strategic Plan, thus guaranteeing growth, competitiveness and business continuity.

National Collective Labour Agreement for non-managerial Poste Italiane staff

As already mentioned, on 30 November 2017, the new National Collective Labour Agreement for non-managerial staff was signed for a three-year period (from 1 January 2016 to 31 December 2018). In terms of remuneration, the increase in minimum wage rates was defined and a one-off payment was agreed to cover the period between agreements. On the regulatory front, the text of the agreement was revised to incorporate legislative changes and two important protocols on "procurement" and "harassment and violence in the workplace" were signed. With regard to relations, the national and corporate/regional bargaining structure was modified, with related clarification of the matters subject to bargaining, and the single text on representation signed by Confindustria and the labour unions on 10 January 2014 was adopted. Finally, the participation system was strengthened through the reconfiguration of the Poste Italiane Group's National Committee (formerly called the Joint National Observatory), and through the introduction of a new supplementary health care committee.

Paid leave for union representatives in accordance with art. 30 of Law 300/70

An agreement was reached with the unions on 7 February 2017 regarding the provision of paid leave to union representatives, in accordance with art. 30 of Law 300/70. The agreement is valid for three years (2017–2019) and, compared with 2016, has reduced the total number of hours of leave available over the three-year period by approximately 66,000.

Labour union protection pursuant to art. 14 of the National Collective Labour Agreement

On 30 November 2017, at the same time as the renewal of the National Collective Labour Agreement, an agreement was signed which regulates the percentage limits regarding the protection and availability of joint and Company labour union representatives and union executives engaged in negotiating the National Collective Labour Agreement. The agreement, which has the same duration as the National Collective Labour Agreement, stipulates that protection of so-called "non-transferability" also applies to union executives, up to a maximum of 3.3% of the members in each production unit.

Bilateral Agencies

In 2017, the activities of the Ente Bilaterale per la Formazione e Riqualificazione del Personale (the Bilateral Agency for Staff Training and Retraining) continued. This contributed towards the discussion and presentation of various projects, and several agreements were signed that enabled the Company to obtain finance from Fondimpresa.

The Joint National Body for workplace health and safety also continued its activities regarding the uniform and correct application of the guidelines on workers' health and safety, with a special focus on issues relating to the new criteria for assessing the risk of work-related stress.

European Social Dialogue [GRI 102-13]

The Training, Health and Safety working group of the Social Dialogue Committee of the European postal sector, chaired by Poste Italiane, continued with implementation of the project entitled Promoting Social Dialogue in the postal sector in an enlarged Europe. The initiative, which is funded by the European Commission, aims to raise awareness of European social dialogue among European postal service providers and labour unions, and to analyse the impact of digitalisation in the postal sector, with particular reference to training and retraining programmes.

Strengthening of sorting and delivery processes

With regard to the Amazon contract, and in particular management of the increased volumes of the Promopacco Plus product, on 4 August 2017 an agreement was signed regarding steps to strengthen the sorting and delivery processes. The agreement introduced new shift arrangements to be agreed upon in subsequent regional-level agreements.

Health and safety

Ensure high standards of health, safety and security for workers and customers at all the Group's premises; on all the means of transport used, including by suppliers, for delivery services; when staff are travelling.

Poste Italiane considers workplace health and safety to be a fundamental value, to be considered by everyone in the performance of their everyday duties. Poste Italiane has identified organisational responsibilities and adopted specific policies to ensure appropriate management of this issue.

The Group has also adopted all the necessary measures to reduce accidents, workplace injuries and occupational diseases, and promotes people's psycho-physical wellbeing via prevention policies and programmes and information and awareness-raising campaigns. SDA and Postel have received OHSAS 18001 certification for their workplace health and safety management system, which involves central and regional facilities and identifies roles and responsibilities in the implementation of obligations. In 2017, the employer model was redefined by dividing the Company into 7 production units (instead of the previous 5), with identification of acting managers among Employers as defined by Legislative Decree 81/2008, as amended.

The Group's health and safety policy defines the key elements of the management system, including:

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

In accordance with the Group's policy, each employer has approved the policy for its production unit, and made it available to all workers.

In 2017, an important framework agreement was signed with the Ministry of the Interior, aimed at consolidating collaboration with the Postal and Communications Police on security matters to prevent and combat illegal activities, such as fraud and cyberattacks perpetrated against users of the financial, postal, logistics and insurance services offered by the Group.

Vehicle safety

As part of the process of modernising its corporate fleet, Poste Italiane is gradually introducing vehicles equipped with the Black Box system, consisting of technological equipment aimed at collecting data regarding identification of a vehicle's geographical position, detection of accidents and reconstruction of their dynamics, refuelling stops, and reading the badge of an employee who is picking up a vehicle or when a vehicle enters and leaves a workshop. This device also enables monitoring of the expiry of vehicle maintenance operations, and the drawing up of a precise schedule. The Black Box system is also a useful deterrent against vehicle theft and the resulting damage or inconvenience caused to customers.

As regards the Air Safety regulatory requirements applied to Mistral Air's fleet, in 2017 renewal of the Airport Handling Agent Certification was requested, which enables mail ground handling services to be carried out at sites inside and outside an airport. This certification, together with the Agent Regulations certification, enables security checks to be carried out on cargo and mail, in order to guarantee the safety of persons and prevent unlawful acts from being committed on aircraft.

Post office security

The physical safety strategies, procedures and measures put in place to protect employees and corporate assets are designed to limit exposure to criminal attacks and have positive effects on the safety conditions of workplaces and areas open to the public. During 2017, initiatives were continued to ensure standardised management of security and caretaking services, with extension of the scope of responsibility to the entire Group with regard to the specific needs of individual companies. In particular, activities continued to strengthen the security of post offices, with integration of and replacement by high-tech alarm and video surveillance systems, as well as implementation of anti-theft protection systems and building improvements to raise the level of physical safety and prepare them for the installation of new ATM equipment.

Poste Italiane's Technology Campus includes the Business Control Centre (BCC), where business processes are monitored to prevent damage and malfunctions, and to guarantee the quality of services and the protection of transactions, products, customers and staff. Fraud attempts are detected and blocked online and at post offices in the Security Room, in order to guarantee customers' virtual and physical security. In addition, the Company's sites are monitored via a network of remote and video surveillance. The system enables the filtering of reports received, and the identification of those for which police intervention is requested.

National security

Poste Italiane receives alert messages issued by the Italy Situations Room run by the National Civil Protection Department and is included in the main emergency planning tools, such as the national seismic risk rescue programme and the emergency plan for the Mount Vesuvius-Phlegraean Fields area. The Group also receives weather alert messages from the Central Operations Centre regarding hydrogeological and hydraulic risk, enabling it to ensure information and prevention initiatives are arranged at regional level.

With the Prime Ministerial Directive of 17 February 2017, Poste Italiane was also included in the national alert system for tsunamis generated by earthquakes (SIAM - published in the Official Gazette on 6 June 2017), which, within its area of responsibility, has assigned the Company the task of implementing and managing alerts issued by the Civil Protection Department.

Security training for staff

Poste Italiane has brought the Company into line with all the rules and regulations, thus guaranteeing the continuity of existing training programmes and implementing new teaching methods to improve the quality of service provided, with particular reference to managers and supervisors who hold key roles in the organisation of security. Training initiatives based on innovative classroom management techniques were addressed to this particular target group in order to develop further awareness of the role. Training programmes aimed at emergency teams were also strengthened. In 2017, a total of approximately 500,000 hours of training in workplace safety were provided.

Finally, the Company has drawn up an information plan (art. 36 of Consolidated Law 81/08) focused on disseminating knowledge of the protection measures set out in the Risk Assessment Document, which is sent to all personnel who work in Poste Italiane's main Communications and Logistics and Private Customer production units (the information handbooks have been sent to over 100,000 staff).

Occupational injuries

The most accident-prone process is delivery, where the most hazardous activity is the use of motorcycles.

In 2017, the second OHS Operational Audit/Awareness Raising activity provided for in the OHS Verification and Monitoring Plan continued, involving 18 key post offices in terms of size and number of delivery staff, as well as 50 Distribution Centres among those with the highest injury rates. This awareness-raising activity was supported by OHS technical audits (plant and structural aspects) carried out at 122 operating and management sites throughout Italy, and 59 audits on the management systems adopted in accordance with OHSAS 18001.

Injury data* [GRI 403-2]

| | 2016 | | 2017 | |
|--------------------------------|-------|-------|-------|-------|
| | Men | Women | Men | Women |
| Number of injuries | 3,515 | 3,631 | 3,455 | 3,488 |
| Number of workplace fatalities | 1 | 0 | 1 | 2 |
| Cases of occupational disease | 9 | 12 | 14 | 10 |

* Accidents occurring on the move are not included. The number of accidents and accident rates do not include data for Mistral Air Srl, which is only included in the figures for occupational disease.

| | 2016 | 2017 |
|-------------------------------|-------|-------|
| Injury rate** | 35.07 | 34.96 |
| Lost day rate*** | 1.20 | 1.18 |
| Occupational disease rate**** | 0.10 | 0.12 |

** no. of injuries/hours worked x 1,000,000.

*** no. of days lost due to accidents/hours worked x 1,000.

**** no. of cases of occupational disease/hours worked x 1,000,000.

Number of injuries by type [GRI 403-2]

| | 2016 | 2017 |
|---------------------------------------|--------------|--------------|
| Falls from a motorcycle | 1,705 | 1,760 |
| Accidents involving a Company vehicle | 844 | 733 |
| Hit by a car | 28 | 30 |
| Accident with a private vehicle | 47 | 63 |
| Fall and/or awkward movement | 2,117 | 2,182 |
| Physical attacks | 539 | 544 |
| Manual load handling | 376 | 320 |
| Robbery | 337 | 216 |
| Crushing/bruising | 953 | 867 |
| Other causes | 200 | 228 |
| Total | 7,146 | 6,943 |

Human capital

Identify the best talents, promote training courses and strategies for professional enhancement and development. Protect the Group's intellectual assets, skills, know-how, experience and organisational knowledge.

Poste Italiane provides citizens, businesses and the Public Administration with the wealth of skills and experience of its people, which it monitors through guidelines designed to develop talent and provide professional training. Therefore, the Company has identified organisational responsibilities and adopted specific policies to ensure adequate management of the topic.

The objective is to build an organisation in which everyone may access a career development path, in which individuals participate personally with responsibility and involvement in the Group's development, by behaving ethically and guaranteeing the centrality of customers and service quality.

The Code of Ethics, which has been in use for several years, sets out a commitment to guarantee a working environment based on values of respect for people's rights and freedom, and equal social dignity without discrimination on grounds of nationality, language, gender, race, religious belief, political and labour union membership, or physical or mental conditions. The Group also encourages participation in corporate volunteering initiatives in collaboration with the PostInsieme not-for-profit foundation.

Compliance with the Code of Ethics is also verified through analysis and assessment of reports of its violation. These activities are carried out with the support of the functions concerned (Internal Auditing and Corporate Affairs /GRM-Fraud Management and Security Intelligence). The Code of Ethics is also an integral and substantial part of the Organisational Model adopted in compliance with the provisions of Legislative Decree 231/2001. [GRI 102-16]

Poste Italiane's workforce in numbers

Information regarding employees [GRI 102-8]

| Poste Italiane Group Permanent workforce | Number of employees (*) | | | |
|---|---|----------------|----------------|----------------|
| | Average for the year ended 31 December | | At 31 December | |
| | 2016 | 2017 | 2016 | 2017 |
| Executives | 773 | 732 | 748 | 699 |
| Middle managers | 16,113 | 15,859 | 15,807 | 15,481 |
| Operational staff | 119,772 | 114,767 | 115,947 | 111,251 |
| Total workforce on permanent contracts | 136,658 | 131,358 | 132,502 | 127,431 |
| Apprenticeships | 32 | 12 | 23 | 4 |
| Total permanent workforce | 136,690 | 131,370 | 132,525 | 127,435 |
| Flexible workforce | 2016 | 2017 | 2016 | 2017 |
| Agency staff | 11 | 27 | 3 | 50 |
| Fixed-term contracts | 4,545 | 6,643 | 4,211 | 9,070 |
| Total flexible workforce | 4,556 | 6,670 | 4,214 | 9,120 |
| Total permanent and flexible workforce | 141,246 | 138,040 | 136,739 | 136,555 |

(*) Expressed in full-time equivalent terms.

With 136,555 FTE employees working nationwide, Poste Italiane is Italy's largest employer. The Group's workforce comprises 72,307 women and 64,248 men, 93% of whom are on permanent contracts. As can be seen from the table below, fixed-term contracts were used more extensively in 2017 than in 2016. This reflects specific organisational efficiency requirements in the postal sector linked to seasonal peaks and the need for specific offices and zones.

Part-time contracts are widely used for organisational efficiency and work-life balance reasons, particularly by women. The percentage of female staff among middle managers and executives is 45%.

Information regarding employees [GRI 102-8]

| Contract type | 2016 | | | 2017 | | |
|---------------|--------|--------|---------|--------|--------|---------|
| | Men | Women | Total | Men | Women | Total |
| Permanent * | 61,916 | 70,609 | 132,525 | 58,812 | 68,623 | 127,435 |
| Flexible | 2,539 | 1,675 | 4,214 | 5,436 | 3,684 | 9,120 |
| Total ** | 64,455 | 72,284 | 136,739 | 64,248 | 72,307 | 136,555 |
| Full time | 62,686 | 68,102 | 130,788 | 62,557 | 68,256 | 130,813 |
| Part time | 3,280 | 7,084 | 10,364 | 3,133 | 6,828 | 9,961 |
| Total *** | 65,966 | 75,186 | 141,152 | 65,690 | 75,084 | 140,774 |

* Includes permanent staff and apprenticeships.

** Expressed in full-time equivalent terms.

*** Includes staff on fixed-term contracts and on temporary contracts. Data refers to the headcount at 31 December.

Classification of staff by category, gender and age group*

| | 2016 | | | 2017 | | |
|--------------------------|---------------|---------------|----------------|---------------|---------------|----------------|
| | Men | Women | Total | Men | Women | Total |
| Executives | 565 | 189 | 754 | 527 | 182 | 709 |
| < 30 years of age | - | - | - | - | - | - |
| 30 - 50 years of age | 38.6% | 40.2% | 39.0% | 35.3% | 37.4% | 35.8% |
| > 50 years of age | 61.4% | 59.8% | 61.0% | 64.7% | 62.6% | 64.2% |
| Middle managers | 8,608 | 7,210 | 15,819 | 8,381 | 7,109 | 15,490 |
| < 30 years of age | 0.2% | 0.2% | 0.2% | 0.3% | 0.2% | 0.3% |
| 30 - 50 years of age | 36.4% | 37.9% | 37.1% | 37.0% | 38.8% | 37.9% |
| > 50 years of age | 63.4% | 61.9% | 62.7% | 62.7% | 61.0% | 61.9% |
| Operational staff | 55,282 | 64,884 | 120,166 | 55,340 | 65,016 | 120,356 |
| < 30 years of age | 5.9% | 3.6% | 4.7% | 7.9% | 4.5% | 6.1% |
| 30 - 50 years of age | 40.3% | 48.0% | 44.4% | 41.2% | 47.2% | 44.4% |
| > 50 years of age | 53.8% | 48.4% | 50.9% | 50.9% | 48.3% | 49.5% |

* Expressed in full-time equivalent term

The percentage of female staff among middle managers and executives is 45%.

Distribution of staff by educational qualification

| | 2016 | 2017 |
|-------------------------------|-------------|-------------|
| Degree | 11.7% | 12.2% |
| High school diploma | 70.6% | 70.8% |
| Middle school diploma | 17.5% | 16.8% |
| Elementary school certificate | 0.2% | 0.2% |
| Total | 100% | 100% |

Development activities

As part of the Human Resources Plan strategy, it is a priority to ensure that the recruitment processes for critical business roles are governed by systems that identify, assess and cultivate the best talent within the Company's workforce. In this context and in line with the Group's Personnel Development Guidelines, the Professional Guidance Programme (PGP) and the Managerial Lab (MLAB) continued, involving a total of 459 people in assessment, a skills workshop, feedback to managers and coaching. The aim is to monitor and develop the managerial and professional potential of young staff members and the managerial potential of the best performing managers. Assessment of managers' potential continued through the Leadership Assessment programme, which involved 18 staff and supplemented the first session held in 2016. Two pilot editions of the Poste Italiane Innovation Storm hackathon project were launched, involving around 100 talented people engaged in the design of innovative projects to support change. A campaign was also carried out to map the technical and specialist skills (Skill Up) of Distribution Centre managers, involving 468 employees in 33 Individual Business Coaching courses dedicated to managers under development. Management Review meetings were held with all department heads to identify the best resources for the definition of succession plans for level 2 positions, and for planning individual growth and development initiatives.

The 2016 performance appraisal process, which was carried out in 2017, involved Poste Italiane's entire workforce (approximately 135,000 appraisals in total) and 8,300 appraisers. In the period July-September 2017, interim feedback was introduced as an innovative phase of the process. For the first time, all the appraisees were able to access their appraisal form via the Company notice board. A pilot project was also launched which, in addition to appraising direct managers, introduced an appraisal by colleagues with whom they have significant organisational relations.

Employees who receive performance appraisals [GRI 404-2]

| | 2016 | 2017 |
|-------------------|------------|------------|
| Executives | 84% | 98% |
| Middle managers | 93% | 100% |
| Operational staff | 90% | 99% |
| Total | 90% | 99% |

Number of participants in development programmes

| | 2016 | 2017 |
|---|------|------|
| Development of talented young people (PGP) | 356 | 299 |
| Enhancement of middle managers under development (MLAB) | 132 | 160 |
| Assessment of executives' potential (leadership assessment) | 43 | 18 |
| Skills assessment* | n.a. | 468 |

* A programme introduced in 2017.

Professional training programmes

In 2017, more than 3.8 million hours of training were provided, including:

- Mandatory courses on Workplace Health and Safety, Privacy, Legislative Decree 231/01 Organisational Model, anti-money laundering and the financing of terrorism.
- Specialist technical training regarding business support, aimed at front-end staff and in general at sales channels and customer relations, with particular reference to the world of financial and insurance specialists; training regarding regulatory compliance requirements (including on matters relating to IVASS, the insurance regulator, and MIFID II, the Markets in Financial Instruments Directive, and the ESMA Guidelines); training for postmen and women whose role, given their proximity to the general public, carries great social responsibility; behavioural/cross-cutting training aimed at enhancing professional effectiveness and increasing skills that serve the business.

- Management training: aimed at strengthening leadership and management effectiveness, with a focus on marketing, performance assessment for lead appraisers, and digital and innovation topics. Poste Italiane also participated in the European "INNOV'AGE in the Postal Sector" project, aimed at promoting an understanding of age management in the postal sector at European level.

New hires will be able to participate in the InPoste System training programme, which is aimed at promoting awareness and understanding of the Group, its businesses and organisational culture, and facilitating their integration.

Average hours of training for employees by gender and category GRI 404-1

| | 2016 | | | 2017 | | |
|-------------------|------|-------|-------|------|-------|-------|
| | Men | Women | Total | Men | Women | Total |
| Executives | 30 | 36 | 32 | 27 | 29 | 28 |
| Middle managers | 40 | 45 | 42 | 52 | 64 | 57 |
| Operational staff | 17 | 21 | 19 | 21 | 27 | 24 |

Commitment to wellbeing

In 2017, Poste Italiane continued actions aimed at consolidating the welfare system, through ongoing initiatives on behalf of the most vulnerable and paying attention to vital social issues. The National Collective Labour Agreement for non-managerial staff of Poste Italiane SpA and of the Group companies to which it applies, which was signed with all the labour unions on 30 November 2017, introduced some important innovations regarding health and welfare. All staff on permanent contracts (including apprentices and new hires who have completed a trial period, if required) may subscribe - at the Company's expense - to the basic package of the PosteVitaFondosalute Supplementary Health Care Fund, which covers several essential services such as hospitalisation in a treatment centre, compensation for loss of salary in the event of major surgery, highly specialised diagnostics and specialist outpatient visits. The new National Collective Labour Agreement also provides for an increase (from December 2018) in the Company's contribution to the supplementary pension fund (Fondoposte), which will play an increasingly important role in the working life of future generations and with regard to the delicate matter of protection in the event of illness.

In 2017, actions to support the special needs of personnel and family members continued, in application of corporate guidelines, including through the payment of allowances. The "PosteOrienta" project also continued, with the creation of educational and professional guidance seminars for employees' children, and activation of an interactive portal that gave guidance to 800 young people in making their study and employment choices. The Company has launched the "Work experience champions" project by signing a memorandum of understanding with the Ministry of Education, Universities and Research to promote work experience schemes. Regarding personal services, thematic campaigns were carried out and around 120 agreements signed regarding the application of special product and service offerings, with a specific focus on health services and summer camps for children and young people. Prevention initiatives have been implemented, providing 270 employees in 9 cities with access to free specialist medical examinations. The organisation of summer holidays continued, organised by a team of specialist operators, in which 40 disabled children of employees participated.

Responsible supply chain management [GRI 102-9; GRI 102-16]

Guarantee ethical behaviour within the supply chain, with particular reference to: legislative compliance; measures to combat fraud and corruption; working conditions and health and safety; and environmental aspects.

Commercial relations based on transparency and ethical negotiations can help to increase the effectiveness of business processes and competitiveness. In this context, a Code of Conduct has been in place for several years, aimed at guiding relations with suppliers and partners and promoting the spread of ethical principles and social responsibility in the supply chain, and also encouraging the achievement of quality (ISO 9001), environmental (e.g. ISO 14001), social (SA 8000) and occupational health and safety (OHSAS 18001) certification. The development of transparent and lasting relations with suppliers is a goal to be pursued, with a view to improving the service offered and more generally in the interests of Italy's economic system. The Code of Conduct for suppliers and partners is also one of the corporate monitoring tools used to prevent the offences set out in Legislative Decree 231/01.

As a "public enterprise" operating in special sectors, Poste Italiane applies the rules of public procurement pursuant to the new Public Procurement Code (Legislative Decree 50/2016, as amended by Legislative Decree 56/2017, the so-called "Corrective Decree"), for the award of contracts to postal services, as per art. 120 of the above Code.

The entry into force of the new rules, via the Corrective Decree of 20 May 2017, required an update of procurement and regulatory procedures, as well as of the documentation for tenders and contractual standards.

In November 2017, the Board of Directors of Poste Italiane approved the Internal Regulations regarding the procedures for awarding works, service and supply contracts, and completed the update of its internal procedures, which govern the procurement process regarding contracts subject to the Public Procurement Code, pursuant to the Code, as well as contracts excluded from the Code's scope of application.

Together with the Code when applicable, these procedures constitute the principal means of ensuring the statutory and regulatory compliance of Poste Italiane's procurement contracts.

The procedures for awarding contracts are usually carried out via the Procurement Portal ("Poste-procurement"), the web platform used for all procurement activities as well as for management of the Supplier Register. For the purposes of conducting award procedures, the Supplier Register is normally called upon if the related product or service is available from a registered supplier in accordance with the detailed rules for each category of good or service. These rules take into account the specific technical and organisational capabilities of potential suppliers in order to ensure equal access opportunities to the award procedures.

Furthermore, with reference to the organisational risk safeguards associated with procurement activities, the Fraud Management and Security Intelligence function carries out checks, assessment and monitoring of parties and counterparties (checks of a corporate and financial nature and on the assets of companies and their representatives, and an assessment of existing relations with Poste Italiane). The purpose of this activity is to limit the risks deriving from transactions with third parties; to guarantee adequate rotation of suppliers, and to minimise losses deriving from the non-payment of receivables.

The supplier qualification system [GRI 308-1] [GRI 414-1]

In 2006, in line with current legislation (art. 134 of the Public Procurement Code), the Group established its own Supplier Register in order to have a pool of suppliers with the capacity to meet the necessary requirements and to adopt definite and transparent selection criteria in the procedures used in the procurement of goods, services and works. Adoption of the Register has enabled simplification of contract award procedures, thus ensuring consistency among the parties selected in each product area and transparency towards the market.

Parties from EU member countries or third-party countries that are signatories of the General Agreement on Tariffs and Trade (GATT) may qualify as suppliers. The Supplier Register is organised into product categories, which are divided into subcategories and classes according to complexity. The categories have a duration of three years. Management of the Register is regulated by the Supplier Register Regulations which govern the qualification system, as well as by the Regulations that govern the qualifica-

tion process for each product category. In terms of environmental sustainability, the system provides for access to the “Cleaning and Sanitation” and “Multiservice” categories, for holders of environmental management system certification in accordance with the UNI EN ISO 14001 standard. For the IT sector, a score is awarded to suppliers who have implemented one or more initiatives aimed at greater corporate sustainability or a Green IT strategy. 160 qualified suppliers have environmental sustainability requirements (20% of the pool of qualified suppliers, which includes around 800 companies). For enrolment in the “Cleaning and Sanitation” and “Multiservice” Register and in the Register for Class IV-bis Works and above, with regard to Social Responsibility and in compliance with Health and Safety regulations, operators must have SA8000 and OHSAS 18001 certification.

The total number of qualified suppliers who meet the social requirements is 150.

In 2018, the Supplier Qualification System Guidelines were approved with the aim of setting out the criteria and methods to be applied in the qualification process for the business operators to be called upon for the award of works, supply and service contracts relating to strategic Group sectors, in line with the provisions of the Supplier Qualification System. In addition, the Supplier Register function was separated from the Procurement function and merged with the Group Risk Governance function.

Social and environmental provisions in contracts

GRI 414-1

In its relations with the suppliers of works, services and goods, Poste Italiane operates on the basis of standard contractual provisions which may be revised in the light of regulatory provisions or adapted to meet specific internal requirements. Special attention is paid to social and environmental aspects: provisions regarding the regularity of social security contributions and remuneration; compliance with labour laws (Legislative Decree 276/03, Public Procurement Code); the applicability of Collective Labour Agreements; the absence of violations of occupational safety laws (Legislative Decree 81/2008); and the absence of environmental offences (Legislative Decree 152 of 3 April 2006).

Additional specific health and safety measures have been introduced into works contracts. The assessments and related measures are contained in the Safety and Coordination Plans (SCP) and in the specific Safety Operational Plans (SOP), with provisions for contract termination in the event of violations of the safety documentation.

Following the signing of the Transparency Protocol with the tax authorities, the contractual standards were supplemented with a specific provision.

Green procurement [GRI 308-1]

Green Public Procurement is a strategic choice for Poste Italiane as it combines sustainability in terms of reducing environmental impacts with cost savings. Article. 34 of the “Public Procurement Code” (“Energy and environmental sustainability criteria”) – with regard to the award of public contracts of any nature and value – has made it compulsory to include in the project and tender documentation at least the technical specifications and contractual provisions contained in the “Minimum Environmental Criteria”, or “MEC”, listed in the documents approved for each product or service category by specific Ministerial Decree.

Memorandum of Understanding with the tax authorities

In December 2017, Poste Italiane and the tax authorities signed a Memorandum of Understanding with the aim of combating tax evasion, tax avoidance and fraud. The Company has undertaken to make data and information available to the tax authorities, which may be useful in pursuing these objectives, also via access to its own systems, including the web-based “Identity Check” system for reporting relevant information and news relating to the prevention and suppression of economic and financial offences.

Following the signing of the Memorandum with the tax authorities, the contractual standards were supplemented with a specific provision.

Transparency

At the end of 2017, Poste Italiane launched the new “Open and Transparent Contracts” portal, with a view to providing ever greater clarity for citizens, and to make public and accessible all information regarding contracts signed by the Company arising from competitive procedures relating to provision of goods and services, of EU relevance, and works subject to the Public Procurement Code, as well as contracts regarding the provision of goods, services and works that are excluded from the Public Procurement Code.

By consulting the portal, it is possible to find information about the number and details of individual contracts signed during a month, including the relative amount, duration, product area, award procedure, type, geographical location and the name of the successful bidder, as well as the names of subcontractors. By setting filters for each search field, specific information may be obtained about contracts published each month. The new website also provides access to the total number of contracts signed by Poste Italiane during the year, broken down by product area and economic value.

Taking care of the world around us

Inclusion

Contribute to the process of integration of the most vulnerable groups and promote access to new information technologies and digital literacy (e.g. Education 2.0 in schools).

The Group has always been committed to offering simple insurance and financial products that can be readily understood by the general public and respond to current social needs.

Although Poste Italiane does not have a specific policy at Group level, it has launched a series of initiatives to promote social, financial and insurance inclusion. The Group also complies with the regulations on equal opportunities and has subscribed to the Equal Opportunities Charter, a declaration of intent voluntarily signed by companies of all sizes regarding the dissemination of a corporate culture and inclusive human resources policies, free of any discrimination and prejudice, and capable of valuing talents in all their diversity. The Group's 2017 Integrated Marketing Plan was drawn up with particular attention paid to the young, elderly and new Italian citizen targets, all customers for whom Poste Italiane wishes to be a qualified partner that is capable of responding to social needs and challenges with specific, simple and user-friendly postal, insurance, financial and telephone products.

Equal opportunity access to services

The attention Poste Italiane pays to customers with disabilities is an important value that has led to the creation of a new generation post offices without architectural barriers. Examples include ATMs with a headset attachment to provide a complete voice guidance system, which helps visually impaired and blind customers; and 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 7,257 ATMs enable visually impaired people to make withdrawals, and since December 2017 the list of movements has also been available.

Inclusive ATMs

| | 2016 | 2017 |
|---|--------------|--------------|
| Total number of ATMs | 7,249 | 7,257 |
| <i>of which:</i> | | |
| ATMs with touchpads for the visually impaired and the blind | 7,249 | 7,257 |
| ATMs with voice guidance | 5,269 | 5,847 |

Cultural integration

The attention Poste Italiane pays to developments in the social environment, in which its approach to foreign citizens in Italy has become an important element in overcoming the language barrier, 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. Examples include the post offices in Prato, where there is a large Chinese population, and the central post office in Foggia, which has a high concentration of African customers.
- multi-ethnic post offices, as a meeting point for the predominant ethnic groups in larger cities such as Rome, Milan and Turin.

To support the staff, the ethnic post offices are equipped with all communication and advertising material translated into the various languages of the identified target customers. At the end of 2017, 27 ethnic post offices were in operation, and also included the offering campaign for Italians of Chinese ethnicity who need to send parcels or remittances, or make calls to China.

Cultural integration post offices

| | 2016 | 2017 |
|--------------------------------|-----------|-----------|
| Mono-ethnic (no.) | 2 | 2 |
| Multi-ethnic (no.) | 21 | 25 |
| Number of customers served | 2,751,153 | 3,311,214 |
| Total transactions carried out | 5,379,679 | 5,503,076 |

Financial inclusion of citizens in difficulty

In 2017, provision of the service to issue the Carta Acquisti (Social Card), which was launched in 2008, continued.

Following the award of a contract, Poste Italiane, acting as the agent for a temporary consortium set up by Poste - Postel, has entered into an agreement (6 September 2017 - 5 September 2020) with the Ministry of the Economy and Finance regarding integrated management of the Social Card (*Carta Acquisti*) and the Support for Active Inclusion (SIA) Card. In October 2017, a combined initiative to combat poverty at national level, involving the issue of the *REI* (Inclusion Income) card, was launched. This enabled applications for the Inclusion Income Card from 1 December 2017 (from 1 November 2017, it was no longer possible to submit an application for the SIA card). With the issue of an Inclusion Income Card, the related benefits became available from 1 January 2018. The integrated management service provides for the issue of an electronic payment card (pre-paid) on which a financial contribution is loaded to support categories of citizens in financial difficulty, who have demonstrated that they meet the requirements set out in the relevant regulations for the type of card concerned.

The main services offered are:

- collection and digitalisation of applications for the Social Card only;
- the issue and distribution of cards;
- periodic top-ups of active/issued cards;
- the issue of cards through the network of enabled post offices;
- the replacement of cards in the event of theft, loss, etc.;
- reporting services;
- the printing of forms (Social Card only) and information material;
- telephone assistance services (Interactive Voice Response);
- services regarding automated text messages for each transaction carried out, and the balance and credit remaining on the card;
- a website providing information.

At 31 December 2017, approximately 1 million cards had been activated.

Inclusion of minors

In the financial sector, new types of products and services have been progressively introduced over the years, to meet the different needs of customers. For example, the Saving Book for minors is a simple solution designed to introduce young people to the world of savings. The types of Savings Book vary according to a minor's age: *lo cresco* (I grow up) from 0-12 years old; *lo conosco* (I know) from 12-14 years old; and *lo capisco* (I understand) from 14-18 years old. Each product offers three different levels of autonomy for savers. Similarly, the Interest-bearing Postal Certificate for minors and the "*Piccoli e buoni*" savings plan are specific products for this category of customer.

Il Risparmio che fa Scuola (Savings Education Project)

The *Risparmio che fa Scuola* project arose from an earlier memorandum of understanding signed on 28 October 2014 by Poste Italiane, Cassa Depositi e Prestiti SpA and the Ministry of Education, Universities and Research, in which the parties committed to promoting the culture and values of savings at Italian schools of all levels. At the end of 2017, the memorandum of understanding was renewed, for a five-year period, in order to relaunch the project through the creation of a training programme aimed at giving young people the necessary economic, financial and citizenship skills to use savings as a development tool for Italy. Teachers who participate in the project will be able to obtain training credits that will contribute to their school's self-assessment report. The programme will be proposed to all schools throughout Italy.

Inclusion of senior citizen customers

In Italy, more than 21% of the population is over 65 years of age, and around 70% of this age group are customers of the Group. The level of digitalisation of senior citizens falls as they grow older, and in particular internet use halves if the 55-59 age group is compared to the 65-74 age group (falling from 60% to 26%). With the aim of facilitating access to new digital services and facilitating the inclusion of citizens, the digital literacy programme, "Grandparents online. Everyone's young at Poste Italiane", was introduced. Likewise, the "Poste Italiane is here" initiative was launched, which assigns postmen and women the task of loaning a tablet computer to the over-65s and teaching them how to use it.

In October 2017, the "Senior Programme" campaign was also launched for the over-60s, involving approximately 2,000 post offices (15%), with the aim of promoting a package of dedicated services, with special benefits ranging from fixed and mobile telephone solutions, to the *PostaProtezione Infortuni* Senior insurance policy and the *Quinto BancoPosta Pensionati* loan product. In 2017, a substantial portion of customers opening a retail current account or a prepaid card (Standard or Evolution) were 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).

New customers in the categories most at risk of financial exclusion as a percentage of total new acquisitions*

| | 2016 | 2017 |
|--|------|------|
| New retail current account openings | | |
| Percentage of young current account holders (under 35) | 24.6 | 25.4 |
| Percentage of senior current account holders (over 65) | 24.0 | 24.4 |
| Percentage of current account holders who are "new Italians" | 16.5 | 17.6 |
| New Postepay standard cards ** | | |
| Percentage of young Postepay standard card holders (under 35) | 39.1 | 38.0 |
| Percentage of senior Postepay standard card holders (over 65) | 6.4 | 7.0 |
| Percentage of Postepay standard card holders who are "new Italians" | 12.4 | 12.6 |
| New Postepay Evolution cards ** | | |
| Percentage of young Postepay Evolution card holders (under 35) | 44.4 | 45.9 |
| Percentage of senior Postepay Evolution card holders (over 65) | 5.3 | 5.5 |
| Percentage of Postepay Evolution card holders who are "new Italians" | 19.6 | 20.6 |

* The young and senior categories include new accounts or cards for both Italians and immigrants, while the figures for new Italians ("immigrants") also include a portion of young people and senior citizens.

** For Postepay Standard and Evolution cards, renewals during the year are excluded.

Insurance inclusion

The Poste Vita Group is constantly committed to promoting insurance inclusion, by developing specific products such as "Posta protezione Dal Mondo", which offers foreign citizens legally residing in Italy accident insurance and certain assistance services that guarantee their loved ones compensation in the event of death due to an accident, or a predefined sum in the event of permanent disability of 60% or more following accidents at work or during their free time.

In 2017, Poste Assicura launched the "It's always a good day to protect yourself" competition, dedicated to all Italian citizens who have decided to purchase personal and property protection products. The competition provided for the award of 54 premiums per month, with a total of 324 premiums.

Gender inclusion

Due to its size and the significant presence of women, over the years Poste Italiane has responsibly promoted a broader protection of gender equality and maternity in particular, through a series of dedicated initiatives. In this regard, various benefits have been activated, including women-only parking spaces, a telecommuting option and registration of children for summer camps and crèches. In addition, training courses, events, testimonies and inter-company working groups have been held on the topics of diversity management, conciliation and welfare. Poste Italiane also participates in inter-company mentorship projects to promote the professional development of women for managerial roles, management training, skill building and role model training initiatives to promote topics connected with gender balance, and inter-company Welfare Lab programmes to develop and share best practices regarding conciliation and flexibility issues.

The Maam U "maternity as master" project continued, with around 370 registrations with the maam platform. This training course, dedicated to women on maternity leave, may be accessed via a computer tool that enables discovery and practice of soft skills acquired during motherhood (relational, organisational, creative, etc.) to be used in the social and working context. The plan was associated with a new service, called "engage", aimed at facilitating dialogue, via a dedicated app, between

managers and staff on maternity leave to promote an effective return to work. The service saw 100 activations in 2017. An online community was also set up for women who participate in the programme.

Poste Italiane also participates in the “Diversity and Inclusion” network, aimed at identifying and sharing best practices and possible synergies, and also joined the “Women in Motion” initiative, designed to promote the study of technical subjects among the younger generation, via inter-company counselling and community initiatives. Regarding parental leave, the Company guarantees better treatment than that provided by law. Indeed, the female staff who benefit from it are entitled to 100% of their salary for all 5 months of absence from work, compared with the payment of 80% of salary provided by law. In addition, 80% of salary is guaranteed for the first two months (instead of the 30% provided for by law) for a parent who opts to benefit from it, limited to the first six years of the child’s life.

When new legislation is introduced on maternity and paternity protection, specific information campaigns are carried out to update staff on the arrangements provided to protect this right, in order to encourage and support active parenthood for both parents.

Equal Opportunities Committee

The Equal Opportunities Committee was renamed the “Committee for implementation of the principles of equal treatment and equal opportunities” on the occasion of renewal of the National Collective Labour Agreement and is made up, at national level, of six members appointed by Poste Italiane and one representative from each national labour union signing the National Collective Labour Agreement appointed by the labour unions themselves. The Committee, which is aimed at strengthening a culture of diversity in order to eliminate obstacles to the achievement of equal opportunities, meets quarterly at national level and every six months at regional level.

Inclusion of disabled people

Regarding the inclusion of people with disabilities, the Company implements concrete measures to contribute to the elimination of physical, sensory and cultural barriers. The related training initiatives are:

- “School ship” - a project aimed at improving professional inclusion through computer literacy and behavioural courses for deaf people. The method used involves setting up field trials of diversified training actions, to be systematised and replicated in various areas at national level.
- “Culture and Disability” - modules for Postal, Communications and Logistics function trainers (activated in 2016) to raise awareness of disability issues among the people involved, provide information and define strategies to overcome barriers of various kinds, and to make training courses accessible to everyone. The classroom trainer awareness-raising plan also led to a complete review of the teaching material.

Sustainable logistics

Provide logistics solutions that reduce atmospheric emissions and the use of non-renewable natural resources, with particular reference to the mail and parcel delivery sector.

Although Poste Italiane has no specific policy at Group level, it has always paid attention to the continuous renewal of its fleet with more environmentally-friendly vehicles, such as hybrid cars and electric vehicles, by optimising logistics routes thanks to the latest generation technologies, and by requesting minimum environmental requirements from outsourced transport suppliers, who are required to use vehicles that are at least in the Euro 4 class.

Mail and parcels logistics

Poste Italiane plans and manages the mail and parcels commercial offering and distribution throughout the entire process of acceptance, collection, sorting, transport, delivery and management of returns, also using the services of the subsidiaries, Postel and SDA.

To make its logistics even more sustainable, Poste Italiane has adopted PTV Smartour, a software application for planning and optimising transport and distribution that manages delivery and collection of orders using an algorithm that enables route optimisation.

The integrated logistics chain at regional level is divided into two supervisory levels, one for coordination and one for operations. The first is guaranteed by Area Logistics Offices, each of which has regional or multi-regional coverage, that are responsible for ensuring the smooth running of the logistics process, through coordination of operating structures and planning of resources in line with traffic flows, as well as ensuring management and accurate recording of administrative and accounting events. At operating level, each Area Logistics Office consists of:

- Sorting Centres, broken down into Postal Sorting Centres, which are highly automated industrial sites that serve a specific area comprising several provinces, and Priority Centres, which are smaller sites where only “fast” products are manually sorted.
- Distribution Centres, which are regional centres that provide distribution, delivery and logistics support for the areas under their respective responsibility. They provide specialised deliveries, value-added services and, where available, notification messenger activities, delivery of undelivered mail and large account acceptance; in some cases they coordinate Secondary Distribution Centres and Decentralised Distribution Centres.

In addition to the Sorting and Distribution Centres, Service Centres that carry out value-added activities (for example, dematerialisation, electronic document management, address standardisation, etc.) in relation to specific services may also be present at Area Logistics Offices.

The Group's integrated logistics chain is organised into 9 Area Logistics Offices, 23 Sorting Centres (including 16 Postal Sorting Centres and 7 Priority Centres) and 2,051 Delivery Offices. The physical sites in the supply chain are connected via a primary network of motorway and air routes, which are integrated within an organisation of independent SDA couriers and external road, rail and air carriers as needed.

The “Regulations regarding the use and maintenance of company vehicles” provide operating and behavioural instructions to staff using the vehicles, set out the responsibilities and tasks of the central and local vehicle management organisational structures, and define the activities and responsibilities relating to routine and special vehicle maintenance processes.

Vehicle fleet numbers

The corporate fleet, which is used for the delivery of mail and parcels, comprises over 38,000 vehicles at 31 December 2017 and breaks down into the following types: motorcycles and quadricycles, delivery vehicles, vans and light trucks, and saloon cars for service use.

The Group's commitment is reflected in the growing use of vehicles with a lower environmental impact, including 4,369 alternative fuel vehicles, of which 1,064 electric-powered vehicles, 119 hybrid vehicles and approximately 3,192 petrol/natural gas and petrol/ LPG powered vehicles. CO2 emissions per km travelled decreased in 2017 from 215 grams per km to 210 grams per km, thanks to the introduction of LPG vehicles, vehicles with lower engine capacities and measures to optimise transport loads.

Corporate fleet data

| | 2016 | 2017 |
|-------------------------------------|---------------|---------------|
| Total km travelled | 328,223,769 | 336,360,628 |
| Total vehicles | 50,528 | 38,690 |
| <i>of which:</i> | | |
| traditional vehicles (no.) | 45,176 | 34,321 |
| alternative vehicles (no.) | 5,676 | 4,693 |
| <i>of which:</i> | | |
| Bicycles (no.) | 324 | 324 |
| Electric vehicles (no.) | 1,091 | 1,064 |
| Hybrid cars (no.) | 32 | 113 |
| Petrol-natural gas fuelled vehicles | 2,963 | 2,210 |
| Petrol-LPG fuelled vehicles | - | 982 |
| Diesel-natural gas fuelled vehicles | 339 | - |
| LPG fuelled vehicles | 927 | - |
| Percentage of alternative vehicles | 11.2% | 12.1% |
| grams of CO ₂ /Km | 215 | 210 |

Energy consumption and CO2 emissions within the corporate road fleet [GRI- 302-1; GRI- 305-1 GRI- 305-2]

| | 2016 | 2017 |
|--|------------------|----------------|
| Diesel (GJ) | 422,061 | 739,837 |
| Petrol (GJ) | 553,678 | 173,279 |
| Natural gas (GJ) | 55,890 | 60,553 |
| LPG (GJ) | 1,693 | 23,351 |
| Certified guarantee of origin electricity (GJ) | 1,540 | 1,682 |
| Total energy (GJ) | 1,034,862 | 998,702 |
| Direct emissions - Scope 1 (t) | 72,873 | 71,676 |
| Indirect emissions - Scope 2 (t)* | 0 | 0 |

* Electricity used to fuel vehicles entirely from renewable sources.

Logistics under contract

A part of the Group's logistics services, equal to approximately two-thirds in terms of energy consumption and a significant portion of dedicated human resources, are managed by Poste Italiane and SDA Express Courier (the Group company that provides express courier services to business customers) with the help of a network of suppliers.

Energy consumption and CO2 emissions of logistics road vehicles under contract [GRI- 302-2; GRI- 305-3]

| | 2016 | 2017 |
|---|-----------|-----------|
| Energy from outside the Group (GJ) | 1,861,003 | 1,675,733 |
| Other types of emissions from outside the Group - Scope 3 (t) | 137,488 | 123,753 |

Mistral Air aircraft fleet

Mistral Air is the Group company that provides air mail transport services for Poste Italiane.

The Company is included in the list of airlines operating in the 31 EEA (European Economic Area) member states and is subject to EU Directive 2008/101/EC (EU ETS). In line with these commitments, special attention is paid to environmental protection through monitoring emissions and optimising the fleet's fuel consumption.

Air transport fleet data

| | 2016 | 2017 |
|--------------------|-------|-------|
| Number of aircraft | 28 | 25 |
| Mail | 2,648 | 3,247 |
| Charter | 4,985 | 9,512 |

Energy consumption and emissions * of postal and air transport [GRI 302-1; GRI 305-1]

| | 2016 | 2017 |
|-----------------------------------|---------|-----------|
| Energy within the Group (GJ) | 919,688 | 1,104,614 |
| Direct emissions - Scope 1 (t) ** | 65,692 | 78,901 |

* Includes flights made by Alitalia on behalf of Poste Italiane.

** Conversion factor: 1 tonne of jet fuel * 3.15.

Mobility management

In 2017, the Group continued to promote mobility management, with the aim of proposing sustainable mobility solutions in urban areas. Agreements for the benefit of staff continued, including the purchase of annual local public transport season tickets at reduced rates and in instalments in various Italian cities (in some cases extended to employees' children), and initiatives to raise awareness of the importance of adopting sustainable lifestyles in order to help reduce CO2 emissions into the atmosphere. In this context, in 2017 the Company car-sharing service for continued in Milan, accessible via the "PosteMobilityOffice" platform, which enables use of only one private vehicle by a group of employees for their daily commuting. In addition, 900 car-sharing driving time vouchers were allocated in the cities of Milan, Turin, Florence and Rome to promote new collective forms of urban transport. Two campaigns dedicated to cycling were also promoted during the year: #IoVadoInBici, for employees who have

opted to commute to and from work by bicycle; #MyPostoBiciVerona, for Sorting Centre staff in Verona who systematically use bicycles as a means of transport, and who have been provided with free bicycle parking spaces under a special agreement.

The overall impact of Mobility Management actions in 2017 has enabled a reduction of over 9,000 tonnes of CO₂, both in terms of reduced atmospheric emissions and the monetary value of the external economic costs avoided, thus generating a reduction in emissions equal to 38% of the total amount produced.

Green building

Minimise the environmental impact of the Group's offices and buildings, in terms of energy use, water consumption, waste, and raw material consumption. Promote green procurement by incorporating "minimum environmental criteria" in all phases of the goods and services procurement process.

Poste Italiane has identified organisational responsibilities and adopted specific policies to ensure adequate management of this issue.

The commitment to adopt measures aimed at reducing the environmental impact of its activities and raising awareness of people's respect for the environment is set out in the Group's Code of Ethics. Moreover, for several years Poste Italiane has been producing the "Environmental Values Charter", aimed at everyone who works permanently or temporarily at Group companies, in order to raise awareness of the impact that everyday actions have on the environment. Specifically, organisational oversight of the environmental impacts connected with real estate assets is implemented via the areas of responsibility set up within the organisation, which assigns one central function the task of ensuring compliance with current energy use regulations, monitoring and measuring consumption, identifying areas where savings can be made, and drawing up efficiency drives.

SDA Express Courier and Postel have obtained ISO14001 certification for their environmental management systems.

Energy consumption and emissions

Real estate assets, comprising approximately 15,000 sites, are responsible for more than 60% the Group's internal energy consumption. This derives from the use of electricity (72%), natural gas (23%), LPG, diesel and district heating (5%). In 2017, over 95% of electricity was supplied from renewable sources via Guarantee of Origin certificates and a small share of it (7,057 GJ, equal to 0.4%) was self-produced by Company-owned photovoltaic plants. The reduction in the use of non-renewable electricity and the consequent reduction in indirect emissions (Scope 2) is due to the increased self-production from photovoltaic plants and the process of internalising data storage and management activities at Group-owned data centres that use renewable electricity.

Poste Italiane allocates annual targets for reducing energy consumption and CO₂ emissions relating to electricity and gas consumption and promotes technical and infrastructural energy efficiency measures.

In order to ensure oversight of consumption and reduce environmental impacts and costs, a single supplier was contracted for electricity and one for gas, so as to have an organisational basis for the individual utility consumption for each month of supply.

In 2017, the energy use optimisation plan continued, including introduction of initiatives aimed at reducing waste by installing and activating energy consumption meters that enable monitoring of trends, analysis of consumption, taking measurements at the most energy-intensive sites, and correctly setting temperatures and operating times for cooling and heating systems. In particular, a project was launched to improve efficiency, through replacement of fluorescent lamps with LED lighting.

Internal energy consumption relating to real estate facilities by source [GRI 302-1]

| | 2016 | 2017 |
|---|------------------|------------------|
| Renewable energy (GJ) | 1,790,247 | 1,810,741 |
| Self-produced photovoltaic electricity (GJ) | 4,779 | 7,057 |
| Certified guarantee of origin electricity* (GJ) | 1,785,468 | 1,803,684 |
| Non-renewable energy | 848,114 | 836,190 |
| <i>of which:</i> | | |
| Electricity supplied by the National Grid** | 94,811 | 83,377 |
| Natural gas (GJ) | 615,172 | 597,321 |
| LPG (GJ) | 8,304 | 11,705 |
| Diesel (GJ) | 112,296 | 120,827 |
| District heating (GJ) | 17,531 | 22,960 |
| Total energy (GJ) | 2,638,361 | 2,646,932 |

* Includes the energy consumption of SDA agencies, amounting to 10,719 GJ.

** Includes the energy of external data centres without where the supply contract is in a third party's name.

Percentages of energy consumption relating to real estate facilities by type of business

| | 2016 | 2017 |
|---|------|------|
| Post offices | 55% | 55% |
| Head offices | 14% | 14% |
| Industrial facilities (sorting centres) | 14% | 14% |
| Delivery Logistics Centres | 13% | 13% |
| Data Centres | 4% | 4% |

Direct and indirect CO₂ emissions relating to real estate facilities [GRI- 305-1; GRI-305-2]

| | 2016 | 2017 |
|-----------------------------------|---------------|---------------|
| Direct emissions - Scope 1 (t) | 43,512 | 43,197 |
| Indirect emissions - Scope 2* (t) | 10,771 | 9,901 |
| Total emissions | 54,283 | 53,098 |

* Includes CO₂ emissions from external data centres without where the supply contract is in a third party's name.

Regarding natural gas consumption, new systems to optimise thermal energy were installed on 2,800 devices (timers, human presence sensors) and low-performance boilers were replaced with high-performance condensing boilers.

In 2017, these initiatives led to savings in natural gas consumption of approximately 20,000 GJ, which corresponds to around 3% of the annual gas consumption of the Group's real estate facilities.

Partnerships at international level [GRI 102-12; GRI 102-13]

The Group participates in the EMMS (Environmental Monitoring and Measurement System) project, which is promoted by the International Post Corporation, an association comprising 24 of the world's leading postal operators that handle around 80% of global traffic volumes. The initiative was launched in 2008 with the aim of monitoring CO₂ emissions and assessing the sustainability of the participants' activities, in order to reduce the impact of postal activities on the environment. The programme now has 20 participating operators (in addition to 18 of the 24 members of IPC, including operators from Brazil and South Africa) which manage a total area of approximately 51,700 square kilometres of buildings they own, a fleet of 576,000 vehicles, and approximately 1,700,000 people.

In 2017, the group of participants reported a 26% reduction in CO₂ emissions compared to the 2008 baseline, falling from 8,360 tonnes to 6,458 tonnes of CO₂, thus resulting in overall savings of more than 12.7 million tonnes of CO₂ over the eight years since the programme was established. The excellent results achieved confirm postal operators' commitment to reducing environmental impact and bear witness to their growing professionalism and expertise in this area, making EMMS the sector's first sustainability programme to be based on sharing best practices and a concrete sustainable development model. In 2017, the Group continued its participation the OSCAR (Online Solution for Carbon Analysis and Reporting) project, which was launched by the Universal Postal Union (UPU, a United Nations agency specialising in the postal sector). The project involves a simplified procedure for reporting polluting emissions produced by operators in the 192 UPU member countries, including application of the principles set out in the Greenhouse Gas Inventory Standard for the Postal Sector. The Poste Italiane Group contributes to this monitoring and reports its emissions on an annual basis. In 2017, the Group was ranked in the medium-to-high performance range in terms of environmental sustainability, contributing to the target of reducing direct emissions by approximately 18,000 tonnes of CO₂ compared to the previous year.

Waste management

Waste management is governed by Legislative Decree 152/2006, which regulates the entire process from collection and transport to recovery or disposal. The waste produced by Poste Italiane is similar to municipal waste (allocated to public collection services in accordance with the procedures laid down by the specific local regulations), which includes special, hazardous and non-hazardous waste. A portion of the waste that is similar to urban waste, for example paper and plastic, does not come under municipal management and is sent directly for recovery via operators authorised to manage special waste. It is then managed in accordance with the same requirements as those for special waste, and the Company benefits from reductions in the tax or tariff established by municipal regulations.

A large portion of special waste consists of non-hazardous waste (paper, cardboard, plastic and wood packaging), while special hazardous waste (mainly electronic waste and scrapped vehicles) derives from certain postal centres and the Group's data centres.

In the interests of efficient and sustainable waste management and therefore a consequent reduction in waste, Poste Italiane promotes the "virtuous" reuse of assets and equipment the Company deems obsolete but which may still have a "second life". In 2017, assets such as obsolete electronic equipment (around 2,500 items) and some types of vehicle (around 250) were removed from the waste management cycle and "transferred" to third parties for reuse.

Over the years, communication campaigns have been launched to raise staff awareness of the right behaviour to adopt when disposing waste, in the workplace as well as in the private sphere.

Waste produced by type and disposal method [GRI 306-2]

| | 2016 | 2017 |
|--------------------------------------|-----------------|-----------------|
| Total hazardous waste (t) | 142.5 | 346.0 |
| - recovery | 17.0 | 277.7 |
| - landfill | 0.7 | 2.5 |
| - incineration | 0 | 0.4 |
| - other types of disposal | 124.8 | 65.4 |
| Total non-hazardous waste (t) | 21,821.6 | 25,790.6 |
| - recovery | 21,205.3 | 25,190.1 |
| - landfill | 218.3 | 182.5 |
| - incineration | 0.0 | 0.0 |
| - other types of disposal | 398.0 | 418.0 |
| Total (t) | 21,964.1 | 26,136.6 |

Water

The use of water resources is mainly linked to office sanitary facilities. The significance of water consumption derives from the Group's large number of real estate facilities.

Water abstraction by source [GRI 303-1]

| | 2016 | 2017 |
|---|--------|--------|
| Water supplied by public water mains or other water service management companies (m³) | 91,307 | 94,023 |

Postel and the materials used

In addition to providing digital storage services that enable dematerialisation and electronic document processing, Postel also provides printing services at the centres in Milan, Rome and Genoa, which are equipped with systems for bulk printing (bills, invoices, account statements) and enveloping, with a production capacity of more than 4 billion printed sheets per year. To minimise the impact of paper use, lightweight paper solutions have been adopted as well as envelopes with windows made of bio-degradable 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.

Paper and cardboard consumption for printing services

| | 2016 | 2017 |
|-------------------------|--------|--------|
| Paper and cardboard (t) | 19,726 | 18,743 |

Appendix - GRI table of contents

| GRI Standard | Indicator number and title | References |
|---|--|---|
| ORGANISATIONAL PROFILE INDICATORS | | |
| GRI 101: Foundation 2016 | | |
| GENERAL DISCLOSURES - GRI 102: General Disclosures - Organisational profile, Strategy, Ethics and integrity | | |
| Strategy and analysis | | |
| GRI 102-14 | Statement from senior decision-makers on the importance of sustainability for the organisation and its strategy | Directors' Report on Operations: 1. Statement from the Chairwoman and the Chief Executive Officer |
| GRI 102-15 | Principal impacts, risks and opportunities | Explanatory notes |
| Organisational profile | | |
| GRI 102-1 | Name of the organisation | Directors' Report on Operations: 1. Statement from the Chairwoman and the Chief Executive Officer |
| GRI 102-2 | Activities, brands, products and services | "Directors' Report on Operations: 2. Organisational structure and operating segments |
| GRI 102-3 | Location of headquarters | Directors' Report on Operations: Back cover |
| GRI 102-4 | Number of countries where the organisation operates, and the names of countries where it has significant operations | Directors' Report on Operations: 2. Distribution channels and multichannel strategy |
| GRI 102-5 | Ownership and legal form | Directors' Report on Operations: 2. Corporate Governance |
| GRI 102-6 | Markets served (including geographic locations where products and services are offered; sectors served; types of customers and beneficiaries) | Directors' Report on Operations: 2. Organisational structure and operating segments; Distribution channels and multichannel strategy |
| GRI 102-7 | Scale of the organisation (total number of employees; net sales or net revenues; total capitalisation; quantity of products or services provided). | Human Capital Directors' Report on Operations: 8. Financial review for Poste Italiane SpA Report on Corporate Governance and the Ownership Structure: Section I Governance structure and ownership structure |
| GRI 102-8 | Information on employees and other workers (including significant changes) broken down by type of employment and contract, region and gender. | Human capital |
| GRI 102-9 | Description of the organisation's supply chain | Supply chain |
| GRI 102-10 | Significant changes during the reporting period (size, structure, ownership, or supply chain) | Directors' Report on Operations: 2. Corporate actions during the year; Organisational structure of Poste Italiane SpA; Report on Corporate Governance and the Ownership Structure: Section I Governance structure and ownership structure |

| GRI Standard | Indicator number and title | References |
|-----------------------------|---|--|
| GRI 102-11 | Application methods for the precautionary principle or approach | Poste Italiane applies the precautionary approach referred to in Principle 15 of the United Nations Rio Declaration to environmental protection in the development and introduction of new products and services and in the planning of new operational activities. |
| GRI 102-12 | Subscription to or adoption of codes of conduct, principles and charters regarding sustainability | Green building |
| GRI 102-13 | Membership of associations and national and international organisations | Relations with social partners |
| GRI 102-41 | Percentage of total employees covered by collective bargaining agreements | Relations with social partners |
| Corporate Governance | | |
| GRI 102-18 | Governance structure of the organisation, including committees of the highest governance body, and those responsible for decision-making on economic, environmental, and social topics | Report on Corporate Governance and the Ownership Structure: 7.2 Audit, Risk and Sustainability Committee (formerly Audit and Risk Committee) |
| GRI 102-19 | Process for delegating authority for economic, environmental, and social topics from the highest governance body to senior executives and other employees | Within the organisation, the Corporate Social Responsibility function established within the Group Risk Management structure (which does not report directly to the Board of Directors) promotes the Company's objectives in the social, environmental, ethical and sustainability governance fields, and the related implementation and reporting of results. The function also monitors the risks associated with the most significant sustainability aspects which may negatively affect the Company's reputation and identity. The Chief Executive Officer has direct relations with various categories of stakeholder and delegates specific tasks via internal service orders to Company departments in relations with stakeholders. |
| GRI 102-20 | Responsibility of the highest governance body for social, economic and environmental topics | |
| GRI 102-21 | Processes for consultation between stakeholders and the highest governance body on economic, environmental, and social topics. If consultation is delegated, describe to whom it is delegated and how the resulting feedback is provided to the highest governance body | |
| GRI 102-22 | Composition of the highest governance body and its committees, including: independent members; executive and non-executive members; men and women with competencies relating to economic, environmental, and social topics; members of under-represented social groups; stakeholder representatives | Report on Corporate Governance and the Ownership Structure: 7.2 Audit, Risk and Sustainability Committee (formerly Audit and Risk Committee) |
| GRI 102-23 | President of the highest governance body | Report on Corporate Governance and the Ownership Structure: 6.6 Chief Executive Officer |
| GRI 102-24 | Criteria used for nominating and selecting highest governance body and committee members, taking into account independence, expertise and experience (including on social and environmental topics), and also considering gender issues and other diversity indicators | Report on Corporate Governance and the Ownership Structure: 6 Board of Directors; 6.1 Current membership and period of office (ex art. 123-bis, paragraph 2 d), Consolidated Law on Finance); 6.8 Independent directors; 6.10 Assessment of the operation of the Board of Directors and Committees; 6.11 Diversity policies (ex art. 123-bis, paragraph 2 d), Consolidated Law on Finance) |

| GRI Standard | Indicator number and title | References |
|---|---|--|
| GRI 102-25 | Processes for the highest governance body to ensure conflicts of interest are avoided and managed | Report on Corporate Governance and the Ownership Structure: 14. Other corporate governance procedures (ex art. 123-bis, paragraph 2 d), Consolidated Law on Finance) |
| GRI 102-26 | Role of highest governance body in the development of strategies, policies, and goals related to economic, environmental, and social topics | Report on Corporate Governance and the Ownership Structure: 6.6 Chief Executive Officer; 7.2 Audit, Risk and Sustainability Committee (formerly Audit and Risk Committee) |
| GRI 102-27 | Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental, and social topics | Report on Corporate Governance and the Ownership Structure: 6.3 Role and functions (ex art. 123-bis, paragraph 2 d), Consolidated Law on Finance); 6.8 Independent directors; 6.10 Assessment of the operation of the Board of Directors and Committees |
| GRI 102-28 | Processes for evaluating the highest governance body's performance with respect to governance of economic, environmental, and social topics | Report on Corporate Governance and the Ownership Structure: 6.10 Assessment of the operation of the Board of Directors and Committees |
| GRI 102-29 | Highest governance body's role in identifying and managing economic, environmental, and social topics and their impacts, risks, and opportunities – including its role in the implementation of due diligence processes | Report on Corporate Governance and the Ownership Structure: 6.3 Role and functions (ex art. 123-bis, paragraph 2 d), Consolidated Law on Finance) |
| GRI 102-30 | Highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental, and social topics | Report on Corporate Governance and the Ownership Structure: 7.2 Audit, Risk and Sustainability Committee (formerly Audit and Risk Committee) |
| GRI 102-31 | Frequency of the highest governance body's review of economic, environmental, and social topics and their impacts, risks, and opportunities | |
| GRI 102-33 | Process for communicating critical concerns to the highest governance body | Report on Corporate Governance and the Ownership Structure: 5.5 Equity participation by employees: voting rights mechanisms (ex art. 123-bis, paragraph 1 e), Consolidated Law on Finance); 7.2 Audit, Risk and Sustainability Committee (formerly Audit and Risk Committee) |
| GRI 102-36 | Process for determining remuneration of the highest governance body | Report on Corporate Governance and the Ownership Structure: 6.12 Compensation |
| Material aspects identified and scope of the Non-Financial Statement | | |
| GRI 102-45 | A list of all entities included in the organisation's consolidated financial statement that are not included in the Non-Financial Statement | Explanatory notes |
| GRI 102-46 | An explanation of the process for defining the report content and the topic boundaries in the Non-Financial Statement. | The topics relevant to us |
| GRI 102-47 | A list of the material topics identified in the process for defining the content of the Non-Financial Statement | The topics relevant to us |

| GRI Standard | Indicator number and title | References |
|--|--|---|
| GRI 102-48 | The effect of any restatements of information given in in the Non-Financial Statement, and the reasons for such restatements | Not applicable. The 2017 NFS is the first edition. |
| GRI 102-49 | Significant changes in the scope and topic boundaries compared with the previous Non-Financial Statement | Not applicable. The 2017 NFS is the first edition. |
| Stakeholder engagement | | |
| GRI 102-40 | A list of stakeholder groups engaged by the organisation | The topics relevant to us |
| GRI 102-42 | The basis for identifying and selecting stakeholders with whom to engage | The topics relevant to us |
| GRI 102-43 | Approach to and description of stakeholder engagement activities | The topics relevant to us |
| GRI 102-44 | Key topics and concerns that have been raised through stakeholder engagement | The topics relevant to us |
| Profile of the Non-Financial Statement | | |
| GRI 102-50 | Reporting period for the information provided (for example, tax year, calendar year) | Explanatory notes |
| GRI 102-51 | Publication date of the most recent Non-Financial Statement | Explanatory notes |
| GRI 102-52 | Reporting cycle (annual, every two months, etc.) | Annual reporting cycle |
| GRI 102-53 | Contact point for questions regarding the Non-Financial Statement and its contents | For clarification or further details on the topics presented, write to: INVESTOR.RELATIONS@posteitaliane.it |
| GRI 102-54 | "Core" or "comprehensive" application of the GRI Standards | Explanatory notes |
| GRI 102-56 | The organisation's policy and current practice with regard to seeking external assurance for the Non-Financial Statement | Explanatory notes |
| Ethics and integrity | | |
| GRI 102-16 | Values, principles, standards, and norms of behaviour of the organisation | Human capital Supply chain |
| ECONOMIC PERFORMANCE INDICATORS | | |
| Anti-corruption | | |
| GRI 103-1 | Explanation of the material topic and the scope of its impacts | The topics relevant to us |
| GRI 103-2 | Description of the managerial approach and its components | |
| GRI 103-3 | Appraisal of the managerial approach | |
| GRI 205-1 | Assessment of operations at risk of corruption | |
| ENVIRONMENTAL PERFORMANCE INDICATORS | | |
| GRI 103-1 | Explanation of the material topic and the scope of its impacts | The topics relevant to us |
| GRI 103-2 | Description of the managerial approach and its components | |
| GRI 103-3 | Description of the managerial approach and its components | |

| GRI Standard | Indicator number and title | References |
|---------------------------------------|--|---|
| Energy | | |
| GRI 302-1 | Energy consumption within the organisation | Green building Sustainable logistics |
| | | |
| Water | | |
| GRI 303-1 | Total abstraction of water by source | Green building |
| Emissions | | |
| GRI 305-1 | Total direct greenhouse gas (GHG) emissions Scope 1 | Sustainable logistics Green building |
| GRI 305-2 | Total indirect greenhouse gas (GHG) emissions Scope 2 | |
| GRI 305-3 | Other types of greenhouse gas (GHG) emissions Scope 3 | |
| Waste disposal | | |
| GRI 306-2 | Total weight of waste by type and disposal method | Green building |
| Environmental assessment of suppliers | | |
| GRI 103-1 | Explanation of the material topic and the scope of its impacts | The topics relevant to us |
| GRI 103-2 | Description of the managerial approach and its components | |
| GRI 103-3 | Appraisal of the managerial approach | |
| SOCIAL PERFORMANCE INDICATORS | | |
| GRI 103-1 | Explanation of the material topic and the scope of its impacts | The topics relevant to us |
| GRI 103-2 | Description of the managerial approach and its components | |
| GRI 103-3 | Appraisal of the managerial approach | |

Omissions

| Parts omitted | Reason | Explanation |
|---|------------------|------------------|
| | | |
| Total internal Group energy consumption* | 2016 | 2017 |
| Renewable electricity (GJ) | 1,791,787 | 1,812,424 |
| Non-renewable energy (GJ) | 2,783,864 | 2,937,824 |
| <i>of which:</i> | | |
| Electricity supplied by the National Grid | 94,811 | 83,377 |
| Natural gas (GJ) | 671,061 | 657,874 |
| LPG (GJ) | 9,997 | 35,057 |
| Diesel (GJ) | 517,351 | 860,664 |
| Petrol (GJ) | 553,425 | 173,278 |
| Jet fuel (GJ) | 919,688 | 1,104,614 |
| District heating (GJ) | 17,531 | 22,960 |
| Total energy (GJ) | 4,575,651 | 4,750,248 |

* Includes energy relating to real estate facilities, and the energy connected with the road logistics business, passenger transport and air mail.

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|---|-------------|-------------|
| Total Group CO2 emissions * | 2016 | 2017 |
| Direct emissions - Scope 1 (t)* | 180,797 | 193,774 |
| Indirect emissions - Scope 2 (t)** | 10,804 | 9,901 |
| Other types of emissions from outside the Group - Scope 3 (t) | 170,675 | 157,916 |

* The factors used to convert fuels into CO2: LPG (1.5704 kgCO2/litre) Natural gas (2.6928 kgCO2/kg) Petrol (kg CO2/litre 2.3839), Diesel (2.74790 kg CO2/litre), Jet fuel (2.4910 kg CO2/litre). Source: Methodology paper Emission Factors 2017 published by the UK Department for Environment Food & Rural Affairs (Defra) and Regulation 601/2012 on the EU ETS system (for calculating CO2 emissions from air transport).

** Poste Italiane acquires renewable energy guarantee of origin certificates for approximately 95% of its electricity consumption. The GRI Sustainability Reporting Standards envisage two calculation methods for Scope 2 emissions – the location-based method and the market-based method. The market-based method (the method used by Poste Italiane) is based on CO2 emissions emitted by the energy suppliers from which, via a contract, the organisation purchases electricity (in this case renewable energy guarantee of origin certificates), and for the remaining 5%, emission factors from the national electricity grid (emission factor: 375 grams of CO2/kWh, source Terna 2015). The location-based method, on the other hand, is based on average emission factors for regional, sub-national or national power generation. Applying the location-based method, the Group's total Scope 2 emissions in 2016 amount to 199,871 tonnes of CO2, and in 2017 to 198,347 tonnes (emission factor: 375 grams of CO2/kWh Source: Terna 2015).

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| GRI Standard | Indicator number and title | References |
|-----------------------------------|--|--|
| Industrial relations | | |
| GRI 402-1 | Minimum notice periods in the event of corporate reorganisation/restructuring by site, and whether they are included in collective bargaining agreements | Relations with social partners |
| Workplace health and safety | | |
| GRI 403-2 | Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities, by region and gender | Health and Safety |
| Training and education | | |
| GRI 404-1 | Average hours of training per year per employee by professional category and gender | Human capital |
| GRI 404-3 | Percentage of employees receiving regular performance and career development reviews | Human capital |
| Diversity and equal opportunities | | |
| GRI 405-1 | Diversity in the company's governance bodies and among staff | In 2017, the boards of directors of Group companies were chaired by 56 persons, 59% of whom were over 50 and 41% between 30 and 50 years of age. The percentage of women is 32% of the total, including 35% in the 30-50 age group and 30% in the over-50 age group. Staff diversity is shown in the section on Human Capital |
| CUSTOMER PRIVACY | | |
| GRI 103-1 | Explanation of the material topic and the scope of its impacts | The topics relevant to us |
| GRI 103-2 | Description of the managerial approach and its components | |
| GRI 103-3 | Appraisal of the managerial approach | |
| GRI 418-1 | Substantiated complaints concerning breaches of customer privacy and losses of customer data | |

Omissions

| Parts omitted | Reason | Explanation |
|---|-------------------------|---|
| | | |
| Absenteeism rate Disclosure regarding contractors | Information unavailable | It is planned to report this information in future reporting cycles |
| | | |
| Breakdown by gender | Information unavailable | It is planned to report this information in future reporting cycles |
| | | |
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| | | |

Principles regarding reporting content and quality

The 2016 GRI Sustainability Reporting Standards ****findings**** and the approach taken by Poste Italiane are shown below.

| | |
|---|---|
| Analysis of the sustainability context | The information was based on the social and environmental aspects of the context. |
| Stakeholder inclusiveness | Identification of the material topics took stakeholders' expectations into account. |
| Materiality | The choice of topics was based on assesment of economic, social and environmental impacts and their ability to influence stakeholders' decisions and assessments. |
| Completeness of information | Unless otherwise indicated, all the indicators presented in the document are representative of all Group companies. |
| Balance | The document provides information that enables an assessment of overall performance and impacts. |
| Comparability | Performance data are presented for 2016 and 2017 to enable analysis of the performances. |
| Accuracy | The information has been provided with notes and comments to enable the performance and results to be correctly assessed. |
| Promptness | The timing of the release of the document is close to the events described. |
| Clarity | The contents have been written in simple and practical language, including for lay people. |
| Reliability | The document requires a separate attestation of conformity from the independent auditors PricewaterhouseCoopers SpA. |

7. Risk Management

The Group has adopted a Group Risk Management model, based on the Enterprise Risk Management (ERM) framework, to form part of its Internal Control and Risk Management System (also "SCIGR"), in line with the requirements of the Corporate Governance Code for listed companies and the relevant national and international best practices.

With the aim of improving the governance of risk management processes and making them more efficient, a single department was created in 2017 to oversee and manage all the risks to which the Group is exposed. The new Group Risk Management function ("GRM") is supported by specialist units that report directly to the function (direct support), and by other risk managers (indirect support) present within Poste Italiane (including BancoPosta RFC) and in other Group companies. With particular reference to financial risk, the GRM function provides a single point of reference for coordinating the Risk Management functions of the companies subject to supervisory standards.

The GRM function has the following responsibilities:

- to ensure, through a structured and integrated process, the identification, assessment and monitoring of strategic, reputational, operational, regulatory and compliance, financial and insurance risks;
- to ensure the standardisation and integration of the models used and the information flows between the various specialist second level units, Group companies and the oversight bodies, including through the implementation of an integrated, cross-cutting platform for the different areas of risk;
- to promote the dissemination of a risk management culture at all levels within the Group.

The specialist risk management units, in turn, operate in line with Group standards defined by the GRM function, ensuring that information is shared at consolidated level, without affecting compliance with the specific statutory requirements applicable to the various areas of responsibility.

With regard to ensuring use of a structured and integrated process for risk management, the GRM function has drawn up a Group Risk Management process, divided into the following stages:

- Risk management guidelines: Poste Italiane SpA's Board of Directors, in consultation with the Audit, Risk and Sustainability Committee ("ARSC"), defines the Group's risk management guidelines, ensuring that the principal risks are correctly identified, measured, managed and monitored. In addition, the Board, within the scope of its responsibilities and management role, determines, in consultation with the ARSC, the degree of compatibility of the risks with management of the Group in line with strategic objectives;
- Definition and revision of the Group Risk Management framework: the GRM function, normally on an annual basis, reviews and updates the risk assessment tools and methods used, in keeping with developments in the business, in the relevant regulatory environment and in leading practices;
- Goal Analysis & Risk Briefing: at least once a year and with the support of the specialist units, the GRM function analyses the goals and related corporate processes and arrives at a preliminary identification of the risks that could threaten achievement of key objectives;
- Integrated Risk Assessment (Identification, Valuation, Aggregation & Prioritization): the GRM function, based on a preliminary mapping of the risks identified during the previous stage, integrates and extends the analysis together with Risk Owners and through the specialist units, the Group's principal areas of risk, with the aim of identifying, describing, evaluating and presenting the risks in an aggregate, prioritised form;
- Risk Treatment: the risks identified and evaluated during the Risk Assessment stage are then used, at least once a year, to draw up the best risk management strategies, in keeping with the risk appetite. In particular, Risk Owners identify the most appropriate management strategies for the risks falling within their area of responsibility, based on the earlier prioritisation of the risks and a cost-benefit analysis carried out in collaboration with the GRM function;
- Risk Monitoring & Reporting: periodic monitoring, by the GRM function, of shifts in the Group's risk profile takes place throughout the year, with the assistance of the various specialist units, using specific indicators, defined during the previous Risk Treatment stage. This process may also take place alongside ad hoc studies and analyses deemed necessary in order to fully comprehend the risks being monitored and identify any emerging risks.

The principal risks resulting from the Group's activities are described in the Consolidated Non-financial Statement. Information on financial and insurance risks is provided in Poste Italiane Financial Statements for the year ended 31 December 2017 – Risk Management.

8. Financial review for Poste Italiane SpA

Operating results of Poste Italiane SpA

| for the year ended 31 December (€m) | 2017 | 2016 | Increase/(decrease) | |
|--|--------------|--------------|---------------------|---------------|
| Revenue from sales and services | 8,060 | 8,218 | (158) | -1.9% |
| Other income from financial activities | 646 | 599 | 47 | 7.8% |
| Other operating income | 584 | 478 | 106 | 22.2% |
| Total revenue | 9,290 | 9,295 | (5) | -0.1% |
| Personnel expenses | 5,865 | 5,988 | (123) | -2.1% |
| <i>of which personnel expenses^(*)</i> | <i>5,374</i> | <i>5,481</i> | <i>(107)</i> | <i>-2.0%</i> |
| <i>of which early retirement incentives</i> | <i>491</i> | <i>507</i> | <i>(16)</i> | <i>-3.2%</i> |
| Cost of goods and services | 1,666 | 1,704 | (38) | -2.2% |
| Other expenses from financial activities | 40 | 44 | (4) | -9.1% |
| Other operating costs | 459 | 255 | 204 | 80.0% |
| Total costs | 8,030 | 7,991 | 39 | 0.5% |
| EBITDA | 1,260 | 1,304 | (44) | -3.4% |
| Depreciation, amortisation and impairments | 480 | 504 | (24) | -4.8% |
| EBIT | 780 | 800 | (20) | -2.5% |
| Finance income/(costs) | (107) | (21) | (86) | n/s |
| Profit/(Loss) before tax | 673 | 779 | (106) | -13.6% |
| Income tax expense | 56 | 154 | (98) | -63.6% |
| Profit for the year | 617 | 625 | (8) | -1.3% |

(*) Includes the item, "Capitalised costs and expenses"

n/s: not significant

Revenue from sales and services amounts to €8,060 million, a reduction of 1.9%, essentially due to lower revenue generated by the Mail, Parcels and Distribution segment.

Other income from financial activities is up from €599 million in 2016 to €646 million in 2017, primarily due to increased income from the sale of BancoPosta RFC's available-for-sale financial assets, which is up from the €473 million of 2016 to €547 million. This figure includes €91 million in non-recurring income from the sale of the investment in Mastercard Incorporated (in 2016, non-recurring income included €121 million from the sale of the share in Visa Europe).

Other operating income is up from €478 million in 2016 to €584 million in 2017, including €508 million in dividends from subsidiaries.

Despite a reduction in personnel expenses and the cost of goods and services, total costs are up €39 million from €7,991 million in 2016 to €8,030 million in 2017. This reflects increased provisions for risks and charges, amounting to €178 million, due to a revised estimate of probable liabilities linked to third-party financial products sold in the early 2000s, including €35 million relating to the voluntary action taken to protect customers who had invested in the Europa Immobiliare 1 fund, and the revision of other liabilities due to adjustments and revised estimates of income for previous years.

Income tax expense is down from €154 million for 2016 to €56 million for 2017. The total effective tax rate for 2017 is 8.31%, reflecting an IRES tax rate of 4.98% and an IRAP tax rate of 3.33%. The difference in the effective IRES tax rate compared with the statutory rate (down from 27.5% in 2016 to 24% from 1 January 2017, in accordance with the 2016 Stability Law) primarily regards the fact that 95% of the dividends received from a number of subsidiaries and the realised gain on investments was exempt from taxation, under the participation exemption. Poste Italiane SpA's profit for the year ended 31 December 2017 is €617 million (€625 million for 2016).

Personnel expenses are down 2.1% from €5,988 million in 2016 to €5,865 million in 2017, reflecting a reduction in the ordinary component (down €107 million), reflecting a decrease in the average workforce during the year (approximately 2,700 fewer FTEs compared with the previous year) and early retirement incentives.

Fixed-term contracts

With regard to fixed-term contracts, the Company employed 14,358 people on fixed-term contracts in 2017 (7,036 in 2016), equal to 14,166 FTEs (6,953 FTEs in 2016), all employed pursuant to art. 19, paragraph 1 of Legislative Decree 81/2015. As a result of specific measures establishing quotas limiting the use of such contracts²⁰, the permanent workforce at 1 January 2017²¹ totalled 132,716 (138,236 at 1 January 2016), corresponding to 128,437 FTEs (133,392 at 1 January 2016).

The National Collective Labour Agreement for the non-managerial staff of Poste Italiane of 30 November 2017 establishes limits on the usage that differ from those provided for by law and previously adopted by the Company. In this specific regard, in 2017, the annual average number of fixed-term contracts was 6,540²².

The following table shows a breakdown of the permanent workforce, broken down by region, at 1 January 2018 and shown in FTE terms.

Permanent workforce at 1 January 2018^(*)

| Region | Number | Region | Number |
|-----------------------|--------|---------------------|----------------|
| Abruzzo | 3,370 | Molise | 814 |
| Basilicata | 1,153 | Piedmont | 8,880 |
| Calabria | 4,386 | Puglia | 7,835 |
| Campania | 10,403 | Sardinia | 3,209 |
| Emilia Romagna | 8,295 | Sicily | 9,148 |
| Friuli Venezia Giulia | 2,481 | Tuscany | 8,529 |
| Lazio | 18,125 | Trentino Alto Adige | 1,824 |
| Liguria | 3,888 | Umbria | 1,881 |
| Lombardy | 17,312 | Valle d'Aosta | 260 |
| Marche | 3,377 | Veneto | 8,861 |
| Total | | | 124,031 |

(*) Shown in full-time equivalent terms. Poste Italiane SpA's permanent workforce including seconded staff.

20. Art. 23, paragraph 1 of Legislative Decree 81/2015 establishes, among other things, that employees recruited on fixed-term contracts cannot exceed 20% of a company's permanent workforce at 1 January of the year in which they are recruited, after rounding up to the nearest whole number should the figure be equal to or above 0.5.

21. The workforce at 1 January of each year is identical to the workforce at 31 December of the previous year.

22. Art. 22, paragraph IV of the National Collective Labour Agreement for Poste Italiane's non-managerial staff allows the use of fixed-term contracts "up to an annual average of 8% of the permanent workforce at 1 January of the year of recruitment"; for 2017, 8% is equal to 10,617 and 10,275 FTEs.

Financial position and cash flow of Poste Italiane SpA

Net invested capital and related funding

| at 31 December (€m) | 2017 | 2016 | Increase/(decrease) | |
|--|----------------|----------------|---------------------|---------------|
| Non-current assets: | | | | |
| Property, plant and equipment | 1,912 | 1,999 | (87) | -4.4% |
| Investment property | 52 | 56 | (4) | -7.1% |
| Intangible assets | 385 | 365 | 20 | 5.5% |
| Non-current financial assets | 2,081 | 1,815 | 266 | 14.7% |
| Total non-current assets (a) | 4,430 | 4,235 | 195 | 4.6% |
| Net working capital: | | | | |
| Trade receivables and other receivables and assets | 4,061 | 4,027 | 34 | 0.8% |
| Trade payables and other liabilities | (3,988) | (3,942) | (46) | 1.2% |
| Current tax assets and liabilities | 71 | (67) | 138 | n/s |
| Total working capital: (b) | 144 | 18 | 126 | n/s |
| Gross invested capital (a+b) | 4,574 | 4,253 | 321 | 7.5% |
| Provisions for risks and charges | (1,538) | (1,408) | (130) | 9.2% |
| Provisions for employee termination benefits | (1,244) | (1,315) | 71 | -5.4% |
| Deferred tax assets/(liabilities) | 447 | 136 | 311 | n/s |
| Non-current assets held for sale and discontinued operations | - | 384 | (384) | n/s |
| Net invested capital | 2,239 | 2,050 | 189 | 9.2% |
| Equity | 5,512 | 6,160 | (648) | -10.5% |
| Net (funds)/debt | (3,273) | (4,110) | 837 | -20.4% |

n/s: not significant

Poste Italiane SpA's net invested capital amounts to €2,239 million at 31 December 2017 (€2,050 million at 31 December 2016).

Non-current assets of €4,430 million are up €195 million compared with the end of 2016, essentially following acquisition of the investment in FSIA Investimenti Srl for €278 million. Other movements in non-current assets reflect depreciation, amortisation and impairments (including the reversal of impairments) of €480 million and capital expenditure of €402 million, as described in the description of the Group's non-current assets.

Net working capital at 31 December 2017 amounts to €144 million, an increase of €126 million compared with the end of 2016 and primarily due to a decline in net current tax liabilities, reflecting the reduction in the IRES rate from 1 January 2017.

The increase of €130 million in provisions for risks and charges, marking the balance of new provisions and uses/releases, primarily regards the liabilities that Poste Italiane will incur for staff taking voluntary early retirement by 31 December 2019 and an updated estimate of the liabilities deriving from BancoPosta's operational risk.

The increase in net deferred tax assets, amounting to €311 million, largely reflects the net positive effect on taxation of fair value losses on investments in available-for-sale financial assets (a reduction in deferred tax liabilities).

Non-current assets held for sale and discontinued operations are down €384 million following completion of the sale to Invitalia of the 100% interest in Banca del Mezzogiorno – MedioCredito Centrale on 7 August 2017. The reduction also reflects the reclassification to non-current assets of the carrying amount of the investment in BancoPosta Fondi SpA SGR.

Equity amounts to €5,512 million at 31 December 2017, marking a reduction of €648 million, due primarily to movements in the fair value reserves net of tax (€713 million), as a result of positive and/or negative movements in the value of investments in securities held by BancoPosta RFC, and the payment of dividends totalling €509 million, as approved by the Annual General Meeting of 27 April 2017 (€0.39 per share, paid to shareholders on 21 June 2017). The above reductions in equity were partially offset by profit for the year of €617 million.

Analysis of Poste Italiane SpA's net (funds)/debt

| at 31 December (€m) | 2017 | 2016 | Increase/(decrease) | |
|--|----------------|----------------|---------------------|---------------|
| Financial liabilities | 63,208 | 60,495 | 2,713 | 4.5% |
| Financial assets | (61,246) | (59,396) | (1,850) | 3.1% |
| Net debt/(net funds) | 1,962 | 1,099 | 863 | 78.5% |
| Cash and deposits attributable to BancoPosta | (3,196) | (2,494) | (702) | 28.1% |
| Cash and cash equivalents | (2,039) | (2,715) | 676 | -24.9% |
| Net (funds)/debt | (3,273) | (4,110) | 837 | -20.4% |

n/s: not significant

Poste Italiane SpA's net funds at 31 December 2017 amount to €3,273 million, down on the figure for 31 December 2016 (€4,110 million). This primarily reflects the component linked to fair value measurement of BancoPosta RFC's available-for-sale financial assets, totalling approximately €979 million, before tax.

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

| At 31 December (€m) | 2017 | 2016 |
|---|----------------|----------------|
| A. Cash | (1) | (1) |
| B. Other cash equivalents | (1,884) | (1,460) |
| C. Securities held for trading | - | - |
| D. Liquidity (A+B+C) | (1,885) | (1,461) |
| E. Current loans and receivables | (363) | (243) |
| F. Current bank borrowings | 200 | - |
| G. Current portion of non-current debt | 763 | 14 |
| H. Other current financial liabilities | 106 | 42 |
| I. Current financial liabilities (F+G+H) | 1,069 | 56 |
| J. Current net (funds)/debt (I+E+D) | (1,179) | (1,648) |
| K. Non-current bank borrowings | 200 | 400 |
| L. Bond issues | 50 | 798 |
| M. Other non-current liabilities | 36 | 48 |
| N. Non-current net (funds)/debt (K+L+M) | 286 | 1,246 |
| O. Net debt (ESMA guidelines) (J+N) | (893) | (402) |
| Non-current financial assets | (835) | (1,101) |
| Industrial net (funds)/debt outside the ring-fence | (1,728) | (1,503) |
| Intersegment financial receivables | (14) | (14) |
| Intersegment financial payables | 732 | 630 |
| Industrial net (funds)/debt outside the ring-fence after adjusting for intersegment transactions | (1,010) | (887) |

BancoPosta RFC management review

Corporate governance at BancoPosta rfc

With regard to BancoPosta RFC's governance, the rules governing the organisation, management and control of BancoPosta's operations are contained in the specific BancoPosta RFC Regulation approved by the Extraordinary General Meeting of 14 April 2011 and recently amended by the Extraordinary General Meeting of 31 July 2015. Following the issue by the Bank of Italy on 27 May 2014 of an update to the prudential supervisory regulations for banks, the corporate governance regulations for banks are applied to BancoPosta (Part One, Title IV, Chapter I "Corporate governance" of Circular no. 285). Further information regarding the corporate governance structure is provided in Poste Italiane's "Report on Corporate Governance and the Ownership Structure", approved by the Board of Directors and published in the "Governance" section of the Company's website.

On 25 January 2018, Poste Italiane SpA's Board of Directors approved the separation and transfer of certain assets, contractual rights and authorisations from BancoPosta RFC to a new e-money and payment services unit to be set up within PosteMobile SpA, as well as the separation of the contractual rights and authorisations relating to back-office and anti-money laundering activities. These corporate actions were subject to approval by Extraordinary General Meeting, following prior receipt of all the consents needed to comply with existing statutory and regulatory requirements. Submission to the Bank of Italy of a request for authorisation to remove the ring-fence from the assets, contractual rights and authorisations that make up the e-money and payment services unit was also approved.

BancoPosta RFC's internal control system and risk management

Internal control system

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

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

- the Group Code of Ethics;
- implementation of the Organisational Model required by Legislative Decree 231/2001 and the related corporate procedures;
- the organisational structure of BancoPosta, as reflected in organisational charts, service orders, organisational notices and procedures determining the roles and responsibilities of the various functions;
- the "General Guidelines governing the process of contracting out BancoPosta's corporate functions to Poste Italiane" which, in implementation of the BancoPosta RFC Regulation, establish the procedures to be used in contracting out BancoPosta RFC's functions to Poste Italiane in terms of decision-making processes, the minimum content of operating guidelines, levels of services, information flows and control procedures;
- the "Outsourcing Guidelines for BancoPosta RFC", governing and formalising the process of outsourcing BancoPosta corporate functions to entities external to Poste Italiane's organisation, identifying the related operational phases and the roles and responsibilities of the various bodies and functions involved in the process;

- the guidelines in the Internal Control and Risk Management System (also “SCIGR”), describing the roles and duties of BancoPosta RFC’s control functions, and the procedures for coordinating and ensuring the exchange of information between these functions and Poste Italiane’s control functions and the flow of information to corporate bodies;
- the system for delegating powers to function heads in accordance with their responsibilities.

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

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

In compliance with the regulatory requirements contained in the Bank of Italy's Supervisory Standards and the CONSOB regulation governing the controls to which BancoPosta is subject, in early 2018 BancoPosta's Internal Auditing function prepared its Annual Report for 2017, the purpose of which is to provide information to the various corporate bodies on the completeness, adequacy, functionality and reliability of the overall system of controls, with specific regard to processes, procedures, information systems and mechanisms applied in the oversight of BancoPosta's activities. The Report was prepared on the basis of the findings of the audit activities carried out by the function and set out in the Audit Plan for 2017. The report contains information on the outcomes of the audit of the services contracted out by BancoPosta to Poste Italiane function under operating guidelines and the activities outsourced to providers external to the Company.

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

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

Internal Auditing has also drawn up the Annual (2018) and Multi-year (2018 - 2020) Audit Plan, based on a risk assessment process designed to ensure adequate coverage of BancoPosta's Business Process Model, including operational and financial risks, changing aspects of the business, regulatory issues and BancoPosta RFC's organisational structures. This Plan has been presented to the Board of Statutory Auditors and submitted for the attention of the Board of Directors.

Risk management system

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

During 2017, the Risk Appetite Framework was revised in accordance with the budget. The annual report for 2016 and the programme of activities for 2017 were submitted to the Board of Statutory Auditors, the Audit and Risk Committee and the Board of Directors, as were the ICAAP (Internal Capital Adequacy Assessment Process) report and the Public Risk Report for 2016. These bodies also received quarterly reports on the performance of the effective risk profile versus the determined risk appetite. The principal types of risk to which BancoPosta RFC is exposed in the course of its ordinary activities are described below:

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

In terms of the evolution of significant risks, the first quarter of 2017 witnessed an increase in the yields on Italian government securities, resulting in a significant reduction in fair value gains. From the second quarter, the trend was reversed and the yields on 10-year Treasury Notes (BTPs) once again began to fall. This was reflected in unrealised gains, which returned to higher levels, even if still below those of the beginning of the year as a result of sales. The spread between BTPs and German Bunds

ended the year at levels similar to those seen at the end of 2016 (around 160 basis points), but with a yield on 10-year BTPs of 2%, reflecting the increase in market rates.

In terms of BancoPosta's capital structure, the CET 1 ratio for 2017 is 17%, compared with 16% in 2016, confirming the strength of the entity's balance sheet, which was further boosted by Poste Italiane SpA's contribution of fresh capital of €210 million in 2018.

Following the positive performance of current account deposits in 2017, from June onwards, the process of monitoring the risk profile indicated that there had been a decline in the leverage ratio to below the threshold set in the Risk Appetite Framework (RAF). The leverage ratio at 31 December 2017 stands at approximately 3.11% (3% being the minimum level required by the regulations). In order to restore the leverage ratio to the target level set out in the RAF (3.15%), on 25 January 2018, Poste Italiane SpA's Board of Directors approved the recapitalisation of BancoPosta by transferring free reserves of €210 million. The relevant functions will continue to keep a close eye on the leverage ratio throughout 2018 to ensure, over time, that it continues to meet the related targets, thresholds and limits established in the RAF.

As in the previous year, in 2017, in terms of economic value, BancoPosta RFC was exposed to falling rates. The entity of the exposure, measured using an internal model, remained below 10% of supervisory capital, thus well within the risk appetite framework for the year.

In terms of operational risk, with regard to real estate funds sold in the period 2002-2005, which have given rise to a number of complaints and disputes, Poste Italiane SpA is closely monitoring market developments and the related initiatives put in place in order to protect its customers, in order to assess any impact on provisions for risks and charges in the financial statements. In this regard, with a view to protecting and maintaining its positive image among customers and the Group's reputation for operational credibility, based on trust and transparency, on 19 February 2018, Poste Italiane SpA's Board of Directors approved an initiative designed to protect customers who, in 2004, against a different economic and regulatory backdrop compared with today's, purchased units issued by the Europa Immobiliare 1 fund and who have held the units through to the date of the fund's maturity on 31 December 2017.

Details of the various areas of risk and the methods used for their measurement and prevention are provided in Poste Italiane SpA's financial statements for the year ended 31 December 2017.

BancoPosta RFC financial review

| Key performance indicators ^(*) for the year ended 31 December | 2017 | 2016 |
|---|-------|-------|
| ROA ⁽¹⁾ | 0.87% | 0.87% |
| ROE ⁽²⁾ | 28% | 29% |
| Net interest income / Net interest and other banking income ⁽³⁾ | 26% | 26% |
| Operating expenses / Net interest and other banking income ⁽⁴⁾ | 83% | 84% |

(*) The key income ratios normally used reflect the unique nature of BancoPosta RFC and the fact that payments to Poste Italiane functions in reimbursement of costs are classified as "administrative expenses". The absolute amounts of the ratios are, consequently, irrelevant and should not be used for market comparisons but for analyses over time.

(1) Return On Assets. Represents the ratio of profit for the period and total assets.

(2) Return On Equity. Represents the ratio of profit for the period and equity after deducting profit for the period and the valuation reserves.

(3) Represents the contribution from net interest income as a ratio of net interest and other banking income.

(4) Cost/income ratio.

Operating results

Reclassified income statement

| for the year ended 31 December (€m) | 2017 | 2016 | Increase/(decrease) | |
|--|----------------|----------------|---------------------|--------------|
| Interest and similar income | 1,526 | 1,543 | (17) | -1.1% |
| Interest and similar expense | (78) | (74) | (4) | 5.4% |
| Net interest income | 1,448 | 1,469 | (21) | -1.4% |
| Fee and commission income | 3,629 | 3,603 | 26 | 0.7% |
| Fee and commission expense | (65) | (66) | 1 | -1.5% |
| Net fee and commission income | 3,564 | 3,537 | 27 | 0.8% |
| Dividends and similar income | 1 | 1 | - | n/s |
| Profits/(Losses) on trading | 2 | 3 | (1) | -33.3% |
| Fair value adjustments in hedge accounting | 2 | (1) | 3 | n/s |
| Profit/(Loss) from sale of financial assets/liabilities | 624 | 587 | 37 | 6.3% |
| Net interest and other banking income | 5,641 | 5,596 | 45 | 0.8% |
| Net operating income | 5,641 | 5,596 | 45 | 0.8% |
| Administrative expenses | (4,616) | (4,653) | 37 | -0.8% |
| Other operating income/(expenses) | (58) | (39) | (19) | 48.7% |
| Net operating expenses | (4,674) | (4,692) | 18 | -0.4% |
| Operating profit/(loss) | 967 | 904 | 63 | 7.0% |
| Net provisions for risks and charges | (182) | (95) | (87) | 91.6% |
| Net losses /recoveries on impairment of loans and advances | (15) | (6) | (9) | n/s |
| Income/(Loss) before tax from continuing operations | 770 | 803 | (33) | -4.1% |
| Taxes on income from continuing operations | (185) | (235) | 50 | -21.3% |
| Profit/(Loss) for the year | 585 | 568 | 17 | 3.0% |

n/s: not significant

BancoPosta RFC's performance during the year resulted in profit for the year of €585 million, up €17 million compared with 2016. The positive performance, despite being influenced by an increase in net provisions, which are up from €95 million in 2016 to €182 million in order to cover certain types of risk, including the voluntary initiative relating to the closed-end Europa Immobiliare fund, primarily reflects an improvement in net interest and other banking income (up 0.8% on 2016) and decline in administrative expenses (down 0.8% compared with 2016). Profit for 2017 also benefitted from a decline in tax expense, reflecting the reduction in the IRES rate from 27.50% to 24% in accordance with the 2016 Stability Law (Law 208 of 28 December 2015).

The interest margin amounts to €1,448 million (€1,469 million in 2016) and is the difference between:

- interest earned primarily on investments in government securities and interest-bearing deposits at the MEF, amounting to €1,526 million (€1,543 million in 2016);
- interest expense of €78 million (€74 million in 2016), including €49 million in accrued differentials on Asset Swaps (€33 million in 2016) entered into as part of the wider strategy for actively managing BancoPosta's portfolio. The increase in differentials paid on derivatives primarily reflects the greater volume of forward start contracts entered into in previous years, with the effects on profit or loss seen in 2017. The overall balance of interest expense includes interest paid to current account holders, totalling €15 million (€20 million in 2016), interest on repurchase agreements of €10 million (€16 million in 2016) and €4 million (in line with the previous year) in interest on deposits used as security for derivative transactions (cash collateral).

Net fee and commission income amounts to €3,564 million (€3,537 million in 2016), reflecting:

- fee and commission income of €3,629 million (€3,603 million in 2016), including €1,566 million linked to the collection of postal savings deposits (€1,577 million in 2016), €1,046 million from transaction banking (€1,082 million in 2016), €743 million (€707 million in 2016) from other services offered to customers (per e.g. insurance broking and the distribution of loan products) and €274 million (€237 million in 2016) relating to e-money services;
- fees and commissions paid, amounting to €65 million (€66 million in 2016), primarily relating to debit/credit card clearing services.

Net interest and other banking income amounts to €5,641 million (€5,596 million in 2016) and, in addition to the interest margin and net fee and commission income, includes the net profit from the sale of financial assets, totalling €624 million (€587 million in 2016). This benefitted from €91 million in non-recurring income generated by the sale of 756,280 Class B Mastercard Incorporated shares (in 2016, non-recurring income included €121 million resulting from the sale of the share in Visa Europe).

Net operating expenses of 4,674 million are down on the previous year (€4,692 million in 2016), primarily due to a reduction in "Other administrative expenses", which are down from €4,653 million in 2016 to €4,616 million. These include €4,418 million (€4,457 million in 2016) in transfer payments to other Poste Italiane functions in accordance with the "General Guidelines governing the process of contracting out BancoPosta's corporate functions to Poste Italiane" and the related operating guidelines for 2017. Personnel expenses of €93 million (€98 million in 2016) regard BancoPosta employees shown in the following table. In carrying out its activities, BancoPosta RFC is, however, the recipient of services provided by other Poste Italiane functions, particularly post office and Contact Centre personnel, paid for in accordance with the operating guidelines governing relations with Poste Italiane.

Net other operating expenses of €58 million (€39 million in 2016) primarily relate to operating losses resulting from withdrawals that customers claim not to have made.

Finally, it should be noted that, in carrying out its activities, BancoPosta RFC makes use of real estate assets (e.g., use and management of office space for BancoPosta's operations) and technology assets (e.g., the design and implementation of new services, the development and maintenance of operations and business software) owned by Poste Italiane SpA. The provision of these services is regulated by operating guidelines and remunerated through the payment by BancoPosta RFC of transfer prices to Poste Italiane.

Average workforce at BancoPosta RFC

| for the year ended 31 December | Average number of employees ^(*) | | | |
|---|--|--------------|---------------------|---------------|
| | 2017 | 2016 | Increase/(decrease) | |
| Permanent workforce | | | | |
| Executives | 55 | 54 | 1 | 1.9% |
| Middle managers | 479 | 460 | 19 | 4.1% |
| Operational staff | 1,194 | 1,310 | (116) | -8.9% |
| Total | 1,728 | 1,824 | (96) | -5.3% |
| Flexible workforce | 2017 | 2016 | | |
| Fixed-term contracts | 2 | 3 | (1) | -33.3% |
| Total | 2 | 3 | (1) | -33.3% |
| Total permanent and flexible workforce | 1,730 | 1,827 | (97) | -5.3% |

(*) Shown in full-time equivalent terms.

Financial position and cash flow

Reclassified statement of financial position

| Assets at 31 December (€m) | 2017 | 2016 |
|---|---------------|---------------|
| Available-for-sale financial assets | 39,140 | 37,263 |
| <i>of which government securities/securities guaranteed by the government</i> | 39,099 | 37,159 |
| <i>of which equity instruments</i> | 41 | 104 |
| Held-to-maturity financial assets | 12,912 | 12,683 |
| Due from banks | 1,151 | 1,314 |
| Due from customers | 7,951 | 9,004 |
| <i>of which postal current account deposits held at the MEF</i> | 6,390 | 7,499 |
| Other assets | 6,081 | 4,789 |
| Total assets | 67,235 | 65,053 |
| Liabilities and equity at 31 December (€m) | 2017 | 2016 |
| Due to banks | 5,950 | 5,799 |
| <i>of which repurchase agreements</i> | 4,482 | 5,381 |
| Due to customers | 53,686 | 50,374 |
| <i>of which amounts due to current account holders</i> | 46,468 | 45,098 |
| Other liabilities | 4,840 | 5,494 |
| Total liabilities | 64,476 | 61,667 |
| Equity | 2,759 | 3,386 |
| <i>of which:</i> | | |
| Initial reserve | 1,000 | 1,000 |
| Retained earnings | 1,059 | 949 |
| Valuation reserves | 115 | 869 |
| Profit for the year | 585 | 568 |
| Total liabilities and equity | 67,235 | 65,053 |

Available-for-sale financial assets amount to €39.1 billion (€37.3 billion at 31 December 2016) and consist of investments in Italian government securities, securities guaranteed by the Italian government and equity instruments (Visa Incorporated). The increase in debt securities, which are up 5%, is linked to the purchase of new securities in which to invest the increased volume of current account deposits in 2017, which has offset fair value losses. In addition, in view of the macroeconomic environment, the strategy aimed at managing the duration of the portfolio, so as to protect against the exposure of securities to changes in fair value resulting from potential rises in interest rates, continued during the year.

Equity instruments of €41 million are down €63 million following the above sale of the Mastercard Incorporated shares.

Held-to-maturity financial assets, consisting of fixed payment or fixed maturity debt securities, amount to €12.9 billion, up €229 million on 31 December 2016. This is primarily due to the redemption of matured securities, totalling €1.3 billion, and the purchase of new securities with a nominal value of approximately €1.6 billion.

Amounts due from customers are down from the €9,004 million at 31 December 2016 to €7,951 million at 31 December 2017.

They include €6,390 million (€7,499 million at 31 December 2016) in amounts deposited by private and Public Administration customers and held at the MEF.

Other asset items primarily include cash and cash equivalents of €3,217 million (€2,511 million at 31 December 2016), represented by cash at post office counters and companies that provide cash transportation services, consisting of cash deposits on postal current accounts and postal savings products. Other assets amount to €2,063 million (€1,766 million at 31 December 2016) and almost entirely relate to the payment of tax withholdings and items in progress that will be settled after the end of the reporting period.

The amount due to banks, totalling €5,950 million (€5,799 million at 31 December 2016) primarily regards repurchase agreements amounting to €4,482 million (€5,381 million at 31 December 2016), relating to:

- €3,903 million relating to Long Term Repos entered into with primary counterparties, with the resulting resources invested in Italian fixed income government securities of a matching nominal amount;
- €939 million relating to BancoPosta's ordinary borrowing operations with primary financial institutions as funding for incremental deposits used as collateral for transactions.

The amount due to customers is up from €50.4 billion at the end of December 2016 to 53.7 billion. This regards current account deposits of €46.5 billion (€45.1 billion at 31 December 2016), other forms of deposit of €3.7 billion (€2.8 billion at 31 December 2016), primarily including Postepay and Postepay Evolution accounts, totalling €2.8 billion (€2.1 billion in 2016) and amounts due to the MEF in relation to advances from the State Treasury, totalling €3.5 billion (€2.4 billion at the end of 2016).

Other liability items amount to €4.8 billion (€5.5 billion at the end of 2016) and include other liabilities of €2.3 billion (€2.2 billion at 31 December 2016), primarily regard tax liabilities in the form of tax withholdings, items in progress that will be settled after the end of the reporting period and amounts payable to other Poste Italiane functions.

This item also includes hedging derivatives of €1,637 million, down compared with the figure of €2,304 million at 31 December 2016, following an improvement in the fair value of outstanding derivatives and the early unwinding of contracts with a nominal value of almost €2 billion.

BancoPosta RFC's equity at 31 December 2016 amounts to €2,759 million (€3,386 million in 2016) and, in addition to the initial reserve of €1 billion and retained earnings (€1,059 million), includes the fair value reserve of €115 million, after reflecting fair value losses on investments in available-for-sale financial assets, and profit for the year of €585 million.

BancoPosta RFC events after 31 December 2017

On 25 January 2018, Poste Italiane SpA's Board of Directors approved the Company's transfer of free reserves of €210 million to BancoPosta RFC in order to restore the leverage ratio to the target level set out in the Risk Appetite Framework²³. For this purpose, at the same time, the Chief Executive Officer of Poste Italiane SpA was given the authority to carry out any activities and to negotiate and sign any deeds or documents necessary or appropriate. It was also decided to submit the proposal to strengthen BancoPosta RFC's capital for approval by an Extraordinary General Meeting of Poste Italiane SpA's shareholders.

Events after the end of the reporting period are described in other sections of the Annual Report for 2017 and there are no further material events occurring after 31 December 2017 to report.

23. The RAF consists of a framework that defines, in keeping with the maximum acceptable risk, the business model and strategic plan, the risk appetite, risk tolerance thresholds, risk limits, and risk management policies, together with the processes needed to define and implement them.

Outlook for BancoPosta RFC

In 2018, BancoPosta RFC will continue to implement the strategic objectives forming the basis for the Business Plan, with particular attention to:

- developing the customer base, through targeted offerings of products and services capable of consolidating customer relations and boosting both deposits and the related investments in financial instruments;
- implementing the strategy aimed at expanding the range of Post Savings products, with the objective of improving its ability to meet the different needs of savers in a changing market environment;
- expanding the distribution of consumer credit products.

In addition, as in previous years, the strategy of actively managing the securities portfolio, with the aim of stabilising the overall return, will continue.

Other information on BancoPosta RFC

Related party transactions

Information on transactions between BancoPosta and its related parties is provided in Poste Italiane Financial Statements for the year ended 31 December 2017 (BancoPosta RFC's Separate Report, Part H of the notes).

Separate financial statements

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

Intersegment transactions

Intersegment transactions between BancoPosta and Poste Italiane functions outside the ring-fence are set out in Poste Italiane Financial Statements for the year ended 31 December 2017 (BancoPosta RFC's Separate Report, Part A of the notes).

Information on proceedings and BancoPosta RFC's relations with the authorities are provided in the section, "Principal relations with the authorities".

9. Outlook

In 2018, the Poste Italiane Group will be engaged in implementing the objectives outlined in the five-year Deliver 2022 Plan, approved by the Board of Directors on 26 February 2018.

The strategic objective of the Group's Strategic Plan is to achieve physical and digital transformation, taking advantage of market trends and the recovering Italian economy.

In the **Mail, Parcels and Distribution** segment, the Group aims to improve its competitive position in the parcels market, taking advantage of the opportunities arising from the growth of e-commerce and the trend towards digitalisation of the Public Sector, with opportunities to develop new integrated services for citizens.

The Group will be engaged in a process of redefining the segment, which has been underway for some years, through the use of new automation technologies to support production processes, and the introduction of an innovative delivery operating model, the Joint Delivery Model. This model, based on the expected evolution of customer volumes and requirements, provides for a basic alternate day structure for all standard mail deliveries, and daily deferred delivery rounds for express mail deliveries for business customers. Priority will be given to increasing the efficiency and quality of postal services, maximising synergies in the logistics and operations network, and enhancing all available Group assets.

In the **Financial Services** segment, the Plan aims to take advantage of the opportunities arising from recent regulatory innovations (MiFID 2 and IDD), taking advantage of current strengths: customer base, distribution network and brand. At the same time, Postal Savings will benefit from the new agreement with Cassa Depositi e Prestiti signed in December 2017. In addition, the active management strategy for the financial instruments portfolio is aimed at stabilising the overall return from interest income and realised capital gains.

During 2018, the Group will also continue to enhance the value of its investment in Anima Holding SpA.

On the bond market front, in early 2018, despite the political uncertainty in Italy, the yield on 10-year BTPs remained between 1.90% and 2.10%, and the spread with the Bund fell below 140 bps.

As in previous years, the Group will continue its strategy of actively managing its portfolio of financial instruments, with a view to stabilising the overall return.

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 existing assets in terms of expertise, customer base and physical and digital networks.

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

In this competitive environment, and in view of the digital payment opportunities (in Italy cash is used in 85% of transactions, compared with an EU average of 68%), on 25 January 2018, Poste Italiane SpA's Board of Directors decided to submit the proposed separation and transfer of certain assets, contractual rights and authorisations from BancoPosta RFC to a new e-money and payment services unit to be set up within PosteMobile SpA, for approval by shareholders. This will enable the latter to operate as an e-money institution.

The entry into force of the new EU Payment Services Directive (PSD2), from January 2018, will entail the adoption of new rules and business models for financial intermediaries operating in the payments sector, thereby increasing competition at national and international level. The lawmakers' intention is to open up the European payments market to new operators who will go beyond the existing "current account - payment services" combination, thus helping to increase competition, so as to guarantee consumers, businesses and Public Administration entities innovative services, wider choice, lower prices and more secure transactions. In this scenario, the Poste Italiane Group will have to protect its market – especially the market for payment services linked to current accounts – from the arrival of new operators and the evolution of existing ones, whilst also benefitting – especially through the development of the Postepay platform and innovative and digital payment services – from the development of its offering to current account customers of other banks, both in Italy and overseas.

In the **Insurance Services** segment, the Group expects to consolidate its leadership in the life insurance sector, as well as driving growth in the private pensions and property and casualty sectors.

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

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

The additional element enabling achievement of the Plan's objectives regards the forecast trend for overall personnel expenses, which are expected to fall over the life of the Plan. It is estimated that the workforce will be reduced 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.

10. Principal relations

with the authorities

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

With regard to quantification of the cost of the Universal Service, in September 2017, the regulator published Resolution **298/17/CONS** relating to its assessment of the net cost of the universal postal service incurred by the Company for 2013 and 2014 and the applicability of the mechanism for allocating such cost. In detail, the regulator has assessed the cost of providing the universal service for 2013 and 2014 to be €393 million and €409 million, respectively, compared with revenue of €343 million and €277 million recognised in Poste Italiane SpA's statement of profit or loss in previous years. The regulator has also determined that the cost of providing the universal service for 2013 and 2014 is unjustified and that the compensation fund to cover the cost for these years, provided for in art. 10 of Legislative Decree 261/1999, has not been established. With regard to the method used to calculate the net cost, on 6 November 2017 the Company appealed against this resolution to the Lazio Regional Administrative Court, before which Poste Italiane's appeal against Resolution 412/14/CONS, which verified the net cost for 2011 and 2012, is still pending²⁴.

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

As part of the initiatives aimed at redefining the universal postal service, with Resolution **395/15/CONS** AGCom authorised the gradual implementation, in three phases, of an alternate day delivery model for mail within the scope of the universal service.

Following the implementation of the first two phases of the model, involving approximately 2,600 municipalities and 16 Italian regions, the third and final phase was launched on 20 November 2017, which will involve a further 2,500 municipalities in 18 regions.

In addition, in accordance with the above Resolution, the Company has agreed a new formula for the distribution of printed publications with the regulator. This will cover delivery of publications to subscribers in the areas in which the alternate day delivery model is being implemented.

Appeals against this resolution were lodged with the Lazio Regional Administrative Court, but these were later withdrawn, resulting in cancellation of the related proceedings, except in the case of the Municipality of Tarzo, where formal withdrawal is pending.

Regarding licence obligations in the postal sector, AICAI (the Italian Association of International Air Couriers) and Confetra (the General Italian Confederation of Transport and Logistics Companies) have challenged AGCom Resolution **129/15/CONS** ("Regulations regarding the requirements to be met in order to offer postal services to the public", by which AGCom has established the conditions applicable to the issue of individual licences and general authorisation by the Ministry for Economic Development, before the Regional Administrative Court, claiming that application of the obligations provided for in these regulations to their members is unlawful. In the challenge, AICAI argues, among other things, in favour of the exclusion of express couriers from any obligation to contribute to the universal service compensation fund.

In January 2016, Lazio Regional Administrative Court referred the matter to the European Court of Justice, requesting a ruling on the compatibility of Italian legislation with the European postal directive, including express couriers' contribution to the universal service compensation fund. On 28 November 2017, the Advocate General's conclusions were presented to the Court,

24. On 29 July 2014, the board of AGCom issued Resolution **412/14/CONS**, approving the measure defining the methods for calculating and quantifying the net cost of the universal postal service for 2011 and 2012. In confirming that the cost of the universal service for 2011 and 2012 was, in certain respects, unfair and thus merits compensation, the Resolution quantified the cost for 2011 and 2012 as €381 million and €327 million, respectively, compared with compensation originally recognised by Poste Italiane of approximately €357 million and €350 million, respectively. On 13 November 2014, Poste Italiane lodged an appeal against this Resolution before the Regional Administrative Court.

which support the legality of the obligations laid down by the legislation in question regarding couriers and road hauliers insofar as they provide postal services. A ruling is awaited. Regarding the right to direct access to the universal postal network, on 18 October 2017 the regulator published Resolution **384/17/CONS** containing “Changes to the provisions governing access to Poste Italiane’s postal network and infrastructure”, establishing a new regime for access to the universal postal network based on the following points:

- i. retention of the obligation to provide equal and reasonably free access throughout the country²⁵, in addition to – in post-codes without the presence of an alternative operator – an obligation to provide access in accordance with conditions based on the effective pertinent costs incurred, after appropriate efficiencies;
- ii. obligations to give third-party operators access to PO boxes²⁶ located at post offices and to ensure market transparency in the event of changes to postcodes;
- iii. definition of the volume threshold beyond which it is assumed that the service for returning other operators’ mail that has finished up in the Poste Italiane network is an “access mail collection” service;
- iv. definition, with a subsequent ruling, of a test of the replicability of Poste Italiane’s offerings regarding multi-items deliveries to large private customers or formulated within the scope of public tenders.

On each of the points highlighted, the Company has formulated its own proposals, as requested by the regulator.

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

With reference to Resolution **621/15/CONS** regarding the “Contract terms and conditions regarding the return of items of mail entrusted by senders to other postal operators that finish up in Poste Italiane’s network”, given the financial impact this ruling may have on Poste Italiane – especially the possibility of only being able to recover additional costs with the new rates –, the Company appealed the ruling before the Lazio Regional Administrative Court. In September 2016, the Court published its judgment, upholding the appeal insofar as it relates to the principle under which the additional costs alone may be recovered and establishing Poste Italiane’s right to recover the full cost of the service through the prices charged. Subsequently, AGCom, Nexive and GPS appealed to the Council of State which, in September 2017, upheld the appeal and the legality of the Resolution.

GPS has challenged certain communications sent to it by AGCom before the Lazio Regional Administrative Court. The communications were aimed at obliging the operator to agree to Poste Italiane’s new Contract Terms and Conditions (deemed by AGCom to be in line with the resolution). AGCom also initiated a penalty procedure against GPS regarding this matter, which was subsequently dismissed by the regulator in Resolution 456/17/CONS due to absence of the obligation to agree. On 5 May 2018, Poste Italiane lodged an appeal against this dismissal.

With another appeal before the Lazio Regional Administrative Court, for which Poste Italiane entered an appearance before the court, GPS has also contested AGCom’s prohibition against use of the term “stamp” to indicate the “stickers” used by GPS. This appeal was rejected by the Regional Administrative Court on 26 July 2017, and the deadline for appealing to the Council of State has expired.

Poste Italiane introduced a number of changes to the prices charged for certain postal services falling within the scope of the universal services (signed-for products) from 10 January 2017, in keeping with the limits and requirements established by AGCom in Resolution 728/13/CONS. The new price list and the related acts are the subject of a legal challenge brought by the consumers’ association, CODACONS. A date for the hearing on the merits of the case is awaited.

In addition, on 7 July 2017, the Company applied to AGCom for permission to reformulate the rates charged for the ordinary international parcel service for various destination areas. The application was accepted by the regulator and the new rates came into effect from 11 September 2017.

25. Other postal operators may access the collection network at Sorting Centre level for outbound sorting, or as an alternative to the delivery network at Sorting Centre level for inbound sorting.

26. Third-party operators may deliver items entrusted to them to post offices for delivery to post boxes, if they are correctly addressed and the post office where the post box is located is specified.

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

On 4 June 2015, the AGCM launched an investigation (**SP/157**) pursuant to art.8, paragraph 2-quater of Law 287/90, aimed at ascertaining whether actions taken by Poste Italiane were designed to prevent H3G SpA (now WindTre SpA) from accessing the post office network. Requests to participate in the investigation from Fastweb SpA and Vodafone Omnitel BV, as well as PosteMobile, were accepted. With the ruling adopted at a meeting held on 16 December 2015, the Authority deemed that Poste Italiane failed, when requested, to offer a competitor of its subsidiary, PosteMobile, equal access to goods and services that are exclusively available from Poste Italiane, as they form part of the activities carried out within the scope of the Universal Postal Service. The Authority issued a warning to Poste Italiane that it should desist from such conduct in the future, but did not impose any fine.

Poste Italiane and PosteMobile lodged an appeal against this ruling before the Lazio Regional Administrative Court, which rejected the appeals lodged by Poste Italiane and Poste Mobile, whilst confirming the principle, backed by Poste Italiane and expressly approved by the AGCM, under which the obligation established by art. 8, paragraph 2-quater of Law 287/90 regards equality of treatment. As a result, H3G's request was unlawful, as it aimed to limit access to certain areas of Poste Italiane's network and was not interested in obtaining treatment equal to that applied by Poste Italiane to its subsidiary, Poste Mobile²⁷.

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

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

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

On 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 which was limited – compared with the Authority's previous fines – to 2% of turnover and discounted in relation to the compliance obligations undertaken in advance by Poste Italiane and positively assessed by Nexive, amounting to €23 million. The AGCM set a 60-day deadline for submitting the compliance report.

Poste Italiane lodged an appeal against the above ruling before the Lazio Regional Administrative Court with a request for suspension, which was not granted, and a hearing on the merits was set for 5 December 2018. In the meantime, the Company has entered into dialogue with the Antitrust Authority to define the compliance proposals.

The AGCM has lodged a challenge with the Lazio Regional Administrative Court against INPS and Poste Italiane, seeking cancellation of the tender process awarding the contract for non-automated mail delivery services for INPS's head office and regional offices. In a ruling in May 2016, the Regional Administrative Court rejected the challenge, thus confirming the legitimacy of the INPS tender. Subsequently, the AGCM notified the appeal against the above-mentioned ruling and the Council of State, with a ruling of 5 September 2017, rejected the appeal.

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

Italian National Anti-Corruption Authority (ANAC)

On 28 September 2015, the Italian National Anti-Corruption Authority (ANAC) notified Poste Italiane that it was launching an investigation to verify the administrative procedures carried out regarding upgrade and restyling work at the Sesto Fiorentino sorting centre (FI). The Authority asked Poste Italiane to submit an explanatory report on the contract, together with the related documentation. On 17 November 2015, the person responsible for the procedure sent the documented report to ANAC and asked to testify before the Authority. The hearing was held on 27 January 2016, when the Company provided clarification and details regarding the contract in question. A further hearing was held on 8 February 2017 and the Authority's conclusions are awaited.

Bank of Italy

In 2017, the Bank of Italy conducted an inspection pursuant to art. 54 of Legislative Decree 385 of 1993, with the aim of assessing the governance, control and operational and IT risk management systems in relation to BancoPosta's operations. The inspection began on 10 February 2017 and ended on 5 May 2017. The related Inspection Report was issued on 20 July 2017. Poste Italiane responded within the required deadline by submitting its views in September 2017 and launching the related compliance initiatives.

In addition, on 28 September 2017, the Bank of Italy began an inspection pursuant to art. 53 of Legislative Decree 231/2007, again with regard to BancoPosta's operations. The inspection related to money laundering prevention at a sample of post offices. The process, having the nature of a follow-up to the inspection conducted in 2015, aimed to assess the progress made in implementing the compliance initiatives communicated to the Bank.

CONSOB

In 2017, in line with the roll-out plan launched in December 2016, IT releases were completed for the new guided consultancy platform, which was gradually extended to the entire Poste Italiane network during the year. In parallel, during the second half of 2017, the segment was subject to further compliance initiatives aimed at implementing the MiFID 2 Directive, which came into force on 3 January 2018. The innovations made to procedural and IT structures, and the further initiatives planned in 2018 to consolidate the Company's oversight of them, were the subject of specific reporting to the CONSOB.

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

On 27 September 2017, IVASS sent **Poste Vita** the results of the inspection conducted at its premises pursuant to art. 189 of the Private Insurance Code (Legislative Decree 209 of 7 September 2005) in 2017. The focus of the inspection was "an audit of the best estimate of liabilities and the assumptions used in computing such liabilities and solvency capital requirements (SCR), including on a prospective basis". Finding that the degree of implementation of the Solvency II framework was satisfactory overall, the regulator did not identify any specific shortcomings, and issued a partially favourable opinion, making a number of points and observations. Therefore, on 25 October 2017 the company submitted its considerations regarding the investigations and corrective measures required by the inspection report to IVASS, and planned a series of activities aimed at implementing the improvement initiatives recommended by the Authority. To date, Poste Vita's implementation of the planned actions is on schedule.

Garante per la Protezione dei Dati personali (the Data Protection Authority)

With notification on 17 February 2017, the Data Protection Authority initiated proceedings against Poste Italiane requesting it to provide all useful information to enable it to assess reports submitted by certain local labour unions, which complained about the unlawful processing of the personal data of Poste Italiane staff using the queue management system, by displaying operators' first names above their workstations at post office counters.

At the end of the investigation, the Data Protection Authority found that the arrangements regarding the queue management system *"were, for certain roles, not in compliance with personal data protection rules"*, and therefore ordered the prohibition of such an arrangement, requesting Poste Italiane *to report the initiatives it has undertaken to implement the Authority's prohibitions and requirements*. The Company has reported the changes made to the system in compliance with the requirements and prohibitions, supplemented the information pursuant to art. 13 of Legislative Decree 196/2003 for employees, and suspended the relevant arrangement.

At the same time, the Data Protection Authority, on completing the investigation into the reports, initiated an independent procedure before the Inspections and Sanctions Department aimed at assessing "the existence of administrative violations by the data controller". At the end of the sanctions procedure, the Data Protection Authority, via a ruling notified on 19 January 2018, found that Poste Italiane had *"violated art. 13 of the Italian Civil Code, sanctioned by art. 161 of the same Code, for having processed personal data without having provided the persons concerned with adequate information"*, and imposed a reduced fine of €24,000, which was paid on 19 February 2018.

European Commission

The Court of the European Union's sentence of 13 September 2013 upheld Poste Italiane SpA's appeal against the European Commission's decision of 16 July 2008 regarding state aid (**Decision C42/2006**), ordering the latter to pay the related costs. In compliance with the Decision, and as requested by the Ministry of the Economy and Finance, in November 2008 the Company returned the related amounts (€443 million, plus interest of €41 million). Under the 2015 Stability Law, in order to implement the Court of the European Union's sentence of 13 September 2013, €535 million has been set aside for payment to Poste Italiane for 2014. These amounts were collected from the Central Treasury on 13 May 2015.

The European Commission subsequently reopened the enquiry, appointing an external expert to check that the levels of interest paid to the Company from 1 January 2005 to 31 December 2007 on deposits held at the Ministry of the Economy and Finance (as per art. 1, paragraph 31, of Law 266 of 23 December 2005 "2006 Budget Law") were in line with the market. To date, the expert has submitted to the Commission a preliminary revised version of the assessment originally carried out by the Commission. Poste Italiane intends to actively collaborate with the national authorities to demonstrate the consistency of the returns it received during the relevant period.

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

Litigation

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

11. Other information

Event after 31 December 2017

Events after the end of the reporting period to which the Annual Report for 2017 refers are described in other sections of this document. Further information is provided in Poste Italiane Financial Statements for the year ended 31 December 2017.

Related party transactions

Internal related parties include subsidiaries and associates directly or indirectly managed by Poste Italiane SpA. External related parties include the majority shareholder, the Ministry of the Economy and Finance, entities controlled, also jointly, by the Ministry of the Economy and Finance, and companies associated with them. The Group's key management personnel and pension funds providing post-employment benefits for staff employed by the Group and related entities are also related parties. The state and public bodies, other than the Ministry of the Economy and Finance, are not deemed to be related parties. Transactions involving financial assets and liabilities represented by instruments traded on organised markets are not deemed to be related party transactions.

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

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

The scope of application of the Guidelines differs depending on the applicable regulations. This means that the CONSOB's requirements apply to Poste Italiane (in carrying out both its postal activities and those of BancoPosta and in the conduct of transactions with Poste Italiane's related parties through subsidiaries), whilst the standards issued by the Bank of Italy apply solely to BancoPosta's transactions with Poste Italiane's connected parties. The updated version of the Guidelines is published on Poste Italiane's website at <https://www.posteitaliane.it/it/documenti-societari.html>. The document is also available in the section dedicated to BancoPosta at <https://www.posteitaliane.it/it/documenti-bancoposta.html>.

Significant transactions completed in 2017

At a meeting on 20 September 2017, Poste Italiane's Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised the spot and forward purchase and sale of securities issued and/or guaranteed by the Italian government and the execution of repurchase agreements and reverse repos and of hedging derivatives by BancoPosta RFC, with Monte Paschi Capital Services Banca per le Imprese SpA acting as counterparty.

This company qualifies as a related party of Poste Italiane as it is also controlled by the Ministry of the Economy and Finance through Banca Monte dei Paschi di Siena SpA²⁸. The operations regard a range of transactions, with the amount and duration of each transaction not known in advance, but defined over time.

Given the size of BancoPosta RFC's portfolio of financial instruments in which it invests the funds deposited by private account holders and in view of the average amount involved in this type of transaction, which are carried out under standard terms and conditions and form part of BancoPosta's ordinary financial management, the transaction has been prudently classified as an ordinary transaction of greater significance, in accordance with CONSOB Resolution 17221 of 2010, as amended.

From October 2017, five repurchase agreements and 23 buy & sell back transactions, which expired during the period, have been entered into, in addition to two Interest rate Swaps for hedging purposes and two forward sales of securities.

At a meeting on 13 December 2017, the Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised signature of the agreement with Cassa Depositi e Prestiti governing the collection and distribution of Postal Savings products, by BancoPosta on behalf of CDP, for the three-year period 2018-2020. Given the value of the agreement, which over the related term (3 years) will range from €4.65 to €5.55 billion, and the fact that both Poste Italiane and CDP are controlled by the Ministry of the Economy and Finance, the transactions is classed as a "related party transaction of greater significance" pursuant to CONSOB regulations and the Bank of Italy regulations applicable to BancoPosta RFC.

The agreement was signed on 14 December 2017 and the related information document was made available for inspection at the Company's registered office, at Borsa Italiana SpA, on the Company's website and on the authorised "eMarket Storage" system.

Details of the impact of related party transactions on the financial position and profit or loss are provided in Poste Italiane Financial Statements for the year ended 31 December 2017 (Notes to the Poste Italiane Group's financial statements – Additional information; Notes to Poste Italiane SpA's financial statements – Related party transactions).

Exceptional and/or unusual transactions

Under the definition provided by the CONSOB ruling of 28 July 2006, the Poste Italiane Group did not conduct any exceptional and/or unusual transactions²⁹ in 2017.

28. MPS Capital Services is 99.97% owned by Banca Monte dei Paschi di Siena SpA, which is in turn controlled by the Ministry of the Economy and Finance through its 52% interest in the bank.

29. Such transactions are defined as transactions that due to their significance/materiality, the nature of the counterparties, the purpose of the transaction, the manner of determining the transfer price and timing of the transaction may give rise to doubts over the correctness and/or completeness of the disclosures in the financial statements, over a conflict of interest, safeguards for the Company's financial position and protections for non-controlling shareholders.

12. Summary of the resolutions passed by the Annual General Meeting held in ordinary and extraordinary session

The Annual General Meeting of Poste Italiane SpA's shareholders, held in Rome in single call on 29 May 2018 in the *Auditorium Capitalis* at the Palazzo dei Congressi, Viale della Pittura 50, adopted the following resolutions.

The ordinary session:

1. approved Poste Italiane SpA's financial statements for the year ended 31 December 2017; acknowledgement of the results reported in the Poste Italiane Group's consolidated financial statements for the year ended 31 December 2017, which report profit for the year of €689 million;
2. resolved to:
 - i. appropriate BancoPosta RFC's profit for the year of €584,979,647 to be put at the Company's disposal;
 - ii. appropriate Poste Italiane SpA's profit for 2017, amounting to €616,965,039, as follows:
 - €548,566,200 to pay shareholders a dividend of €0.42 per share, payable to the holders of each of the 1,306,110,000 ordinary shares in issue at the ex dividend date of 18 June 2018,
 - €68,398,839 to "Retained earnings";
 - iii. pay the above dividend of €0.42 per ordinary share for 2017 – before any applicable taxation – from 20 June 2018, with an ex dividend date of 18 June 2018 for coupon number 3 and a record date (defined in accordance with art. 83-terdecies of Legislative Decree 58 of 24 February 1998 and art. 2.6.6, paragraph 2 of the Regulations for the Markets organised and managed by Borsa Italiana SpA), of 19 June 2018;
3. voted in favour of the section of the Remuneration Report that illustrates the Company's remuneration policy for Directors, the General Manager and Key Management Personnel, for 2018, also approving the specific part of the Remuneration Report related to BancoPosta RFC;
4. approved the equity-based plans reserved for BancoPosta RFC's Material Risk Takers;
5. granted the Board of Directors authority to purchase and subsequently dispose of up to a maximum of 65.3 million of Poste Italiane's shares, representing approximately 5% of the share capital, for a total outlay of up to €500 million. The purchase of the Company's own shares was authorised for 18 months from the date of the resolution. On the other hand, no time limit has been set for disposal of the shares purchased. The Annual General Meeting also defined the purposes, terms and conditions of the purchase and disposal of the Company's own shares;
6. resolved, at the proposal of the Board of Statutory Auditors, to pay additional fees to the independent auditor for the financial years 2017-2019, following the entry into effect of new accounting standards.

The extraordinary session:

1. approved removal of the ring-fence from (i) the assets, contractual rights and authorisations that make up BancoPosta RFC's e-money and payment services unit, and (ii) the contractual rights and authorisations relating to back-office and anti-money laundering activities;
2. approved Poste Italiane SpA's contribution of fresh capital – amounting to €210 million - to BancoPosta RFC to restore the leverage ratio to the target level established in the Risk Appetite Framework.

13. Appendix

Alternative performance indicators

In keeping with the guidelines published by the European Securities and Markets Authority on 5 October 2015 (ESMA/2015/1415), in addition to the financial disclosures required by IFRS and used in preparing the financial statements for the year ended 31 December 2017, Poste Italiane has included a number of indicators in this report that have been derived from them. These provide management with a further tool for measuring the Group's performance. As a result of the organisational changes introduced in 2017, and the new strategic guidelines set out in the "Deliver 2022" Strategic Plan presented to the financial community on 27 February 2018, the Group has revised the way it assesses and reports on the performance of its business in 2017. As a result of this revision, the operating segments identified for the purposes of this Annual Report for 2017 are: Mail, Parcels and Distribution; Payments, Mobile and Digital; Financial Services; Insurance Services.

In addition, the method of presenting the revenue and cost components relating to the insurance business in the statement of profit or loss has been revised, with the inclusion of a new item: Revenue from insurance services after movements in technical provisions and other claims expenses, providing a synthetic indication of the Insurance Services segment's contribution to the Group's result. This item is defined as the sum of premium revenue net of outward reinsurance premiums, income and losses from financial instruments attributable to insurance activities and movements in technical provisions and other claims expenses.

The above changes are reflected in the reclassification of the statements of profit and loss of the operating segments which, in addition to the disclosures required by IFRS 8, have been prepared by management solely in order to provide additional, more extensive analysis of the operating performances of the Group's specific areas of business.

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.

Net ROE (Return On Equity) – from this Report, this is calculated as the ratio of net profit to the average value of equity (net of the fair value reserves) at the beginning and end of the reporting period. In previous years, the indicator was calculated as the ratio of pre-tax profit to the average value of equity (including the fair value reserves).

Management has decided to strip out the fair value reserves from equity in order to facilitate comparison of earnings in the comparative periods and to use, for the same reason, the net after-tax result, as this indicator is used solely to present the earnings of the Group as a whole.

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

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

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

GROUP NET (DEBT)/FUNDS - the sum of financial liabilities, technical provisions for the insurance business, financial assets, technical provisions attributable to reinsurers, cash and deposits attributable to BancoPosta and cash and cash equivalents.

This indicator is also shown separately for each operating segment before adjusting for intersegment transactions.

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

Key performance indicators for principal Poste Italiane Group companies

The figures shown in the tables below reflect the financial and operational indicators (as deduced from the related reporting packages) of the principal Group companies, prepared in accordance with International Financial Reporting Standards (IFRS) and approved by the boards of directors of the respective companies.

POSTEL SPA (*)

| for the year ended 31 December (€000) | 2017 | 2016 | Increase/(decrease) | |
|--|---------|---------|---------------------|--------|
| Revenue from sales and services | 213,230 | 215,593 | (2,363) | -1.1% |
| Operating profit/(loss) | 1,672 | (7,721) | 9,393 | n/s |
| Profit/(loss) for the period | 118 | (7,968) | 8,086 | n/s |
| Investment | 7,607 | 12,120 | (4,513) | -37.2% |
| Equity | 101,459 | 96,081 | 5,378 | 5.6% |
| Permanent workforce - average | 1,069 | 1,162 | (93) | -8.0% |
| Flexible workforce - average | 20 | 29 | (9) | -31.0% |

(*) From 1 April 2017, the spin-off of the consortium unit from Postecom SpA to Postel SpA is effective for legal, tax and accounting purposes.
n/s: not significant

SDA EXPRESS COURIER SPA

| for the year ended 31 December (€000) | 2017 | 2016 | Increase/(decrease) | |
|--|----------|----------|---------------------|--------|
| Revenue from sales and services | 549,173 | 568,165 | (18,992) | -3.3% |
| Operating profit/(loss) | (42,114) | (35,612) | (6,502) | -18.3% |
| Profit/(loss) for the period | (31,990) | (28,904) | (3,086) | -10.7% |
| Investment | 8,288 | 4,858 | 3,430 | 70.6% |
| Equity | (22,876) | 9,125 | (32,001) | n/s |
| Permanent workforce - average | 1,347 | 1,376 | (29) | -2.1% |
| Flexible workforce - average | 85 | 66 | 19 | 28.8% |

n/s: not significant

POSTE TUTELA SPA

| for the year ended 31 December (€000) | 2017 | 2016 | Increase/(decrease) | |
|--|--------|--------|---------------------|--------|
| Revenue from sales and services | 85,805 | 87,138 | (1,333) | -1.5% |
| Operating profit/(loss) | 390 | 694 | (304) | -43.8% |
| Profit/(loss) for the period | 298 | 503 | (205) | -40.8% |
| Investment | 90 | 59 | 31 | 52.5% |
| Equity | 13,441 | 13,153 | 288 | 2.2% |
| Permanent workforce - average | 17 | 15 | 2 | 13.3% |
| Flexible workforce - average | 1 | 0 | 1 | n/s |

n/s: not significant

EUROPA GESTIONI IMMOBILIARI SPA

| for the year ended 31 December (€000) | 2017 | 2016 | Increase/(decrease) | |
|--|---------|---------|---------------------|-------|
| Revenue from sales and services | 94,240 | 94,948 | (708) | -0.7% |
| Operating profit/(loss) | 4,639 | 4,671 | (32) | -0.7% |
| Profit/(loss) for the period | 1,843 | 1,585 | 258 | 16.3% |
| Investment | 681 | 380 | 301 | 79.2% |
| Equity | 237,263 | 235,402 | 1,861 | 0.8% |
| Permanent workforce - average | 28 | 26 | 2 | 7.7% |

MISTRAL AIR SRL

| for the year ended 31 December (€000) | 2017 | 2016 | Increase/(decrease) | |
|--|---------|---------|---------------------|--------|
| Revenue from sales and services | 100,472 | 84,919 | 15,553 | 18.3% |
| Operating profit/(loss) | (8,950) | (3,979) | (4,971) | n/s |
| Profit/(loss) for the period | (7,611) | (2,942) | (4,669) | n/s |
| Investment | 172 | 611 | (439) | -71.8% |
| Equity ^(*) | (1,895) | 1,687 | (3,582) | n/s |
| Permanent workforce - average | 129 | 143 | (14) | -9.8% |
| Flexible workforce - average | 56 | 43 | 13 | 30.2% |

(*) The company's equity includes the recapitalisation of €4 million carried out in 2017.

n/s: not significant

POSTEMOBILE SPA

| for the year ended 31 December (€000) | 2017 | 2016 | Increase/(decrease) | |
|--|---------|---------|---------------------|--------|
| Revenue from sales and services | 234,543 | 267,685 | (33,142) | -12.4% |
| Operating profit/(loss) | 26,837 | 28,345 | (1,508) | -5.3% |
| Profit/(loss) for the period | 18,659 | 17,903 | 756 | 4.2% |
| Investment | 26,583 | 20,549 | 6,034 | 29.4% |
| Equity ^(*) | 57,905 | 56,043 | 1,862 | 3.3% |
| Permanent workforce - average | 213 | 211 | 2 | 0.9% |
| Flexible workforce - average | 4 | 7 | (3) | -42.9% |

(*) During the year, the company paid dividends totalling €17 million.

BANCOPOSTA FONDI SPA SGR

| (for the year ended 31 December (€000)) | 2017 | 2016 | Increase/(decrease) | |
|---|---------|--------|---------------------|-------|
| Fee income | 101,954 | 75,493 | 26,461 | 35.1% |
| Net fee income | 54,501 | 42,571 | 11,930 | 28.0% |
| Profit/(loss) for the period | 29,134 | 21,751 | 7,383 | 33.9% |
| Financial assets (liquidity and securities) | 71,372 | 62,242 | 9,130 | 14.7% |
| Equity ^(*) | 53,886 | 46,013 | 7,873 | 17.1% |
| Permanent workforce - average | 58 | 55 | 3 | 5.5% |
| Flexible workforce - average | 0 | 1 | (1) | n/s |

(*) During the year, the company paid dividends totalling €21 million.

n/s: not significant

POSTE VITA SPA^(*)

| for the year ended 31 December (€000) | 2017 | 2016 | Increase/(decrease) | |
|---|-------------|-------------|---------------------|-------|
| Insurance premium revenue ^(**) | 20,263,356 | 19,820,265 | 443,091 | 2.2% |
| Profit/(loss) for the period | 510,172 | 377,511 | 132,661 | 35.1% |
| Financial assets | 125,626,314 | 115,417,452 | 10,208,862 | 8.8% |
| Technical provisions for insurance business | 123,489,910 | 113,534,750 | 9,955,160 | 8.8% |
| Equity ^(***) | 3,323,728 | 3,292,074 | 31,654 | 1.0% |
| Permanent workforce - average | 388 | 361 | 27 | 7.5% |
| Flexible workforce - average | 5 | 4 | 1 | 25.0% |

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

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

(***) During the year, the company paid dividends totalling €470 million.

POSTE ASSICURA SPA ^(*)

| for the year ended 31 December (€000) | 2017 | 2016 | Increase/(decrease) | |
|---|---------|---------|---------------------|-------|
| Insurance premium revenue ^(**) | 131,099 | 108,415 | 22,684 | 20.9% |
| Profit/(loss) for the period | 28,609 | 12,607 | 16,002 | n/s |
| Financial assets | 233,498 | 178,146 | 55,352 | 31.1% |
| Technical provisions for insurance business | 160,005 | 143,164 | 16,841 | 11.8% |
| Equity | 104,359 | 76,057 | 28,302 | 37.2% |
| Permanent workforce - average | 57 | 48 | 9 | 18.8% |

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

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

n/s: not significant